

**STUDY MATERIAL**

**PROFESSIONAL PROGRAMME**

**IFSCA - REGULATIONS, LISTING  
AND COMPLIANCES**

**ELECTIVE 1**

**PAPER 4.6**



**THE INSTITUTE OF  
Company Secretaries of India**

**भारतीय कम्पनी सचिव संस्थान**

**IN PURSUIT OF PROFESSIONAL EXCELLENCE**

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## PROFESSIONAL PROGRAMME

# IFSCA – REGULATIONS, LISTING AND COMPLIANCES

The International Financial Services Centres Authority (IFSCA), established under the IFSCA Act, 2019, serves as a unified regulator for financial services in International Financial Services Centres such as GIFT City. Its primary mandate is to develop and regulate financial products, services, and institutions within IFSCs, thereby positioning India as a competitive global financial hub. By creating a robust regulatory framework for banking, insurance, capital markets, and fintech, IFSCA facilitates cross-border financial transactions and attracts foreign investors and multinational corporations, which significantly increases capital inflows and strengthens India's global financial presence.

IFSCA acts as a catalyst for economic growth by attracting foreign capital, creating jobs, and fostering innovation, while Company Secretaries play a strategic role in enabling businesses to navigate this complex regulatory landscape. Their involvement ensures that organizations operating in IFSC adhere to global best practices, maintain robust governance, and capitalize on emerging opportunities in international finance. This synergy positions CS professionals as key advisors in India's journey toward becoming a global financial powerhouse. The role of a Company Secretary is deeply rooted in corporate governance, compliance, and advisory functions that are critical for entities operating within IFSC.

This paper 'IFSCA-Regulations, Listing and Compliances' has been introduced to build a robust and comprehensive understanding of the significant facets of IFSC among students who aspire to pursue careers in this domain with a focus on regulations, listing, compliance, and global best practices.

This study material has been published to aid the students in preparing for the 'IFSCA-Regulations, Listing and Compliances' paper of the CS Professional Programme. It is part of the educational kit and takes the students step by step through each phase of preparation emphasizing key concepts, principles, pointers and procedures. Company Secretaryship being a professional course, the examination standards are set very high, with focus on knowledge of concepts, their application, procedures and case laws, for which sole reliance on the contents of this study material may not be enough.

This study material may, therefore, be regarded as the basic material and must be read along with the Bare Acts, Rules, Regulations, Case Laws. The legislative changes made upto November 30, 2025 have been incorporated in the study material. In addition to Study Material students are advised to refer to the updations at the Regulator's website, supplements relevant for the subject issued by ICSI and ICSI Journal Chartered Secretary and other publications. Specifically, **students are advised to read "Student Company Secretary" e-Journal which covers regulatory and other relevant developments relating to the subject**, which is available at academic portal <https://www.icsi.edu/student-n/academic-portal/>. In the event of any doubt, students may contact the Directorate of Academics at [academics@icsi.edu](mailto:academics@icsi.edu).

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# PROFESSIONAL PROGRAMME

## Elective 1 • Paper 4.6

### IFSCA – REGULATIONS, LISTING AND COMPLIANCES

#### SYLLABUS

**OBJECTIVES:** To build a robust and comprehensive understanding of the significant facets of IFSC among students who aspire to pursue careers in this domain with a focus on regulations, listing, compliance, and global best practices.

#### IFSCA – Regulations, Listing And Compliances (100 Marks)

##### 1. International Financial Services Centres: An Introduction

Understanding the Concept of GIFT City; DTA Area; SEZ Area (Processing Area; Non-Processing Area), Evolution and Importance of IFSCs, Genesis of IFSCs globally; Regulatory Framework of GIFT SEZ & IFSC; Steps for setting up a IFSC business unit and Non IFSC Unit (i.e. SEZ Unit) in GIFT-SEZ -IFSC; Financial Activities permitted in IFSCs. Tax Benefits & Incentives in GIFT City; Provisions/Exemptions under Companies Act, 2013 for Companies Set up in IFSC.

##### 2. IFSCA Ecosystem & Regulatory Framework

Chronological Journey and Establishment of IFSCA; IFSCA Act, 2019, Goals and Objectives; Powers and Functions of Authority; Key Business activities at IFSCA; ; Role of IFSCA in Sustainable Economic Growth; Powers delegated by SEBI, RBI, IRDAI, and PFRDA; Key regulations issued by IFSCA insurance, capital markets, and asset management; Fintech & Innovations; IFSC exchanges, clearing corporations for banking, , and depositories; Investor protection and grievance redressal; Enforcement powers and penalties.

##### 3. Fund Management Services

Introduction to Fund Management; AIFs in IFSC – Regulatory Relaxations- Types of Fund Management Entities under AIF -Types of Schemes under AIF -Fund Management Regulations 2025- Regulatory Framework; Fund Management Entity; Valuation for Fund Managers; various schemes for Fund Managers; Ethics and Governance in Fund Management; Investment Trust and Alternate Investment Funds (AIFs) in IFSCs; General Obligations and Responsibilities; Platform Play, SPVs and co-investments, ESG Funds at IFSC; Taxation aspects.

##### 4. Listing and Issuance of Securities

Introduction of Listing at IFSCA; Applicability, General Conditions; Initial Public Offer, Specified Securities without Public Offer; Special Purpose Acquisition Companies (SPACs), Right Issue, Preferential Issue, Qualified Institutional Placement; UDRs on American Stocks, Debt Securities; ESG Labelled Debt Securities; Transition Bonds, Greenwashing, CP & CDs; Listing Obligations and Disclosure Requirements; Legal Framework for Listing; Listing of Securities, Corporate Governance and ESG disclosures; Key Business Activities; Capital Market, Direct Listing; Indian Companies -Listing of Companies incorporated outside India -IPO in GIFT IFSC; ESG Disclosure and Obligations.

## **5. Insurance & Reinsurance**

Key Concepts; Regulatory Framework; Setting Up of a IFSC Insurance Office; Procedure for Registration; Permissible Activities; Basic Regulatory and Governance Requirements; Re-insurance Strategy and Objectives of Re-insurance Programme; Re-insurance Strategy and Objectives of Re-insurance Programme

## **6. Banking Services and Finance Companies in IFSC**

Basic Concepts; Setting up of a Banking Unit at IFSC; Regulatory Requirements; Permissible Activities; KYC and AML; Operational Requirements, all about PSPs, Trade Finance at the IFSC; Finance Companies in IFSC; Permitted Core activities; Permitted Non-Core activities; Regulations; Various options in IFSC for Creating Finance Company in IFSC like, International Trade Finance Services (ITFS) Platform in IFSC; Ship Leasing as Finance Company; Aircraft Leasing as Finance Company; Global/Regional Treasury Centre

## **7. Book-keeping, Accounting, Taxation and Financial Crime Compliance Services and TAS**

Key Definitions; Setting up of a BATF Service Provider, Registration Process, Exception; Appointment of Principal Officer and Compliance Officer; Reporting Requirements, TAS Regulations, Foreign University framework at the IFSC, IFSCA (Kyc Registration Agency) Regulations-2025.

## **8. India International Bullion exchange (IIBX)**

Introduction; Role of IIBX; Market Participants; Prescribed Norms for Jeweller; Qualified Supplier Process Flow; Eco system; Players of Bullion exchange; Regulation of Bullion exchange

## **9. Overview of FinTech and Service Providers in IFSC**

FinTech - Legal Structure of Entity -Pre-requisites for Fintech in GIFT IFSC- List of Permissible Activities- Process for set-up FinTech Entities- Sandbox Process -IFSCA Fintech Incentive Scheme, 2022; Ancillary Service Providers - Framework at glance and permissible activities; Payment Services Providers - Key Business Opportunities -Process Flow for Authorization; Global in House Centre (GIC); Salient Features -Key Benefits for GIC In IFSC.

