



International Financial Services Centre (IFSC)

A Financial & Technology Gateway of India

Content: IFSC Banking

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About: GIFT City and IFSC

A Greenfield Smart City developed on 886 Acres of land

Developed by Government of Gujarat and supported by Govt. of India

The financial gateway of India for inbound & outbound investment



Ranked 1st in the Sept 2020 report by the Global Financial Centres Index, London as one of the IFSC which could become more significant in next few years.

Government of India operationalized GIFT City as an IFSC in 2015



Global Benchmarking



Integrated Development



Strong Promoters



Central Business Hub



India's 1st IFSC



State of the Art Infrastructure



Strategic Location



Ease of Doing business

International Financial Services Centre at GIFT City

IFSC in India

- In India, an IFSC is approved and regulated by the Government of India under the Special Economic Zones Act, 2005
- Government of India has approved GIFT City as a Multi Services Special Economic Zone ('GIFT SEZ') and has also notified this zone as India's first IFSC
- The launch of the IFSC at GIFT City is the first step towards bringing financial services transactions relatable to India, back to Indian shores
- IFSC unit is treated as a non-resident under the extant Foreign Exchange Management regulations

Key activities in IFSC

Capital markets

- Stock Exchanges
- Trading members
- Segregated Nominee Account Providers
- Clearing Corporations, Depositories, other intermediaries

Offshore banking

- Corporate Banking
- ECB Lending
- Servicing JV/WOS of Indian companies registered abroad
- Factoring/ Forfaiting of export receivables

Offshore Insurance

- General Insurance
- Life Insurance
- Reinsurance
- Captive Insurance
- Insurance Intermediaries

