



Aatma Capital
Nurturing Relationships



Investments in IFSC AIFs

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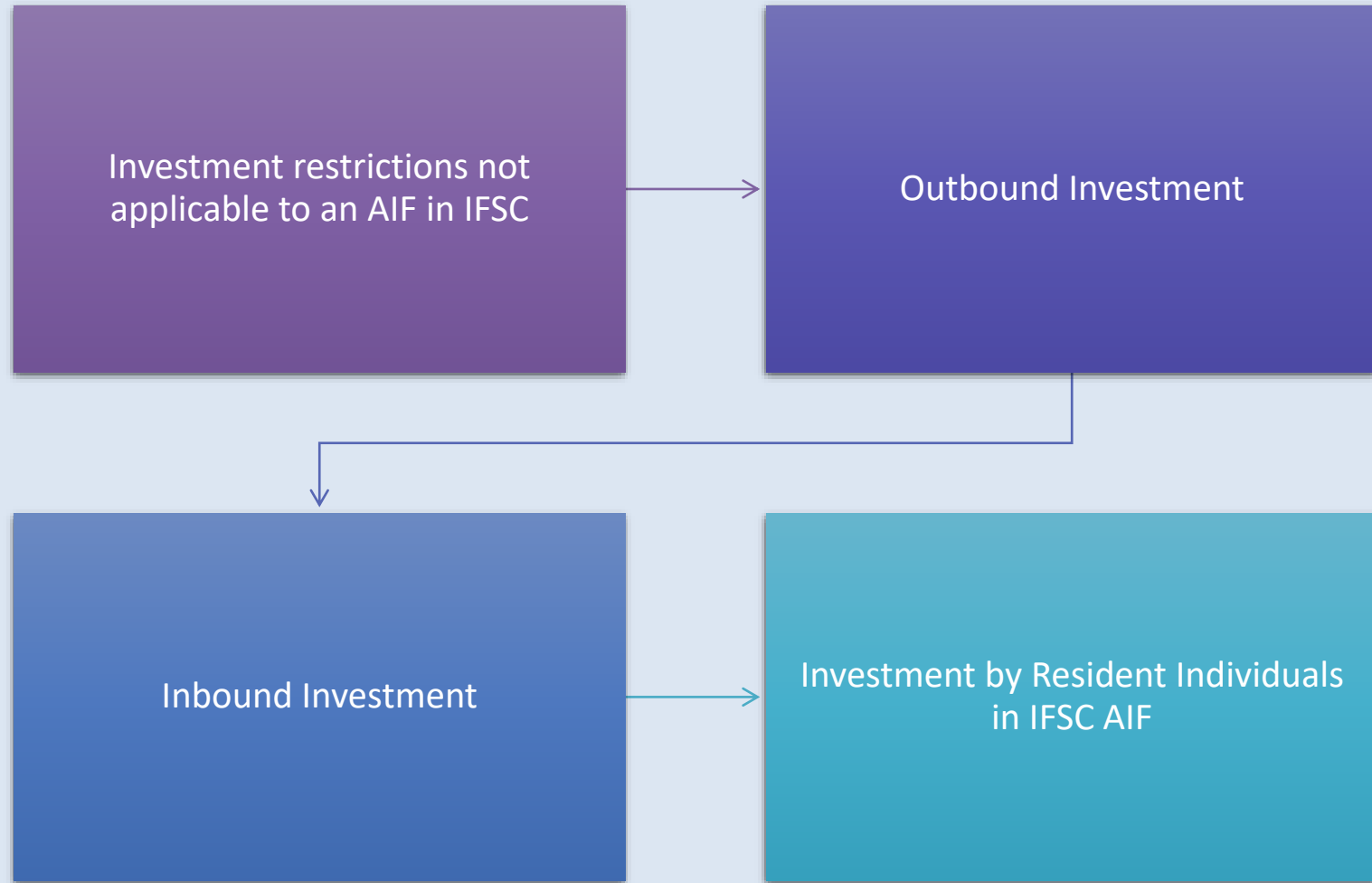