## **10. Capital Market Intermediaries**

Key Business Activities; Capital Market Intermediaries; Intermediary Categories; Eligibility & Net Worth; Obligations; Fit and proper requirements; Appointment of Principal Officer, Compliance Officer and other human resources; general obligations and responsibilities; Overview of Capital Market Intermediaries) Regulations, 2024

# ARRANGEMENT OF STUDY LESSONS

## IFSCA – REGULATIONS, LISTING AND COMPLIANCES

### Elective 1 • Paper 4.6

#### IFSCA – REGULATIONS, LISTING AND COMPLIANCES

##### Sl. No. Lesson Title

1. International Financial Services Centres: An Introduction
2. IFSCA Ecosystem & Regulatory Framework
3. Fund Management Services
4. Listing and Issuance of Securities
5. Insurance & Reinsurance
6. Banking Services and Finance Companies in IFSC
7. Book-keeping, Accounting, Taxation and Financial Crime Compliance Services and TAS
8. India International Bullion exchange (IIBX)
9. Overview of FinTech and Service Providers in IFSC
10. Capital Market Intermediaries

# LESSON WISE SUMMARY

## IFSCA – REGULATIONS, LISTING AND COMPLIANCES

### 1. International Financial Services Centres: An Introduction

An International Financial Services Centre (IFSC) is a designated jurisdiction that enables cross-border financial services—including banking, insurance, capital markets, asset management, and fintech innovation—mainly in foreign currency. Globally, IFSCs have emerged in hubs such as London, Singapore, Hong Kong, and Dubai to channel international capital flows under favorable tax and regulatory regimes. India established its first IFSC at Gujarat International Finance Tec-City (GIFT City), Gandhinagar, to bring offshore financial activities back onshore and strengthen its position in global finance.

GIFT City is a modern smart business district comprising two zones: the Domestic Tariff Area (DTA), which serves domestic markets under India's regular laws, and the Special Economic Zone (SEZ), which houses the IFSC. The SEZ offers tax incentives, exemptions, and operational flexibility, establishing India's gateway to international finance. Oversight is provided by the International Financial Services Centres Authority (IFSCA), a unified regulator established under the IFSCA Act, 2019, consolidating the roles of RBI, SEBI, IRDAI, and PFRDA. Overall, GIFT IFSC is a strategic initiative to integrate India into global financial networks, attract foreign investment, foster innovation, and position India as a competitive international financial hub. The purpose of this lesson is to acquaint the readers about the IFSCs and their global significance; Evolution of IFSCs and India's rationale for establishing GIFT City; the regulatory and institutional structure of GIFT SEZ–IFSC; Tax incentives, exemptions, and compliance relaxations; Procedural steps for establishing IFSC and non-IFSC units and the key financial services and innovations permitted within IFSCs.

### 2. IFSCA Ecosystem & Regulatory Framework

The International Financial Services Centres Authority (IFSCA) was established under the IFSCA Act, 2019 to serve as a unified regulator for financial activities in India's International Financial Services Centres (IFSCs), mainly located at GIFT City, Gujarat. Before its creation, IFSC operations were overseen by multiple regulators—RBI, SEBI, IRDAI, and PFRDA—leading to regulatory overlaps and inefficiencies. The Act consolidated these powers under IFSCA, enabling a single-window regulatory framework that enhances ease of doing business and global competitiveness.

The objective of this lesson is to enable the students to understand the chronological journey and establishment of the IFSCA; objectives, structure, and key provisions of the IFSCA Act, 2019; Powers, functions, and administrative framework of IFSCA; Key business activities and financial services permitted in IFSCs; role of IFSCA in promoting sustainable economic growth.

### 3. Fund Management Services

In International Financial Services Centres (IFSCs), the activities related to fund management are regulated by the International Financial Services Centres Authority (IFSCA) to ensure transparency, stability, and investor protection. Entities engaged in fund management, known as Fund Management Entities (FMEs), must register with IFSCA under one of three categories: Authorised FME, Registered FME (Non-Retail), and Registered FME (Retail). FMEs can launch various schemes under the Alternative Investment Fund (AIF) framework, including Venture Capital Schemes, Restricted Schemes, Retail Schemes, and Special Situation Funds, each governed by specific rules on investor eligibility, minimum corpus, investment limits, tenure, and disclosures.

Key principles include risk management, diversification, and valuation, supported by mandatory disclosure of Net Asset Value (NAV) and portfolio details. Governance is strengthened through the Stewardship Code, which promotes responsible investment, transparency, and ESG integration. FMEs must maintain strong internal controls, cybersecurity frameworks, and compliance framework. Additional features include Investment Trusts (REITs and InvITs) for real estate and infrastructure, third-party fund management services, co-investments via Special Purpose Vehicles (SPVs), and ESG-focused funds. Tax incentives in IFSCs, such as exemptions for non-resident investors and concessional rates under the Income Tax Act, make fund management globally competitive. Overall, IFSCA's framework combines regulatory oversight with flexibility, promoting innovation, investor confidence, and sustainable financial growth.

#### **4. Listing and Issuance of Securities**

The IFSCA (Listing) Regulations, 2024 provide a globally benchmarked framework for listing securities in International Financial Services Centres (IFSCs), mainly at GIFT City. Listing refers to the admission of securities—such as equity shares, debt instruments, depository receipts, and ESG-labelled bonds—on recognised IFSC stock exchanges for trading in foreign currencies and dematerialised form. The framework ensures transparency, investor protection, and ease of doing business, aligning with international standards.

Key modes of listing include Initial Public Offerings (IPOs), Follow-on Public Offers (FPOs), secondary listings, and listings without public offer. Both Indian and foreign companies can list in IFSCs, enabling cross-border capital flows. The regulations also permit Special Purpose Acquisition Companies (SPACs) as an alternative route for capital raising, subject to strict governance, escrow requirements, and timelines for business combinations.

This lesson emphasizes sustainable finance through ESG-labelled debt securities (green, social, sustainability-linked bonds) and introduces the Transition Bond Framework, targeting hard-to-abate sectors like steel and cement. This framework requires credible transition plans, taxonomic alignment, independent reviews, and detailed disclosures to attract global capital for industrial decarbonization.

#### **5. Insurance & Reinsurance**

Insurance and reinsurance activities in International Financial Services Centres (IFSCs) are regulated by the International Financial Services Centres Authority (IFSCA) under the Registration of Insurance Business Regulations, 2021. Business can only be conducted through IFSC Insurance Offices (IIOs), which may operate as a branch of an Indian or foreign insurer/reinsurer, a Managing General Agent (MGA), or Lloyd's IFSC entity. Registration with IFSCA is mandatory to ensure financial soundness, governance, and compliance.

Permissible activities include life, general, health insurance, and reinsurance, with transactions in freely convertible foreign currencies. Direct insurance from the Domestic Tariff Area (DTA) is restricted, while reinsurance can be accepted from IFSC, SEZs, overseas markets, and DTA under IRDAI norms.

Key financial requirements include Net Owned Funds, minimum assigned capital of USD 1.5 million, and solvency margins as per home jurisdiction or IFSCA norms. Governance requires appointment of Principal Officers and Key Managerial Personnel, adherence to KYC/AML guidelines, and maintenance of books and records. Every IIO must frame a Reinsurance Strategy and Programme (RSRP) defining risk appetite, retention limits, reinsurer selection, and risk management practices. The framework aims to position IFSCs as globally competitive insurance hubs by combining ease of doing business with strong regulation, to ensure transparency, investor confidence, and alignment with international standards.

#### **6. Banking Services and Finance Companies in IFSC**

Banking Units in IFSC operate as either IFSC Banking Units (IBUs)—branches of parent banks—or IFSC Banking Companies (IBCs)—subsidiaries incorporated in IFSC. They mainly deal in foreign currency transactions and

must meet stringent capital requirements, liquidity norms, leverage ratios, and exposure ceilings. Prudential regulations, KYC, AML, and CFT compliance are mandatory to maintain transparency and prevent financial crimes.

Finance Companies in IFSC undertake core activities such as lending, trade finance, securitisation, derivatives, and treasury operations, and non-core activities like merchant banking, leasing (aircraft and ship), investment advisory, and distribution of financial products. They cannot accept public deposits and must adhere to capital adequacy, liquidity coverage, and governance norms.

The Payment Service Providers (PSPs) framework enables cross-border payments, e-money issuance, escrow services, and merchant acquisition under strict authorisation and net worth requirements. The International Trade Finance Services (ITFS) platform digitizes trade finance, connecting exporters, importers, banks, and insurers for efficient invoice financing and supply chain solutions.

Specialized frameworks for ship leasing, aircraft leasing, and Global/Regional Corporate Treasury Centres (GRCTCs) position IFSC as a global hub for structured finance and treasury management. These initiatives, combined with strong compliance and governance standards, make IFSC a competitive international financial ecosystem.

## **7. Book-keeping, Accounting, Taxation and Financial Crime Compliance Services and TAS**

The IFSCA BATF Regulations, 2024 and TechFin & Ancillary Services (TAS) Regulations, 2025 establish a strong framework for professional and technology-driven services in International Financial Services Centres (IFSCs) like GIFT City. BATF services include Book-keeping, Accounting, Taxation, and Financial Crime Compliance (FCC), which are critical for maintaining transparency, preventing misuse, and to ensure compliance with global standards such as AML/CFT and FATF guidelines.

