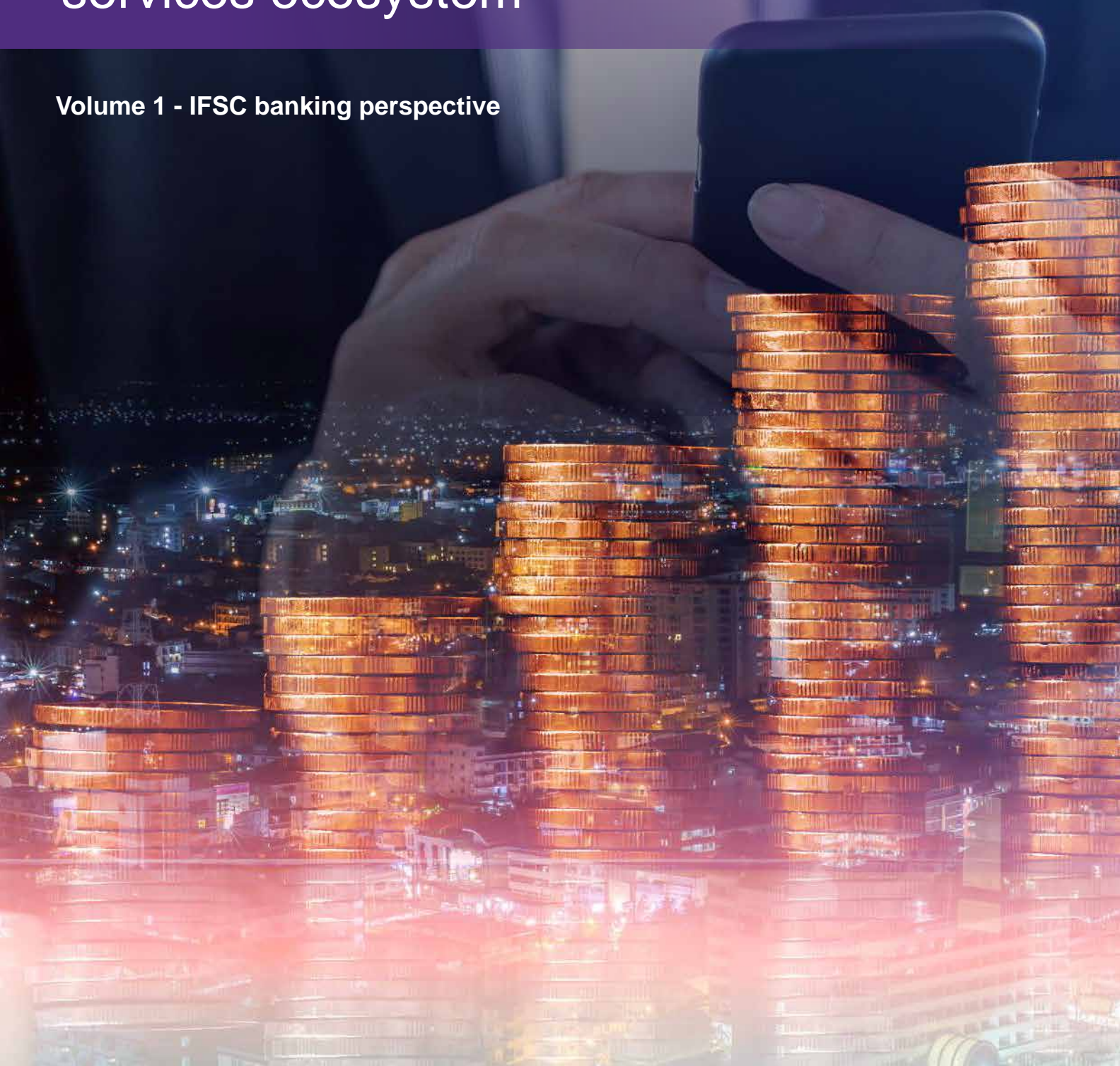


GIFT City

Strengthening India's financial services ecosystem

Volume 1 - IFSC banking perspective



Contents

Chapter I – Introduction and background	3
Chapter II – Setting up operations in GIFT City	10
Global Administrative Offices (GAO)	10
Global In-house Centres (GICs)	12
IFSC Banking Unit (IBU)	13
Chapter III – Regulatory framework for IBUs	14
Part I – List of permitted activities	14
1. Deposit products	15
2. Borrowing and lending products	20
3. Trade products	21
4. Derivative products	23
Part II – Prudential regulatory framework	25
1. Capital requirements	25
2. Risk management	26
3. Regulatory reporting	27
Part III – AML and CFT framework	28
Part IV – Other governance frameworks	31
1. Dispute resolution and arbitration procedures	31
2. Data privacy guidelines	31
Chapter IV – GIFT City: The road ahead	32
I. Strengthening the regulatory framework	33
II. Strengthening infrastructure	34



Chapter I – Introduction and background



India is the sixth largest economy in the world with a GDP of USD 3.2 trillion¹ and is poised to become a USD 5 trillion economy by 2025, given the ambitious goal set forth by the Indian Prime Minister.

The financial services industry in India is also making great strides. There is a growing demand for financial services, given the rising income across income brackets, with an increase in the working population and individual income.

Some of the key achievements and growth trends of the financial services industry and the banking sector in particular are articulated below²:

01

Financial technology or fintech, as a whole, is gaining traction. With more than 2,100 fintechs currently operating in India, the economy is positioned to become one of the largest digital markets, with rapid expansion of mobile and internet. By 2025, India's fintech market is expected to reach INR 6.2 trillion.

02

India is the world's largest market for Android-based mobile lending apps, accounting for ~82% of all online lenders worldwide. India currently has 887 active lending apps.

03

The digital payments revolution will trigger massive changes in the way credit is disbursed in India. Debit cards have radically replaced credit cards as the preferred payment mode in India after demonetisation. In May 2022, Unified Payments Interface (UPI) recorded 5.95 billion transactions worth INR 10.41 trillion (USD 133.46 billion).

04

India's mutual fund industry has experienced immense growth. As of July 2022, the assets under management (AUM) managed by the mutual fund industry stood at INR 37.75 trillion (USD 474.87 billion), and the total number of accounts stood at 135.6 million.

05

There is growth potential in India's insurance industry. The insurance market could reach USD 250 billion by 2025. It also offers USD 78 billion of additional life insurance premiums from 2020-30. The government has approved 100% FDI for insurance intermediaries and raised the FDI limit in insurance sector to 74% from 49% in Union Budget 2021-22.

06

The government of India has taken various steps to deepen reforms in the capital market. In 2019, investment in Indian equities by foreign portfolio investors (FPIs) touched five-year high of INR 101,122 crore (USD 14.47 billion). Investment by FPIs in India's capital market reached a net INR 12.52 lakh crore (USD 177.73 billion) between FY20-21.

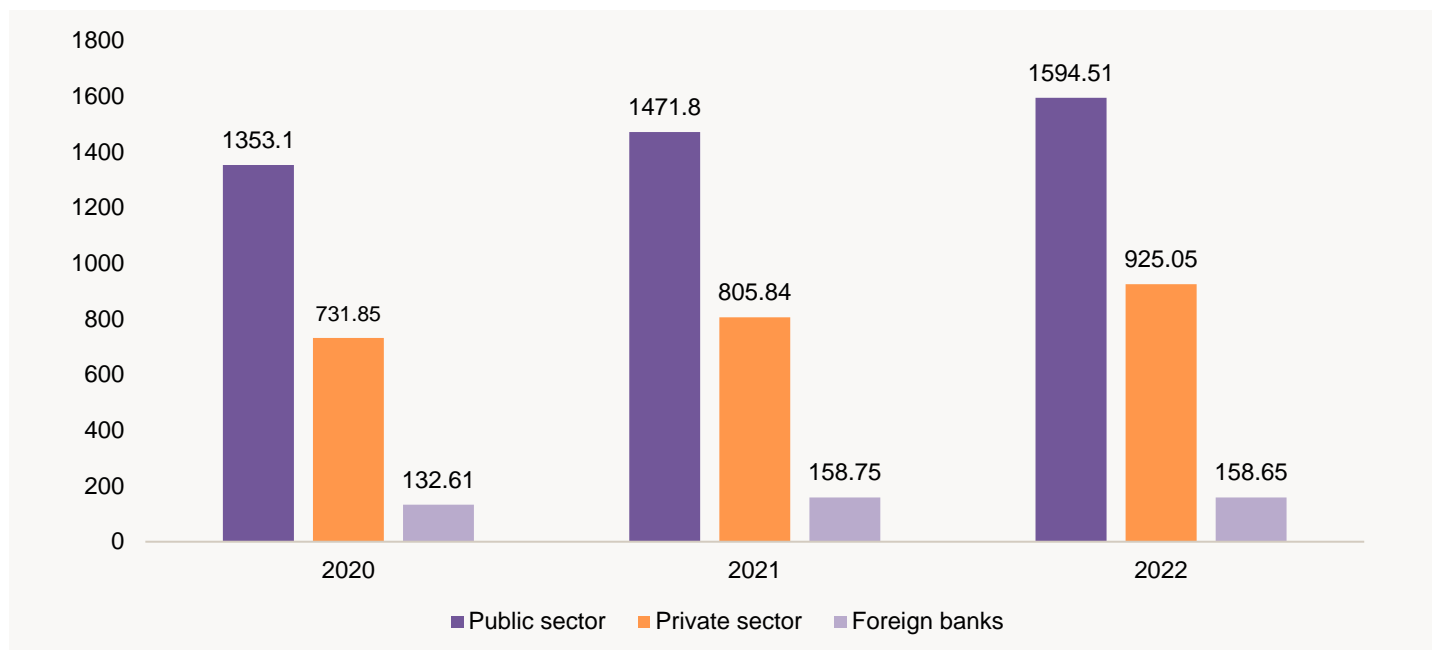
¹ <https://www.investopedia.com/insights/worlds-top-economies/>

