# IFSC: THE FUTURE OF FINANCIAL SERVICES IN INDIA

ANIRUDH GROVER

# ORIGIN

**Balance Sheet of XYZ Bank in IFSC**

| Liabilities | | Assets | |
|---|---|---|---|
| • Offshore borrowings | XXX | • Offshore loans | XXX |
| • Offshore deposits | XXX | • Offshore Investments | XXX |

- Origin of OFCs can be traced back to the 1960s and 1970s when many developed nations and sovereign governments were attempting to regulate capital flows through the imposition of restrictive domestic regulations
- International Financial Services Center as a concept is derived from Offshore Financial Centers.
- As per International Monetary Fund *an OFC is a center where the* ***bulk of the financial sector activity is offshore on both the sides of the balance sheet***
- Thus OFCs are usually referred to as:
  - Jurisdictions that have relatively large numbers of financial institutions engaged primarily in business with non-residents
  - Financial Systems with external assets and liabilities out of proportion to domestic financial
  - Centers that provide some or all of the following services; low or zero taxation, moderate or light financial regulation, banking secrecy, and anonymity.

SOURCE: IMF BACKGROUND PAPER

# PURPOSE & OBJECTIVE

- The concept of an IFSC was first conceived by the Government of India in the year 2007 based on the recommendations of a High-Powered Expert Committee.
- Onshoring the offshore' financial services activity in IFSC GIFT City by incentivizing entities to establish their base in IFSC.

**FOR ENTITIES**

- Tax and Compliance friendly
- More Freedom

**FOR GOVERNMENT**

- Acts as a Payment Gateway
- Attracting Foreign Capital

# SETTING UP OF GIFT IFSC



- Set up under Section 18 of the Special Economic Zone Act, 2005.
- It is the first and the only international financial service centre in India

# PICTURE TILL NOW

2015:

GOI notified India's first IFSC in GIFT City

2016: Competitive Tax Regimes introduced for entities established in IFSC.

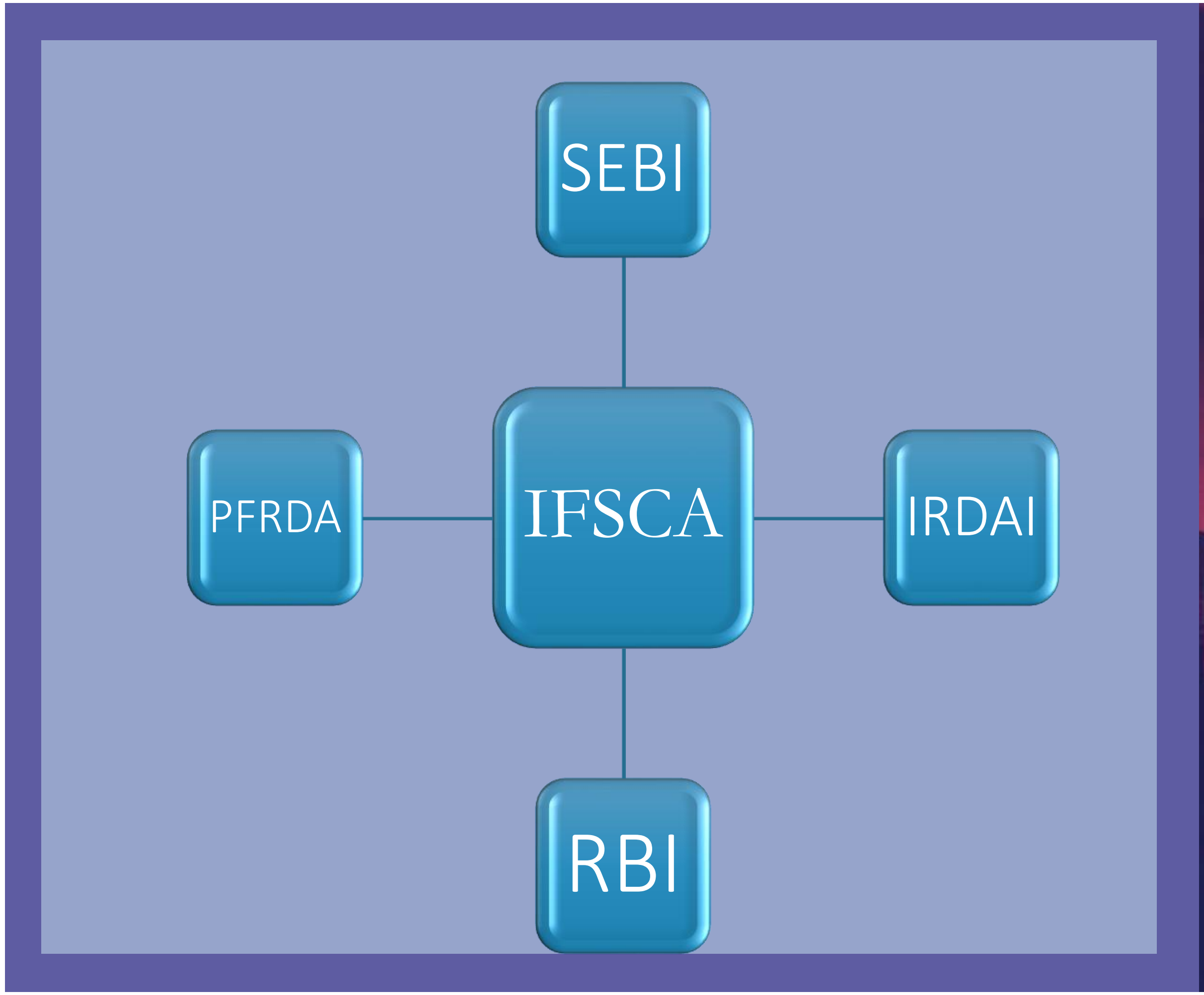
2017: Exemptions granted to entities in IFSC from certain provisions of the Companies Act 2013.

