

Public Comments on Consultation paper on Regulatory Framework for differential distribution in Restricted Schemes and Venture Capital Schemes to facilitate blended finance and other fund structures

The Consultation Paper seeking comments/suggestions from the public on Regulatory Framework for differential distribution in Restricted Schemes and Venture Capital Schemes to facilitate blended finance and other fund structures was issued by IFSCA on October 22, 2025. The list of comments/suggestions received are placed below:

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
1	4.3	Mandate that FMEs launching ESG schemes must publish a Sustainable Financing Framework, externally validated through an independent second party opinion. Revised clause: “The FME of such ESG Schemes shall disclose how the investments by the scheme are expected to align with the United Nations Sustainable Development Goals (SDGs). The FME shall prepare, publish, and maintain a Sustainable Financing Framework vetted through an external second party opinion and made available to investors within the PPM.”	Mandating a Sustainable Financing Framework aligns with global best practice frameworks (including EU SFDR, IFC Performance Standards, and Green/Social/Sustainability-linked Bond Principles). It communicates the scheme’s overarching sustainability strategy and governance. External validation by an independent entity enhances investor confidence, supports anti-greenwashing efforts, and facilitates standardised reporting and impact tracking.
	Part B – before/after 4.6	Clarify the rights of subordinate/junior investors. Suggested clause (include): “Subordinate/junior investors shall have [equal/ subordinate] voting rights in scheme-related decisions; such rights must be disclosed explicitly and transparently in the PPM.”	Explicitly defining voting rights for subordinate/junior investors reduces ambiguity, enhances investor protection, and minimises potential disputes.

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
	4.4	Introduce structured caps and a gradual phase-out mechanism for concessional elements or junior tranches in ESG schemes. Revised clause: “Such eligible schemes may accept funds in the form of grants which shall not be more than twenty percent (20%) of the corpus of the scheme. A clearly defined, gradual phase-out mechanism for grant support must be established. The level of support shall be determined through financial modelling or tender processes. Structured caps for the level of concessional support for each tranche can be established. Further, providers of grants shall prioritise junior tranche or subordinate positions within ESG schemes, with senior tranche positions primarily reserved for private sector investors.”	Prevents subsidy stacking and ensures efficient use of concessional finance, in line with OECD (2025) blended finance guidelines. Supports market maturity by phasing out concessional capital as investor confidence increases.
	Part C (include a clause under this section)	Strengthen the governance framework by defining the granular information regarding the scheme and ensuring transparency, along with the establishment of an advisory committee. Suggested clause: “The FME of eligible schemes must clearly define the roles of donors, fund managers and investors in the scheme. This includes mandatory transparency on subsidy allocation mechanisms and conflict resolution processes. As a part of the governance structure, an	Promotes accountability, investor protection, and clarity in risk-sharing mechanisms within blended finance structures.

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		advisory committee must be established to focus on risk acknowledgements for investors.”	
	Part C (include a clause under this section)	Adopt a Theory of Change (ToC) approach aligned with IFC Impact Principles, along with a monitoring and evaluation framework. Suggested clause: “The FME of ESG schemes shall adopt a Theory of Change (ToC) framework aligned with IFC Impact Principles, mapping inputs, outputs, outcomes, and impact for each project under a scheme, including risk identification and mitigation planning. A monitoring and evaluation framework with clear methodologies, measurement techniques, and data management processes shall be maintained. The framework shall be maintained for each project/investment under a scheme.”	Enhances impact integrity, defines partner roles and responsibilities, and ensures clear pathways to achieving sustainable outcomes. Recommended by OECD (2025), it maps out how each project/investment undertaken by a scheme contributes to the scheme’s broader sustainability goals.
	Part C – Disclosures (include a clause under this section)	Expand to a standardised, verifiable reporting framework, aligned with OECD and DFI disclosure practices. Include independent verification/audit and periodic reporting intervals. Suggested clause: “A standardised, verifiable reporting framework, aligned with OECD and DFI disclosure practices, will be created. It shall include requirements for independent verification or audit of disclosures and adherence to periodic reporting intervals. The	Standardised and independently verified disclosures build investor trust by ensuring consistent, comparable, and reliable reporting.