Iswariya BS
Subash

Legends Used

AIF	Alternative Investment Fund	IP	Indian Party
BU	Banking Unit	InvIT	Infrastructure Investment Trust
Cat.	Category	LRS	Liberalised Remittance Scheme
CIS	Collective Investment Scheme	MF	Mutual Funds
DDP	Designated Depository Participant	NRI	Non-Resident Indian
EFI	Eligible Foreign Investors	OCI	Overseas Citizen of India
FCA	Foreign Currency Account	ODI	Overseas Direct Investment
FEM (TRIFS) Reg.	Foreign Exchange Management (Transfer or Issue of any foreign security) Regulations	PPM	Private Placement Memorandum
FDI	Foreign Direct Investment	RBI	Reserve Bank of India
FPI	Foreign Portfolio Investment	REIT	Real Estate Investment Trust
FVCI	Foreign Venture Capital Investment	Reg.	Regulation
FY	Financial Year	RI	Resident Individual
IFSC	International Financial Service Centre	SEBI	Securities and Exchange Board of India
IFSCA	International Financial Service Centre Authority	VCF	Venture Capital Funds

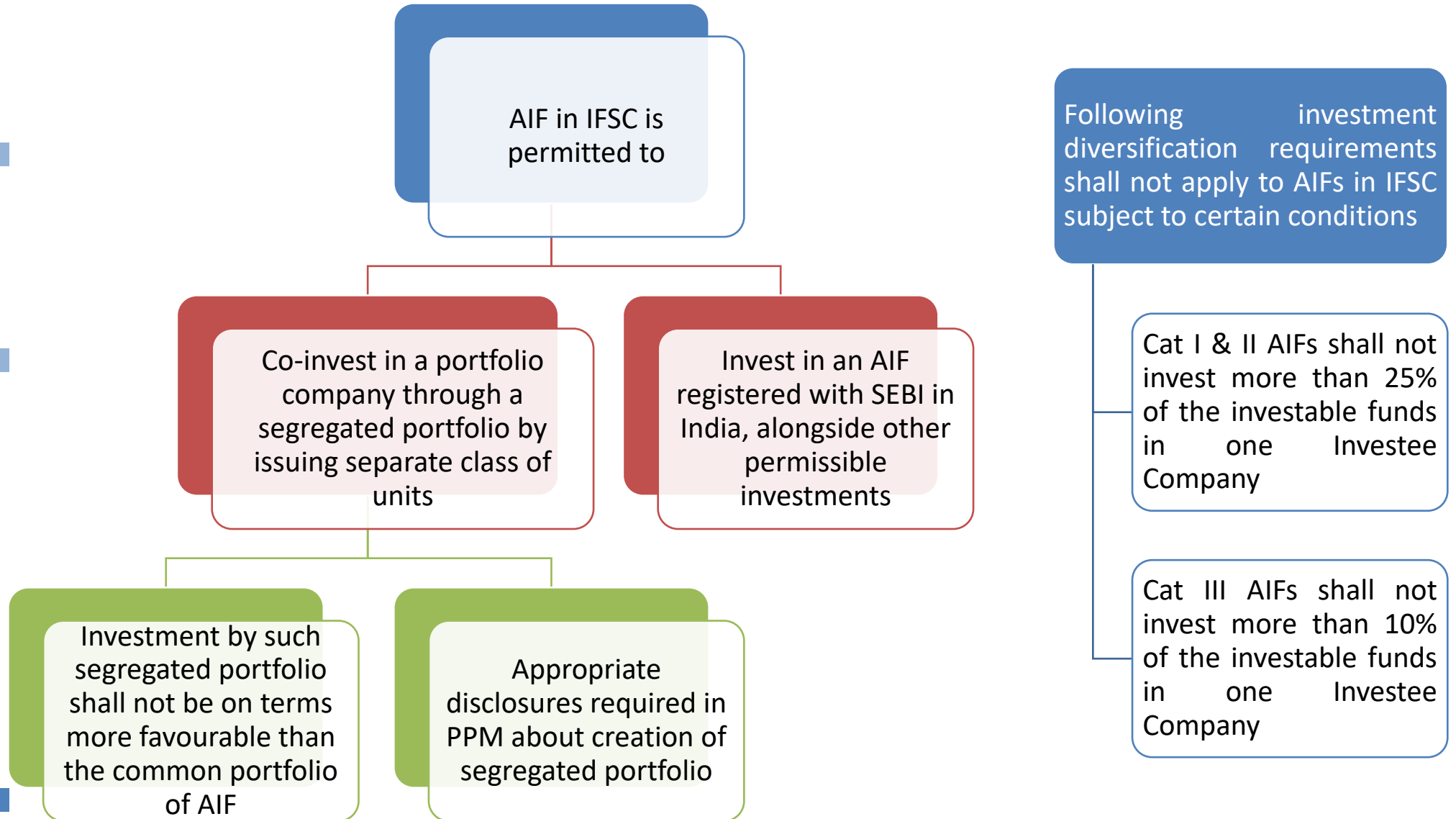
Presentation Schema



A decorative graphic on the left side of the slide consists of a grid of blue squares of varying shades, arranged in a pattern that tapers to the right, creating a sense of depth and movement.

Investment Restrictions not applicable to an AIF in IFSC

Investment Restrictions not applicable to AIF in IFSC



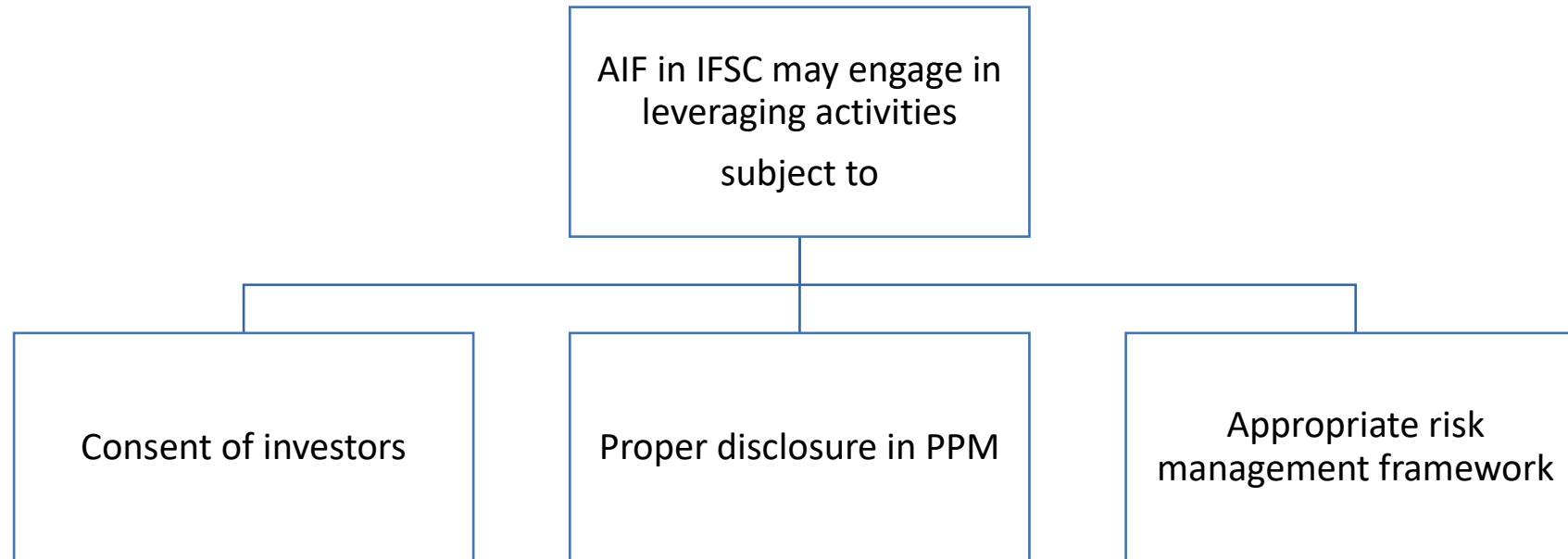
Leveraged Investments by AIF in IFSC

Cat-I AIF and Cat-II AIF are not permitted to engage in leverage except for meeting temporary funding requirements for not more than 30 days, on not more than 4 occasions in a year, to the extent of 10% of investable funds.

Cat-III AIF are permitted to engage in leverage subject to consent from investors and maximum limit not exceeding 2 times of the net asset value of AIF.