2019: Issuance of IFSCA Act, vide which a unified regulator IFSCA was established.

2020:
Issuance of Finance Company Regulations
Issuance of Banking Regulations

2022:
Framework for Fintech Entities in IFSC has been issued

# REGULATORY ENVIRONMENT




# REGULATORY ENVIRONMENT: RELAXATIONS UNDER COMPANIES ACT

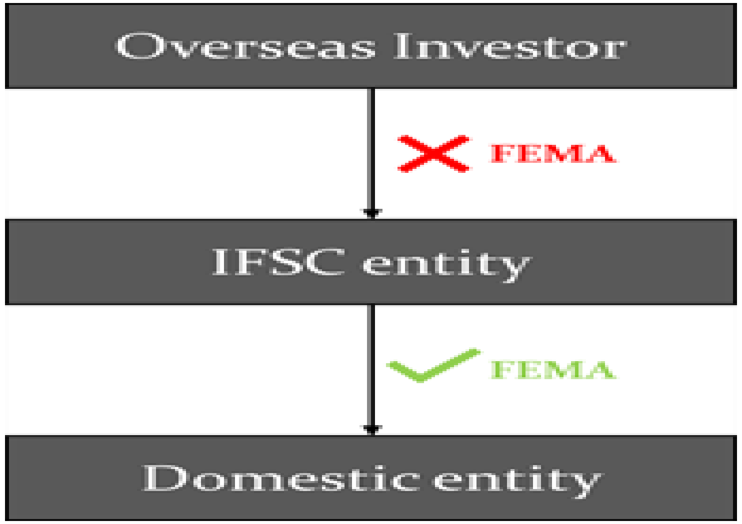
| | |
|---|---|
| General Relaxations | • Flexibility in Selecting Financial Year<br>• No Compulsory rotation of statutory auditors |
| Compliance Relaxations | • Flexibility in developing/choosing its own procedure inter alia with respect to meeting notice, quorum, voting rights.<br>• Reducing the requirement of 4 Board Meetings to 2 Board Meetings |
| Regulatory Relaxations | • No Requirement to appoint audit committee, Nomination and Remuneration Committee<br>• Non-applicability of CSR for initial five years<br>• No cap on managerial remuneration. |

