IFSCA issues Consultation Paper proposing amendments to Fund Management Regulations, 2025

The International Financial Services Centres Authority (**IFSCA**) has released a Consultation Paper dated October 17, 2025 (**Consultation Paper**) proposing amendments to the IFSCA (Fund Management) Regulations, 2025 (**FM Regulations**). The Consultation Paper has been issued with the objective of improving ease of doing business, enhancing regulatory safeguards, and providing drafting and intent clarifications within the FM Regulations. Comments on the proposals can be submitted until November 6, 2025. In this note, we have reviewed and analysed some of the key proposals from the Consultation Paper.

- **Eligibility of Key Managerial Personnel (KMP):** Currently, in order to be eligible to be appointed as a compliance officer in an IFSC, the candidate is required to have a professional qualification and at least three years of experience in compliance or risk management in a listed company or any entity regulated by a financial service regulator. In the interest of facilitating talent acquisition and retention, the IFSCA proposes to allow individuals possessing any professional qualification and 3 years of work experience in a financial institution to be appointed as a compliance officer provided, the individual has also obtained a prescribed certification.
- **Skin-in-the-game Contributions:** The FM Regulations require Fund Management Entities **(FME)** of restricted schemes to maintain a minimum continuing interest of at least 2.5% (two-point five percent) of the targeted corpus, in case of a close ended scheme with a targeted corpus of less than USD 30 million and a minimum continuing interest of at least USD 750,000 for a scheme with a targeted corpus over USD 30 million. In case of an open-ended scheme, the FME is required to have a minimum continuing interest of 5% (five percent) of the targeted corpus if the targeted corpus of the scheme is less than USD 30 million, and a minimum continuing interest of at least USD 1,500,000 for a scheme with a targeted corpus over USD 30 million. In the Consultation Paper, IFSCA has proposed that the minimum contribution by the FME shall be 2.5% for all close ended schemes and 5% for all open-ended scheme. The construct of targeted corpus is to be deleted and the FME’s minimum contribution will be determined by the scheme’s actual corpus.
- **Definition of associates:** Currently under the FM Regulations, the definition of an “associate” of a FME does not cover entities other than a company, LLP or a body corporate. The Consultation Paper proposes to modify the definition by replacing the words “a company, limited liability partnership or body corporate’ with the word “person”. This amendment will cause even unincorporated entities such as trusts, general partners and individuals to be an associate of the FME, which would result in greater transparency in the FME’s related-party dealings.
- **Extension of PPM’s validity for Restricted (Non-retail) Schemes and Venture Capital Schemes:** Currently under Regulations 19 and 35 of the FM Regulations, a FME managing a Venture Capital Scheme or a Restricted (Non-retail) scheme has a one-time option to extend the validity of its PPM for a period of 6 months in case it fails to achieve the minimum size of corpus within 12 months from the date of communication from IFSCA to the FME that the placement memorandum has been taken on record. In the interest of allowing greater flexibility to tackle the dynamic conditions for fund-raising, the Consultation Paper proposes to remove the one-time limit and allow FMEs to obtain as many 6-month extensions as they require provided, they pay the prescribed fee to IFSCA for each extension.
- **Proposed changes to follow-on investments made by a Venture Capital Scheme (VCS) framework:** Follow-on in portfolio companies that are older than 10 years: Currently, the FM Regulations require VCS to invest at least 80% of their corpus in companies for which not more than 10 years have elapsed since the date of their incorporation. The Consultation Paper proposes to permit VCS to make follow-on investments in companies where it has already investment and which are now older than 10 years, provided the following criteria is met: (i) the subsequent investment shall be in accordance with the investment objective of the VCS, (ii) investors that have excused themselves or have been excluded by the FME from investing in an investee company are not permitted to participate in the subsequent rounds of investment in that company, and (iii) the percentage of post issue beneficial

interest in the investee company should not exceed the percentage of pre issue beneficial interest held by the VCS in such investee company.

- **Clarification on timelines for calculation of NAV:** The Consultation Paper has clarified that the computation of NAV, the disclosure of NAV to its contributors and the disclosure of its portfolio must be done in their prescribed timelines, computation of which will be starting from the financial year in which the first close is disclosed for the scheme.

- **Differential rights to investors:** Currently, the FM Regulations require all investors of a scheme to be accorded the same rights. This position is similar to the SEBI's regulatory regime for AIFs. However, the Consultation Paper it is stated that IFSCA is considering a proposal to permit Venture Capital Schemes and Restricted Schemes to grant differential rights to their investors, if the same has been disclosed in the PPM and the rights of other investors in the VCS in not harmed. The Consultation Paper refers to another consultation paper to be issued by the IFSCA proposing a new regulatory framework to permit differential distribution in Restricted Schemes and Venture Capital Schemes with a view to facilitate blended finance and other fund structures.

ELP Comments

- **KMP Certificate –** The Consultation Paper proposes that compliance officers may be able to meet eligibility requirements by obtaining a regulator-recognised certification. In practice, this would work similarly to how SEBI currently uses NISM certifications in the AIF ecosystem, where individuals clear a structured exam, like the NISM XIX-C/D/E, to demonstrate regulatory and compliance knowledge. The certification system to be implemented by the IFSCA is likely be a test similar to the NISM XIX-C/D/E certification exam covering fundamental fund operations in IFSC, governance, reporting and investor protection requirements It is also very likely that such certification exam will be offered by NISM or a similar agency. It is also possible that the IFSCA may declare holders of NISM XIX-C/D/E certifications to sufficient to be a compliance officer in an FME.
- Currently, the FM Regulations have a cap on the minimum skin-in-the-game contribution required from FME. In the case of a close ended scheme, irrespective of the size of the scheme's corpus, an FME need not commit more than USD 750,000 in such scheme. In the case of an open-ended scheme, irrespective of the size of the scheme's corpus, an FME need not commit more than USD USD 1,500,000. The proposed change, if implemented, will do away with the caps and a close-ended scheme with a corpus of USD 100 million would require an FME commitment of USD 2.5 million and an open-ended scheme with a corpus of USD 100 million would require an FME commitment of USD 5 million. On the positive side, the FME commitment will be based on the actual corpus of the scheme and not its targeted corpus. Regulation 2(j) of the FM Regulations defines corpus" to mean the total amount of funds committed by investors to the fund management entity under a scheme by way of a written contract or any such document as on a particular date. In other words, the corpus of a scheme is the aggregate value of all capital commitments received by the scheme from its investors. The "targeted corpus" of a scheme is the corpus which the FME has targeted to achieve, as stated in the PPM of the scheme. If the PPM of a close-ended scheme states that the scheme targets a corpus of USD 10 million, but achieves only USD 9 million, under the existing regulations, the FME should commit an investment of 2.5% of USD 10 million. If the PPM of a close-ended scheme states that the scheme targets a corpus of USD 10 million, but achieves USD 12 million, under the existing regulations, the FME is only required to commit an investment of 2.5% of USD 10 million. The proposed changes to the FM Regulations will tie the FME's commitment in the scheme to its actual corpus instead of the targeted corpus.

The consultation paper can be accessed here.

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com or write to our authors:

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