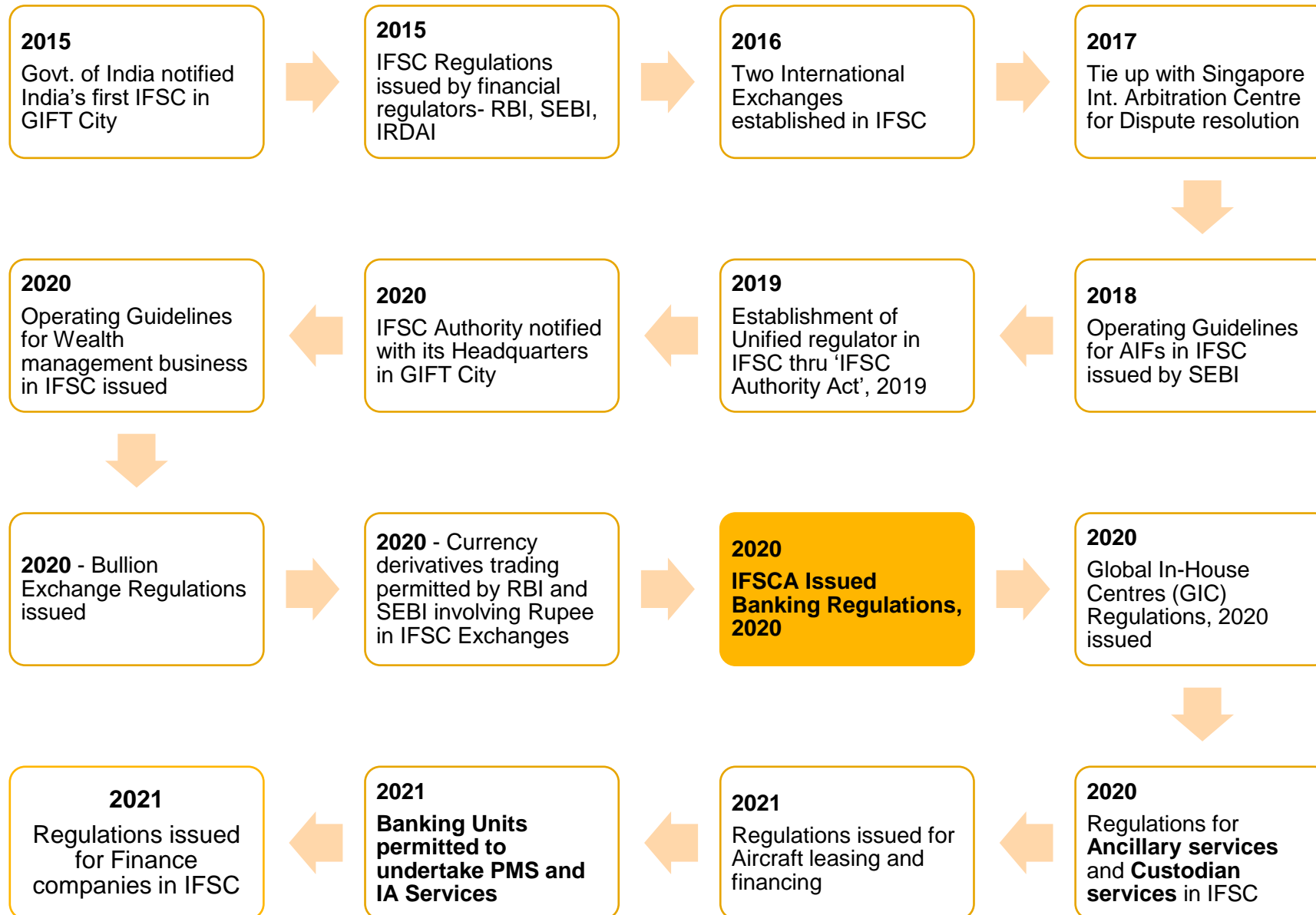
Asset management

- Alternative Investment Funds
- Mutual Funds
- Portfolio Management Services
- Investment Advisors

Ancillary services

- Legal, Accounting & Audit
- Research & Analytics etc.
- Fund Accounting
- Risk Management etc.

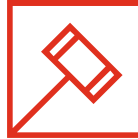
IFSC Key developments



Overview of IFSC Regulations

Regulatory set up

- Special Economic Zones Act, 2005
- The International Financial Services Centres Authority Act, 2019
 - IFSC Authority (IFSCA) assumed powers over other financial service regulators i.e. RBI, SEBI, IRDAI and PFRDA of regulating financial institutions, financial products, and services in IFSC at GIFT City exercisable by IFSCA from 1st October 2020
 - IFSC Authority headquartered in Gandhinagar



Financial service regulators

- IFSCA (Banking) Regulations, 2020, IFSCA (Finance Company Regulations, 2021
- SEBI (International Financial Services Centres) Guidelines, 2015 (IFSC Guidelines)
- IRDAI [Registration and Operations of IFSC Insurance Offices (IIO)] Guidelines, 2017
- IRDAI [Registration and Operations of IFSC Insurance Intermediary Offices (IIIO)] Guidelines, 2019



Exchange Control regulations

- FEM (International Financial Services Centre) Regulations, 2015
- FEM (Foreign Currency Accounts by a Person Resident In India) Regulations, 2015
- FEM (Transfer or issue of Foreign Security) Regulations, 2004



Tax laws

- Income-tax Act, 1961
- Goods and Services Tax Law
- Double taxation avoidance agreements signed by India with other countries



Financial Institution being a branch or entity in IFSC – Deemed as a ‘person resident outside India’

Recent tax and regulatory announcements in IFSC

Framework for operating lease in IFSC

- Lessor permitted to carry out operating lease for an aircraft, including lease arrangement, sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions
- A company, LLP or trust in IFSC can obtain IFSCA approval

LRS in IFSC

- RBI has permitted resident individuals to make remittance under LRS to IFSC
- The remittance to be made only for making investments in IFSC in securities, other than those of domestic/ resident companies in India (outside IFSC)
- Resident Individuals may open a non-interest bearing Foreign Currency Account in IFSC

IFSCA Banking Regulations, 2020

- New IFSCA (Banking) Regulations, 2020 notified by IFSCA to supersede earlier RBI IBU guidelines
- Indian and Foreign banks can set-up a branch in IFSC
- Foreign banks not having presence in India may also be permitted to set up an IBU

Aircraft Leasing

- Capital gains on the transfer of aircraft leased by an IFSC unit to a domestic company eligible for 100% deduction
- Income by way of royalty on account of lease rentals paid to foreign entities exempt from tax

Banking Units in IFSC as FPIs

- Special tax regime for IBUs making public market investments in India – at par with Cat III AIFs in IFSC
- Capital gains on sale of debt and derivatives exempt
- Lower rate of tax at 10% on dividend/ interest income

Issuance of Certificate of Deposits (CDs)

- BUs may issue CDs denominated in any convertible foreign currency up to the amount depending on their funding requirements.
- CD's may be issued by BUs to persons resident in India and persons resident outside India as defined in the FEMA, 1999. 'QI' or QRI' shall not be applicable. CDs can be issued in physical form or in demat form.

