



**International Financial Services Centre (IFSC)
In Special Economic Zones (SEZs)
Regulations & Guidelines**



**Gujarat International Finance Tec-City (GIFT)
A Global Financial Hub**

**Reserve Bank of India
International Financial Services Centre (IFSC)
Regulations & Guidelines**

Table of Contents

Sr. No.	Particulars	Page No.
1	Ministry of Commerce and Industry Notification dated 08-04-2015	01
2	Procedure for Setting up an International Finance Service Centre (IFSC) unit in SEZs	02
3	FORM-F - Consolidated Application Form for Setting Up Services Unit in Special Economic Zone	03
4	Foreign Exchange Management (International Financial Services Centre) Regulations, 2015	08
5	Setting up of IFSC Banking Units (IBUs)	10
6	ANNEX - I Scheme for setting up of IFSC Banking Units (IBU) by Indian Banks	11
7	ANNEX II Scheme for setting up of IFSC Banking Units (IBU) by foreign banks already having a presence in India	17
8	Master Direction on Risk Management & Interbank Dealing Commodity Hedging	23
9	Foreign Investment in India -Reporting in Single Master Form	24

Government of India
Ministry of Commerce and Industry
(Department of Commerce)

NOTIFICATION

New Delhi, the 8th April, 2015

S.O. ____ (E) :- In exercise of the powers conferred by sub-section (2) of section 18 of the Special Economic Zones Act, 2005 (28 of 2005), the Central Government hereby notifies that Units in an International Financial Services Centre in Special Economic Zones may be set up and approved in accordance with the Special Economic Zones Rules, 2006, read with Notification S.O 870(E) dated 27th March, 2015, and Insurance Regulatory and Development Authority of India (Regulation of Insurance Business in Special Economic Zone) Rules, 2015, as amended from time to time, subject to the guidelines or regulations framed and notified in this regard by the Reserve Bank of India, the Securities and Exchange Board of India and the Insurance Regulatory and Development Authority of India, namely:-

- i. Insurance Regulatory and Development Authority of India (International Financial Service Centre) Guidelines, 2015 [Dated 6th April, 2015].
 - ii. Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 [G.S.R 218(E) dated 2nd March, 2015]
 - iii. Scheme for setting up of IFSC Banking Units (IBU) by Indian Banks [Dated April 1, 2015]
 - iv. Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 [Dated 27th March, 2015]
2. The units in International Financial Services Centre shall conform to the provisions of the Special Economic Zones Act, 2005 and the Special Economic Zones Rules, 2006 and the regulations made thereunder.

[F.No. D.12/25/2009-SEZ]

Sd/-
(Bhupinder S. Bhalla)
Joint Secretary to the Government of India

No. D.12/25/2009-SEZ
Government of India
Ministry of Commerce & Industry
Department of Commerce
(SEZ Division)

Udyog Bhawan, New Delhi
Dated: 8th April, 2015

To:
All Development Commissioners
Special Economic Zones

Subject: Procedure for Setting up an International Finance Service Centre (IFSC) unit in SEZs- regarding.

Sir/Madam.

Please refer to the Notification issued vide S.O.....(E) dated 8th April, 2015 under Section 18(2) of the Special Economic Zones Act, 2005, which may be viewed at <http://sezindia.nic.in/latest-updates.asp> [SEZ Gazette Notification, 2015 Gazette copy]. In order to facilitate setting up of an International Financial Services Centre Unit in SEZ, entrepreneurs are required to submit application to the concerned Development Commissioner in Form-F (prescribed under Rule 17) in the modified format as enclosed.

2. Any difficulty or suggestion in this regard may be brought to the notice of the Director, SEZ Division, Department of Commerce, Udyog Bhawan, New Delhi. You are requested to bring this to the notice of all concerned stakeholders.

Encl. As above.

Yours faithfully,
Sd/-
(Sanjeet Singh)
Director
Tel. 2306 2109
E-mail: sanjeet@nic.in

Copy to :

1. Department of Revenue (CBDT/CBEC), Govt. of India
2. DG, EPCES

FORM-F

**Consolidated Application Form For Setting Up
Services Unit in Special Economic Zone**

[Refer rule 17]

1. Setting up of units in Special Economic Zone;
2. Annual permission for sub-contracting;
3. Allotment of Importer Exporter Code Number;
4. Allotment of land/industrial sheds in the Special Economic Zone;
5. Water Connection;
6. Registration-cum-Membership Certificate;
7. Small Scale Industries Registration;
8. Registration with Central Pollution Control Board;
9. Power connection;
10. Building approval plan;
11. Sales Tax registration;
12. Approval from Inspectorate of factories;
13. Pollution control clearance, wherever required;
14. Any other approval as may be required from the State Government.

The application should be submitted to the Development Commissioner of the concerned Special Economic Zone in 5 copies alongwith a crossed Demand Draft of rupees five thousand drawn in favour of The Pay & Accounts Officer of the concerned Special Economic Zone together with a project report giving details of activities proposed.

