



**GNLU CENTRE FOR LAW & ECONOMICS**  
**Policy Recommendations**

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**Recommendations to the Ministry of Finance on  
the Proposed IFSCA (Fund Management)  
Regulations, 2022**

Comments on behalf of the Research Group on IFSCA  
Regulations, GNLU Centre for Law & Economics

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## **Proposed IFSCA (Fund Management) Regulations, 2022**

These comments and recommendations are on behalf of the Centre for Law & Economics, Gujarat National Law University, Gandhinagar. The analyses and suggestions have been prepared by a team of students led by Amar Singh, comprising of Govinda Asawa and Shubhankar Sharan, under the guidance and supervision of Prof. (Dr.) Ranita Nagar, Professor of Economics, and Dr. Hiteshkumar Thakkar, Assistant Professor of Economics.

### **I. INTRODUCTION**

The International Financial Services Centres Authority (IFSCA) invited comments from the stakeholders for its proposed IFSCA (Fund Management) Regulations, 2022. It's clear from the press release that Single Registration for Multiple Activities, Green Channel, Exchange Traded Funds, Stressed Assets, Environment Social Governance and Family Office attracted a major portion of attention of the expert committee. With regards to the underlying purpose for which the Centre for Law and Economics was established at the Gujarat National Law University, the Centre constituted a special Research Group to look further into the proposed set of rules and regulations and research on the recommendations so as to suggest significant amendments in order to achieve a comprehensive and consistent regulatory framework for investment funds.

This document proposes comments which would facilitate in striking a balance between ease of doing business and substantive guidelines for investment funds.

Further, the Research Group has examined and put together potential modifications with respect to Sponsor of an Investment Trust and The Fund Management Entity as stated below. Lastly, to ensure novelty as well as feasibility of the suggestions, the Recommendations Document went through stages of checks established by our eminent professors.

### **II. GENERAL COMMENTS**

This section would provide an overview of the recommendations advanced by the Centre, as stated below. The conditions established for Retail Schemes lack teeth with respect to addressing the remedies in case of non-compliance. Hence, the Centre suggests that failure to comply with the conditions would lead to closing of the scheme

till further notice from the authority. Further, industry leaders like Angle One, have propounded that even though the currency-based ETFs are riskier, they provide exposure to the forex market, owing to which, the Centre advances inclusion of currency-based ETFs in the regulatory framework, to address absence of the same. Moreover, while the distribution policy vis a vis investment trust and the holdco satisfies most of the criteria, a simple tweak in the requirement percentage (from 90% to such reduced value as may be determined by the Authority) would shore up the quantity of funds that can be reinvested to create even more value.

Transnational or even domestic investment is a risky endeavour in itself, considering which, the centre underscores the incorporation of provisions related to requiring the Fund Management Entity (FME) to maintain professional indemnity and other insurance to compensate the investors. This provision can be found prescribed by the CFA Institute in its Code of Conduct, Irish law, and the law of the British Virgin Islands.

The draft regulations fall silent on whether the entity attaining maturity in the sandbox can apply for registration as a regular FME. Seized of this fact, the centre, on the heels of the British Virgin Islands Laws, proposes to allow the exempted persons or a class of persons, at least 6 months before such exemption, to apply for registration as a regular FME under the provisions of the regulatory framework.

Peculiarly, the list of items as laid out in Regulation 119(3) excludes basic documents containing record of services provided and invoices raised for the same. The Irish law specifies maintenance of the aforementioned documents along with accounting records. Bearing such provision in mind, the Centre espouses to follow the respective Provisions of the Irish Law.

Noting the primary objective of the IFSCA, the centre hopes that its recommendations aid in facilitating a more substantive and consistent guidelines to balance various facets arising with investment funds.