IFSC Ecosystem and Business growth

| Sr No | Participants | Key business activities and features | Volume and No. of players |
|-------|-------------------------------|--|---|
| 1 | International Stock exchanges | <ul style="list-style-type: none"> Dollar denominated products No transaction cost (other than brokerage) Trading - 22 hours Two International exchanges | <ul style="list-style-type: none"> Index Derivative Average daily trading value on IFSC Exchanges touched USD 17 Bn + (Feb 2021) On January 14, 2021, IFSC Exchange (India INX) derivatives turnover touched a new high of USD 24+ Bn executing more than 1.5 Mn Contracts. |
| 2 | IFSC Banking units | <ul style="list-style-type: none"> External Commercial Borrowing (ECB) Lending Loan syndication and trade finance | <ul style="list-style-type: none"> 16 Banks Licensed, Domestic Banks -12, Foreign Banks - 4 Total Banking Transactions touched approx. USD 51 Bn (as on Jan 2021) Total Banking Asset size: USD 14 bn+ |
| 3 | Brokers & Intermediaries | <ul style="list-style-type: none"> Broking services Proprietary trading | <ul style="list-style-type: none"> 100+ brokers, Depository Clearing corporations, Custodian, PCM |
| 4 | Insurers & Intermediaries | <ul style="list-style-type: none"> Non-life, Reinsurance business Insurance intermediaries | <ul style="list-style-type: none"> 18+ Companies Sum insured - USD 30 Bn+ |

Dispute resolution -
Singapore International
Arbitration Centre (SIAC)

Connectivity - 20 min.
from Ahmedabad Airport, well
connected thru public
transport

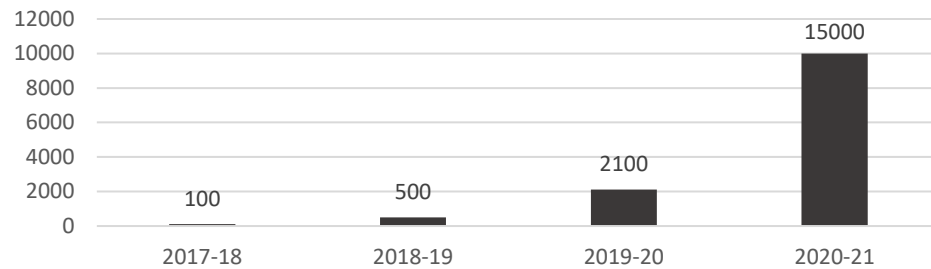
Over 165 Financial Services
entities registered

~12000 employees in
GIFT City

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Average Daily Trading Volume

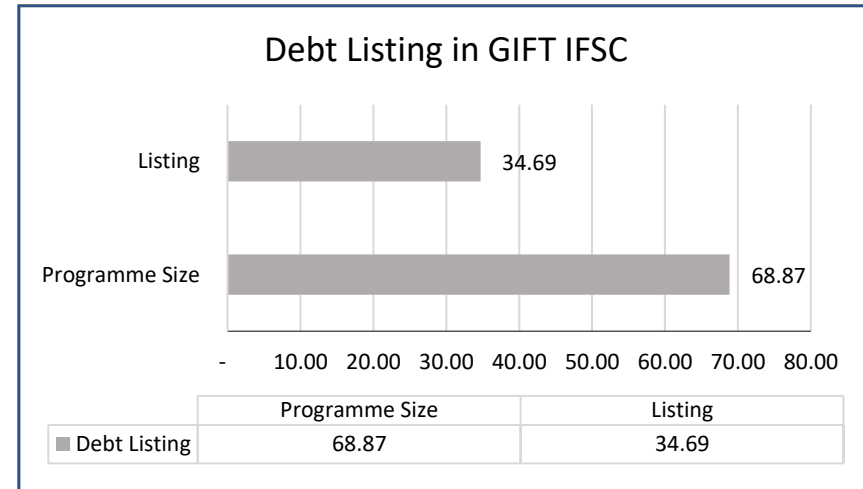
Average Daily Trading Volume (USD mn)



Tie up with International Exchanges in IFSC

- CME
- ICE Europe
- COMEX
- NYMEX
- LME / LSE
- ICE Futures US
- ICE Futures Europe
- Eurex

Debt Listing at GIFT IFSC Exchange



The chart given below highlights the aggregate Debt Program & Debt Listing in GIFT IFSC Exchanges. Debt Program: USD 68+ Bn and Debt Listing: USD 34+ Bn.

