



**Insights on innovation,  
challenges and structures  
in GIFT City**



# A joint event organised by IQ-EQ and Nishith Desai Associates

GIFT City, India's premier International Financial Services Centre (IFSC), has become a sought-after jurisdiction as India strives towards its financial aspirations, but it presents both challenges and opportunities as a financial ecosystem.

In a special event hosted by IQ-EQ and Nishith Desai Associates, our exclusive gathering of alternative funds industry leaders discussed the key innovations, strategies and structures being utilised in the GIFT IFSC. Through a combination of knowledge sharing, open dialogue, wish lists and interesting data, particular attention was paid to the needs of key ecosystem players operating primarily within the fund management space.

GIFT City's milestones were celebrated during an insightful fireside chat between **Aditya Sarda, Deputy General Manager of the International Financial Services Centres Authority (IFSCA)**, and **Dr Nishith Desai, Founder of Nishith Desai Associates**, as well as an enlightening panel discussion with industry leaders. Speakers emphasised the IFSC's robust infrastructure and regulatory reforms, which have catalysed a surge in interest from global financial players. High-profile entities, including the top alternative investment funds in India, now anchor their operations here, showcasing GIFT City's emergence as a global financial hub.



**Dr Nishith Desai**, Founder of Nishith Desai Associates



**Aditya Sarda**, Deputy General Manager of the International Financial Services Centres Authority (IFSCA)

## Fireside chat: Growth and evolution of fund management in GIFT IFSC

The conversation between Aditya Sarda and Dr Nishith Desai delved into GIFT IFSC's rapid growth, regulatory framework and strategic vision.

Discussion centred on the regulatory architecture of the IFSCA, which focuses on registering fund management entities (FMEs) rather than individual funds, bringing it in line with global jurisdictions while allowing significant flexibility and a wide range of fund management activities under a single registration.

GIFT IFSC stands out for its approach towards business and willingness to enact change to meet the requirements of the industry. The discussion covered several interesting events happening within the IFSC, such as:

- GIFT IFSC transitioning from non-retail to retail fund opportunities, enabled by recent Union Budget clarifications on the tax regime for retail schemes and exchange-traded funds (ETFs), thereby facilitating FMEs to diversify and devise investment strategies that appeal to the masses
- Allowing 100% contributions from Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs), a distinction granted by the Securities and Exchange Board of India (SEBI), attracting foreign investors to base their fund management activities in GIFT City
- IFSCA enforcing strict compliance measures, including minimum net-worth requirements, onsite inspections and surprise audits to ensure operational integrity and adherence to substance requirements
- Regular engagement with market participants through events and feedback sessions leading to regulatory improvements, promoting ease of doing business, investor protection, and flexibility for FMEs

In the competitive landscape of international financial centres (IFCs), GIFT City is certainly making its mark. Differentiated by its proximity to India's domestic markets, lower operational costs and regulatory stability, GIFT City is fast becoming another prime destination for businesses.



## Panel discussion: insights on the future of GIFT City and fund management

A panel of expert speakers discussed their unique perspectives on GIFT City's transformative journey, offering nuanced insights into the city's regulatory advances, talent pool development, and its strategic positioning as a globally competitive IFSC.

**Dr Nishith Desai** shared insights including his early recommendations and discussions with the Indian Government for the establishment of an IFSC in India (Andaman and Nicobar were initially recommended), to future considerations for regulators, investors and fund managers globally.

*“India is a great place for experimentation: big market tests and low cost of failure,” he observed. Dr Desai also addressed the challenges around attracting top-tier talent, particularly NRIs, stating, “Talent is something a bit difficult to get. However, by resolving micro-level issues like ex-residency provisions, we can make India a better place for professionals.”*



**Aarthi Ramakrishnan, Head of Strategy at 360 One Asset**, pointed to GIFT City's impressive growth and explained that the regulator has been proactive in examining and evaluating a variety of new investment structures – e.g. Variable Capital Companies (VCCs) in the Indian context. VCCs help simplify portfolio management by consolidating diverse investments within a single structure, thus reducing complexity in income tax disclosures for investors.

*“GIFT City has a significant advantage in outbound allocations, but certain requirements, like the US\$5,000,000 first-close mandate, create hurdles,” she said. “For those already established in jurisdictions like Singapore, incremental costs in GIFT City are significant. Proposals to lower these costs would make GIFT a more attractive option.”*



**Sridhar Nagarajan, Regional CEO of Asia, Middle East and Africa at IQ-EQ**, explained that in Singapore, family offices extensively use the VCC model. These offices are often managed by former fund managers and operate similarly to traditional investment funds. GIFT City has the potential to replicate this model, leveraging its regulatory framework to cater to the increasing demand for family office solutions in India.



**Atul Muchhala, IQ-EQ's Managing Director for India**, when discussing other global jurisdictions, pointed out that each ecosystem is in varying stages of evolution, making a fair global comparison challenging.

*“Other jurisdictions have evolved over decades whereas India is in a discovery phase,”* he opined.

