

Alternative Investment Funds (AIFs): Regulatory Compliance – Fund Administration

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Fund Administration
Leaders Program



PART I: AIFs IN INDIA

WHAT IS AN AIF?

Section 2(b) of SEBI AIF Regulations, 2012 defines AIF as any fund established or incorporated in India in the form of a trust or a company or a limited liability partnership or a body corporate which:

Is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and

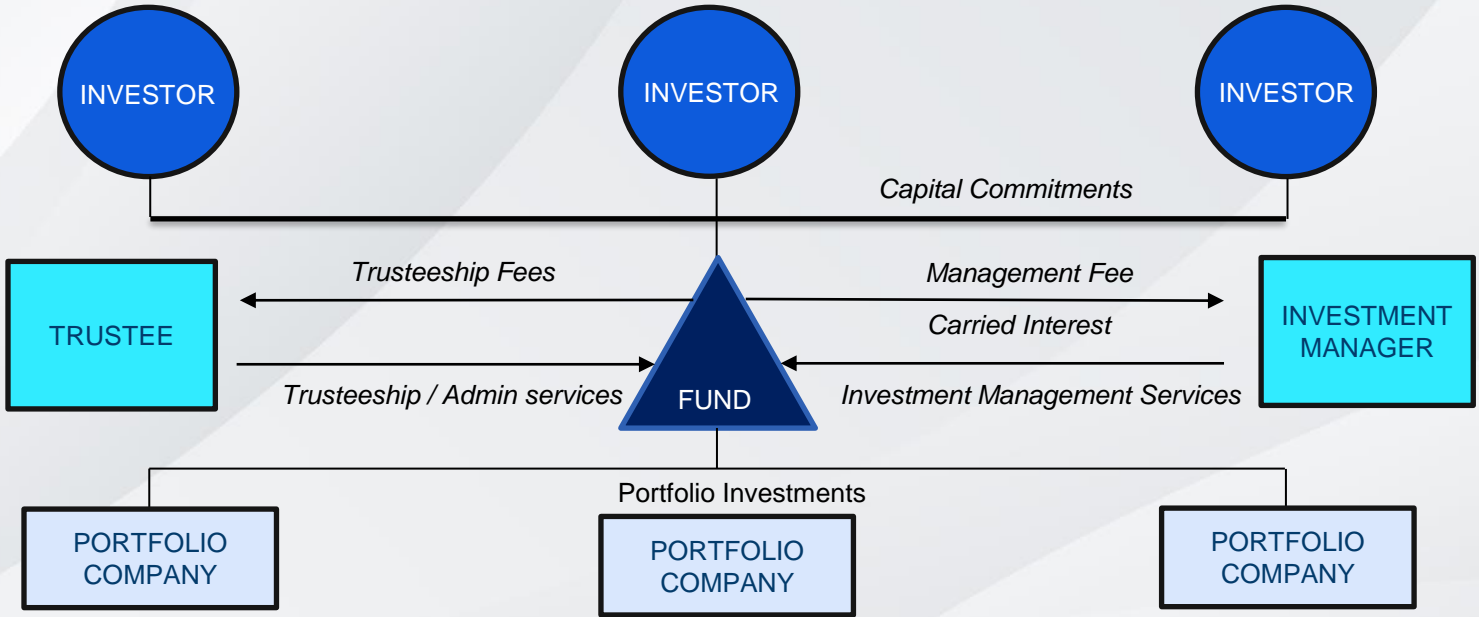
Is not covered under the SEBI (Mutual Funds) Regulations, 1996 and the SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulation of the Board to regulate fund management activities

WHAT SHALL NOT BE CONSIDERED AS AN AIF UNDER THE SEBI (AIF) REGULATIONS, 2012?

The following shall not be considered as an AIF:

- Family Trusts as defined under the Companies Act, 2013
- ESOP Trusts
- Employee welfare trusts or gratuity trusts set up for the benefit of the employees
- Holding Companies
- Securitization Trusts

ANATOMY OF A DOMESTIC FUND



CHOICE OF POOLING VEHICLE STRUCTURE

ISSUE	TRUST	LIMITED LIABILITY PARTNERSHIP	COMPANY
GENERAL	<ul style="list-style-type: none"> ○ Author of the trust ○ Trustee ○ Beneficiary ○ Beneficial Interest ○ Indenture of the trust 	<ul style="list-style-type: none"> ○ Hybrid form of a corporate entity, combines features of both; a limited liability company and a partnership ○ The functioning is governed by the LLP Agreement & LLP Act 	<ul style="list-style-type: none"> ○ A corporate body as incorporated under the Companies Act, 2013 ○ Control of the company is with the Board of Directors, which is elected by the shareholders
ENTITIES INVOLVED	<ul style="list-style-type: none"> ○ Settlor ○ Sponsor ○ Trustee ○ Investment Manager 	<ul style="list-style-type: none"> ○ Partner ○ Designated Partner ○ Investment Manager 	<ul style="list-style-type: none"> ○ Shareholders ○ Directors ○ Investment Manager
MANAGEMENT OF ENTITIES	Trustee	Designated Partner	Board of Directors
MARKET PRACTICE	More than 97% of funds formed in India use this structure	Only a few funds (less than 3%) are registered under this structure	Minimal

CHOICE OF POOLING VEHICLE STRUCTURE....cont.

