

Overview of regulatory development
in GIFT IFSC for the Financial Year
2023-24

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Background

Gujarat International Finance Tec-City (**GIFT City**) is India's first operational greenfield smart city, focusing specifically on financial services. One of the recent Economic Survey highlighted that GIFT City is "envisioned as the embodiment of Aatmanirbhar Bharat, a hub of ingenuity and innovation." International Financial Services Centre (**IFSC**), an initiative taken by the government in the year 2015 to incentivise foreign investment, was noted by the Survey to be the key reason for an "increasingly liberal outlook towards capital account convertibility." According to the report, the vision is to transform GIFT City into a bustling financial hub, a vibrant city bearing a distinctively international character and pioneering solutions to complex problem statements involving finance. It is noted that, GIFT City is a "path-breaking financial reform" as it emerges as a preferred jurisdiction for International Financial Services & FinTech activities. GIFT City witnessed unprecedented growth in the Financial Year (**FY**) 2023-24. In this newsletter, we have tried to highlight some of the major changes that took place in the last FY.

Capital Markets

Direct Listing of Equity Shares of the Companies Incorporated in India on International Exchanges Scheme – Foreign Exchange Management (Non-Debt Instruments) Amendment Rules, 2024

In pursuance of the announcement by Union Minister for Finance and Corporate Affairs, Smt. Nirmala Sitharaman to enable direct listing of Indian Companies at GIFT-IFSC exchanges, the Government of India, on 24th January 2024, notified the Foreign Exchange Management (Non-debt Instruments) Amendment Rules, 2024 and the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 providing the framework for enabling direct listing of equity shares by Indian companies on the International Exchanges in GIFT IFSC.

The initiative to enable listing of Indian companies in GIFT IFSC is set to reshape the Indian capital market landscape and offer Indian companies, especially start-ups and companies in the sunrise and technology sectors, an alternative avenue to access global capital beyond the domestic exchanges. The public Indian companies will have the flexibility to access both markets i.e. domestic market for raising capital in INR and the international market at IFSC for raising capital in foreign currency from the global investors.

This is expected to lead to better valuation of Indian companies in line with global standards of scale and performance, boost foreign investment flows, unlock growth opportunities and broaden the investor base. It would also benefit the Indian companies that have global ambitions and are looking for opportunities for expanding their presence in other markets.

It is also expected to provide a boost to the capital market ecosystem at GIFT IFSC by providing new investment opportunities for investors, diversification of financial products and enhancement of liquidity.

GIFT NIFTY

The trading of SGX Nifty, previously on the Singapore Exchange's platform, has shifted to NSE's International Exchange (NSE IX) within GIFT IFSC w. e. f. 3rd July 2023. This creates a gateway for more global securities to be listed on GIFT-NIFTY. The current daily turnover is recorded up to \$15 billion. As the platform grows, its influence on global and local markets will shape financial activities in and beyond India.

Settlement of Client's funds lying with Broker Dealer

IFSCA had notified a circular on Ease of Doing Business: Settlement of Client's Funds lying with Broker Dealer wherein settlement of funds shall be done as per the Agreement/Consent Letter between the Broker Dealer and its client unless it is specified by International Financial Services Centres Authority (**IFSCA**). The circular also highlights that Stock

Exchanges in IFSC shall put in place a mechanism for monitoring clients' funds lying with the Broker Dealers.

Consultation Paper on Remote Broker-Dealer

In order to enhance the participation of foreign Broker-Dealers on the Stock Exchanges, IFSCA has issued a consultation paper on permitting foreign Broker-Dealers to trade on the Stock Exchanges without having a physical presence in IFSC. Only the regulated Broker-Dealers having the membership of certain international exchanges have been proposed to be permitted for proprietary trading under this category.

