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-IFSCA Legal & Regulatory
Roundup for 2024-25-

ANNUAL ROUND-UP FOR FY 2024 – 25 FOR KEY REGULATORY UPDATES IN GIFT-IFSC

The Financial Year 2024-25 has witnessed significant regulatory developments with respect to various Regulated Entities operating in the International Financial Services Centre (“**IFSC**”), including *inter-alia* Fund Management Entities (“**FMEs**”) and Alternative Investment Funds (“**AIFs**”).

At ICUL, we present a comprehensive recap of the key legal and regulatory developments introduced by the International Financial Services Centres Authority (“**IFSCA**”) over the past financial year.

REGULATIONS

1. INTRODUCTION OF IFSCA (FUND MANAGEMENT) REGULATIONS, 2025

One of the notable developments in the past financial year was the introduction of an amended regulatory framework under the IFSCA (Fund Management) Regulations, 2022. IFSCA notified the IFSCA (Fund Management) Regulations, 2025 (“**IFSCA FM Regulations**”) on February 19, 2025, with the objective of enhancing ease of doing business and facilitating broader market participation. The IFSCA FM Regulations introduce targeted reforms aimed at supporting fund managers across both retail and non-retail segments, simplifying compliance obligations, expanding the investor base, and reinforcing governance and regulatory oversight.

Key takeaways under the amended IFSCA FM Regulations are set out below:

I. Flexibility and Enhancement in the Appointment of Principal Officer and other Key Managerial Personnel (KMP)

- (a) For qualification of Principal Officer, certification from any organization or institution or association or stock exchange which is recognized/ accredited by IFSCA or a regulator in India or a foreign jurisdiction now stands removed. Further, the requirement of a professional qualification, a postgraduate degree or a diploma of at least 2 years has now been relaxed to at least 1 year.

New qualifications, such as a CFA or an FRM from the Global Association of Risk Professionals, have now been included. Further, in the case of a Principal Officer with at least 15 years of experience in activities related to fund management, including portfolio management, investment advisory or similar activities, the qualification has been lowered to a graduate level in any field.

- (b) Apart from the requirement to appoint a Principal Officer and Compliance Officer, any FME managing an AUM of at least USD 1 Billion (excluding fund of fund scheme) at the end of the

financial year, is required to appoint an additional KMP for fund management within 6 months from the end of the financial year. Further, continuation of such additional KMP would be optional if the AUM remains below USD 1 Billion for 2 consecutive years and there is a reasonable expectation that such AUM shall remain below USD 1 Billion for the next term.

In the case of an FME established by a government or government-related investor, or by an entity that is controlled or at least 75% owned by such an investor, where such investors are the sole contributors to the schemes launched by the FME, the requirement to appoint additional KMP shall not be applicable.

- (c) Experience criteria for the Principal Officer and the KMP has now been broadened to include 5 years of experience in related activities in the securities market or financial products including in a portfolio manager, fund manager, investment advisor, broker-dealer, investment banker, wealth manager, research analyst or fund management, credit rating agency, market infrastructure institution, financial sector regulator or consultancy experience in areas related to fund management, such as deal due diligence, transaction advisory or similar activities.

In case of consultancy experience in areas related to fund management, such as deal due diligence, transaction advisory, etc., such experience shall be considered for a maximum period of 2 years and experience in other areas as mentioned above shall be required for at least 3 years.

- (d) Experience criteria has been relaxed for Compliance Officers who hold a professional qualification and have relevant experience in compliance or risk management within a listed company or an entity regulated by a financial sector regulator. For such individuals, the experience requirement as prescribed under Regulation 5(b) of the IFSCA FM Regulations has been reduced to a minimum of 3 years as opposed to the general requirement of 5 years.
- (e) The requirement to obtain prior approval from IFSCA for the appointment and/or change of KMP has been dispensed with. FMEs are now only required to notify IFSCA of such appointments or changes. IFSCA vide its circular dated February 20, 2025, has prescribed the modalities for intimation of appointment or a change in the KMP, which has been discussed in detail under paragraph 9 hereinbelow.
- (f) For Registered Fund Management Entity (Retail) ("**Retail FME**"), it has been clarified that the additional KMP as required to be appointed under Regulation 7(3) of the IFSCA FM Regulations can be appointed before filing with IFSCA the offer document for its first retail scheme.

II. Revised Eligibility Norms for Retail FME

For criteria evaluation for Retail FME, it is now been clarified that the Retail FME, its holding company, or their subsidiaries should have (i) at least 5 years of experience in collectively managing AUM of at least USD 200 Million with more than 25,000 investors; or (ii) Person(s) in control of the FME holding at least 25% shareholding in the FME be carrying on business activities related to fund management, including portfolio management, wealth management, distribution of financial products, and investment advisory, for a period of not less than 5 years, collectively for at least 1,000 investors on assets of at least USD 50 Million, and such FME has a net worth of at least USD 2 Million or such other amount as may be specified by IFSCA.

III. Criteria for Fit and Proper Person Requirement

- (a) In addition to the existing criteria, the following additional requirements have been specified:
- (i) No charge sheet has been filed against such a person by any Indian enforcement agency in matters concerning economic offences and is pending.
 - (ii) No charges have been made by a court of law or an equivalent institution in matters concerning economic offences.
 - (iii) Under the erstwhile regime, one of the criteria for classification as “fit and proper” provided a condition that no order restraining, prohibiting, or debarring such person from accessing or dealing in financial product(s) or financial service(s) should have been passed by any regulatory authority, provided that a period of 3 years had not elapsed from the expiry of the period specified in such order. However, under the IFSCA FM Regulations, this time-based restriction has been dispensed with. As per the amended provision, for a person to be classified as fit and proper, no order should have been passed restraining, prohibiting or debarring the person from accessing or dealing in financial product(s) or financial service(s), by any regulatory authority, in any matter concerning securities laws or financial services market and such order is in force.
 - (iv) Further, a materiality threshold, which shall be determined at the discretion of IFSCA, has been introduced in case of an order passed by IFSCA or any regulatory authority against a person which has a ‘material’ bearing on the securities market and a period of 3 years has not elapsed from such order.
 - (v) A person who has been declared as not a ‘fit and proper person’ by an order of any regulatory authority, shall not be eligible to apply for any registration, until the fit and proper criteria are satisfied.