ISSUE	TRUST	LLP	COMPANY
COMPLIANCE REQUIREMENTS	Low	Moderate	High
CLIENT CONFIDENTIALITY	High	Low	Moderate
ACCEPTABILITY WITH INVESTORS AND DISTRIBUTORS	High	Moderate	Low
EASE OF OPERATIONS	High	Moderate	Low
MITIGATION OF GST ON MANAGEMENT FEE	Debatable	Yes	No
MULTIPLE SCHEMES	Possible	Not possible	Not possible

REGISTRATION CRITERIA

Regulation 4 of the SEBI (AIF) Regulations prescribe the Eligibility Criteria for the purpose of granting a certificate:

Memorandum of Association (MOA) in case of a company, or the Trust Deed in case of a Trust, or the Partnership deed in case of a limited liability partnership, permits the applicant to carry on the activity of an Alternative Investment Fund;

The MOA, or the trust deed or partnership deed, should prohibit the applicant from making an invitation to the public to subscribe to its securities;

The applicant, sponsor and manager are fit and proper persons based on the criteria specified in Schedule II of the SEBI (Intermediaries) Regulations, 2008.

The manager or sponsor has the necessary infrastructure and manpower to discharge its activities effectively

The applicant has clearly described at the time of registration the investment objective, the targeted investors, the proposed corpus, investment style or strategy and the proposed tenure of the fund or the scheme.

INVESTMENT TEAM QUALIFICATIONS

Qualifications of the key investment team of the manager of the AIFs

At least one key personnel having not less than five years of experience in advising or managing pools of capital or in fund or wealth management.

At least one key personnel with professional qualification in finance, accountancy, management, capital markets, economics, CFA charter, or any other requirement as specified by SEBI.

PROCESS OF REGISTRATION

Self-registration on the SEBI online portal (www.siportal.sebi.gov.in) and file application grant of AIF registration. The system generates login ID and password



On receipt of the Login ID and password, the applicant should upload Form on the portal along with final PPM and copy of executed Trust Deed and requisite declarations/undertakings



Along with the requisite documents, the applicant must also pay the required Application fees of Rs. 1,00,000 plus 18% GST

****The entire registration process generally takes 5 to 6 months***

CATEGORIES OF AIFs

AIFs are divided into three different investment structures and requirements:

AIFs

Category I AIF

- Venture Capital Funds,
- Angel Funds,
- SME Funds
- Infrastructure Funds

Category II AIF

- Schemes which do not fall under Cat. I and Cat. III such as PE Funds or Debt Funds

Category III AIF

- Schemes employing diverse, complex trading strategies

COMPARISON OF DIFFERENT CATEGORIES OF AIFs

CRITERIA	CATEGORY I AIF	CATEGORY II AIF	CATEGORY III AIF
CATEGORIZATION	<ul style="list-style-type: none"> ▪ Angel Funds ▪ Venture Capital Funds ▪ SME Funds ▪ Social Venture Funds ▪ Infrastructure Funds 	<ul style="list-style-type: none"> ▪ Private Equity Funds ▪ Structured Credit Funds ▪ Debt Funds ▪ Real Estate Funds ▪ Special Situations Funds 	<ul style="list-style-type: none"> ▪ Long-only Funds ▪ Long-short Funds ▪ Hedge Funds and any other funds with diverse and complex trading strategies
INVESTMENT	Shall invest in investee companies or venture capital undertakings or in special purpose vehicles or in units of other AIFs	Shall invest primarily in unlisted investee companies or in units of other AIFs	Shall invest in securities of listed or unlisted investee companies or derivatives or complex or structured products
SEBI REGISTRATION FEES	INR 5,00,000 (INR 2,00,000 for Angel Funds)	INR 10,00,000	INR 15,00,000
CONTINUING INTEREST BY SPONSOR / MANAGER	<p>Lower of the following amounts:</p> <ul style="list-style-type: none"> ▪ 2.5% of corpus, or ▪ INR 5 crores (INR 50 lakhs for Angel Fund) 	<p>Lower of the following amounts:</p> <ul style="list-style-type: none"> ▪ 2.5% of corpus, or ▪ INR 5 crores 	<p>Lower of the following amounts:</p> <ul style="list-style-type: none"> ▪ 5% of corpus, or ▪ INR 10 crores
ABILITY TO INVEST IN LISTED SECURITIES	Limited ability for listed investments. Different norms across sub-categories.	Upto 49.99% of investments can technically be done in listed securities.	Investments upto 100% can be made in listed securities.

COMPARISON OF DIFFERENT CATEGORIES OF AIFs.....Cont.