# REGULATORY ENVIRONMENT: RELAXATIONS UNDER TAXATION

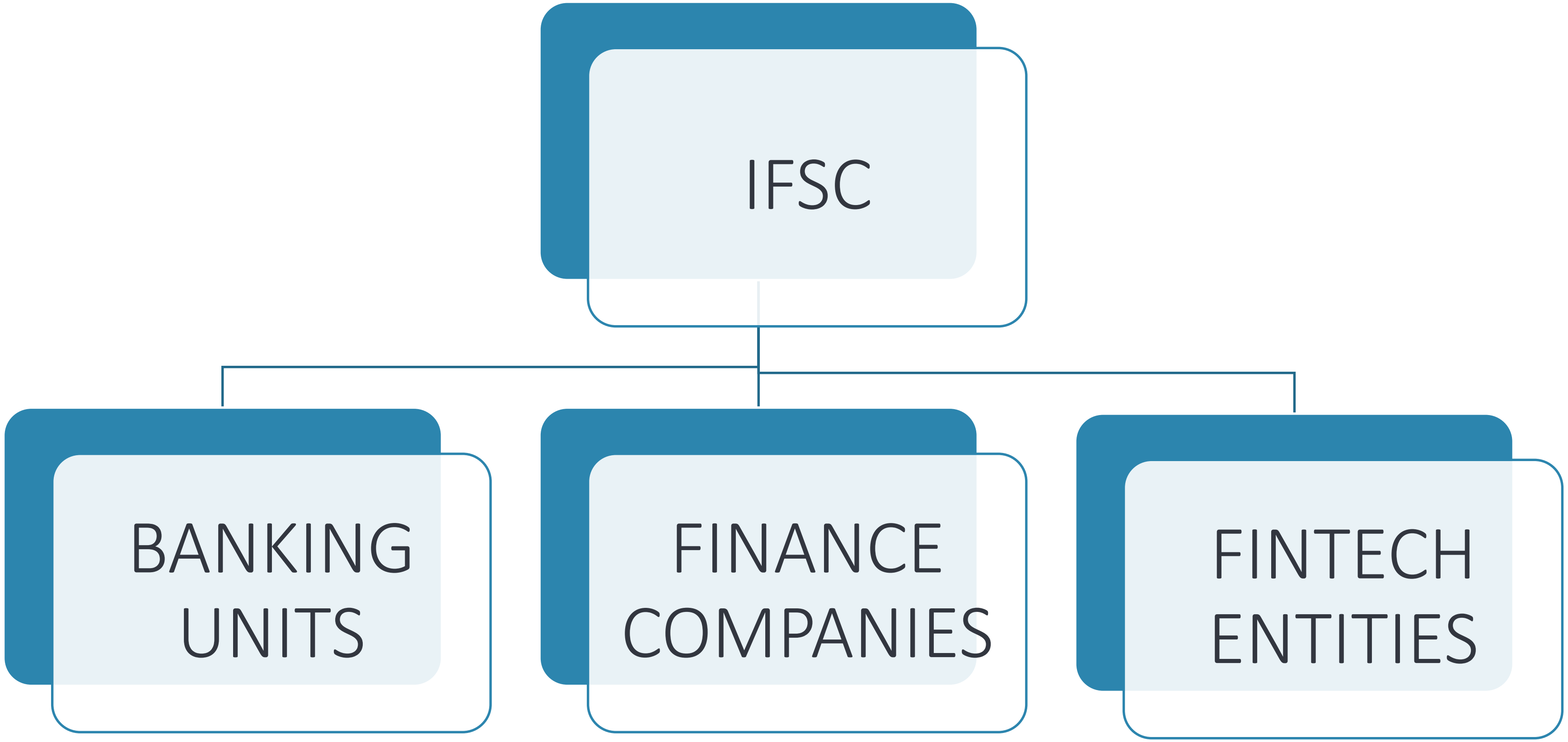
| NATURE OF INCENTIVES | IFSC FINANCIAL ENTITIES | INVESTORS |
| --- | --- | --- |
| Direct Tax Incentives | • No tax for a period of 10 consecutive years.<br>• Option of availing concessional tax rates<br>• MAT/AMT Concessional rates | • Interest income paid to Non Residents is not taxable<br>• Interests on deposits in an offshore banking unit is exempt for NR and Person not ordinarily resident in India,<br>• Sale of specified securities not considered as transfer under Capital Gain. |
| Indirect Tax Incentives | • No GST on the supply of services. | • Exemption from GST on transactions in IFSC exchanges<br>• Reduced Rate of Stamp Duty on transactions in IFSC exchanges. |

# REGULATORY ENVIRONMENT: RELAXATIONS UNDER FEMA

- In March 2015, the RBI enacted the FEMA (IFSC) Regulations
- As per the said regulations, such entities are treated as persons residing outside India and are required to conduct business in a foreign currency other than Indian Rupees (INR), whether with a resident or otherwise.



