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1.1. ADVISORY ON HEIGHTENED CYBER SECURITY RISKS ARISING FROM FRONTIER ARTIFICIAL INTELLIGENCE MODELS

Background

As GIFT-IFSC evolves into a more technology-intensive financial ecosystem, cyber resilience is also becoming critical. IFSCA has already issued principles-based Guidelines on Cyber Security and Cyber Resilience for Regulated Entities ('**REs**') and Market Infrastructure Institutions ('**MIIs**') in IFSCs. Frontier artificial intelligence now adds a new layer to this landscape by compressing exploit timelines and lowering the entry barrier for sophisticated cyberattacks.

What The Circular Provides

Through its Circular dated 04 June 2026, IFSCA issues an advisory on heightened cyber security risks arising from frontier artificial intelligence models, to be read in conjunction with its existing cyber security and cyber resilience guidelines. Through this circular, IFSCA expects REs to:

- Presume that newly disclosed critical vulnerabilities are exploitable within hours of publication and they should prepare for 'vulnerability patch waves' across their technology stack.
- Explicitly incorporate frontier AI capabilities and risks as a defined scenario in their cyber risk assessments. These assessments are to be periodically reviewed by the Board and, in the case of MIIs by the Standing Committee on Technology.
- Maintain a Software Bill of Materials ('**SBOM**'), including open-source components, to enable rapid impact assessment.
- Implement phishing-resistant multi-factor authentication for internet-facing and privileged access, strengthen identity controls so that credential compromise alone does not grant access.
- Maintain a comprehensive inventory of APIs and consuming applications with appropriate rate-limiting and whitelisting.
- Further require critical service providers to assess frontier AI risks and demonstrate preparedness for accelerated exploit timelines along with timely and scalable remediation of vulnerabilities identified in, or attributed to, third party systems and dependencies.
- Enhance monitoring for AI-driven attack patterns and establish rapid response mechanisms for credential compromise including automated resets and account lockouts.
- Encourage adoption of AI-assisted vulnerability detection tools. REs must ensure that:
  - use of such tools is authorized,
  - sensitive data is not exposed to unapproved external services, and
  - the model provider's data-handling, retention and confidentiality terms are adequate.
- AI-generated or AI-remediated code must be subject to rigorous testing and appropriate human oversight before deployment.

Analysis & Comments

- The circular signals that cyber resilience in IFSC must now be assessed against AI-accelerated threat timelines, not only traditional control checklists. It brings frontier AI risk into Board-level governance and places greater emphasis on SBOMs, API visibility, privileged access, third-party readiness and rapid remediation.
- At the same time, IFSCA adopts a balanced approach by permitting defensive use of AI tools, while anchoring them in data protection, contractual safeguards and human oversight.

Way forward

REs should review their current systems against the advisory, especially how quickly they can detect and fix vulnerabilities, whether their SBOMs and API inventories are complete, whether MFA and privileged access controls are strong, and whether key service providers are prepared for AI-related cyber risks. They should also put in place clear internal rules on when and how AI tools can be used in development, testing and operations, including approvals, data-sharing limits and basic safeguards with AI service providers.

1.2. REPORTING FORMAT AND NORMS FOR ANNUAL COMPLIANCE AUDIT FOR CAPITAL MARKET INTERMEDIARIES ('CMIS') IN IFSC

Background

As the IFSC capital markets framework matures, IFSCA's focus is increasingly moving towards periodic assurance and compliance. The CMI Regulations, 2025 already require CMIs to conduct an annual compliance audit and submit the audit report to IFSCA as per the regulations. IFSCA seeks to standardize the annual audit process so that it functions as a structured tool, giving IFSCA and MIIs a consistent view of compliance across IFSC CMIs.

What The Circular Provides

Through its Circular dated 05 June 2026, IFSCA provides the following:

- The format for Annual Compliance Audit Report ('**ACAR**') and the Annual Compliance Audit Checklist ('**ACAC**') for CMIs will be available on the IFSCA website. All categories of CMIs are required to submit the ACAR along with the ACAC to IFSCA annually, by 30 September each year for the preceding financial year.
- The ACAC is divided into 3 parts, which consist of the following checklists:
  - Part-A covers general obligations and responsibilities applicable to all CMIs;
  - Part-B covers specific obligations based on the category of registration or authorization held by the CMI;
  - Part-C is to be prepared by MIIs for auditing compliance with the applicable rules, regulations, bye-laws and circulars governing their members (MIIs are required to provide information submitted by CMIs in the ACAC and ACAR for each preceding financial year, in the manner and format specified by IFSCA, by 30 November each year.)
- IFSCA also clarifies that CMIs registered as Broker Dealers, Clearing Members or Depository Participants must file the ACAR and ACAC with the respective MIIs, in addition to submission to IFSCA. The reporting requirement will apply for Financial Year 2025-26 as well.
- Global Access Providers ('**GAP**') and Introducing Brokers are also brought within the same annual audit reporting architecture. Annual audit of Global Access activities is to be reported as part of the ACAR under Part-B, and the concerned Global Access Provider is required to submit the ACAR along with the ACAC to IFSCA.
- The annual compliance audit must be conducted by a member of ICAI, ICSI or ICMAI, or by any person authorized to conduct an audit in a foreign jurisdiction.