### III. SPECIFIC COMMENTS

**CENTRE FOR LAW & ECONOMICS,  
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Sr. No.	Regulation No.	Sub-Regulation	Comments/ Suggestions	Detailed Rationale
1.	44. Retail schemes shall have at least 20 investors with no single investor investing more than 25% in a scheme: Provided that the condition shall be complied within a maximum period of 6 months from the closure of the offer.		The regulation provides for a timeline within which the condition has to be complied but it fails to address the remedies in case of the non-compliance of the condition within 6 months.	<p>We would suggest that the Regulation 44 should be amended as follows –</p> <p>Retail schemes shall have at least 20 investors with no single investor investing more than 25% in a scheme: Provided that the condition shall be complied within a maximum period of 6 months from the closure of the offer.</p> <p><b>Provided further that failure to do so would be deemed to construe that the scheme has been closed till further notice from the Authority.</b></p>

2.	Chapter IV – Exchange Traded Fund (ETFs)		<p>Though the draft regulations has incorporated almost all the suggestions given by the expert committee.</p> <p>But it has not adopted the suggestion regarding the introduction of Currency Based ETFs.</p> <p><i>“ A currency ETF shall invest primarily in the specified currencies. Additionally, investment in the specified currency related instruments will also be permitted.</i></p> <p><i>• The related instruments will be required to be specified by asset manager with prior permission of its board and subject to approval from Exchanges and/ or IFSCA.”<sup>1</sup></i></p> <p>Industry experts like Angle One have suggested that though Currency ETFs are riskier investment products but they provide exposure to the highly efficient forex market.</p>	<p>We would suggest that a provision regarding Currency based ETF should be incorporated within the draft regulations.</p> <p>To curb the volatility associated with the Currency Based ETFs the authority may determine a minimum number of years for which the person has to remain invested in the ETF. It has been observed that statistically the risk is low in case of long-term commitments.<sup>3</sup></p>
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<sup>1</sup> Page No. 50 of the Report Of The Expert Committee On Investment Funds  
<https://ifsc.gov.in/Viewer/ReportandPublication/26>

<sup>3</sup> <https://www.justetf.com/en/news/etf/the-effect-of-currencies-on-etfs.html>

			To quote them – <i>“Currency ETFs are indeed riskier investment products. Forex trading carries unique risks. But at the same time, it offers exposure to the highly efficient Forex market. ETFs can help improve portfolio returns through foreign currency exposure.”</i> <sup>2</sup>	
3.	86	86. (1) The following are the eligibility conditions for a sponsor of an Investment Trust: (a) Each sponsor shall hold or propose to hold not less than five percent of the number of units of the Investment Trust on post-initial offer basis; and	Though this regulation mentions the minimum percent of units the Investment Trust has to hold on post-initial offer basis but it fails to provide a timeline within which this regulation should be complied with & a timeline for which it has to be followed.  In this regard a clue can be taken from the SEBI Regulations and a clause to the following effect should be added in the draft regulations –	We would suggest that the regulation 86 (1) (a) be amended as follows – (a) Each sponsor shall hold or propose to hold not less than five percent of the number of units of the Investment Trust on post-initial offer basis <b>for a period of not less than 3 years from the date of the listing of such units.</b>  <b>Provided that in case the holding goes below the 5% mark the sponsor should be given a time period of 1 year to return to the prescribed threshold.</b>

<sup>2</sup> <https://www.angelone.in/knowledge-center/online-share-trading/is-currency-etf-a-right-investment-choice>.

			<p><i>“With respect to holding of units in the InvIT, the sponsor(s) together shall hold not less than [fifteen] per cent. of the total units of the InvIT after initial offer of units, on a post-issue basis for a period of not less than 3 years from the date of the listing of such units”</i><sup>4</sup></p>	
4.	100	<p>100. (1) With respect to distributions made by the Investment Trust and the holdco and/or SPV,- (a) not less than ninety percent of net distributable cash flows of the SPV shall be distributed to the Investment Trust /holdco in proportion of its</p>	<p>Under regulation 100(1), 90% of the net distributable cash flow is required to be distributed.  However, as per industry experts like Motilal Oswal<sup>5</sup>, it has been seen that such requirements poorly impact the growth of capital.  To quote them, <i>“REITs have a major growth challenge. They are required to distribute a chunk of their earnings as dividends to REIT holders.</i></p>	<p>For the reasons advanced, we would suggest that 90% requirement be reduced to to such reduced percentage as the authority may determine after independent analysis and wider stakeholder consultation so that remaining can be reinvested to create even more value for investors.</p>

<sup>4</sup>Regulation 12(3) of the SEBI (Infrastructure Investment Trusts) Regulations, 2014, [https://www.sebi.gov.in/legal/regulations/jun-2019/sebi-infrastructure-investment-trusts-regulations-2014-last-amended-on-april-22-2019-\\_43181.html](https://www.sebi.gov.in/legal/regulations/jun-2019/sebi-infrastructure-investment-trusts-regulations-2014-last-amended-on-april-22-2019-_43181.html)

