



## **CIRCULAR**

F. No. 333/IFSCA/FIF/2022-23

March 01, 2023

To,

**All Fund Management Entities (FMEs) in International Financial Services Centres (IFSCs)  
All Family Investment Funds in IFSCs**

Dear Sir / Madam,

### **Sub: Clarifications in relation to Family Investment Funds**

1. Reference is drawn to the International Financial Services Centres Authority (Fund Management) Regulations, 2022 (hereinafter referred to as the “Regulations”), notified in the official Gazette on April 19, 2022.
2. In order to remove certain difficulties and doubts with respect to Family Investment Funds (as provided under Part C of Chapter VI of the Regulations), which by their very nature represent the interests of a single family; the Authority, in exercise of the powers conferred by Section 12 and 13 of the International Financial Services Centres Authority Act, 2019, read with regulation 146 of the Regulations, hereby issues the following clarifications:
  - a. “single family” as defined in clause (jj) under sub-regulation (1) of regulation (2) shall also include entities such as sole proprietorship firm, partnership firm, company, limited liability partnership, trust or a body corporate, in which an individual or a group of individuals of a single family exercises control and directly or indirectly hold substantial economic interest.

For the purpose of this clause, “substantial economic interest” shall mean at least 90% economic interest, as demonstrated by the Family Investment Funds (FIF) in an appropriate manner to the satisfaction of the Authority which may, *inter alia*, include:

- i. percentage of shareholding in case of a company with share capital; or right to exercise control in case of a company without share capital;
  - ii. percentage share of profits in case of partnership firm and limited liability partnership;
  - iii. percentage of beneficial interest specified in trust deed in case of a determinate trust; or pro-rata share in the trust property in case of an indeterminate trust; or
  - iv. any other manner as may be demonstrated to the satisfaction of the Authority.
- b. A FIF shall not seek money from individuals or entities outside of the single family. However, a FIF may share economic interest with its employees, directors, FME or other persons providing services to the FIF, as per its internal policy to reward the persons providing services to the FIF or to align the interest of such persons with those of the FIF. In this regard, wherever required, the FIF may accept contributions from the aforementioned persons for the limited purpose of granting economic interest to them, which in no case shall exceed an aggregate of twenty percent (20%) of FIF’s profits.
- c. A FIF may set-up additional investment vehicles subject to prior approval of the Authority and payment of fee as applicable to a FIF. Such additional vehicles, in the form of companies, limited liability partnerships, trusts or any other form as may be specified by the Authority, shall also be considered as part of the FIF for the purpose of meeting the requirements specified in the Regulations.
- d. In cases where persons outside of single family also hold economic interest in the entity of a single family up to the permissible limit, such persons shall be informed of the risks of investment in the FIF and an exit may be offered to such persons who may not wish to continue in such entity, in the following manner:
- i. Such an exit may be offered by any person or group of persons from the single family who already holds interest in the entity.
  - ii. The price for acquisition of such interest should not be less than the price determined by an independent third-party service provider such as a fund administrator or custodian registered with the Authority, a valuer registered

with IBBI or such other person as may be specified by the Authority. Such service provider shall take into account the following factors:

- a) the highest price paid by any person for acquiring any interest in the entity during the last twelve months;
  - b) the fair price of the entity, to be determined after taking into account valuation parameters including return on net worth, book value, earning per share, price earning multiple vis-à-vis the industry average, and such other parameters as are customary for valuation of such entities.
- iii. The service provider shall also provide a valuation report giving justification for such valuation.
- e. Before the FIF commences investment activities, all individuals of a single family who contribute to the FIF directly or indirectly, shall give an undertaking to the Principal Officer, to the effect that they understand the risks, costs and benefits of investing in the FIF and that the usual investor protection measures such as disclosures, regulatory inspection and supervision, etc., may not be available to the same extent to the FIF as they are to other schemes in IFSC.

A copy of this Circular is available on the website of International Financial Services Centres Authority at [www.ifsc.gov.in](http://www.ifsc.gov.in).

Yours faithfully

Sd/-

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