For Official Use only

Application No.

Date :

Details of Bank Draft

Amount Rs.

Draft No.

Draft date

Drawn on

(Name of the Bank)

Payable at

PART-I

- I. Name and full address of
applicant firm/company
(in block letters)
Registered Office in case of limited company and
.....
Head Office for others)
Pin Code
Tel. No.
Fax No.
Permanent E-Mail Address
Web-Site, if any
Passport No., if any
Name of Bank with Address & Account No.
.....
Digital Signature
Income Tax PAN (attach copy)

- II. Constitution of the applicant firm: Public Ltd. Company
[Tick () the appropriate entry]: Private Limited Company
 Partnership
 Proprietorship
 Others (please specify)

(Attach copy of Certificate of Incorporation alongwith Articles of Association and Memorandum of Association in case of companies and partnership deed in case of partnership firms).

- III. Name and complete address of each of the Directors/Partners/ Proprietor, as the case may be, with Telephone numbers

IV. ITEM(S) OF SERVICE ACTIVITY:

(If necessary, additional sheets may be attached)

Item(s) Description

- (i)
- (ii)
- (iii)

V. INVESTMENT:

(RS. IN LAKHS)

- a) Capital Investment
- Indigenous
- Import CIF value
- Total (i) + (ii)
- b) Details of source(s) of finance

VI. Import and indigenous requirement of materials and other inputs:

(Value in Rupees)

Import

Indigenous

- a) Capital Goods
- b) Other inputs

TOTAL:

.....

VII. INFRASTRUCTURE REQUIREMENTS

- 1. Requirement of land:— Area in sq. mtrs.)
 - i) Work space & offices
 - ii) Storage
 - iii) Others, specify
- 2. Requirement of built-up area
- 3. Requirement of Water (in Kilo Liters)
- 4. Effluent Treatment
Specify whether own Effluent Treatment Plant (ETP) will be created
(please indicate ETP capacity)
- 5. Requirement of Power (in KVA)

VIII. EMPLOYMENT

Men	Women
.....

IX. WHETHER FOREIGN COLLABORATION AGREEMENT IS ENVISAGED

(Tick () the appropriate entry)

Yes..... No.....

- i) Name and Full Address of foreign collaborator
- ii) Nature of Collaboration
 1. Equity Participation including Foreign Investment
- i) (\$ in thousand)(Rs. in lakhs)
 - a) Authorised
 - b) Subscribed
 - c) Paid-up Capital

Note : If it is an existing company, give the break up of existing and proposed capital structure

- ii) Pattern of share holding in the paid-up capital (Amount in Rupees)
(Rs. in lakhs) (US \$ Thousand)
 - a) Foreign holding
 - b) Non Resident Indian company/Individual holding
 - i) Repatriable
 - ii) Non-repatriable
 - c) Resident holding
 - d) Total Equity
 - e) External Commercial
Borrowing (give details)
2. Marketing collaboration (furnish details in project report)

X. Foreign Exchange Balance sheet

1st	2nd	Total 3rd	Total 4th	5th(5 yrs) Rs. In lakhs/\$ in thousand
-----	-----	--------------	--------------	---

1. FOB value of exports in first five years
2. Foreign Exchange outgo on for the first five years
3. Net Foreign Exchange earnings for the first five years (1)-(2)

XI. OTHER INFORMATION

- i) Whether the applicant has been issued any LOI/LOA under EOU/SEZ/STP/EHTP scheme. If so, give full particulars, namely reference number, date of issue and progress of implementation of each project etc.
- ii) Whether the applicant or any of the partner/Director who are also partners/Directors of another company or firms its associate concerns are being proceeded against or have been debarred from getting any Licence/Letter of Intent/Letter of Permission under Foreign Trade (Development and Regulation) Act, 1992 or Foreign Exchange Management Act, 1999 or Customs Act, 1962 or Central Excise Act, 1944.

Place: Signature of the Applicant

Date: Name in Block Letters

Designation

Official Seal/Stamp

Tel. No.

E-mail

Web-Site, if any

Full Residential Address

UNDERTAKING

I/We hereby declare that the above statements are true and correct to the best of my/our knowledge and belief. I/We shall abide by any other condition, which may be stipulated by the Development Commissioner. I/We fully understand that any Permission Letter/Approval granted to me/us on the basis of the statement furnished is liable to cancellation or any other action that may be taken having regard to the circumstances of the case if it is found that any of the statements or facts therein are incorrect or false. An affidavit duly sworn in support of the above information is enclosed.

Place: Signature of the Applicant

Date: Name in Block Letters

Designation

Official Seal/Stamp

Tel. No.

E-mail

Web-Site, if any

Full Residential Address

Note : Formats of application not given herein may be obtained from the Development Commissioner.