<sup>5</sup> <https://www.motilaloswal.com/blog-details/The-pros-and-cons-of-investing-in-REITs-funds../1852>

		<p>holding in the SPV</p> <p>(b) not less than ninety percent of net distributable cash flows of the Investment Trust shall be distributed to the unit holders;</p> <p>(c) with regard to distribution of net distributable cash flows by the holdco to the Investment Trust, the following shall be complied:</p> <p>(i) with respect to the cash flows received by the holdco from underlying SPVs, 100% of such cash flows received by the holdco shall be distributed to the</p>	<p><i>This stifles their ability to plough back money into the REIT business and enable it to grow.”</i></p> <p>If a higher amount of cash flow is allowed to be reinvested, as is the case for proceeds from sale in 100(2), then profits can be reinvested and wealth generated can be compounded over time to allow for even massive returns.</p> <p>As per available data, in Dubai International Financial Centre, the REITs give out dividend ranging from 1.76% to 1.8%<sup>6</sup>. This allows for reinvestment of the remaining roughly 92%.</p>	
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<sup>6</sup> <https://www.dfm.ae/investors/dividend-distribution>



		<p>Investment Trust; and</p> <p>(ii) with respect to the cash flows generated by the holdco on its own, not less than 90% of such net distributable cash flows shall be distributed by the holdco to the Investment Trust.</p> <p>(d) such distributions shall be declared and made not less than once every six months in every financial year in case of publicly offered InvITs and shall be made not later than fifteen days from the date of such declaration.</p>		
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5.	103	<p>103. (1) A Investment Trust whose units are not listed on a stock exchange may choose to surrender its certificate of registration to the Authority and on acceptance of surrender of certificate of registration, it shall no longer undertake the activity of a Investment Trust.</p>	<p>This provision provides a escape clause for the investment trust in case its units are not listed on a stock exchange. But it fails to provide a timeline within which the Investment Trust should surrender its certificate of registration to the Authority. Failure to provide a timeline would lead to a lot of investment trusts whose aim was to list the stock, sitting idle without a proper exit.</p> <p>In this regard a clue can be taken from the SEBI Regulations and a clause to the following effect should be added in the draft regulations –</p> <p><i>“If the InvIT fails to make any offer of its units, whether by way of public issue or private placement, within three years from the date of registration with the Board, it shall surrender</i></p>	<p>We would suggest that the regulation 103 (1) be amended as follows –</p> <p>(1) A Investment Trust whose units are not listed on a stock exchange may choose to surrender its certificate of registration to the Authority and on acceptance of surrender of certificate of registration, it shall no longer undertake the activity of a Investment Trust.</p> <p>Provided that the Investment Trust <b>should surrender its certificate within one &amp; a half years from the date of registration with the board if it fails to list its unit on the stock exchange.</b></p> <p><b>Provided further that the Authority , if it deems fit, may extend the period by another one year.</b></p>
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			<p><i>its certificate of registration to the Board and cease to operate as an InvIT: Provided that the Board, if it deems fit, may extend the period by another one year: Provided further that the InvIT may later re-apply for registration, if it so desires.”<sup>7</sup></i></p> <p>We would suggest that a time period of one &amp; a half year should be incorporated instead of the 3 year time prescribed by SEBI as in IFSC , international players will be involved &amp; hence an early entry and exit mode would make the IFSC more regulation friendly.</p>	
6.	119	119. (1) Every FME shall keep and maintain proper books of account, records and documents, for each scheme so	While this provision states that true and fair accounts have to be maintained, it is silent on matters pertaining to falsification.	We suggest amending regulation 119(1) as follows:  119. (1) Every FME shall keep and maintain proper books of account, records and

<sup>7</sup> Regulation 14(5) of the SEBI (Infrastructure Investment Trusts) Regulations, 2014, [https://www.sebi.gov.in/legal/regulations/jun-2019/sebi-infrastructure-investment-trusts-regulations-2014-last-amended-on-april-22-2019-\\_43181.html](https://www.sebi.gov.in/legal/regulations/jun-2019/sebi-infrastructure-investment-trusts-regulations-2014-last-amended-on-april-22-2019-_43181.html)