² <https://www.ibef.org/industry/financial-services-india>

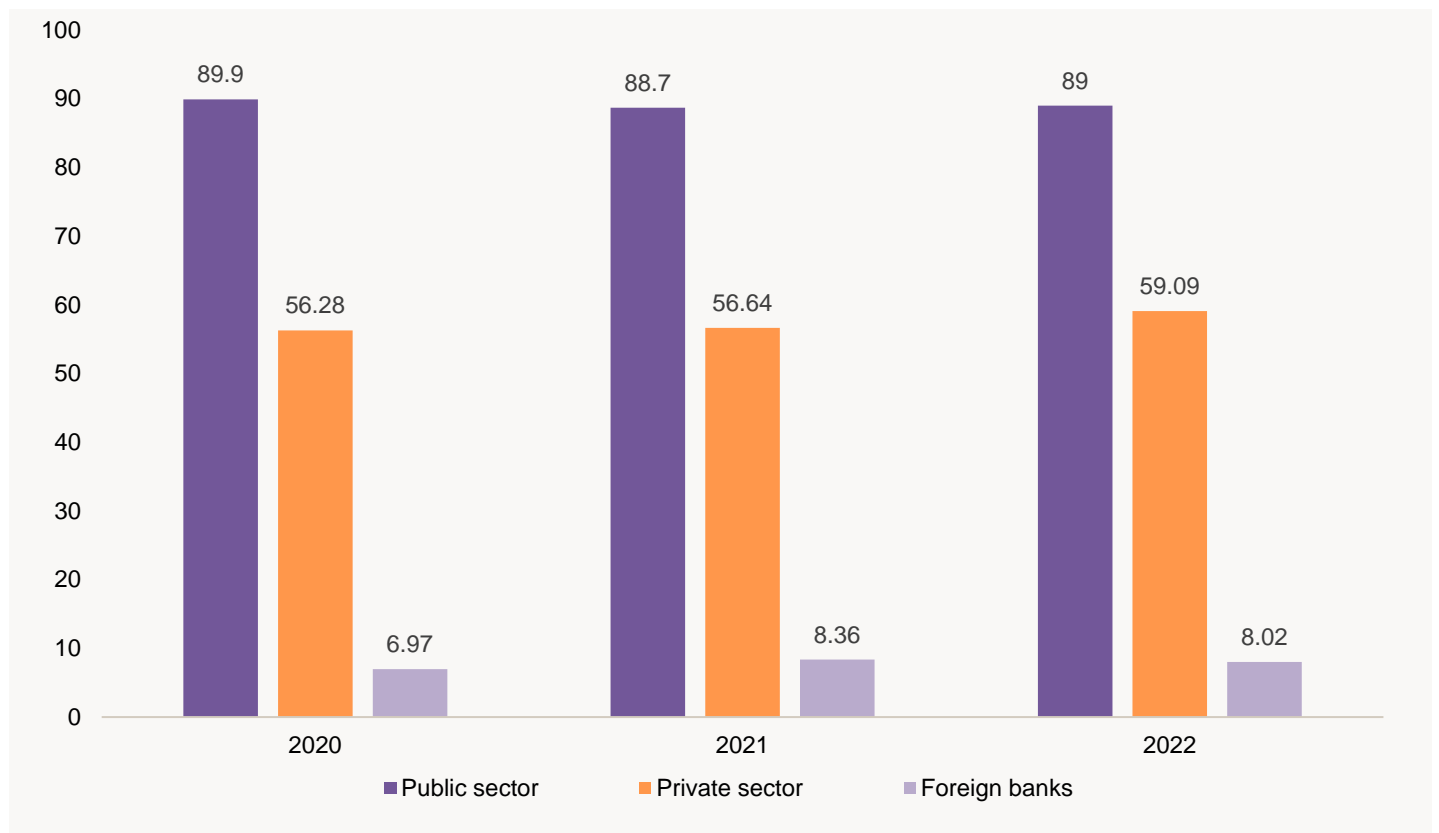
<https://www.ibef.org/industry/banking-india>



The growth in India's banking sector assets can be seen from the graph below (USD billion)



Similarly, the growth in interest income can be demonstrated as below –





India is also a large contributor to global financial services and is taking steps to increase its contribution to a great extent. Even so, there is still a need to make more efforts to increase the country's participation in international financial flows. India is not fully able to tap its potential in this domain mainly due to constraints on account of infrastructure and advancements in technology.

The International Financial Services Centre (IFSC) in

the Gujarat International Finance Tec-City (GIFT City) was formed with this objective in mind. India has always been a powerhouse of top talent, and GIFT aspires to develop an IFSC that harnesses the power of India's talent house while providing world-class technology and infrastructure to global firms seeking to set up shop in India.

The government of India operationalised the IFSC at the GIFT Multi Services SEZ in April 2015.

A key timeline of events since the establishment of IFSC in GIFT City is summarised as follows

2021

- Operating guidelines for wealth management business in IFSC issued
- Guidelines issued for market infrastructure institutions
- Framework issued for aircraft leasing for finance companies
- Insurance intermediary guidelines issued

2019

Establishment of unified regulator in IFSC through 'IFSC Authority Act', 2019

2017

Company law exemptions granted to IFSC units

2015

- The government of India notified India's first IFSC in GIFT City
- IFSC regulations issued by financial regulators – RBI, SEBI, IRDAI

2022

- Framework issued for fintech entities in IFSC
- Fund management regulations issued by IFSCA

2020

- IFSC authority notified with its headquarters in GIFT City
- Regulations issued for finance companies in IFSC
- Regulations for ancillary services and custodian services in IFSC
- Global In-House Centres (GIC) Regulations, 2020 issued
- IFSCA issued banking regulations, 2020
- Setting up of International Bullion Exchange in IFSC announced in Budget 2020 and Bullion Exchange Regulations issued

2018

Operating guidelines for AIFs in IFSC issued by SEBI

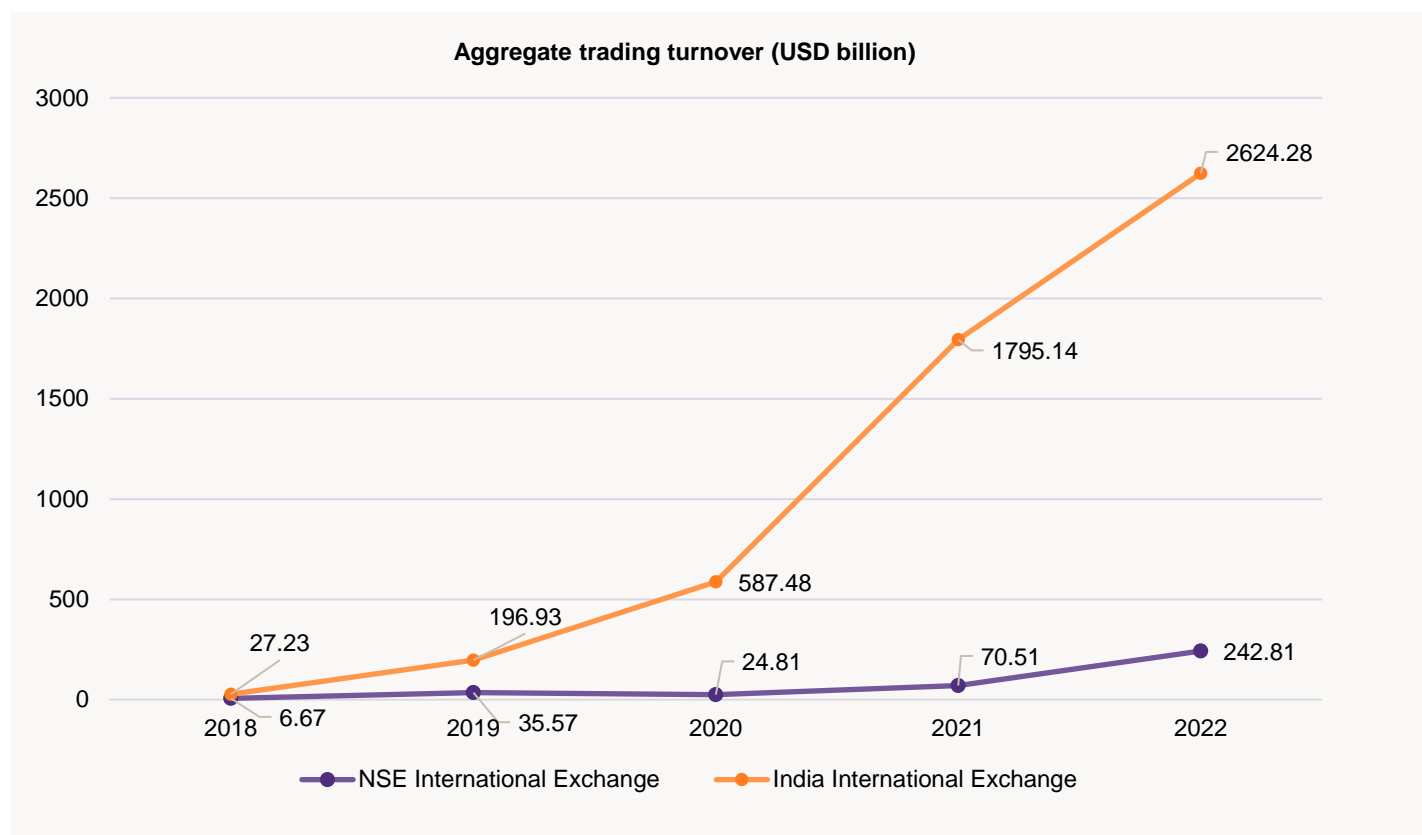
2016

- Two international exchanges established in IFSC
- Competitive tax regime introduced for GIFT City



The GIFT City has made considerable progress since then. Indian and foreign banks alike have set up operations in IFSC. In the 32nd edition of the Global Financial Centres Index published in September 2022³, the GIFT City has been ranked 3rd among the top 15 centres that are likely to become significant in the next two to three years.

The graph below comprising turnover data of the two international exchanges in IFSC also indicates a strengthened focus on growth in IFSC:



There are nine private sector banks, four public sector banks and seven foreign banks that have set up operations in IFSC. This is in addition to the insurance companies and capital markets players that have also set up operations in IFSC.

³ https://www.longfinance.net/media/documents/GFCI_32_Report_2022.09.22_v1.0_.pdf



Some of the key enablers for IBUs in IFSC can be described as follows:

01

The government has provided a competitive tax regime that shall benefit entities in the GIFT City. This includes, among other things, a 100% tax holiday for 10 out of 15 years, minimum alternate tax (MAT) credit, exemption from Goods and Services Tax (GST) and custom duty.

