RBI permitting India Inc to set up funds in GIFT City a big boost to IFSC

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Reserve Bank of India (Photo | PTI)

NEW DELHI: Indian corporates can now set up funds in the Gujarat GIFT City, which is considered an overseas tax jurisdiction, and the fund can be invested back into India without the same being treated as round-tripping. In a recent move, the Reserve Bank of India (RBI) has decided to treat investments by Indian sponsors of a fund in the GIFT City as overseas direct investment, paving the way for more Indian investors floating funds in GIFT City to invest in the country. Experts say, the move is significant as, in the absence of clarity, Indian investors would shy away from sponsoring a fund in the GIFT City.

According to Anandaday Misshra, founder and managing partner, AMLEGALS, the Foreign Exchange Management (Transfer or Issue of any foreign security) Regulations, 2004 does not permit investment by an Indian party into an overseas firm in the financial services sector under automatic route. But, the RBI move makes provision for setting up an alternative investment fund (AIF) in overseas jurisdictions,
including GIFT City, under the automatic route.

Gujarat Gift City is India's only international financial services centre (IFSC). IFSCs are treated as international tax jurisdictions as they offer several tax benefits and other compliance which are not otherwise available in the country. However, investments in the GIFT City have been slow to take off due to regulatory and other hurdles.

Dhaval Jariwala, a Mumbai-based chartered accountant, says that allowing an Indian party to act as a sponsor to fund a fund set up in GIFT City would boost investment in the IFSC. "This may be a much-needed guidance for those who were looking to set up an India dedicated AIF in GIFT, sponsor contribution to which by an Indian party was being viewed as a potential round tripping of funds," he adds.

To set up a fund in the IFSC, it is mandatory to have a sponsor and a manager of the fund. The Securities and Exchange Board of India also requires the manager or sponsor to have a continuing interest in the fund of not less than 2.5 per cent of the corpus or $750,000 whichever is lower, in the form of investment in the fund. However, some experts believe that the RBI circular still leaves some ambiguity which needs addressing.

"In the case of sponsor contributions to AIF in IFSC, the regulations specify only the minimum contribution and there is no cap on the maximum contribution. If the provision of investment through automatic route apply only for the minimum contribution or the entire contribution is not yet clear," Divakar Vijayasarthy, managing partner, DVS Advisors, notes.