		<p>as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Authority the place where such books of account, records and documents are maintained.</p>	<p>In this regard, clause can be taken from Ireland's Law<sup>8</sup> and a clause to the following effect should be added in the draft regulation:</p> <p><i>"adequate precautions shall be taken for guarding against falsification and facilitating discovery of falsification should it occur."</i></p>	<p>documents, for each scheme so as to explain its transactions and to disclose at any point of time the financial position of each scheme and in particular give a true and fair view of the state of affairs of the fund and intimate to the Authority the place where such books of account, records and documents are maintained.</p> <p><b>Provided further that adequate precautions shall be taken for guarding against falsification and facilitating discovery of falsification should it occur.</b></p>
7.	119	<p>119 (3) The FME shall be required to maintain following records describing:</p>	<p>The list of items prescribed in regulation 119(3) don't include basic documents containing record of services provided and invoices raised for the same.</p>	<p>We would therefore suggest amending regulation 119(3) as follows:</p> <p>119 (3) The FME shall be required to maintain following records describing:</p> <p>(a) the assets under each scheme;</p>

<sup>8</sup> Section 110(3): <https://www.irishstatutebook.ie/eli/2015/act/2/enacted/en/pdf>

		<p>(a) the assets under each scheme;</p> <p>(b) valuation policies and practices;</p> <p>(c) investment strategies;</p> <p>(d) particulars of investors and their contribution;</p> <p>(e) rationale for investments made.</p> <p>(4) The records under sub-regulation (3) shall be maintained for a period of five years after the winding up of the fund.</p>	<p>Under Irish Law<sup>9</sup>, there is provision which provides that among the accounting records, the following has to be maintained</p> <p><i>“(c) a record of the services provided by the ICAV and of all the invoices relating to them.”</i></p> <p>This can be included in these draft regulations as well.</p>	<p>(b) valuation policies and practices;</p> <p>(c) investment strategies;</p> <p>(d) particulars of investors and their contribution;</p> <p>(e) rationale for investments made.</p> <p><b>(f) a record of the services provided by the FME and of all the invoices relating to them.</b></p>
8.	125	<p>125. (1) A FME in IFSC shall seek prior approval of the Authority in case of any direct or</p>	<p>Under regulation 125(1), prior consent of the authority is required for change in control.</p> <p>However, the regulation is silent on a scenario whereby a registered FME</p>	<p>We would suggest that such conversion be allowed subject to approval from the Authority.</p> <p>Authority should consider the constitutional documents of the new and proposed entity</p>

<sup>9</sup>Section 110 (4) (c): <https://www.irishstatutebook.ie/eli/2015/act/2/enacted/en/pdf>

		<p>indirect change in control of the FME:</p> <p>Provided that a FME operating in the form of branch in an IFSC shall only inform the Authority within fifteen days if such an approval is required by the sectoral regulator in its principal place of operations.</p> <p>(2) The Authority may consider such request for change in control subject to certain conditions including offering exit opportunity to investors.</p>	<p>would want to convert its form.</p> <p>Suppose a situation where, an LLP registered as a FME with the Authority and subsequently wants to convert to a Company or vice versa. There is no clarity if the same is possible or even if possible whether such conversion would require consent of the Authority.</p> <p>In this regard, Irish Law<sup>10</sup> can be referred which has separate provisions for provisions for conversion of entities from one form to another.</p>	<p>as well as their impact on investors before granting approval.</p> <p>The procedure for conversion is as specified in the Companies Act 2013 (section 366) or LLP Act (section 56).</p>
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<sup>10</sup> Section 140: <https://www.irishstatutebook.ie/eli/2015/act/2/enacted/en/pdf>