RESERVE BANK OF INDIA

Foreign Exchange Department

Central Office

NOTIFICATION

Mumbai, the 2nd March 2015

Foreign Exchange Management (International Financial Services Centre) Regulations, 2015

G.S.R. 218(E)—In exercise of the powers conferred by section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999), the Reserve Bank makes the following regulations relating to financial institutions set up in International Financial Services Centres, namely:-

1. Short title and commencement:-

- i) These regulations may be called the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015.
- ii) They shall come into force from the date of their publication in the Official Gazette.

2. Definitions:-

In these Regulations unless the context requires otherwise , -

- a) 'Act' shall mean the Foreign Exchange Management Act, 1999 (42 of 1999);
- b) 'Financial Institution' shall include
 - i) a company, or
 - ii) a firm, or
 - iii) an association of persons or a body of individuals, whether incorporated or not, or
 - iv) any artificial juridical person, not falling within any of the preceding categories engaged in rendering financial services or carrying out financial transactions.

Explanation: For the purpose of this sub-regulation, and without any loss of generality of the above, the expression 'financial institution' shall include banks, non-banking financial companies, insurance companies, brokerage firms, merchant banks, investment banks, pension funds, mutual funds, trusts, exchanges, clearing houses, and any other entity that may be specified by the Government of India or a Financial Regulatory Authority.

- c) 'Financial service' shall mean activities a financial institution is allowed to carry out as specified in the respective Act of the Parliament or by the Government of India or by any Regulatory Authority empowered to regulate the concerned financial institution.

- d) 'Financial transaction' shall mean making any payment to, or for the credit of any person, or receiving any payment for, by order or on behalf of any person, or drawing, issuing or negotiating any bill of exchange or promissory note, or transferring any security or acknowledging any debt.
- e) 'FMC' shall mean the Forward Market Commission established under the Forward Contracts (Regulation) Act, 1952 (74 of 1952).
- f) 'International Financial Services Centre' or 'IFSC' shall have the same meaning given in Section 2 (q) of the Special Economic Zones Act, 2005 (28 of 2005).
- g) 'IRDA' shall mean the Insurance Regulatory and Development Authority established under the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).
- h) 'PFRDA' shall mean the Pension Fund Regulatory and Development Authority established under the Pension Fund Regulatory and Development Authority Act, 2013 (23 of 2013).
- i) 'Regulatory Authority' shall include Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulatory Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA), Forward Market Commission (FMC) or any other statutory authority empowered to regulate a financial institution under the Indian laws.
- j) 'SEBI' shall mean the Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992 (15 of 1992).
- k) The words and expressions used but not specified in these Regulations shall have the same meanings respectively assigned to them in the Act.

3. Any financial institution or branch of a financial institution set up in the IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority shall be treated as a person resident outside India.

4. A financial institution or branch of a financial institution shall conduct such business in such foreign currency and with such persons, whether resident or otherwise, as the concerned Regulatory Authority may determine.

5. Subject to the provisions of Section 1(3) of the Act, and save as otherwise provided in these Regulations or any other Regulations or directed by the Reserve Bank of India from time to time, nothing contained in any other regulations shall apply to a financial institution or branch of a financial institution set up in an IFSC.

(B.P. Kanungo)

Principal Chief General Manager

Published in the Official Gazette of Government of India – Extraordinary – Part-II, Section 3, Sub-Section (i) dated 23.03.2015- G.S.R.No.218(E)



RESERVE BANK OF INDIA

RBI/2014-15/533

DBR.IBD.BC.14570/23.13.004/2014-15

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

April 1, 2015

Dear Sir/Madam,

Setting up of IFSC Banking Units (IBUs)

Please refer to the Reserve Bank of India Notification No. FEMA.339/2015-RB dated March 02, 2015 (copy enclosed) under FEMA 1999 on Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). These regulations have been published in the Official Gazette of Government of India on March 23, 2015 vide Notification No. G.S.R. 218 (E) dated March 2, 2015.

2. Pursuant to the above Notification, Reserve Bank has formulated a scheme for the setting up of IFSC Banking Units (IBUs) by banks in IFSCs. The broad contours of the scheme for Indian banks and foreign banks already having presence in India are detailed in Annex I and Annex II, respectively. You may be aware that Government of India has already announced setting up of an IFSC in Gujarat namely Gujarat International Finance Tec-City (GIFT) in Gandhinagar, Gujarat. The guidelines contained in this circular will be applicable to IBUs set up in GIFT as well as in other IFSCs which may be set up in India.

3. Eligible banks intending to set up IBU may approach this department with an application under Section 23 of the Banking Regulation Act, 1949.

Yours faithfully

(Rajinder Kumar)
Chief General Manager

Scheme for setting up of IFSC Banking Units (IBU) by Indian Banks

The Reserve Bank has issued a notification under FEMA vide Notification No. FEMA.339/2015-RB dated March 02, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). The regulatory and supervisory framework governing IBUs set up in IFSCs by Indian banks is detailed below.

2. The scheme

2.1 Eligibility criteria

Indian banks viz. banks in the public sector and the private sector authorised to deal in foreign exchange will be eligible to set up IBUs. Each of the eligible banks would be permitted to establish only one IBU in each IFSC.