Fund Management

Accredited Investors in IFSC

IFSCA (Fund Management) Regulations, 2022 provide certain flexibilities to the "Accredited Investors" and the Fund Management Entities (FMEs) that deal with them, as stated below:

- The minimum investment threshold specified in the Regulations for investing in Venture Capital Schemes, Restricted Schemes and Portfolio Management Services do not apply to Accredited Investors.
- In case of Venture Capital Schemes and Restricted Schemes which have 2/3rd of investors as Accredited Investors, the FME is exempted from the requirement of contributing to the scheme (skin in the game contribution).
- Further, the regulatory framework for Distributors of Capital Market Products and Services, specified vide circular dated 21st December 2022, under IFSCA (Capital Market Intermediaries) Regulations, 2021, also makes a reference to "Accredited Investors" and enables distribution of a wider bouquet of products and services to such investors as compared to other investors.

In view of the above, in line with the global best practices, IFSCA issued a circular on Accredited Investors in IFSC, pursuant to public consultation

and taking into consideration the recommendations made by the Fund Management Advisory Committee of IFSCA. The circular, *inter alia*, contains the eligibility criteria of Accredited Investors, responsibilities of Regulated Entities that onboard such investors and mechanism to opt-in/ opt-out of Accreditation by Investors.

Maintenance of net worth by Fund Management Entity

IFSCA issued a circular stating that in case the net worth of any FME falls below the specified net worth, such FME shall not –

- launch new schemes in IFSC;
- onboard new clients towards any of the activities or undertake new business activities permitted under the Fund Management Regulations;

till the time the net-worth is restored.

Clarifications in relation to Fund Management Entities and Schemes set up in IFSC by Sovereign Wealth Funds

IFSCA issued a circular regarding clarifications in relation to FMEs and Schemes set up in IFSCs by Sovereign Wealth Funds wherein IFSCA had clarified the following for Sovereign Wealth Funds desirous of setting up their presence at GIFT IFSC, wherein Sovereign Wealth Fund is the ultimate contributor and beneficiary:

- The requirement of appointment of an independent custodian shall not be applicable to open-ended Restricted Schemes and all other schemes with Assets under Management (AUM) above USD 70 Million.
- The FME may share its office space.

Banking/Finance Company

Guidance framework for sustainable and sustainability linked lending by financial institutions

This circular provided guidance on the methodology to be adopted for the purpose of computing the Environmental, Social and Governance (ESG) targets by the IFSC Banking Units (IBUs) and

finance companies (FCs)/ finance units (FUs) undertaking lending activity, in IFSC.

IFSCA (Banking) (Amendment) Regulations, 2023

The amended Regulations, *inter alia*, permit the Banking Unit in IFSC to be set up as a subsidiary company of the parent bank. Before amendment, the IFSCA (Banking) Regulations, 2020 permitted a parent bank to set up only one Banking Unit in an IFSC and only as a branch. While the branch model is a useful starting point for commencement of banking operations, especially in new jurisdiction like GIFT IFSC, future growth of the sector requires consideration of other models including operating as subsidiary company of the parent bank.

Opening of SNRRA with AD Banks in India

This circular modified the provision related to opening of Special Non-Resident Rupee Account (SNRRA) with Authorised Dealer (AD) banks in India in Banking handbook – Conduct of Business (COB) Directions. Earlier IBUs were not allowed to open SNRRA with AD bank in India of which it is a branch. Now, the provision stands as follows, “An IBU may open an INR account, in the form of a SNRRA, with an AD Bank in India to defray its administrative expenses in compliance with the directions of the RBI in this regard.”

Issuance of Indian Financial System Code (IFSC Code) to IFSC Banking Units (IBUs)

IFSCA vide circular dated 22nd March 2024, informed all stakeholders about the Indian Financial System Code (IFSC code) allotted to IBUs. The circular mentions that IFSC codes are used by the remitters to undertake cross border remittance to IBUs for mentioning in the relevant field of cross border payment systems messages where quoting of IFSC code of the destination branch in India is a mandatory requirement. The IFSC codes for IBUs shall not be used for initiating payments using any of the domestic payment systems like NEFT, RTGS etc.