Analysis & Comments

- By prescribing a common ACAR and ACAC framework, IFSCA is seeking to improve consistency, comparability and supervisory visibility across CMIs.
- The checklist structure is particularly relevant as Part-A creates a common baseline, Part-B captures activity-specific obligations, and Part-C brings MII requirements into the same audit trail. This points towards a more integrated supervisory model, where IFSCA and MIIs can review compliance through a shared and structured lens.
- Further, the inclusion of Global Access Providers and Introducing Brokers also reflects IFSCA's focus on cross-border market access controls.

Way forward

CMIs should immediately align the existing compliance calendars, policies, and audit documentation with ACAR and ACAC requirements for FY 2025-26. Broker Dealers, Clearing Members, and Depository Participants should engage early with MIIs on Part-C expectations, while GAP and Introducing Brokers should ensure their audit scope covers global access activities. Over time, CMIs should shift to a continuous compliance assurance model aligned with Part-A, B, and C to better respond to audit queries, MII supervision, and IFSCA review.

1.3. MASTER CIRCULAR FOR RECOGNISED STOCK EXCHANGES AND RECOGNISED CLEARING CORPORATIONS

Background

The IFSCA (MII) Regulations, 2021, provide a unified framework for regulating and supervising recognized Stock Exchanges and recognized Clearing Corporations in the IFSC. Until now, recognized Stock Exchanges and Clearing Corporations were required to navigate multiple IFSCA circulars and certain legacy SEBI circulars applicable to IFSC MIIs. The Master Circular consolidates this framework and provides a single reference point.

What The Circular Provides

Through its Master Circular dated 05 June 2026, IFSCA consolidates all the circulars applicable to recognised Stock Exchanges and recognised Clearing Corporations in IFSC into a single document. The Master Circular covers, among other things:

- Covers the full lifecycle of Stock Exchanges and Clearing Corporations, including recognition process, payment of fees, validity of registration, trading framework, market access, direct market access, trading terminals, system audit, business continuity, disaster recovery, co-location and proximity hosting.
- The Master Circular supersedes specified IFSCA circulars and pre-October 2020 SEBI circulars and guidelines for recognized Stock Exchanges and Clearing Corporations, while preserving prior actions and applications under the corresponding new provisions.

Analysis & Comments

- The Master Circular reduces the need to track multiple circulars across time and provides certainty, while giving IFSC market infrastructure entities a clearer, single framework for governance, risk management, technology and market operations.
- The Circular also strengthens IFSCA's ability to supervise MIIs through a more integrated lens, while signalling that exchanges and clearing corporations are expected to internalize regulatory expectations across business, risk, technology and governance functions.

Way forward

Recognized Stock Exchanges and Clearing Corporations should treat the Master Circular as the principal compliance reference and map existing policies, byelaws, operating procedures, committee charters and technology controls against it.

1.4. AMENDMENT TO IFSCA CONSOLIDATED CIRCULAR - IMPORT OF GOLD OR SILVER THROUGH IIBX

Background

The IIBX framework has become an important part of India's effort to channel bullion imports through a regulated IFSC platform. IFSCA's circular dated 10 October 2025, as amended from time to time, governs the import of gold or silver by eligible entities, including Qualified Jewellers and valid India-UAE CEPA TRQ holders, through IIBX.

What The Circular Provides

Through its Circular dated 15 June 2026, IFSCA amends the existing circular on import of gold or silver by Qualified Jewellers and valid India-UAE CEPA TRQ holders through IIBX.

It seeks to align the IIBX access framework with recent DGFT policy changes while also compiling the circulars and issuing a consolidated circular, thereby providing more transparent access to bullion for jewellery exports. The amendments to the circular are as follows:

- The circular relaxes the eligibility criteria for SEZ units holding a valid Letter of Approval ('**LOA**') and having export of jewellery as one of their authorized operations. Such SEZ units are no longer required to meet the minimum net worth requirement for being notified as Qualified Jewellers, subject to submission of a certificate attested by a practising chartered accountant or cost accountant or company secretary confirming:
  - at least 35% of its annual turnover in each of the preceding 3 financial years and the current financial year until the date of application is from goods falling under ITC(HS) codes 7113, 7114 and 7118; and
  - at least INR 5 crore of its annual export turnover during each of the preceding three financial years is from goods falling under ITC(HS) Code 7113.
- The circular further broadens the eligibility criteria for notification as a Qualified Jeweller by including entities holding a valid Registration-cum-Membership Certificate ('**RCMC**') issued by The Gem & Jewellery Export Promotion Council ('**GJEPC**'). Accordingly, an entity holding a valid Advance Authorization issued by DGFT or a valid GJEPC RCMC may apply through IIBX to be notified by IFSCA as a Qualified Jeweller.
- It reflects DGFT's recent restrictions on certain silver imports. Import of silver bars under ITC(HS) Code 71069221 is restricted subject to Policy Condition No. 7 of Chapter 71 of the ITC(HS) based Import Policy. However, an SEZ unit holding a valid LOA and having export of jewellery as one of its authorized operations may import silver bars under ITC(HS) Code 71069221 through IIBX without being notified as a Qualified Jeweller.
- Further, import of silver under ITC(HS) Codes 71069110 and 71069120 is permitted only against a valid Import Authorisation issued by DGFT.

Analysis & Comments

- While DGFT has tightened the policy framework for certain silver imports, IFSCA has simultaneously created a more practical access route for genuine jewellery exporters operating from SEZs and for GJEPC-registered entities seeking Qualified Jeweller status.
- The removal of the minimum net worth requirement for eligible SEZ jewellery exporters is particularly significant. It shifts the focus from balance-sheet size to export-linked credentials.
- At the same time, the certificate requirement and DGFT authorization conditions preserve regulatory discipline.

Way forward

Eligible SEZ jewellery units should assess whether they satisfy the LOA, specified turnover and export thresholds requirements, and should prepare the necessary professional certification before approaching IIBX. Further, entities holding Advance Authorisation or GJEPC RCMC should review whether notification as a Qualified Jeweller would improve their bullion procurement route through IIBX, particularly where import requirements are linked to export activity.

1.5. AMENDMENT TO THE CIRCULAR TITLED "PERMISSIBLE TRANSACTIONS THROUGH THE SPECIAL NON-RESIDENT RUPEE ('SNRR') ACCOUNTS OF IFSC UNITS

Background

As IFSC units increasingly undertake business-linked transactions with counterparties outside the IFSC, clarity on permissible rupee account structures becomes important. IFSCA's earlier circular on SNRR accounts provided a framework for IFSC units to use SNRR accounts with authorized dealers in India for business-related transactions outside the IFSC.

What The Circular Provides

Through its Circular dated 19 June 2026, IFSCA amends Clause 3 of the circular titled 'Permissible transactions through the SNRR accounts of IFSC units', dated 29 January 2025. The circular provides the following:

- Pursuant to the regulatory amendment notified on 14 January 2025, a unit set up in an IFSC may open an SNRR account with an authorized dealer in India, outside the IFSC, for its business-related transactions outside the IFSC.
- IFSCA further clarifies that financial institutions may transact or receive monetary consideration, including funds, fees or other amounts deriving from business-related transactions outside the IFSC through the SNRR account. However, the amount so received must be remitted to the account maintained by such financial institution with an IFSC Banking Unit ('**IBU**') in a specified foreign currency within 30 working days from the date of receipt in the SNRR account.
- The circular also carves out a practical exception. The requirement to remit funds to the IBU account will not apply to amounts credited to the SNRR account for meeting administrative expenses

Analysis & Comments

- The amendment provides clarity for IFSC units that receive rupee-denominated consideration from business activities outside the IFSC.
- The 30-working-day period creates clear holding period discipline for SNRR collections and reduces ambiguity on how long funds may remain outside the IBU account structure. At the same time, the carve-out for administrative expenses makes routine payments easier.
- Overall, the circular allows IFSC units to manage India-facing transactions more efficiently, without diluting IFSCA's ability to monitor the movement and eventual placement of funds.

Way forward

IFSC units using SNRR accounts should ensure their transactions qualify as business-related activities outside the IFSC and track both the date of receipt and the 30-working-day remittance timeline. They should clearly separate administrative expenses from other receipts and maintain proper documentation for any amounts not remitted to the IBU account. They should also update treasury, finance and compliance processes so that these requirements are monitored as part of routine controls.

1.6. AMENDMENT TO THE CIRCULAR TITLED "EXEMPTING CERTAIN ENTITIES/ACTIVITIES FROM THE APPLICABILITY OF IFSCA (ANTI-MONEY LAUNDERING, COUNTER-TERRORIST FINANCING AND KNOW YOUR CUSTOMER) GUIDELINES, 2022"

Background

IFSCA had issued a circular dated 18 November 2024 exempting certain entities and activities from the applicability of the IFSCA (Anti-Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022.