9.	136	<p>136. (1) The FME shall ensure that investors are provided information about their holding in the FME at the end of every month and within 5 working days in case of receipt of such request from an investor.</p> <p>(2) The fiduciaries shall be bound to make such disclosures to the investors as are essential in order to keep them informed about any information which may have an</p>	<p>Regulation 136(2) as it stands currently is very vague and therefore easier to be misused. There is no clarity on what all information is to be disclosed. Certain essentials should be listed in addition to this broad provision.</p> <p>In this regard reference can be made to Irish Law<sup>11</sup> wherein certain disclosures have been listed:</p> <p><i>“5 (a) a fair review of the development and performance of the ICAV’s business and of its position and, in relation to its subsidiaries, if any, of the development and performance of their business and of their position, during the financial year ending with the relevant balance sheet date together with a description of the principal risks and uncertainties</i></p>	<p>We therefore, propose the following amended regulation:</p> <p>Other disclosures to the investors</p> <p>136. (1) The FME shall ensure that investors are provided information about their holding in the FME at the end of every month and within 5 working days in case of receipt of such request from an investor.</p> <p>(2) The fiduciaries shall be bound to make such disclosures to the investors as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.</p> <p><b>(3) Provided further that such disclosures as mentioned in sub-clause (2) shall mandatorily contain the following:</b></p> <p><b>(a) a fair review of the development and</b></p>
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<sup>11</sup> Section 118 (5): <https://www.irishstatutebook.ie/eli/2015/act/2/enacted/en/pdf>

		<p>adverse bearing on their investments.</p>	<p><i>that they face; (b) particulars of any important events affecting the ICAV or any of its subsidiaries, if any, which have occurred since the end of that year; (c) an indication of likely future developments in the business of the ICAV and of its subsidiaries, if any; (d) in relation to the use by the ICAV and its subsidiaries, if any, of financial instruments and where material for the assessment of the assets, liabilities, financial position and profit or loss of the ICAV and, as the case may be, the group— (i) the financial risk management objectives and policies of the ICAV and the group, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and (ii) the exposure of the ICAV and the group to price risk, credit risk,</i></p>	<p>performance of the FME's business and of its position and, in relation to its subsidiaries, if any, of the development and performance of their business and of their position, during the financial year ending with the relevant balance sheet date together with a description of the principal risks and uncertainties that they face; (b) particulars of any important events affecting the FME or any of its subsidiaries, if any, which have occurred since the end of that year; (c) an indication of likely future developments in the business of the FME and of its subsidiaries, if any; (d) in relation to the use by the FME and its subsidiaries, if any, of financial instruments and where material for the assessment of the assets, liabilities, financial position and profit or loss of the FME and, as the case may be, the group— (i) the financial risk management objectives and</p>
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			<p><i>liquidity risk and cash flow risk.</i></p> <p><i>(6) The review mentioned in subsection (5)(a)— (a) shall be a balanced and comprehensive analysis of the development and performance of the ICAV’s business and of its position and, in relation to its subsidiaries, if any, of the development and performance of their business and of their position, consistent with the size and complexity of the business, and (b) to the extent necessary for an understanding of the ICAV’s development, performance or position, and that of its subsidiaries, if any, shall include an analysis of financial, and, where appropriate, non-financial key performance indicators relevant to the particular business, including information relevant to environmental and employee matters, and, where appropriate, shall include additional</i></p>	<p><i>policies of the FME and the group, including the policy for hedging each major type of forecasted transaction for which hedge accounting is used, and (ii) the exposure of the FME and the group to price risk, credit risk, liquidity risk and cash flow risk.</i></p> <p><i>(4) The review mentioned in sub clause (3) shall be a balanced and comprehensive analysis of the development and performance of the FME’s business and of its position and, in relation to its subsidiaries, if any, of the development and performance of their business and of their position, consistent with the size and complexity of the business, and (b) to the extent necessary for an understanding of the FME’s development, performance or position, and that of its subsidiaries, if any, shall include an analysis of financial, and, where appropriate, non-financial key performance indicators</i></p>
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			<i>explanations of amounts included in the annual accounts.”</i>	relevant to the particular business, including information relevant to environmental and employee matters, and, where appropriate, shall include additional explanations of amounts included in the annual accounts.
10.	143	143. (1) The Authority may take such action as deemed fit, including suspension or cancellation of registration, against a FME if it: (a) fails to exercise due diligence or comply with any conditions subject to which a certificate of registration has been granted; (b) contravenes any of the provisions of the	The scope of regulation 143 is very narrow and limited to the few items listed therein.  It is essential that one broad clause should be there in the list of items so as to accommodate new situations in the future as and when they arise. This is in furtherance of the investor’s interests.  In India, in other statutes as well such clauses are in existence. For example, there is one such clause in SEBI Act, 1992 which is often invoked by SEBI to sustain its actions as legal. <sup>12</sup>	Therefore, we recommend the following amended regulation:  Suspension, cancellation of registration or any other actions 143. (1) The Authority may take such action as deemed fit, including suspension or cancellation of registration, against a FME if it: (a) fails to exercise due diligence or comply with any conditions subject to which a certificate of registration has been granted; (b) contravenes any of the provisions of the Act or rules or regulations or circulars or guidelines or directions or instructions issued thereunder;