Tax Incentives available to IFSC Units

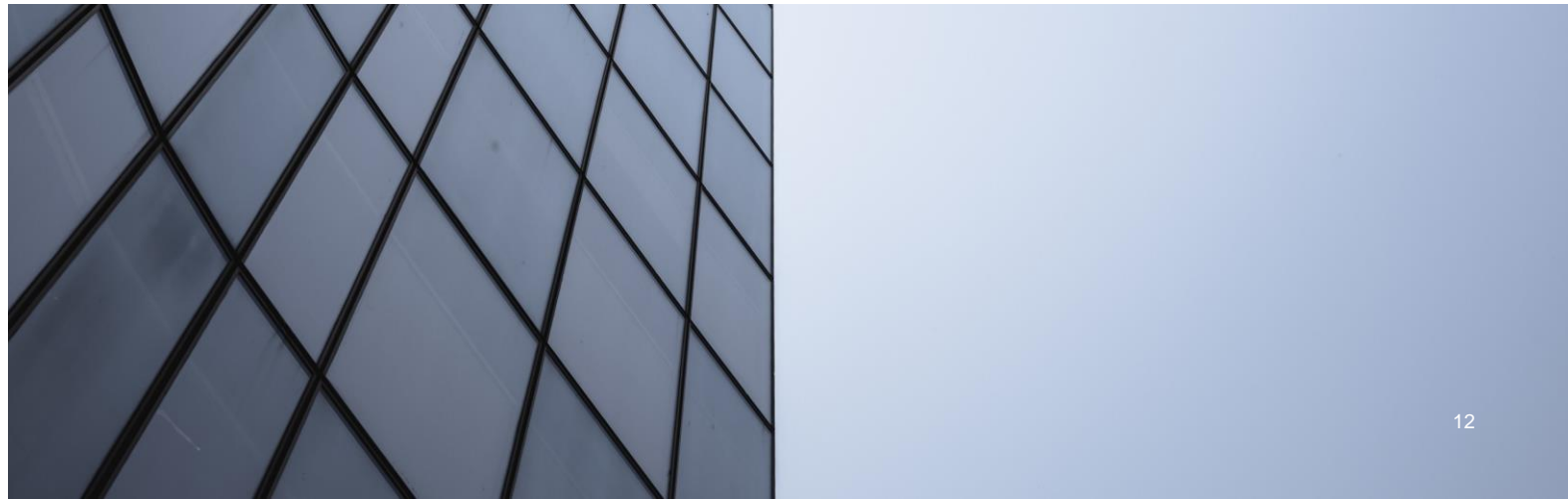
| Particulars | Units in IFSC | Investors |
|-------------------------------|--|---|
| Income-tax | <ul style="list-style-type: none"> • 100% tax exemption for 10 consecutive years out of 15 years • MAT / AMT @ 9% of book profits applies to Company / others setup as a unit in IFSC - MAT not applicable to companies in IFSC opting for new tax regime • Dividend paid to shareholders of company in IFSC <ul style="list-style-type: none"> - May be taxable in the hands of recipient - Exemption not relevant due to withdrawal of DDT regime | <ul style="list-style-type: none"> • Interest income paid to non-residents on - <ul style="list-style-type: none"> - Monies lent to IFSC units not taxable - Long Term Bonds and Rupee Denominated Bonds listed on IFSC exchanges taxable at lower rate of 4% • Transfer of specified securities* listed on IFSC exchanges by a non-resident not treated as transfer - Gains accruing thereon not chargeable to tax in India <p><i>*Specified securities include Bond, GDR, Foreign currency denominated bond, Rupee-denominated bond of an Indian company, Derivatives, Unit of a Mutual Fund, Unit of a business trust, Unit of Alternative Investment Fund and Foreign currency denominated equity share of a company</i></p> |
| Goods and Services Tax | <ul style="list-style-type: none"> • No GST on services – <ul style="list-style-type: none"> - received by unit in IFSC - provided to IFSC / SEZ units, Offshore clients • GST applicable on services provided to DTA | <ul style="list-style-type: none"> • No GST on transactions carried out in IFSC exchanges |
| Other taxes duties | <ul style="list-style-type: none"> • State Subsidies – Lease rental, PF contribution, electricity charges | <ul style="list-style-type: none"> • Exemption from STT, CTT, stamp duty in respect of transactions carried out on IFSC exchanges |

