GIFT City Express

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BREAKING THE SUBSTANCE BARRIER: IFSCA CLEARS THE PATH FOR THIRD PARTY FUND MANAGERS

- IFSCA approved a proposal to enable Third-Party Fund Management Services.
- Foreign and domestic fund managers allowed to manage IFSC funds without meeting substance requirement at GIFT IFSC

INTRODUCTION

At its 24th meeting held on June 24, 2025[1] ("**Authority Meeting**"), the International Financial Services Centres Authority ("**IFSCA**") approved a new framework for Third-Party Fund Management Services ("**TFMS Model**"). This framework commonly known in the industry as the "platform play" is intended to be implemented at Gujarat International Finance Tec-City, Gujarat, India ("**GIFT IFSC**"). It forms part of IFSCA's ongoing efforts to create a regulatory environment that aligns with global standards.[2] The proposed regulatory framework aims to enable overseas and domestic third-party fund managers ("**External Fund Managers**") to access India's GIFT IFSC fund ecosystem without setting up a physical presence in GIFT IFSC or being registered with IFSCA, thereby enhancing India's competitiveness as a cross-border fund management hub.

BACKGROUND

TFMS Model is an arrangement which allows External Fund Managers to launch and operate a fund in a foreign jurisdiction by partnering with an existing licensed platform manager in that jurisdiction, without setting up their own fund structure in that jurisdiction. The licenses platform manager handles regulatory approvals, compliance, and operations, while the External Fund Manager focuses on investment strategy and investor engagement.

TFMS Model in other Jurisdictions?

Several leading fund jurisdictions such as Singapore, Mauritius, and Luxembourg, have embraced the TFMS Model, offering regulatory frameworks that allow External Fund Managers to launch funds efficiently through licensed local fund platforms. Generally, the External Fund Manager can partner with a locally regulated fund manager to launch and operate a fund without establishing a separate licensed presence. These local platform managers assume responsibility for regulatory authorization, governance, risk management, and compliance, while the External Fund Manager retains control over investment strategy and investor relationships. Common to all three jurisdictions is the availability of flexible fund vehicles such as Variable Capital Companies (VCCs), umbrella structures, and limited partnerships that accommodate both open- and closed-ended strategies. Further, investor protection and Anti-Money Laundering / Countering the Financing of Terrorism compliance are embedded through requirements for licensed fund managers, fit-and-proper criteria for managers, and ongoing regulatory oversight. The TFMS Model in these jurisdictions enables External Fund Managers to efficiently access regional or global investor markets without the time and cost associated with becoming fully licensed, making them attractive hubs for cross-border fund launches.

INDIA'S APPROACH: GIFT IFSC AS A TFMS MODEL ENABLER

Building on global trends, the IFSCA has recently approved the notification of a regulatory framework within the GIFT IFSC to facilitate third-party fund management through fund platforms.

Regulatory Framework

Under the extant IFSCA (Fund Management) Regulations, 2025 ("**FM Regulations**"), Fund Management Entities ("**FME**") are required to maintain local infrastructure and personnel based out of GIFT IFSC, in order to manage funds registered with IFSCA. Specifically, both domestic and foreign fund managers are permitted to launch funds in the GIFT IFSC provided that the fund manager meets the substance requirements under the FM Regulations by incorporating an FME in the GIFT IFSC, hiring requisite staff and ensuring that the proposal on the portfolio composition of the fund is initiated by a person based in the FME's GIFT IFSC office ("**Substance Requirements**").

On August 17, 2024, IFSCA issued a consultation paper proposing a regulatory framework to operationalize TFMS Model ("**Consultation Paper**").[3] The Consultation Paper sets out key proposals to enable Registered Fund Management Entity in GIFT IFSC ("**Registered FME**") to launch and manage Restricted Scheme (ie. non-retail funds) on behalf of External Fund Managers without requiring such managers to meet the Substance Requirement. Following the public consultation process, IFSCA, approved amendments to the FM Regulations to operationalize TFMS Model within GIFT IFSC on June 24, 2025.

