

Invitation for public comments on Draft International Financial Services Centres Authority (Fund Management) Regulations, 2022

Posted On: 07 FEB 2022 7:58PM by PIB Delhi

International Financial Services Centres Authority (IFSCA), in its endeavour to develop a comprehensive and consistent regulatory framework for Investment Funds based on global best practices with a special focus on ease of doing business, had constituted an Expert Committee on Investment Funds to recommend to IFSCA on the road map for the funds industry in the IFSCs. The Committee was constituted under the Chairmanship of Mr. Nilesh Shah, MD, Kotak Mahindra Asset Management Co. Ltd. and Member, Economic Advisory Council to the Prime Minister. The Committee comprises of leaders from the Fund Management ecosystem including from areas such as technology, distribution, legal, compliance, and operations.

The Committee had in turn constituted three working groups to examine different issues related to Fund industry in IFSC. The working groups over various meetings interacted with various market participants from India and overseas, examined best global practices and made detailed recommendations. After examination of the recommendations of the working groups, the Expert Committee submitted its report to Chairman, IFSCA on January 31, 2022 and the same is available at the following link:

<https://ifsca.gov.in/CommitteeReport>

Upon examination of the Committee Report, IFSCA proposes to issue IFSCA (Fund Management) Regulations, 2022 and invites comments from public on the same. The salient features of the proposed regulations are as under:

Single registration for multiple activities: A fund manager intending to undertake host of activities related to fund management viz. manage retail schemes (including Exchange Traded Funds), non-retail schemes (alternative investment funds), undertake portfolio management services or operate as manager to various investment trusts (REIT and InvIT) can do so by seeking a single unified registration from IFSCA. A fund manager intending to manage funds or activities for non-retail investors only shall have lower eligibility requirements. Further, a special registration with light touch requirements shall be accorded to a fund manager intending to invest in unlisted securities of start-ups, emerging or early-stage companies mainly involved in new products, new services, and technology through a venture capital scheme in IFSC.

The detailed eligibility and regulatory requirements for fund managers, retail schemes, non-retail schemes, venture capital schemes, portfolio management services and investment trusts have been prescribed. Substance requirements in terms of minimum Key Management Personnel (KMPs) with experience, infrastructure requirements, key activities such as investment management from IFSC, etc., have also been prescribed in the draft regulations.

Green Channel: Venture Capital Schemes or non-retail schemes soliciting money from accredited investors only shall qualify for a green channel i.e. the schemes filed can open for subscription by investors immediately upon filing with IFSCA. The requirements on scheme size, number of investors, permissible investments, etc. have been detailed in the draft regulations.

Exchange Traded Funds (ETFs): Considering that ETFs offer a means to gain exposure to specific markets or asset classes at a low cost, registered fund managers in IFSC shall be able to launch not just Index based ETFs but also Active ETFs and Commodity based ETFs. Fund Managers for Gold and Silver ETFs shall also be able to invest directly in Bullion Depository Receipts with underlying bullion thereby dispensing away the need to invest in physical bullion and worrying about quality or storage. Innovative structures for ETFs shall be considered with prior approval of IFSCA and the concerned stock exchanges. To ensure sufficient liquidity in ETFs, stock exchanges in IFSC shall prescribe a framework for market makers.

Stressed Assets: Realising the important role of IFSC in the Government initiative of addressing the issue of NPAs faced by banks, a framework has been prescribed for special situation funds to be launched by fund managers in IFSC.

Environment Social Governance (ESG): Growing number of investors expect fund managers to make ESG issues integral to their investment strategies. With the intent of making IFSC as a hub for host of activities related to sustainable finance, disclosures have been proposed to be mandated at entity level and scheme level.

Family Office: Globally, there is an increasing need for having a formal structure for managing and preserving the wealth of the HNIs and Ultra HNIs and their families. This has paved a need for conceptualisation of a regime for family offices in India. Accordingly, a framework to facilitate self-managed investment fund of a family office has been proposed. Further, a fund manager has also been permitted to undertake portfolio management for multi-family office.

To support **various innovations** in a controlled way, the following has also been included in the draft regulations:

- a. **Fund Lab:** A platform shall be provided to aspirational fund managers to try new strategies in a controlled manner.
- b. **Special purpose vehicle (SPV) as a co-investment structure:** Similar to international jurisdictions, fund managers shall be permitted to create SPVs under the main scheme to enable undertake co-investment or leverage along with the Fund/ scheme subject to certain conditions.
- c. **Retail participation in private markets:** There has been growing need to facilitate investors at large invest in private markets. Accordingly, it is proposed to facilitate retail close ended schemes to invest in unlisted securities subject to certain conditions.

In addition to above, the draft regulations detail the role of various entities, prescribes code of conduct, advertisement code, investment valuation norms and important governance requirements. The consultation paper along with the draft regulations are available on IFSCA's website <https://ifsca.gov.in/PublicConsultation>. Comments / suggestions are invited from the general public and stakeholders on the draft regulations on or before February 28, 2022.

RM/KMN

(Release ID: 1796283)