He emphasised the collective responsibility of regulators, general partners (GPs) and service providers in driving growth. *“Collaborative efforts will bring elements present in other jurisdictions to GIFT City, enhancing its competitiveness.”*



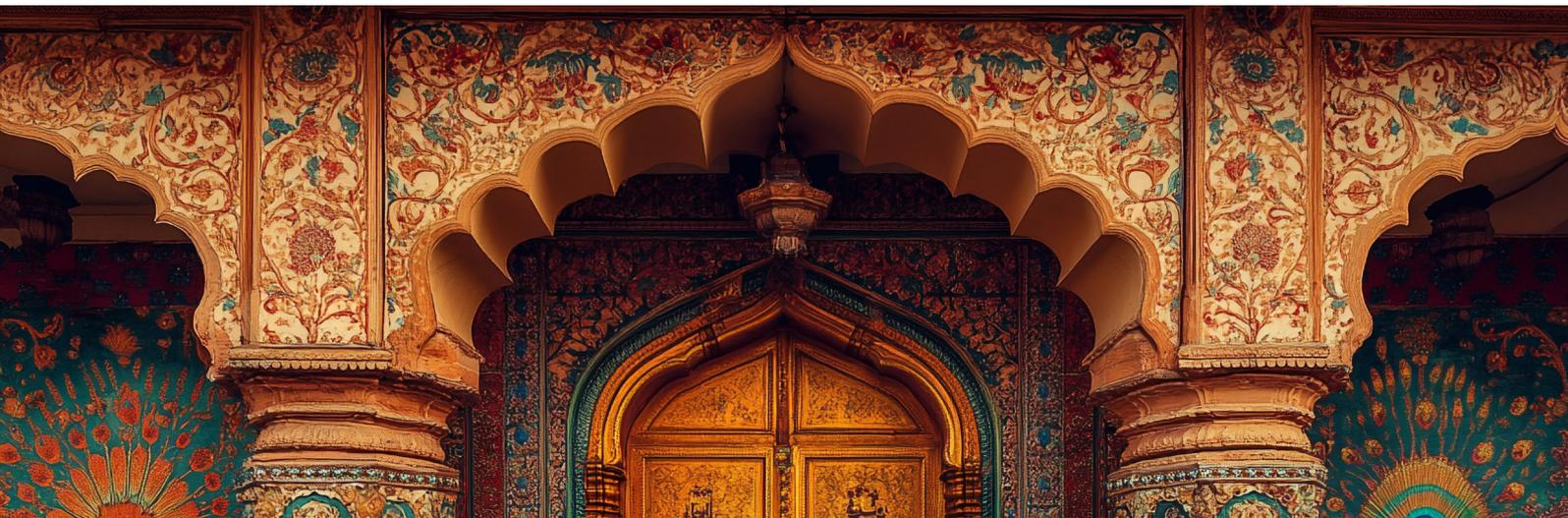
**Sudhir S., Principal Officer of Aditya Birla Sun Life's GIFT IFSC branch**, shared how they have created India's first outbound fund of funds, and detailed issues related to tax collected at source and licensing requirements for FMEs.

*“We have mobilised about US\$90 million in our ESG-themed, India-dedicated fund and emerging markets fund of funds from GIFT IFSC. We have also launched a fund of funds investing into a mutual fund scheme from GIFT IFSC.”* he said.

He also praised IFSCA's flexibility, stating, *“IFSCA is accommodating and open to finding solutions for fund managers' hurdles.”*



**Parul Jain, Head of International Tax and Investment Funds at Nishith Desai Associates**, mentioned the challenges faced by FMEs, particularly new setups, and discussed net worth compliance requirements.





# Overview of GIFT City's global potential

GIFT City has built the foundations for a competitive ecosystem, with ongoing efforts to address the smaller, micro-level challenges that could make a difference. The city's role in fostering innovation and its growing importance in the global capital market was noted, with suggestions made for speeding up advancements to maintain competitiveness.

## Navigating regulatory frameworks and FEMA issues

- One of the issues raised concerned the ambiguity in the Foreign Exchange Management Act (FEMA) drafting and the inability to appeal under the law
- These regulatory challenges must be tackled to help fund managers efficiently navigate the legal environment

## Challenges and opportunities in fund management

- Reducing the minimum requirement for investment in GIFT City funds to US\$3 million could create more opportunities for fund managers and attract a wider range of investors
- The complexity of Category 3 Alternative Investment Fund (AIF) taxation, particularly regarding capital gains, presents an operational challenge, especially when dealing with open-ended funds
- However, even as setting up a trust in a Special Economic Zone (SEZ) can add costs, GIFT City remains



## Cost considerations for new and existing setups

- The panellists suggested that if GIFT City were to further enhance its affordability, it could attract more businesses looking to set up in India with lighter overheads

