IFSCA approves key amendments to the regulatory regime for Funds in GIFT-IFSC

At the 29th meeting of the International Financial Services Centres Authority (**IFSCA**) held on July 24, 2026, IFSCA approved a number of specific amendments to the IFSCA (Fund Management) Regulations, 2025 (**FM Regulations**). IFSCA also approved the issuance of multiple classes of units with differential distribution rights by Venture Capital Schemes and Restricted Schemes to facilitate blended finance and other fund structures.

PART A:

The amendments (**Amendments**) to the FM Regulations that were approved by IFSCA are:

- **Independent Valuation**
  - At present, as per Regulation 39(1) of the FM Regulations, a close-ended Restricted Scheme is required to compute its NAV at least on a half-yearly basis. Once the Amendments are implemented, close-ended Restricted Schemes may compute their NAV on a yearly basis, subject to prior approval of at least 75% of the investors in the scheme, by value of their investments.
  - At present, as per Regulations 26, 38 & 50 of the FM Regulations, Venture Capital Schemes (VC Schemes), Restricted Schemes and Retail Schemes are required to obtain an independent valuation of their portfolio. The requirement to obtain an independent valuation does not apply to a Fund of Funds Scheme investing in scheme(s) regulated by a financial service regulator and valued by an independent entity. Once the Amendments are implemented, VC Schemes, Restricted Schemes and Retail Schemes need not obtain an independent valuation for the investments made in underlying scheme(s) which are valued by an independent entity.
- **Contribution by FME / Associates**
  - At present, an FME and its associates having Indian ultimate beneficial owners are not allowed to contribute more than 10% of the corpus of a VC Scheme or a Restricted Scheme. Once the Amendments are implemented, an FME and its associates having Indian ultimate beneficial owners shall be permitted to contribute up to 25% of the corpus of VC schemes and Restricted Schemes, provided such scheme(s) are investing only in IFSC or foreign jurisdictions.
  - Currently, as per Regulations 28(4) and 40(4) of the FM Regulations, the exemption from the requirement of minimum contribution by the FMEs and their associates is available only where at least two-thirds (2/3rd) of the investors in the scheme by value waive such contribution, at least two-thirds (2/3rd) of the investors are accredited investors, or the scheme is a Fund of Funds Scheme investing in scheme(s) with similar requirements. Once the Amendments are implemented, the exemption from the requirement of minimum contribution by the FMEs and their associates will also include those Restricted Schemes and Retail Schemes which are either Index Schemes or Fund of Funds Schemes investing in Index Schemes or passive Exchange Traded Funds (ETFs), subject to appropriate disclosures. The automatic exemption from the contribution requirement for FME/Associate shall apply to Fund of Funds Schemes only if no active fund management is involved.
- **Venture Capital Schemes**

Regulation 23(3) of the FM Regulations requires VC Schemes to invest at least eighty per cent (80%) of the corpus in Investee Companies where not more than ten (10) years have elapsed since incorporation, or in other schemes meeting such requirement. Any follow-on funding of an investee company is also required to comply with this stipulation. Once the Amendments are implemented, VC Schemes may participate in subsequent rounds of fund raising by their investee companies even after such companies have completed ten years from incorporation, subject to specified conditions.

- **Retail Schemes**

At present, Regulation 47(4) of the FM Regulations imposes sectoral concentration limits on Retail Schemes. The prescribed limit is 50% for the financial services sector and 25% for all other sectors. Regulation 47(4) provides that, in case of a Fund of Funds Scheme, the limit on sectoral cap shall not be applicable if such scheme is investing in other scheme(s) which does not have investment in a single sector in excess of 25% of their AUM, or 50% of their AUM in case of financial services sector or when such scheme(s) are sectoral or thematic or index scheme(s).

Once the Amendments are implemented, the sectoral concentration limits applicable to Retail Schemes shall be exempted for the Funds of Funds Schemes investing in underlying schemes that are regulated by the concerned financial sector regulator and permitted for offering to retail investors in their home jurisdictions.

- **Appointment of Auditor**

At present, as per Regulation 135 of the FM Regulations, every scheme launched by an FME is required to have its annual statement of accounts audited by an auditor who is not in any way associated with the FME, without any exception for FMEs and schemes established by Governments or Government-related investors such as Sovereign Wealth Funds.

Once the Amendments are implemented, FMEs and schemes established by Governments and Government-related investors, such as Sovereign Wealth Funds, can appoint a common auditor for the FME and its schemes, provided Governments and Government-related investors are the sole contributors in such schemes, directly or indirectly.

- **ESG Disclosures by FME**

At present, Regulation 72(1) of the FM Regulations imposes on each FME managing AUM above USD 3 billion as at the close of a financial year, an obligation to make ESG related disclosure. Once the Amendments are implemented, the AUM of Funds of Fund Schemes shall be excluded while determining the USD 3 billion threshold for compliance under Regulation 72(1).

- **Timeline for Annual Report of Scheme**

At present, as per Regulation 134(1) of the FM Regulations, schemes are required to submit their annual reports to IFSCA within four (4) months from the end of the financial year. Once the Amendments are implemented, schemes can submit their annual reports to IFSCA within six (6) months from the end of the financial year.

- **Investor Approval**

At present, under the FM Regulations, the prior approval of investors is required by Venture Capital Schemes, Restricted Schemes and Retail Schemes for changes such as, inter alia:

- extension of the tenure of close-ended schemes;
- material deviations from or alterations to the investment strategy of the scheme;
- investments by the scheme in associates;
- purchase or sale of securities with associates, other schemes of the Fund Management Entity or specified related investors;
- deviations from the leverage limits or methodology disclosed in the Placement Memorandum; and
- waiver of the mandatory contribution by the Fund Management Entity to the scheme.

