

IFSC Banking Units allowed to deal in Structured Finance Products

[RBI Notification dated December 1, 2022](#)

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What does the Notification state?

Branches/subsidiaries of Indian banks/AIFIs operating in IFSCs [known as '**Banking Units**' (BU)] may deal in financial products, including structured financial products which are not permitted by the RBI in the domestic market

How are BUs Regulated?

- BUs set up as a **branch of a bank** operating in India are subject to the regulatory guidelines issued by IFSCA along with the regulatory guidelines issued by the RBI applicable to the bank, unless otherwise specified by IFSCA.
- Being covered by the regulatory framework applicable in the domestic territory, BUs were not allowed to deal in certain structured products.
- The aforementioned notification paves way for banking units set up in IFSC as a branch of a bank operating in India to deal in the said products

Structured Finance Products that were not allowed

- SSA Directions bar financial institutions (*including overseas branches of Indian banks*) from undertaking securitisation transactions such as:
 - re-securitisation,
 - structures in which short term instruments are issued against long term assets,
 - synthetic securitisation and
 - securitisation with the underlying assets are:
 1. revolving credit facilities,
 2. restructured loans in specified period,
 3. exposures to other lending institutions,
 4. refinance exposures of AIFIs;
 5. loans with bullet payments of both principal and interest as underlying.
- Credit Derivatives Directions provides that only non-retail entities are allowed to deal in credit derivatives for purposes other than hedging.
- Reference obligation for credit derivatives shall be limited to money market debt instruments, rated INR corporate bonds and debentures; and unrated INR corporate bonds and debentures issued by the Special Purpose Vehicles set up by infrastructure companies.

Pre-Conditions

- ✓ Compliance with the directives issued by IFSCA;
- ✓ Prior approval of the BoD and IFSCA, if required;
- ✓ Demonstrate that BU has adequate knowledge, understanding, and risk management capability;
- ✓ Report to the RBI;
- ✓ Products shall not be linked to INR unless specifically permitted by the RBI;
- ✓ Not accept structured deposits from any Indian resident;
- ✓ Adhere to suitability and appropriateness policies mandated by the RBI;
- ✓ Comply with the prudential norms as specified by IFSCA;
- ✓ Parent bank to adhere to more stringent norms among the host and home regulations;

Impact

- Current scope of eligible securitisation structures and reference obligations for credit derivatives is narrow and leaves a wide range of credit assets such as unrated bonds, debentures, loan obligations, ABS, MBS and other structured obligations etc. outside its purview.
- BUs shall not be barred from dealing the credit derivatives having the aforementioned reference obligations. One may expect innovation in the structured finance space in the GIFT-City.

Reach us:



Our write-ups on IFSC

- [Financial entities in IFSC: A primer](#)
- [Finance Companies / Units in IFSC](#)