02

In order to ensure ease of doing business, the International Financial Services Centre Authority (IFSCA) has adopted principle-based regulations and provided considerable relaxations to IBUs in terms of the regulatory framework to be adopted. This is also beneficial for entities from an operational standpoint, as they will need to adopt regulatory frameworks already put in place by the parent entities.

03

The prudential ratios, such as minimum capital, liquidity coverage ratio and net stable funding ratios, can be maintained at the parent entity level.

04

In order to streamline accounting framework and procedures with global practices, units in IFSC are permitted to adopt International Financial Reporting Standards (IFRS). This shall ensure ease in accounting and maintenance of accounting records both at the parent level as well as for the IFSC banking unit.

05

The GIFT City serves as a platform for raising global capital at competitive rates. Global capital is an important tool for economic growth and the IFSC provides the much-needed platform for Indian and foreign companies to raise foreign capital.

06

The IFSC provides a convenient platform for onboarding corporate and retail clients.

07

In order to promote ease of doing business, the companies setting up units in the IFSC are provided with the advantage of low rentals and administrative costs, including legal charges, etc.

08

The IFSCA has been formed as a unified regulator to promote ease of doing business. This will ensure that IFSCA serves as a one stop shop for all regulatory licensing needs, reporting and compliance requirements.

09

The IFSC also provides an opportunity to participate in international bullion markets.



The International Financial Services Centre Authority

In order to ensure a deeper focus on regulation and supervision, the IFSCA was set up as a unified regulator for the development and regulation of financial products, financial services and financial institutions in IFSC. Before the establishment of IFSCA, the domestic regulators, namely, the RBI, SEBI, IRDA and PFRDA, regulated the entities operating in IFSC.

The IFSCA was formed with the primary objective of promoting ease of doing business and providing a world-class regulatory environment, akin to global regulatory frameworks. The unified regulator was established with an objective of serving as a one-

stop shop for all regulatory requirements and focused supervision and regulation of the entities in the IFSC, including inter-regulatory coordination and collaboration with supervisors in the home country of the IFSC banking units and to serve as a global platform to the world economy.

The IFSCA has been established by the central government under the International Financial Services Authority Act, 2019. The IFSCA comprises the below-mentioned departments that ensure adequate regulation and supervision of the financial services sectors:

Department of banking

- Division of Banking Regulation
- Division of Banking Supervision
- Division of Finance Company Regulations

Department of capital markets

- Division of Corporate Finance – Equity, hybrid and related products
- Division of Corporate Finance – Debt and sustainable finance
- Division of Market Infrastructure Institutions – Regulation and supervision
- Division of Investment Funds - I and new products and services
- Division of Investment Funds - II and aircraft leasing

Department of insurance

- Division of Insurance

Department of precious metals

- Division of Market Structure and Risk Assessment
- Division of Technology & Supervision
- Division of Products - Development and regulation
- Division of Regulatory Affairs and Coordination



Department of development

- Division of Development of Financial Market and International Affairs

Department of economic policy and analysis

- Division of Economic Policy and Analysis

Department of general administration

- Division of Administration & HR
- Division of Treasury, Finance and Accounts

Department of IT and fintech

- Division of IT
- Division of Fintech

Department of legal policy and legal affairs

- Division of Legal Policy
- Division of Legal Affairs



This knowledge series document is written with an intent to explain the regulatory framework applicable for the banking sector. The next volumes will be focused on other financial services sub-sectors.



Chapter II – Setting up operations in GIFT City

A banking company seeking to undertake operations in the GIFT City can do so through the below modes depending on the objectives of setting up operations:



Global Administrative Offices (GAO)

The IFSCA vide IFSCA (Banking) (Amendment) Regulations, 2022, has introduced the GAO framework for a banking company incorporated in India or outside India to set up GAO as a branch.

A banking company may set up office in GIFT as a GAO, which shall manage, administer, and coordinate operations of the parent bank or any of the group entities within or outside of IFSC and/or provide support services for executing permitted activities within or outside of IFSC.

The Authority has defined support services, permitted activities and group entities under the Act, which shall enable GAOs to understand the remit of their activities and objectives of operation.

Support services has been defined to include

ancillary activities and processes required for execution of permitted activities. For the removal of doubts and considering the increasing importance of professional services for the development of financial services within IFSC, the Authority has also provided a framework for enabling such ancillary activities dated February 2021.

Under this framework, service providers may engage in services such as legal, secretarial and compliance, auditing, accounting, bookkeeping and taxation services; professional and management consulting services; administration, assets management support services and trusteeship services and other such services approved by the Authority. The Authority has also defined certain reporting requirements that service providers will need to comply with.



Application process for opening of a GAO

Eligibility for setting up of a unit of GAO includes:

- A banking company incorporated in India or outside India is permitted, subject to conditions prescribed by the Authority, to set up GAO in the IFSC as a branch.
- A banking company incorporated in India or outside India and having an IBU or Representative Office (RO) in the IFSC is also permitted to set up an GAO.

1 Obtain approval of the board of the banking company for setting up GAO in IFSC

3 Identification of office space in the GIFT City and secure Provisional letter of allotment (PLOA)

5 Application to IFSCA for GAO as per the prescribed format, along with the business plan

7 Commencement of business

2 Ensure applicant bank complies with the laws of its home country/ jurisdiction

4 Application to the Development Commissioner of SEZ and obtain letter of approval (LOA)

6 IFSCA, after due consideration, shall provide 'grant/letter of permission' to set up a GAO at the IFSC

The Authority has provided a simplified framework for application, which includes eligibility conditions, application procedure and documentation and manner of administration of operations of the GAO.

While making an application, banks shall provide information on the company, ownership and management, asset size of the bank in the home country and globally, and supervisory arrangement in the home country. The applicants are also required to put up detailed and approved business plans before the Authority.

While the Authority has provided flexibility to units to adopt the regulatory framework of the banking company in the home country, the Authority makes a due consideration of such regulatory framework at the application stage. This includes an assessment of the supervisory framework and prudential guidelines applicable in the home country, bank's compliance with the supervisory framework, supervisory restrictions placed by home country supervisors and action plan, if any, put in place. This is a prudent practice to assess and conduct a due diligence of the supervisory framework applicable to the home country, as this will determine licensing as well as monitoring to be done by the Authority post granting the license to operate within the IFSC.

Certain key aspects stemming out of the framework for GAOs include:

- The GAO is not permitted to book any banking or trading transaction on account or on behalf of the banking company.
- The banking company shall ensure that the activities of its GAO in the IFSC pertaining to a jurisdiction outside the IFSC are undertaken subject to the directions and instructions of the relevant regulator in the said jurisdiction.
- The GAO shall maintain proper records of its activities and functions, and preserve the same for at least seven years.
- The GAO shall be headed by the Head-GAO, who shall be responsible for the activities undertaken by the GAO and overall operations. The individual on this position shall be a resident individual and shall operate out of the IFSC.



Global In-house Centres (GICs)

In India, the GIC model has been structured since more than a decade now. What initially started as a means of cost arbitration and efficiency has now metamorphosed into centres of innovation. Multinational companies initially looked at India for outsourcing some of their business functions with an objective of achieving cost efficiency. However, over time, with a growing need for quality control, there was a considerable shift from outsourcing to offshoring, which led to the advent of GICs in India.

While over the past decade, GICs in India have been offering support in operational areas such as finance, human resources, information technology, administration and procurement, the GIC model has matured to a great extent with the availability of top-quality talent and influx of technology in India. It is only natural for GICs to play a larger role and transform into global innovation hubs for their parent companies.

As per NASCOMM, India accounts for 45% of the GICs of the world, with more than 1,800 GICs set up in India. With the growth in revenue projected for India, GICs are the future of global businesses. With this objective in mind, the IFSCA issued regulations to set up GICs in the GIFT City. The Authority has issued International Financial Services Centers Authority (Global In-House Centers) Regulations, 2020, in this regard.

A banking company can set up operations as a GIC in IFSC for providing support services, directly or indirectly, to entities within its financial services group.

The financial services group has been defined as any entity that is regulated by a financial services regulator, or any other competent body regulating financial services activities in its home jurisdiction and include its holding, subsidiary or associate companies, branch, or subsidiary of a holding company to which it is also a subsidiary. This includes, but is not limited to, banks, NBFCs, financial intermediaries, investment banks, insurance companies, re-insurance companies, actuaries, brokerage firms, funds, stock exchanges, clearing houses, depositories and custodians.

Thus, the Authority has defined GIC to include an entity that provides support services exclusively to its financial services group, with entities in the group being located in FATF compliant jurisdictions only.

The Authority has stipulated reporting requirements for GICs, as well as requirements with respect to maintenance of books of accounts. An important aspect specified in the case of GICs is with respect to employee transfers. With quite a few GICs already in operation within the domestic territory in India, banks would find it convenient to share employee bandwidth and put in place employee transfer arrangements. However, the Authority has clearly stipulated that relocation of employees from an existing entity in the domestic area in India shall be permissible with respect to supervisory personnel only, which may be allowed with prior approval of the Authority up to a maximum of 20% of the strength in such category.

Let us understand the key points of difference between a GAO and a GIC:

While the Authority has permitted support services in addition to management, administration and coordination of operations of the banking group in the case of a GAO, the Authority only permits support services in the case of a GIC.



GICs are permitted to provide services to non-resident entities only, while a GAO is permitted to provide services to entities within or outside the IFSC.



IFSC Banking Unit (IBU)

Indian banks and foreign banks can apply to the Authority for grant of license to set up an IFSC banking unit.

A banking unit has been defined as a financial institution set up in the IFSC, which is engaged in rendering financial services in respect of any financial product, which includes securities, contracts of insurance, deposit, credit arrangements, foreign currency contracts other than contracts to exchange one currency for another that are to be settled immediately.