IV. Changes concerning the Venture Capital Scheme (“VCF Scheme”), Restricted Scheme (Non-Retail) and Retail Scheme

Particulars	VCF Scheme	Restricted Scheme	Retail Scheme
Change in Subscription Conditions	<p>Only upon receipt of communication from IFSCA confirming PPM has been taken on record. Further, IFSCA may provide comments to be incorporated into the PPM at any stage.</p> <p>For the purposes of the Income Tax Act, 1961, the communication received from the IFSCA for taking the PPM on record shall be construed as a Certificate of Registration.</p>		
Validity of PPM / Offer Document	<p>Increased to 12 months from 6 months.</p> <p>Further, a one-time extension of 6 months shall be provided by IFSCA to meet the minimum corpus, subject to payment of 50% of the fee as applicable for filing of a new scheme.</p>		
			<p>It has been clarified that the validity period of 12 months shall be calculated from the date of receipt of communication from IFSCA for taking the offer document on record.</p> <p>Further, a one-time extension of 6 months shall be provided by IFSCA to meet the minimum corpus, subject to payment of 50% of the fee as applicable for filing of a new scheme.</p> <p>For the purposes of the Income Tax Act, 1961, the</p>

			communication received from the IFSCA for taking the offer document on record shall be construed as a Certificate of Registration.
Minimum Corpus	Reduced to USD 3 Million from USD 5 Million	Reduced to USD 3 Million from USD 5 Million. However, open-ended schemes may commence investment activities on raising USD 1 Million and shall achieve the minimum corpus of USD 3 Million within 12 months of communication from IFSCA of taking the PPM on record.	
Joint Investor	Investor along with spouse, parent and children making a minimum investment of at least USD 250,000	Investor along with spouse, parent and children making a minimum investment of at least USD 150,000	-
Investment Conditions	-	Restrictions for open-ended scheme on investing a maximum of 25% of the corpus in unlisted securities shall not be applicable on open-ended fund of funds schemes, subject to such requirement being met on a look-through basis by the underlying fund.	<ul style="list-style-type: none"> ▪ Unlisted security: IFSCA vide the circular dated October 29, 2024¹ clarified that the restriction on investment in unlisted security to a maximum of 15% for open-ended schemes and 50% for close-ended schemes, shall be exempted when such investment is made in unlisted

			<p>security issued by an investment fund that is open-ended in nature, regulated and permitted to offer such securities to retail investors in its home jurisdiction. Such exemption has now been subsumed under the IFSCA FM Regulations and the aforementioned IFSCA circular has been superseded.</p> <ul style="list-style-type: none"> ▪ Single issuer limit: The restriction on investment in a single company has been relaxed for sectoral, thematic or index schemes, for whom the investment in a single company shall be its weightage in the representative index which it wants to benchmark or 15%, whichever is higher. Further, fund of funds
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			<p>investing in schemes that meet this requirement shall also be exempted.</p> <ul style="list-style-type: none"> ▪ Sectoral cap: Restriction on the sectoral limit of 25% for each sector and 50% for the financial services sector has been exempted for the fund of funds scheme, subject to the underlying fund complying with such requirements. <p>Additionally, the requirement of listing close-ended retail schemes on recognized stock exchanges has been made optional, if the minimum amount of investment by each investor in the scheme is at least USD 10,000.</p>
Restriction on Transactions with Associate entities	Shall not buy or sell securities from its associates, other schemes of the FME or its associates, or an investor who has committed to invest at least 50% of the corpus of the scheme, without taking prior approval from 75% of investors in the scheme by value.	-	

	No such approval is required for funds of fund schemes, subject to disclosure in the PPM the details of the underlying scheme(s) wherein the investments are intended to be made and the nature of association, if any, that the FME has with the manager(s) of such underlying scheme.	
Condition concerning leverage	FME intending to employ leverage has to adopt a comprehensive risk management framework, whilst earlier such policy had to be adopted upon undertaking leverage.	-
Contribution of FME and its associates	An exemption has been provided from the 10% contribution restriction when FME and its associates are residents outside India and have no UBO in India, and when such schemes are not investing more than 1/3 rd of the corpus in one investee company and its associates.	Exemption from the requirement of minimum contribution in case of fund of funds scheme which has similar requirements.
Computation of NAV	In addition to disclosure of portfolios on a yearly basis, VCFs are now required to disclose NAVs on a yearly basis.	-
Condition concerning valuation	The requirement to adopt third-party valuation, shall not apply in case of a fund of funds scheme that invests in the scheme(s) regulated by a financial sector regulator, directly or through a manager, in IFSC, India or foreign jurisdiction(s), which are valued by any independent entity. Additionally, a credit rating agency registered with IFSCA shall also be permitted to undertake valuation of the assets of the scheme.	
Temporary Deployment	In addition to the previously permitted instruments, temporary deployment is now permitted in bank deposits and overnight mutual fund schemes.	

V. Relaxations provided to Portfolio Managers

- (a) The IFSCA FM Regulations have reduced the minimum funds/securities to be accepted from a client to USD 75,000 from the previously prescribed limit of USD 150,000.
- (b) An additional mechanism has now been introduced, allowing the FME to maintain client funds with a regulated broker-dealer located in the IFSC, or with an equivalent Regulated Entity in India or a foreign jurisdiction. In such cases, the FME must ensure that:
- It is duly authorized to operate the relevant bank account, either directly or through a custodian; and
 - It shall furnish details of all such bank accounts, including any transactions carried out therein, as and when required by the IFSCA.
- (c) Further, in instances where client funds are held in a specific bank account maintained with a broker-dealer, the FME shall:
- Ensure it is authorized to operate such an account;
 - Implement adequate internal controls to ensure that the minimum investment threshold prescribed under the regulations is met; and
 - Ensure that complete account details and transaction records are made available to IFSCA upon request.

VI. Appointment of Custodian in IFSC

The FMEs are required to appoint an independent custodian for all the retail schemes, open-ended restricted schemes and all other schemes managing AUM above USD 70 Million. Under the amended IFSCA FM Regulations, it has been clarified that the appointment of custodian shall not be required in respect of fund-of-funds schemes where the underlying scheme(s) have already appointed an independent custodian.

In all applicable cases, FME shall ensure that the custodian is based in IFSC unless the local laws of the jurisdiction where the securities are issued mandate the appointment of a custodian in that jurisdiction. In such case, arrangements shall be made for the provision of such information to IFSCA. However, if the scheme is required to appoint a custodian in IFSC and such scheme has entered into an agreement with a custodian outside IFSC, then an independent custodian in IFSC shall be appointed within 12 months of the notification of the IFSCA FM Regulations.

VII. Family Investment Fund ("FIFs")

- (a) The definition of 'Family Investment Fund' now omits the earlier reference to such funds being 'self-managed funds', providing greater flexibility to the family offices to appoint external fund managers and service providers.
- (b) Further the definition of 'single family office' has now been enhanced to also include entities such as sole proprietorship firm, partnership firm, company, limited liability partnership, trust or a body corporate, in which an individual or a group of individuals of a single-family exercises control and directly or indirectly hold substantial economic interest. This is in addition to the existing definition which stated that a single-family office includes a group of individuals who are the lineal descendants of a common ancestor and includes their spouses (including widows and widowers, whether remarried or not) and children (including stepchildren, adopted children and ex-nuptial children).
- (c) It has also been clarified that a Single Family Office can also set up an Authorised FME.
- (d) Further, FIFs have now been permitted to set up additional investment vehicles after filing documents for such vehicles with IFSCA. It is also clarified that FIF may be construed as Category I AIF, Category II AIF or Category III AIF, depending upon the investment.

VIII. Other Changes

- (a) FMEs are required to maintain and preserve key financial and regulatory records, including audited financial statements, quarterly net worth statements, and AML/CFT compliance documents, client onboarding records, powers of attorney, and documentation related to their activities under the regulations. The minimum years for maintenance of such records has been reduced to 8 years from the existing 10 years.
- (b) FME intending to open a branch or representative office in other jurisdictions for the purpose of marketing their offerings and client service shall give prior intimation to IFSCA.

The amended IFSCA FM Regulations is available on the official website of IFSCA and can be accessed at the following link: [IFSCA FM Regulation, 2025](#)

CIRCULARS

2. **FILING OF SCHEMES/FUNDS WITH THE IFSCA**

IFSCA issued a circular² on April 5, 2024, consolidating the procedural requirement for launch of schemes under Chapter III of the IFSCA FM Regulations (excluding Part C- Retail Schemes) into one cohesive directive. The circular significantly simplifies the compliance framework for FMEs by establishing clear disclosure norms, standardized application formats, and procedural timelines.