2.2 Licensing

Eligible banks interested in setting up IBUs will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1)(a) of the Banking Regulation Act, 1949 (BR Act). For most regulatory purposes, an IBU will be treated on par with a foreign branch of an Indian bank.

2.3 Capital

[With a view to enabling IBUs to start their operations, the parent bank will be required to provide a minimum capital of US\$ 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level.]¹

2.4 Reserve requirements

The liabilities of the IBU are exempt from both CRR and SLR requirements of Reserve Bank of India.

2.5 Resources and deployment

[2.5.1 The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and overseas branches of Indian banks.

2.5.2 The deployment of the funds can be with both persons resident in India as well as persons not resident in India. However, the deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.]²

¹ RBI/2017-18/177. DBR.IBD.BC. 105/23.13.004/2017-18. Dated: May 17, 2018.

² RBI Circular: RBI/2016-17/118. DBR.IBD.BC.32/23.13.004/2016-17. Dated: November 10, 2016.

2.6 Permissible activities of IBUs

The IBUs will be permitted to engage in the form of business mentioned in Section 6(1) of the BR Act as given below, subject to the conditions, if any, of the licence issued to them.

- i) [IBUs can undertake transactions with resident (for deployment of funds) and non-resident (for both raising of resources and deployment of funds) entities other than individuals including HNIs/ retail customers as indicated in paragraph 2.5.1 and 2.5.2 above.]³
- ii) All transactions of IBUs shall be in currency other than INR.
- iii) IBUs can deal with the Wholly Owned Subsidiaries / Joint Ventures of Indian companies registered abroad.
- iv) IBUs are allowed to have liabilities including borrowing in foreign currency only with original maturity period greater than one year. [On a review, it has been decided that RBI will not prescribe any limit for raising short-term liabilities from banks. However, the IBUs must maintain LCR as applicable to Indian banks on a stand-alone basis and strictly follow the liquidity risk management guidelines issued by RBI to banks. Further, NSFR will also be applicable to IBUs as and when it is applied to Indian banks.]⁴
- v) IBUs are not allowed to open any current or savings accounts. [It has now been decided that the IBUs can open foreign currency current accounts of units operating in IFSCs and of non-resident institutional investors to facilitate their investment transactions. However, IBUs cannot raise liabilities from retail customers including high net worth individuals (HNIs). Also, no cheque facility will be available for holders of current accounts in the IBUs.]⁵ All transactions through these accounts must be undertaken via bank transfers.
- vi) IBUs are permitted to undertake factoring / forfaiting of export receivables.
- vii) [With the prior approval of their board of directors, IBUs may undertake derivative transactions including structured products that the banks operating in India have been allowed to undertake as per the extant RBI directions. However, IBUs shall obtain RBI's prior approval for offering any other derivative products. Before seeking RBI's approval, banks shall ensure that their IBUs have necessary expertise to price, value and compute the capital charge and manage the risks associated with the products / transactions intended to be offered and should also obtain their Board's approval for undertaking such transactions.]⁶

³ RBI Circular: RBI/2016-17/118. DBR.IBD.BC.32/23.13.004/2016-17. Dated: November 10, 2016

⁴ RBI Circular: RBI/2015-16/282. DBR.IBD.BC.8563/23.13.004/2015-16. Dated: January 07, 2016.

⁵ RBI Circular: RBI/2015-16/282. DBR.IBD.BC.8563/23.13.004/2015-16. Dated: January 07, 2016.

⁶ RBI Circular: RBI/2016-17/273. DBR.IBD.BC.59/23.13.004/2016-17. Dated: April 10, 2017.

- viii) [IBUs are allowed to open foreign currency escrow account of Indian resident entities to temporarily hold subscriptions to the GDR/ADR issues until issuance of the Receipts. After GDRs/ADRs are issued, the funds should immediately be transferred to the client's account outside the IBU and cannot be retained by the bank in any form including long term deposits.
- ix) IBUs are allowed to act as underwriter / arranger of Indian Rupee (INR) denominated overseas bonds issued by Indian entities in overseas markets in terms of extant RBI instructions contained in FED CO AP Dir Circular No 17 dated September 29, 2015. However, in cases where part of the issuance underwritten by an IBU devolves on it, efforts must be made to sell the underwritten holdings and after 6 months of the issue date these holdings must not exceed 5% of the issue size.]⁷
- x) [The fixed deposits accepted from non-banks by the IBU cannot be repaid pre-maturely within the first year. However fixed deposits accepted as collateral from non-banks for availing credit facilities from IBUs or deposited as margin in favour of an exchange, can be adjusted prematurely in the event of default in repayment of the loan or meeting a margin call.
- xi) An IBU can be a **Trading Member** of an exchange in the IFSC for trading in interest rate and currency derivatives segments that the banks operating in India have been allowed to undertake as per the extant RBI directions.
- xii) An IBU can become a Professional Clearing Member (PCM) of the exchange in the IFSC for clearing and settlements in any derivative segments. This shall be subject to the following conditions:
- a) The parent bank of the IBU ("the bank") shall fulfil the prudential requirements as set out in Para 21 of the Master Direction/DBR.FSD.No.101/24.01.041/2015-16 dated May 26, 2016.
 - b) The IBU shall, with the approval of the bank's Board, put in place effective risk control measures, prudential limits on risk exposure in respect of each of its trading clients, taking into account their net worth, business turnover, etc.
 - c) The IBU may, as a PCM of derivatives segments, guarantee trades executed by its clients as trading members of the exchanges subject to the condition that the total exposure which the bank would take on its registered clients should be determined by the Board in relation to the net worth of the bank and monitored regularly. However, the IBU should not guarantee any transaction other than what is required in its role