The Authority has also defined financial services to include a wide array of services ranging from traditional banking to insurance, asset management, investment management and such other services that are:

- (i) Buying, selling or subscribing to a financial product or agreeing to do so
- (ii) Acceptance of deposits
- (iii) Safeguarding and administering assets consisting of financial products, belonging to another person, or agreeing to do so
- (iv) Effecting contracts of insurance
- (v) Offering, managing or agreeing to manage assets consisting of financial products belonging to another person
- (vi) Exercising any right associated with a financial product or financial service
- (vii) Establishing or operating an investment scheme
- (viii) Maintaining or transferring records of ownership of a financial product
- (ix) Underwriting the issuance or subscription of a financial product
- (x) Providing information about a person's financial standing or creditworthiness
- (xi) Selling, providing or issuing stored value or payment instruments or providing payment services
- (xii) Making arrangements for carrying on any of the services in sub-clauses (i) to (xi)
- (xiii) Rendering or agreeing to render advice on or soliciting for the purposes of:
 - a) Buying, selling or subscribing to a financial product; or
 - b) Availing any of the services in sub-clauses

(i) to (xi), or

- c) Exercising any right associated with a financial product or any of the services in sub-clauses (i) to (xi)
- (xiv) Any other service that may be notified by the central government from time to time

Procedure for application

The application to set up an IBU shall necessarily be made by the parent bank considering the following requirements:

1. Provision of a minimum capital of USD 20 million or equivalent to be maintained on an unimpaired basis
2. Furnishing letter from regulator in the home country certifying no objection in setting up the IBU
3. Undertaking from the parent bank for providing liquidity to its BU whenever needed for the operations of the BU

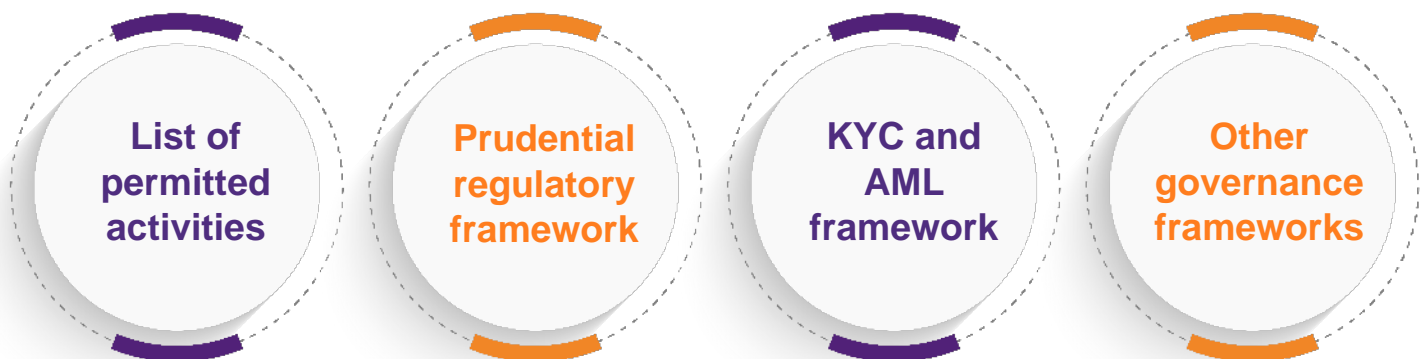
Every parent bank shall be permitted to establish only one banking unit in each International Financial Services Centre as a branch. Representative offices shall be allowed to be set up in the IFSC, under a suitable mechanism, subject to such conditions as may be specified by the Authority.

The Authority shall make a careful consideration of various factors in making a decision for the grant or rejection of license. Considering the operational and regulatory flexibility provided to the banking units setting up operations in the IFSC, the Authority shall prudently consider the supervisory remit and framework of the home country regulator and whether the same aligns with the supervisory principles laid down by the Basel Committee on Banking Supervision, among other factors.



Chapter III – Regulatory framework for IBUs

Let us understand the below mentioned components to make an assessment of the regulatory framework:



Part I – List of permitted activities

The Authority has defined a set of activities that banking companies may undertake in the GIFT City through their GAOs or IBUs. These activities may be undertaken in respect of financial products defined in the IFSCA Act, 2019, or in respect of business listed under Section 6 of the Banking Regulation Act, 1949.

The banking products that an IBU can deal in can be grouped under the following categories:

1. Deposit products
2. Lending products
3. Trade products
4. Derivate products



The features of the above-mentioned products, along with the regulatory framework, are detailed out below:

1. Deposit products

Acceptance of deposits being the core function of banks, IBUs are permitted to raise deposits from the public, which shall be repayable on demand or otherwise and shall be used for the purpose of lending and investment by the IBU.

Given below are some of the types of accounts that IBUs are permitted to deal in:

- a. In the case of individual client, IBUs may open savings, current and term deposit accounts in any freely convertible foreign currency
- b. In the case of persons other than individuals, IBUs may open current and term deposit accounts in any freely convertible foreign currency
- c. For individual persons residing in India, IBUs may open, hold and maintain accounts in freely convertible foreign currency for undertaking permissible current and capital account transactions under the Liberalised Remittance Scheme (LRS).

Let us understand some of the key directions issued by the Authority in this regard:

I. Type of customers

IBUs providing financial product or service to clients must classify them as retail client, professional client or market counterparty. All new clients will need to be notified about their classification.

An IBU may classify a person as belonging to different categories of client in respect of financial products, services or transactions.

Retail clients

The category of retail clients is a residual category and includes all clients that cannot be classified as professional clients or market counterparties.

Professional clients

Professional clients can be deemed professional or assessed professional clients. The following 14 classes are classified as deemed professional, unless they have been classified as a market counterparty:

- A national or regional government.
- A central bank.





- A public body that manages public debt
- An international or supranational institution (such as the World Bank, the International Monetary Fund, or the Asian Development Bank) or another similar international organisation
- A regulated financial institution, including a bank, securities firm, or insurance company
- Market infrastructure institution, or any other authorised or regulated exchange, trading facility, central securities depository, or clearing house
- Collective investment scheme or its management company, or any other authorised or regulated collective investment undertaking or the management company of such an undertaking
- A pension fund or the management company of a pension fund
- A commodity dealer or a commodity derivative dealer
- A body corporate whose shares are listed or admitted to trading on any exchange of a country / jurisdiction that is a member of the International Organisation of Securities Commissions (IOSCO)
- A trustee of a trust, which has, or had, during the previous 12 months, assets of at least USD 5 million
- A 'Large Undertaking' that, as at the date of its most recent financial statements, meets at least two of the following criteria:
 - It has total assets of at least USD 5 million on its balance sheet
 - It has annual turnover of at least USD 10 million, or
 - It has own funds of at least USD 1 million
- A non-individual entity enjoying credit facility with any branch or subsidiary of the banking company of which the IBU is a branch
- Any other institutional investor whose main activity is to invest in financial instruments, including an entity dedicated to the securitisation of assets or other financial transactions

The following may be treated as assessed professional clients:

- The client has net assets of at least USD 250,000; and either (i) the IBU assesses the client, on reasonable grounds, to have sufficient experience and understanding of relevant financial products, financial services, transactions and any associated risks;
- or (ii) the client works or has worked in the

previous two years in any regulated financial institution, including a bank, securities firm or insurance company, in a position that requires knowledge of the type of financial products, financial services and transactions envisaged.

Classification as above requires the IBU to follow certain steps:



While making an assessment for classifying clients as assessed professional clients, IBUs shall consider a range of factors, such as knowledge and understanding of financial products, services and transactions and associated risks, experience in financial market activity, size and nature of transactions, relevant qualification and training, composition and size of investment portfolio, etc.



Market counterparties

Market counterparties shall include the below:

- Persons meeting the requirement to be classified as deemed professional client
- Persons meeting the requirement to be classified as an 'Assessed Professional Client' and is the subsidiary of a holding company that is a deemed professional client by virtue of being a large undertaking

II. Type of deposit accounts

- a. Current account** – This shall be a non-interest-bearing demand deposit account. IBUs shall permit any number of withdrawals from such accounts, depending on the account balance or a specified limit.
- b. Savings account** – This shall be an interest-bearing demand deposit account. There shall be restrictions on the number and number of withdrawals from this account
- c. Demand deposit account** – This account shall have deposits withdrawable on demand.
- d. Term deposit account** – This shall be an interest-bearing deposit received by the IBU for a fixed term. All term deposits from clients shall have the facility of premature withdrawal. IBUs have been given the flexibility to define policies with respect to interest/ penalties on premature withdrawal, interest on overdue term deposits.
- e. Floating rate deposit account** – This shall be a term deposit account that is linked to an interest rate benchmark.
- f. Notice deposit account** – This shall be a term deposit for specific period but withdrawable on giving at least one complete banking day's notice.
- g. Structured deposit** – This is a term deposit that is repayable at full on maturity. The interest payable on structured deposits is dependent on the performance of reference assets, indices or other economic value factors such as:
 - An index or combination of indices
 - A financial instrument or combination of financial instruments
 - A commodity or combination of commodities or other physical assets
 - A foreign exchange rate or combination of foreign exchange rates

III. Framework for interest rate on deposits

- a. The IBUs shall put in place an interest rate framework that shall be approved by its governing body. The framework shall serve as a policy for determining interest rate on deposits.
- b. This framework shall assist IBUs to determine interest rates in a reasonable and transparent manner and shall be available for a supervisory review at all times.
- c. The interest rate framework approved by the governing body may also permit offering deposits with negative interest rates.
- d. IBUs shall not pay interest on deposits held in current accounts.

IV. Determining interest rates on deposits

- a. IBUs are free to determine the interest rate on savings accounts, manner of calculation of such interest, periodicity of credit of such interest and other related matters.
- b. IBUs are free to determine the interest rate on term deposits/notice deposits and offer differential rates on term deposits based on factors such as tenor of deposits, size of deposits, availability of premature withdrawal option, etc.





V. Framework for structured deposits

Given the risk factors involved in offering structured deposits to clients, the Authority has provided guidelines that IBUs will be required to follow before offering structured deposits to retail and professional clients:

- a. IBUs shall put in place necessary policies for offering structured deposits. These policies shall, inter-alia, comprise the below mentioned framework:
 - Type, class and features of clients to be focussed on for offering such products
 - Internal controls for development of such products
 - Role of compliance, risk and legal functions in development of such products
 - Employee awareness / trainings programmes for due care to be taken while selling such products to clients
 - Product promotion programmes
 - Product approval processes for approval of structured products before issuance
- b. IBUs shall carry out necessary due diligences to assess the client's needs and their understanding of the products and accordingly design the features of the structured deposits customised to the client's needs.
- c. In addition to the above, for each structured deposit accepted by the IBU, the clients shall be provided with a summary disclosure document that shall include details in relation to the below:
 - Description of the product
 - Potential downside risk to the client
 - Applicable guarantees
 - Scenarios analysis of returns on the deposits
 - Qualitative risk description
 - Fees and costs
 - Circumstances under which the depositor can seek premature withdrawal
 - Comparison of the product with a standard term deposit of like tenor and amount

This document shall serve as a risk disclosure document to make the client aware about the risks in entering into such an arrangement.

