Asset and wealth management in GIFT IFSC

May 2024

pwc

Foreword

India's economy has grown to USD 3.73 trillion.[1] The first trillion was achieved 60 years after independence, and a consistent growth rate has been maintained thereafter. In today's interconnected and dynamic global economy, the role of the financial services sector has become increasingly vital.

As a pioneering initiative in India's financial landscape, the Government of India launched the Gujarat International Finance Tec-City (GIFT City) project in 2007, with an endeavour to develop a smart city that would host an International Financial Services Centre (IFSC) to provide a comprehensive platform for various financial activities, such as banking, insurance, capital markets, asset and wealth management, FinTech, and access to global markets and currencies.

Representing the nation's vision to become a global hub for international finance and commerce, GIFT IFSC offers world-class infrastructure and a regulatory framework to attract leading financial institutions, businesses and investors from around the globe.

This report aims to provide readers with a comprehensive understanding of the unique attributes and business opportunities inherent in this dynamic environment. We invite readers to envision the potential that GIFT City holds, as well as the opportunities it presents for the future.

I extend my sincere gratitude to all the contributors, whose expertise and insights have enriched this publication. I also commend the editorial team for their dedication and diligence in bringing this project to fruition.

May this publication foster continued collaboration, innovation, growth and prosperity of GIFT City and GIFT IFSC.

Gayathri Parthasarathy
India Financial Services Sector Leader and
Global Financial Services Technology Leader
PwC India

1. https://www.zeebiz.com/economy-infra/news-india-to-become-3rd-largest-economy-with-gdp-of-usd-5-trillion-in-3-years-finmin-273873#:~:text=Today%2C%20it%20is%20the%205th,2024%20review%20of%20the%20economy.

GIFT City – an introduction

GIFT City, the Government of India's flagship project, aims to boost India's stature on the world map of international finance by fostering a favourable regulatory environment, promoting talent and facilitating capital flow in the Indian economy.

Recognising India's financial prowess, Finance Minister Mr. Arun Jaitley announced the establishment of GIFT City as India's inaugural International Financial Services Centre (IFSC) during the Union Budget for 2015-16.

GIFT City, often labelled the 'smart city of the future', is located in Gujarat, nestled between Ahmedabad and Gandhinagar. This tri-city ecosystem fosters an environment supporting business, industry, international finance, and foreign investment, symbolising both a nostalgic era and a promising future.

Conceived as a vertical city, GIFT City boasts modern infrastructure such as a fully automated district cooling system (DCS), automated waste collection system (AWCS) and underground utility tunnels.

This top-tier infrastructure has played a vital role in establishing GIFT City as a global leader among smart cities.[2] The urban centre is complemented by contemporary social amenities, such as an international school, healthcare facilities, a five-star hotel, an international exhibition complex, the GIFT City Business Club with both indoor and outdoor sports facilities, diverse dining options, and well-planned residential projects. Collectively, these offerings make GIFT City a truly 'walk-to-work' city.

Government of India operationalised GIFT City as an IFSC in 2015

A greenfield smart city developed on 886 acres of land

Divided into two zones that include a Domestic Tariff Area (DTA) and Special Economic Zone (SEZ)

The financial gateway of India for inbound and outbound investment

1. Along National Highway 48 (Delhi-Mumbai Industrial Corridor)
2. 25 mins from Ahmedabad International Airport
3. 15 mins from nearest railway station and upcoming high-speed rail

2. https://www.thehindubusinessline.com/news/national/gifts-ifsc-amongst-the-fastest-growing-globally/article24935538.ece

GIFT City journey so far…

2007

GIFT City project announced by Gujarat Government

2011

The foundation stone for the GIFT project was laid. Brick and mortar development of GIFT City commenced

2014

GIFT City notified as SEZ for international financial services

2015

Ministry of Finance notifies India's first IFSC

2016

Union Budget provided a competitive tax regime for units in IFSC

2018

RBI notifies IFSC as non-resident zone

2020

IFSC Authority (IFSCA) was established

2021-2022

IFSCA notified key regulations, circulars, notifications

2023

SGX Nifty begins trading as GIFT Nifty from GIFT City

2024

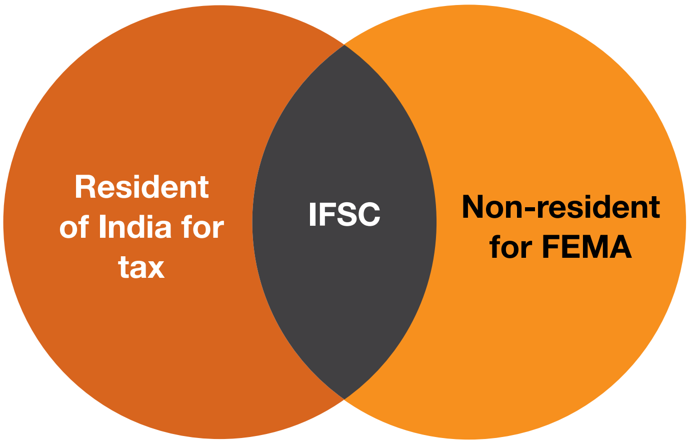
Key announcements:

- Area expansion from 886 acres to over 3,300 acres
- Development of social infrastructure including entertainment, recreational and retail zone
- Operationalisation of metro network in GIFT City by July 2024
- 9-km riverfront along the banks of the Sabarmati River near Gift City to be developed

IFSC

The Government of India launched India's first IFSC in 2015 to accomplish the vision of becoming a significant economic power by fostering the robust growth of international financial services within the nation.