Under TFMS Model approved by IFSCA, an External Fund Manager may partner with a Registered FME to launch

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and manage a Restricted Scheme under the FM regulations. In this arrangement, the External Fund Manager is responsible for sourcing investors and devising the investment strategy, while the Registered FME, being registered with IFSCA, assumes full regulatory and supervisory responsibility for the fund, including compliance, governance, risk management, administration, reporting obligations and ensuring adequate supervision of all fiduciaries involved. Importantly, the External Fund Manager is not intended to fulfill the Substance Requirements,[4] thereby significantly reducing its operational and regulatory burden. While the Consultation Paper permitted any FME to offer TFMS Model , the IFSCA's final position, as reflected in the meeting minutes, restricts it to only Registered FMEs under the Regulations.

Moreover, not all FMEs are automatically permitted to offer TFMS Model. A Registered FME seeking to act as a platform must obtain specific authorization from IFSCA for providing such service. To strengthen financial credibility, such Registered FMEs are also required to maintain an additional net worth of USD 500,000, a requirement introduced in the Authority Meeting, departing from the earlier consultation paper, which had not proposed any specific capital threshold.

The framework approved in the Authority Meeting caps the corpus of each fund at USD 50 million. It is important to note that the consultation paper proposed a lower threshold of USD 10 million, beyond which the External Fund Manager would be required to establish its own FME to directly manage the fund. Each fund under the TFMS Model must have a dedicated Principal Officer, ensuring independent governance and regulatory accountability at the fund level.[5] TPMS arrangements must be clearly disclosed in the offer documents, including the nature of services, roles of involved parties, potential conflicts of interest, and fund specific strategy disclosures in the PPM.[6] The Registered FME is also required to implement a comprehensive risk management framework and conduct regular internal audits to ensure adherence to regulatory standards and internal controls.[7] Each fund must maintain operational independence from other strategies managed under the platform to prevent conflicts of interest and ensure clear fiduciary accountability.[8] A robust mechanism for investor grievance redressal must also be in place to ensure timely and effective resolution of complaints.[9]

ANALYSIS

TFMS Model presents several advantages from both a regulatory and commercial perspective. One of the most significant benefits is the lower entry barrier it offers to fund managers, particularly emerging managers, foreign GPs, and potentially even family offices. By enabling External Fund Managers to manage funds without the need to fulfill Substance Requirements or obtain a separate fund management registration in the GIFT IFSC, the TFMS Model effectively removes the traditional Substance Requirement that has often acted as a barrier to entry in GIFT IFSC.

The TFMS Model approved in the Authority Meeting seems to largely align with the framework for third party fund management platforms globally; however, we will need to wait for the final set of amendments to the FM Regulations. Until the final regulations are released, some key concerns remain:

Fund Level Cap of USD 50 million

The Authority Meeting prescribes a cap of USD 50 million total corpus for each fund launched under TFMS Model. In most international fund jurisdictions fund level thresholds of this kind are not imposed, and investor Sprotection is typically ensured through disclosure, governance, and compliance frameworks rather than rigid monetary limits.

By imposing an artificial ceiling on fund size, the framework approved in the Authority Meeting risks limiting the commercial viability and investor appeal of these platforms, particularly for fund managers targeting institutional or cross-border capital. Moreover, while one of the objectives of the TFMS Model is to allow fund managers to test GIFT IFSC as a credible jurisdiction, both in terms of investor confidence and operational comfort, such a low cap may deter precisely those participants the regime seeks to attract.

Accordingly, while the cap seems to have been introduced to limit risk associated with larger funds, such cap may ultimately undermine the TFMS Model's adoption.

Additional Net Worth Requirement

Additionally, a Registered FME offering TFMS is required to maintain an additional net worth of USD 500,000. If the requirement applies per fund launched by such Registered FME, it would be an unduly burdensome obligation that could undermine the viability of the TFMS Model.

Skin in the Game

Further, the FM Regulations currently require the FME (or its associate) to have 'skin in the game' by investing in each fund it launches. It is not yet clear whether this obligation will apply to funds launched under TFMS Model as well. If it does, an important question arises: who is expected to contribute this investment, the Registered FME, which has no control over the investment strategy, or the External Fund Manager, who actually manages the portfolio? Clarity on this point will be critical for assessing the commercial feasibility of TFMS Model.