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		FME of each scheme shall ensure compliance with the prescribed framework.”	
2	Part A: Eligibility (ESG schemes) Para 4.2 - 4.4	The draft circular specifies that ESG schemes with differential unit classes must disclose how the investments by the scheme are expected to align with the United Nations Sustainable Development Goals (SDGs). 1. In addition to the above, they could also clearly specify proposed end uses of funds in a granular manner. For example, segregation between E, S, and G. 2. Further, ESG schemes with differential classes could also consider specifying a minimum amount of fund to be earmarked for investment into certain categories of investees (underserved segments).	ESG is an umbrella term and can encompass a wide range of objectives. There are investors who may have specific mandates to invest in a certain subset of ESG. Specifying end use in a granular manner would be helpful in attracting such investors by giving them confidence. Funds/ schemes with differential unit classes are intended to allocate blended finance to underserved segments, and a minimum threshold would be effective in enhancing access to capital for borrowers in such segments.
	Part B: Structures under differential return Para 4.6	The draft circular specifies the conditions that may be applicable to junior/subordinate classes of units. 1. In addition, the draft circular may consider a provision for allowing junior/subordinate classes of units to convert to senior units upon the achievement of certain milestones (NAV).	This makes the junior/subordinate investments more attractive. A pre-determined set of milestones that trigger a conversion would allow junior/subordinate investors to share in (for example) super returns.
	Part C: Disclosures Para 4.7 – 4.8	The draft circular specifies disclosures that Part A and Part B schemes with differential unit classes must make. 1. In addition to the above, they could also clearly specify the	This framework for differential distribution mechanism for Schemes has been introduced to provide flexibility to raise funds from investors with varied risk appetite and to support financing to projects which are socially

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		proposed end use of funds in a granular manner. For example, the particular kind of social impact the fund intends to focus on. 2. The disclosures could also include expected impact metrics, if applicable, related to the end uses, as extra-financial risks (such as climate-related risks) as part of required disclosures.	desirable but may be commercially less attractive to investors. There are investors who may have specific mandates to invest in a certain subset of social impact. Specifying end use in a granular manner would be helpful in attracting such investors by giving them confidence. Including a pre-determined set of impact metrics can help strengthen the case for differential unit classes, and provide the required momentum for this mechanism.
	Additional comments Subject: Permissible investments	The IFSCA Fund Management Entity (FME) Regulations 2025 specify a list of permissible instruments or entities in IFSC, India or foreign jurisdiction, for Part A and Part B schemes (venture capital companies and restricted schemes). 1. The draft circular issued could specify whether these permissible investment categories remain unchanged in the case of schemes with differential unit classes.	A specification on permissible investments (including instruments and entities) could be a useful lever to effectively direct investments towards intended investees.
3	4.11	The FME of such Eligible Schemes while adhering to Regulations 26, 27, 38 and 39 of the FM Regulations concerning valuation and computation of NAV, shall further ensure that the NAV for each class of investors takes into account the disclosures in the PPM.	The valuation of different classes of investor is based on the position in the waterfall. The independent valuer confirms the net asset valuation of an asset/fund. The net asset value of each class of investor is based on the waterfall run by fund administrators who have the necessary tools to perform such

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
			function. Having an independent valuer confirming net asset value for each class of investor will raise the cost of managing a blended finance vehicle.
	4.5	Eligible Schemes other than ESG Schemes shall be permitted to issue multiple classes of units with differential distribution wherein not more than 25% of the corpus of the scheme is invested in an investee company and its associates.	Achievement of diversification is a matter for the market and is based on investment environment.
	4.5	Clarify that the 25% single-investee cap applies post-grant adjustment (i.e., calculated on capital at risk excluding grants).	Grants are non-repayable and non-return-seeking contributions that serve catalytic or enabling functions in blended finance structures. Including grants within the 25% single-investee exposure cap could artificially constrain fund managers from deploying concessional or philanthropic funds where they are most needed — for instance, to unlock investments in sectors or geographies with higher developmental additionality but lower commercial attractiveness.
	4.4	Such eligible schemes may accept funds in the form of grants which shall be determined based on the need of the sector.	The proportion of grant should be based on the investment thesis. Some sectors might require more grants to attract commercial investors.
	4.9	Lower minimum investment threshold for junior/subordinate units from USD 2 million to USD 1 million for all investors, subject to a suitability assessment by the FME.	Several impact and family offices specializing in catalytic capital operate at USD 1 million ticket sizes. A lower bar increases mobilisation without compromising safeguards.
	4.7 & 4.8	Require inclusion of scenario-based illustrations showing	Helps investors understand risk exposure clearly; reduces chances of mis-selling and aligns