Other incentives available to IFSC Units

| Gujarat Government Subsidies as per the IT & ITeS Policy | | |
|--|---|-------------------|
| Stamp Duty & Registration / Conversion fee exemption | Wherever cost is incurred 100% reimbursement of Stamp Duty and Registration Fee paid | |
| Electricity duty and subsidy on tariff | 100 % Reimbursement of Electricity duty and Re. 1 subsidy on power tariff for a period of 5 years. | |
| Reimbursement of Provident Fund contribution by employer | <ul style="list-style-type: none"> •100% of EPF amount paid in case of female employees •75% of EPF amount paid in case of male employees | |
| Lease rental subsidy for every 50 sq ft per employee | Up to 20 employees | Rs. 8 per sq. ft. |
| | 20 – 100 employees | Rs. 5 per sq. ft. |
| | Above 100 employees | Rs. 3 per sq. ft. |
| Capital Subsidy | Capital subsidy @ 25% of capital expenditure for one-time purchase of computers, networking and related hardware, subject to a ceiling of Rs. 1 crore | |



Banking Unit ('IBU')
in IFSC, GIFT City



Overview of IFSCA (Banking) Regulations, 2020

IFSCA (Banking) Regulations, 2020

- **IFSCA Banking Regulations notified – November 2020**
- The new regulation supersedes the earlier RBI IBU guidelines

Eligibility and Permissible Activities

Indian and Foreign banks can set-up an IBU as a branch

- Indian Bank includes any bank formed under any Act and a subsidiary of a foreign bank incorporated in India but excludes co-operative banks

Foreign banks not having presence in India may also be permitted to set up an IBU

Bank is required to obtain a license from IFSC Authority office in GIFT City

Parent bank to satisfy the following conditions:

- Provide a minimum capital of US\$20 million to IBU, which shall be maintained on an unimpaired basis at all times
- Obtain No objection letter from its home regulator for setting up IBU in IFSC
- Submit an undertaking to provide liquidity to IBU, whenever needed.

Prudential regulatory requirements

Prudential Regulatory Requirements

Maintenance of ratios

- IBUs to maintain LCR and NSFR (as and when made applicable by IFSCA) at IBU level
- LCR and NSFR may be maintained at parent level with IFSCA's permission
- Adhere to leverage ratio norms and guidelines, as may be specified by IFSCA

Exposure ceiling

- Single Borrower Limit – 5% of Parent's Tier I Capital;
- Group Borrower Limit – 10% of Parent's Tier I Capital

Reserve requirements

- The liabilities of IBU exempt from SLR and CRR requirement.
- IBUs to maintain a Retail Deposit Reserve Ratio on daily basis at 3% of the deposits raised from QIs and QRIs and outstanding as on end of previous working day

Key considerations

Adhere to prudential norms and guidelines as may be prescribed by IFSCA

Comply with RBI directions and instructions as applicable for IBU, unless otherwise specified by IFSCA

Lender of Last Resort support not available to IBUs

Adherence to KYC norms, combating of financing of terrorism and other anti-money laundering norms

Lower cost of doing business

Maintain separate nostro accounts distinct from nostro accounts maintained by Parent Bank's other branches in India

Permissible activities (1/2)

Deposits

- Foreign currency accounts of:
 - Qualified Individuals (QI)*;
 - Non-resident corporate or institutional entities
 - Resident corporate or institutional entities
 - Qualified Resident Individuals (QRI)*, only for permissible transactions under LRS route

in the form of **current, saving, or term deposit** for individuals and in form of current or term deposit for others.