<sup>12</sup> Section 11(1) : [https://www.sebi.gov.in/sebi\\_data/attachdocs/1456380272563.pdf](https://www.sebi.gov.in/sebi_data/attachdocs/1456380272563.pdf)

		<p>Act or rules or regulations or circulars or guidelines or directions or instructions issued thereunder;</p> <p>(c) fails to furnish any information relating to its activity as an FME as required by the Authority;</p> <p>(d) furnishes to the Authority information which is false or misleading in any material particular;</p> <p>(e) does not submit periodic returns or reports as required by the Authority;</p> <p>(f) does not co-operate in any</p>	<p>Furthermore, while this section talks of cancellation of registration, it is silent on what happens in case, pursuant to such cancellation, the FME admits its mistakes and complies with the law. There is no clarity on whether the registration would be restored in this case.</p> <p>Under Irish Law<sup>13</sup> relevant authority is given the power to restore the registration provided certain conditions are fulfilled. A similar provision here would be beneficial.</p> <p>Furthermore, the Authority may also consider preparing an indicative list of common offences/defaults and the corresponding penalty in this behalf. This would ensure regulatory certainty and a certain</p>	<p>(c) fails to furnish any information relating to its activity as an FME as required by the Authority;</p> <p>(d) furnishes to the Authority information which is false or misleading in any material particular;</p> <p>(e) does not submit periodic returns or reports as required by the Authority;</p> <p>(f) does not co-operate in any enquiry, inspection or investigation conducted by the Authority</p> <p>(g) fails to resolve the complaints of investors or fails to give a satisfactory reply to the Authority</p> <p>(h) commits any other act/omission which in the opinion of the Authority warrants such action or which is against the interest of the investors.</p> <p>(2) Provided that on an application made by the de-</p>
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<sup>13</sup> Chapter 2 on Restoration of ICAV to register.  
<https://www.irishstatutebook.ie/eli/2015/act/2/enacted/en/pdf>

		enquiry, inspection or investigation conducted by the Authority (g) fails to resolve the complaints of investors or fails to give a satisfactory reply to the Authority	amount of deterrence to non-compliance. The law of British Virgin Islands <sup>14</sup> for example has a schedule 7 which lists the offences and penalty for the same.	registered FME in this behalf and on compliance with conditions prescribed by the Authority (which may inter alia provide for payment of additional fees), the Authority may at its sole discretion restore the registration of such FME.
11.	Schedule 3, Part A, paragraph (g)	THIRD SCHEDULE OF CONDUCT AND OBLIGATIONS PART A: CODE OF CONDUCT AND OBLIGATIONS OF THE FUND MANAGEMENT ENTITY- (g) The FME and its controlling shareholders shall be liable to	Under paragraph (g) of Part A to Schedule 3, the liability of shareholders to compensate the investor has been provided. While the intention to provide for compensation is well founded, there is an inherent limitation in the provision. Most often, question of compensation arises when the entity is loss making and in these cases shareholders don't have enough assets. As a result despite a provision being there in law for	Therefore, we recommend the following amended paragraph in the code of conduct:  THIRD SCHEDULE CODE OF CONDUCT AND OBLIGATIONS PART A: CODE OF CONDUCT AND OBLIGATIONS OF THE FUND MANAGEMENT ENTITY (g) The FME and its controlling shareholders shall be liable to compensate the affected

<sup>14</sup> Schedule 7: [https://www.bvifsc.vg/sites/default/files/securities\\_and\\_investment\\_business\\_act.pdf](https://www.bvifsc.vg/sites/default/files/securities_and_investment_business_act.pdf)