AIFs in IFSC are permitted to engage in leveraging activities subject to following conditions:

(IFSCA circular dated 9th Dec 2020)



Can AIF-II in IFSC Invest Predominantly in Listed Securities

As per AIF regulations, Category-II AIF shall invest primarily in unlisted investee companies or in units of other AIFs, as specified in PPM

What construes investment primarily in such unlisted securities has not been defined. Hence, we could assume it to be greater than 50% of the investable funds

While the single entity and single investment limits do not apply to an AIF in IFSC, IFSCA to clarify on the compliance with listed vs. unlisted securities ratio.

Therefore an AIF-II in IFSC shall predominantly invest in unlisted securities

Outbound Investment

Outbound Investment

AIFs in Mainland	AIFs in IFSC
AIFs may invest in equity and equity linked instruments only of off-shore venture capital undertakings*	AIFs in IFSC can invest in securities issued by companies belonging to foreign jurisdiction without any restriction
Overall limit for overseas Investment by AIF is subject to a maximum of USD 1500 million** (Combined limit of AIFs and VCFs registered with SEBI)	No limit on outbound investment
Allocation of investment limits would be done on 'first come- first serve' basis	Not applicable
Requires prior approval from SEBI	No approval required for outbound investment

***As per SEBI Circular dated 1st October, 2015- Offshore Venture Capital Undertakings** means a foreign company whose shares are not listed on any of the recognized stock exchange in India / abroad

****As per SEBI Circular dated 21st May, 2021-** There has been an increase in the overseas investment limit of an AIF registered with SEBI from USD 750 Million to USD 1,500 Million

Contribution to AIF in IFSC by Sponsor IP

RBI circular dated 12th May, 2021

- Any contribution from a Sponsor IP to an AIF set up in overseas jurisdiction / IFSC in India will be treated as ODI. IP as defined in 2(k) of FEM (TRIFS) Reg., 2004 (Regulations) can set up AIF in overseas jurisdictions, including IFSCs under automatic route in compliance with Reg. 7 of the Regulations**

**IP engaged in financial service sectors in India may invest in an entity outside India subject to Part I of the Regulations and the following:

IP has earned net profit during the preceding 3 FYs from financial services activities

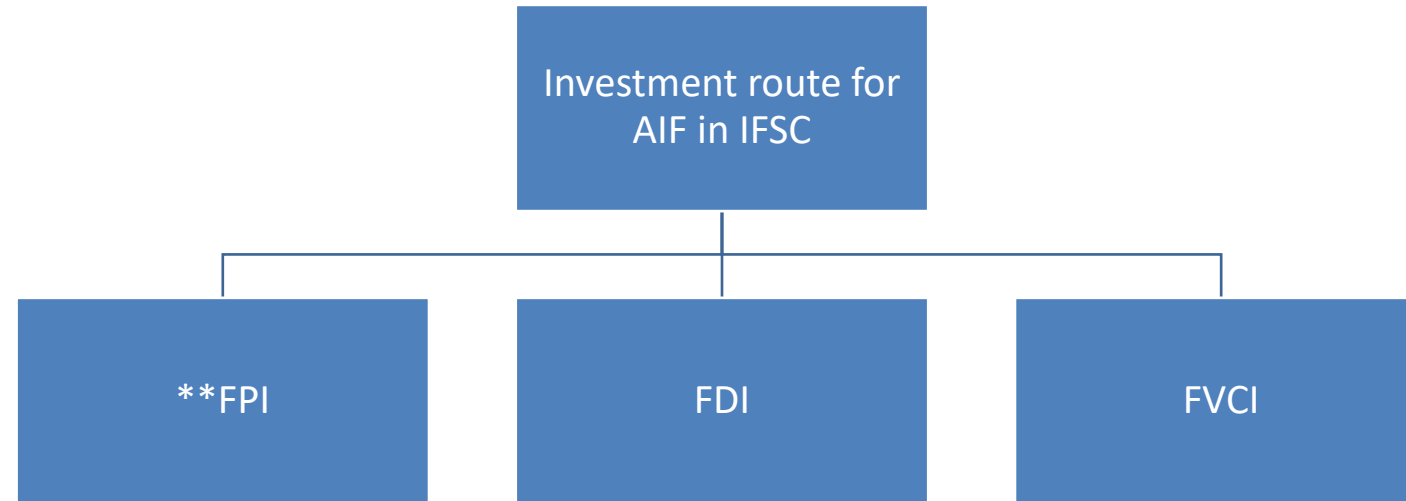
IP is registered with regulatory authority in India for conducting financial services activities