CRITERIA	CATEGORY I AIF	CATEGORY II AIF	CATEGORY III AIF
OVERALL RESTRICTIONS / COMPLIANCES	Moderate	Low	High
QIB STATUS	Yes (Also, no lock-in for investment made prior to IPO if held for at least one year)	Yes (Also, no lock in for investment made prior to IPO if held for at least one year)	Yes
LEVERAGE / BORROWING	Shall not borrow funds directly or indirectly or engage in leverage except for meeting temporary funding requirements for more than 30 days, on not more than four occasions in a year and not more than 10% of its investible funds.	Shall not borrow funds directly or indirectly or engage in leverage except for meeting temporary funding requirements for more than 30 days, on not more than four occasions in a year and not more than 10% of its investible funds.	Yes (up to 2X leverage / 100% additional exposure permitted)
DIVERSIFICATION	Not more than 25% of the Investible Funds can be invested in a single portfolio entity	Not more than 25% of the Investible Funds can be invested in a single portfolio entity	Not more than 10% of the Investible Funds can be invested in a single portfolio entity
CLOSE ENDED / OPEN ENDED	Close Ended	Close Ended	Open or Close Ended

KEY REGULATORY CONCEPTS: CONTINUING INTEREST

Continuing Interest

The SEBI (AIF) Regulations require the sponsor or the Investment Manager (IM) to contribute a certain amount of capital to the fund

The purpose of this clause is to have the sponsor or the IM to commit capital to the funds (i.e., to have skin-in-the game)

This portion is known as the continuing interest and will remain locked-in the fund until distributions have been made to all the other investors in the fund.

If Sponsor / Manager has made investment towards meeting minimum corpus requirement during First Close the said amount irrespective of the investment will be locked in during the tenure of the Fund

KEY REGULATORY CONCEPTS: TENURE

Tenure

Regulation 13(2) of the SEBI AIF Regulations prescribes that Category I and Category II AIFs are required to have a minimum term of three years.

Extension of the tenure of a close-ended AIF is permitted for a period of upto two years, subject to the approval of two-thirds of the unit holders by value of their investment in the Fund.

The tenure of fund is now reckoned with First Close instead of Final Close.

In the absence of such consent, the AIF will have to fully liquidate within one year following the expiration of the fund tenure or extended tenure.

KEY REGULATORY CONCEPTS: MINIMUM FUND CORPUS

Minimum Fund Corpus

Regulation 10(b) of the SEBI (AIF) Regulations prescribes a minimum fund size of INR 20 crores.

If there is a breach in the minimum required fund corpus in case of an 'open-ended' fund, then as per the SEBI circular dated 19.06.2014 (CIR/IMD/DF/14/2014), the fund shall have a period of three months to restore the minimum corpus, failing which it is required to redeem the units of all the investors.

While the AIF Regulations set a minimum corpus requirement, investors frequently request a cap on the total commitments that can be raised by a fund- this is popularly known as a hard cap

KEY REGULATORY CONCEPTS: ACCREDITED INVESTOR

Qualifying criteria for accreditation

Individuals, HUFs, Family Trusts and Sole Proprietorships which meet the criteria as under:

- a. **Annual Income** \geq INR 2 Crore; OR
- b. **Net Worth** \geq INR 7.5 Crore, out of which at least INR 3.75 Crore is in the form of financial assets; OR
- c. **Annual Income** \geq INR 1 Crore & **Net Worth** \geq INR 5 Crore, out of which at least INR 2.5 Crore is in the form of financial assets.

Partnership Firms set up under the Indian Partnership Act, 1932 in which each partner independently meets any of the criteria for accreditation under (a) to (c)

Trusts (other than family trusts) with net worth \geq INR 50 Crore.

Body Corporates with net worth \geq INR 50 Crore

Category I FPI investors, Sovereign Wealth Funds, and other multilateral agencies are deemed to be accredited investors and are not required to obtain certification from accredited agencies

KEY REGULATORY CONCEPTS: MINIMUM INVESTOR COMMITMENT

Minimum Investor Commitment

Regulation 10(c) of the AIF Regulations provides that no person making a capital commitment of less than INR 1 crore may be admitted as an investor in and AIF

The threshold is relaxed to INR 25 lakhs for employees or directors of the fund and / or the Investment managers

Further, the threshold is enhanced to INR 70 crores in the case of a large value fund for accredited investors

Certain relationships have been permitted to act as Joint Contributors and contribute the minimum investment of INR 1 crore from their respective bank accounts:

- Investor and his/her spouse
- Investor and his/her parents
- Investor and his/her children

Count of Investors in a respective folio cannot be more than 2 (Two)

Total investors across the fund cannot exceed 1,000

KEY REGULATORY CONCEPTS: OVERSEAS INVESTMENT BY AIFs

Overseas Investment by AIFs

AIFs are permitted to invest in equity and equity-linked instruments only of offshore venture capital undertakings, subject to the overall limit of USD 1,500 million (which applies on an aggregate basis to AIFs and VCFs registered under the VCF Regulations, and which is allocated on a 'first come first serve' basis depending on availability).

An "offshore venture capital undertaking" is a foreign company whose shares are not listed on any recognized stock exchange in India or abroad.

No more than 25% of the investible funds of an AIF may be deployed in overseas investments.

AIFs shall invest in an overseas investee company, which is incorporated in a country whose securities market is a signatory of IOSCO

The requirement of the overseas investee company having an Indian connect has been done away with vide SEBI's 17th August 2022 circular.