The IFSC is envisioned as a world-class zone dedicated to offering financial services to non-residents and certain residents in a foreign currency (other than the Indian rupee [INR]).



Governing regulator – IFSCA

Established in 2020, the IFSCA plays a role as a statutory body, providing a forward-looking regulatory environment for financial market participants and facilitating ease of doing business. It functions as a unified regulator, combining the powers of the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA) related to financial services, products and institutions within the IFSC.

In addition to securing approvals from the IFSCA for establishing a unit in IFSC, it is also necessary to obtain approvals from the Development Commissioner, SEZ. With effect from 28 February 2024, certain powers and functions of the Development Commissioner, SEZ, are now vested with, IFSCA.[3]

3. Ministry of Finance (Department of Economic Affairs) Notification S.O. 940(E) dated 28 February 2024

GIFT IFSC: In numbers[4]

580+ registered entities as on 31 December 2023	**23** banks registered as on 31 December 2023	**USD 51.98 billion** total banking asset size as on 31 December 2023
USD 148 billion outstanding derivative transactions booked by banks till December 2023	**2** stock exchanges as on 31 December 2023	**USD 66.73 billion** turnover on IFSC international stock exchanges in December 2023
USD 52.97 billion cumulative debt listing on IFSC exchanges as on 31 December 2023	**USD 10.43 billion** green/ESG/sustainable debt listing as on 31 December 2023	**72** broker dealers registered as on 31 December 2023
95 alternative investment funds registered as on 31 December 2023	**USD 7.08 billion** total commitments raised as on 31 December 2023	**128** aviation assets leased from the IFSC till December 2023
7 ship leasing entities registered as on December 2023	**29** IFSC insurance offices and intermediary offices as on 31 December 2023	**47** FinTech entities registered as on 31 December 2023

4. IFSCA Bulletin Oct-Dec 2023

Key benefits: GIFT IFSC

Strategic location	Single window clearance	Unified regulator
World-class infrastructure	Availability of talent pool	Progressive regulations
Competitive tax regime	State subsidies	International arbitration centre

Existing business opportunities

Banking	Capital markets
Aircraft leasing	Asset and wealth management
Ship leasing	Bullion
Insurance	FinTech

Emerging business segments

- Global in-house centres
- Payment service providers
- Foreign universities
- Global and regional treasury centres

Proposed business segments in GIFT IFSC

- Remote broker dealers in the IFSC
- Book-keeping, accounting, taxation and financial crime compliance services from the IFSC

