

CO-INVESTMENT IN IFSC: OPENING A NEW AVENUE THROUGH THE SPECIAL SCHEME STRUCTURE

Co-investment in International Financial Services Commission (IFSC) in India, is essentially the ability of an existing scheme (together, 'Existing Scheme'), being a venture-capital or restricted scheme to set up a special vehicle (often called a Special Purpose Vehicle (SPV) or "Special Scheme") to invest alongside the main scheme, thereby enabling a form of deal-specific investment by selected investors and raise additional capital alongside the main fund.

A. Background:

For promoting the ease of doing business and in order to facilitate the growth of alternative investment industry in the IFSC, the creation of a Special Purpose Vehicle ('SPV') or Special Scheme under the Existing Scheme was operationalized, to enable investors to co-invest in the underlying securities along with the scheme, with or without leverage.

The IFSCA first released a [consultation paper dated January 9, 2025](#) referencing the Special Scheme framework inviting public comments, and thereafter published [the circular on 'Framework to facilitate Co-investment by Venture Capital Scheme and Restricted Scheme' dated May 21, 2025](#).

B. Salient Features of Special Scheme:

PARTICULARS	SPECIAL SCHEME
Form	Company / LLP / Trust
Who Can Launch Special Scheme?	FME having either an operational Venture Capital Scheme or Restricted Scheme or both.
Classification Of Scheme	It will have the same classification as Category I, II, or III Alternative Investment Fund (AIF), corresponding to that of the Existing Scheme
Permissible Investments	Only in a single portfolio company. However, it shall be permitted to hold securities of more than one entity if such securities are issued as a result of one or more corporate actions or restructurings at the portfolio company level, including but not limited to amalgamation, demerger, slump.
Nature Of Scheme	The nature of the Special Scheme should correspond to the nature of the Existing Scheme
Minimum Holding Requirement	Existing Scheme shall hold at least 25% of the equity share capital, interest, or capital contribution in the Special Scheme
Tenure Of Scheme	The tenure of the Special Scheme should be co-terminus with the tenure of the Existing Scheme, unless liquidated earlier.

	In the event of the liquidation of the Existing Scheme, the Special Scheme should also be liquidated.
Leverage	The leverage undertaken by the Special Scheme should be within the overall leverage limits specified in PPM of the Existing Scheme.
Encumbrance	Existing Scheme and investors of the Special Scheme are permitted to create encumbrance, over their ownership interests in the Special Scheme, in favour of a lender to the Special Scheme.
Contribution By FME	No compulsion. FME, in its sole discretion, may choose to contribute in the Special Scheme.
Investor Related Compliances	
Disclosure To Investors	<ul style="list-style-type: none"> The investors of the Existing Scheme shall be duly informed of the establishment of the Special scheme prior to seeking capital contribution. Term Sheet shall be provided to the investors and shall contain the disclosures as specified under the FM Regulations
Onboarding Of Investors	<ul style="list-style-type: none"> <u>For existing investors</u>: No separate KYC may be undertaken by the FME to invest in the Special Scheme. <u>In case of any new investors</u>: in the Special Scheme, the FME shall conduct the KYC in accordance with the IFSCA (AML-CTF&KYC) Guidelines, 2022.
Regulatory Compliances	
Filing Of Term Sheet	Within 45 days from the date of investment, a term sheet containing minimum disclosures as specified in Annexure A of the circular dated May 21, 2025 shall be filed with the IFSCA.
SEZ Approval	Each Special Scheme shall obtain the relevant Special Economic Zone (SEZ) approval under the SEZ Act, 2005
Reporting To IFSCA	Activities of the Special Scheme may be consolidated with the reporting of the Existing Scheme for the purpose of reporting

C. Conclusion:

IFSCA's co-investment framework introduces a flexible mechanism for fund managers to structure deal-specific participation through Special Schemes within GIFT City. It aligns India's international fund regime with global standards while preserving robust regulatory safeguards. This development reinforces GIFT City's position as an emerging hub for sophisticated alternative investment structures.

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