Reporting and other requirements pertaining to structured products:

- a. IBUs shall submit a certificate to the Authority, signed by the official heading the IBU, stating that all terms and conditions for issuance of structured deposits have been complied with.
- b. IBUs shall also submit a monthly report on structured deposits accepted by them, by the 10th of the succeeding month. Nil report shall be submitted in case of no structured deposits.





VI. Framework for certificate of deposits (CDs)

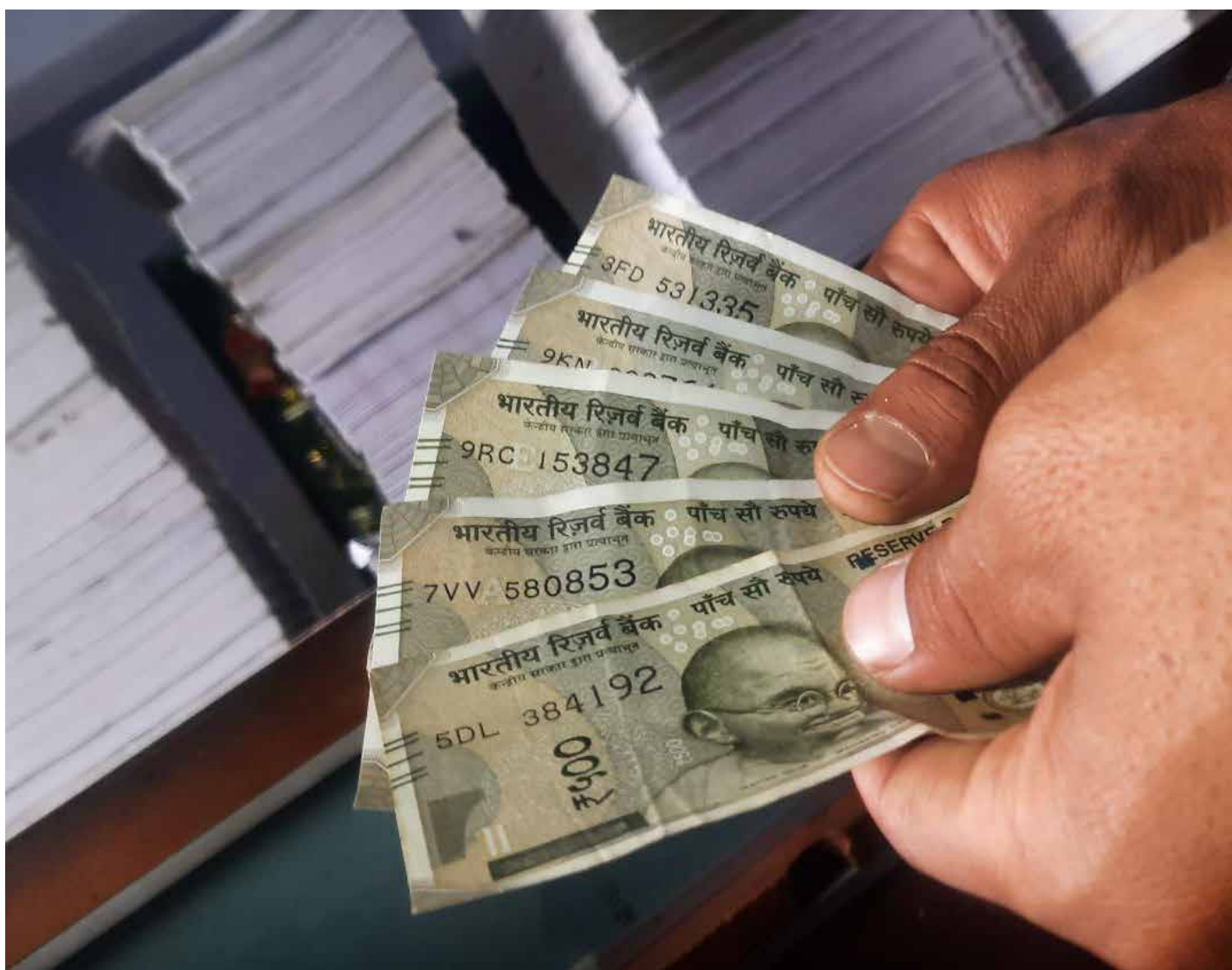
- IBUs are permitted to issue CDs in freely convertible foreign currency for a minimum amount of USD 2,500 or equivalent, with a maturity period of not less than 7 days and not more than 1 year from the date of issuance.
- Such CDs may be issued to persons resident in India or outside India, subject to FEMA compliances.
- IBUs are permitted to issue CDs on fixed or floating rate basis, with methodology of compiling floating rates to be market-based and transparent. CDs may also be issued at a discount to face value.
- The CDs may be issued in either physical form or demat form. IBUs shall follow the guidelines laid down by depositories for transfer of CDs in demat form.

Reserve requirements

- IBUs shall maintain retail deposit reserve ratio (RDRR) on the issue price of CDs issued to individuals.
- Subscribers to CDs are not covered under deposit insurance and further, given that IBUs do not have requirements around cash reserve ratio (CRR), the facility of lender of the last resort is also not available in IFSC.

Certain restrictions on the issuance of CDs include the below:

- IBUs are not permitted to grant loans against CDs issued by them
- While buyback before maturity is permitted, the buyback shall be made only post seven days from the date of issuance of CD





2. Borrowing and lending products

Borrowing and lending as a permitted activity falls under two buckets:

- i. Borrowing from and lending to other IBUs
- ii. Lending to retail and corporate clients

The Authority does not place any restrictions on borrowing and lending arrangements between IBUs, subject to IBUs following their internal guidelines on this.

IBUs are also permitted to lend to retail individual clients within and outside of IFSC. For lending outside IFSC, the IBUs shall follow the laws and regulations of the respective jurisdictions on lending to individuals.

The Authority has provided detailed guidelines for lending to retail and corporate clients, covering the below:

- Credit shall be denominated in freely convertible foreign currency
- IBUs shall comply with the requirements under Foreign Exchange Management Act, 1999, when providing credit to persons residing in India
- IBUs are allowed to avail credit insurance for their lending operations out of IFSC.

Regulatory restrictions on lending arrangements

- For IBUs of Indian banks, restrictions on lending activity as contained under the Banking Regulation Act, 1949, shall apply.
- For IBUs of foreign banks, the above-mentioned restrictions shall not apply.
- IBUs are not permitted to grant loans against the security of shares of the banking company of which IBUs are a branch.
- IBUs are also not permitted to grant loans to directors or related parties of directors of the banking company.
- IBUs shall not provide loans to companies for buyback of their shares and securities.
- No banking company of which the IBU is a branch shall hold shares in any company, whether as pledgee, mortgagee or absolute owner, of an amount exceeding 30% of the paid-up share capital of that company or 30% of its own paid-up share capital and reserves, whichever is less.

However, this restriction does not apply in the below mentioned cases:

- Any such holding for the purposes of a transaction entered in the ordinary course of the business by an IFSC Banking Unit (IBU) of the banking company, or
- Any such holding acquired or held by an IBU of the banking company in the course of satisfaction of debts due to it and which is disposed of at the earliest suitable opportunity





3. Trade products

IBUs are permitted to provide factoring and forfaiting services, undertake remittance services and undertake negotiation of letters of credit of its constituents under the trade products umbrella.