Background

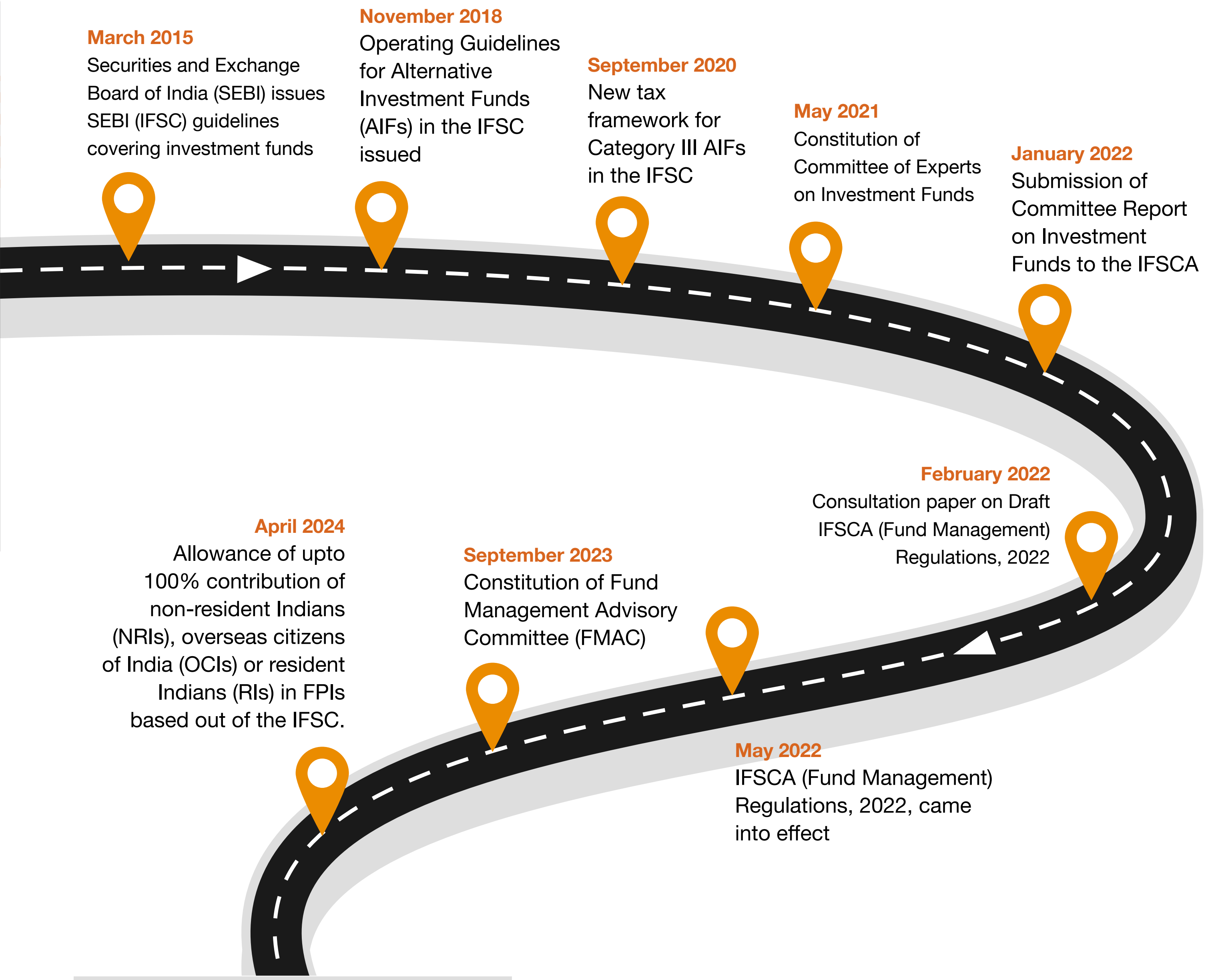
Asset and wealth management in the IFSC

A vibrant asset and wealth management sector and its eco-system play a pivotal role in the development of the IFSC, as underscored by the state-of-the-art regulatory and tax framework for asset and wealth managers in the IFSC.

The regulatory framework was notified after an extensive consultation process in the form of the International Financial Services Centres Authority (Fund Management) Regulations, 2022 (FME Regulations), which came into effect in May 2022. This is an all-encompassing framework prescribing regulations for different types of funds, and asset and wealth management activities.

The IFSC has witnessed rapid growth in registrations of fund management entities (FMEs) and funds following the issuance of the FME Regulations.

Funds in the IFSC: The journey so far…



Industry overview

Total commitments raised –
USD **7.08** billion

95
funds registered with the IFSCA

Total funds raised –
USD **3.07** billion

Total funds invested –
USD **2.93** billion

83
FMEs registered with the IFSCA

Note: The above data is as on 31 December 2023.

Source: IFSCA Bulletin Oct-Dec 2023 dated 6 February 2024

Eligibility and registration

The FME Regulations were notified by the IFSCA via a notification dated 19 April 2022. The regulations offer a comprehensive framework to regulate asset and wealth management activities. Unlike the domestic regulatory framework for alternative investment funds (AIFs) which seek to register and regulate 'funds', the FME Regulations regulate 'fund managers'. Specifically, the FME Regulations adopt a risk-based approach to regulation: If the FME seeks to raise monies only from accredited investors or investors with a high investment appetite, the regulatory framework is more liberal. With a single registration, fund managers can launch funds more easily and quickly. This also eases the business operations for fund managers as they can do multiple activities with a single registration.

An entity which seeks to undertake fund management activities must obtain a certificate of registration as an FME under the FME Regulations under one of the below categories:

- authorised FME
- registered FME (non-retail)
- registered FME (retail).

Regulatory framework

The FME Regulations classify FMEs into three categories. Depending on the type of licence obtained, the FME will be allowed to launch relevant schemes and undertake activities as described below.

Type of activity or scheme		Authorised FME	Registered FME (non-retail)	Registered FME (retail)
Venture capital (VC) schemes (including angel schemes) – Category I AIF		✓	✓	✓
Restricted schemes	Category I AIF	✗	✓	✓
	Category II AIF			
	Category III AIF			
Retail schemes		✗	✗	✓
Portfolio management services		✗	✓	✓
Exchange traded funds		✗	✗	✓
Special situation funds		✗	✓	✓
Investment trusts	Public issue of units	✗	✗	✓
	Private placement of units	✗	✓	✓

Key regulatory aspects of various categories of FMEs

Particulars	Categories of FME		
	Authorised FME	**Registered FME (non-retail)**	**Registered FME (retail)**
Legal structure	Company, limited liability partnership (LLP) or branch thereof	Company, LLP or branch thereof	Company or branch
Minimum net worth	USD 75,000	USD 500,000	USD 1,000,000
	In case the FME sets up a branch, the minimum net worth requirements may be maintained at the parent level.		
Infrastructure requirements	• Adequate office space, equipment and communication facilities are required. • The infrastructure is to be commensurate with the size of operations. • The office should be dedicated, secured and accessible only by authorised person(s) of the FME.		
Minimum no. of principal officer(s) or key managerial personnel (KMP)	1 principal officer	• 1 principal officer • 1 KMP (compliance and risk manager)	• 1 principal officer • 1 KMP (compliance and risk manager) • 1 KMP (responsible for fund management)
Experience and professional qualification of the principal officer(s) or KMP	The personnel should have the prescribed professional qualification and experience of at least five years in related activities in the securities market or financial products.		

