The Alternative Investment Fund Ecosystem in GIFT City:

Legal Framework, Challenges, Accounting Dimensions, and the Outbound Investment Opportunity

CA. Dipen Shah
Member of the Institute

Gujarat International Finance Tec-City, popularly known as GIFT City, has quickly become India's most important international financial centre. Located near Ahmedabad, it has been designed to compete with established global hubs such as Singapore, Dubai and Luxembourg.

1. Introduction

1.1 Gujarat International Finance Tec-City, popularly known as GIFT City, has quickly become India's most important international financial centre. Located near Ahmedabad, it has been designed to compete with established global hubs such as Singapore, Dubai and Luxembourg. Within this ecosystem, Alternative Investment Funds, or AIFs, have emerged as one of the most active and strategically important financial products.

1.2 AIFs are privately pooled investment vehicles that collect money from sophisticated investors and invest in areas such as private equity, venture capital, real estate, hedge strategies, distressed assets and other alternative opportunities. In GIFT City, these funds are regulated under a unified framework administered by the International Financial Services Centres Authority, or IFSCA. The focus is not merely on individual schemes, but on the fund manager and the overall governance framework.

1.3 By late 2025, GIFT-IFSC had more than 300 registered funds with cumulative commitments exceeding USD 26 billion. This growth shows that the jurisdiction has moved beyond its initial experimental phase and is now being viewed as a serious fund domicile. This article explains the legal framework for AIFs in GIFT City, the key challenges faced by the ecosystem, important accounting considerations, and the growing opportunity for outbound investments through GIFT City structures.

2. Legal and Regulatory Framework

2.1 The foundation of the AIF framework in GIFT City is the IFSCA (Fund Management) Regulations, 2025. These regulations came into force on 19 February 2025 and replaced the earlier 2022 framework. The new regulations mark an important shift from a fund-centric approach to a manager-centric approach. In simple terms, the regulator now focuses more on the Fund Management Entity, or FME, rather than treating every scheme as a separate regulatory starting point.

2.2 Once an FME is registered with IFSCA, it can launch multiple schemes under one umbrella registration. These may include venture capital schemes, restricted non-retail schemes and retail schemes. This structure reduces repeated compliance requirements and makes the process more efficient, while still maintaining regulatory oversight.

2.3 The 2025 Regulations also introduced several practical improvements. Appointment of Key Managerial Personnel no longer requires prior approval from IFSCA; an intimation is generally sufficient. This removes a procedural delay that fund managers previously faced. At the same time, larger FMEs managing more than USD 1 billion in assets are required to appoint an additional KMP within six months, ensuring stronger governance for larger platforms.

2.4 The regulations have also broadened the eligibility criteria for KMPs by recognising experience in consulting, advisory and corporate finance. A certification-based route has also been introduced to address the shortage of specialised talent. Further, investment flexibility has improved by allowing bank deposits and overnight schemes for cash and treasury management, bringing GIFT City funds closer to global market practice.

2.5 One of the most notable developments is the Third-Party Fund Management Services framework, introduced in July 2025. This allows registered FMEs in GIFT City to manage schemes on behalf of global asset managers that are regulated in their home jurisdictions but do not want to set up full operations in GIFT City. This platform model is similar to structures used in Luxembourg and the Cayman Islands and can help international managers access Indian and Asian markets more efficiently.

2.6 In December 2025, IFSCA approved further relaxations to address operational concerns. These included a one-time three-month window for certain schemes whose Private Placement Memoranda had expired, and a 24-month migration window for FMEs required to appoint an IFSC-based custodian. These changes show that the regulator is actively responding to industry feedback while continuing to strengthen the overall framework.

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3. Categories and Structural Advantages

3.1 AIFs in GIFT-IFSC broadly follow the familiar three-category structure. Category I includes funds focused on venture capital, start-ups, SMEs and infrastructure. Category II covers private equity, debt and other funds that do not use complex leverage strategies. Category III includes funds that follow more complex trading strategies, including leverage, and has seen strong growth because it suits hedge fund and cross-border trading strategies.

3.2 GIFT City AIFs offer several advantages over onshore Indian AIFs. Domestic AIFs face

restrictions on overseas investment and non-resident participation, whereas GIFT-IFSC AIFs can generally be structured in foreign currency and can invest globally with greater flexibility. This reduces foreign exchange friction and makes the structure more attractive for investors seeking international exposure.

3.3 Minimum investment thresholds have also been rationalised over time. The standard minimum commitment for AIFs has been reduced to USD 75,000 from the earlier USD 150,000, while retail-facing schemes have separate lower thresholds. These measures are intended to make the fund platform more accessible while still preserving investor protection standards.

4. Key Challenges Facing the Ecosystem

4.1 Although the regulatory progress has been impressive, the AIF ecosystem in GIFT City still faces important challenges. The first challenge is regulatory change itself. While most changes are positive and investor-friendly, frequent amendments require fund managers to regularly update compliance systems, Private Placement Memoranda, internal policies and investor disclosures.