Only registered entities can provide BATF services, with strict eligibility norms, legal form requirements (Company or LLP), and safeguards against business splitting or contract transfers from India. Each provider must appoint a Principal Officer and Compliance Officer, based in IFSC, with prescribed qualifications and experience. The framework enforces fit and proper criteria, periodic reporting, and independent compliance certification to uphold integrity and professionalism.

The TAS Regulations enable technology-led services like AI, cybersecurity, RegTech, SupTech, fund administration, and legal support, promoting innovation while to ensure regulatory discipline. Providers must register with IFSCA, meet governance norms, and serve only eligible non-resident clients or residents setting up IFSC offices.

The lesson also covers the frameworks related to Foreign University Regulations (2022) which Allow top-ranked global institutions to set up campuses in IFSC, offering programs in finance, fintech, and STEM to build talent. It also covers the KYC Registration Agency (KRA) Regulations (2025) which standardize KYC processes, enhance data security, and strengthen AML/CFT compliance across IFSC entities.

## **8. India International Bullion exchange (IIBX)**

The India International Bullion Exchange (IIBX), established under the IFSCA Bullion Market Regulations, 2025, is India's first global-standard bullion trading platform within the International Financial Services Centre (IFSC). Its primary objective is to enable transparent price discovery, secure trading, and international participation in gold and silver markets. IIBX functions as a regulated marketplace offering trading, clearing, settlement, and risk management in line with global best practices such as IOSCO and PFMI principles.

The ecosystem comprises multiple stakeholders: Trading and Clearing Members, Qualified Jewellers (QJs), Qualified Suppliers (QS), Vault Managers, Bullion Depositories, Clearing Corporations, and Regulators.

It is expected that after going through with this lesson, the students will be in position to understand the purpose and structure of the India International Bullion Exchange (IIBX) within the IFSC framework; the major roles and responsibilities of IIBX, including trading, regulation, supervision, and market development; the various market participants involved in the bullion exchange ecosystem; the prescribed norms and eligibility criteria for Qualified Jewelers to trade on IIBX; the process flow for Qualified Suppliers (QS and QS-LPTM) for supplying bullion and creating BDRs; the key components of the IIBX ecosystem, including vault managers, clearing corporations, and depositories; the players and regulatory mechanisms governing the bullion exchange under IFSCA.

## **9. Overview of FinTech and Service Providers in IFSC**

The IFSCA FinTech Framework establishes a globally aligned ecosystem for innovation in International Financial Services Centres (IFSCs) like GIFT City. FinTech entities must set up through approved legal structures—company, branch, or subsidiary—and meet eligibility norms, including FATF-compliant jurisdiction, fit-and-proper management, and readiness for compliance. Business is conducted in freely convertible foreign currency, reinforcing IFSC’s international orientation.

The framework recognizes FinTech (financial technology solutions) and TechFin (technology providers supporting financial services) entities, permitting activities across banking (digital lending, remittances, neo-banking), capital markets (wealth tech, robo-advisory), insurance (InsurTech, open insurance), and sustainable finance. Innovation is fostered through Regulatory Sandbox (FRS) for live testing, Innovation Sandbox (FIS) for early-stage development, and Inter-Operable Regulatory Sandbox (IoRS) for cross-sector solutions. These controlled environments allow experimentation with defined safeguards, timelines, and exit strategies.

To accelerate growth, the IFSCA FinTech Incentive Scheme, 2022 offers targeted grants—start-up, proof of concept, sandbox, green FinTech, accelerator, and listing support—linked to milestones and compliance. Ancillary Service Providers complement the ecosystem by offering legal, compliance, accounting, consulting, and trusteeship services, while Payment Service Providers (PSPs) operate under a separate authorisation regime with strict net worth and governance norms, unlocking opportunities in cross-border payments, e-money, escrow, and payment infrastructure.

Additionally, Global In-House Centres (GICs) enable financial groups to centralize support services for non-resident entities, utilizing IFSC’s foreign currency environment, regulatory clarity, and cost efficiency. Collectively, these frameworks position IFSC as a world-class hub for FinTech innovation, global payments, and financial services.

## **10. Capital Market Intermediaries**

The IFSCA Capital Market Intermediaries Regulations, 2025 establish a unified framework for entities that enable trading, settlement, advisory, and related services in IFSC capital markets. CMIs include broker-dealers, clearing members, custodians, depository participants, investment bankers, advisers, distributors, credit rating agencies, ESG data providers, and research entities. These intermediaries act as vital links between issuers and investors, to ensure smooth market operations and global competitiveness.

The lesson aims to provide an understanding to the students about the Capital Market Intermediaries (CMIs) and their importance in IFSC capital markets; the identification of key business activities carried out by CMIs under the IFSCA (CMI) Regulations, 2025; the different categories of intermediaries such as broker-dealers, custodians, investment bankers, advisers, distributors, CRAs, and research entities; the qualifications and roles of the Principal Officer, Compliance Officer, and other key human resources; the general obligations including record-keeping, risk management, cybersecurity, grievance redressal, and business continuity planning; the IFSCA (Capital Market Intermediaries) Regulations, 2025 and their significance for IFSC’s global capital-market ecosystem.

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# International Financial Services Centres: An Introduction

## Lesson 1

### KEY CONCEPTS

■ GIFT City ■ Special Economic Zone ■ International Financial Services Centres (IFSCs) ■ International Financial Services Centres Authority (IFSCA) ■ Business Unit ■ Domestic Tariff Area (DTA) ■ Letter of Approval (LoA) ■ FinTech ■ Tax Incentive

### Learning Objectives

#### To understand:

- International Financial Services Centres (IFSCs) and their global significance.
- Evolution of IFSCs and India's rationale for establishing GIFT City.
- The regulatory and institutional structure of GIFT SEZ-IFSC.
- Tax incentives, exemptions, and compliance relaxations.
- Procedural steps for establishing IFSC and non-IFSC units.
- The key financial services and innovations permitted within IFSCs.

### Lesson Outline

- Introduction
- GIFT City
- DTA Area
- SEZ Area
- Evolution and Importance of IFSCs
- Genesis of IFSCs globally
- Regulatory Framework of GIFT SEZ & IFSC
- Steps for setting up an IFSC business unit and Non-IFSC (SEZ) Unit in GIFT-SEZ -IFSC
- Financial Activities permitted in IFSCs
- Tax Benefits & Incentives in GIFT City
- Provisions/Exemptions under Companies Act, 2013 for Companies Set up in IFSC
- Lesson Round-Up
- Glossary
- Test yourself
- List of Further Readings

## INTRODUCTION

An International Financial Services Centre (IFSC) is a designated jurisdiction that provides a platform for conducting a wide range of financial services and products such as banking, insurance, capital markets, asset management, and fintech innovation primarily in foreign currency. Its primary purpose is to integrate the domestic financial system with global markets, enabling seamless cross-border transactions and international capital flows.

By offering a regulatory, legal, and tax environment comparable to well-established global hubs like London, Singapore, Dubai, and Hong Kong, an IFSC serves as a bridge between national and international financial ecosystems. It allows financial institutions and intermediaries to raise capital, manage risks, and provide financial solutions to global clients without being constrained by domestic currency or jurisdictional limitations.

In the Indian context, the establishment of an IFSC reflects a strategic move to repatriate offshore financial services that were historically conducted through foreign jurisdictions. Prior to the creation of an IFSC, many Indian companies and investors routed international transactions through financial centres such as Singapore or Dubai due to their liberalized frameworks and ease of operations. Recognizing this gap, the Government of India conceptualized the creation of a domestic IFSC to offer a similar ecosystem within Indian territory, thereby retaining high-value financial transactions and associated employment opportunities.

India's first operational IFSC is located within the Gujarat International Finance Tec-City (GIFT City) at Gandhinagar. This project embodies India's ambition to become a major global player in financial services by offering world-class infrastructure, technology-driven facilities, and business-friendly regulations. GIFT City IFSC operates under a unified regulatory framework governed by the International Financial Services Centres Authority (IFSCA), which ensures that regulatory standards align with best global practices.

Through GIFT IFSC, India has effectively brought offshore financial activities onshore. It enables banks, insurance companies, asset managers, capital-market intermediaries, and fintech innovators to operate in foreign currency while maintaining operational proximity to the domestic market. The ecosystem encourages international collaboration, financial innovation, and capital mobilization, positioning India as a competitive hub for global financial intermediation.