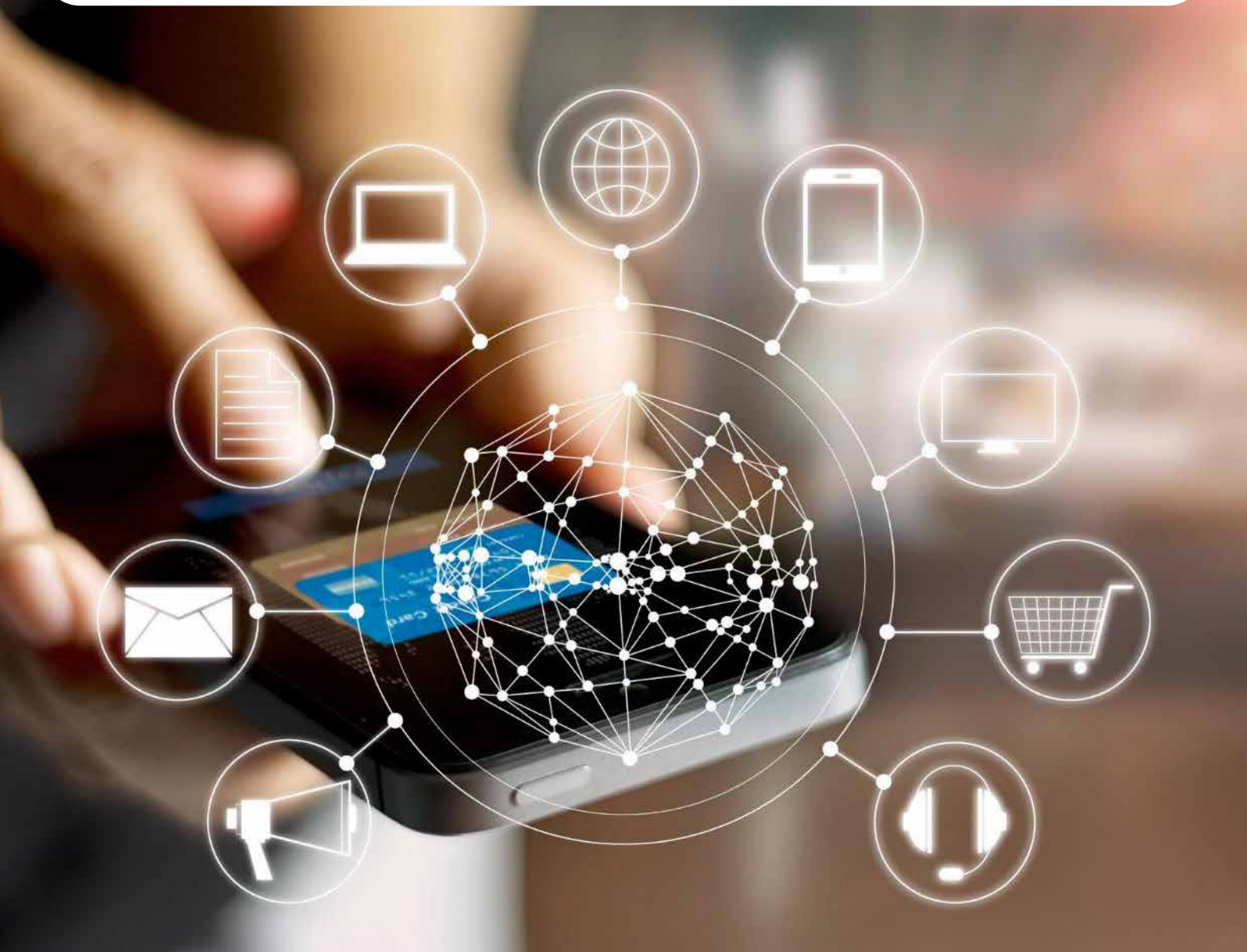
Factoring and forfaiting

Factoring service means transaction/s entered on the basis of a contract concluded between one party (the supplier) and the IBU (the factor) pursuant to which the supplier assigns to the factor receivables arising from contracts of sale of goods made between the supplier and its customers (debtors). IBUs are permitted to enter into factoring arrangements in the IFSC and act as factor/assignee.

Forfaiting service means the service of providing cash payment by the IBU to the exporter against surrender of the exporter's rights to receive payment against the goods and services rendered to the importer.

IBUs can provide the above services through the following modes:

- Through a trading platform set up in the IFSC following the rules of the trading platform
- On a bilateral basis, following the rules laid down by the Authority
- On a bilateral basis, on the basis of a contract entered with the supplier, the terms of which mandate the contract to be governed by the law of a jurisdiction other than India





The guidelines in relation to factoring arrangements include:

- a. Regulations for assignment of receivables
- b. Notice of assignment to debtor and discharge of obligation by debtor
- c. Discharge of liability of debtor on payment to assignee
- d. Rights and obligations of assignor, assignee and debtor and the liabilities of debtor
- e. Principles of debtor protection and defences and right of set-off of debtor
- f. Modification and breach of contract

In addition to the guidelines given above, the assignee shall define procedures for credit appraisal of debtors, genuineness of trade transactions, risk identification and management (including sovereign risk, country risk, currency risk, transfer risk and documentation risk and credit risk).

Further factoring transactions shall be registered with the Central Registry within prescribed timelines under the SARFAESI Act. In addition, as a measure of risk management, the Authority requires assignees to purchase credit insurance for its exposure from insurers in the IFSC or comply with provisions of Section 2CB of the Insurance Act, 1938, for purchase of such insurance.

The Authority has also stipulated guidelines for forfaiting services. Additionally, all entities in the IFSC undertaking forfaiting transactions shall adhere to the International Chamber of Commerce Uniform Rules for Forfaiting (URF 800).

The IBUs shall have a board-approved risk mitigation strategy or policy for identified risks while undertaking factoring and forfaiting business.

Undertaking remittance services

IBUs are allowed to provide remittance services for remittances by their clients to persons residing outside India (including residents of Nepal and Bhutan).

IBUs may permit remittances by their clients to persons residing in India, subject to the provisions of the FEMA Act and rules made thereunder.

IBUs shall undertake remittance activity in any mode/method other than in cash.

Negotiation of Letters of Credit (LCs) for constituents

- IBUs are permitted to negotiate letters of credit of its constituents.
- IBUs shall not undertake negotiation of unrestricted LCs of non-constituents

For this purpose, the term 'constituent' shall be defined as one who has been sanctioned regular credit facility by the IBU or any Indian and/or foreign bank (or its branch) of the bank/bank group to which the IBU belongs.

This is subject to the condition that the said bank (or its branch) is in a Financial Action Task Force (FATF) compliant jurisdiction

For the above-mentioned purpose, a FATF-compliant jurisdiction would be one whose name does not appear in the following publications of FATF:

- High-risk jurisdictions subject to a call for action
- Jurisdictions under increased monitoring





4. Derivative products

The Authority stipulates that IBUs can be market-makers in OTC derivative instruments except offshore derivative instruments (ODIs), where only IBUs holding a foreign portfolio investor (FPI) certificate under SEBI regulations can be market-makers.

IBUs can offer OTC derivative products to the below mentioned category of users:

- Financial institutions defined under the IFSCA Act
- Persons residing in India under the FEMA Act, 1999
- Persons residing outside India under the FEMA Act, 1999

Market-makers shall classify clients as per the below mentioned categories:

- Professional clients
- Counterparties
- Retail clients

This classification shall be undertaken before the start of the relationship and shall be reviewed at frequent intervals, but not less than annually. Clients shall be made known about their classification, and if the client requests to be reclassified from retail to professional and vice versa, the same shall be appropriately documented and signed off by an appropriate authority of the client.

Product framework for derivative instruments

IBUs are permitted to offer derivative products belonging to asset classes of foreign exchange, credit derivatives, interest rate derivatives and offshore derivatives (ODIs).

The following category of generic derivative instruments may be offered to all clients:

- a. Forward rate agreement
- b. Foreign exchange forward
- c. Interest rate swap
- d. Foreign exchange swap
- e. Currency swap
- f. Credit event/default swap
- g. Interest rate option (European)
- h. Interest rate cap (European)
- i. Interest rate floor (European)
- j. Foreign exchange option (European)

In addition to the above, structured derivative instruments may be offered only to professional clients and counterparties. Structured derivatives include derivatives other than generic derivatives or instruments that are a combination of one or more 'Generic derivatives' and cash instruments.





Suitability and appropriateness framework

- IBUs undertaking market-making activities in derivative instruments can do so only for products that they can price independently.
- Market-makers shall practice transparency and fairness when dealing with derivative products and ensure conflicts of interest are mitigated/ managed.
- All forms of risks facing the client, especially in the case of structured products, shall be clearly disclosed to clients.
- Clients shall be provided with all material information on the structured products, including features, costs and risks for their independent evaluation.
- In the case of structured products, market-makers shall further ensure that the structure and risk-reward profile of the financial product is consistent with such client's experience, knowledge, investment objectives, risk appetite and capacity for loss.
- Market-makers shall also establish a compliance function, along with appropriate policies and procedures to ensure compliance with regulations when dealing with derivative products, especially structured derivatives. The policy framework shall include appropriate incentive policies to ensure that only suitable structured derivative products are recommended to customers.
- Market-makers shall comply with guidelines on clearing and settlement of derivatives as well as the appropriate margin requirements.
- IBUs shall report the details of the OTC foreign exchange, interest rate and credit derivative transactions, both inter-bank and client, to the trade reporting platform of the Clearing Corporation of India Limited (CCIL).
- IBUs shall report to the Securities and Exchange Board of India (SEBI) data on ODIs issued by them as per the provisions of the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019.
- IBUs shall send the soft copy of the data being reported by them to CCIL and SEBI to ibu-reports@ifsc.gov.in.
- IBUs shall also comply with the relevant record management guidelines





Part II – Prudential regulatory framework

The IBUs are required to follow the prudential regulations as applicable for the banking company as a whole, unless otherwise stipulated by the Authority.

The view taken by the Authority is that since the IBU operates as a branch of the banking company and is under the same legal entity with the same capital structure, the prudential guidelines issued by the regulator in the home country shall be applicable to the IBU as well. The Authority has stipulated that the home country's regulations shall be based on the updated Basel Framework, including the Basel III reforms issued by the Basel Committee on Banking Supervision.

However, as a measure of prudent risk management, the Authority takes into account the robustness of the

prudential guidelines applicable in the home country while assessing licensing for the IBUs. The Authority also takes into account whether the supervisor in the home country is compliant with the Basel Core Principles for Effective Banking Supervision issued by the BCBS.

While the above has been stipulated with respect to prudential norms, the Authority requires IBUs to comply with certain minimum non-quantitative prudential requirements that have been stipulated by it, in addition to the prudential norms of the home country supervisor.

The framework for the non-quantitative prudential norms encompasses the following:

1. Capital requirements

- While the IBU shall comply with the capital adequacy and minimum capital requirements as applicable on the banking company under the home country regulations, the Authority may also require the IBU to have capital resources or to comply with other capital requirements as considered necessary by it in the interest of effective supervision.
- The banking company shall ensure capital adequacy in relation to the quality, nature, scale and complexity of its business and its risk profile.
- The banking company of an IBU shall provide and maintain a minimum prescribed initial capital (USD 20 million) for the IBU's operations, at all times, on an unimpaired basis. This capital should serve as a buffer to absorb losses from business activities, and in times of stress, it should enable the IBU to continue operations in a sound and viable manner.
- The IBU is permitted to rely on the ICAAP for the banking company of which it is a branch.
- The IBU is required to build in capital management as part of its risk management framework, aligned with risk tolerance thresholds and risk profile. Appropriate stress tests, if any, shall also be built into this framework.
- The Authority shall carry out supervision in respect of capital adequacy and minimum capital requirements in coordination with the home regulator/ supervisor of the banking company.





2. Risk management

2.1 Credit risk

- IBUs shall implement a credit risk management policy comprising of a framework appropriate to its size and risk profile, which shall be approved by the governing body.
- This policy shall, inter-alia, define the risk appetite statement, thresholds and exposure limits and the manner in which the same shall be monitored.
- IBU shall maintain an internal credit grading system and stress test its capital position on an annual basis.
- An IBU must implement and maintain appropriate policies, processes, systems and controls to administer its credit portfolios
- An IBU shall establish a clearly defined criteria for identification and recognition of problem assets
- An IBU must comply with the provisioning norms as specified by the home regulator.
- IBUs shall maintain an exposure ceiling at 5% of the Tier 1 capital of the parent bank in case of a single borrower and 10% of the Tier 1 capital of the parent bank in case of a borrower group

2.2 Market risk

- IBUs shall implement a market risk management policy comprising of a framework appropriate to its size and risk profile, which shall be approved by the governing body.
- The policy shall include the IBU's risk appetite for market risk, investment/ trading strategy between trading and non-trading books, detailed limit structure for market risk and the manner in which the same shall be monitored, including limit exception approval.
- The policy shall also define procedures for new product approval, risk and performance reporting, framework for off-market trades.