⁷ RBI Circular: RBI/2016-17/118. DBR.IBD.BC.32/23.13.004/2016-17. Dated: November 10, 2016

- as PCM.
- d) The IBU shall ensure strict compliance with various margin requirements as may be prescribed by the bank's Board as also to the extant RBI guidelines regarding guarantees issued on behalf of commodity brokers.
 - e) The IBU shall comply with all the conditions, if any, stipulated, by other regulatory bodies that may be relevant for their role as PCM.
- xiii) IBUs are allowed to extend facility of bank guarantees and short term loans to IFSC stock broking/commodity broking entities, subject to the terms and conditions contained in paragraph 2.3.1.2 of the Master Circular on Statutory restrictions on Loans and Advances dated July 1, 2015.]⁸

2.7 Prudential regulations

All prudential norms applicable to overseas branches of Indian banks would apply to IBUs. Specifically, these units would be required to follow the 90 days' payment delinquency norm for income recognition, asset classification and provisioning as applicable to Indian banks. The bank's board may set out appropriate credit risk management policy and exposure limits for their IBUs consistent with the regulatory prescriptions of the RBI.

The IBUs would be required to adopt liquidity and interest rate risk management policies prescribed by the Reserve Bank 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 board at prescribed intervals.

The bank's board would be required to set comprehensive overnight limits for each currency for these Units, which would be separate from the open position limit of the parent bank.

[Exposure ceiling

Exposure ceiling for IBUs shall be 5 percent of the parent bank's Tier 1 capital in case of a single borrower and 10 percent of parent bank's Tier1 capital in case of a borrower group.]⁹

2.8 Anti-Money Laundering measures

The IBUs will be required to scrupulously follow "Know Your Customer (KYC)", combating of Financing of Terrorism (CFT) and other anti-money laundering instructions issued by the Reserve Bank from time to time. IBUs are prohibited from undertaking cash transactions.

⁸ RBI Circular: RBI/2016-17/273. DBR.IBD.BC.59/23.13.004/2016-17. Dated: April 10, 2017.

⁹ RBI Circular: RBI/2015-16/282. DBR.IBD.BC.8563/23.13.004/2015-16. Dated: January 07, 2016.

2.9 Regulation and Supervision

The IBUs will be regulated and supervised by the Reserve Bank of India.

2.10 Reporting requirements

The IBUs will be required to furnish information relating to their operations as prescribed by the Reserve Bank from time to time. These may take the form of offsite reporting, audited financial statements for IBUs, etc.

2.11 Ring fencing the activities of IFSC Banking Units

The IBUs would operate and maintain balance sheet only in foreign currency and will not be allowed to deal in Indian Rupees except for having a Special Rupee account out of convertible fund to defray their administrative and statutory expenses. Such operations/transactions of these units in INR would be through the Authorised Dealers (distinct from IBU) which would be subject to the extant Foreign Exchange regulations. IBUs are not allowed to participate in the domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.

The IBUs will be required to maintain separate nostro accounts with correspondent banks which would be distinct from nostro accounts maintained by other branches of the same bank.

[As per FEMA Notification No.339/2015-RB dated March 02, 2015, a financial institution or a branch of a financial institution set up in the IFSC and permitted / recognised as such by the Government of India or a Regulatory Authority shall be treated as a person resident outside India. Further, under FEMA Notification No.5(R)/2016-RB (schedule-4) dated April 01, 2016, any person resident outside India, having business interest in India, may maintain Special Non-Resident Rupee Account(s) (SNRRA) with an Authorised Dealer in the domestic sector for meeting their administrative expenses in INR. Accordingly, any financial institution (as defined under FEMA Notification No.339/2015-RB dated March 02, 2015) or a branch of a financial institution including an IBU operating in an IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority, can maintain SNRRA with a bank (Authorised Dealer) in the domestic sector for meeting its administrative expenses in INR. These accounts must be funded only by foreign currency remittances through a channel appropriate for international remittances which would be subject to the extant FEMA regulations. The financial institution can make payments, permissible under FEMA regulations, from its SNRRA, in its capacity as a customer, by suitably instructing the domestic bank with whom the SNRRA is maintained.]¹⁰

¹⁰ RBI Circular: RBI/2016-17/273. DBR.IBD.BC.59/23.13.004/2016-17. Dated: April 10, 2017.