Schemes for fund management in the IFSC

VC schemes	**Category I AIF** • Schemes that invest primarily in start-ups and early stage venture capital undertakings involved in new products, services, technology, etc. It also includes angel funds. • Offered only on a private placement basis (including accredited investors) and shall have less than 50 investors. • 'Green channel' for subscription by investors. • Ease in launch of schemes by the FME subject to submission of certain documentation to the IFSCA.
Restricted schemes	**Categories I, II or III AIF** • Offered only to relevant persons on a private placement basis (including accredited investors) and shall have less than 1,000 investors. • 'Green channel' if subscription is to be raised only from accredited investors. • Ease in launch of schemes by the FME subject to submission of certain documentation to the IFSCA.
Retail schemes	• Schemes offered to all investors, including retail investors. • Schemes can be: (a) filed with the regulator only after approval from fiduciaries; and (b) launched only after incorporating all comments from the regulator in the offer document.

Key regulatory aspects for schemes in the IFSC

Particulars	Category I AIFs	Category II AIFs	Category III AIFs
Legal structure	Company, LLP or trust		
Minimum investment by an investor (other than employees and directors) in the AIF	• Accredited investors – none • In case of VC scheme - USD 250,000 • In case of angel scheme – USD 40,000 • Others – USD 150,000	• Accredited investors – none • Others – USD 150,000	• Accredited investors – none • Others – USD 150,000
Minimum tenure	Minimum – 3 years (in case of VC scheme) or 1 year (in other cases)	Minimum (close ended) – 1 year	Minimum (close ended) – 1 year
Minimum corpus requirement	Minimum – USD 5 million (in case of angel funds, USD 1 million)	Minimum – USD 5 million	Minimum – USD 5 million
Borrowing	Permissible subject to, amongst others: • disclosure of maximum leverage and methodology for calculation of leverage in the placement memorandum; and • deviations to be subject to consent of two-thirds of investors by value.		
Appointment of custodian	Mandatory if fund size exceeds USD 70 Million	• Open ended – mandatory • Close ended – mandatory if fund size exceeds USD 70 million	• Open ended – mandatory • Close ended – mandatory if fund size exceeds USD 70 million
Skin-in-the-game contribution from FME or its associate entity	Close-ended scheme (also in a VC scheme): • If targeted corpus (TC) < USD 30 million: at least 2.5% and not exceeding 10% of the TC; or • If TC > USD 30 million: at least USD 750,000 and not exceeding 10% of the TC Open-ended scheme: • If TC < USD 30 million: at least 5% and not exceeding 10% of the TC; or • If TC > USD 30 million: at least USD 15,00,000 but not exceeding 10% of the TC Angel scheme: At least 2.5% of the investment size or USD 20,000, whichever is less, in each segregated portfolio *Contribution can be waived, subject to the fulfilment of conditions.*		

Key direct taxation aspects for FMEs and schemes in the IFSC

Restricted schemes (Category I and II AIFs)

- Tax pass-through status for AIFs (except for business income).
- Investors taxed as if investments directly made by them.
- Investors can claim losses (subject to the condition of holding units for 12 months).
- To the extent beneficial, investors can avail benefit under applicable tax treaties.
- Income from offshore investments earned by offshore investors through AIF not taxable in India.
- Permanent account number (PAN) and income-tax return filing exemption, subject to conditions.

Manager or sponsor in the IFSC

- 100% corporate tax deduction for 10 consecutive years out of a block of 15 years from registration with the IFSCA.
- Minimum alternate tax (MAT) or alternative minimum tax rate reduced to 9%. However, companies opting for the new tax regime to be exempt from MAT.
- Dividend income:
  - Dividend distributed by the IFSC unit is not subject to dividend distribution tax
  - Dividend received in the hands of non-resident shareholders to be taxable at 10% plus applicable surcharge and cess
  - Dividend received in the hands of the resident shareholders taxable at applicable rates (subject to deduction under section 80M of the Income-tax Act, 1961 [the Act])

Restricted schemes (Category III AIFs*)

- Category III AIF in the IFSC to be eligible for foreign portfolio investors (FPI) licence.
- Tax paid at fund level; FPI tax principles to apply and investment treated as a 'capital asset'.
- Exemption from tax on income from:
  - Transfer of securities (other than shares of Indian company), such as debt, derivatives, offshore securities, mutual funds and securities listed on the IFSC.
  - Securities issued by a non-resident (without a permanent establishment) with no accrual of income in India.
  - Securitisation trust chargeable under the head 'Profits and gains from business or profession'.
- Investors exempt from tax on any income received from the Category III AIF or on transfer of its units.
- PAN and income-tax return filing exemption, subject to conditions.
- Overseas transfer provisions not applicable – if fund registered as FPI

*All units of Category III AIF to be held by non-residents other than units held by the sponsor or manager. Subsequent changes in residential status of the unitholder will not affect this clause, provided the number of units held does not exceed 5% of the total units issued.