## Exploring new investment strategies

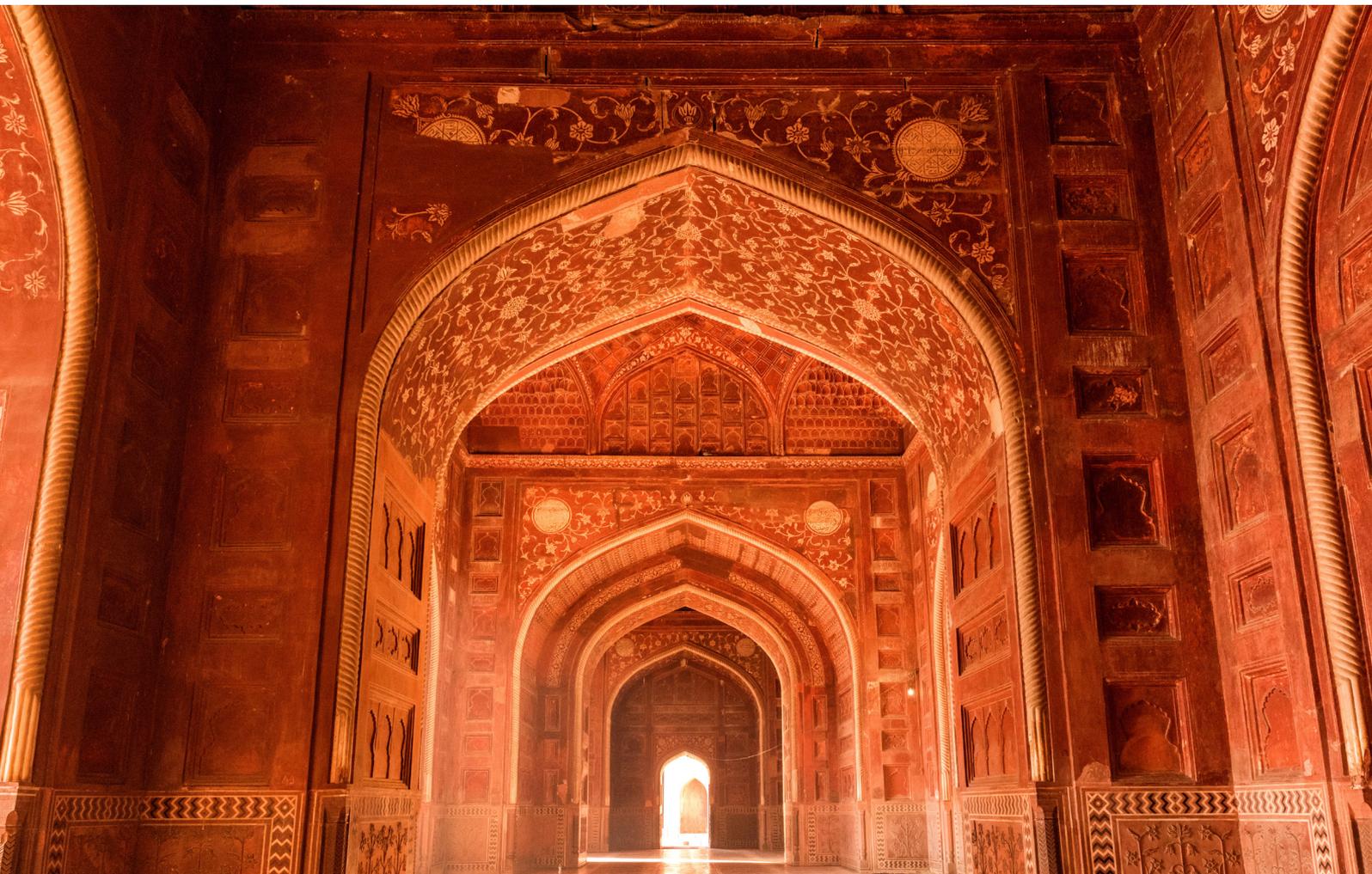
- Emerging investment opportunities in India include private credit and structured credit, as well as the development of funds that blend mutual fund frameworks with alternative investment strategies
- Despite apparent simplicity, fund-of-funds structures have inherent complexities that require regulatory attention to establish a more consistent and transparent approach

- GIFT City's role in fostering investments into real assets like ports and aircraft leasing was highlighted, alongside the idea that IFSCA could offer targeted incentives for funds focused on such sectors



## Final thoughts: evolving ecosystem and adaptation

In conclusion, the panellists acknowledged that, while GIFT City is still in the early stages of development, it has already demonstrated its potential to transform India's financial landscape. With over US\$11 billion in commitments raised and 150+ funds registered, GIFT City is, undoubtedly, charting an impressive trajectory as a preferred hub for investors and asset managers. Our event underscored GIFT City's strides towards becoming a world-class financial hub, fostering innovation, collaboration and global integration.



## About IQ-EQ

IQ-EQ, a leading global investor services group, plays a vital role in supporting AIFs domiciled in GIFT IFSC. With a presence across Mumbai, Gandhinagar, NCR, and Hyderabad, we deliver a comprehensive suite of services, including fund administration, regulatory compliance, and tax assistance. Leveraging world-class infrastructure and domain expertise, we ensure seamless operations for fund managers navigating the dynamic GIFT City ecosystem and remain committed to initiatives that promote knowledge-sharing and innovation.

## Key contact

To find out how we can support your business in India, please contact:



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