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		impact on returns for each class under stress conditions.	with global disclosure standards, consistent with best practices of SEBI AIF PPM templates.
	4.10	Clarify that “obligations or liabilities towards investors or their associates” exclude arms-length commercial transactions such as sale of goods or services.	Without clarification, ordinary business transactions may be construed as breach. A safe-harbour provision would encourage participation of corporate investors who also supply to portfolio companies. Accordingly, Clause 4.10 may be suitably modified.
	General	Consider introducing recognition of first-loss and guarantee structures within IFSCA AIF guidelines for alignment with international blended-finance practice.	Currently, IFSCA's Fund Management Regulations recognise differential distribution but do not explicitly codify first-loss, mezzanine, or guarantee structures. Explicit recognition would: -Provide legal clarity to FMEs and investors on the treatment of subordinated capital; -Facilitate participation of DFIs and philanthropic partners who require recognition of their subordinated position for concessional accounting; and -Enable local fund managers to design multi-tranche structures without resorting to offshore SPVs, thus reinforcing the “onshore the offshore” objective.
4	4.2	The clause allows for ESG Schemes being permitted to issue multiple classes of units with differential returns. It is suggested that for schemes that aim to achieve environmentally focused	The purpose of a blended finance structure permitting differential returns, would hold great merit when being channelised towards activities which otherwise have limited interest from return-seeking capital. Climate adaptation and resilience is one

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		objectives, a small portion of the scheme corpus be carved out by the FME, as a mandatory investment towards business activities focused on climate adaptation and resilience. Scope and definition of 'climate adaptation and resilience' to be considered in line with the scope of 'ESG schemes' defined vide the 2023 IFSCA circular.	such theme. Earmarking a certain portion of the fund towards adaptation and resilience focused activities would ensure that the environmental objectives sought from the scheme, also follow the principle of 'Do No Significant Harm to other environmental objectives', defined in the draft Climate Finance Taxonomy published by the Ministry of Finance. This would also align with international best practice – The Investment Framework of the Green Climate Fund requires investment portfolios to maintain a 50:50 balance of adaptation and mitigation funding over time. Further, the approach of mandating a certain portion of investable corpus towards activities of environmental significance, is also aligned with IFSCA's thrust towards sustainability linked sectors. The 2022 IFSCA circular requires IBUs and FC/FUs undertaking lending to have at least five per cent of their gross loans and advances directed towards green/social/sustainable/sustainability-linked sectors/facilities.
	4.3	The clause states that the FME of such ESG Schemes shall disclose how the investments by the scheme are expected to align with the United Nations Sustainable Development Goals (SDGs). It is suggested that the disclosures be made more results-oriented than intent-oriented by requiring the FME to explicitly specify via the PPM,	The basic premise of deploying catalytic capital into a blended structure, is to encourage capital into themes of developmental and environmental priority. Having a clearly articulated results-based framework would build greater accountability on the part of the FME and ensure alignment between the motivations of the investor and

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		• The objective of the scheme • The related impact outcomes it aims to achieve • Specific KPIs related to the outcomes • Corresponding timeline related to the KPIs • UN SDG(s) that each of the KPI(s) aligns with The FME would also be required to publish periodic reports (as specified in the 2023 circular), on its performance. Schemes beyond a certain threshold fund size may additionally be required to have their reporting independently verified by an accredited auditor.	investee. This would also be in line with the tenets of the 2023 circular that requires FMEs to disclose ESG-related performance and compliance with the stated ESG-related investment objectives. The specification of a results-based framework along with an audited process for relatively larger funds, would also align with other regulatory guidelines and international best practices. For example, SEBI vide its Framework for the Social Stock Exchange (SSE), mandates the requirement of a Social Audit for social enterprises raising funds/registered on SSE. Likewise, the International Finance Corporation (IFC), in its principles for Blended Finance, also places emphasis on the importance of a sound governance process, that ensures transparency regarding the use of concessional resources.
	4.4	The clause states that eligible schemes may accept funds in the form of grants which shall not be more than twenty percent (20%) of the corpus of the scheme. It is suggested to amend the said clause to: “Eligible schemes may accept funds in the form of grants which shall not be more than fifty percent (50%) of the corpus of the scheme”.	Certain themes, especially those focused on developmental and environmental outcomes, naturally align themselves to grant capital, as opposed to return-seeking capital. A flexibility with the ESG scheme to accept grant capital up to 50%, will enable greater deployment of catalytic capital to such schemes. This in turn, could potentially encourage other investors to