I. Filing Process and Documentation Requirements

- (a) Scheme Application Form: The circular prescribed a consolidated form detailing the comprehensive information and documents to be filed with IFSCA for the launch of a scheme/fund.
- (b) Minimum Disclosures in the private placement memorandum (“PPM”): The circular prescribes minimum disclosures to be made under the PPM of each scheme/fund, including:
 - Fund Structure: A graphical/illustrative representation of the scheme/fund structure;
 - Investor and Investment Details: Broad details of target investors and portfolio composition.
 - Governance Structure: Detailed structure of the FME, including details of key managerial personnel, investment committee/advisory boards/limited partner advisory committee.
 - Principal Terms: The principal terms of the scheme/fund shall include the following disclosures:
 - (i) Fund Offering;
 - (ii) Target Investors;
 - (iii) Tenure of the Scheme or Fund;
 - (iv) Details of the contribution by the FME to the scheme, including exception sought, if any;
 - (v) Capital Structure of the scheme which shall categorically distinguish different classes of units and their minimum capital commitment/contribution;
 - (vi) Definite timelines for the initial closing/ initial offer period and the final closing, including the details of the subsequent closing (if applicable);
 - (vii) Details of investment period/commitment period (If applicable);
 - (viii) Transfer and transmission of units;
 - (ix) Gating restriction on withdrawal of units (if applicable);

² IFSCA circular dated April 05, 2024, bearing no. F.No. IFSCA-AIF/32/2024-Capital Markets.

- (x) Complete details of the terms of indemnification;
 - (xi) Details of Warehoused Investments, including the period and valuation of the investments (if applicable);
 - (xii) Details of Side Letters and their impact on other investors (if applicable);
 - (xiii) Details of Co-investment (if applicable);
 - (xiv) Details of Borrowings along with the maximum limit of leverage (if applicable) in accordance with the IFSCA FM Regulations;
 - (xv) Details of Temporary Deployment of Surplus Funds in line with the IFSCA FM Regulations;
 - (xvi) Comprehensive disclosure of all fees and expenses of the scheme as well as the FME, including the setup fee/expenses, management fees, performance fees, exit fees, trusteeship fee, placement agent fees and its incidence, etc;
 - (xvii) Details of the distribution to investors;
 - (xviii) Details of distribution-in-kind/in-specie distributions (if applicable).
 - (xix) Details of giveback by the Contributors (if applicable);
 - (xx) Redemption, Compulsory redemption, redemption procedure and details of delay/suspension of redemption, including the exit fees, and the redemption price;
 - (xxi) Valuation and reporting requirements, in accordance with the IFSCA FM Regulations;
 - (xxii) Details of termination and winding up of the Scheme or Fund;
 - (xxiii) Details of Removal of the FME;
 - (xxiv) Details of Parallel Vehicles/ Alternative Investment Structures and Successor Funds (if applicable);
 - (xxv) Details of the Custodian appointed, in accordance with the IFSCA FM Regulations;
 - (xxvi) Provision for Grievance Redressal mechanism with the FME as the first level and the IFSCA at subsequent levels of escalation for the investors;
 - (xxvii) Other matters as may be considered necessary for informed decision making by the investors.
- Investment Objectives: Clear articulation of investment objectives, strategy, including master fund strategy and fund-of-funds structure.
 - Other Sections: Distinct sections on valuation methodology, disciplinary history, risk factors, disclosure of conflicts of interest, legal, regulatory and tax considerations, glossary and illustrations pertaining to fees, expenses and distribution waterfall.
 - Declarations and Disclaimers: A declaration is to be included under the PPM by the authorized person of the FME confirming adherence to the IFSCA FM Regulations and the sufficiency of disclosures. Additionally, a disclaimer shall be included under the PPM entailing that the filing of the PPM with the IFSCA is for record purposes only and does not imply IFSCA's approval.

II. Submission Checklist

The circular provides a comprehensive checklist of documents and declarations that FMEs must submit to IFSCA when filing a new scheme or fund. The checklist includes:

- A searchable and readable copy of the application form and the PPM.
- Foundational documents such as the Trust Deed or LLP Agreement, and the FME's Certificate of Registration.
- KYC documents and profiles of key individuals, including trustee directors and investment personnel.
- Regulatory approvals such as the SEZ Letter of Approval, PAN, and GST registration (if available).
- Proof of payment of the applicable fee via SWIFT (MT103).
- Various declarations covering past regulatory actions, fit and proper status, and exemptions claimed, if any.

The checklist has been provided under Annexure B of the circular and shall be submitted along with the Scheme Application Form.

III. Payment of fees: The circular clarifies that fees for filing the schemes shall be remitted exclusively in US Dollars at the time of submitting the scheme application form with IFSCA.

The circular is available on the official website of IFSCA and can be accessed at the following link: [Ease of doing business - Filing of Schemes or funds under IFSCA FM Regulations, 2022](#)

3. INVESTMENTS BY NRIs AND OCIs INTO INDIAN SECURITIES THROUGH SCHEMES IN IFSC

IFSCA vide the circular dated May 02, 2024³, has introduced a framework for enhanced participation of Non-Resident Indians (“**NRIs**”), Overseas Citizens of India (“**OCIs**”) and Resident Indians (“**RI**s”) in Indian securities markets through schemes/funds set up in IFSC.

Under the prevailing regulatory framework, schemes or funds launched by FMEs in IFSC, investing in listed Indian securities are required to procure registration as Foreign Portfolio Investors (“**FPIs**”) in accordance with the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 (“**FPI Regulations**”). Additionally, Part A(1)(ii)(b) of SEBI’s Master Circular for Foreign Portfolio Investors, Designated Depository Participants, and Eligible Foreign Investors, dated May 30, 2024, prescribes that the aggregate contribution of NRIs, OCIs, and RIs in the corpus of an FPI, must remain below 50% of the total corpus of the scheme/fund. This restriction has previously limited broader NRI/OCI participation in FPI structures.

To address this issue, IFSCA, in consultation with the Securities and Exchange Board of India (“SEBI”) and other stakeholders, enabled two alternative regulatory routes to allow up to 100% NRI/OCI/RI’s participation in Indian securities through IFSC-based FPIs. Additionally, SEBI vide circular SEBI/HO/AFD/AFD-POD-2/P/CIR/2024/89 dated June 27, 2024, has further provided procedural modalities and conditions for such enhanced participation by NRIs/OCIs/RIs in IFSC-based FPIs (“SEBI FPI Circular”).

I. Route 1

NRIs/OCIs/RIs can contribute up to 100% of the corpus of IFSC-based FPIs by submitting Permanent Account Number (“PAN”) details for all individual constituents of the FPIs along with their economic interests to the Designated Depository Participant (DDP). SEBI FPI Circular prescribes a list of alternative documents which may be submitted where PAN for constituents of the FPIs is not available.