IP has obtained approval from regulatory authorities both in India & abroad for venturing into such financial sector activity

IP has fulfilled norms relating to capital adequacy as prescribed by regulatory authority in India

Inbound Investment

Available routes for investing in India



**As per SEBI Circular dated 23rd May, 2017, AIFs in IFSC were permitted to invest in India through FPI. But, as per its circular dated 26th November, 2018, AIFs in IFSCs are allowed to invest in India through FVCI / FDI route also in accordance with FDI policy.

Inbound investment by AIFs in India would be treated as domestic investment provided the manager and sponsor of the AIF are owned and controlled by resident Indian citizens.

Permissible investments under FPI route

Investments allowed under SEBI (FPI) Reg., 2019

Shares, debentures and warrants issued by a body corporate; listed / to be listed on a recognized stock exchange in India

Units of schemes launched by Mutual Funds under SEBI (MF) Reg., 1996

Units of schemes floated by Collective Investment Schemes under SEBI (CIS) Reg., 1999

Derivatives traded on a recognized stock exchange

Units of REITs, InvITs, Cat III AIFs

Indian Depository Receipts

Any other securities permitted by RBI for FPI to invest & instruments as specified by SEBI

Inbound investment via FPI Route with NRI / RI contribution

As per Operating Guidelines for FPIs, DDPs and EFIs read with SEBI (FPI) Reg., 2019

Where NRI / OCI / RI are constituents of the applicant-

- contribution of a single NRI / OCI / RI shall be < 25% in the corpus of the applicant (**individual threshold**)
- aggregate contribution shall be below 50% of total contribution in the corpus of the applicant (**aggregate threshold**)

Contribution by RIs is permitted, if made through LRS, approved by RBI, in global funds whose Indian exposure is < 50%

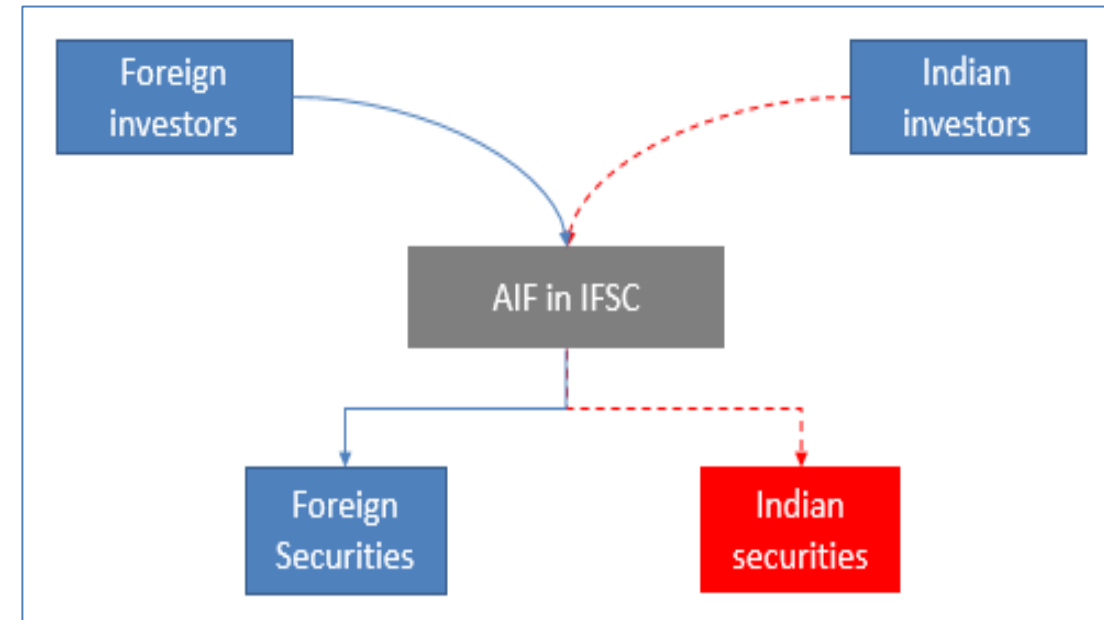
Round Tripping in case of Inbound Investment by AIF under FPI route