The exemption framework was intended to calibrate AML/CFT/KYC compliance requirements for specific categories, while preserving the broader integrity of financial flows within the IFSC. Given the international nature of IFSC transactions, fund-flow discipline remains central to regulatory oversight.

What The Circular Provides

Through its Circular dated 19 June 2026, IFSCA amends clause 3 of the Exemption Circular.

- The amendment provides that all Financial Institutions, including those exempted under the Exemption Circular, must transact or receive monetary consideration, including funds, fees or other amounts arising from business transactions, only through an account maintained with a Banking Unit in IFSC *or through an SNRR account*.

Analysis & Comments

The amendment is narrow but important. It makes clear that exemption from certain AML/CFT/KYC requirements does not translate into flexibility on fund-flow discipline. The amendment strengthens traceability of business receipts by addition of the words – 'or through an SNRR account' for undertaking business transactions.

Way forward

Financial Institutions relying on the Exemption Circular should review their collection and payment flows to ensure that all business-related monetary consideration is routed only through an IFSC Banking Unit account or an SNRR account. Entities should also update internal finance, operations and compliance controls so that exemptions are not applied in a manner that weakens account-level traceability or creates parallel receipt channels outside the permitted framework.

1.7. AMENDMENT TO THE CIRCULAR TITLED INTERNET BANKING SERVICES TO CLIENTS OF IBUS –REVIEW

Background

IFSCA had earlier issued circulars dated 22 April 2024 and 29 December 2025 in relation to internet banking services offered by IFSC IBUs to their clients. These circulars set out the regulatory framework for enabling internet banking services, including requirements around customer access, account linkage, beneficiary controls and operational safeguards. As IBUs increasingly provide digital banking access to global clients, the regulatory focus has been on balancing client convenience with secure access, clear customer controls and operational discipline.

What The Circular Provides

Through its Circular dated 30 June 2026, IFSCA amends the earlier review circular on internet banking services to clients of IBUs. The circular provides:

- An IBU which commenced operations prior to the date of issuance of the circular dated 29 December 2025, must comply with the specified requirements by 31 July 2026 (earlier mentioned as 30 June 2026) and on failure to comply by that date, it must, with effect from 1 August 2026 (earlier mentioned 01 July 2026), stop onboarding new customers for the liability product(s).
- Clarification that the expression “all linked accounts” refers to all accounts of the customer, including deposit accounts and/or loan accounts and “whitelisting” means a feature that enables a customer of the IBU to designate a predefined approved list of beneficiaries.
- The requirement under para 8. i.b. of the December 2025 circular, which stated that IBUs shall make available a unified digital banking dashboard to their customers providing the ability to view live market rates for currency conversions including the applicable spread offered to its customers, will not be mandatory.
- All other provisions of the circular remain unchanged.

Analysis & Comments

- By extending the compliance date and linking non-compliance to a pause on new customer onboarding for the relevant liability products, IFSCA has given a final opportunity to comply with the requirements of the circular.
- At the same time, the clarifications on linked accounts and whitelisting reduce ambiguity for IBUs and their technology teams.

Way forward

IBUs should immediately map their internet banking systems against the amended requirements, particularly linked-account coverage, beneficiary whitelisting functionality and product-level compliance status. Any gaps should be closed before 31 July 2026 to avoid restrictions on onboarding new customers for affected liability products from 1 August 2026.

2. REGULATIONS – DETAILED ANALYSIS

2.1. IFSCA (MANAGING GENERAL AGENTS) REGULATIONS, 2026

IFSCA has notified the IFSCA (Managing General Agents) Regulations, 2026, creating a dedicated framework for Managing General Agents ('**MGAs**') in GIFT-IFSC. The framework is intended to support specialized insurance distribution and delegated underwriting from IFSC, particularly where foreign insurers wish to access regional and cross-border risks without setting up a full insurance platform in India.

For a detailed discussion on the MGA model, its commercial relevance and the key features of the 2026 Regulations, please refer to the thought leadership article on ***page number 17*** of this newsletter. The IFSCA Regulations are available here.

B. REGULATORY DEVELOPMENTS

1. CLARIFICATION RECEIVED ON EARLIER CIRCULARS

Clarification on applicability of Annual Return on Foreign Liabilities and Assets ('FLA') under FEMA, 1999 to IFSC Regulated Entities

- In May 2026, IFSCA had referred to the RBI FAQs on filing of the FLA return under FEMA, 1999, updated as on 25 March 2026. These FAQs had created uncertainty for IFSC entities, as they suggested that GIFT City entities with foreign investment or overseas investment, IFSC subsidiaries of foreign entities, and IFSC companies receiving investment from Indian entities may be required to file the FLA return with the RBI. IFSCA had accordingly advised IFSC financial institutions to await further clarity while the matter was being discussed with the RBI.
- IFSCA has now, through its press release dated 01 July 2026, clarified that the RBI, in consultation with IFSCA, has revised the relevant FAQs and added a new Q46. The revised position clarifies that while FDI norms do not apply to investments made in regulated entities in IFSC, data relating to such investments is required for compilation of India's balance of payments data. The IFSC REs are not required to file the FLA return directly with RBI; instead, IFSCA will issue separate instructions for submission of the required data.
- This clarification is helpful as it removes the earlier uncertainty for IFSC regulated entities. For now, such entities should await further instructions from IFSCA and keep the relevant investment data ready for submission once the process is notified.