II. Route 2

NRIs, OCIs, and RIs may contribute up to 100% of the corpus of IFSC-based FPIs without submitting the aforementioned documents, subject to compliance with the following conditions as prescribed by the said circular and SEBI FPI Circular:

- Eligibility Criteria: The FME must satisfy the eligibility criteria as prescribed by SEBI. In this regard, the SEBI FPI Circular stipulates that only an Asset Management Company of a Mutual Fund (registered with SEBI and sponsored by a bank regulated by the Reserve Bank of India), or its IFSC-based subsidiary/branch, may act as the Investment Manager/FME of the FPI.
- Independent Investment Manager/FME: The FME of the FPI must exercise independent discretion in investment decisions, without any influence from its investors.
- Pooled investment vehicle: Investments must be pooled through a single investment vehicle established in the IFSC, with no side vehicles permitted.
- Pari-passu and pro-rata rights: All investors must hold pari-passu and pro-rata rights in the FPI without any segregated portfolios and co-investment arrangements. Issuance of separate classes of units shall be permitted solely for the purposes of segregating the currency of contributions, provided such units are pari-passu and pro-rata in all respects upon conversion into a common currency.
- Diversification of investments: Investment in the equity shares of any single listed Indian entity must not exceed 20% of the corpus of the FPI. Any passive breach of this limit following the initial 3 months of registration must be rectified by the FME within 3 months of the breach. Active breaches, i.e., those owing to investment actions of the FPI and not merely resulting from market-driven price movements, shall constitute a regulatory violation and will be dealt with in accordance with the FPI Regulations.

- ***Diversification of Investors:*** The fund or scheme must comprise of at least 20 investors, with no single investor contributing more than 25% of the total corpus of the FPI. Any passive breach of this investor concentration threshold after the initial 3 months of registration must be remedied by the FME within three 3 months of the breach. Active breaches shall constitute a regulatory violation and will be dealt with in accordance with the FPI Regulations.

SEBI FPI Circular prescribes the following additional conditions to facilitate enhanced participation by NRIs/OCIs/RIs in IFSC-based FPIs:

- (a) At the time of applying for registration with SEBI, the FPI must submit a declaration to its DDP stating its intention to have aggregate contributions from NRIs, OCIs, and RIs amounting to 50% or more of its corpus;
- (b) FPIs with more than 33% of their Indian equity assets under management invested in a single Indian corporate group are required to furnish granular details of all entities holding any ownership, economic interest, or exercising control in the FPI, on a full look-through basis, up to all natural persons, without applying any materiality threshold.

The IFSCA circular is available on the official website of IFSCA and can be accessed at the following link:
[Facilitating investments by NRIs and OCIs into Indian securities through Schemes / Funds in an IFSC](#)

The SEBI FPI Circular is available on the official website of SEBI and can be accessed at the following link:
[Participation by NRIs, OCIs and RI individuals in SEBI-registered FPIs based in IFSC in India](#)

4. CLARIFICATION ON NET WORTH MAINTENANCE OF CAPITAL MARKET INTERMEDIARIES (“CMIs”)

IFSCA *vide* its circular dated September 05, 2024⁴, issued a clarification regarding the Net Worth requirements that are required to be maintained by CMIs.

IFSCA clarified that CMIs shall be required to always maintain the prescribed net worth, and any CMI failing to meet the required net worth shall not undertake any existing or new business activities in IFSC until their net worth is restored.

The circular is available on the official website of IFSCA and can be accessed at the following link:
[Maintenance of Net Worth by Capital Market Intermediaries](#)

5. IFSCA LAUNCHES SINGLE WINDOW IT SYSTEM (“SWIT SYSTEM”)

IFSCA *vide* its circular dated September 30, 2024⁵, introduced the SWIT System as a unified one-stop digital platform for streamlining the application process and facilitating approvals under various acts administered by IFSCA, in addition to the Special Economic Zones Act, 2005. The SWIT System brings together different regulators/authorities/government agencies on a single digital platform. The key features of the SWIT System include a common application form, integration via API with Special Economic Zone (SEZ) online system and obtaining SEZ approvals, real-time data validation of PAN, Director Identification Number (DIN) and Corporate Identification Number (CIN) details, integrated payment gateway and digital signature certificate module.

Vide the said circular, IFSCA has mandated that, with effect from October 1, 2024, all applicants (unless specifically exempted under the circular) shall exclusively submit or file their applications through the SWIT System for the following purposes:

- a. Obtaining a license, registration, or authorization from IFSCA, as applicable;
- b. Seeking approvals from SEZ authorities and registration with the GSTN; and
- c. Obtaining a No Objection Certificate (NOC) or requisite approval from the relevant regulatory authorities.

The SWIT portal can be accessed [here](#).

6. CIRCULARS UNDER IFSCA (ANTI MONEY LAUNDERING, COUNTER TERRORIST-FINANCING AND KNOW YOUR CUSTOMER) GUIDELINES, 2022

The IFSCA (Anti Money Laundering, Counter Terrorist-Financing and Know Your Customer) Guidelines, 2022 (“**IFSCA AML Guidelines**”), were notified by IFSCA vide notification No. IFSCA/2022-23/GN/GL001 dated October 28, 2022, prescribing the obligations of Regulated Entities operating within the IFSC in relation to the prevention of money laundering and terrorist financing. In continuation of the IFSCA AML Guidelines, IFSCA issued the following circulars during the financial year 2024–2025:

I. MODIFICATION TO IFSCA AML GUIDELINES

IFSCA *vide* its circular dated November 22, 2024⁶, introduced the following modifications under the IFSCA AML Guidelines pertaining to compliance requirements of the Regulated Entities in IFSC:

- (i) In addition to the obligations under International Agreements and Communications from International Agencies as set out in Clause 11.1 of the IFSCA AML Guidelines, Regulated Entities shall also be required to implement countermeasures when directed to do so by any international or intergovernmental organisation of which India is a member and whose directives have been accepted by the Central Government.
- (ii) Pursuant to Clause 12.2(e) of the IFSCA AML Guidelines, a Regulated Entity that is part of a Financial Group is required to provide its group-wide compliance, audit, and Anti Money Laundering (AML)/Counter-Terrorist Financing (CFT) functions of customer, account, and transaction information from its branches and subsidiaries, as necessary for the purposes of managing money laundering/ terrorist financing risks. In this regard, it has been clarified that such disclosures shall also include information and analysis of transactions or activities that appear unusual, where such analysis has been conducted, to the extent necessary for money laundering/ terrorist financing risk management. Conversely, branches and subsidiaries should also receive such information from the group-level functions where relevant and appropriate for effective risk mitigation.

The circular is available on the official website of IFSCA and can be accessed at the following link: [Modifications under the IFSCA \(Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer\) Guidelines, 2022](#)

II. MODALITIES FOR REGISTRATION ON FIU-IND FINNET 2.0 PORTAL

IFSCA vide circular dated March 14, 2024⁷, mandated that all Regulated Entities (except for AIFs of FMEs registered with IFSCA), operating in the IFSC must register on the FIU-IND FINGate 2.0 portal (“**FIU-IND Portal**”) for each line of business undertaken in the IFSC, to ensure compliance with the IFSCA AML Guidelines, the Prevention of Money-laundering Act, 2002, and the Prevention of Money-laundering (Maintenance of Records) Rules, 2005.

Subsequently, vide circular dated February 25, 2025⁸, IFSCA prescribed the timelines for such registration, requiring all Regulated Entities to complete their registration on the FIU-IND Portal prior to commencement of business.