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
			assume a senior tranche position. The suggestion to enhance catalytic grant contribution to the extent of 50% of the scheme corpus, also draws from the RBI's draft Partial Credit Enhancement guidelines (August 2025). It allows for Regulated Entities to provide Partial Credit Enhancement (PCE) to corporate bonds, with the permissible PCE limit enhanced from 20% to 50% of the bond issue size.
	4.9	The clause specifies that the minimum investment for an investor to subscribe to the Junior / Subordinate classes of units of the eligible schemes shall be USD 2 million, with the minimum investments to be USD 1 million if the investor is an accredited investor. It is suggested to extend the definition of an 'accredited investor' to explicitly include a 'charitable, non-profit organisation' and a 'charitable, non-profit private foundation'.	The eligibility criteria for accredited investors as per the 2024 IFSCA circular includes Trusts among other permitted entities. Extending the definition to explicitly include 'charitable, non-profit organisations' and 'charitable, non-profit private foundations' will make it clearer to enable such entities to subscribe to the junior classes of the schemes; given that the contribution to such units is expected to come from philanthropy.
	Overall observation		1. A typical situation in the context of sustainability-themed blended finance structures is likely to be that the concessional capital is provided by an overseas funder (DFI or philanthropic foundation) while the commercial portion is provided by a domestic Indian entity (NBFC, bank, fund, etc.), since the transaction sizes are quite often likely to be small (say, USD 3 to 10 mn). Overseas

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
			commercial funds or other investors may not find it viable to engage for such small deal sizes. This results in the need to blend overseas funds (concessional portion) with domestic funds (commercial portion). Unfortunately, this is not possible, and might continue to be a limitation, despite the proposed framework. 2. Another limitation might be that despite the proposed framework permitting grants to be accepted, domestic for-profit social enterprises may still not be able to utilise this route since FCRA and Income Tax Act only envisage non-profit entities to be beneficiaries of grants. To remove any grey area, there might need to be a clarification on this front under both FCRA and ITA, on the treatment of grants, received (via the fund) by a for-profit entity.
5	v on page 11	Regulation needs to include Sponsor and Manager as well to avoid evergreening misuse	Currently the words used are "discharge any of its obligations or liabilities towards the investors of the schemes or their associates". It is not clear if the Manager /Sponsor are included in this. Also because there may be NO investment by the FME basis exemption and hence technically the FME may not be an "investor".
	vi on page 11	Independent valuer "may" be mandated to also compute NAV, in case there is no other independent third party already mandated for NAV computation.	The italic underlined statement is to ensure there is no ambiguity on an RTA or FA computing the NAV.
	Clause 4.1 read with 4.11	The eligibility criteria for the said circular to clearly spell out that	While the preamble of the proposed circular intends for the

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		the circular shall only be applicable to those Venture Capital Schemes and Restricted Schemes which follow a Blended Finance model. Accordingly, the conditions to be complied with by Eligible Schemes shall apply only to those schemes which have a Blended Finance model.	guardrails to be applied by funds set up in IFSCA following a Blended Finance model, the 'Eligibility' criteria cover all Venture Capital Schemes and Restricted Schemes. IFSCA should clarify that the proposed circular will only apply to those Venture Capital Schemes or Restricted Schemes which adopt a Blended Finance model and issue junior / subordinate class of units.
6	1	Blended Finance is strategically deployed to combine concessional or philanthropic capital with private investment to fund development projects which are socially desirable irrespective of commercial viability. ~~but may be commercially unviable.~~ Blended finance is increasingly recognised as a promising approach to bridge the gap in development funding.	The suggested edit is for explicit clarity.
	4.1	Venture Capital Schemes and Restricted Schemes under Part A and B, respectively, of Chapter III (together referred to as “eligible schemes”) of IFSCA (Fund Management) Regulations, 2025 (hereinafter referred to as “FM Regulations”) shall be permitted to issue multiple classes of units which have differential distribution related rights embedded to them (e.g., Senior units or Junior / Subordinate units). Explanation: “Senior units” indicate such class of units which has superior rights over the	This is to further provide explicit clarity. Clarity may be provided that while Senior units may differ in fees, currency, timing, or operational features, there will not be any differentiation between Senior units in terms of risk, priority, or loss absorption.