4.2 The second challenge is talent availability. Expertise in IFSC fund administration, compliance, valuation and cross-border tax structuring is still developing in India. Skilled professionals are available, but the talent pool remains smaller than in mature financial centres. Operating costs can also be higher because of relocation, housing and lifestyle factors in a still-developing financial city.

4.3 The third challenge is the depth of the service-provider ecosystem. Custodians, fund administrators, specialised legal advisors, valuation experts and dispute resolution infrastructure are growing, but they are not yet as mature as those in Singapore, Hong Kong or Luxembourg. This gap is gradually narrowing as more service providers establish or expand operations in GIFT City.

4.4 The fourth challenge is taxation, particularly for outbound investment structures. While the regulatory route for outbound investment is relatively clear, India does not yet have a dedicated outbound tax regime for such funds. This uncertainty affects fund structuring, investor returns and the competitiveness of GIFT City when compared with established global fund jurisdictions.

4.5 Another emerging concern is the use of Category III AIFs by ultra-high-net-worth family offices as vehicles for concentrated overseas investments. IFSCA has indicated that AIFs should operate as genuinely pooled investment vehicles and should not become private investment arms of single families. Until the dedicated Family Investment Fund framework receives full operational clarity, this area is likely to remain under regulatory scrutiny.

5. Accounting Aspects

5.1 From an accounting and reporting perspective, GIFT City AIFs require careful attention because many of them operate in foreign currency and invest across jurisdictions. Net Asset Value computation is now closely linked to independent valuation of portfolio assets. This is particularly important where funds hold unlisted, illiquid or difficult-to-value securities.

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5.2 Open-ended schemes have specific accounting implications during their ramp-up phase. Until the minimum corpus threshold is achieved, they are restricted to investing in low-risk and liquid instruments. Investment in unlisted securities is permitted only after the required threshold is met. This sequencing affects portfolio classification, disclosure and valuation reporting.

5.3 Tax treatment also influences accounting. Category I and Category II AIFs generally follow a pass-through model for certain types of income, meaning that capital gains, interest and dividend income are taxed in the hands of investors, while business income is taxed at the fund level. Category III AIFs are treated differently, with income generally taxed at the fund level. This distinction affects tax provisioning, investor reporting and distribution planning.

5.4 Fund administrators must also maintain strong documentation, including valuation records, investor-level allocation statements, compliance policies, distribution records and audit trails. Where the fund invests overseas, withholding taxes, treaty claims, repatriation timelines, currency movements and hedging costs must be tracked carefully. For US-connected investors, additional reporting considerations such as PFIC classification, FATCA and FBAR may also become relevant.

6. Usefulness for Outbound Investments

6.1 One of the most important uses of GIFT City AIFs is outbound investment. These funds allow Indian resident capital to access global opportunities through a regulated structure. Under India's overseas investment framework, resident entities face several restrictions when investing directly outside India. GIFT-IFSC, however, is treated as a separate jurisdiction for foreign exchange purposes, allowing an IFSC AIF to invest globally with greater flexibility.

6.2 Resident individuals can participate in such structures through the Liberalised Remittance Scheme, subject to the applicable annual limit of USD 250,000. This creates a regulated route for Indian investors to access international equities, private markets, infrastructure, thematic funds and other global strategies without directly opening and managing separate offshore investment accounts.

6.3 GIFT City outbound AIFs are also attractive when compared with domestic international mutual funds, which remain subject to an industry-wide overseas investment limit. When such limits are reached, domestic mutual funds may stop accepting fresh investments. GIFT-based outbound AIFs do not face the same cap and can deploy their corpus into foreign securities in a more flexible manner.

6.4 The biggest limitation, however, is the absence of a dedicated tax-neutral outbound investment regime. In some cases, income arising from frequent portfolio churning may create a higher tax burden for investors than comparable structures in jurisdictions such as Singapore. IFSCA has therefore recommended a clearer regime under which income would be taxed mainly when distributed to investors. If such a framework is introduced, it could significantly improve GIFT City's competitiveness as a preferred outbound fund domicile.

7. Conclusion

7.1 The AIF ecosystem in GIFT City has developed rapidly since the original fund management framework was introduced in 2022. The 2025 regulatory overhaul is an important milestone because it makes the framework more practical, globally comparable and manager-focused. The manager-centric model, greater investment flexibility, third-party fund management platform and rationalised investment thresholds have all strengthened GIFT City's position.

7.2 At the same time, the ecosystem must still address important gaps. Talent availability, service-provider depth, family office structuring concerns and, most importantly, the lack of a dedicated outbound tax regime will influence how quickly GIFT City can compete with centres such as Singapore and Hong Kong.

7.3 For fund managers, investors and accounting professionals, GIFT City offers a powerful opportunity but also requires careful regulatory, tax and accounting planning. As the framework continues to evolve, staying updated with IFSCA notifications, FEMA rules and tax developments will be essential for making informed decisions.

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