# TYPES OF FINANCIAL ENTITIES



# FINANCE COMPANIES

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## WHAT ARE FINANCE COMPANIES?

Finance Companies means a financial institution as defined under clause (c) of subsection (1) of section 3 of the Act, separately incorporated to deal in one or more of the permissible activities specified under sub-regulation (1) of regulation 5 of these regulations, provided that: It does not accept public deposit from resident and non resident is not registered with the Authority as a Banking Unit."

## WHAT ACTIVITIES THEY UNDERTAKE?

Finance Companies can undertake permissible activities that include core and non-core activities.

| CORE ACTIVITIES | NON CORE ACTIVIES |
|---|---|
| Lending, Investments, | Merchant Banking, Registrar & Share Transfer Agent |
| Securitization, Sale & Purchase of Portfolios | Trusteeship Services, Investment Advisory Services |
| Factoring & Forfaiting, financial leasing | Operating lease, International Trade Financing Services. |

# FINANCE COMPANIES VS NBFCs

| **Parameters** | Base Layer NBFC | Middle Layer and Upper Layer NBFC | Finance Company / Unit |
|---|---|---|---|
| Registration | Certificate of Incorporation (CoI) from MCA Certificate of Registration (CoR) from RBI | | Certificate of Incorporation (CoI) from MCA Certificate of Registration (CoR) from IFSCA. |
| Principal business criteria | Entities having: 50:50 Criteria | | Can carry out either of the following:<br>– core permissible activities; or<br>– non-core permissible activities; or<br>– both. |
| Minimum Net Owned Fund | Rs. 10 crores | | For Core Activities: USD 3 million<br>For Non-Core Activities: USD 0.2 million. |

# FINANCE COMPANIES VS NBFCs

| | | | |
|---|---|---|---|
| Concentration norms | Not applicable | Applicable above asset size of Rs. 5000 crores. | Applicable |
| CRAR / Leverage Ratio | Leverage ratio should not be more than 7. | CRAR of 15% (out of which Tier-1 capital should be atleast 10%). | It shall maintain a minimum of 8% of its regulatory capital to risk weighted assets |