C. CONSULTATIONS AND POLICY UPDATES

1. CONSULTATION PAPERS ISSUED

Consultation Paper on proposed IFSCA (Registration and Operations of Mutual Insurer and Protection & Indemnity Club) Regulations, 2026

IFSCA has issued a consultation paper on the proposed regulatory framework for registration and operations of Mutual Insurers and Protection & Indemnity Clubs in the IFSC. The proposal seeks to provide a dedicated regime for such insurance structures, and Public comments on the same are invited up to 12 July 2026.

Consultation Paper for issuing Circular on Integration of Regulated Entities with KYC Registration Agencies in IFSC

IFSCA has also issued a consultation paper proposing a circular for integration of REs in the IFSC with KYC Registration Agencies. The proposal is intended to strengthen KYC standardization, reduce duplication and improve compliance efficiency across regulated entities. Public comments on the same are invited up to 16 July 2026.

2. PUBLIC COMMENTS INVITED AND FAQS ISSUED

Comments received regarding the Consultation Paper on Master Circular for Stock Exchanges and Clearing Corporations

IFSCA had invited public comments on the consultation paper for the proposed Master Circular for recognized Stock Exchanges and Clearing Corporations. The final Master Circular was issued on 05 June 2026, and IFSCA has now published the comments received on 19 June 2026, providing stakeholders with visibility on the feedback considered in the rule-making process and reflecting IFSCA's consultative approach to developing the IFSC market infrastructure framework.

Comments received regarding the Consultation Paper on Master Circular for Broker Dealers and Clearing Members

IFSCA had also invited public comments on the consultation paper for the proposed Master Circular for Broker Dealers and Clearing Members. The final Master Circular was issued on 12 May 2026, and IFSCA has now published the comments received on 19 June 2026, enabling market participants to understand the regulatory feedback loop and the considerations that informed the finalized framework.

IFSCA FinTech Sandbox Framework, 2026 - FAQs

IFSCA has issued FAQs on the IFSCA FinTech Sandbox Framework, 2026 to provide practical clarity on the operation of the sandbox regime. The FAQs are intended to assist applicants and market participants in understanding eligibility, application process, permissible testing, regulatory relaxations, safeguards, reporting expectations and exit from the sandbox. The issuance of the FAQs indicates IFSCA's continued focus on encouraging responsible financial innovation within a supervised environment.

FAQs on International Financial Services Centres Authority (Anti Money Laundering, Counter-Terrorist Financing And Know Your Customer) Guidelines, 2022

IFSCA has also issued FAQs on the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022. These FAQs seek to clarify operational aspects of AML, CFT and KYC compliance for regulated entities in the IFSC, including customer due diligence, risk-based assessment, ongoing monitoring, record-keeping and related compliance expectations.

D. PRESS RELEASES AND INSTITUTIONAL UPDATES

1. BULLETINS AND PUBLICATIONS

IFSCA Bulletin Jan-Mar 2026

IFSCA has released its Bulletin for the quarter January-March 2026, capturing key regulatory, institutional and market developments in the IFSC ecosystem during the period. The bulletin provides a consolidated snapshot of IFSCA's ongoing policy initiatives, sectoral growth, regulatory updates and market activity, and serves as a useful reference point for stakeholders tracking the evolution of GIFT IFSC as a global financial services hub.

DRHP filed by TRYFACTA, INC

TRYFACTA, INC, a US-headquartered AI-enabled staffing and technology solutions company, has filed its DRHP document for a proposed IPO on the IFSC exchanges, marking notable capital markets development within the IFSC framework. The filing is significant as TRYFACTA is reported to be the second company to file for an IPO through the GIFT City framework, after XED. The filing shows continued interest in using IFSC infrastructure for fund-raising and listings, highlighting GIFT IFSC's growing role in international capital markets.

E. THOUGHT LEADERSHIP PIECE

1. THE VARIABLE CAPITAL COMPANY COMES TO INDIA. BUT WHERE DOES THE TAX LAW STAND?

Introduction

A new kind of fund vehicle is coming to India. It is called a Variable Capital Company ("**VCC**"). It will be established in GIFT City, in the IFSC, under the draft IFSCA (Amendment) Bill, 2026 ("**Draft Bill**").