		<p>compensate the affected investors and/or the scheme for any unfair treatment to any investor as a result of inappropriate valuation.</p>	<p>compensation, the investors are not compensated since the shareholders either don't have money or they have siphoned it off to some other jurisdiction.</p> <p>In order to ensure that such situation doesn't arise, the code of conduct prescribed by the CFA Institute<sup>15</sup> as well as Irish Law<sup>16</sup>, and the law of British Virgin Islands<sup>17</sup> require that insurance be maintained by the entity in order to compensate investors.</p> <p>Once the burden is on insurance company, the previously mentioned issue is resolved.</p>	<p>investors and/or the scheme for any unfair treatment to any investor as a result of inappropriate valuation.</p> <p>Provided further that the FME and its controlling shareholders shall at all times maintain such professional indemnity and other insurance in order to meet the liability outlined in this paragraph.</p>
12.	Schedule 3	Part A	<p>There is no mentioned of prohibition of insider trading and misuse of unpublished price sensitive information.</p>	<p>We recommend that a provision prohibiting insider trading should be introduced by the Authority in the code of conduct for listed FMEs.</p>

<sup>15</sup> Model Code of Conduct by CFA Institute: <https://ecgi.global/download/file/fid/9130>

<sup>16</sup> Section 190(3): <https://www.irishstatutebook.ie/eli/2015/act/2/enacted/en/pdf>

<sup>17</sup> Section 13: [https://www.bvifsc.vg/sites/default/files/securities\\_and\\_investment\\_business\\_act.pdf](https://www.bvifsc.vg/sites/default/files/securities_and_investment_business_act.pdf)

			Laws around the globe <sup>18</sup> contain such restrictions and it would be prudent for the authority to include the same in order to ensure that everybody in the market trades on same publicly available information with no undue advantage accruing to insiders. Therefore, for listed FMEs, such requirement should be prescribed.	
13.	145	145. (1) The Authority may, exempt any person or class of persons from the operation of all or any of the provisions of these regulations for a period as may be specified but not exceeding eighteen	An interesting provision for encouraging innovation has been allowed by the Authority in regulation 145.  Similar provisions existing in a separate law governing such entities in British Virgin Islands. <sup>19</sup> (“BVI Law”)  However, the draft regulations are silent on whether on attaining maturity the entity in this	We therefore recommend the amended regulation as follows: Innovation Sandbox and Fund Lab 145. (1) The Authority may, exempt any person or class of persons from the operation of all or any of the provisions of these regulations for a period as may be specified but not exceeding eighteen months, for furthering innovation in aspects relating to testing new

<sup>18</sup> Model Code of Conduct by CFA Institute: <https://ecgi.global/download/file/fid/9130>; Section 88, 89 of BVI: [https://www.bvifsc.vg/sites/default/files/securities\\_and\\_investment\\_business\\_act.pdf](https://www.bvifsc.vg/sites/default/files/securities_and_investment_business_act.pdf)

<sup>19</sup>

[https://www.bvifsc.vg/sites/default/files/securities\\_and\\_investment\\_business\\_incubator\\_and\\_approved\\_funds\\_regulations.pdf](https://www.bvifsc.vg/sites/default/files/securities_and_investment_business_incubator_and_approved_funds_regulations.pdf)

		<p>months, for furthering innovation in aspects relating to testing new products, strategies, processes, services, business models, use of technology, etc. in live environment of regulatory sandbox in the financial markets.</p> <p>Provided that any experiment in a fund towards a new strategy shall not solicit money from public and shall be governed by a framework specified by the Authority.</p>	<p>sandbox can apply for registration as a regular FME.</p> <p>Such provisions existing in the BVI Law<sup>20</sup> and only adds to regulatory certainty and clarity.</p>	<p>products, strategies, processes, services, business models, use of technology, etc. in live environment of regulatory sandbox in the financial markets.</p> <p>Provided that any experiment in a fund towards a new strategy shall not solicit money from public and shall be governed by a framework specified by the Authority.</p> <p>(2) Any exemption granted by the Authority under sub-regulation (1) shall be subject to the applicant satisfying such conditions as may be specified by the Authority including conditions to be complied with on a continuous basis.</p> <p>(3) Subject to sub clause (1) and (2) of regulation 145, the exempted person or class of persons, may at least 6 months before the expiry such exemption and on</p>
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		<p>(2) Any exemption granted by the Authority under sub-regulation (1) shall be subject to the applicant satisfying such conditions as may be specified by the Authority including conditions to be complied with on a continuous basis.</p>		<p>compliance with such conditions as may be prescribed by the Authority, apply for registration as a regular FME under the provisions of these Regulations.</p>
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