

Government may allow flexible corporate structures for funds in Gujarat GIFT City

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Prime Minister Narendra Modi at the inauguration of the BSE INDIANX India International Exchange at Gift City Gandhinagar in this file photo. (PTI)

NEW DELHI: In order to incentivize investments and facilitate easier fund structure in the International Financial Services Centre (IFSC) of Gujarat GIFT City, the government is now looking to allow variable capital companies (VCC) to operate there.

A committee set up by the IFSC Authority has recommended the adoption of a VCC-like legal structure for the purpose of conducting fund management activity in IFSCs, according to a press statement by the ministry of finance.

The committee has noted that the legal framework governing fund management entities should allow effective segregation and ring-fencing of different pools of asset, the ability to issue different classes of shares, alterations to the funds' capital structure without regulatory approvals and the freedom to choose the appropriate accounting standards applicable to funds with different characteristics, along with the ability to wind up quickly.

Variable Capital Companies are corporate structures that allow a fund to set up multiple sub-funds under its umbrella as and when needed, and hence the capital of the fund (or company) keeps changing. They can be started by a single shareholder, and funds under a VCC can be ring-fenced - that is, assets and liabilities of each fund can remain segregated.

"AIFs (Alternate Investment Funds) in India are typically set up in the form of trusts. Thus, allowing alternative structures like VCC which was introduced by Singapore last year and which has already got a lot of attention of the global fund managers could be a game-changer as far as the future of the GIFT IFSC is concerned," says Dhaval Jariwala, a Mumbai-based chartered accountant.

Meanwhile, the market regulator -- Securities and Exchange Board of India -- has cleared another hurdle to incentivize investment in the Gujarat GIFT City. It has given its nod to Foreign Portfolio Investors (FPIs) to relocate their funds to GIFT City, which is considered an overseas jurisdiction for taxation purposes.

In a circular issued on Tuesday, the market regulator said that FPI (original fund or its wholly-owned special purpose vehicle) may seek approval of a one-time 'off-market' transfer of its securities to a 'resultant fund' in the GIFT City. The government has already made such transfers tax-free.

Sunil Gidwani, partner, Nangia Anderson LLP, says that the move may encourage India-specific funds who otherwise route their investments through Mauritius or Singapore to relocate to GIFT City.

However, he does not expect large global funds with a small exposure in India based out of places like Luxembourg or the Netherlands to relocate to the Indian IFSC, as they fear complex Indian laws and policy uncertainty.