In essence, the establishment of GIFT IFSC marks a transformative milestone in India's financial evolution. It represents not merely a physical zone for conducting international finance, but a strategic policy initiative aimed at strengthening India's role in global trade, investment, and economic governance.

## GIFT CITY

Gujarat International Finance Tec-City (GIFT City) is India's first operational smart city and International Financial Services Centre (IFSC). It was conceptualized as part of a broader initiative to develop Gujarat into a global hub for financial and technological services. Located near Gandhinagar, the State capital, GIFT City has been designed as a modern business district that brings together offices, homes, schools, entertainment zones, and green spaces — all within walking distance. This "Walk-to-Work" concept helps people live, work, and relax in one integrated and sustainable environment.

The project is being developed by the Government of Gujarat through its agencies—Gujarat Urban Development Company Limited (GUDCL), Gujarat Maritime Board (GMB), and Gujarat Industrial Development Corporation (GIDC). These agencies work under the main company called Gujarat International Finance Tec-City Company Limited (GIFTCL), which is responsible for planning and implementing the city's infrastructure and business ecosystem.

GIFT City focuses on a wide range of business areas such as offshore banking, capital markets, asset management, insurance (both domestic and international), and professional services like law, accounting, and

consulting. It also encourages IT and ITeS companies, including Business Process Outsourcing (BPOs) and Knowledge Process Outsourcing (KPOs), to set up operations, making it a hub for both finance and technology.

Many leading Indian and international developers and organizations are part of GIFT City's growth. These include the Hiranandani Group, Prestige Group, Brigade Group, State Bank of India (SBI), Life Insurance Corporation of India (LIC), BSE Brokers Forum, Viridian Group (World Trade Center), and STT Global Data Centres India. They are building modern office spaces, data centers, commercial complexes, residential towers, and recreational facilities, turning GIFT City into a complete urban ecosystem.

For investors and businesses, GIFT City offers excellent opportunities in both commercial and residential projects. The city has two main zones — the Domestic Tariff Area (DTA) and the Special Economic Zone (SEZ). The SEZ includes the International Financial Services Centre (IFSC), where global financial institutions, fintech firms, and investment companies can operate with special tax and regulatory benefits. Companies can lease ready-to-use office spaces equipped with high-speed connectivity, advanced IT systems, and smart infrastructure.

For students and young professionals, GIFT City represents India's ambition to build a world-class business hub that supports innovation, global finance, and sustainable urban living. It offers opportunities to learn about finance, economics, urban planning, technology, and governance in a real-world setting. Students interested in careers in banking, fintech, investment management, law, or accounting can find GIFT City an exciting model of how modern financial ecosystems are created and managed.

In essence, GIFT City is not just a business district—it's a futuristic city that combines finance, technology, education, and lifestyle, symbolizing India's progress toward becoming a global financial powerhouse.

### DTA AREA

The Domestic Tariff Area (DTA) in GIFT City serves as a dynamic zone designed to promote and support businesses that primarily cater to the Indian market, where both the promoters and customers are based in India. It provides an enabling ecosystem for enterprises aiming to strengthen their domestic presence while benefiting from the city's world-class infrastructure and integrated facilities. The DTA is ideal for companies across sectors such as manufacturing, information technology, financial services, and consulting, offering them an opportunity to operate within a modern and efficiently managed urban environment.

One of the major advantages of operating in the DTA is its accessibility to India's vast and diverse consumer base. This facilitates smoother trade and commerce within the country, allowing businesses to connect directly with domestic clients and partners. The DTA also functions under India's regular taxation and regulatory framework, ensuring familiarity and ease of compliance for businesses that are already operating under domestic laws.

Moreover, the DTA encourages collaboration among Indian entrepreneurs, start-ups, and established enterprises, fostering a culture of innovation and growth. It enables businesses to develop products and services tailored to local needs, strengthening grassroots innovation and contributing to the "Make in India" vision. With its modern infrastructure, efficient governance, and strategic location within GIFT City, the DTA acts as a bridge between traditional industries and new-age businesses, creating a vibrant space for sustainable domestic growth.

### SEZ AREA

The Multi-Services Special Economic Zone (SEZ) with the International Financial Services Centre (IFSC) in GIFT City serves as India's key gateway to global finance. It provides a platform where businesses can operate beyond domestic boundaries and conduct transactions in foreign currencies, facilitating seamless international trade and investment. Designed to meet global standards, the SEZ is governed by strong regulatory frameworks and offers a range of tax and operational benefits that attract banks, insurance companies, fintech firms, and capital market institutions.

The SEZ operates as a distinct jurisdiction from the rest of India, allowing both inbound and outbound investment flows with greater flexibility. It plays a crucial role in connecting India's financial ecosystem to global markets, enabling companies to expand internationally while maintaining operational efficiency. Entities engaged in export-oriented services, including IT and other professional services, can establish operations within the SEZ, provided they maintain positive net foreign earnings. Eligible entities also enjoy various incentives, such as tax exemptions under Section 10AA (for units that commenced operations before March 31, 2021), as well as benefits like exemption from Securities Transaction Tax (STT) and stamp duty. Additional policy support from the Gujarat government further enhances the appeal of this business environment.

At the heart of this zone is India's first International Financial Services Centre (IFSC), established under the International Financial Services Centres Authority (IFSCA) Act, 2019. The IFSCA serves as a unified regulatory body that consolidates the roles of SEBI, RBI, IRDA, and PFRDA, providing a streamlined and business-friendly framework. The IFSC focuses on financial and ancillary services, offering tax incentives to regulated entities and specific benefits for non-resident and overseas citizens of India (NR/OCI) investors.

Overall, the SEZ and IFSC together represent a forward-looking initiative aimed at integrating India with global financial networks.

## EVOLUTION AND IMPORTANCE OF IFSCs

### Evolution of IFSCs

International Financial Services Centres (IFSCs) emerged as specialized zones designed to bring global financial activities together in one location, offering a competitive and well-regulated environment for cross-border financial transactions. The concept first gained momentum in the latter half of the 20th century, with cities like London, New York, Singapore, Hong Kong, and Dubai establishing themselves as global financial hubs. These centres were developed to facilitate services such as international banking, insurance, asset management, capital markets, and fintech innovation under a favorable tax and regulatory regime.

In India, the idea of setting up an IFSC was introduced to align the country with global financial systems and attract international business that was otherwise being conducted from offshore financial hubs. The Government of India approved the establishment of the first IFSC at GIFT City in Gujarat, operationalized under the International Financial Services Centres Authority (IFSCA) Act, 2019. This marked a major milestone in India's financial landscape, creating a platform that allows Indian and foreign institutions to conduct global financial transactions within the country's borders, but in a jurisdiction distinct from the domestic economy.

### Importance of IFSCs

IFSCs play a vital role in strengthening a nation's financial architecture and global competitiveness. They serve as gateways for international capital flows, enabling businesses to raise funds, invest, and manage global portfolios efficiently. By offering world-class infrastructure, simplified regulatory frameworks, and tax incentives, IFSCs attract banks, investment firms, insurance companies, and fintech startups to operate in an environment designed for innovation and cross-border collaboration.

For India, the IFSC at GIFT City holds strategic importance. It helps retain financial services business that previously moved to offshore centres like Singapore or Dubai, thereby boosting domestic employment and investment. It also facilitates the development of new financial products and technologies, deepens capital markets, and enhances foreign exchange earnings. Additionally, the unified regulatory structure under IFSCA streamlines operations by integrating the roles of multiple financial regulators such as SEBI, RBI, IRDAI, and PFRDA, making the IFSC ecosystem efficient and business friendly.

In essence, IFSCs symbolize a country's integration into the global financial network—acting as hubs for

international investment, fostering economic development, and positioning the nation as a key player in global finance.

### **GENESIS OF IFSCs GLOBALLY**

The concept of International Financial Services Centres (IFSCs) originated in response to the growing globalization of trade, finance, and investment during the second half of the 20th century. As international business expanded, there was a need for specialized hubs that could facilitate cross-border financial transactions efficiently, offer regulatory clarity, and provide a competitive environment for global capital flows. These centres were designed to bridge the gap between time zones, markets, and jurisdictions, enabling seamless movement of funds, financial instruments, and services across borders.

The earliest examples of IFSCs can be traced to the traditional financial capitals such as London and New York, which emerged as global financial hubs due to their strong banking systems, deep capital markets, and established legal and institutional frameworks. Over time, other cities recognized the economic potential of hosting international finance and created similar centres with tailored policies and incentives.