⁶ IFSCA circular dated November 22, 2024, bearing no. F. No. IFSCA-DAC/8/2024-AMLCFT.

⁷ IFSCA circular dated March 14, 2024, bearing no. F. No. 886/IFSCA/FATF-C/Coordination/2023-24.

⁸ IFSCA circular dated February 25, 2025, bearing no. F. No. IFSCA/2/2025-AMLCFT/01.

In cases where immediate commencement of business is necessary, registration must be completed within 30 days from the date of commencement of business. Additionally, any addition or modification to the line of business of a Regulated Entity must be updated on the FIU-IND Portal within 30 days from the commencement of the new business activity.

It was further clarified that, in the event a Regulated Entity is unable to complete the registration or update the required information on the FIU-IND Portal due to reasons beyond its control, it must submit the requisite reports under the Prevention of Money Laundering Act, 2002, to FIU-IND via email, along with an explanation for the non-compliance.

Any failure to adhere to the aforementioned timelines shall be treated as a violation of the terms and conditions of the registration, recognition, license, or authorization granted by IFSCA.

The circular is available on the official website of IFSCA and can be accessed at the following link: [Registration on FIU-IND FINGate 2.0 portal for compliance with IFSCA \(Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer\) Guidelines, 2022](#)

7. COMPLAINT HANDLING AND GRIEVANCE REDRESSAL

IFSCA vide the circular dated December 02, 2024⁹, has issued a comprehensive framework for redressal of grievances and compliances applicable to all Regulated Entities in IFSC dealing with any consumer (except for Foreign Universities, Foreign Educational Institutions, Ancillary Service Providers, BATF Service Providers, Finance Companies / Finance Units engaged in aircraft leasing or ship leasing and global/regional corporate treasury centre in the IFSC) ("**Grievance Redressal Framework**"). The circular came into force from April 01, 2025¹⁰.

Key provisions of the Grievance Redressal Framework:

(a) *Designation of Complaint Redressal Officer ("**CRO**") and Complaint Redressal Appellate Officer ("**CRAO**")*

- An employee of the Regulated Entity shall be designated as a CRO who shall be responsible for handling complaints received from its consumers. In an event, CRO is or has been involved in the transaction forming the subject matter of the complaint, such complaint shall be handled by another officer designated by the Regulated Entity.

⁹ IFSCA circular dated December 02, 2024, bearing no. F. No. IFSCA-LPRA/3/2024-Legal and Regulatory Affairs.

¹⁰ IFSCA circular dated January 13, 2025, bearing no. F. No. IFSCA-LPRA/3/2024-Legal and Regulatory Affairs, wherein the date pertaining to the circular coming into force was revised from January 15, 2025, to April 01, 2025.

- A senior personnel shall be designated as CRAO, who shall be at the level of or one level below a KMP of the Regulated Entity, for handling appeals of consumers against the decision taken by the CRO of the Regulated Entity. In the case of a branch operating in the IFSC, the Regulated Entity may designate a CRAO from its parent entity, subject to the applicable regulatory framework under which the Regulated Entity is registered, authorized, or licensed by IFSCA.
- The compliance officer of a Regulated Entity shall ensure that handling and disposal of complaints by the Regulated Entity are in accordance with the regulatory requirements as specified by IFSCA.

(b) Policy Framework

- Taking into account the nature, scale, and complexity of its business, as well as its size and organizational structure, each Regulated Entity is required to adopt a grievance redressal policy, duly approved by its governing body or board of directors, as applicable. The policy must establish adequate mechanisms for the fair, transparent, and timely receipt and resolution of complaints (“**Grievance Redressal Policy**”).
- The Grievance Redressal Policy must clearly define what constitutes a ‘complaint,’ based on the nature of financial products and services offered by the Regulated Entity. It must also be prominently published on the website of the Regulated Entity or its group entity, along with the name and contact details of the CRO and CRAO.
- A Regulated Entity may choose to develop an online system for complaint handling depending upon the nature, scale and complexity of its business, along with its size and organizational structure.

(c) Procedure for resolving complaints of retail consumers

- For complaints involving retail consumers, the CRO shall assess the merits of the complaint, and, upon acceptance of such a complaint, the Regulated Entity must acknowledge such acceptance within 3 working days from the date of receipt. If the complaint is not accepted, the complainant must be informed of the reasons for non-acceptance within 5 working days.
- Complaints must be resolved or rejected within 15 days of acceptance and, in any event, no later than 30 days. In case of rejection, the reasons must be communicated to the complainant in writing.

(d) Appeal Mechanism

A complainant may file an appeal with the CRAO against the resolution and/or rejection of a complaint, within 21 days from receipt of the decision from the CRO. The CRAO shall dispose of the appeal within a period of 30 days.

(e) Complaint to IFSCA

In an event the complainant is not satisfied with the decision of the Regulated Entity and has exhausted the appellate mechanism, a complaint may be filed before the IFSCA through email to grievance-redressal@ifsc.gov.in within 21 days from the receipt of the decision from the Regulated Entity.

(f) Record Maintenance and Reporting

- The Regulated Entities must maintain detailed records of all complaints in electronic retrieval form, including *inter alia* complaints received and processed, all correspondences, information and documents examined by the Regulated Entity, outcome, reasons for rejection and timelines for processing of complaints.
- The records of complaints shall be maintained by the Regulated Entity for a period of at least 6 years or such other period as prescribed under the relevant regulations, circulars, handbooks and guidelines thereunder, as applicable to the Regulated Entity.
- The Regulated Entity shall file reports on the handling of complaints in the form and manner as specified by IFSCA.
- Regulated Entities must disclose an annual summary of complaint data, including all complaints received, resolved, rejected and pending during the year, either in the annual report (if required to be prepared under the relevant applicable regulations) or publicly on their website, as may be applicable.

The circular is available on the official website of IFSCA and can be accessed at the following link: [Complaint Handling and Grievance Redressal by Regulated Entities in the IFSC](#)

8. INFORMAL GUIDANCE SCHEME

- IFSCA *vide* circular dated December 02, 2024¹¹, introduced the International Financial Services Centres Authority (Informal Guidance) Scheme, 2024 (“**Informal Guidance Scheme**”), establishing a framework for seeking clarity and guidance on *inter-alia* proposed business activities and transactions falling within the regulatory ambit of IFSCA, and on legal issues arising under the statutes administered by IFSCA.
- The Informal Guidance Scheme which is in effect from January 1, 2025 allows (a) a person licensed/registered/recognized/authorised by the IFSCA; (b) a person intending to undertake a business transaction in relation to financial product(s) or financial service(s) regulated by the IFSCA; (c) a person desirous of setting up a unit in IFSC; and/or (d) such other person as may be specified/permitted by the IFSCA, to seek informal guidance in the form of a no-action letter (where the concerned department may specify whether it will recommend any action by IFSCA if a transaction/activity is undertaken) or interpretative letter (where the concerned department provides its interpretation of provisions within the act, rules, regulations, guidelines or circulars administered by IFSCA, including those previously issued by RBI, SEBI, IRDAI and PFRDA).
- The application seeking informal guidance is required to be made through the SWIT System (or via email to igdesk@ifsc.gov.in until the system is operational), accompanied by a fee of USD 1,000. The application shall be required to disclose all material facts, legal provisions, and their relevance to the proposed activity. The concerned department shall dispose of the application within a period of 30 days from receipt of the application (excluding the time taken by the applicant in responding to the information/clarifications sought by the department).
- The concerned department may reject applications that are general, hypothetical, lack direct interest, fail to cite applicable legal provisions and sufficient factual information, or where the concerned matter is already addressed, under investigation, or *sub-judice*.
- Any guidance provided under the Informal Guidance Scheme will be uploaded on the IFSCA’s website, with a provision for confidential treatment for 90 days upon request.
- Any guidance provided under the Informal Guidance Scheme will not be construed as a conclusive decision or order of IFSCA and will be non-appealable in nature. IFSCA will not be liable for losses incurred based on the guidance provided.