Inclusion of ‘Finance Company’ and ‘Finance Unit’ as ‘Credit Institution’ under clause (f) of

Section 2 of the Credit Information Companies (CICs) (Regulation) Act, 2005

IFSCA issued a circular on the Inclusion of “Finance Company” and “Finance Unit”, wherein the entities engaged in activities like lending in the form of loans, commitments, and guarantees, as well as activities such as factoring and forfeiting among others, have been included by IFSCA under the definition of ‘credit institutions’ under the CICs (Regulation) Act, 2005. This is introduced as an initial step following which enablement for CIC to accept/ share data from the IFSC units is to be made by RBI.

Insurance

IFSCA (Re-insurance) Regulations, 2023

The regulations provide a framework on oversight and regulation of inward and outward arrangement of re-insurance business by the IFSC Insurance Offices (IIOs).

IFSCA (Assets, Liabilities, Solvency Margin and Abstract of Actuarial Report for Life Insurance Business) Regulations, 2023

The regulations aim to specify the requirements related to capital, solvency, and submission of abstract of actuarial report by an IIOs, who are permitted to transact Life Insurance Business.

IFSCA (Assets, Liabilities, and Solvency Margin of General, Health and Re-insurance business) Regulations, 2023

The regulations aim to specify the requirements related to capital, solvency, and submission of abstract of actuarial report by an IIOs, who are permitted to transact General, Health and Re-insurance business.

IFSCA (Management Control, Administrative Control and Market Conduct of insurance business) Regulations, 2023

The regulations aim to put in place the regulatory framework related to Management Control, Administrative Control and Market Conduct of insurance business carried out by an IIO or IFSC Insurance Intermediary Office (IIO).

Consolidated IFSCA (Investment by IIO) Regulations, 2022

Considering the significance of investment income for insurers and reinsurers, IFSCA in accordance with Section 27 of the Insurance Act, 1938, had notified IFSCA (Investments by IIO) Regulations, 2022 on 12th January 2023. Subsequently, Insurance Regulatory and Development Authority of India (IRDAI) on 22nd August 2023, had notified amendment to its Reinsurance Regulations, 2018. These regulations place IIO at par with Foreign Reinsurer Branch in Category 2 of Order of Preference subject to certain conditions on investments to be made in Domestic Tariff Area (DTA) in India. Based on the above amendment by the IRDAI, IFSCA has carried out suitable modifications to IFSCA (Investment by IIO) Regulations, 2022 and a consolidated version of the updated amended regulations is made available on the website of the Authority.

FinTech / TechFin

IFSCA (Payment Services) Regulations, 2024

The regulations lay down the framework for entities providing the following payment services to seek authorisation from IFSCA:

1. Account issuance service (including e-money account issuance service)
2. E-money issuance service
3. Escrow service
4. Cross-border money transfer service
5. Merchant acquisition

By enabling the above services to be provided out of IFSC, the regulations allow financial institutions in IFSC to provide as well as receive a wide range of financial services that facilitate the transfer of money between individuals, businesses, and other entities. The regulations would also permit Indian fintech entities looking to offer their products globally to develop IFSC as their base from which to expand their offerings to jurisdictions across the world. The regulations would also support the process of “reverse-flipping” as many of the Indian fintechs having holding companies in foreign jurisdictions are

engaged in providing one or more of the payment services enabled by the regulations.

Aircraft Leasing

Utilisation of office space or manpower or both by entities undertaking aircraft leasing activity in the IFSC

Issued circular enabling an aircraft leasing entity registered in IFSC to share its office space and/ or its manpower with its group entity(ies) in IFSC, set up for undertaking the permissible activities under the ‘Framework for Aircraft Lease’.

Amendment to the IFSCA circular titled 'Framework for Aircraft Lease' - Enabling lease of Aviation training simulation devices

Enabled leasing of ‘Aviation training simulation devices’ as a permissible activity in IFSC under the ‘Framework for Aircraft Lease’. The amendment also broadened the scope of Asset Management Support Services (AMSS) wherein an aircraft lessor is now permitted to undertake AMSS for its group entities as well without the need for a separate registration under the ancillary services framework. This was introduced as a measure of ease of doing business for the aircraft leasing entities in IFSC.