In the 1970s and 1980s, regions like Singapore and Hong Kong strategically positioned themselves as financial gateways for Asia. They offered liberalized regulations, foreign currency operations, and tax incentives to attract global banks, asset managers, and multinational corporations. Their success demonstrated how well-regulated financial hubs could catalyze economic growth, generate employment, and enhance a nation's global financial influence.

In the 1990s and 2000s, new financial centres such as Dubai International Financial Centre (DIFC) in the UAE, Qatar Financial Centre (QFC), and Astana International Financial Centre (AIFC) in Kazakhstan emerged. These centres were built with modern infrastructure, independent regulatory systems, and international arbitration mechanisms, offering confidence to global investors. DIFC, for instance, became a model for blending international best practices with regional economic goals, promoting the Middle East as a rising financial powerhouse.

The evolution of IFSCs globally was also driven by competition among countries to capture a share of the growing global financial services market. These centres became key nodes in the global financial network—facilitating activities such as offshore banking, insurance, asset management, foreign exchange trading, and fintech innovation.

Today, IFSCs are seen not just as zones for international finance but as strategic enablers of economic growth, innovation, and integration with global markets. They contribute significantly to job creation, capital formation, and the transfer of knowledge and technology.

In this global context, India's establishment of its own IFSC at GIFT City represents a natural progression in the country's financial development. It allows India to participate more effectively in international financial flows, retain high-value financial services within its jurisdiction, and position itself as a competitive player in the global financial landscape.

### **REGULATORY FRAMEWORK OF GIFT SEZ AND IFSC**

The Gujarat International Finance Tec-City (GIFT City) hosts India's first International Financial Services Centre (IFSC) within its Special Economic Zone (SEZ). It operates as a global financial hub, enabling financial institutions to conduct business in foreign currencies and connect seamlessly with global markets.

The regulatory framework of GIFT SEZ and IFSC is structured to promote transparency, efficiency, and competitiveness while aligning with international best practices.

## Legal Foundation

### (a) Special Economic Zones Act, 2005

- The GIFT Multi Services SEZ is governed by the SEZ Act, 2005 and SEZ Rules, 2006.
- The Act provides fiscal incentives, simplified procedures, and operational flexibility for units operating within the SEZ.
- SEZs are designed to promote export-oriented growth and foreign investment by offering tax exemptions and regulatory ease.

### (b) International Financial Services Centres Authority Act, 2019

- The International Financial Services Centres Authority Act, 2019 (IFSCA Act) established the International Financial Services Centres Authority (IFSCA) as a unified regulator for all financial services in IFSCs.
- The IFSCA consolidates powers earlier held by:
  - Reserve Bank of India (RBI)
  - Securities and Exchange Board of India (SEBI)
  - Insurance Regulatory and Development Authority of India (IRDAI)
  - Pension Fund Regulatory and Development Authority (PFRDA)

This integration ensures single-window regulatory oversight for all financial activities within the IFSC.

## Key Regulatory Authorities

### (a) International Financial Services Centres Authority (IFSCA)

- Established in April 2020 with headquarters at GIFT City, Gujarat.
- Functions as the unified regulator for banking, insurance, capital markets, and fund management entities in the IFSC.
- Primary objectives include:
  - Developing a robust global financial ecosystem in India.
  - Ensuring regulatory clarity and ease of doing business.
  - Aligning with international regulatory benchmarks.

### (b) Development Commissioner, GIFT SEZ

- Administers the SEZ policy and ensures compliance with SEZ Act and Rules.
- Responsible for:
  - Approval of SEZ units.
  - Monitoring physical and fiscal performance.
  - Overseeing customs and export-related operations.

### (c) GIFT City Company Limited (GIFTCL)

- The developer and operator of GIFT City and its SEZ infrastructure.
- Provides world-class utilities, connectivity, and operational facilities to financial institutions and service entities.

**Sectoral Regulations within IFSC****(a) Banking**

- Governed by IFSCA (Banking) Regulations, 2020.
- Permits setting up of:
  - IFSC Banking Units (IBUs)
  - Representative offices of foreign banks
- Activities include offshore lending, foreign currency operations, derivatives, and trade finance.

**(b) Capital Markets**

- Regulated under IFSCA (Capital Market Intermediaries) Regulations, 2025 and IFSCA (Listing) Regulations, 2024.
- Enables cross-border listing, foreign currency trading, and international fund management.

**(c) Insurance**

- Governed by IFSCA (Registration of Insurance Business) Regulations, 2021 and IFSCA (Insurance Intermediary) Regulations, 2021.
- Allows global insurance and reinsurance operations within the IFSC.

**(d) Fund Management**

- Regulated by IFSCA (Fund Management) Regulations, 2025.
- Facilitates establishment of mutual funds, private equity, venture capital, and ESG funds catering to global investors.

**Taxation and Incentives**

- Entities operating in GIFT IFSC enjoy fiscal incentives comparable to international financial hubs:
  - 100% income tax exemption for 10 consecutive years out of 15 years.
  - Exemption from Goods and Services Tax (GST) and Customs on services rendered to services providers in GIFT IFSC / SEZ units and to offshore clients.
  - No Securities Transaction Tax (STT) or Commodity Transaction Tax (CTT) and stamp duty on trades executed in GIFT IFSC exchanges.
  - 9% of book profits for Minimum Alternate Tax (MAT) on companies established as units in GIFT IFSC with exceptions for certain companies.

**Compliance and Supervision**

- IFSCA mandates robust compliance, periodic reporting, and prudential supervision of regulated entities.
- The Authority conducts:
  - Onsite inspections
  - Offsite surveillance
  - Risk-based supervision
  - Annual compliance audits

- It also enforces fit-and-proper criteria, anti-money laundering (AML), and Know Your Customer (KYC) standards aligned with FATF norms.

### International Alignment and Development Initiatives

- IFSCA's regulatory framework is designed in line with global standards set by:
  - IOSCO (International Organization of Securities Commissions)
  - IAIS (International Association of Insurance Supervisors)
  - BIS (Bank for International Settlements)
- Initiatives like FinTech sandbox, Regulatory sandbox, and Innovation Hub promote cross-border innovation and digital finance integration.

The regulatory framework of GIFT SEZ and IFSC reflects India's commitment to building a globally competitive financial jurisdiction. Through the integration of sectoral regulations under a single unified authority (IFSCA), the framework provides regulatory certainty, tax efficiency, and international credibility.

It positions GIFT IFSC as a gateway to global finance, supporting India's vision of becoming an international financial powerhouse.

### STEPS FOR SETTING UP AN IFSC BUSINESS UNIT AND NON-IFSC (SEZ) UNIT IN GIFT-SEZ IFSC

GIFT City comprises two distinct zones — the Domestic Tariff Area (DTA) and the GIFT Multi Services SEZ, which houses India's first International Financial Services Centre (IFSC).

Entities intending to operate from GIFT City can establish either:

- An IFSC Business Unit (IBU) under the jurisdiction of the International Financial Services Centres Authority (IFSCA), or
- A Non-IFSC SEZ Unit, governed under the SEZ Act, 2005 and the SEZ Rules, 2006.

The following steps outline the procedure for setting up both categories of units within GIFT-SEZ IFSC.

#### Setting up an IFSC Business Unit

##### Step 1: Identification of Office Space in GIFT City

The first step is to identify suitable office space within GIFT City's designated SEZ zone. Entities explore available buildings, evaluate leasing options, and choose a space that fits operational, financial, and regulatory needs. This selection forms the basis for every subsequent approval and application.

##### Step 2: Incorporation of the Legal Entity

If the business unit will operate as a new company or LLP (and not as a branch of an existing entity), it must be incorporated under Indian law through the Ministry of Corporate Affairs (MCA). The newly incorporated entity becomes the applicant for all further IFSC and SEZ approvals.

##### Step 3: Issuance of Provisional Letter of Allotment (PLoA)

Once a space is shortlisted, the GIFT City developer issues a Provisional Letter of Allotment. This document acts as an initial confirmation that the selected premises will be reserved for the entity, subject to regulatory approvals.

##### Step 4: Application to SEZ Authority Administrator (IFSCA) in Form-FA

The applicant submits Form-FA to the SEZ authorities (Administrator (IFSCA)) to obtain permission to set up a

unit within the Special Economic Zone. The SEZ Authority reviews project details such as proposed activities, investment plan, and space requirement.

#### **Step 5: Application to IFSC Authority (IFSCA)**

Simultaneously or subsequently, the entity applies to the International Financial Services Centres Authority (IFSCA) for the specific regulatory license needed, for example, banking, insurance, fund management, fintech, brokerage, or other financial services. IFSCA evaluates the business model, financial soundness, governance standards, and compliance readiness.