# TRENDS OBSERVED

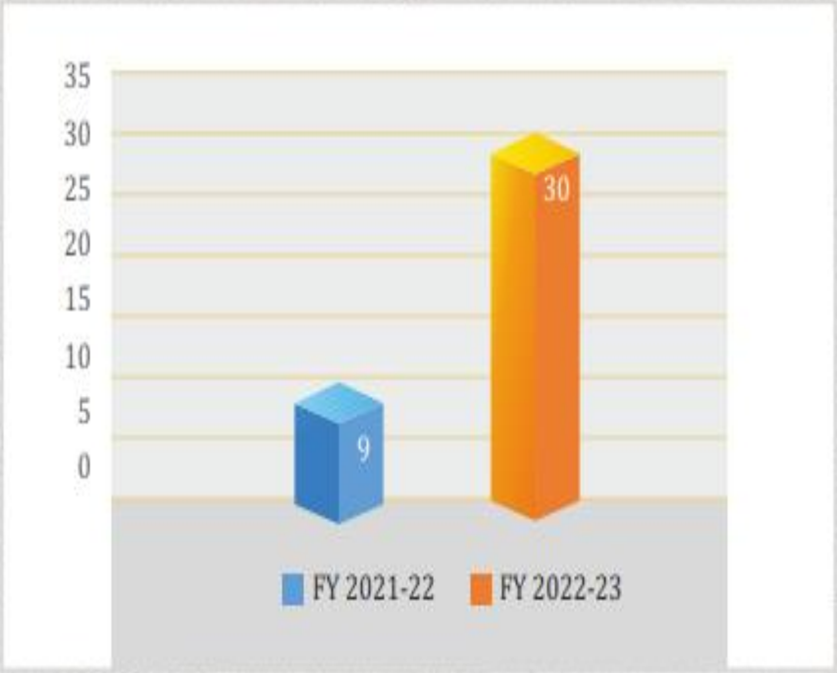



Fig 2.1: Growth in Finance Companies in IFSC

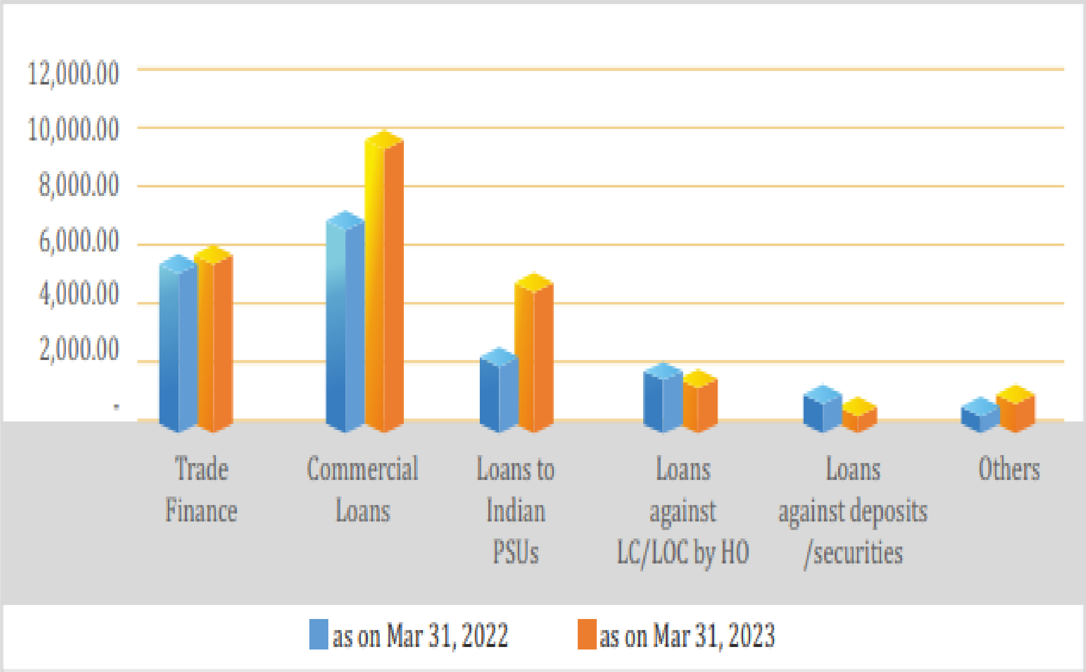



Fig 1.1: Outstanding under various credit products (USD Mn)

# BANKING UNITS

- . Who can set up banks in IFSC?
  - Indian Banks & Foreign Banks
- Can Foreign Banks not having a presence in India set up banks in IFSC?
  - Yes, Foreign Banks not having a presence in India and wholly owned subsidiaries of Foreign Banks incorporated in India are permitted to set up banks in IFSC.
- What are the Registration & licensing requirements?
  - Minimum Capital of USD 20 million.
- Whether Parent Bank can provide the minimum capital?
  - Yes, the Parent Bank can also provide the necessary regulatory capital.
- What are other necessary requirements?
  - Parent Bank shall provide NOC from its home regulator?
- Can a Parent Bank establish more than one banking unit in IFSC?
  - No a Parent Bank is only allowed to set up one banking unit in IFSC.

Table 1.1: No. of IBUs

| Particulars | As on Mar 31, 2022 | As on Mar 31, 2023 |
|---|---|---|
| No. of IBUs | 15 | 20 |

Table 1.2: Total Assets in IBUs in USD Mn

| Particulars | Outstanding as on Mar 31, 2022 | Outstanding as on Mar 31, 2023 |
|---|---|---|
| Total Assets | 29,380.82 | 38,286.41 |

Source:IFSCA ANNUAL REPORT 2023

# INCENTIVES TO BANKING UNITS

Adoption of Principal Based Regulations

Prudential Ratios such as minimum capital, liquidity coverage and net owned funding ratios can be maintained at Parent Level

Adoption of International Financial Reporting Standards

For the purposes of onboarding retail and corporate clients the IFSC renders a convenient platform.

