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Relaxation for IFSC based FPIs

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BACKGROUND

The International Financial Services Centre has been set up within the Gujarat International Finance Tec-City i.e. the GIFT City to facilitate international financial activities. The IFSC serves as a gateway to the Indian economy for the global players and facilitates cross border transactions. The IFSC was established with a view to reshape and reimagine the international financial activities and businesses between India and other countries and project India as one of the foremost global financial hubs. GIFT City IFSC is one of the path breaking initiatives which has the potential to fast forward the pursuit in making India a developed nation.

With a view to promote the IFSC, the Government of India has been introducing regulatory and legislative reforms, inter-alia, offering a tax-friendly regime and a robust world class amenities and infrastructure to attract international financial services business in India. These reforms and benefits are provided to create a competitive advantage to business setting up shop at IFSC.

The IFSC in India is overseen by a specialized regulatory framework established under the International Financial Services Centres Authority Act, 2019 and the regulations made thereunder with the International Financial Services Centres Authority (IFSCA) being the unified regulator for all the activities in the IFSC, covering banking, capital markets, insurance, and other financial services. Furthermore, regulatory authorities like the Reserve Bank of India and Securities Exchange Board of India, from time to time, introduce regulations and amendments to existing policies, procedures, and provisions to enhance adaptability and responsiveness of activities in IFSC to the evolving and dynamic financial ecosystem of the nation.

RECENT CHANGE

In furtherance of the Government’s objective to encourage innovation, investor confidence, investor participation, and transparency, IFSCA has been in discussions with SEBI and other authorities to facilitate increased investments by NRIs and OCIs in the Indian securities through IFSC based Foreign Portfolio Investors (FPI) has introduced a Circular[1], for facilitating investment by Non-Resident Indian (NRIs), Overseas Citizen of India (OCIs) and Resident Indians (RIs) in Indian securities through schemes/funds in an IFSC. The genesis of this Circular can be traced to the Consultation Paper issued by SEBI on August 25, 2023. The framework for FPIs, in India, is governed by the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 which inter alia provides for the conditions for investment by FPIs. SEBI has also issued a Master Circular[2] for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors on December 19, 2022. Presently, NRIs, OCIs and RIs are permitted to be constituents of a FPI subject to certain conditions which are stricter as compared to the one as stated in the current Circular as regards FPIs based in IFSC.

Accordingly, following alternative routes have been approved by SEBI in its Board Meeting of April 30, 2024, for increased participation by NRIs/OCIs/RIs in Indian securities through IFSC based FPIs.

Option under this Circular	Particulars	Terms and Conditions
Alternate Route 1	By contributing up to 100% (one hundred percent) of the corpus of IFSC based FPI.	IFSC based FPI to submit the requisite KYC details and documents of each of its individual investors along with their economic interest in FPI. The methodology for this alternative is proposed to be specified by SEBI.
Alternate Route 2	By contributing up to 100% (one hundred percent) of the corpus of IFSC based FPI without submission of documents required under Alternate Route 1.	Fund Management Entities (FME) which intend to invest in Indian securities through the FPI route, by setting up Retail Schemes, Restricted Schemes and Exchange Traded Funds in an IFSC, shall be required to comply with the following conditions:

1 F. No IFSCA-IF-10PR/2/2024 dated May 02, 2024

2 SEBI/HO/AFD-2/CIR/P/2022/175

Option under this Circular	Particulars	Terms and Conditions
		1. Eligibility of the FME for the scheme shall be as prescribed by SEBI. 2. FME shall be required to function independently without being influenced by the investors. 3. Scheme under IFSC shall not have segregated portfolios for its investors, i.e. the contribution shall be in a single pool. Moreover, the investors shall have pari passu and pro rata rights in such scheme/fund. Also, there would be restriction of co-investment for such scheme/fund. 4. Number of Investors in the scheme/ funds shall not be less than 20 with no single investor holding more than 25% of the corpus of the fund. 5. Investment by the scheme/fund in a single investee company shall not be more than 20% of the assets under management. 6. In case of any breach of the aforesaid conditions, the FME is required to take necessary steps. 7. FME is required to comply with requisite disclosure norms as specified by SEBI pertaining to any breach of investment thresholds.

As regards the disclosure norms of SEBI are concerned, SEBI has, by way of a Circular dated August 24, 2023[3], provided for certain additional disclosures by FPIs that fulfill certain objective criteria. This circular draw reference to a Standard Operating Procedure (Standard Operating Procedure) that shall be framed and adopted by all the DDPs/ Custodians, in consultation with SEBI. The SOP shall ensure consistent practice across the industry to avoid regulatory arbitrage amongst DDPs/ Custodians. The SOP shall be made public and updated from time to time by the DDPs/ Custodians, in consultation with SEBI.

OUR VIEW

This circular is one more step in the direction of infusing further reforms in the IFSC ecosystem which should prove to be another building block to unlock new investment opportunities, drive economic prosperity of the nation and augment the prospects of India's financial landscape on the global stage. Participation of NRIs, OCIs and RIs as part/constituents of FPIs has been a long-debated issue. Even more contentious aspect has been the requirements revolving around KYC and the regulatory intent to dig deeper to ascertain the granular details of the FPIs, more so from the perspective of national security and to prevent instances of financial terrorism. The current Circular by the IFSCA appears to give more foot in the door, qua the Indian securities, for the NRIs, OCIs and RIs, via the IFSC-FPI route, as compared to other foreign investors and such increased participation should bode well for the development of the Indian securities market more so from a liquidity perspective. Having said so, it would be welcome if such enhanced exposure for these investors is also followed by lessened regulatory and procedural requirements especially if one considers the requirements of registration for a FPI in IFSC, as a Fund Management Entity and KYC requirements for each investor /constituent of FPI.

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3 SEBI/ HO/ AFD/ AFD –PoD –2/ CIR/ P/ 2023/148

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