**NOTE:** Now steps 4 and 5 are merged through SWIT (Single Window IT System) Portal. Now the applicant can apply through the portal.

#### **Step 6: Final Letter of Approval (LoA) from UAC (Chaired by the Administrator (IFSCA))**

After satisfactory evaluation, the SEZ Authority issues the Final Letter of Approval (LoA). This is the official authorization to establish the business unit within GIFT City's IFSC SEZ and proceed with infrastructure and operational arrangements.

#### **Step 7: Finalization of Office Space & Execution of Agreement**

With the LoA in hand, the entity finalizes its selected office space and signs the necessary lease or allotment agreements with the developer. This step formalizes the physical setup and enables fit-out work.

#### **Step 8: Regulatory Approval & Commencement of Business**

Once the financial regulator (IFSCA) grants the final operational approval or license, the entity can complete onboarding, staffing, and infrastructure requirements. The business unit can now formally begin its financial services operations in the IFSC.

### **Setting up a Non-IFSC (SEZ) Unit**

#### **Step 1: Identify Suitable Space within GIFT SEZ**

The process begins with choosing the office or operational area within the notified SEZ zone.

- The business explores available spaces offered by GIFT SEZ developers.
- A Provisional Space Allotment Letter is generally discussed at this stage.

#### **Step 2: Apply to the Developer for Provisional Allotment**

The unit submits an application to the GIFT SEZ Developer (e.g., GIFT SEZ Ltd. or the Co-developer managing the building).

Includes:

- Basic business details
- Proposed activities
- Space requirement
- Investment and employment projections

Once approved, the Developer issues a Provisional Allotment Letter.

#### **Step 3: Application to the SEZ Approval (development commissioner Office) in Form-F**

The next major step is to apply formally for setting up an SEZ Unit.

Form Used: Form-F (as prescribed under SEZ Rules, 2006).

The application is submitted to the Approval Committee of GIFT SEZ through the Developer.

Form-F includes:

- Company details
- Proposed business activities
- Foreign exchange earnings/ outgo projections
- Employment generation plan
- Infrastructure needs

The Approval Committee evaluates whether the business fits within SEZ regulations.

#### **Step 4: Evaluation by the Approval Committee**

The GIFT SEZ Approval Committee, chaired by the Development Commissioner, reviews the application.

They examine:

- Whether the proposed activity is allowed in an SEZ
- Net Foreign Exchange (NFE) projections
- Space and infrastructure requirements
- Environmental and regulatory compliance

If satisfied, the Committee approves the application.

#### **Step 5: Issuance of Letter of Approval (LoA) from UAC chaired by Development commissioner (GIFT- SEZ)**

Once approved, the SEZ Authority issues a Letter of Approval (LoA) to the unit.

Why is LoA important?

- It is the *official licence* to operate as an SEZ Unit.
- It sets out the validity period, permitted activities, and key conditions.

#### **Step 6: Execution of Lease Deed with the Developer**

After the LoA is issued, the unit must sign a Lease Deed or Space Allotment Agreement with the Developer.

Purpose:

- Grants formal possession of the premises
- Defines lease terms, rent, maintenance charges, and compliance obligations

#### **Step 7: Obtain Unit Registration & Start Bonding Process**

To operate in an SEZ, units must register with the SEZ Customs Department and complete bonding formalities.

This process includes:

- Executing a Bond-cum-Legal Undertaking (BLU)
- Registering plant, machinery, and imported goods
- Setting up systems for customs-compliant operations

The unit is officially treated as a “bonded area” for customs purposes.

**Step 8: Commencement of Operations**

Once space is taken over and bonding is completed:

- The unit can import capital goods duty-free
- Hire employees
- Begin commercial operations
- The SEZ Unit must subsequently comply with ongoing reporting requirements, including:
  - Quarterly and annual performance reports
  - Maintaining positive Net Foreign Exchange (NFE)
  - Adhering to SEZ regulations and conditions under LoA

**Key Differentiation between IFSC and Non-IFSC (SEZ) Units**

Aspect	IFSC Business Unit	Non-IFSC (SEZ) Unit
Regulator	IFSCA	Development Commissioner (under SEZ Act)
Nature of Activity	Financial services in foreign currency (banking, insurance, fund management, etc.)	Non-financial, service-based or technology operations
Applicable Law	IFSCA Act, 2019; SEZ Act, 2005	SEZ Act, 2005 and SEZ Rules, 2006
Currency of Operations	Primarily foreign currency	Indian Rupees or foreign currency (as approved)
Fiscal Benefits	100% tax exemption for 10 years; GST & transaction tax exemptions	SEZ export incentives and duty-free import of goods/services
Supervisory Authority	IFSCA	Development Commissioner & Customs

The process of setting up an entity in GIFT-SEZ IFSC is streamlined through a single-window mechanism involving the Development Commissioner, IFSCA, and GIFTCL.

While IFSC Units focus on cross-border financial services under IFSCA's unified regulatory regime, Non-IFSC SEZ Units cater to service exports and non-financial operations under SEZ regulations.

Both structures collectively contribute to GIFT City's vision as a globally integrated financial and business hub.

**FINANCIAL ACTIVITIES PERMITTED IN IFSCs**

An International Financial Services Centre (IFSC) is a jurisdiction that provides financial services and products to residents and non-residents, in foreign currencies, within a regulated framework aligned to global standards.

The IFSC in GIFT City serves as India's gateway to global finance, enabling cross-border financial intermediation and fund flows.

The International Financial Services Centres Authority (IFSCA), established under the IFSCA Act, 2019, regulates

and supervises all financial activities undertaken within the IFSC, encompassing banking, insurance, capital markets, fund management, and allied services.

### Broad Categories of Permitted Financial Activities

The IFSCA permits a wide range of activities covering the entire spectrum of financial services. These can be grouped into the following main categories:

S. No.	Sector / Category	Permitted Activities	Regulatory Basis / Framework
1	Banking Unit	<ul style="list-style-type: none"> <li>● Lend in the form of loans, trade finances and acceptances, commitments and guarantees, carry out credit enhancement, credit insurance, and sale and purchase of portfolios.</li> <li>● Undertake inter-bank borrowings and lending</li> <li>● Undertake investments, transferring securities or such other instruments, as principal or agent</li> <li>● Extend Post-Shipment Export Credit in foreign currency, or engage in factoring and forfaiting of export receivables, subject to the guidelines specified by the Authority</li> <li>● Undertake equipment leasing, including aircraft leasing</li> <li>● Participate in derivative transactions</li> <li>● Operate as a Foreign Portfolio Investor</li> <li>● Issuance of ODI - offshore derivatives instruments.</li> </ul>	IFSCA (Banking) Regulations, 2020
2	Capital Markets and Securities	<ul style="list-style-type: none"> <li>● Operation of exchanges, clearing corporations, and depositories</li> <li>● Listing and trading of securities in foreign currency</li> <li>● Managing issue of securities and permitted financial products</li> <li>● Portfolio management and investment advisory</li> <li>● Derivatives and commodities trading</li> </ul>	IFSCA (Listing) Regulations, 2024; IFSCA (Capital Market Intermediaries) Regulations, 2025

S. No.	Sector / Category	Permitted Activities	Regulatory Basis / Framework
		<ul style="list-style-type: none"> <li>● Private placement of securities listed or proposed to be listed</li> <li>● Provide or publish research report with respect to securities.</li> </ul>	
3	Insurance and Reinsurance	<ul style="list-style-type: none"> <li>● Establishment of insurance, reinsurance, and captive insurance entities</li> <li>● Offshore insurance and reinsurance of foreign risks</li> <li>● Insurance broking and intermediary services</li> <li>● Aircraft and ship insurance</li> <li>● Alternative risk transfer and insurance-linked securities (ILS).</li> </ul>	<p>IFSCA (Registration of Insurance Business) Regulations, 2021;</p> <p>IFSCA (Insurance Intermediary) Regulations, 2021</p>
4	Fund and Asset Management	<ul style="list-style-type: none"> <li>● Establishment of AIFs, venture capital and private equity funds</li> <li>● Portfolio management and investment advisory services</li> <li>● Family offices and wealth management</li> <li>● Launch of ETFs, ESG funds, and infrastructure funds.</li> </ul>	IFSCA (Fund Management) Regulations, 2025
5	FinTech and Innovation-Based Activities	<ul style="list-style-type: none"> <li>● FinTech startups and cross-border digital financial services</li> <li>● Digital banking</li> <li>● Robo-advisory and algorithmic trading</li> <li>● Participation in Regulatory Sandbox and Innovation Hub.</li> </ul>	<p>IFSCA (FinTech Incentive) Scheme, 2022;</p> <p>IFSCA Framework for Regulatory Sandbox</p>
6	Market Intermediaries and Ancillary Services	<ul style="list-style-type: none"> <li>● Broking, clearing, and custodian services</li> <li>● Depository participants, registrars, and transfer agents</li> <li>● Credit rating, research, and compliance services</li> <li>● Legal, accounting, and risk management support.</li> </ul>	IFSCA (Capital Market Intermediaries) Regulations, 2025