# FINTECH ENTITIES

- Considering the importance of the fintech ecosystem in the overall development of International Financial Centres (IFCs), the IFSCA, on 27 April 2022, published a detailed 'Framework for Fintech Entity in the IFSCs.'
- This Framework covers:

  - Fintech solutions resulting in new business models
  - Advanced/innovative technological solutions that aid in development of financial products

# REGISTRATION AS FINTECH ENTITY

## DIRECT ENTRY

- Prescribed Entities having:
  - revenue earning track record in at least one of the last three years
  - Must provide innovate technology solutions

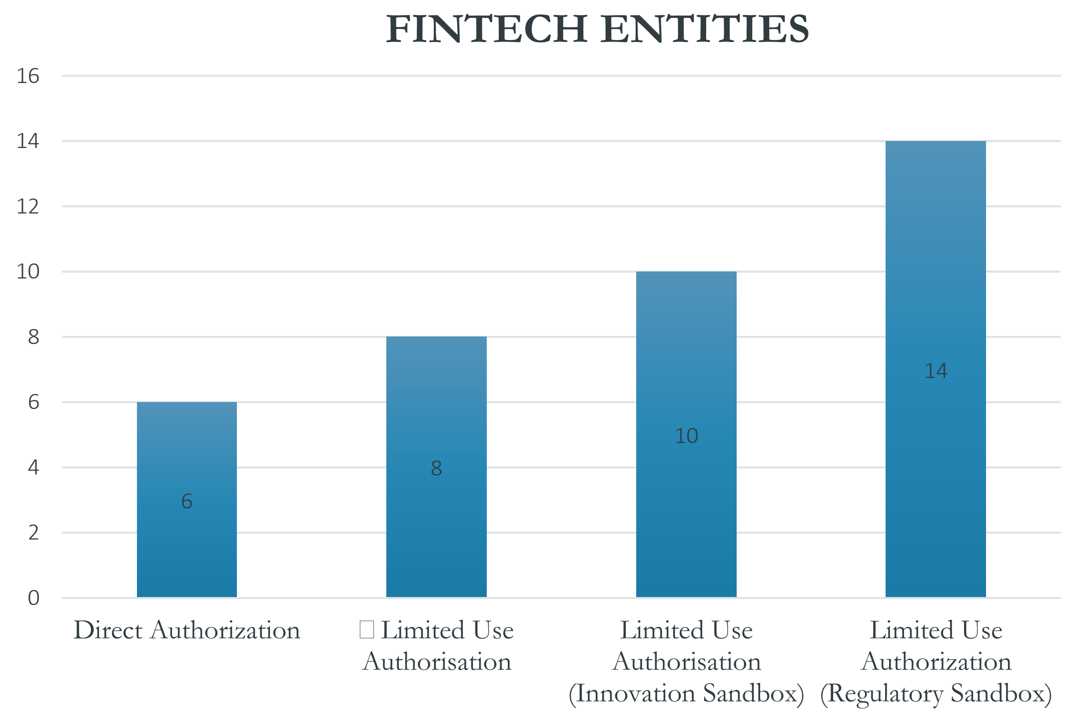
## INDIRECT ENTRY

- Prescribed entities failing to get direct entry can
  - Apply for Fintech Regulatory Sandbox
  - Apply for Fintech Innovative Sandbox
- Further, these entities can also avail grants under the Fintech Incentive Scheme.

# CURRENT PICTURE: FINTECH ENTITIES

## WHAT TYPE OF FINTECH SOLUTIONS?

| | |
|---|---|
| Banking Sector | • Digital Lending<br>• Buy Now Pay Later (BNPL)<br>• Crowd Lending<br>• Neo Banking |
| Capital Markets | • Alternative Trading Platforms<br>• Robo Advisory<br>• Crowd Funding |
| Insurance Sector | • Insurtech<br>• Cyber Insurance |




*SOURCE: IFSCA WEBSITE*

# FINTECH: TRENDS & DEVELOPMENTS

**Key initiatives by IFSCA for Development of FinTech Hub:**

1. **"Regulatory & Innovation Sandbox framework"** notified
2. **Eight entities** approved under the Regulatory Sandbox regime
3. 1st FinTech **Accelerator- Finx Labs** operational
4. **IFSCA-Bloomberg Lab** for FinTech innovators set up
5. **"I-Sprint' 21"** Four FinTech Hackathons launched: **BankTech, Quant Camp, InsureTech & MarketTech.**
6. **IFSCA FinTech Incentive Scheme 2021**
7. IFSCA became member of **Global Financial Innovation Network (GFIN)**
8. **Inter-Regulatory Cooperation Agreement** (Dialogue with 11 Overseas regulators).
9. **IoRS**- IFSCA to become Principal Regulator
10. MoU with **Domestic FinTech Hubs** underway

**Position IFSC as global laboratory for Next-Gen FinTech Innovation**

| Artificial Intelligence | Open Finance | GreenTech & RegTech | Blockchain & DTL |
|---|---|---|---|

