IFSCA Informal Guidance Addresses Use of PSP Payment Accounts for Fund Subscriptions and Redemptions

INTRODUCTION

On 20 July 2026, the International Financial Services Centres Authority (***IFSCA***) issued an Informal Guidance Letter (***IFSCA's Letter***) under the IFSCA (Informal Guidance) Scheme, 2024, in response to a request made by Betafront Financial Services IFSC Private Limited (***Betafront***). The guidance addresses an important operational issue faced by Fund Management Entities (***FMEs***) and other regulated financial institutions in the IFSC, i.e., whether customer e-wallet accounts issued by IFSCA-authorised Payment Service Providers (***PSPs***) may be used for subscription to, and redemption from, investment products such as Alternative Investment Funds (***AIFs***) and mutual funds.

BACKGROUND

The IFSCA (Payment Services) Regulations, 2024 (***Payment Services Regulations***) create a licensing and supervisory framework for PSPs and allow them to provide payment infrastructure supporting transfers of money between individuals, businesses, and financial institutions. PSPs are authorised to provide payment accounts to customers into which funds may be deposited and from which funds may subsequently be withdrawn. These payment accounts are commonly offered in the form of *digital wallets or e-wallets*, enabling users to store funds electronically.

Through a circular dated 12 September 2025, IFSCA has given Global Access Providers and Introducing Brokers the option to either open bank account(s) with an IFSC Banking Unit licensed by IFSCA or open account(s) with a PSP authorised under the Payment Services Regulations for payments/movement of funds insofar as they relate to global access business activities. IFSCA has not issued a similar circular for investment products such as AIFs and mutual funds.

Through its request for informal guidance, Betafront therefore sought IFSCA's clarification on three issues:

- whether FMEs could accept subscription monies from a customer's e-wallet maintained with an IFSCA-authorised PSP;
- whether redemption proceeds could similarly be credited to such e-wallets; and
- whether an authorised PSP account could be regarded as equivalent to a customer's bank account for these purposes.

IFSCA's RESPONSE

- IFSCA clarified that FMEs may accept subscription amounts from a customer's e-wallet account issued by an authorised PSP for investments in funds and securities. Likewise, redemption proceeds may be credited back to the same e-wallet account, provided the authorised PSP has undertaken the applicable AML/CFT/KYC compliance requirements.
- IFSCA referred to the Payment Services Regulations, noting that "account issuance service" is a recognised payment service that permits a PSP to issue payment accounts and facilitate the placement and withdrawal of money from such accounts. Accordingly, it clarified that a PSP-issued account may be treated as equivalent to an account issued by an IBU or IBC only to the extent of the activities permitted under the definition of "account issuance service" under the Payment Services Regulations.

ELP Comments

- *An e-wallet is a digital stored-value instrument that allows users to hold funds and make payments without requiring a direct debit from a bank account for each transaction. Unlike India's Unified Payments Interface (**UPI**), which facilitates real-time transfers directly between linked bank accounts, e-wallets maintain a prepaid balance that can be used for payments, transfers, and other financial transactions.*

- *Under the RBI Master Directions on Prepaid Payment Instruments dated August 27, 2021, as amended ("RBI Master Directions"), closed-system instruments can be issued by an entity to facilitate the purchase of goods and services from that entity only. Such instruments do not permit cash withdrawals or payments or settlements for third-party services. Their issuance and operation are not classified as payment systems requiring RBI approval or authorisation and, accordingly, are not regulated or supervised by the RBI under the PPI framework. Uber Cash is a good example of such a closed-system instrument. PPIs requiring RBI approval or authorisation are classified as Small PPIs and Full-KYC PPIs. A Small PPI with a cash-loading facility may be loaded with no more than ₹10,000 in a month and ₹1,20,000 in a financial year, and its outstanding balance and total monthly debits may not exceed ₹10,000. Within 24 months from issuance, it must be converted into a Full-KYC PPI or, at the holder's option, into a Small PPI without a cash-loading facility; otherwise, no further credits are permitted, although the existing balance may continue to be used. The maximum outstanding balance of ₹2,00,000 applies to Full-KYC PPIs, not to all PPIs.*
- *IFSCA's Payment Services Regulations are much more liberal than the RBI Master Directions and do not have any limit on the maximum amount that can be held in an e-wallet. As of July 28, 2026, seven PSPs are reported to be registered in GIFT IFSC, a few of which offer stored-value payment solutions. In light of IFSCA's Letter, it is likely that the number of registered PSPs in GIFT IFSC will increase and more of such PSPs will offer stored-value payment solutions to their customers.*
- *IFSCA's Letter removes an important operational friction for FMEs by expressly permitting subscriptions and redemptions to be processed through e-wallets issued by IFSCA-authorised PSPs, subject to applicable AML/CFT/KYC compliance. Traditionally, investors wishing to invest in IFSC funds were often required to open and maintain a foreign currency bank account with an IFSC Banking Unit (IBU) or otherwise route funds through conventional banking channels; however, it is expected that the use of e-wallets would significantly enhance investor accessibility to IFSC-based funds.*
- *It is to be noted that IFSCA explicitly warns against treating the e-wallet as fully equivalent to a bank account, limiting parity to the scope of "account issuance service" under the Payment Services Regulations. This approach is in stark contrast to the domestic framework, where RBI's e-wallet norms and SEBI's mutual fund/AIF regulations do not permit e-wallets as a source for subscriptions or a destination for redemptions, and draw no equivalence between e-wallets and bank accounts for capital-market settlements.*
- *IFSCA's guidance is non-binding, fact-specific, and does not reflect a formal decision of the Authority, unlike the codified domestic position. However, it is likely that, IFSCA may issue a circular for the benefit of investment products such as AIFs and mutual funds, which is akin to the circular dated 12 September 2025 which gave Global Access Providers and Introducing Brokers the option to open account(s) with a PSP authorised under the Payment Services Regulations for payments/movement of funds so far as it relates to global access business activities.*
- *IFSCA's Letter states "redemption proceeds may be credited back to the same e-wallet account". Should this "may" be interpreted to mean "shall"? If an FME accepts subscription amounts from a customer's e-wallet account issued by an authorised PSP, can redemption proceeds be credited back to a bank account of the customer or a different e-wallet account held by the same customer?*

Please find the link to IFSCA's Letter here.

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

Vinod Joseph, Partner – Email - *vinodjoseph@elp-in.com*

Saloni Khaitan, Associate – Email - *salonikhaitan@elp-in.com*

Zaynali Badami, Associate – Email - *zaynalibadami@elp-in.com*