KEY REGULATORY CONCEPTS: FOREIGN INVESTMENT IN AIFs

Foreign Investment in AIFs

AIFs may raise funds from any investor whether Indian, foreign or non-resident Indians

Foreign investor of the AIF is a resident of the country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding or a signatory to the bilateral Memorandum of Understanding with SEBI

The investor or its underlying investors contributing twenty-five percent or more in the corpus of the investor or identified on the basis of control, is not the person(s) mentioned in the Sanctions List notified from time to time by the United Nations Security Council and is not a resident in the country identified in the public statement of Financial Action Task Force

In case an investor who has been on-boarded to scheme of an AIF, subsequently does not meet the conditions the manager of the AIF shall not drawdown any further capital contribution from such investor for making investment until the investor again meets the said conditions

The same shall also apply to investors already on-boarded to existing schemes of AIFs, who do not meet conditions specified above.

KEY REGULATORY CONCEPTS: EXIT RIGHTS

SEBI in its circular dated July 18, 2014 provided that where **material changes** significantly influencing the decision of investors to remain invested in an alternative investment fund are made to the PPM, investors who do not wish to remain invested would be provided with the option to exit

Exit Rights

For close-ended funds, such exit would be given effect by buying out, or facilitating the purchase of, units held by the dissenting investor(s) at a value that is greater than or equal to the average of the valuations determined by two independent valuers.

Certain changes such as (a) *change in sponsor/ manager (not including an internal restructuring within the group)*; (b) *change in control of sponsor/manager*; or (c) *change in fee structure or hurdle rate which may result in higher fees being charged to the unit holders* are to be construed as **'material' changes**.

KEY REGULATORY CONCEPTS: AIF GOVERNANCE

Matters requiring a three-fourths majority of investors vote in value

To approve winding up of the Fund

To approve the extension of the limit for valuation by the valuer from once every six months (for Cat-I/Cat-II AIF) to once every twelve months

To approve in-specie distribution by the Fund

To approve investment by the Fund in an Associate

To approve any material change (i.e. changes in fundamental attributes of the Fund) in accordance with the Regulations; and

Appointment of independent member of Investment Committee

Matters requiring a two-thirds majority of investors vote in value

To extend the Term of the Fund; and

To approve a material change in the investment strategy

KEY REGULATORY CONCEPTS: AIF GOVERNANCE

Other norms for AIF Governance

The Sponsor and Manager of the Alternative Investment Fund shall act in a fiduciary capacity towards its investors and shall disclose to the investors, all conflicts of interests as and when they arise or seem likely to arise

Change in control of Sponsor or Manager with prior SEBI approval

Co-investment in an investee company by a Manager or Sponsor shall not be on terms more favourable than those offered to the Alternative Investment Fund

To appoint a custodian if the corpus is more than Rs. 500 crores – compulsory for Cat-III AIF

Disclosure of any fees charged to the AIF or any investee company by an associate of the Manager or Sponsor

Disclosure within 180 days of the end of the year in respect of financial information about portfolio entities and material risks and how such risks are managed

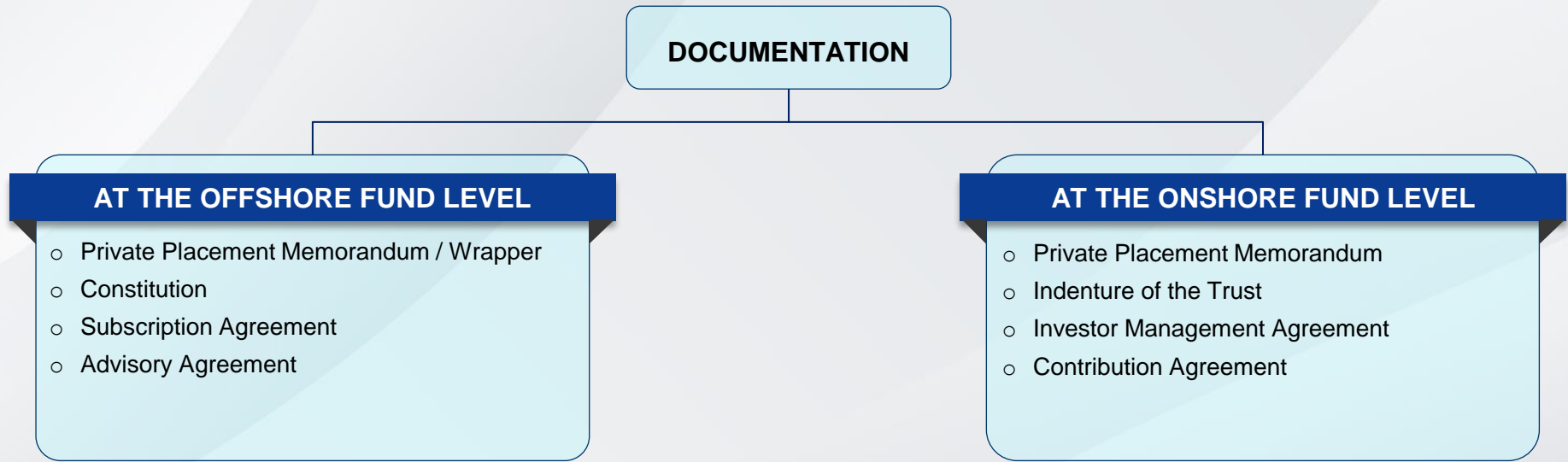
Cat-I AIF and Cat-II AIF to undertake valuation of their investments, at least once in every six months, by an independent valuer