# FACTORS TO CONSIDER: WHY IS IT THE FUTURE

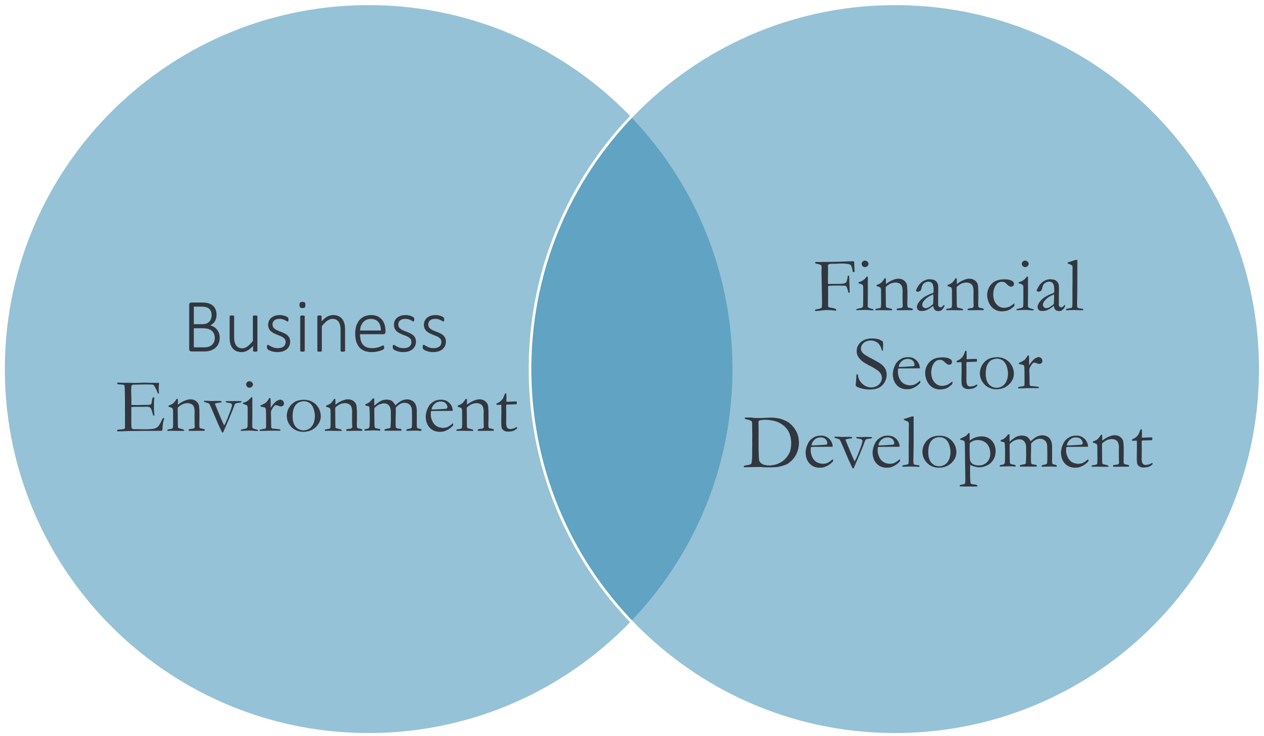



**Table 3 | The 15 Centres Likely To Become More Significant**

| Centre | Mentions in last 24 months |
|---|---|
| Seoul | 256 |
| Singapore | 111 |
| Kigali | 97 |
| Hong Kong | 92 |
| London | 67 |
| Dubai | 64 |
| New York | 56 |
| Shanghai | 53 |
| Paris | 43 |
| Abu Dhabi | 41 |
| Busan | 39 |
| Frankfurt | 37 |
| Beijing | 36 |
| GIFT City - Gujarat | 32 |
| Amsterdam | 30 |

Source: Global Financial Centres Index

# Business Environment

**Political Stability and Rule of Law:**

- Stable Political Government
- Governs on the basis of the Rule of Law

**Institutional and Regulatory Requirement**

- Unified Regulator
- Principal Based Regulatory Regime in line with global standards

**Macroeconomic Environment**

- One of the fastest growing economies
- Global Investors belief in long term potential