2.3 Liquidity risk

IBUs shall implement the Asset Liability Management (ALM) policy.

IBUs shall adhere to the following ratios:

- Liquidity Coverage Ratio (LCR) at a level that is higher of (a) and (b) below:
 - (a) Minimum LCR prescribed by the home regulator of the banking company of which the IBU is a branch, or
 - (b) The minimum LCR prescribed by the Authority from time to time. The minimum LCR as prescribed by the Authority is 100%.
- Net Stable Funding Ratio (NSFR) at a level that is higher of (a) and (b) below:
 - (a) Minimum NSFR prescribed by the home regulator of the banking company of which the IBU is a branch, or
 - (b) The minimum NSFR as and when prescribed by the Authority, from time to time. At present, the Authority has not implemented the requirement for NSFR.

An IBU must –

- Prepare and document a three-yearly funding strategy approved by its governing body supported by robust assumptions in line with the IBU's liquidity management strategy and business objectives.
- Maintain an active presence in its chosen funding markets.
- Maintain strong and regular relationships with funds providers; and
- Must regularly estimate its capacity to raise funds quickly.

An IBU must carry out stress tests regularly for various short-term and long-term liquidity stress scenarios (both firm-specific and market-wide, separately and in combination) to identify sources of potential liquidity stress.



2.4 Operational risk

An IBU shall put in place an operational risk management policy, approved by the governing body. The policy shall cover an approval process for new products, activities, processes and systems, as well as a process to identify and assess operational risk exposures.

The policy shall also include the framework for business continuity and disaster recovery management.

Furthermore, an IBU must establish appropriate policies to assess, manage and monitor the operational risk associated with its outsourced activities, in line with the guidelines laid down by the IFSCA.



3. Regulatory reporting

An IBU shall submit a periodic certification confirming compliance with all prudential limits / ceilings / conditions applicable as per the home regulations, by the banking company, in respect of the IBU's operations.

An IBU shall promptly report any anticipated or actual breach of prudential limits by the banking company, to the Authority. An IBU shall also share with the Authority, a copy of any compliance reports submitted to the home regulator, if called for by the Authority.

An IBU shall furnish a quarterly certificate issued by an authorised official of the banking company about compliance in respect of capital adequacy and leverage ratio for the IBU. The certificate shall form a part of the prudential reporting and disclosures and shall be submitted within 45 days after the end of the quarter or within such time as may be permitted by the Authority.

The Authority may require IBUs to furnish credit information on all their borrowers having aggregate fund-based and non-fund-based exposure above a threshold value as decided and informed by the Authority, for the purpose of setting up a central repository of data base on large exposures.

In addition to the above, IBUs are also required to comply with relevant regulatory reporting requirements of home country supervisors.





Part III – AML and CFT framework

Applicability of the guidelines

- These guidelines are applicable to every regulated entity that is licensed, recognised or registered by IFSCA and to the regulated entities authorised by it.
- These guidelines are also applicable to the financial group of the regulated entity.

Key coverage of the guidelines

Risk-based approach (RBA)

A regulated entity while adopting RBA shall ensure that:

- The RBA is objective and proportionate to the risks.
- The RBA is based on reasonable grounds.
- The RBA is reviewed and updated at appropriate intervals.

Customer due diligence (CDD)

A regulated entity, after assigning risk rating for each customer proportionate to their AML/CFT risks, shall undertake customer due diligence.

Business risk assessment

A regulated entity shall identify and assess business AML risks by taking into consideration the nature, size and the complexity of its business activities and take suitable steps to identify its exposure to ML/TF risks.

Third-party reliance

A regulated entity may rely on a third party to perform CDD measures, subject to the conditions stated in the guidelines.

Customer risk assessment

Risks identified while assessing the business risks shall be used for the customer risk assessment. The outcome of the customer risk assessment shall be used to assign the risk rating of the customer as high, medium or low, proportionate to the ML/TF risks.

Identification and reporting of suspicious transactions

A regulated entity shall establish and maintain policies, procedures, systems and controls in order to monitor and detect suspicious transactions with respect to potential ML/TF.

A regulated entity shall also furnish required information related to suspicious transactions to the Director, Financial Intelligence Unit-India (FIU-IND).



Key compliance requirements emanating from the AML/CFT guidelines

IBUs are allowed to provide remittance services for remittances by their clients to persons residing outside India (including residents of Nepal and Bhutan).

a. Risk-based approach

- Adopt a risk-based approach (RBA) to identify and assess the money laundering (ML) and terrorist financing (TF) risk at an enterprise-wide level, wherever applicable, which shall include a consolidated assessment of the regulated entity's ML/TF risks perception that exist across all its business units, product lines and delivery channels
- Document the enterprise-wide AML/CFT risk assessment, wherever applicable, details of implementation of the AML/CFT risk management systems and controls as guided by the AML/CFT risk assessment
- Review the risk assessment at least once every two years or when a material trigger event occurs, whichever is earlier

b. Business risk assessment

- Identify exposure to ML/TF risk based on nature, size and the complexity of its business activities
- Identify and assess the ML and TF risks that may arise in relation to:
 - Development of new products, business practices, including new delivery mechanisms, and
 - The use of new or developing technologies for both new and pre-existing products
- Implement AML/CFT systems and controls in lines with the ML/TF risks identified via the enterprise-wide ML/TF risk assessment, wherever applicable

c. Customer risk assessment

- Undertake a risk-based assessment of every customer and assign the customer a risk rating proportionate to the ML/TF risks. While assessing, factors such as customer risk, geographic risk, product/service/transaction risk are to be taken into consideration
- This is to be completed before undertaking customer due diligence for new customers, and where the regulated entity otherwise feels necessary, for existing customers

d. Customer due diligence

- Undertake customer due diligence after assigning

risk rating for each customer proportionate to the regulated entity's AML/CFT risks

- Undertake enhanced customer due diligence in respect of the customers who have been assigned 'high risk'
- Undertake simplified customer due diligence in respect of customers who have been assigned 'low risk'
- Conduct ongoing due diligence on the business relationship and scrutiny of transactions undertaken throughout the course of business relationship to ensure that the transactions that are being conducted are consistent with the regulated entity's knowledge of the customer, the customer's business and risk profile, including, where necessary, the source of funds

e. Reliance on third parties

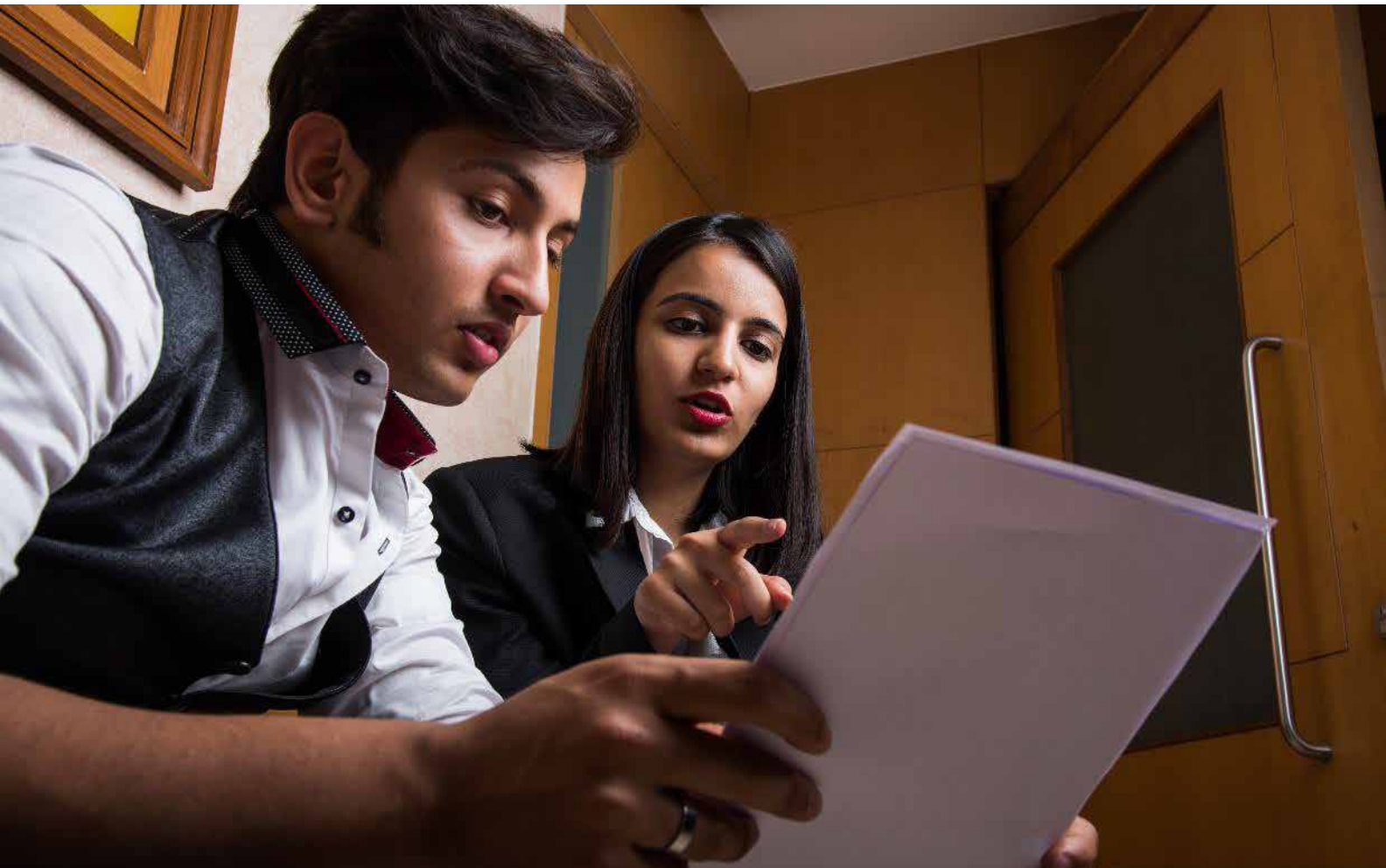
- Obtain records or information of the client due diligence carried out by the third-party, within two days of performance of CDD by the third party
- Ensure that the copies of identification data and other relevant documentation relating to the client due diligence will be made available by the third party upon request, without delay