The 2024-25 Union Budget first introduced the idea of a VCC. Parliament saw that a flexible fund structure could draw great flows of capital, both from abroad and from within India, into the world of alternative investment. What makes the VCC different from an ordinary company is that it has no fixed share capital. Its capital rises and falls as investors put money in and take it out. And it may run several investment compartments, called "sub-funds", all under one legal roof, with each sub-fund's assets and liabilities kept strictly apart by statute.

Each sub-fund has its own portfolio and its own classes of shares. The assets of one sub-fund cannot be called upon to meet the debts of another. Nor can they be used to satisfy the liabilities of the VCC itself. The law draws a firm ring around each sub-fund.

The Draft Bill would write a new chapter into the IFSCA Act, 2019 (Chapter III-A) and build a framework for VCCs that stands entirely apart from the Companies Act, 2013. Each sub-fund is treated as a separate regulated scheme of the Fund Management Entity (the "**FME**") and must be individually authorised by IFSCA. In that respect, the VCC follows the pattern already established for Alternative Investment Funds ("**AIFs**") in the IFSC.

Benefits and Use Cases

The IFSC VCC brings with it real and practical advantages.

- **First, there is the matter of simplicity.** One VCC, one board, one set of filings. And yet it can run many different investment strategies at once, each in its own sub-fund. There is no need to set up a separate company for every scheme. That saves money, and it saves trouble. And because the capital is variable, investors can come in and go out without the legal machinery of a capital reduction or a fresh allotment.
- **Second, each sub-fund is sealed off from the others.** One sub-fund may invest in equities, another in bonds, another in a particular sector. But if one sub-fund runs into trouble, the investors in the others are untouched. Their money is safe behind the ring fence. This makes the VCC well-suited to managers who run many strategies under one name but must keep the risks apart.
- **Third, a VCC is not a trust.** It has a board. It publishes audited accounts. It is supervised by the IFSCA. It makes mandatory disclosures. Foreign investors know what a company looks like. They may not understand an Indian trust. That familiarity matters, and it eases the way for international capital.

In practice, let's consider who might use it. A manager running both an equity fund and a credit fund can bring them under one VCC, with each kept separate. A private credit or real estate manager can structure different risk tranches as different sub-funds. A family office can consolidate its holdings and plan for the future, all within a single, internationally recognised structure.

What makes GIFT-IFSC Stand Out

What sets GIFT-IFSC apart is the simplicity of dealing. In Singapore, the fund manager is regulated by the Monetary Authority of Singapore, but the company itself is registered with the Accounting and Corporate Regulatory Authority. Two separate authorities. In Mauritius, the Financial Services Commission regulates securities, but the company registry is a different body altogether. In GIFT-IFSC, there is only one door to knock on. IFSCA is both the corporate registrar and the fund regulator. It handles incorporation, scheme approval, ongoing compliance, and winding-up. A fund manager need not deal with anyone else. The Draft Bill goes further still: it confines the jurisdiction of the National Company Law Tribunal to matters of public interest, fraud, or threats to India's sovereignty and security. Routine fund matters stay with IFSCA, making it truly a single, unified regulator for VCCs.

The Taxation Question

There is one question that remains unanswered. How will the IFSC VCC be taxed? The legislation has not yet settled it. The rules for taxing VCCs will be introduced through amendments to the Income-tax Act, 2025 (the "**IT Act**") and the IFSCA (Fund Management) Regulations, 2025 ("**FM Regulations**"). But that will only happen once the Draft Bill has been enacted.

What follows draws on the Draft Bill's own structure and the tax framework already in place for IFSC AIFs. On that basis, we venture a view.

I. Separate Tax Personality of Sub-Funds

Here is the central tension. In law, a sub-fund is not a separate legal person from the VCC. They are the same entity. And yet, the Draft Bill provides that each sub-fund shall be treated as a separate person for taxation purposes. Law and tax pull in different directions, and it will fall to the amendments to the IT Act and the FM regulations to draw the line.

Under the Draft Bill, each sub-fund is treated as a separate scheme of the FME, standing in the same position as an AIF registered with IFSCA under the FM Regulations. Depending on what it invests in, a sub-fund may be constituted as a Category I, II, or III AIF. That classification carries weight, for the IT Act already offers exemptions to IFSC-based funds. If the proposed amendments are drawn in the right way, VCC sub-funds structured as AIFs ought to be able to claim those exemptions in their own right.