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		distribution proceeds of the eligible scheme, while “Junior units” or “Subordinate units” indicate such classes of units, including Mezzanine units, the rights of which over the distribution proceeds of the eligible schemes would be inferior to that of Senior units. Variation may include variations within Senior units, and within Junior units.	
	4.3	The FME of such ESG Schemes shall disclose how the investments by the scheme are expected to align with the United Nations Sustainable Development Goals (SDGs).	The FME of such ESG Schemes shall disclose [Where?] the investments by the scheme are expected to align with the United Nations Sustainable Development Goals (SDGs).
	4.5	Provided that such portfolio diversification may be achieved by such schemes within 2 years of first close.	Not sure of the relevance of 2 years. We suggest this should be linked to the commitment period (investment period for Cat-I and Cat-II) Not sure if 2 years is sufficient time. We suggest for more time to be given to enable the FMEs to diversify.
	Addition to post 4.12		Clarity required for FME/Associate Contribution since there are varied classes of units, with differential distribution. We understand that the commitment must represent genuine “skin in the game”—i.e., real economic downside exposure, with no preferential protections.
7	Part I, Para V – Investment Restrictions	For all Schemes, allow returns to be differentiated not just at the portfolio level but at a subset of portfolio level	This will allow more targeted fund-raising while the fund can be more diversified in its investments.

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
	Part C, Para 4.7–4.8 – Disclosures	Require model illustration of “distribution waterfall” and stress-test scenarios, but allow flexibility in valuation methodology to match fund type.	Restricted schemes, especially credit-based ones, operate with interest accrual and NAV-linked equalization, which differ from equity funds. Prescriptive waterfall illustrations can create clarity without limiting operational flexibility.
	Part C, Para 4.9 – Minimum Investment Threshold	Reduce minimum investment for Junior to USD 500,000 and for accredited investors to USD 250,000.	Allowing lower thresholds broadens investor participation and improves fund scalability.
	General	Introduce a provision for automatic filing mechanism for issuance of new unit classes post initial approval of differential distribution structure.	Avoids repeated regulatory approval cycles for each new class of units, which can delay fund-raising and reduce agility. The initial approval can cover framework compliance, while subsequent filings can be for record purposes.
8	Part B- Structures under differential return 4.6 (d) Such classes of units may be issued in return of grants provided by a contributor in ESG Schemes in terms of paragraph 4.4 above.	Additionally, 4.6 (e) Grants received by the fund in relation to ESG schemes may be credited to a loss reserve or reserve fund held by the fund. Such reserve funds shall be maintained as a funded bank account and may be utilized by the fund upon occurrence of predefined triggers or conditions.	Considering global blended finance structure, grants can also be taken through a loss reserve/reserve fund, which will be a funded bank account, monies from which can be invoked under certain triggers. Two examples where this has been done are the California FreshWorks Fund and the Community Finance Fund for Social Entrepreneurs (CFFSE), Australia.
	Part C: Disclosures and Other Conditions to be complied	Requesting to delink the clause from investments and to consider the below framework instead. The FME shall ensure that total unit contributions by fund managers and their affiliates,	This clause pertains to an issue observed in the "onshore" market, where domestic regulated lenders invested in AIFs to avoid recognising NPAs. However, GIFT City is predominantly a gateway

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
	by the FMEs of Eligible Schemes 4.10 FME shall ensure that the amount invested by the scheme is not utilised by an investee company, directly or indirectly, to discharge any of its obligations or liabilities towards the investors of the schemes or their associates	where such affiliates are entities regulated by the Reserve Bank of India, do not exceed 10% of the scheme's aggregate unit capital.	for offshore investors to invest in India, for whom the case isn't applicable at all. However, in order to avoid an onshore fund manager having an affiliate who is a domestic regulated lender trying to utilise evergreening, restrictions can be placed limiting the total unit contribution by fund managers to 10%.
	I. Proposal vi. Valuation In order to ensure that the NAV calculation is in terms of the disclosures in the PPM, the independent valuer mandated under the FM regulations to undertake valuation of the securities may also be mandated to compute the NAV for each class of units.	NAV calculation for each class of units and security valuation may be conducted by separate, qualified counterparties as disclosed in the PPM.	NAV is almost always computed by market-established fund accountants, while securities (especially debt securities) are valued by specialists such as rating agencies etc. It will be a very niche case, where both NAV provider as well as securities valuer is the same counterparty and is a reputed name too in the market. Requesting for allowing separate counterparties for providing NAV and valuing securities.