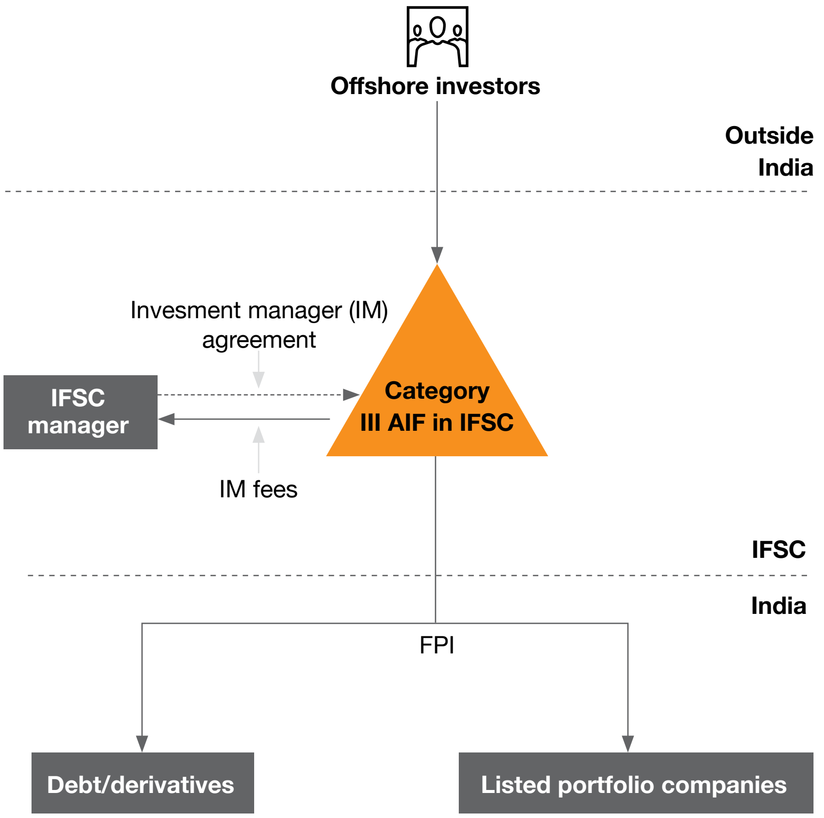
Key indirect taxation aspects for FMEs and schemes in the IFSC

Goods and Services Tax (GST)

- Supplies to special economic zone (SEZ) units for authorised operations qualify as zero-rated supplies, and hence are tax free.
- Management services, trusteeship services and services from third-party service providers, such as custodians, qualify as zero-rated supply and are not subject to GST.
- To avail the zero-rating benefit, funds are required to obtain GST registration (as an SEZ unit) and undertake the requisite compliances, including filing of GST return.

Use cases for restricted schemes (AIFs) in the IFSC

Use case I: Inbound investment through Category III AIF

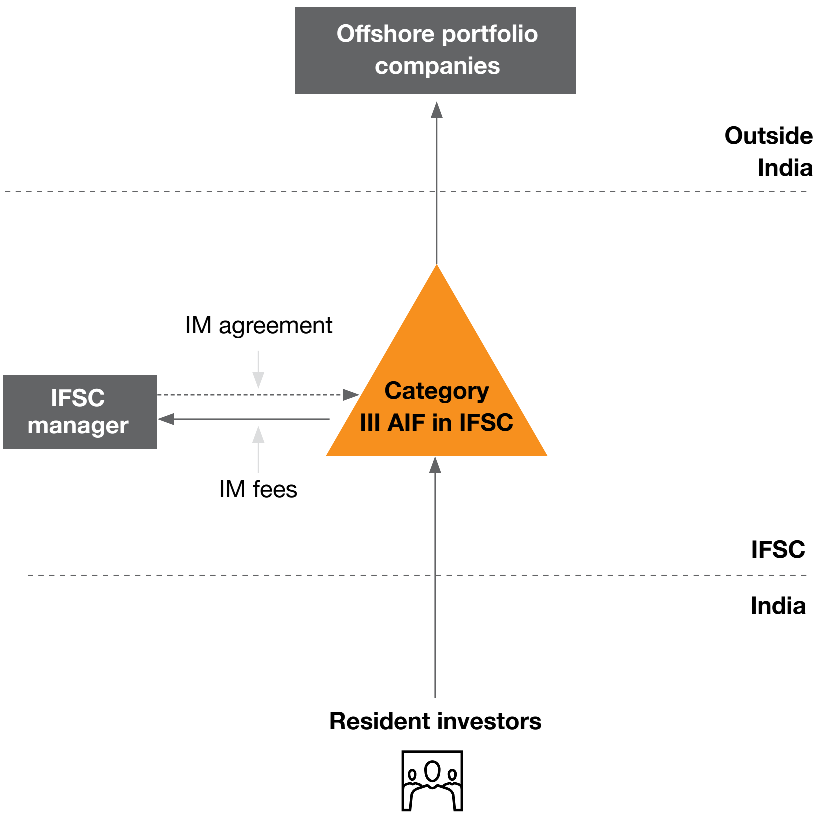


Key considerations:

- A fund can have participation of NRIs, OCIs and RIs of up to 100% subject to certain conditions*
- Investments in listed securities via FPI route
- Gains on debt or derivatives – exempt from tax
- Gains on equity – domestic tax rates
- Interest and dividend – 10% (no surcharge and cess)

*As per SEBI press release dated 30 April 2024 and IFSCA circular dated 2 May 2024

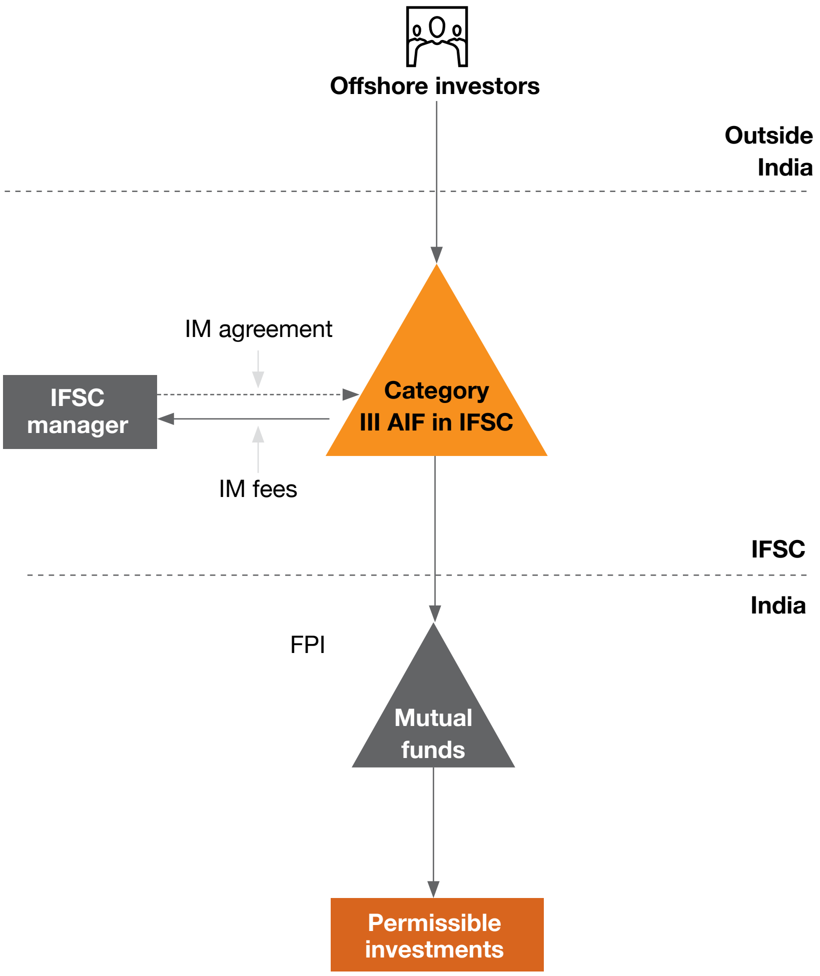
Use case II: Outbound investment through Category III AIF



Key considerations:

- Resident investors can invest subject to outbound investment and liberalised remittance scheme (LRS) norms
- Overseas portfolio investment (OPI) permitted up to 50% of net worth
- No specific tax regime for outbound investments

Use case III: Fund of fund structure for NRIs



Key considerations:

- NRI or OCI investor diversification conditions under FPI regulations not applicable if FPI invests only in mutual fund schemes in India
- Capital gains on transfer of mutual fund units exempt from tax
- Investors in Category III AIF in IFSC not subject to tax on distribution and redemption
- No restriction on repatriation

Portfolio management services (PMS) in the IFSC

To build a comprehensive fund management industry ecosystem in the IFSC, registered FMEs can offer their clients PMS as long as they are compliant under the FME Regulations to undertake the activity.