Ancillary services

Notification on Book-keeping, accounting, taxation and financial crime compliance services under as financial service under the IFSCA Act, 2019

Government of India notified the following services as ‘financial services’, namely:-

1. Book-keeping services
2. Accounting services
3. Taxation services
4. Financial crime compliance services

Provided that the financial services shall be offered by units in an IFSC regulated by the IFSCA.

This key policy enablement will contribute towards the development of GIFT IFSC as a “Global finance and accounting hub” and create employment opportunities for talented Indian workforce including Chartered Accountants, Company Secretaries, Cost and Management Accountants, Commerce Graduates, Financial Crimes specialists and others.

Globally, organizations are increasingly looking to procure services related to accounting, taxation, and Anti-Money Laundering (AML) / Countering the Financing of Terrorism (CFT) compliances from offshore jurisdictions due to the availability of high quality services at competitive costs. GIFT IFSC, being an offshore jurisdiction within India is uniquely positioned to attract a significant portion of this global business. The export of such financial services from IFSC is expected to contribute towards achieving the target of USD 1 Trillion services export by 2030.

Expert Committee for developing GIFT IFSC as “Global Finance and Accounting Hub”

IFSCA constituted an Expert Committee for developing GIFT IFSC as “Global Finance and Accounting hub” under the Chairmanship of Shri Aniket Talati, President, ICAI. The committee comprises of experts from the field of Accounting, Taxation, and Financial Crime compliances. The report of the Expert Committee is to make recommendations on the development and regulation of Bookkeeping, Accounting, Taxation and Financial Crime Compliance services in IFSC and promotion of GIFT IFSC as “Global Finance and Accounting hub”. The Expert Committee will also identify measures and safeguards for preventing the shifting of businesses from domestic area to GIFT IFSC. The committee submitted its report on 26th March 2024, recommending a comprehensive regulatory regime for undertaking Bookkeeping, Accounting, Taxation and Financial Crimes Compliance services from IFSC in India.

Addendum to the circular titled “Framework for enabling Ancillary services at IFSC”

Ship broking a well-recognised global professional service in shipping business and ship brokers are specialist intermediaries between two principals in a contract related to ship. IFSCA vide circular dated 6th April 2023, has enabled ship broking services to facilitate ship lessors/ lessees and to undertake permissible activities as per the framework of ship leasing. For completing the market for intermediaries to provide support services to IBUs and other financial institutions in IFSC and considering the voice broker as an entity that brings together buyers and sellers of a financial assets for the purpose of executing a transaction in such financial assets, the IFSCA vide circular dated 6th April 2023, has enabled “Voice Broking services to entities in IFSCs or from outside India in relation to their business of banking”.

Special Economic Zone (SEZ)

Notification pertaining to modification under SEZ Act and Rules

For ease of doing business, Ministry of Finance has through its notification dated 28th February 2024 delegated some of the powers of Development Commissioner to the Administrator of International Financial Services Authority by amending The SEZ Act, 2005 and The SEZ Rules, 2006.

Income Tax

TDS Exemptions for IFSC Units

The Central Government has notified that no deduction of tax shall be made under the provisions of the Income-tax Act in respect of the payments for certain activities made by any ‘payer’ to a person being a Unit of IFSC, (referred as ‘payee’). The notification issued by the Central Government came into force on 1st April 1, 2024.

What lies ahead for GIFT IFSC in 2024-25

We are expecting to see revolution in the FY 2024-25 in the areas like Tokenisation, Block Chain, Family Investment Funds, Variable Capital Company (VCC) structure, development in fund ecosystem through simplified regulations, tax concession and conducive landscape to attract domestic and foreign financial institutions, banks, insurance companies and other financial service providers. We have seen remarkable growth in aircraft and ship leasing entities along with couple of foreign universities. Giants like IBM, Google, Capgemini, Morgan Stanley etc. have already got themselves registered in GIFT City. Nearly 700 entities have been registered in GIFT City under various framework issued by IFSCA and many more are in the process. We are fortunate to witness, our Prime Minister's dream to develop GIFT City as financial and fintech hub is becoming reality now.



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