Cat-III must disclose NAV for each quarter for closed-end funds and monthly for open-end fund

REPORTING OBLIGATIONS

CRITERIA	CATEGORY I AIF	CATEGORY II AIF	CATEGORY III AIF
NAV	<ul style="list-style-type: none"> Half Yearly basis (Can be extended to 12 months with investor approval) 	<ul style="list-style-type: none"> Half Yearly basis (Can be extended to 12 months with investor approval) 	<ul style="list-style-type: none"> Monthly basis (open ended schemes) Quarterly basis (clos ended scheme)
REPORTS	Annually (Within 180 days from year end)	Annually (Within 180 days from year end)	Quarterly (Within 60 days from quarter end)
SEBI FILINGS	<ul style="list-style-type: none"> Quarterly (details of Scheme) Annual Compliance Test Report 	<ul style="list-style-type: none"> Quarterly (details of Scheme) Annual Compliance Test Report 	<ul style="list-style-type: none"> Quarterly (details of Scheme) Annual Compliance Test Report
STEWARDSHIP DISCLOSURE	NA – only if listed entities	NA – only if listed entities	Yes – for all listed entities

FUND DOCUMENTATION



KEY CONTRACTUAL PROVISIONS IN STRUCTURING OF AIF DOCUMENTS

- Contributor Giveback;
- Indemnity;
- Removal of the Investment Manager for “Cause” or “without cause”
- Information Rights for the Contributors;
- Right to appoint member on IV/Advisory Board;
- Distribution Waterfall, Clawback mechanism;
- Quantum of Fees/Expenses and manner of charging the same;
- Key Man Clause;
- Co-Investment Rights

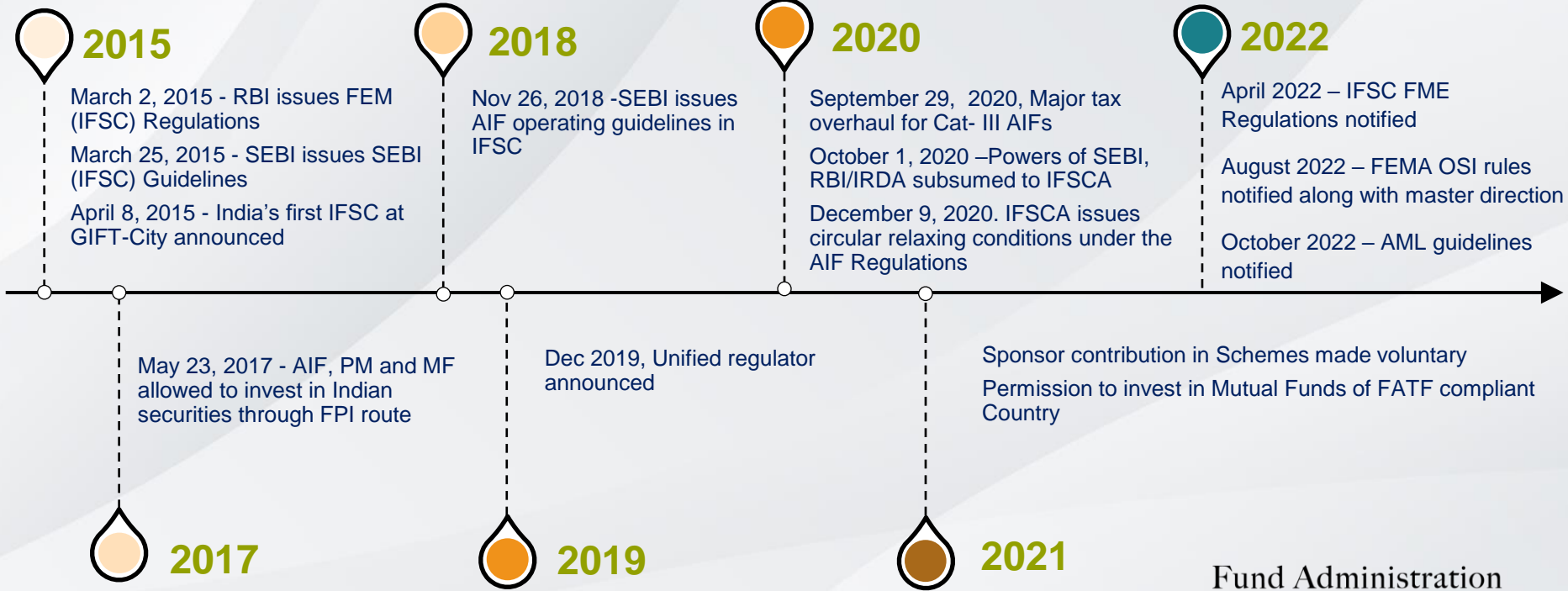
KEY CONTRACTUAL PROVISIONS IN STRUCTURING OF AIF DOCUMENTS- II

- Conflict of Interest policy;
- Investment Guidelines: ESG Policy and Anti-Corruption;
- Valuation Methodology;
- Whether Warehoused Investments are to be transferred to Fund at Cost or FMV – Whether issuance of units in lieu of warehoused investments possible
- Follow-on investment;
- Ability to launch successor fund

