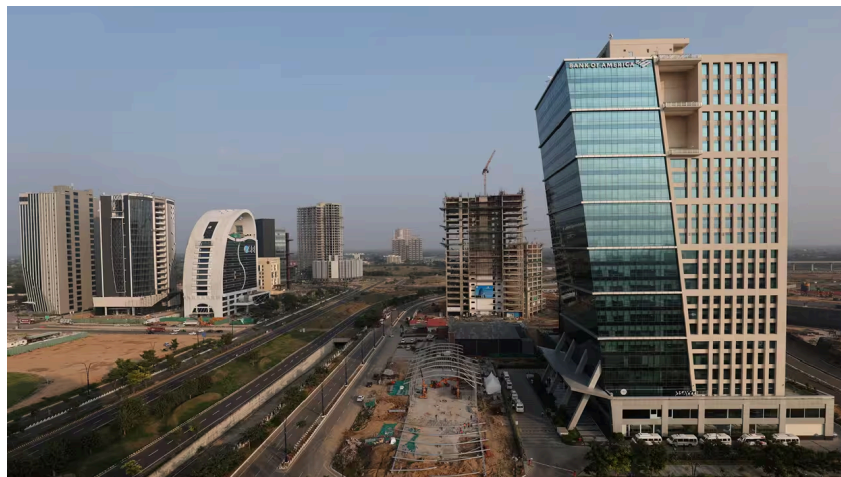


India moves to launch VCC (variable capital company) regime in GIFT City, aiming to rival Singapore fund structures

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MC EXCLUSIVE India moves to launch VCC regime in GIFT City, aiming to rival Singapore fund structures

India's finance ministry proposes a legal framework for Variable Capital Companies (VCCs) in GIFT City, aiming to attract global investment funds by offering a familiar, segregated structure.



GIFT City

- Finance Ministry proposes VCC legal framework for GIFT City
- VCCs host multiple funds with separated assets under one structure
- Move seeks global capital, rivalry with Singapore, UK

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India's finance ministry has proposed a dedicated legal framework for Variable Capital Companies (VCCs) in GIFT City. This is a long-awaited move that has been under discussion for the past five years, aimed at making GIFT City more attractive to private equity, venture capital and other pooled investment funds.

The draft for public consultation, if passed, will be a chapter in the International Financial Services Centres Authority Act (2019).

VCC is a specialized corporate structure which is designed specifically for investment funds that are currently operating in GIFT City. A VCC allows multiple investment funds to operate under one umbrella structure while

keeping their assets and liabilities separate. This means each fund is treated independently, so investors in one fund are not exposed to the risks, losses or investments of another fund within the same VCC.

According to the Finance Ministry's draft, a VCC framework could make GIFT City more competitive with jurisdictions such as Singapore, Luxembourg, Mauritius or the United Kingdom, where similar vehicles are already being used.

What are the key benefits of a VCC? According to Pallabi Ghosal, Partner - Corporate, Asset Management and Funds, Trilegal, one of the key advantages of VCCs is that they are not a trust. "Currently, in India, trust is the most prevalent fund structure. Despite large global capital raises, the trust form still has to be explained to first-time LPs investing into India, as it is unfamiliar to most offshore institutional investors," said Ghosal.

She added that schemes launched under an umbrella trust have no separate legal personality, and the law does not statutorily ring-fence assets and liabilities across schemes. Institutional LPs are therefore sometimes reluctant to sit alongside other schemes under a single trust.

The VCC mechanism addresses this problem directly as it gives legal recognition on the sub-fund construct and also ring-fences all liabilities at the sub-fund level. "[This] gives LPs the segregation comfort they expect. Because the VCC is a globally recognised fund form, it positions GIFT City as a credible and familiar domicile for global capital," Ghosal said.

The move to VCCs will also make India a more attractive destination for global capital. Since it draws inspiration from global best practices, Ghosal added that "an offshore fund can re-domicile into GIFT City with structural continuity instead of unwinding and rebuilding."

Further, the move is likely to draw capital from open-ended evergreen capital funds or funds looking to relocate and fund managers looking to raise capital from LPs who have familiarity with this mechanism will likely move to VCC structures in GIFT City.