
FAQs for IFSC Banking business

1. Who can apply for the setting up of an IFSC Banking Unit (IBU) in GIFT IFSC?

The following two types of entities can set up IBUs in GIFT IFSC:

- Indian banks (viz any bank incorporated or established under any Act, and includes a wholly owned subsidiary of a foreign bank incorporated in India, but does not include a co-operative bank;)
- Foreign banks incorporated or established outside India

2. Who is the regulator for banking activities in GIFT IFSC?

The banking activities of IBU set up in GIFT IFSC are regulated and supervised by the IFSCA.

3. Can banks apply to the DC and RBI simultaneously?

Yes, banks can apply to DC, KASEZ and IFSCA simultaneously. The approval from DC is subject to the approval from the IFSCA.

4. Which regulations are applicable to the banks operating from GIFT IFSC?

The regulations applicable to the banks operating from GIFT IFSC:

- International Financial Services Centres Authority (Banking) Regulations, 2020¹
- Foreign Exchange Management (IFSC) Regulations, 2015²

The International Financial Services Centres Authority (Banking) Regulations, 2020 shall supersede the earlier scheme for setting up of IBU by Indian banks and foreign banks issued by RBI on 1 April 2015³. IBU in the IFSC prior to the notification of these regulations, shall comply with additional requirements, if any, introduced by these regulations, within a period of three months from the date of notification of these regulations or within such extended time as may be specified by the Authority.

5. Are there any recent circulars for IFSC Banking Units post the Regulations?

The updated regulations on IFSC can be downloaded from <http://www.giftgujarat.in/download.aspx> under the heading "IFSC Regulations & Guidelines."

6. What is the licensing criterion for setting up an IBU?

Indian Banks

- IBU will be treated on par with a foreign branch of an Indian bank
- Permission from IFSCA will be required for opening an IBU.
- Banks can establish only one IBU in the IFSC.
- Capital requirement as mentioned in Point no. 7

Foreign Banks

- IBUs will not be treated as normal branch expansion in India.
- No Objection Certificate from home country for setting up unit in IFSC.

¹ International Financial Services Centres Authority (Banking) Regulations, 2020 notified on 18th November, 2020

² G.S.R 218(E) dated 2 March 2015

³ RBI/ 2014-15/ 533 DOR.IBD.BC.14570/ 23.13.004/ 2014-15

- Permission from IFSCA will be required for opening an IBU in IFSC.
- Capital requirement as mentioned in Point no. 7
- Banks can establish only one IBU per IFSC.
- A suitable mechanism shall be specified by IFSCA to set up banking unit of foreign banks not having presence in India as an additional requirement.

7. What is the capital requirement for setting up an IBU?

The capital requirements applicable for both Indian banks and foreign banks are as follows:

- The parent bank would be required to provide a minimum capital of US\$ 20 Million or such other amount as may be specified by the IFSCA, or equivalent in any foreign currency.
- The amount shall be maintained on unimpaired basis at all the times
- The Parent bank shall submit an undertaking that it shall provide liquidity to its BU whenever needed for the operations of the IBU.

8. Who are permitted to open foreign currency accounts with IBU?

The following persons are permitted to open, hold and maintain foreign currency accounts with a Banking Unit:

- Qualified Individuals;
- Persons resident outside India who are corporate or institutional entities, in the manner as may be specified by the Authority;
- Persons resident in India, who are corporate or institutional entities, subject to such requirements as may be specified by the Authority;
- Qualified Resident Individuals who are permitted to open, hold and maintain accounts in a freely convertible foreign currency, with a Banking Unit, for undertaking permissible current or capital account transaction or a combination of both as specified in the Liberalised Remittance Scheme of the Reserve Bank of India.

Qualified Individuals and Qualified Resident Individuals means a non-resident individual having net worth more than USD 1 million in the preceding financial year and a resident individual having net worth more than USD 1 million in the preceding financial year respectively.

9. What are the transactions permitted through foreign currency accounts?

Current, Savings or term deposits can be opened, held and maintained in a freely convertible foreign currency by an individual subject to such conditions as may be specified by the IFSCA. However, cash transactions are not permitted.

10. What are the activities permitted for IBUs?

IBU shall conduct such business in freely convertible foreign currencies and with such persons, whether resident or otherwise, as may be specified by the IFSCA.

The IBU may conduct business in INR subject to permission from IFSCA and subject to settlement of financial transaction in freely convertible foreign currency.