Part II: AIFs in IFSCs

IFSCA (FUND MANAGEMENT) REGULATIONS, 2022: AN OVERVIEW

TIMELINE



SNAPSHOT OF THE REGULATIONS

FUND MANAGEMENT ENTITY (FME)

- Authorised FME
- Registered FME (Non-retail)
- Registered FME (Retail)

TYPES OF FUND / SCHEMES

- Venture Capital Schemes
- Restricted scheme (Non-retail)
- Retail Scheme

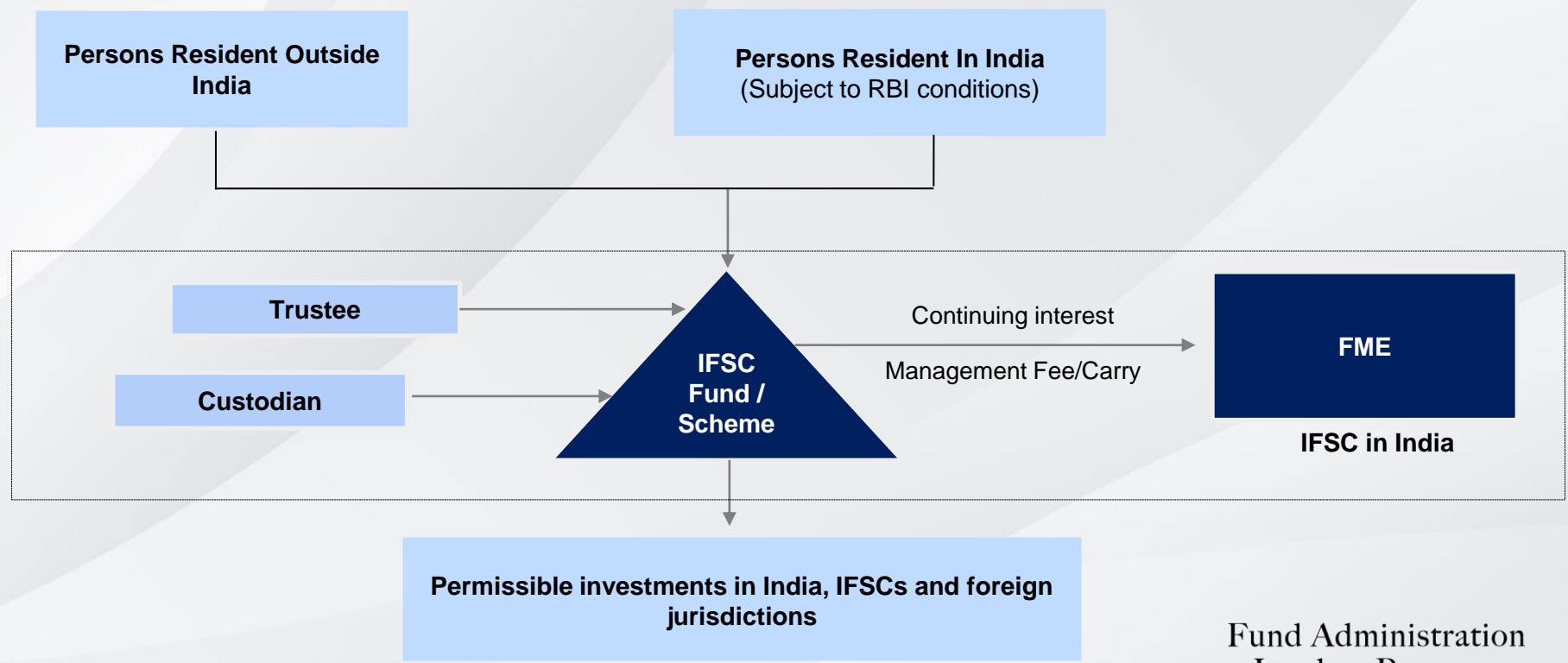
SPECIFIC INVESTMENT STRATEGY-BASED PRODUCTS

- Special Situations Funds (SSFs), ETFs
- Investment Trusts (REITs)
- ESG

OTHER FUND MANAGEMENT ACTIVITIES

- Portfolio Management Services
- Family Investment Fund

TYPICAL STRUCTURE OF A FUND IN IFSC



CATEGORIES OF FUND MANAGER ENTITY (FME)

AUTHORIZED FME

- To manage (a) funds investing in start-ups or early stage ventures through Venture Capital scheme; (b) single family office
- To pool money from accredited investors or investors investing above USD 250,000
- To manage schemes with less than 50 investors

REGISTERED FME (NON-RETAIL)

- To manage funds investing in securities, financial products & other permitted asset class by way of private placement through restricted schemes which are akin to current AIF categories
- To pool money from accredited investors or investors investing above USD 150,000
- To have schemes with less than 1000 investors
- Can (a) provide portfolio management services; (b) manage multi family offices; (c) act as investment manager for private placement of REITs and InviTs
- Can also undertake activity as permitted for Authorised FME.