IFSC is an offshore jurisdiction for FEMA purposes and therefore money collected by AIF from Indian investors which is invested back into Indian entities might attract the provisions of round tripping

No clarifications from RBI or SEBI in this regard

Prior approval of RBI could be obtained while structuring such transactions

For this purpose, a global fund may be setup overseas for investing back into India provided the aggregate and individual threshold limits are not breached



-----> Round Tripping??

Can AIFs holding FPI License invest in unlisted securities?

As per SEBI Reg. person holding FPI license can invest only in the investments allowed under SEBI (FPI) Reg., 2019. Thus, it is not allowed to invest in unlisted securities

A divergent view prevails that FPI license is merely a route for investing in India and therefore a person holding FPI license is not restricted to invest in unlisted securities under FDI route

Clarification to be obtained from RBI before making such investment in unlisted securities.

Investment by Resident Individuals in IFSC AIF

Net worth criteria for RI for opening bank account for investing in securities

IFSCA Circular date 19th February, 2021

RIs are permitted to remit funds under LRS for investment in securities



RIs can open bank accounts in BUs in IFSC irrespective of their net worth, if such account is opened for investing in securities under LRS

Definition: Security / Foreign security shall mean

any security, in the form of shares, stocks, bonds, debentures or any other instrument denominated or expressed in foreign currency and includes securities expressed in foreign currency, but where redemption or any form of return such as interest or dividends is payable in INR (like Masala Bonds)

except those issued by entities/companies resident (outside IFSC) in India

Conditions for remittance to AIF in IFSCs by RI under LRS

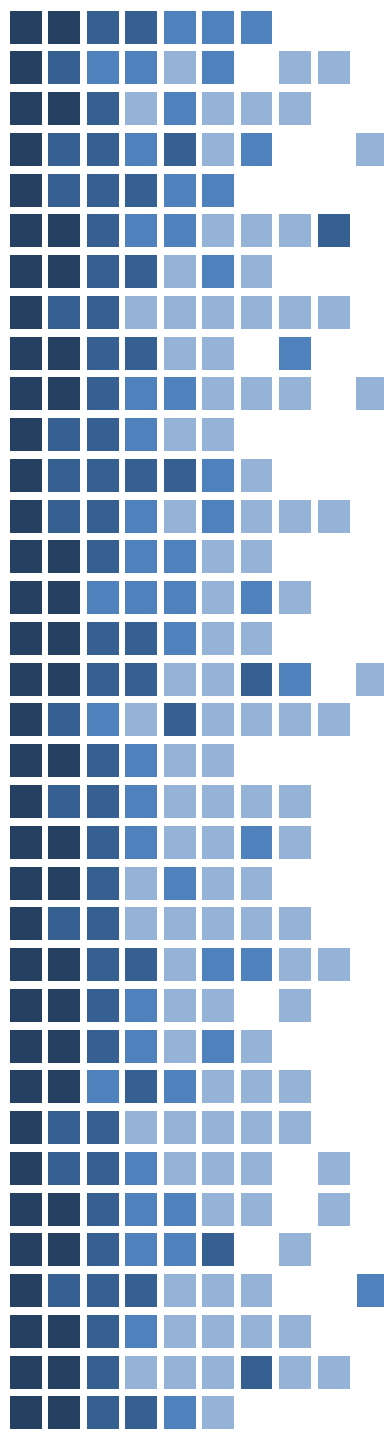
RBI Circular dated 16th February, 2021

Remittances shall be made only for investment in IFSCs in securities, other than securities issued by companies resident (outside IFSC) in India

RIs may open a non-interest bearing FCA in IFSCs for making permissible investments under LRS

RIs are not allowed to settle any domestic transactions with other residents through these FCAs held in IFSC

Any funds lying idle in the account for a period up to 15 days from the date of receipt into the account, shall be immediately repatriated to domestic INR account of the investor in India



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