Key regulatory aspects of PMS in the IFSC

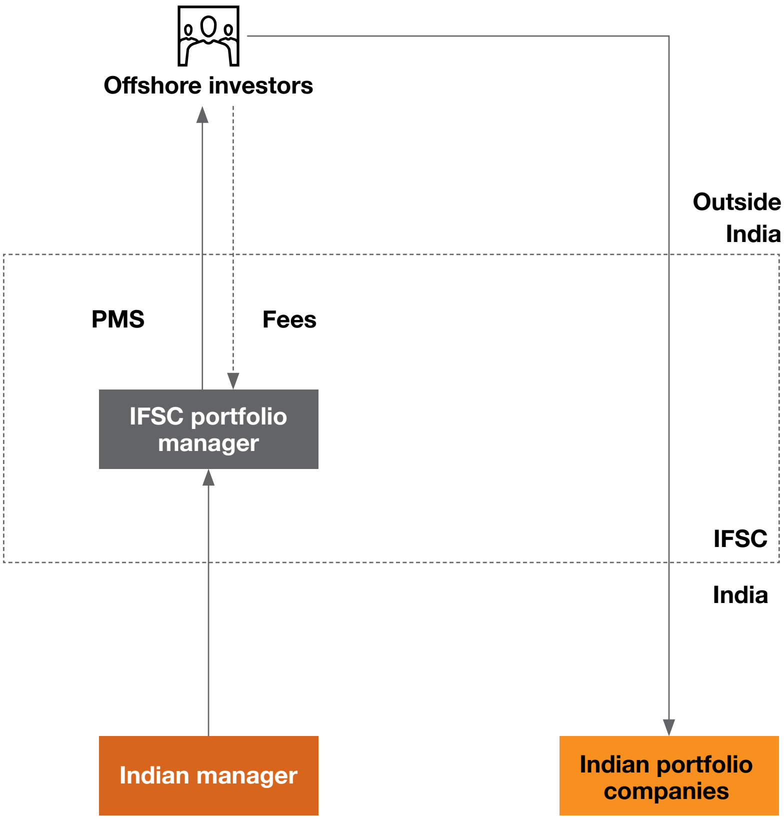
Particulars	Requirements
Permitted activities	Dealing with client's funds (discretionary or non-discretionary PMS) and advisory services
Permitted investments	• Securities and financial products in the IFSC, India or foreign jurisdiction(s) • Discretionary PMS: securities listed, to be listed or traded on the stock exchanges, money market instruments, units of investment scheme and other financial products specified by the IFSCA
Minimum ticket size	USD 150,000 (no threshold for accredited investors)
Permitted clients of portfolio manager	• Person resident outside India • Non-resident Indian • Individual or non-individual resident in India eligible to invest offshore as per prescribed exchange control regulations • Multi-family offices
Investment restrictions	• Investment in derivatives not permitted unless express consent obtained from its clients • Speculative transactions not permitted • FME to ordinarily purchase or sell securities separately for each portfolio management client • Segregation of client's funds and portfolios from FME's funds and portfolios, respectively

Key tax aspects of PMS in the IFSC

- Taxation for portfolio manager in the IFSC is similar to taxation aspects discussed above for a manager or sponsor in the IFSC.
- Tax exemption is available for non-resident clients with a bank account in the IFSC on any income from offshore investments.
- In case of a resident client, each transaction is taxed in their hands at applicable rates.

Use cases for PMS in the IFSC

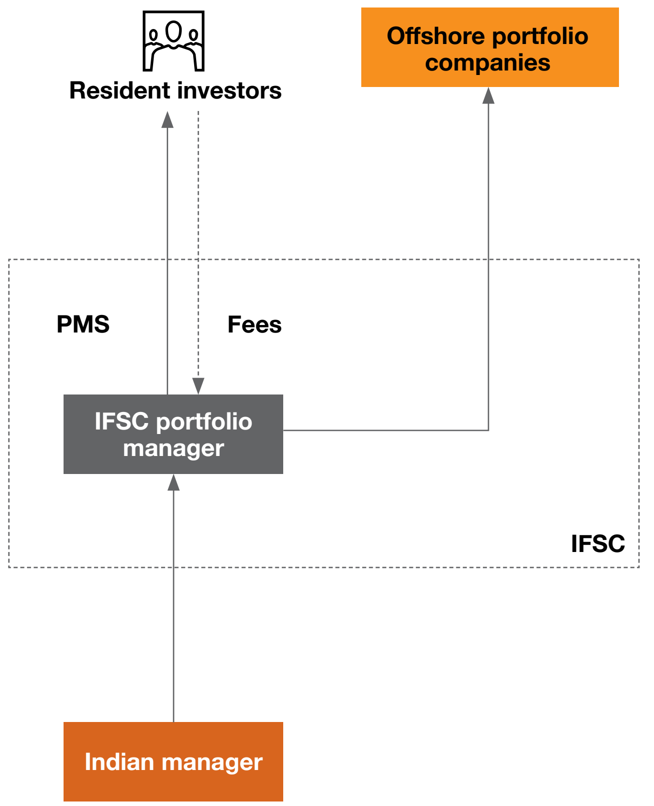
Use case I: PMS for inbound investment



Key considerations:

- Non-resident investors to invest in India subject to exchange control regulations
- Offshore entities and clients subject to tax in India
- Safe harbour provisions (i.e. section 9A of the Act) to be evaluated

Use case II: PMS for outbound investment



Key considerations:

- In case of resident investors, only resident individuals under LRS and listed entities permitted to invest
- Resident investors subject to tax in India at applicable rates

Family investment fund in the IFSC

Family offices are increasingly gaining traction amongst wealthy families and high-net worth individuals (HNIs) to manage and preserve their wealth. They also offer substantial capital for investments globally.