The circular is available on the official website of IFSCA and can be accessed at the following link: [IFSCA \(Informal Guidance\) Scheme, 2024](#)

¹¹ IFSCA circular dated December 02, 2024, bearing no. F.NO. IFSCA-LPRA/11/2024-Legal and Regulatory Affairs.

9. APPOINTMENT AND CHANGE IN KEY MANAGERIAL PERSONNEL (KMPs) BY AN FME

In furtherance to Regulation 7(9) of the IFSCA FM Regulations, IFSCA vide its circular dated February 20, 2025¹², prescribed the procedure for appointment and change of KMP by an FME operating in IFSC.

An intimation shall be filed with the IFSCA, for any proposal to appoint or change a KMP, in the format as prescribed under the said circular, along with a fee of USD 250. Any comments from the IFSCA, shall be communicated within 7 working days from the date of filing the aforesaid intimation, which must be taken into consideration by the FME before finalizing the appointment or change of KMP.

In the event of a vacancy in a KMP position, the FME is required to identify a suitable candidate, meeting the eligibility criteria as prescribed under the IFSCA FM Regulation, and intimate IFSCA of the same within 3 months from the date of the vacancy. The FME and person(s) in control of the FME shall hold the responsibility of ensuring adherence to the eligibility criteria for the KMPs as specified by the IFSCA. Further, a KMP position must not remain vacant for more than 6 months from the date such vacancy arises.

The circular is available on the official website of IFSCA and can be accessed at the following link: [Appointment and Change of Key Managerial Personnel by an FME](#)

10. CLARIFICATIONS IN RESPECT OF INTEREST ON LATE FEE PAYMENTS BY ENTITIES IN IFSC

IFSCA vide its circular dated February 26, 2025¹³, has issued clarifications and amendments to the interest mechanism applicable in case of delayed payment of fees or dues by entities undertaking or intending to undertake permissible activities in the IFSC. Vide the said circular, IFSCA clarified that the 15% simple interest per month payable under Schedule II of the IFSCA circular dated May 17, 2023, is required to be paid only on 20% of the outstanding fee or outstanding dues payable.

Further, with effect from March 1, 2025, the earlier late fee mechanism has been replaced by a simpler mechanism which provides that in an event of failure to pay outstanding dues/fees, in full (unpaid) or part (short-paid), within the specified time, a simple interest of 0.75% per month on the amount of fee remaining unpaid or short-paid, for every month of delay or part thereof shall be payable to IFSCA.

The circular is available on the official website of IFSCA and can be accessed at the following link: [Interest on late payment of fee by entities undertaking permissible activities in IFSC](#)

11. CYBER SECURITY AND CYBER RESILIENCE FRAMEWORK

IFSCA introduced Guidelines on Cyber Security and Cyber Resilience Framework for Regulated Entities operating in IFSCs (“**Cyber Security Guidelines**”) *vide* circular dated March 10, 2025¹⁴. The Cyber Security Guidelines came into force from April 1, 2025, and aims to establish a robust cybersecurity framework to protect financial entities from evolving cyber threats, thereby ensuring stability, resilience, and credibility of financial services within IFSC. The Cyber Security Guidelines applies to all entities licensed, recognized, registered, or authorized by IFSCA, with implementation based on proportionality considering the scale, complexity, nature of activity, interconnectedness, and cyber risks of the Regulated Entity.

The key components of the Cyber Security Guidelines are:

I. Governance

- The Regulated Entities shall have adequate governance mechanisms for cyber security management and shall have an “Oversight Body” involved in governance of the cyber risk management mechanism. The Oversight Body may include one or more of the following:
 - (i) Governing Board; or
 - (ii) Senior management personnel, including the Managing Director (MD), Chief Executive Officer (CEO), Chief Information Security Officer (CISO), Chief Technology Officer (CTO), Principal Officer, Compliance Officer; or
 - (iii) Committee(s) involving/ designated by any of the above for the purpose of technology or cyber risk management of the Regulated Entity
- A CISO shall be appointed or alternatively, a senior employee/ management personnel shall be designated (“**Designated Officer**”), to assess, identify and reduce cyber security risks, respond to incidents, establish appropriate standards and controls, and direct the establishment and implementation of processes and procedures as approved by the Oversight Body. The Designated Officer shall submit an undertaking that all the necessary systems/processes have been put in place, in compliance with the Cyber Security Guidelines, within 90 days of the end of each financial year, to the respective department/ division of IFSCA responsible for supervision of the Regulated Entity.

II. Cyber Security and Cyber Resilience Framework (“CSCRF”)

- A CSCRF shall be formulated by a Regulated Entity which shall, *inter alia*, aim to maintain and enhance its ability to anticipate, withstand, contain, and recover from cyber-attacks, including

¹⁴ IFSCA circular dated March 10, 2025, bearing no. IFSCA-CSD0MSC/13/2025-DCS.

third-party risks. The CSCRF shall define the Regulated Entity's cyber risk appetite and resilience objectives, establish the roles and responsibilities of the Oversight Body and the Designated Officer, and set out the technological requirements for effective cyber risk management.

- An Information Security Policy ("**IS Policy**") shall also be formulated as part of the CSCRF. The IS Policy shall establish principles for the identification of IT assets, encompassing both logical (such as data and software) and physical (such as hardware) components, and provide for their classification based on business criticality, data sensitivity, and the potential impact on other systems in the event of a compromise.
- The IS Policy shall clearly define the term "cyber incident." Regulated Entities shall develop and implement processes for the prevention, detection, analysis, and response to cyber incidents.
- Appropriate security controls shall be implemented in alignment with international best practices and established cyber security and cyber resilience standards, such as NIST, ISO 27000 series, etc., to mitigate the likelihood and impact of cyber-attacks.
- Access rights to IT assets and their supporting systems shall be managed on a 'need-to-know' basis, following the principle of 'least privilege' (i.e., prevent unjustified access to a large set of data) and principle of 'segregation of duties' (i.e., to prevent the allocation of combinations of access rights that may be used to circumvent controls). Additionally, Regulated Entities shall ensure robust physical security of IT assets through measures such as secure placement of critical data, and restricted access to data centers, server rooms, and other sensitive locations.
- The Regulated Entities shall conduct a Vulnerability Assessment and Penetration Testing, at least once a year, to detect vulnerabilities in the IT environment.

III. Third party risk management

Regulated Entities shall adopt a collaborative security approach with third-party vendors/external partners, conducting bi-annual risk-based reviews and assessments for all such third-party service providers for detecting vulnerabilities or compliance gaps.

IV. Communication and Awareness

Regulated Entities shall establish clear channels for reporting suspicious activities and shall provide regular cybersecurity training to employees, covering topics like phishing awareness, social engineering, password hygiene and incident reporting procedures.