f. Correspondent banking and wire transfers

- Formulate a policy approved by its governing body, or by a committee headed by the chairman/CEO/MD to lay down parameters for approving correspondent banking relationships
- Assess the suitability of the respondent bank by gathering adequate information, making appropriate inquiries on its management, determining the reputation of the respondent bank, etc.
- Monitor payment messages to and from high-risk countries or jurisdictions, as well as transactions with high-risk countries or jurisdictions and suspend or reject payment messages or transactions with sanctioned parties or countries or jurisdictions

g. Identification of suspicious transactions

- Establish and maintain policies, procedures, systems and controls in order to monitor and detect suspicious transactions with respect to potential ML/TF and follow a structured internal reporting mechanism
- Furnish to the FIU-IND, the required information relating to suspicious transactions
- Maintain confidentiality of Suspicious Transaction Reports (STR)



h. Governance mechanism and internal policies

- Formulate an AML-CFT policy that shall be duly approved by the governing body or by a committee to whom such power has been delegated by the governing body; develop a KYC policy that shall be the part of its AML-CFT policy; implement adequate internal policies, procedures, and controls, taking into consideration its ML/TF risks
- Every member of the regulated entity's senior management is to be responsible for the regulated entity's compliance under these guidelines
- Develop appropriate compliance management, including appointing or designating a principal officer at the management level and also develop a compliance framework
- Maintain an audit function that is adequately resourced and independent, which can regularly assess the effectiveness of the regulated entity's internal policies, procedures and controls. Perform periodic audit of the AML/CFT framework to determine the adequacy of the regulated entity's

AML/CFT policies, procedures and controls, ML/TF risk assessment framework and application of the risk-based approach

- Provide AML/CFT training to all relevant employees, periodically

i. Record keeping

- Maintain adequate record of:
 - i. All documents and information obtained in undertaking initial and ongoing customer due diligence
 - ii. Customer business relationships (both original and certified copies)
 - iii. Suspicious transactions reports and any relevant supporting documents and information, including internal findings and analysis
 - iv. Relevant communications, if made with the FIU on any other matter that the regulated entity may be expressly required to record and maintain, under these guidelines



Part IV – Other governance frameworks

1. Dispute resolution and arbitration procedures

- Section 23 of the SEZ Act allows the state government of the state where the SEZ is located to designate (in concurrence with the High Court's Chief Justice) one or more courts to try civil suits and notified offences committed in the SEZ.
- Section 42 of the SEZ Act states that if such courts have not been designated under Section 23, then notwithstanding anything contained in any other law for the time being in force, for a dispute of a civil nature between two or more entrepreneurs, developers or between them inter se in an SEZ, the disputes are to be referred to arbitration where the arbitrator is to be appointed by the central government.
- Other than what the SEZ Act provides, provisions of the Arbitration and Conciliation Act, 1996, are to apply to such arbitrations also.
- Furthermore, the central government through

Budget 2022 provided for an International Arbitration Center (IAC) to be set up in the GIFT City. It is being established to ensure fast disposal of cases and avoid repetitive appeals. This is on similar lines as the Singapore International Arbitration Centre, or the London Commercial Arbitration Centre.

2. Data privacy guidelines

- There are no specific guidelines in this regard yet.
- However, with respect to trading and clearing business, the guidelines state that the trading servers of the entities shall be located within the IFSC.
- Furthermore, a Tier 4 data centre has been set up by TCS with the objective of handling a broad range of requirements for the GIFT City operations, as well as for customers that operate in the financial district.





Chapter IV – GIFT City: The road ahead



Traditionally, Hong Kong and Singapore have been Asia's largest global financial hubs and have also contributed to the global financial services ecosystem on similar lines as financial centres in London and the West. Some of the key factors contributing to the progress of these centres include a competitive business environment, conducive regulatory frameworks, a stable economic and trade platform that accelerates the pace of the growth owing to the ease of doing business.

A snapshot of the top 20 global financial centres ranked by the Global Financial Centres Index (GFCI) 32 published in September 2022 reveals 8 of the 20 centres belong to the Asian continent:

GFCI 32			
Centre	Rank	Rating	
New York	1	760	
London	2	731	
Singapore	3	726	
Hong Kong	4	725	
San Francisco	5	724	
Shanghai	6	723	
Los Angeles	7	722	
Beijing	8	721	
Shenzhen	9	720	
Paris	10	719	
Seoul	11	718	
Chicago	12	717	
Sydney	13	716	
Boston	14	715	
Washington DC	15	714	
Tokyo	16	713	
Dubai	17	712	
Frankfurt	18	711	
Amsterdam	19	710	
Geneva	20	709	



However, in recent years, there has been an exodus of sorts, especially from Hong Kong. This is on account of reasons attributable to the latest National Security Law implemented in the country, as well as political tensions and COVID-19 restrictions.

Financial services firms and private equity investors are increasingly viewing Singapore as an alternative to Hong Kong. Historically, both countries have had a largely common ecosystem of low corruption, efficient legal systems, low tax regimes, conducive regulatory frameworks and have ranked closed on indices such as ease of doing business, competitive environment, talent and innovation. The exodus, if continued at the current pace, will create a strain on Singapore's infrastructure, especially impacting social needs such as housing, education and transportation, and potentially increase inflation.

India, being the latest entrant, can look at expanding its reach and tapping the potential of the GIFT City IFSC to cater to the increasing need for a shift from the traditional centres. The government, the Ministry of Finance and the Authority can take coordinated steps towards the below mentioned objectives:

1. Strengthening the regulatory framework

The IFSCA has put in place a regulatory framework that is principle-based, which provides the necessary operational flexibility to IBUs and yet, the IFSCA can undertake more efforts in strengthening this framework. Such efforts include establishing a collaborative platform with global peers to emulate

leading practices towards regulation and supervision.

Globally, regulators are also moving away from entity-based regulations and adopting activity-based regulations. The IFSCA could undertake a study of the same as part of its collaboration agenda and look at adopting similar practices for IBUs at the GIFT City.

In addition to principle-based regulations, the IFSCA can also strengthen its supervisory practices to undertake principle and scale-based supervision, categorising entities based on the risk profile of the entity and its parent.

Given the number of new entities looking at setting up shop in the GIFT City, the IFSCA could establish a specialised regulatory helpdesk that shall support new entities in expediting licensing processes, as well as continue to provide regulatory support and clarifications to existing entities with respect to their compliance requirements. This shall further the GIFT City's agenda of promoting ease of doing business.

Taking cues from the success of international financial centres in advanced economies, it is established that technology and innovation are the two pillars for success. IFSCA could issue guidelines for creating a digital sandbox that shall support a digital testing environment and foster digital innovation. This shall provide an impetus to the growth of fintech firms at the GIFT City. With time, the IFSCA can also consider adopting digital models for regulation and supervision.





2.Strengthening infrastructure

Infrastructure is one of the key components that dictate the success of an IFSC. While the GIFT City boasts of state-of-the-art infrastructure, including office and residential spaces, hospitals, schools, hotels and recreational spaces, the government can also look at the below mentioned aspects:

- i. Infrastructure to develop a global talent pool – One of the critical success factors for the GIFT City is unfettered access to a highly skilled financial services talent pool. This can be achieved by inviting reputed global universities and business schools to set up campuses at the GIFT City. Furthermore, the innovation agenda can also be strengthened through global exchange programmes facilitated through these universities.
- ii. Infrastructure to support arbitration – The following aspects can be considered by the IFSCA and the government:
 - Mandating standardised agreements such as International Swaps and Derivatives Association (ISDA) Master Agreements and Credit Support Annex
 - Developing stronger legislations for international arbitration – While the Singapore International Arbitration Centre has been operating in the IFSC, a more strengthened framework can be developed and more such collaborations as the SIAC can also be looked at
- iii. Data protection laws need to be developed specifically for the IFSC, considering the specialised nature of operations and for providing the necessary conduciveness and operational flexibility for the IFSC units.

The GIFT City, established as India's first IFSC, certainly has the potential to transform India's financial services ecosystem, while also fostering the government's 'Make in India' objective. Coordinated efforts by parties involved shall certainly ensure progress and attract foreign investors and financial services players to ensure that the GIFT City ranks well above its peers in the coming years.





Acknowledgements

For further enquiries, write to

Vivek Ramji Iyer

Partner and National Leader
Financial Services – Risk
E: vivek.iyer@in.gt.com

Vernon Dcosta

Partner
Financial Services – Risk
E: vernon.dcosta@in.gt.com

Sharon Mathias

Associate Director
Financial Services – Risk
E: sharon.mathias@in.gt.com

Editorial review

Akshay Kapoor

Design

Saurabh Mishra

References

https://ifsc.gov.in/Document/Developments/IFSCA_Banking_Digital.pdf

IFSCA (Anti Money Laundering, Counter Terrorist-Financing and Know Your Customer) Guidelines, 2022

The IFSCA Banking Handbook: Prudential Directions

The IFSCA Banking Handbook: Conduct of Business Directions





© 2023 Grant Thornton Bharat LLP. All rights reserved.

“Grant Thornton Bharat” means Grant Thornton Advisory Private Limited, the sole member firm of Grant Thornton International Limited (UK) in India, and those legal entities which are its related parties as defined by the Companies Act, 2013, including Grant Thornton Bharat LLP.

Grant Thornton Bharat LLP, formerly Grant Thornton India LLP, is registered with limited liability with identity number AAA-7677 and has its registered office at L-41 Connaught Circus, New Delhi, 110001.

References to Grant Thornton are to Grant Thornton International Ltd. (Grant Thornton International) or its member firms. Grant Thornton International and the member firms are not a worldwide partnership. Services are delivered independently by the member firms.



Scan QR code to view
list of our offices