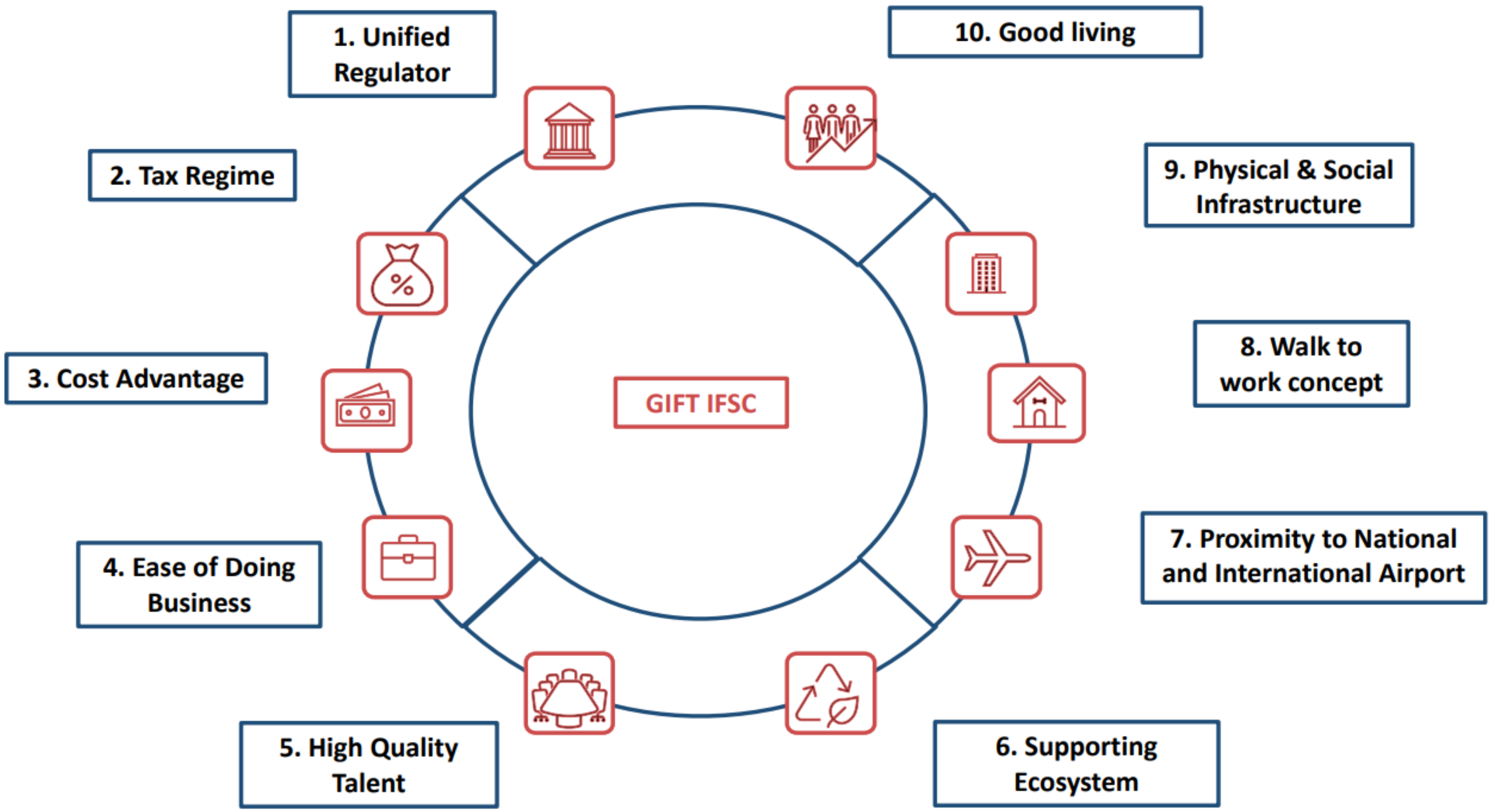
**Tax & Cost Competitiveness**

- No Tax for the first 10 consecutive years

# Financial Sector Development

- Availability of Capital
- Market Liquidity
- Economic Capital

# CONCLUSION



1. Unified Regulator
2. Tax Regime
3. Cost Advantage
4. Ease of Doing Business
5. High Quality Talent
6. Supporting Ecosystem
7. Proximity to National and International Airport
8. Walk to work concept
9. Physical & Social Infrastructure
10. Good living
GIFT IFSC

# THANK YOU