Note: Cash transactions not permitted

- Inter-bank borrowing

Lending products

- Loans, trade finances and acceptances, commitments and guarantees
 - INR ECBs also allowed
- Credit enhancement, credit insurance
- Sale and purchase of portfolios
 - Investments in equity or debt or commodities in Indian or overseas exchange permitted?
- Inter-bank lending
- Extend Post-Shipment Export Credit
- Factoring and forfaiting of export receivables
- Undertake equipment leasing, including aircraft leasing

Derivative products

- Enter into over the counter (OTC) derivative contracts:
 - for its asset liability management requirements
 - for its own account or for corporate or QI clients
- Participate in INR interest rate and currency Derivatives, with settlement in forex, listed on Stock Exchange
- Undertake gold derivative or forward contracts for hedging its gold investments
- Offer Non-deliverable currency contracts to
 - non-residents or
 - Banks in India having presence in IFSC

- QI means a non-resident individual having net worth > USD 1 mn in the preceding financial year and QRI means a resident individual having net worth > USD 1 mn in the preceding financial year. *The net worth criteria shall not be applicable for a resident individual who opens an account with the IBU solely for the purpose of investment in foreign securities (securities issued by other than resident entities/companies (outside IFSC) in India under the LRS route.*

Permissible activities (2/2)

Investment Products

- Subscribing, acquiring, holding, underwriting or transferring securities / other instruments, as principal or agent

Foreign Portfolio Investor

- **The IBU can carry out activities as an FPI, as follows:**
- Parent Bank is SEBI registered FPI – IBU can carry on activities as a FPI without any separate registration from IFSCA but subject to filing an intimation with the IFSCA
- Parent Bank is not SEBI registered FPI – IBU can carry on activities as FPI after obtaining registration from IFSCA
- IBU can invest in the Indian Corporate/Government securities under the FPI route.**

**detailed directions on IBUs acting as FPI are awaited.

Others

- Trading member in interest rate or currency derivatives segments
- Professional clearing member in derivatives segment
- Offer SNAP structure for routing orders of foreign investors
- Open unallocated accounts for the purpose of trading, hedging and swapping with physical Gold/Silver
- Undertake inter-bank transactions in the unallocated accounts to mitigate the risks of the prospective clients who may be looking to buy/sell or take positions in gold/silver or for the purpose of trading or to hedge their exposures in bullion
- Offer Portfolio Management Services to persons resident in India/outside India
- Offer Investment Advisory Services to persons resident in India/outside India

IBU – Salient features

- 01 Borrower limits to apply as per Parent's Capital
- 02 Required to furnish information relating to its operations to IFSCA, as may be specified by IFSCA
- 03 Minimal capital requirement of USD 20Mn only. Surplus capital can be maintained at Head Office
- 04 Maintain books of accounts and records in foreign currency
- 05 Permitted to have an INR account to defray administrative and statutory expenses
- 06 Priority Sector Lending (PSL) obligations does not apply to lending from IBU – for example post shipment export financing
- 07 Convenient platform for onboarding corporate customers/FI clients to offer FCY-FCY products, NDF and other derivative products
- 08 No centralised deposit insurance scheme requirement for deposits of IBU
- 09 Tax benefits – Income –tax and GST savings
- 10 Lower manpower and other administrative cost (i.e. Rent, Legal, Maintenance, etc.)

Recent changes/ update to IFSCA (Banking) Regulations, 2020

Revised fee structure for IBUs

- In addition to a one-time registration fee of USD 25,000, annual fee based on turnover has been prescribed :
 - USD 25,000 if turnover up to \$1Bn
 - USD 50,000 if turnover > USD 1Bn & up to \$3Bn
 - USD 100,000 if turnover > USD 3Bn
- Fees to be paid within 30 days of the beginning of financial year (by June 11, 2021 for the period October to March 2021 and FY 2021-22).

Certificate of Deposit

- IBUs may issue CDs denominated in any convertible foreign currency – helps in retaining LRS funds in IBU
- May be issued to persons resident in India and outside India. ‘QI’ or ‘QRI’ criteria not applicable for investment in CDs
- IBUs shall not grant loans against CDs, and they cannot buy-back their own CDs before maturity.