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		Although the Proposal currently permits the structuring of equity or units into separate tiers for blended finance objectives, it does not expressly extend the same provision to the segmentation of debt taken by the fund. Allowing similar flexibility for debt, as seen in instruments like CLOs, would enhance the fund's ability to manage risk and attract a broader range of investors.	• CLOs are a well-established asset class among global institutional investors, and their introduction to India via GIFT City offers a compelling pathway to channel international capital into Indian corporate debt markets. GIFT City already serves as a domicile for AIFs that successfully attract international investment within debt funds; positioning CLO structures here is a logical progression to further diversify the types of global capital accessing Indian credit. • The unique characteristics of CLOs resonate strongly with global insurers and pension funds, which allocate substantial resources to these vehicles worldwide. Notably, such institutions frequently exhibit a preference for CLOs over more conventional debt funds due to regulatory guidelines governing their portfolio allocations. • To foster the development of CLOs and CDOs, IFSCA can play a catalytic role by allowing CLO/CDO structures that draw on leading practices from advanced jurisdictions such as US and Europe. Tranching is the bedrock to enable such structures and hence needs to be allowed. Such targeted regulatory innovation would not only align India with global standards but also enable the robust deployment of institutional capital into corporate debt via GIFT City.
9	C1	Suggest we make it clear that AIFs in India are mainly "pro rata" and	

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		"pari passu", and explain that this proposal is neither.	
	D3	Reference to MDBs for India may not be very useful as India would not get concessional finance from MDBs as it is a LMIC.	
	E1	NCQG of \$1.3 trillion was not accepted by developed countries in the last COP and it fell to \$300 billion, and even the sources of that amount are not clear.	
	E2	Revised numbers have increased from \$10 trillion to \$21 trillion.	
	F1	It is better to mention Credit Guarantees as an item explicitly to avoid regulatory confusion as is the case in India.	
	G1	All these concerns have been addressed by SEBI subsequently but still Blended Finance does not work in Indian AIFs because differential instruments can only be used by AIF Manager, MDBs, SIDCs, Central banks and SWFs (which is a limiting regulation).	
	I (III)	For grants, it is important to clarify the FCRA regulations for grants and/or the application of FEMA (and also reference them), or else it may not work for foreign philanthropy.	
10		Corresponding amendments to the IFSCA (Fund Management) Regulations, 2025 are required.	The circular will need to be accompanied by amendments to the IFSCA (Fund Management) Regulations, 2025 to ensure harmony.
	4.4	The ESG schemes are permitted to accept grants up to 20% of the corpus, but circular provides no framework for how such grants should be treated, governed, or	Grants are fundamentally different from capital investments. They are typically non-repayable, come with donor-imposed conditions, and are not

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		accounted for. Suggested Amendment: 4.4 Acceptance of Grants (a) Limits on Grant Acceptance The aggregate amount of grants accepted by an ESG Scheme shall not exceed twenty percent (20%) of the total corpus of the scheme at any point in time. For the purposes of calculating this limit, "corpus" shall include both grant funds and all other funds accepted by the scheme. (b) Issuance of Social Units Grants accepted by an ESG Scheme may be issued against a separate class of units designated as "Social Units" or may be accepted without issuance of units, as agreed between the FME and the grant contributor. The rights, limitations and restrictions attached to Social Units shall be prominently disclosed in the Placement Memorandum. (c) Fees and Expenses Grant funds accepted by an ESG Scheme shall not form part of the corpus for the purposes of calculating fees and expenses payable to the FME. (d) Conflict of Interest The FME shall establish and maintain a written policy for the acceptance, administration, and deployment of grant funds, which shall be disclosed in the Placement Memorandum. Where	subject to the same return expectations as traditional investments. Grants may also include advisory, capacity building, strategic, or technical support, provided either pre- or post-investment. Similar to IFSCA in Paragraph 4.6, SEBI also recognizes this distinction in the AIF Regulations when it provides for: "social units" means units issued by a social impact fund or schemes of a social impact fund to investors who have agreed to receive only social returns or benefits and no financial returns against their contribution. A similar approach could be tailored for funds raised through grants, such as representation in the investment/ advisory committees to ensure alignment with ESG and governance standards. The circular does not address whether grant funds will be considered part of the "corpus" for the purpose of calculating fees and expenses payable to the FME. The IFSCA (Fund Management) Regulations, 2025 are also silent on this. It would be antithetical to social good if FMEs could treat grant funds as part of corpus for fee calculations, thereby earning management fees on funds not deployed for investment returns. The circular is also silent on how conflicts of interest arising from donor-imposed conditions on grant deployment will be