II. Section 11 r/w Schedule VI: The Specified Fund Exemption

Section 11, read with Schedule VI of the IT Act, exempts from Indian tax certain income of a "specified fund", meaning a fund established in an IFSC and regulated by IFSCA. The question is whether VCC sub-funds can be brought within that definition. If they can, each sub-fund may claim the exemption on its own, independently of the VCC. That matters most for Category III sub-funds. Category I and II AIFs already enjoy pass-through treatment under the IT Act: their investors are taxed directly, and the fund pays nothing. Category III AIFs do not enjoy that treatment. A specified fund exemption could change things for them, producing a sub-fund-level exemption on qualifying income. An IFSC VCC sub-fund of Category III could then be materially more tax efficient than a Category III AIF sitting onshore. One caveat, however, must be noted: the existing exemption covers only income attributable to units held by non-resident investors.

III. Withholding on Distributions to Investors

When money is paid out to investors, the withholding position is likely to follow the existing IFSC AIF regime. Where the payment reflects capital gains on Indian securities, withholding tax will apply, though a tax treaty may reduce or eliminate it. Where the payment comes from non-Indian assets, or from income that falls within the Section 11 exemption, there should be no Indian withholding tax at all, provided the VCC framework is shaped along the lines of the existing specified fund approach.

Here lies the real planning opportunity. A VCC can dedicate different sub-funds to different classes of assets. If it does so with care, distributions from the sub-funds that hold non-Indian assets can flow to non-resident investors free of Indian withholding. Meanwhile, the sub-funds that hold Indian assets remain ring-fenced. Withholding obligations in one sub-fund do not infect the others.

This segregation by asset class, for withholding purposes, would be something genuinely new that the VCC's umbrella structure makes possible. But how far it goes will depend, in the end, on what the final tax amendments and the regulatory guidance actually say.

IV. Conclusion

The IFSC VCC is a good idea. It gives fund managers one umbrella, many strategies, and the protection of the ring-fence. That much is settled. What is not yet settled is the tax. And in the world of funds, taxation is everything. Singapore, when it introduced its own VCC in 2020, built the tax framework alongside the regulatory one. That is why it worked. India has not done so yet.

The law should follow the structure. Each sub-fund, taxed as its own unit, should be treated depending on whether it is a Category I, II, or III AIF. As things stand, Categories I and II enjoy pass-through treatment; Category III does not. If the amendments are well-drawn, extending specified fund treatment where it fits, and holding withholding within the sub-fund that gives rise to it, then the IFSC VCC could be a formidable vehicle.

But if the tax law lags behind the regulatory design, the VCC will not fulfil its promise. The structure will be there. The tax efficiency will not. And that, in the end, is what investors will look at.

2. THE MANAGING GENERAL AGENT IN GIFT CITY: FROM AFTERTHOUGHT TO STANDALONE REGIME

Introduction

The Managing General Agent ('**MGA**') is not a new face in GIFT City. It has been around since 2021, when the IFSCA (Registration of Insurance Business) Regulations, 2021 ('**2021 Regulations**') first recognised MGAs in their Third Schedule. An MGA was, however, merely an adjunct to the foreign insurer it represented, with no dedicated framework to speak of. Until now.

On 12th June 2026, IFSCA notified the IFSCA (Managing General Agents) Regulations, 2026 ('**2026 Regulations**'), bringing MGAs into the light as standalone regulated insurance intermediaries.

What is a Managing General Agent?

An MGA is an insurance intermediary. It is not a broker as it does not represent the policyholder. It is not an insurer as it does not carry the risk on its own balance sheet. It sits between the two, acting on a foreign insurer's behalf under a written contract called a Binding Authority Agreement ('**BAA**'). Under the BAA, the foreign insurer hands the MGA a portion of its authority. The MGA may then solicit business, select and accept risks, issue policies, collect premiums, and, if authorised, settle claims. All of this is done in the insurer's name, within the limits the BAA sets.

Schedule I of the 2026 Regulations spells out the full range of what that means: risk assessment and binding authority, product design and regulatory filing, policy issuance and lifecycle management, premium collection and financial reporting, and claims handling and settlement. It is a full-service insurance operation, run entirely in the foreign insurer's name.

Who May Register?

There are two doors into the IFSC MGA regime. The first is for an entity already incorporated outside India and authorised by a foreign insurer as an MGA. It may establish a branch in the IFSC, provided it holds a valid home-country licence, operates within a country that has a Double Taxation Avoidance Agreement ('**DTAA**') with India, and carries a no-objection certificate from its home regulator. The second door is for any other entity, which must incorporate a company under the Companies Act, 2013, within the IFSC itself.

The foreign insurers who appoint MGAs face their own conditions. They must *inter alia* hold a minimum net worth of USD 100 million, carry a credit rating of at least 'A' from an internationally recognised rating agency for the past three years, and come from a jurisdiction having a DTAA with India.

Further, an insurer may not give binding authority to any single MGA for more than 10% of its gross written premium for the preceding financial year. This ceiling limits concentration and ensures that the MGA does not become, in effect, the insurer itself.