2.12 Priority sector lending

The loans and advances of IBUs would not be reckoned as part of the Net Bank Credit of the parent bank for computing priority sector lending obligations.

2.13 Deposit insurance

Deposits of IBUs will not be covered by deposit insurance.

2.14 Lender of Last Resort (LOLR)

No liquidity support or LOLR support will be available to IBUs from the Reserve Bank of India.

Scheme for setting up of IFSC Banking Units (IBU) by foreign banks already having a presence in India

The Reserve Bank has issued a notification under FEMA vide Notification No. FEMA.339/2015/RB dated March 02, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). The regulatory and supervisory framework governing the IFSC Banking Units (IBU) set up by foreign banks is detailed below.

2. The scheme

2.1 Eligibility criteria

Only foreign banks already having presence in India will be eligible to set up IBUs. This shall not be treated as a normal branch expansion plan in India and therefore, specific permission from the home country regulator for setting up of an IBU will be required. Each of the eligible banks will be permitted to establish only one IBU in each IFSC.

2.2 Licensing

The banks will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1) (a) of the Banking Regulation Act, 1949 (BR Act). The applications of foreign banks will be considered based on extant guide-lines for setting up branches in India subject to the additional requirement of the home country regulator/s confirmation in writing of their regulatory comfort for the bank's presence in the IFSC, having regard among other things, to the provisions of paragraphs 2.3 and 2.14 below.

2.3 Capital

[With a view to enabling IBUs to start their operations, the parent bank will be required to provide a minimum capital of US\$ 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level as per regulations in the home country and the IBU shall submit a certificate to this effect obtained from the parent on a half-yearly basis to RBI (International Banking Division, DBR, CO, RBI). The parent bank will be required to provide a Letter of Comfort for extending financial assistance, as and when required, in the form of capital / liquidity support to IBU.]¹¹

2.4 Reserve requirements

The liabilities of the IBU are exempt from both CRR and SLR requirements of Reserve Bank of India.

¹¹ RBI Circular: RBI/2017-18/177. DBR.IBD.BC. 105/23.13.004/2017-18. Dated: May 17, 2018.

2.5 Resources and deployment

[2.5.1 The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and overseas branches of Indian banks.

2.5.2 The deployment of the funds can be with both persons resident in India as well as persons not resident in India. However, the deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.]¹²

2.6 Permissible activities of IBUs

The IBUs will be permitted to engage in the form of business mentioned in Section 6(1) of the BR Act as given below, subject to the conditions, if any, of the licence issued to them.

- i) [IBUs can undertake transactions with resident (for deployment of funds) and non-resident (for both raising of resources and deployment of funds) entities other than individuals including HNIs/ retail customers as indicated in paragraph 2.5.1 and 2.5.2 above.]¹³
- ii) All transactions of IBUs shall be in currency other than INR.
- iii) IBUs can deal with the Wholly Owned Subsidiaries / Joint Ventures of Indian companies registered abroad.
- iv) IBUs are allowed to have liabilities including borrowing in foreign currency only with original maturity period greater than one year. [On a review, it has been decided that RBI will not prescribe any limit for raising short-term liabilities from banks. However, the IBUs must maintain LCR as applicable to Indian banks on a stand-alone basis and strictly follow the liquidity risk management guidelines issued by RBI to banks. Further, NSFR will also be applicable to IBUs as and when it is applied to Indian banks.]¹⁴
- v) IBUs are not allowed to open any current or savings accounts. [It has now been decided that the IBUs can open foreign currency current accounts of units operating in IFSCs and of non-resident institutional investors to facilitate their investment transactions. However, IBUs cannot raise liabilities from retail customers including high net worth individuals (HNIs). Also, no cheque facility will be available for holders of current accounts in the IBUs.]¹⁵. All payment transactions must be undertaken via bank transfers.
- vi) IBUs are permitted to undertake factoring/forfeiting of export receivables.
- vii) [With the prior approval of their board of directors, IBUs may undertake derivative transactions including structured products that the banks operating in India have been allowed to undertake as per the extant RBI directions. However, IBUs shall obtain RBI's prior approval for offering any other derivative products. Before seeking RBI's approval, banks shall ensure

¹² RBI Circular: RBI/2016-17/118. DBR.IBD.BC.32/23.13.004/2016-17. Dated: November 10, 2016.

¹³ RBI Circular: RBI/2016-17/118. DBR.IBD.BC.32/23.13.004/2016-17. Dated: November 10, 2016

¹⁴ RBI Circular: RBI/2015-16/282. DBR.IBD.BC.8563/23.13.004/2015-16. Dated: January 07, 2016.