REGISTERED FME (RETAIL)

- To manage funds investing in securities, financial products & other permitted asset through retail schemes (akin to mutual funds) or restricted schemes
- To pool money from retail and non-retail investors
- To act as investment manager for public offer of REITs and InviTs
- Permitted to launch ETFs
- Can also undertake activity as permitted for Authorised FME and Registered FME (non-retail)

FUND MANAGER ENTITY: KEY FEATURES

PARTICULARS	AUTHORISED FME	REGISTERED FME (NON-RETAIL)	REGISTERED FME (RETAIL)
LEGAL FORM	Company, LLP, branch structure	Company, LLP, branch structure	Only company structure or branch of company structure
MINIMUM NET WORTH	USD 75,000	USD 500,000	USD 1,000,000
CONTRIBUTION BY FME/ITS ASSOCIATE ENTITY IN THE SCHEME	<p>Close-ended Fund: If target corpus less than USD 30 million – Min. 2.5% of corpus and Max. 10% of corpus;</p> <p>If target corpus more than USD 30 million – Min. USD 750,000 and Max. 10% of corpus</p>	<p>Close-ended Fund: If target corpus less than USD 30 million – Min. 2.5% of the corpus and Max 10% of the corpus</p> <p>If target corpus more than USD 30 million – Min. USD 750,000 and Max. 10% of the corpus</p> <p>Open-ended Fund: If target corpus less than USD 30 million – Min. 5% of the corpus of the Fund and Max. 10% of the corpus</p> <p>If target corpus more than USD 30 million – Min. USD 1,500,000 and Max. 10% of the corpus.</p>	<p>Close-ended/Open-ended Fund: Lower of 1% of AUM of the Fund or USD 200,000</p>

FUND MANAGER ENTITY: KEY FEATURES.....Cont.

PARTICULARS	AUTHORISED FME	REGISTERED FME (NON-RETAIL)	REGISTERED FME (RETAIL)
DEGREE OF REGULATION	Low	Moderate	High
MINIMUM NO. OF KMPS	1 Principal Officer (PO)	2 (PO + Compliance & Risk Manager)	3 (PO + Compliance & Risk Manager + Fund Manager)
	<ul style="list-style-type: none"> ○ Any appointment or change in KMPs shall be made with prior approval from IFSCA ○ The KMPs should be based out of IFSC 		
EXPERIENCE AND PROFESSIONAL QUALIFICATION OF KEY PERSONNEL	<p>At least 5 years experience in securities market or financial products (including in a portfolio manager, broker dealer, investment adviser, wealth manager, research analyst, or fund management); and Professional qualification or PG or PG (diploma – 2 years) in finance, law, accountancy, business management, commerce, economics, capital market or banking, insurance or actuarial science from a university or an institution recognized by the Central Government or any State Government or a foreign university, or a certificate from authority recognized by IFSCA / regulator in India / foreign jurisdiction.</p>		
REQUIREMENT TO HAVE AN OFFICE IN IFSC	Yes (for all the categories)		
SUBSTANTIVE FUND MANAGEMENT ACTIVITY FROM THE IFSC	Key management and commercial decisions relating to investment management and trade execution to be performed from the IFSC.		
FIT AND PROPER CRITERIA	Applicable (for all the categories)		
MINIMUM NO. OF DIRECTORS	-----	-----	4 (at least 50% to be independent)

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TYPES OF SCHEMES

PARTICULARS	VENTURE CAPITAL SCHEME	RESTRICTED SCHEME (NON-RETAIL)	RETAIL SCHEME
ELIGIBLE FMES WHO CAN LAUNCH	Authorized FMES, Registered FMES (non-retail), Registered FME (retail)	Registered FMES (non-retail) and Registered FMES (retail)	Registered FMES (retail)
LEGAL FORM	Trust / Company / LLP	Trust / Company / LLP	Company / Trust
NATURE OF FUND / SCHEME	Close ended	Open-ended or close-ended	Open-ended or close-ended
CORRESPONDING TYPE OF FUND UNDER INDIAN LAWS	Category I VCF + Angel Fund	Category I / II / III	Mutual funds
SCHEME CORPUS	Min - USD 5m Max – USD 200m	Min- USD 5m	Min – USD 5m
MINIMUM TENURE FOR CLOSE ENDED SCHEME	3 years (extn of 2 years with 2/3rd investor approval)	3 years (extn of 2 years with 2/3rd investor approval)	3 years (extn of 2 years with 2/3rd investor approval and IFSCA)