Clearly Defined Eligibility Criteria for External Fund Managers

The Authority Meeting state that there will be clearly defined eligibility criteria for External Fund Managers. In Luxembourg, delegation of functions is permitted only to entities that are qualified and capable of undertaking the delegated functions.[10] It remains to be seen how the amended FM Regulations will define these eligibility requirements.

Flexibility in structuring the commercial terms

Further, while the introduction of TFMS Model is a welcomed development, the long-term success of the platform model will depend significantly on the flexibility FMEs have in structuring their commercial arrangements with External Fund Managers. Key terms such as fee-sharing, carried interest, delegation of operational functions, and branding rights will need to be negotiated on a case-by-case basis, and the amendments to the FM Regulations must allow sufficient room for commercial innovation.

Uncertainty Around Standalone TFMS Model

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The Consultation Paper explains TFMS Model where FMEs manage both their own funds and funds for external clients. However, under this approach, an FME cannot act only as a platform for External Fund Managers. It is still required to launch at least one fund of its own. We will need to wait and see if the final FM Regulations allow FMEs to operate purely as fund-hosting platforms without managing their own fund.

Regulatory and Reputation Risks for FMEs

This TFMS Model creates two key risks for the Registered FME. First, it bears full regulatory liability and supervisory responsibility for the fund, even though day-to-day investment decisions are taken by the External Fund Manager. Second, it assumes reputational risk, as investors may associate the fund's performance, especially in cases where returns are poor, with the FME, even in the absence of any real involvement in portfolio decisions.

To help mitigate these risks and provide comfort to FMEs, the Authority Meeting have indicated that the amended FM Regulations will introduce strong risk management requirements, mandatory internal audit processes, and enhanced disclosure obligations. Nonetheless to manage these risks, it is critical that the Registered FME has strong comfort with the External Fund Manager, not just in terms of experience but also investment strategy of the External Fund Manager.

That's why it's essential that both the agreement between the FME and External Fund Manager, and the FM Regulations clearly spell the responsibilities of each party. Ideally, the ability of the FME to delegate its investment management functions to the External Fund Manager should be codified in the final regulations to ensure consistency and legal certainty.

Conclusion: A step in the right direction

Overall, the high level framework approved in the Authority Meeting represents a forward-looking evolution of the GIFT City fund management regime. It not only broadens the utility of Registered FMEs but also creates a viable onshore alternative to offshore fund-hosting structures. By formalizing a regime that allows global asset managers to "plug and play" through GIFT IFSC without establishing local presence, IFSCA has taken a meaningful step towards positioning the jurisdiction as a credible platform for cross-border fund structuring and management. However, the full scope and effectiveness of the platform model will ultimately depend on the final provisions of the amended FM Regulations, which will provide the necessary clarity and regulatory visibility going forward.

Authors

- Akash Shirore, Dhairya Jain and Radhika Parikh

You can direct your queries or comments to the relevant member.

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[1]https://ifsca.gov.in/Legal/Index?MId=nMTs9Q2JJYU=

[2]International Financial Services Centres Authority, Authority Meeting Press Release https://ifsca.gov.in/Legal/Index?MId=nMTs9Q2JJYU=

[3]International Financial Services Centres Authority, Consultation Paper On Review Of IFSCA (Fund Management) Regulations, 2022. https://ifsca.gov.in/CommonDirect/GetFileView?id=6b779629d8b45e05fb13e830ae5f41d7&fileName=consultation-paper-on-review-of-ifsca-fund-management-regulations-2022_publish17082024112122.pdf&TitleName=Report%20and%20Publication

[4]Regulations 7, 9 of IFSCA (Fund Management) Regulations, 2025.

[5]Authority Meetings Para 2.4 iii

[6]Consultation Paper, Section B.4

[7]Consultation Paper, Section B.7

[8]Consultation Paper, Section B.7(d)

[9]Consultation Paper, Section B.7(c)

[10]Article 13, https://eur-lex.europa.eu/eli/dir/2009/65/oj/eng

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