V. Audit and Reporting

- An annual audit shall be conducted of the governance, systems and processes established by the Regulated Entities for managing their cyber risks by an auditor fulfilling the eligibility criteria as prescribed under the Cyber Security Guidelines. The auditor shall also certify if the security controls implemented by are aligned with the risks faced by the Regulated Entity. The report of the auditor shall be submitted to IFSCA within 90 days from the end of the financial year.
- Cyber incidents must be reported to the IFSCA within 6 hours of detection. Such reporting shall be followed by an interim report within 3 days and a root cause analysis report within 30 days. Regulated Entities must take mitigation measures for the same within 7 days.

VI. Exemption from Cyber Security Guidelines

The Regulated Entities in IFSC which (a) are operating in the form of a branch of an Indian or foreign entity, regulated by a financial sector regulator in its home jurisdiction; (b) are providing services to their group entities only e.g. Global In-House Centres (GICs); (c) have less than 10 employees and (d) are foreign universities, are exempted from the application of the Cyber Security Guidelines, for a period of 3 years from the date of the issuance of the Cyber Security Guidelines and subject to the conditions as specified thereunder.

The circular is available on the official website of IFSCA and can be accessed at the following link: [Guidelines on Cyber Security and Cyber Resilience for Regulated Entities in IFSCs](#)

FREQUENTLY ASKED QUESTIONS (“FAQs”)

12. FAQs ON IFSCA AML GUIDELINES

IFSCA released FAQs on the IFSCA AML Guidelines on June 11, 2024, providing a detailed overview of the following procedures:

- Applicability of IFSCA AML Guidelines
- Appointment of Designated Director and Principal Officer
- AML/CTF/KYC Policy
- FIU-IND Registration and obligations thereunder
- Customer Due Diligence
- Compliances for FME/ AIFs in IFSC
- Suspicious Transaction Report
- Countering Terrorist Financing

The FAQs are available on the official website of IFSCA and can be accessed at the following link: [FAQs on AML Guidelines](#)

13. SEZ COMPLIANCE FOR IFSC UNITS

The Office of the Administrator (IFSCA) released a detailed SEZ Compliance FAQs Booklet (v1.0, March 2025) (“**SEZ FAQs**”) on March 28, 2025. The SEZ FAQs aim to guide units operating in IFSC on procedural and regulatory requirements under the Special Economic Zones Act, 2005 and associated rules. The SEZ FAQs provide a detailed overview of the following procedures:

- Obtaining and maintaining a valid Letter of Approval (LOA);
- Executing and updating of Bond-cum-Letter of Undertaking (BLUT);
- Registration of the lease deed (within the relevant deadline);
- Ongoing compliances like filing of Monthly Performance Report (MPR), Service Export Reporting Form (SERF) and Annual Performance Report (APR); and
- Exit and renewing of LOA.

The FAQs are available on the official website of IFSCA and can be accessed at the following link: [SEZ Compliance FAQs Booklet](#)

CONSULTATION PAPER

14. CONSULTATION PAPER ON INTRODUCING THE SPECIAL PURPOSE VEHICLE (“SPV”) FRAMEWORK UNDER IFSCA (FUND MANAGEMENT) REGULATIONS, 2022

IFSCA, vide consultation paper dated January 09, 2025, invited public comments on the proposed framework for permitting the use of SPVs to facilitate co-investment by other investors alongside Venture Capital Schemes/Restricted Schemes (Non-Retail), or to enable such schemes to undertake leverage at the SPV level.

Key highlights of the proposed framework

- **SPV Structure:** FMEs registered with IFSCA can set up SPVs having the same constitution as prescribed under Regulation 17 of the IFSCA (Fund Management) Regulations 2022 and having an existing Controlling Scheme in IFSC. A Controlling Scheme shall have the same meaning as defined in Regulation 2(1)(h) of the IFSCA (Fund Management) Regulations 2022. At least 50% of the equity share capital, interest or capital commitment to the SPV must be held by the Controlling Scheme.
- **Filing of PPM:** In lieu of a PPM, a term sheet in the format as prescribed under the Consultation Paper shall be filed with IFSCA within 21 days of making an investment.
- **Eligible Investors:** The eligible investors to the SPV shall be the Controlling Scheme, current investors of the Controlling Scheme or their affiliates or other investors as may be notified by IFSCA.
- **Nature and term:** The SPV can be either open-ended or closed-ended as per the nature of its Controlling Scheme. The term of the SPV shall be co-terminus with that of its Controlling Scheme, and upon winding up of the Controlling Scheme, the SPV will also be wound up.
- **Permissible Investments:** SPVs will be formed to invest in a single portfolio company, provided that SPVs will be allowed to hold securities from multiple entities if such securities are owned by the SPV due to corporate actions or restructuring at the portfolio entity level like amalgamations, demergers, etc. In line with the investment strategy of the Controlling Scheme, an SPV can be used for making co-investment or undertaking leverage or both. Further, SPV may be used for ring-fencing investments of the Controlling Scheme.
- **Leverage:** Any leverage used by the SPV shall be within the limits as specified under the PPM of the Controlling Scheme. The Controlling Scheme and other shareholders, beneficiaries, members or partners of the SPV will be permitted to create an encumbrance over their interests in the SPV.

- **Disclosures**: In addition to the disclosure requirements as prescribed under IFSCA (Fund Management) Regulations 2022, investors of the Controlling Scheme shall be intimated about the SPV prior to filing the Term Sheet with IFSCA.
- **FME's Contribution**: The FME will not be required to contribute capital to the SPV.
- **Control**: The FME shall be the decision-making and controlling authority for the SPV.
- **Fees**: Fees for the SPV will be the same as for the controlling scheme.
- All other obligations as specified by the IFSCA (Fund Management) Regulations 2022 shall be applicable to the SPV.

While the consultation paper outlines a broad framework for the establishment of SPVs, the provisions governing their implementation may be revised to align with the newly introduced IFSCA (Fund Management) Regulations, 2025.

The Consultation Paper is available on the official website of IFSCA and can be accessed at the following link: [Consultation Paper on SPV Framework under IFSCA FM Regulations](#)

15. CONSULTATION PAPER ON REGULATORY APPROACH TOWARDS TOKENIZATION OF REAL-WORLD ASSETS

IFSCA released a consultation paper on February 26, 2025, on its proposed regulatory approach to tokenization of real-world assets (“**RWAs**”). The paper recognizes the growing adoption of distributed ledger technologies (“**DLT**”) in asset representation. Through the paper, IFSCA aims to formulate an appropriate legal and regulatory framework for tokenization of RWAs and has sought comments/ views from various market participants, academicians, domain experts and other public stakeholders in this regard.

The proposed regulatory approach towards tokenization of assets aims to:

- **Legally recognize digital tokens** that represent ownership or beneficial interest in RWAs.
- **Establish robust mechanisms** for issuance, trading, custody, and settlement of digital tokens to ensure market efficiency and safety.
- **Develop supporting market infrastructure** for the digital token ecosystem.
- **Identify and regulate key market activities**, applying proportionate, risk-based regulatory requirements on the entities involved.
- **Implement a comprehensive risk management framework**, focusing on AML/KYC, governance, technology, and cyber risks.

- **Ensure investor protection** through due diligence, disclosure obligations, and grievance redressal mechanisms.
- **Promote innovation and growth** through regulatory flexibility, self-regulation, and a disclosure-based regime.