PMS and IA services

- IFSCA permits IBUs to offer Portfolio Management Services (PMS) and Investment Advisory (IA) services to persons resident in India / outside India
- Guidelines issued in April 2021 further to permitting PMS and IA activities by IBU, which have been discussed ahead

Net worth criteria for LRS deposit

- Guidelines on determination of net worth of ‘QI’ and ‘QRI’ issued in December 2020
- Clarified in February 2021, that IBUs are permitted to open accounts for individuals resident in India for investment in securities under the LRS, and that the Net worth criteria **shall not apply** for such individuals

New Business Opportunities

- 
- A** INR ECBs permitted
 - B** Commitments and Guarantees
 - C** Credit enhancement and insurance
 - D** Post-Shipment Export Credit
 - E** Invest on your own account and invest on behalf of clients
 - F** Undertake FPI activities
 - G** Deposits from Qualified Resident and Non-resident individuals
 - H** Exemption from CRR requirements, on deposits other than from QI and QRI
 - I** Offer Non-deliverable currency contracts
 - J** Offer Portfolio Management Services and Investment Advisory Services

Security Market products in IFSC

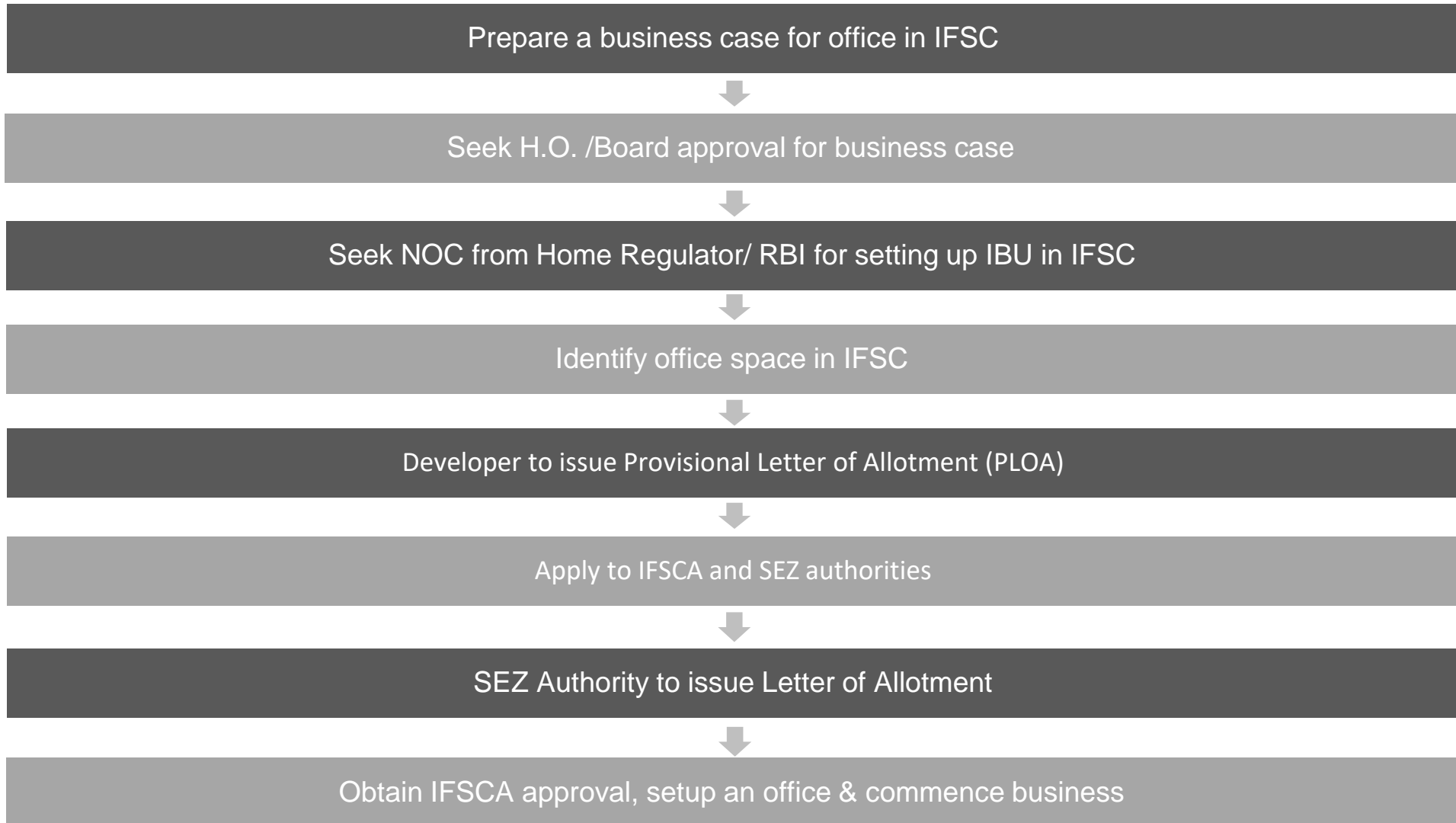
BSE and NSE have set up their Exchanges in GIFT City India INX Ltd and NSE IFSC Ltd respectively