The minutes of IFSCA’s meeting in which the Amendments were approved state that for certain matters, approvals from investors may be obtained through disclosures in the Private Placement Memorandum (PPM) and the agreement executed with the investors. However, the minutes do not list the specific matters that may be covered through such disclosures and contractual arrangements.

- **Measures for Strengthening Investor Protection and Regulatory Governance**

The Amendments provide for inclusion of disclosures pertaining to the methodology of NAV computation and conflicts of interest in the indicative list of disclosure requirements in the Offer Document of Retail Schemes.

At present, as per Regulation 48(2), the indicative list of disclosure requirements in the Offer Document of Retail Schemes includes the investment objective, targeted investors, proposed size, investment style or strategy, investment methodology, proposed tenure, fees and expenses, risk management practices and Key Managerial Personnel of the FME, without any specific reference to the methodology of NAV computation or conflicts of interest.

At present, the FM Regulations require FMEs to establish various internal policies, procedures and governance frameworks in relation to their fund management activities. However, the FM Regulations do not prescribe the internal authority responsible for approving such policies and frameworks. Once the Amendments are implemented, various internal policies, frameworks, etc. which are required to be put in place by the FME under the FM Regulations should be approved by the governing body of the FME or by such committee or official(s) to whom such powers have been delegated by the governing body.

At present, as per the Regulations 22(1), 34(1) and 46(1) of the FM Regulations permit temporary deployment of monies in specified instruments, including certificates of deposit, money market instruments and bank deposits, pending their deployment in accordance with the investment objectives of the scheme.

Once the Amendments are implemented, temporary deployment of monies under a VC Scheme, Restricted Scheme and Retail Scheme prior to such scheme achieving the minimum corpus / funds raised, shall be permitted in such instruments that support the preservation of capital and adequate liquidity, with prior disclosures in the PPM or offer document.

At present, as per the Regulation 2(1)(d) of the FM Regulations, the definition of "associate" under the FM Regulations is limited to companies, LLPs and body corporates that meet the prescribed ownership or control thresholds. The Amendments provide for expansion of the scope of the definition of “associate” to appropriately cover natural persons and juridical persons which are not in the form of body corporate having a direct economic interest.

- **Other Measures**

At present, the FM Regulations do not expressly distinguish between commencement of investment activities and temporary deployment of monies in permitted instruments. The Amendments make it clear that NAV and portfolio disclosures are required only after the commencement of investment activities. Temporary deployment of monies in permitted instruments will not trigger such disclosure requirements.

At present, according to the Schedule 3 Part B(a)(ix)(c) and (e) of the FM Regulations, the FME is required to appoint key service providers, such as the fund administrator and the auditor, before the launch of the scheme.

The Amendments provide that the appointment of key service providers (Fund Administrator, Auditor) can be completed before the execution of the agreement with any investor in the scheme, while also including other service providers (Valuer, Custodian) under this requirement. The fiduciary shall ensure compliance with the prescribed timelines.

PART B:

In addition to the abovementioned specific amendments to the FM Regulations, IFSCA has also approved a proposal to permit Venture Capital Schemes and Restricted Schemes to issue multiple classes of units carrying differential distribution rights (including junior / subordinate classes bearing lower returns or higher losses), subject to specified conditions.

The key features of the approved framework include:

- Venture Capital Schemes and Restricted Schemes will be permitted to issue multiple classes of units with differential distribution rights.
- The minimum investment in junior classes of units will be USD 1 million for accredited investors (other than individuals) and USD 2 million for other investors.
- ESG Schemes may accept grants from investors, subject to prescribed conditions.
- The Fund Management Entity and its Key Managerial Personnel will be required to undertake specific due diligence to ensure compliance with the applicable laws of the Government of India, IFSCA and other Indian regulators.
- Details of the multiple classes of units, their differential distribution rights and the risks associated with such structures should be prominently disclosed in the PPM.

ELP Comments

- *The Amendments to the IFSCA (Fund Management) Regulations, 2025 that were approved at the 29th meeting of IFSCA held on July 24, 2026, will be welcomed by all stakeholders in the AIF ecosystem in India, especially those in GIFT-IFSC. Some of them, such as the amendments to the rules for independent valuation will result in substantial* *cost savings for FMEs and investors in the schemes managed by such FMEs. A few other amendments, such as the measures for Strengthening Investor Protection and Regulatory Governance, will improve disclosure standards and offer better protection for investors.*

- *The amendment which will allow close-ended Restricted Schemes to compute their NAV on a yearly basis, subject to prior approval of at least 75% of the investors in the scheme by value of their investments, is on the lines of the SEBI (Alternative Investment Funds) Regulations, 2012 ("SEBI AIF Regulations") which allows Category I and Category II AIFs to undertake valuation of their investments once every six months, with such frequency being extendable to once every year upon obtaining the approval of at least 75% of the investors by value of their investments.*
- *Currently, the FM Regulations exempt Fund of Funds Schemes from the requirement to obtain an independent valuation of their portfolios. The Amendments go further and provide that for any Fund, an investment in an underlying scheme(s) which is valued by an independent entity need not be valued independently. This is in stark contrast with the SEBI AIF Regulations which does not provide any exemption for Fund of Funds Scheme from the requirement to obtain a valuation of their portfolios. However, under the SEBI AIF Regulations, valuation by an independent valuer is required only for Category I and Category II AIFs. A Category III AIF is required to obtain independent valuation only for its investments in unlisted securities and listed debt securities. For investments in listed equity, a Category III AIF only has to ensure that calculation of the NAV is independent from the fund management function of the AIF. Under the FM Regulations, valuation should always be by an independent valuer.*

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:

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