IFSCA has structured its proposal around four thematic pillars, each addressing a distinct component of the tokenization value chain:

I. Definition and Nature of Digital Tokens

IFSCA has explored how digital tokens can be defined, classified, and regulated based on their underlying assets. In this regard, comments have been sought to evaluate:

- Identification of classes and characteristics of RWAs that influence their market acceptance, liquidity, and overall suitability for tokenization;
- Key legal and regulatory challenges that must be addressed prior to enabling the tokenization of RWAs;
- Roles, responsibilities, and obligations of third-party service providers involved in the custody, upkeep, and maintenance of RWAs underlying digital tokens;
- Legal structures and mechanisms that may be employed to ensure recognition and enforceability of changes in ownership or beneficial interest in the RWAs, pursuant to trades in the corresponding digital tokens;
- Investor safeguards and exit mechanisms to mitigate any adverse impact on the value of their holdings;
- Scope of rights and entitlements represented by digital tokens, including the extent to which such rights may include participation in decisions relating to RWA;
- Factors that may determine the tokenizability, tradability, and enforceability of rights, ensuring that such rights can be securely and reliably exercised through digital token infrastructure.

II. Mechanism for issuance, custody, trading, clearing, and settlement of digital tokens

IFSCA has explored the potential regulatory concerns and approaches pertaining to the issuance, custody and secondary market trading of digital tokens. In this regard, comments have been sought to evaluate:

- Scope of regulating the activity of tokenization of RWAs;
- Nature of relationship between the owner of RWAs and issuer of tokens;
- Provision and regulation of custody services for digital tokens;
- Nature of the market infrastructure for a digital asset vis-a-vis traditional securities;
- Regulatory requirements that need to be imposed on market infrastructure institutions for digital tokens;

- Types, functions and regulation of various market participants involved in a digital asset market;
- Categorization of market infrastructure into DLT based and non-DLT based categories and appropriate regulatory treatment of the same;
- Characteristics/ features of DLT, inherent risks and limitations of custody, automatic clearing settlement of trades in a DLT based market infrastructure;
- Structures for ensuring legal and regulatory certainty to transactions effected by smart contracts on DLT based market infrastructure;
- Characteristics and regulatory requirements for Distributed Ledgers.

III. Risk Management Framework

IFSCA has explored a comprehensive risk management approach for tokenized ecosystems to ensure orderly market development. In this regard, comments have been sought to evaluate:

- Key governance risks and appropriate regulatory framework to ensure good standards of corporate governance;
- Possible conflicts of interest and mitigants for various market participants in the digital token market;
- Key technology risks, particularly those arising from scalability, interoperability, and smart contract execution and appropriate regulatory framework to address the same;
- Key cybersecurity risks including public-key tracking, infrastructure vulnerabilities, and data privacy and appropriate regulatory framework to address the same;
- Key Money Laundering/ Terrorist Financing risks and appropriate regulatory framework to address the same.

IV. Catalysts for Ecosystem Development

IFSCA seeks to identify appropriate approaches to minimize compliance burdens, foster innovation, and enhance public trust to facilitate the accelerated development of a regulated digital token market. In this regard, comments have been sought to evaluate:

- (a) Key concerns relating to investor protection and investor education/awareness, with a view to ensuring informed participation in the digital token market;
- (b) Disclosure requirements to be prescribed for market infrastructure institutions and market participants, aimed at promoting transparency while avoiding undue regulatory overhead;
- (c) Due diligence standards to be imposed on market participants to ensure robust investor protection, informed decision-making, and market integrity;
- (d) Suitable avenues for grievance redressal;
- (e) Role and relevance of industry associations and self-regulatory bodies in developing best practices and uniform standards, such as Codes of Conduct, Ethics, Advertising, or

- Marketing, or whether such responsibilities should be undertaken directly by market infrastructure institutions and individual participants;
- (f) Additional regulatory measures or frameworks that may be introduced to reduce compliance costs and support innovation, without compromising investor confidence or systemic stability.

The deadline for submission of responses was March 19, 2025. However, based on industry input, IFSCA has extended the deadline for submission of responses to April 30, 2025.

The Consultation Paper is available on the official website of IFSCA and can be accessed at the following link: [Consultation Paper on Regulatory Approach towards Tokenization of Real-World Assets](#)

ANNUAL ROUND-UP FOR FY 2024 – 25 FOR KEY REGULATORY UPDATES IN GIFT-IFSC

The Financial Year 2024-25 has witnessed significant regulatory developments with respect to various Regulated Entities operating in the International Financial Services Centre (“IFSC”), including *inter-alia* Fund Management Entities (“FMEs”) and Alternative Investment Funds (“AIFs”).

At ICUL, we present a comprehensive recap of the key legal and regulatory developments introduced by the International Financial Services Centres Authority (“IFSCA”) over the past financial year.

REGULATIONS

1. INTRODUCTION OF IFSCA (FUND MANAGEMENT) REGULATIONS, 2025

One of the notable developments in the past financial year was the introduction of an amended regulatory framework under the IFSCA (Fund Management) Regulations, 2022. IFSCA notified the IFSCA (Fund Management) Regulations, 2025 (“**IFSCA FM Regulations**”) on February 19, 2025, with the objective of enhancing ease of doing business and facilitating broader market participation. The IFSCA FM Regulations introduce targeted reforms aimed at supporting fund managers across both retail and non-retail segments, simplifying compliance obligations, expanding the investor base, and reinforcing governance and regulatory oversight.

Key takeaways under the amended IFSCA FM Regulations are set out below:

I. Flexibility and Enhancement in the Appointment of Principal Officer and other Key Managerial Personnel (KMP)

- (a) For qualification of Principal Officer, certification from any organization or institution or association or stock exchange which is recognized/ accredited by IFSCA or a regulator in India or a foreign jurisdiction now stands removed. Further, the requirement of a professional qualification, a postgraduate degree or a diploma of at least 2 years has now been relaxed to at least 1 year.

New qualifications, such as a CFA or an FRM from the Global Association of Risk Professionals, have now been included. Further, in the case of a Principal Officer with at least 15 years of experience in activities related to fund management, including portfolio management, investment advisory or similar activities, the qualification has been lowered to a graduate level in any field.

- (b) Apart from the requirement to appoint a Principal Officer and Compliance Officer, any FME managing an AUM of at least USD 1 Billion (excluding fund of fund scheme) at the end of the

ABOUT US:

At IC RegFin Legal (formerly practicing under the brand IC Universal Legal / ICUL), our core philosophy revolves around helping our clients accomplish their business and strategic objectives. This philosophy is built upon a foundation of extensive legal and regulatory expertise, coupled with a profound understanding of the ever-evolving market and economy. With our deep domain knowledge of financial services, asset management / funds, regulatory ("FMAR") and encompassing legal-technical aspects, as well as our adeptness in handling complex transactions, we offer innovative and practical legal and regulatory solutions to empower clients in achieving their overall business and strategic goals efficiently. At IC RegFin Legal(formerly practicing under the brand IC Universal Legal / ICUL), we take pride in our dedicated team of highly skilled lawyers who form a part of the FAMR Practice Group. They form the backbone of our commitment to consistently deliver top-notch legal services to our esteemed clients. You may read more about us at www.regfinlegal.com and reach out to us at frp@regfinlegal.com.

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