| Equity Indices Futures & Options | Single Stock Futures & Options | Commodities Futures | Currencies Futures & Options | Debt |
|--|--|--|--|--|
| <ul style="list-style-type: none"> • NIFTY 50 Index • NIFTY Bank Index • NIFTY IT Index • S&P BSE Sensex • S&P BSE India 50 | <ul style="list-style-type: none"> • India INX • NSE IFSC • Global Stocks | <ul style="list-style-type: none"> • Gold (10 troy ounce) • Silver (500 troy ounce) • Copper • Brent Crude Oil | <ul style="list-style-type: none"> • Euro - US Dollar • Pound - US Dollar • Japanese Yen - US Dollar • Australian Dollar - US Dollar • Swiss Franc - US Dollar • Indian Rupee - US Dollar | <ul style="list-style-type: none"> • Medium Term Notes • Green Bonds • Green Masala Bonds |

Notable banking units in GIFT IFSC

| | | | |
|-------------------------|--------------------|---------------------|----------------|
| Kotak Bank | RBL Bank | State Bank of India | Bank of Baroda |
| Federal Bank | ICICI Bank | IDBI Bank | HDFC Bank |
| Axis Bank | IndusInd Bank Ltd. | Indian Bank | Yes Bank |
| Standard chartered bank | HSBC | Citibank | Barclays |

Setup process



Notable companies in GIFT City

GIFT IFSC

| 1. BANKING | 2. INSURERS AND INTERMEDIARIES | 3. CAPITAL MARKETS |
|--|--|--|
| <ul style="list-style-type: none"> State Bank of India IDBI Bank Bank of Baroda Indian Bank Axis Bank HDFC Bank Kotak Bank ICICI Bank Yes Bank IndusInd Bank RBL Bank Federal Bank Standard Chartered Bank HSBC Bank Citi Bank Barclays Bank BA Continuum (Global inhouse centre) | <p>Insurers</p> <ul style="list-style-type: none"> GIC Re ECGC The New India Assurance company <p>Intermediaries</p> <ul style="list-style-type: none"> J B Boda and Co Pvt Ltd. Unison Insurance Brokers Xperitus Insurance Brokers Pioneer Investcorp Ltd. Trinity Group Marsh Insurance Brokers Allied Insurance Brokers Bharat Re Insurance Brokers | <p>Exchanges</p> <ul style="list-style-type: none"> NSE IFSC LTD. INDIA INX LTD. <p>Trading members</p> <ul style="list-style-type: none"> Edelweiss IFSC Ltd Kotak Securities IFSC Ltd IIFL IFSC Ltd Phillip Capital IFSC Ltd Stockholding clearing IFSC Ltd 100+ SEBI registered entities <p>Clearing Corporation</p> <ul style="list-style-type: none"> NSE IFSC Clearing Corporation India ICC <p>Others</p> <ul style="list-style-type: none"> Depository - CDSL Clearing Banks SEBI registered Custodian Fund Administrator Trustee companies |

GIFT DTA

| 1. Financial Services | 2. IT & ITeS |
|---|---|
| <ul style="list-style-type: none"> SIDBI Bank of India IDBI Bank Bank of Baroda HDFC Bank Andhra Bank Canara Bank Syndicate Bank GSC Bank MCX | <ul style="list-style-type: none"> Oracle Tata Consultancy Ltd (TCS) InfiBeam BeFree Maxim Integrated N-Code solutions Software Technology Parks of India (STPI) <p>OTHERS</p> <ul style="list-style-type: none"> GERC GNFC Kennis TATA Chemicals Ltd and Many more... |

Thank you

CONTACT US:

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Visit us: <http://www.giftgujarat.in>



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IFSC Department

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