S. No.	Sector / Category	Permitted Activities	Regulatory Basis / Framework
7	Leasing and Alternative Finance	<ul style="list-style-type: none"> <li>● Aircraft and ship leasing (operating and financial lease)</li> <li>● Factoring and forfaiting</li> <li>● Structured finance and alternative risk instruments.</li> </ul>	IFSCA Framework for Aircraft Leasing IFSCA (Finance Company) Regulations, 2021
8	Global In-House Centres (GICs)	<ul style="list-style-type: none"> <li>● Centralized financial, accounting, compliance, and treasury operations for global groups</li> <li>● Financial analytics, back-office, and shared services.</li> </ul>	IFSCA (Global In-House Centres) Regulations, 2025
9	Sustainable and ESG Finance	<ul style="list-style-type: none"> <li>● Green bonds and sustainability-linked instruments</li> <li>● ESG fund management and climate finance</li> <li>● Carbon trading platforms.</li> </ul>	IFSCA Guidance framework on Sustainable and Sustainability linked lending by financial institutions
10	Other Allied Services	<ul style="list-style-type: none"> <li>● Trade finance, factoring, and treasury management</li> <li>● Custody, clearing, and settlement infrastructure</li> <li>● Cross-border consulting, compliance, and advisory.</li> </ul>	IFSCA Act, 2019; IFSCA Regulatory Frameworks

The range of financial activities permitted in IFSCs reflects India's ambition to position GIFT City as a comprehensive international financial centre on par with global hubs such as Singapore, Dubai, and London.

The framework facilitates offshore financial intermediation, global capital mobilization, and innovation-led finance, while maintaining strong regulatory and compliance standards.

### TAX BENEFITS & INCENTIVES IN GIFT CITY

Entities established in GIFT City operate under two main jurisdictions:

- GIFT SEZ (Non-IFSC Units): Governed by the SEZ Act, 2005 and Income Tax Act, 1961 provisions for SEZ units.
- GIFT IFSC Units: Governed by the IFSCA Act, 2019, enjoying dedicated direct and indirect tax incentives applicable to IFSC entities and employees.

Sl. No.	Exemptions	Description
1	Income Tax Exemption	GIFT IFSC offers 100% income tax exemption for a period of 10 out of 15 years. The flexibility is granted to GIFT IFSC units to select any 10 consecutive years from within the 15-year block

Sl. No.	Exemptions	Description
2	Transaction-related Exemptions	Transactions executed on GIFT IFSC exchanges are exempt from Securities Transaction Tax (STT), Commodities Transaction Tax (CTT), and stamp duty, further enhancing the attractiveness of the centre
3	Minimum Alternate Tax (MAT)	Companies established as units in GIFT IFSC are subject to MAT at a rate of 9% of book profits, with exceptions for certain companies
4	Interest Income Exemption	Interest paid to non-residents on money lent to GIFT IFSC units is not subject to taxation, making it a highly appealing prospect for investors
5	Capital Gains Tax Exemptions	Transfers of specified securities listed on GIFT IFSC exchanges by non-residents are exempt from capital gains tax
6	Goods and Services Tax (GST) and Customs Exemption	Units within GIFT IFSC, as well as services providers in GIFT IFSC/SEZ units and offshore clients, are given exemptions/relaxations under the GST and Customs
7	State Subsidies	GIFT IFSC extends state subsidies for prescribed eligible activities under the IT/ITES policy, including incentives for capital expenditure, operational expenditure, contributions to provident funds, and employee upskilling
8	Exemption from FEMA Regulations	Units within GIFT IFSC are exempt from FEMA regulations, thereby simplifying financial transactions
9	Open Market Investment	Indian residents are permitted to contribute to investment vehicles in GIFT IFSC as Other Persons Resident in India, thereby allowing them to establish and sponsor contributions towards funds in GIFT IFSC

### Additional Regulatory and Financial Incentives

- Single-Window Clearance: Unified regulatory framework under IFSCA simplifies licensing and compliance.
- Ease of Repatriation: Full repatriation of capital and profits without restrictions.
- Liberalized Currency Operations: Transactions in foreign currency offer flexibility.
- FinTech and Innovation Incentives: Support through Regulatory Sandbox, Innovation Hub, and FinTech grants.

The tax and fiscal incentives offered in GIFT City–IFSC provide a globally competitive ecosystem for financial institutions, investors, and professionals. The 100% tax holiday, GST exemptions, duty-free imports, and state-level concessions make GIFT IFSC a preferred destination for international finance operations. These benefits not only enhance ease of doing business but also aim to establish GIFT IFSC as a world-class financial jurisdiction fostering innovation, capital flow, and economic growth.

**PROVISIONS/ EXEMPTIONS UNDER COMPANIES ACT, 2013 FOR COMPANIES SET UP IN IFSC**

To facilitate ease of doing business and attract international players, the Ministry of Corporate Affairs (MCA) has extended several exemptions and relaxations under the Companies Act, 2013 and related rules for companies established in International Financial Services Centres (IFSCs), such as GIFT IFSC. These relaxations are applicable to both IFSC Private Companies and IFSC Public Companies that are licensed by the International Financial Services Centres Authority (IFSCA) and located within an approved IFSC in an SEZ under the SEZ Act, 2005.

**Legal Basis**

The exemptions are provided through the following notifications issued by the Government of India:

- G.S.R. 08(E) dated 4th January 2017 – Exemptions to Private Companies in IFSC.
- G.S.R. 9(E) dated 4th January 2017 – Exemptions to Public Companies in IFSC.
- G.S.R. 811(E) dated 3rd November 2025

These notifications were issued under Section 462 of the Companies Act, 2013, empowering the Central Government to grant modifications or exemptions to certain classes of companies.

**Key Provisions and Exemptions for IFSC Companies**

S. No.	Section of Companies Act, 2013	Exemption/ Modification
1	Section 2(41)	IFSC private subsidiary of a foreign company can follow the same financial year as its holding company without Tribunal approval.
2	Section 3(2)	IFSC private company can be formed only as a company limited by shares.
3	Section 4(1)(a)	Name of the company must include "International Financial Service Company" or "IFSC".
4	Section 4(1)(c)	Objects clause must clearly state permitted financial services activities as per SEZ laws and regulator licence.
5	Section 12(1)	Registered office must always be located in the IFSC within an approved multi-service SEZ.
6	Section 12(2)	Time limit extended from 30 days to 60 days.
7	Section 12(4)	Time limit extended from 15 days to 60 days.
8	Section 12(5)	Registered office can be shifted within IFSC only with Board approval; shifting outside IFSC is not allowed.
9	Section 21	Documents may be authenticated by an officer or any other person, not only an officer.

S. No.	Section of Companies Act, 2013	Exemption/ Modification
10	Section 42(3) & 42(7)	These provisions on private placement do not apply.
11	Section 42(6)	Time limit extended from 60 days to 90 days.
12	Section 54(1)(c)	Provision relating to sweat equity shares does not apply.
13	Section 56(4)	Securities certificates must be delivered within 60 days of incorporation, allotment, transfer, or transmission.
14	Section 82(1)	Registrar may allow registration of charge within 300 days with additional fees.
15	Section 89(6)	Time limit extended from 30 days to 60 days.
16	Section 92(3)	This provision relating to annual return does not apply.
17	Section 100(1)	Extraordinary General Meeting can be held anywhere in India or abroad with consent of all shareholders.
18	Section 117(1)	Filing time extended from 30 days to 60 days.
19	Section 118(1)	Minutes of Board/committee meetings can be prepared and signed at or before the next meeting.
20	Section 118(10)	This provision on minutes does not apply.
21	Section 134(3)	Information already included in financial statements need not be repeated in the Board's Report.
22	Section 135	CSR provisions not applicable for first five years from commencement of business.
23	Section 138	Internal audit applies only if Articles of Association provide for it.
24	Section 139(1) (Fourth proviso)	Time extended from 15 days to 30 days.
25	Section 139(2)	All provisos relating to auditor rotation do not apply.
26	Section 140(1)	If Central Government does not respond within 60 days, auditor removal is deemed approved.
27	Section 149(3)	Resident director requirement applies only after the first financial year.