The following activities are permitted for the IBUs of both Indian banks and foreign banks:

- Lend in the form of loans, trade finances and acceptances, commitments and guarantees, carry out credit enhancement, credit insurance, and sale and purchase of portfolios
- Undertake inter-bank borrowings and lending

- Undertake investments, including subscribing, acquiring, holding, underwriting or transferring securities or such other instruments, as may be specified by the Authority, as principal or agent.
- Extend Post-Shipment Export Credit in foreign currency
- Undertake equipment leasing, including aircraft leasing;
- Factoring/ forfaiting of export receivables
- Operate as a Foreign Portfolio Investor
- Participate in Derivative transactions, enter into OTC derivative contracts for its asset liability management requirements, for its own account or for its corporate or Qualified
- Individual clients
- Non-deliverable forwards involving Indian Rupee
- Participate in exchange-traded interest and currency derivatives on INR (with settlement in foreign currency)
- Undertake derivative of forward contracts in gold for hedging its gold investments
- Trading member in interest rate and currency derivatives segments of IFSC exchanges
- Act as a Professional clearing member in the clearing and settlements in any derivatives segments
- Foreign currency accounts of IFSC units, non-resident institutional investors and corporate borrowers subject to FEMA.

11. What are the resources and deployments of funds?

- Funds can be borrowed from from parent, domestic branches of Indian banks, overseas branches of Indian banks and a person resident outside India (including other BUs). Borrowings from persons resident in India shall be subject to the provisions of FEMA.
- Funds can be raised from person resident in India and person not resident in India as per the provisions of IFSCA (Deposit) Directions, 2020. Funds from persons resident in India is subject to FEMA.
- Funds can be deployed with persons resident in India as well as persons not resident in India (other than individuals). The deployment to persons resident in India is subject to FEMA.

12. What are the reserve requirements for the IBU?

The liabilities of the IBU are exempt from Cash Reserve Ratio (CRR) or other such requirements of the RBI. The same would be applicable for both Indian banks and foreign banks. However, the deposits raised from Qualified Individuals and Qualified Resident Individuals shall be subject to such reserve ratios as may be specified by the IFSCA.

13. Which are the ratios required to be maintained by IBUs in IFSC?

Liquidity Coverage Ratio (LCR) as applicable to Indian banks.

Net Stable Funding Ratio shall be made applicable to a Banking Unit as and when determined by the Authority and shall be maintained by a Banking Unit.

The ratios can be maintained by the Parent Bank subject to the permission of IFSCA

14. Is Lender of Last resort support available to IBUs?

No, Lender of Last Resort support shall not be available to IBUs

15. What are the prudential norms guiding the IBUs?

The prudential norms applicable to IBUs of both Indian banks and foreign banks are as follows:

- Banking Units shall adhere to the norms and guidelines as may be prescribed by the IFSCA,

- Banking Units shall continue to comply with the directions and instructions issued by the RBI as applicable for IFSC Banking Units, unless otherwise specified by the IFSCA.

Some of the key points highlighting the prudential norms and guidelines are mentioned below:

- Indian banks' IBUs shall follow all prudential norms as applicable to overseas branches of Indian banks. Specifically, IBUs are required to follow 90 days payment delinquency norm for income recognition, asset classification and provisioning, as applicable for Indian banks. A foreign bank's IBU shall follow prudential norms as prescribed by RBI.
- The IBU's board may set out appropriate credit risk management policy and exposure limits as prescribed by the RBI.
- The IBUs will be required to adopt liquidity and interest rate risk management policies prescribed by the RBI in respect of overseas branches of Indian banks and function within the overall risk management and ALM framework of the bank subject to monitoring by the IBU's Board at prescribed intervals.
- The bank's board must set overnight limits for each currency for the IBUs.
- The IBUs will be required to follow Know Your Customer, Combating of Financing of Terrorism) and other Anti-Money Laundering instructions issued by the RBI unless otherwise specified by the IFSCA

16. Are IBU operations ringfenced from the Indian operations of banks?

Yes, the IBU operations are ringfenced from the Indian operations of banks. The following measures have to be taken by both Indian and foreign banks to ring-fence the activities of the IBU:

- The IBUs would operate and maintain balance sheets only in foreign currency and would not be allowed to deal in INR, except for having a special rupee account for meeting administrative and statutory expenses.
- The IBUs are required to maintain separate Nostro accounts with Correspondent Banks distinct from those of other branches of the same Parent Bank in India.

17. Are the deposits of the IBU covered by deposit insurance in India?

No, the deposits of IBUs are not covered by deposit insurance in India.

18. Who has the power to specify procedures and issue clarifications related to banking and investment activities in IFSC?

The IFSCA has specify norms, procedures, processes, manners or provide relaxations, by way of guidelines or circulars.

19. Which are the concerned departments for IFSC-related queries?

Banking Department of IFSCA.