¹⁵ RBI Circular: RBI/2015-16/282. DBR.IBD.BC.8563/23.13.004/2015-16. Dated: January 07, 2016.

that their IBUs have necessary expertise to price, value and compute the capital charge and manage the risks associated with the products/transactions intended to be offered and should also obtain their Board's approval for undertaking such transactions.]¹⁶

- viii) IBUs are allowed to open foreign currency escrow account of Indian resident entities to temporarily hold subscriptions to the GDR/ADR issues until issuance of the Receipts. After GDRs/ADRs are issued, the funds should immediately be transferred to the client's account outside the IBU and cannot be retained by the bank in any form including long term deposits.
- ix) IBUs are allowed to act as underwriter / arranger of Indian Rupee (INR) denominated overseas bonds issued by Indian entities in overseas markets in terms of extant RBI instructions contained in FED CO AP Dir Circular No 17 dated September 29, 2015. However, in cases where part of the issuance underwritten by an IBU devolves on it, efforts must be made to sell the underwritten holdings and after 6 months of the issue date these holdings must not exceed 5% of the issue size.]¹⁷
- x) [The fixed deposits accepted from non-banks by the IBUs cannot be repaid pre-maturely within the first year. However, fixed deposits accepted as collateral from non-banks for availing credit facilities from IBUs or deposited as margin in favour of an exchange, can be adjusted prematurely in the event of default in repayment of the loan or meeting a margin call.
- xi) An IBU can be a **Trading Member** of an exchange in the IFSC for trading in interest rate and currency derivatives segments that the banks operating in India have been allowed to undertake as per the extant of RBI directions.
- xii) An IBU can become a **Professional Clearing Member (PCM)** of the exchange in the IFSC for clearing and settlements in any derivative segments. This shall be subject to the following conditions:
 - a) The parent bank of the IBU ("the bank") shall fulfil the prudential requirements as set out in Para 21 of the Master Direction/DBR.FSD.No.101/24.01.041/2015-16 dated May 26, 2016.
 - b) The IBU shall, with the approval of the bank's Board, put in place effective risk control measures, prudential limits on risk exposure in respect of each of its trading clients, taking into account their net worth, business turnover, etc.
 - c) The IBU may, as a PCM of derivatives segments, guarantee trades executed by its clients as trading members of the exchanges subject to the condition that the total exposure which the bank would take on its registered clients should be determined by the Board in relation to the net worth of the bank and monitored regularly. However, the IBU should not guarantee

¹⁶ RBI Circular: RBI/2016-17/273. DBR.IBD.BC.59/23.13.004/2016-17. Dated: April 10, 2017.

¹⁷ RBI Circular: RBI/2016-17/118. DBR.IBD.BC.32/23.13.004/2016-17. Dated: November 10, 2016

- any transaction other than what is required in its role as a PCM.
- d) The IBU shall ensure strict compliance with various margin requirements as may prescribed by the bank's Board as also the extant RBI guidelines regarding guarantees issued on behalf of commodity brokers.
 - e) The IBU shall comply with all the conditions, if any, stipulated by other regulatory bodies that may be relevant for their role as PCM.
- xiii) IBUs are allowed to extend facility of bank guarantees and short-term loans to IFSC stock broking/commodity broking entities, subject to the terms and conditions contained in paragraph 2.3.1.2 of the Master Circular on Statutory Restrictions on Loans and Advances dated July 1, 2015.]¹⁸

2.7 Prudential regulations

An IBU shall adopt prudential norms as prescribed by Reserve Bank of India. The bank's board may set out appropriate credit risk management policy and exposure limits for their IBUs consistent with the regulatory prescriptions of the Reserve Bank of India.

The IBUs will be required to adopt liquidity and interest rate risk management policies prescribed by the Reserve Bank and function within the overall risk management and ALM framework of the bank subject to monitoring by the board at prescribed intervals.

The bank's board would be required to set comprehensive overnight limits for each currency for these Units, which would be separate from the open position limit of the other branch/es of the foreign bank having a presence in India.

[Exposure ceiling

Exposure ceiling for IBUs shall be 5 percent of the parent bank's Tier 1 capital in case of a single borrower and 10 percent of parent bank's Tier1 capital in case of a borrower group.]¹⁹

¹⁸ RBI Circular: RBI/2016-17/273. DBR.IBD.BC.59/23.13.004/2016-17. Dated: April 10, 2017.

¹⁹ RBI Circular: RBI/2015-16/282. DBR.IBD.BC.8563/23.13.004/2015-16. Dated: January 07, 2016.

2.8 Anti-Money Laundering measures

The IBUs will be required to scrupulously follow "Know Your Customer (KYC)", Combating of Financing of Terrorism (CFT) and other anti-money laundering instructions issued by RBI from time to time, including the reporting thereof, as prescribed by the Reserve Bank / other agencies in India. IBUs are prohibited from undertaking cash transactions.

2.9 Regulation and supervision

The IBUs of foreign banks will be regulated and supervised by the Reserve Bank of India.

2.10 Reporting requirements

The IBUs will be required to furnish information relating to their operations as prescribed from time to time by the Reserve Bank. These may take the form of offsite reporting, audited financial statements for the IBU, etc.