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		a grant contributor imposes any conditions on the deployment of grant funds, such conditions shall be: (i) disclosed in the Placement Memorandum; (ii) consistent with the investment thesis of the scheme; and (iii) subject to due diligence by the FME to ensure that such conditions do not create a conflict of interest with the FME's fiduciary duties to other investors in the scheme. (e) Reporting and Audit Grant funds accepted by an ESG Scheme shall be accounted for separately in the books of the scheme and the annual audited financial statements of the scheme. The independent valuer appointed for the scheme shall, in its annual valuation report, certify that: (i) grant funds have been accounted for separately and in accordance with the disclosures in the Placement Memorandum; and (ii) the calculation of fees has not included grant funds contrary to the provisions of paragraph (c) above. (f) Winding Up Subject to Regulation 131 of the IFSCA (Fund Management) Regulations, 2025, if grant funds remain unutilized upon the winding up of the scheme, no part of the unutilized grant funds shall be distributed to the FME or to any other investor of the scheme. Instead, such funds shall be returned to the grant provider.	managed. It is useful to address conflicts of interest between grant giver and other unitholders; ensure that grant conditions are disclosed; and grants do not undermine the fiduciary duties of the FME. As such, there is a significant risk of misalignment between grant providers, other commercial investors, and the FME. Grant providers may expect their grants to be deployed with specific impact objectives, while the FME's fiduciary duties to all investors may conflict with such end use restrictions.
	4.10	The proposed mitigation is insufficient to address the risk of	The proposed restriction in paragraph 4.10 does not prohibit a

Sr. No	Paragraph No. as per Annex 1 of the Consultation Paper	Comments/Suggestions/Proposed Amendment	Detailed Rationale
		evergreening loans. A lender is not effectively prohibited from using a subordinate/junior class of units to hide a stressed asset. Suggested amendment: 4.10. Due Diligence for Preventing Evergreening (a) Due Diligence For every eligible scheme issuing multiple classes of units with differential distribution rights, the FME shall carry out specific due diligence, prior to making any investment, to prevent the circumvention of prudential norms specified by any relevant regulatory authority with respect to income recognition, asset classification, provisioning, and restructuring of stressed assets. The FME shall ensure that the scheme does not make any investment that would result in an entity regulated by the RBI (or an equivalent banking, financial or fund regulator) acquiring or holding, directly or indirectly through the scheme, an interest or exposure in an investee company that such entity is not permitted to acquire or hold directly under applicable law. (b) Investment Monitoring The FME shall ensure that the amount invested by the scheme is not utilised by an investee company, directly or indirectly, to discharge any of its obligations or liabilities towards the investors of the scheme or their associates.	scheme from investing in an investee company that has an existing loan from one of the scheme's investors or require any prior due diligence on the part of the FME. It only prohibits the investee from using the funds to repay that investor. FMEs should be required to conduct due diligence on the investor-investee relationship before investment, creating accountability at the origination stage. In this regard, attention is drawn to SEBI Circular No.: SEBI/HO/AFD/AFD-POD-1/P/CIR/2024/135 dated October 08, 2024 which suggests an alternative approach. Paragraph 6 of the SEBI Circular prohibits the act of investing if due diligence standards are not met. It requires either exclusion of the relevant investor or abstention from investment.

IFSCA Response:

During the public consultation, comments were received from various stakeholders. The proposals were suitably modified based on the comments received from the stakeholders and recommendations of the Fund Management Advisory Committee. The revised proposals were placed before the Authority in the meeting held on July 24, 2026. The comments received from the stakeholders were also placed before the Authority.