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TYPES OF SCHEMES

PARTICULARS	VENTURE CAPITAL SCHEME	RESTRICTED SCHEME (NON-RETAIL)	RETAIL SCHEME
NUMBER OF INVESTORS	Less than 50	Less than 1000 or such number as may be specified by the Authority	At least 20 investors with no single investor holding > 25%
MINIMUM CONTRIBUTION OR CAPITAL COMMITMENT FROM AN INVESTOR IN THE FUND OR SCHEME	Above USD 250,000 Employees - Authorised FME or Registered FME: Minimum USD 60,000 Accredited Investors: no minimum threshold.	Above USD 150,000 Employee class: Minimum USD 40,000 Accredited Investors: no minimum threshold.	Open-ended schemes: None Close-ended schemes: Minimum -USD 10,000 (this shall not apply if the scheme is investing less than 15% in unlisted securities)
CONTINUING INTEREST	2.5% of corpus, or USD 750,000 unless exempted or waived	Close-ended Fund: 2.5% of the corpus of the Fund or USD 750,000, unless exempted or waived Open-ended Fund: 5% of the corpus of the Fund or USD 1,500,000, unless exempted or waived	1% of AUM of the Fund or USD 200,000, unless exempted
FILING OF PPM	Filing under green channel	PPM to be filed with IFSCA at least 21 days before launch Deemed approval – if no comments within 21 days Green channel filing – if only accredited investors	Offer document has to be approved by IFSCA before launch of scheme

TYPES OF SCHEMES

PARTICULARS	VENTURE CAPITAL SCHEME	RESTRICTED SCHEME (NON-RETAIL)	RETAIL SCHEME
INVESTMENT DIVERSIFICATION CONDITIONS	None	None	Up to 10% of the AUM in single investee company allowed (up to 15% with prior fiduciaries approval). However, no restrictions in case of Index funds Up to 25% of the AUM in a single sector allowed (Exceptions: financial services sector – upto 50% of the AUM). However, no restrictions in case of sectoral/thematic/Index scheme.
INVESTMENT IN SECURITIES	At least 80% AUM in companies incorporated for < 7yrs OR other Venture Capital Schemes	Open-ended: Not exceed 25% of corpus in securities of unlisted companies	Open ended: Not exceed 15% of the AUM in unlisted securities Close-ended: Not exceed 50% of the AUM in unlisted securities
INVESTMENT RESTRICTIONS	Invest primarily in unlisted securities of start-ups or early stage ventures or other VC schemes including angel funds	Permitted to invest in all securities and assets Close-ended Scheme: upto 20% of corpus can be in physical assets such as real estate , bullion, art etc	Permitted to invest in all securities and financial assets Investments in derivatives only for the purpose of hedging.

TYPES OF SCHEMES

PARTICULARS	VENTURE CAPITAL SCHEME	RESTRICTED SCHEME (NON-RETAIL)	RETAIL SCHEME
INVESTMENT IN ASSOCIATES	prior approval of 75% investors	approval of 75% investors	Not invest more than 25% of AUM in associated entities of FME
BORROWING / LEVERAGE	With consent of investors and appropriate disclosures in PPM	With consent of investors and appropriate disclosures in PPM	Borrow up to 20% AUM for 6 months only to meet temporary deployment requirement for redemption/payment of interest or dividend.
CO-INVESTMENT	Permitted through SPV or through segregated portfolio subject to certain conditions		Not permitted
NAV COMPUTATION	On an annual basis	Open-ended scheme: monthly basis; Close-ended scheme: half yearly basis.	Open-ended scheme: daily basis; Close-ended scheme: weekly basis.
LISTING	Permitted	Permitted	Permitted For close ended retail scheme – it shall be mandatorily listed on one of the stock exchanges

FUND MANAGEMENT ENTITY: OTHER CONSIDERATIONS

PARTICULARS	OBLIGATION ON FME
CODE OF CONDUCT	FME, its fiduciaries, KMPs shall adhere to the Code of Conduct prescribed under the proposed FM Regulations.
APPOINTMENT OF INVESTMENT COMMITTEE	FME may at its discretion constitute an Investment Committee to make investment decisions for the schemes. All responsibilities of the fund managers shall also apply to members of such Investment Committee.
MAINTENANCE OF BOOKS OF ACCOUNT, RECORDS AND OTHER DOCUMENTS	FMEs have to maintain proper books of account, records and other documents as prescribed under proposed FM Regulation.
BUSINESS CONTINUITY PLAN	Registered FME to maintain a business continuity plan identifying procedures relating to an emergency or significant business disruption.
CYBER SECURITY	Registered FME shall have a robust cyber security and cyber resilience framework
RISK MANAGEMENT	FMEs are required to maintain a sound risk management policy, adequate internal procedures and controls
CHANGE IN CONTROL	FME must seek prior approval of the IFSCA in case of direct or indirect change in control of FME. Provided FME operating as a branch shall only inform IFSCA within 15 days if such approval is required by sectoral regulator in its principal place of operations.
ADVERTISEMENT CODE	An Advertisements Code has been prescribed under the Proposed FM Regulations pertaining to advertisements by the FME in relation to schemes
REPORTING TO INVESTORS	<ul style="list-style-type: none"> ○ Monthly disclosure of the investor holding ○ Within 5 days in case of request from investor

PROS & CONS OF THE REGULATION

Pros

- Faster approval timelines and Green Channel for VCFs
- No PAN required for foreign LPs
- Environment, Social and Governance (ESG) consideration
- Exemption of Skin in the Game requirement in accordance with prescribed conditions for feeder funds, or with 2/3 investor approval
- Single registration for multiple fund management activities

Cons

- Ring fencing of operations in IFSC is required
- Untested regime; tax and GAAR uncertainties
- Upcoming ecosystem and infrastructure
- Requirement of physical presence (office) in IFSC, local experienced personnel requirement and other substance requirements

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