Capital, Net Worth, and Financial Security

Under the 2021 Regulations, an MGA needed a mere INR 5 lakh in paid-up capital: roughly USD 6,000. The 2026 Regulations mandate that every MGA, whether set up as a company or a branch, must hold a minimum paid-up equity capital (assigned capital in case of a branch) of USD 500,000 with an IFSC IBU. Further, an MGA must, at all times, maintain a net worth of the higher of USD 250,000 or 50% of its paid-up/assigned capital.

Before commencing business, each MGA must also deposit USD 10,000 plus 10% of its paid-up/assigned capital with an IBU, with a lien in favour of IFSCA. In case of liquidation, IFSCA may appropriate this amount to satisfy unpaid awards and claims, as a last resort for policyholders.

Further, MGAs are required to maintain professional indemnity insurance at all times from registration. Such insurance must, *inter alia,* cover all acts, errors and omissions by the MGA and its staff, include retroactive cover from the registration date, and extend to cyber liability.

The Binding Authority Agreement

No MGA may operate without a BAA in force and filed with IFSCA. The BAA must set out the provisions specified in Schedule IV of the 2026 Regulations, including, *inter alia,* classes of business the MGA may write, the territorial limits, the maximum liability per risk, the underwriting guidelines, and the basis of rates. It must delineate clearly between claims processing (merely assessing a claim) and claims settlement (actually paying one). Where settlement authority is granted, any single claim exceeding USD 10,000, or any claim involving a coverage dispute, goes back to the foreign insurer for approval.

The BAA must also contain a production guardrail. If the MGA's quarterly gross written premium exceeds 5% of the insurer's policyholder surplus, the insurer must be notified. This rule prevents the MGA from growing so large, relative to the insurer's own base, that the tail begins to wag the dog.

Fiduciary Accounts: Keeping the Money Safe

Here is where the policyholder's protection is most immediate. Where an MGA collects premiums or receives claim funds, those monies must be held in a designated 'Fiduciary Account' with an IBU.

The MGA may not use the monies in the Fiduciary Account for any purposes other than those specifically permitted under the 2026 Regulations. In case of insolvency, those funds do not form part of the MGA's assets. The MGA may retain no more than three months' worth of estimated expenses, and all surplus amounts must be remitted to the insurer monthly.

Governance, Conduct, and What is Forbidden

The MGA owes its primary fiduciary duty to the foreign insurer and must act with the same care as if its own capital were at risk. But the 2026 Regulations are clear that policyholders' interests are paramount when the MGA exercises underwriting or claims authority. While the MGA serves the insurer, it must not forget the policyholder.

Regulation 11 sets out a short but decisive list of things an MGA may not do. It may not-

- enter binding reinsurance or retrocession contracts on behalf of the insurer;
- participate in insurance or reinsurance syndicates;
- assign or sub-delegate its underwriting or claims authority to any other entity or person; and
- jointly employ any individual who is also employed by the foreign insurer.

The last of these is worth pausing on. The prohibition on joint employment goes directly to the question of independence. An MGA that shares staff with its principal is not truly an arm's-length intermediary. It is, in substance, a department of that insurer operating under a different name, which the 2026 Regulations do not permit.

Every MGA must appoint a Principal Officer: a fit and proper individual resident in the IFSC, responsible for the MGA's overall conduct and compliance. The board must approve a conflict management policy (reviewed annually), and a solicitation, underwriting and settlement policy (reviewed every three years).

What This Means in Practice

For the first time, a specialist underwriting intermediary can be established in India under its own dedicated legal framework.

As for who might use it, a Lloyd's coverholder with expertise in marine or aviation risks could establish an MGA in GIFT-IFSC and write business across the Indian Ocean region, backed by a London or Bermuda insurer.

Similarly, a speciality lines manager with a book of cyber or political risk business could structure its South Asian operations through an IFSC MGA. A foreign intermediary already licensed as an MGA in Singapore or Dubai could open an IFSC branch and access a new pool of risks without building a new platform from scratch. And the 2026 Regulations specifically contemplate digital distribution, where an MGA may sell insurance online by linking to the foreign insurer's web portal or by establishing an insurance self-network platform. That opens the door to technology-driven MGAs writing high-volume, low-premium business at scale.

Conclusion

The MGA is a creature of delegated authority. Its value lies in the trust the insurer places in it, and the skill with which it exercises that trust. The 2026 Regulations understand this and build a structure that enables trust to operate, while keeping it within proper bounds.

Whether the IFSC MGA market will flourish depends now on one thing, i.e., whether the right insurers and the right underwriters see the opportunity and come. The framework is ready, and the door is open.

We hope you have found this information useful. For any queries/clarifications, please write to elpinsights@elp-in.com or write to our authors:

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