2.11 Ring fencing the activities of IFSC Banking Units

The IBUs would operate and maintain balance sheet only in foreign currency and would not be allowed to deal in Indian Rupees except for having a Special Rupee account out of convertible fund to defray their administrative and statutory expenses. Such operations/transactions of these units in INR would be through the Authorised Dealers (distinct from IBU) which would be subject to the extant Foreign Exchange regulations. IBUs are not allowed to participate in the domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.

The IBUs will be required to maintain separate nostro accounts with correspondent banks which would be distinct from nostro accounts maintained by other branches of that foreign bank in India.

[As per FEMA Notification No.339/2015-RB dated March 02, 2015, a financial institution or a branch of a financial institution set up in the IFSC and permitted / recognised as such by the Government of India or a Regulatory Authority shall be treated as a person resident outside India. Further, under FEMA Notification No.5(R)/2016-RB (schedule-4) dated April 01, 2016, any person resident outside India, having business interest in India, may maintain Special Non-Resident Rupee Account(s) (SNRRA) with an Authorised Dealer in the domestic sector for meeting their administrative expenses in INR. Accordingly, any financial institution (as defined under FEMA Notification No.339/2015-RB dated March 02, 2015) or a branch of a financial institution including an IBU operating in an IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority, can maintain SNRRA with a bank (Authorised Dealer) in the domestic sector for meeting its administrative expenses in INR. These accounts must be funded only by foreign currency remittances through a channel appropriate for international remittances which would be subject to the extant

FEMA regulations. The financial institution can make payments, permissible under FEMA regulations, from its SNRRA, in its capacity as a customer, by suitably instructing the domestic bank with whom the SNRRA is maintained.]²⁰

2.12 Priority sector lending

The loans and advances of IBUs will not be reckoned as part of the Net Bank Credit for computing priority sector lending obligations of the foreign bank in India.

2.13 Deposit insurance

Deposits of IBUs will not be eligible for deposit insurance in India.

2.14 Lender of Last Resort (LOLR)

No liquidity support or LOLR support will be available to IBUs from the Reserve Bank of India.

²⁰ RBI Circular: RBI/2016-17/273. DBR.IBD.BC.59/23.13.004/2016-17. Dated: April 10, 2017.



Foreign Exchange Dealers' Association of India

173, Maker Tower 'F',
Cuffe Parade,
Mumbai - 400 005.

Tel.: 2218 2549 / 2218 4432
Telefax : 2218 9946

E-mail : mail@fedai.org.in
Website : www.fedai.org.in

SPL-07/SVM /2017
18th September 2017

All Members of FEDAI

Dear Sir/Madam,

Sub.: Master Direction on Risk Management & Interbank Dealings - Commodity Hedging

As per Reserve Bank of India (RBI) Master Direction on Risk Management and Interbank Dealings, Part A, Section I, sub-Section 7 Residents in India, engaged in import, export trade or as otherwise approved by RBI from time to time are allowed to hedge price risk of permitted commodities in the international commodity exchanges/markets.

As per the communication received from Financial Markets Regulation Department, Reserve Bank of India, Central Office, it is hereby clarified that exchanges set up in International Financial Services Centres, also qualify as an International Commodity Exchange/Market for the purpose of the said Master Direction.

Members are requested to take a note of the above and be guided accordingly.

Chief Executive.



RESERVE BANK OF INDIA

Mumbai - 400 001

RBI/2017-18/194

A.P (DIR Series) Circular No.30

June 07, 2018

To

All Category – I Authorised Dealer Banks

Madam/Sir

Foreign Investment in India -Reporting in Single Master Form

As announced in the [First Bi-monthly Monetary Policy Review dated April 5, 2018](#), Reserve Bank, with the objective of integrating the extant reporting structures of various types of foreign investment in India, will introduce a Single Master Form (SMF). The SMF would be filed online.

2. SMF would provide a facility for reporting total foreign investment in an Indian entity {as defined in [Foreign Exchange Management \(Transfer or issue of security by a person resident outside India\) Regulations 2017, dated November 7, 2017](#)}, as also investment by persons resident outside India in an Investment Vehicle.

3. Prior to the implementation of the SMF, Reserve Bank would provide an interface to the Indian entities, to input the data on total foreign investment in a specified format. The interface will be available on RBI website www.rbi.org.in from June 28, 2018 to July 12, 2018. Indian entities not complying with this pre-requisite will not be able to receive foreign investment (including indirect foreign investment) and will be non-compliant with Foreign Exchange Management Act, 1999 and regulations made thereunder.

4. The entities may be in readiness with the requirements to be provided in the Entity Master at [Annex 1](#). The format of the SMF is at [Annex 2](#). The final form, when hosted, will be available in the Master Direction-Reporting under FEMA, 1999.

5. AD Category-I banks may bring the contents of this circular to the notice of their customers / constituents concerned.

6. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Shekhar Bhatnagar)
Chief General Manager in Charge