As a forward-looking measure, the FME Regulations provide a regulatory framework which allows wealthy families and HNIs to set up their own family office in the form of a family investment fund (FIF) in the IFSC.

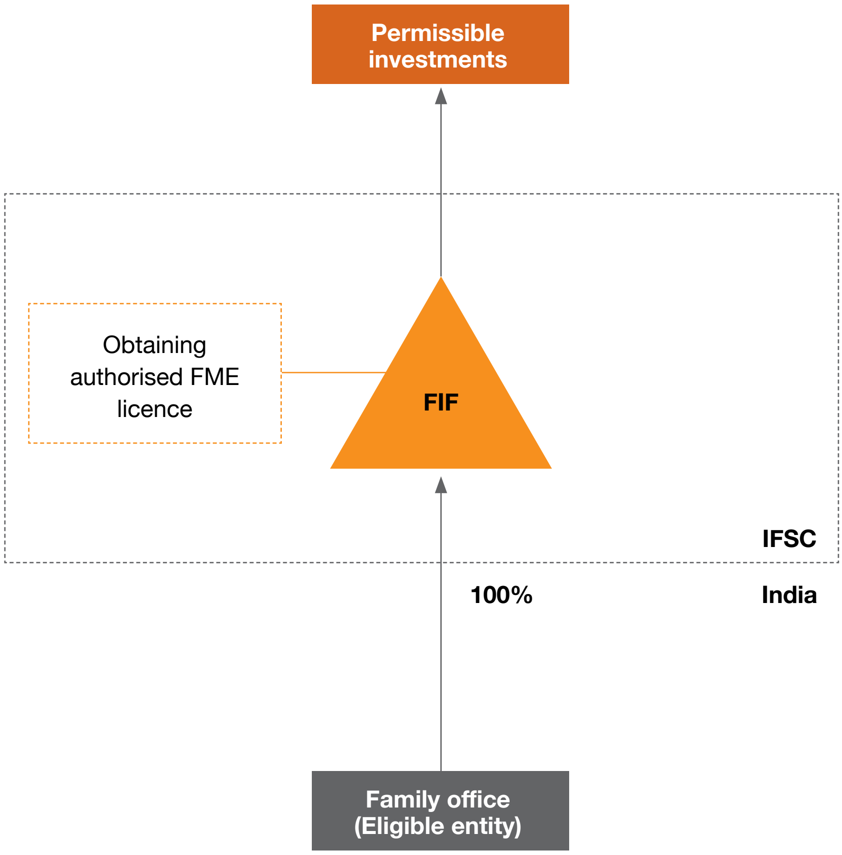
An FIF is a self-managed fund pooling money only from a single family.*

Key regulatory aspects of an FIF in the IFSC

Particulars	Requirements
Legal structure	Set up as a company, LLP or contributory trust
Type of scheme	Open or close ended
Corpus	A minimum corpus of USD 10 million within a period of three years from the date of obtaining a certificate of registration
Personnel requirement	A minimum of one principal officer or KMP with prescribed professional qualification, and at least five years of experience in related activities in the securities market or financial products
Investment in an FIF by residents	• Investment in an FIF set up by residents subject to Foreign Exchange Management (Overseas Investment) Rules, 2022 • Total OPI capped at 50% of net worth • Unlisted Indian company, LLP or firms eligible to make investments under the OPI route

* **A single family is defined as:**
- a group of individuals who are lineal descendants of a common ancestor, including their spouses (including widows and widowers, whether remarried or not) and children (including stepchildren, adopted children and ex nuptial children); or
- sole proprietorship firms, partnership firms, companies, LLPs, trusts or body corporates in which the individual or a group of individuals of a single family exercises control, and directly or indirectly holds at least 90% of economic interest.

Use case for an FIF in the IFSC



Key considerations:

- Contribution through LRS up to the limit of USD 250,000 per person per annum
- Contribution up to 50% of net worth of eligible entities
- Portfolio investments permissible
- Ability to invest in physical assets such as art and bullion
- Same time zone as home jurisdiction
- Administrative ease and cost efficiency

Other key operational points for FMEs and funds

Currency for conduct of business

All transactions undertaken by the unit in the IFSC shall be in a freely convertible foreign currency only. However, the unit in the IFSC may defray its administrative expenses in Indian rupees by maintaining a separate Special Non-Resident Rupee Account.

Maintenance of books of accounts

The books of accounts and their financial information shall be maintained in any freely convertible currency. Parallel accounts in INR shall be maintained for other compliance purposes.

Submission of report or information

FMEs shall be required to furnish audited annual financial statements, an abridged summary, quarterly reports and certain event-based reports to the IFSCA.

Funds are required to furnish information for remittances outside India in Form 15CD on a quarterly basis within 15 days from the end of each quarter.

Notes

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