S. No.	Section of Companies Act, 2013	Exemption/ Modification
28	Section 161(3)	Board may appoint nominee directors as per law, agreement, or government shareholding.
29	Section 168(1)	Director resignation filing is optional (“may”), not mandatory.
30	Section 170(2)	Time limit extended from 30 days to 60 days.
31	Section 173(1)	First Board meeting within 60 days; thereafter minimum one meeting in each half of calendar year.
32	Section 174(3)	Interested director may participate after disclosing interest.
33	Section 179(3)	Board powers may be exercised through meetings or circular resolutions.
34	Section 185(1)	Loans to certain private companies are allowed if no direct/indirect shareholding and special resolution passed.
35	Section 186(1)	Provision on loans and investments does not apply.
36	Section 186(2) & (3)	These provisions do not apply if Board resolution is passed (meeting or circulation).
37	Section 186(5)	Board powers under this section can be exercised by meeting or circulation.
38	Section 186(11)	The provisions relating to loan and investment by a finance Company registered with IFSCA will not apply.
39	Section 384(2)	Exemptions under Section 92 extended to foreign companies operating from IFSC.
40	Section 384(4)	Exemptions under Chapter VI extended to foreign companies operating from IFSC.

### Applicability and Eligibility

The exemptions apply only to companies that:

- Are licensed by IFSCA to operate in an IFSC;
- Are located in an SEZ, such as GIFT City;
- Are engaged in financial services, fintech, or allied activities as permitted by IFSCA.

The company must disclose in its Memorandum and Articles of Association that it operates as an IFSC entity.

### Key Advantages of these Exemptions

- Simplified compliance framework aligned with international norms.
- Reduced cost and time for incorporation and operations.

- Flexibility in financial year, meetings, accounting, and currency use.
- Exemptions from CSR and certain audit requirements.
- Greater operational autonomy matching global financial centres.

The Companies Act, 2013 exemptions for IFSC entities have been instrumental in simplifying regulatory compliance and enhancing operational efficiency. By aligning domestic company law with international financial standards, these provisions enable IFSC companies in GIFT City to function at par with global financial institutions, promoting cross-border investments and innovation.

#### LESSON ROUNDUP

- IFSCs are specialized zones providing financial services in foreign currency under global standards.
- GIFT City hosts India's first IFSC, integrating financial, technological, and regulatory infrastructure.
- IFSCA acts as a unified regulator ensuring efficiency, innovation, and investor protection.
- Entities in GIFT IFSC enjoy substantial tax reliefs, simplified incorporation, and operational flexibility.
- These reforms aim to repatriate offshore financial activity, create employment, and establish India as a global financial hub.

#### GLOSSARY

- **IFSC:** Zone offering financial services in foreign currency for global clients.
- **GIFT City:** India's first smart city and IFSC.
- **DTA:** Domestic zone serving Indian market.
- **SEZ:** Special Economic Zone for export-oriented units.
- **IFSCA:** Unified regulator for IFSC financial services.
- **PLoA:** Initial confirmation of office space allocation.
- **LoA:** Official approval to operate in SEZ.
- **Form-F:** Application for SEZ unit approval.
- **NFE:** Net Foreign Exchange; SEZ must earn more than spent.
- **FinTech:** Technology-driven financial services and innovation.
- **Regulatory Sandbox:** Controlled environment to test financial innovations.
- **Tax Incentive:** Fiscal benefit like tax holiday or GST exemption.

#### TEST YOURSELF

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

##### A. Very Short Answer Questions

1. What does IFSC stand for?
2. Which authority regulates all IFSC financial services?
3. What is the purpose of DTA?

4. Under which Act, IFSCA is established?
5. What is the Currency of operation for IFSC units?
6. What is a Provisional Letter of Allotment (PLOA)?
7. Name one financial activity permitted in IFSC.
8. Who issues the Letter of Approval (LoA) for SEZ units?

**B. Short Answer Questions**

1. Explain the two objectives of IFSCs?
2. Differentiate between IFSC Units and Non-IFSC SEZ Units.
3. What is the role of Development Commissioner in SEZ?
4. What are the key tax benefits of IFSC units?
5. What is the purpose of Form-F?

**C. Long Answer Questions**

1. Explain the evolution and importance of IFSCs globally and in India?
2. What are the steps to set up an IFSC Business Unit?
3. Discuss the Regulatory framework of GIFT SEZ and IFSC?
4. What are the tax incentives and Companies Act exemptions for IFSC entities?

**LIST OF FURTHER READING**

- Notification of Ministry of Corporate Affairs, New Delhi, dated January 04, 2017
- [www.ifsc.gov.in](http://www.ifsc.gov.in)

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# IFSCA Ecosystem & Regulatory Framework

## Lesson 2

### KEY CONCEPTS

- Unified Regulator ■ GIFT City ■ Environmental, Social, and Governance ■ Foreign Currency Transactions ■ Grievance Redressal Mechanism ■ Market Infrastructure Institutions ■ Sustainable Finance ■ IFSC Exchanges
- Fund Management ■ Global In-House Centres

### Learning Objectives

#### To understand the:

- concept, evolution, and need for International Financial Services Centres (IFSCs) in India.
- chronological journey and establishment of the International Financial Services Centres Authority (IFSCA).
- objectives, structure, and key provisions of the IFSCA Act, 2019.
- powers, functions, and administrative framework of IFSCA.
- key business activities and financial services permitted in IFSCs.
- role of IFSCA in promoting sustainable economic growth.
- powers delegated to IFSCA by SEBI, RBI, IRDAI, and PFRDA.
- major regulations issued by IFSCA across banking, insurance, capital markets, and asset management.
- importance of FinTech, innovation, and regulatory sandbox frameworks in IFSCs.
- role of IFSC exchanges, clearing corporations, and depositories in market infrastructure.
- investor protection framework and grievance redressal mechanisms in IFSCs.
- enforcement powers and penalty mechanisms of IFSCA for ensuring market discipline and integrity.

### Lesson Outline

- Chronological Journey and Establishment of IFSCA
- IFSCA Act, 2019 - Goals and Objectives
- Powers and Functions of Authority
- Key Business activities at IFSCA
- Role of IFSCA in Sustainable Economic Growth
- Powers delegated by SEBI, RBI, IRDAI, and PFRDA
- Key regulations issued by IFSCA for Banking, Insurance, Capital Markets, and Asset Management
- Fintech & Innovations
- IFSC Exchanges, Clearing Corporations, and Depositories
- Role and Functions of MIs
- Investor Protection and Grievance Redressal
- Complaint Resolution Process
- Enforcement Powers and Penalties
- Lesson Round Up
- Glossary
- Test Yourself
- List of Further Readings

## CHRONOLOGICAL JOURNEY AND ESTABLISHMENT OF IFSCA

### 1. Need for a Unified Regulator

Before the establishment of the International Financial Services Centres Authority (IFSCA), financial institutions operating in IFSCs were regulated by multiple domestic regulators such as RBI, SEBI, IRDAI, and PFRDA. This led to regulatory overlaps and operational challenges. To develop a globally competitive financial hub in India, there was a need for a single, unified regulator exclusively for IFSCs.

### 2. Early Global Context and Concept of IFSCs

- International Financial Services Centres (IFSCs) are special jurisdictions set up to cater to cross-border financial services.
- Global examples include London, Singapore, Hong Kong, and Dubai.
- India envisaged its own IFSC to retain offshore financial business and attract international capital.

### 3. Announcement of GIFT City (2007–2008)

- In 2007, the Government of India announced the establishment of Gujarat International Finance Tec-City (GIFT City).
- The objective was to create a world-class financial hub offering international financial services from within India.
- GIFT City was developed as a Special Economic Zone (SEZ) with a designated IFSC area.

### 4. Initial Regulatory Framework (2015 onwards)

- In 2015, the Government formally notified GIFT City as India's first IFSC.
- Financial activities in IFSC were regulated by multiple domestic regulators, each governing its respective sector.
- Though functional, this system lacked uniformity and speed, highlighting the need for regulatory consolidation.

### 5. Proposal for a Unified Authority

- The challenges of multi-regulatory oversight led to policy discussions on creating a single regulator.
- Committees and expert groups recommended a unified regulatory framework to improve ease of doing business and global competitiveness.

### 6. Enactment of the IFSCA Act, 2019

- The International Financial Services Centres Authority Act, 2019 was passed by Parliament.
- The Act provided the legal foundation for setting up a single authority to regulate and develop IFSCs in India.
- It empowered IFSCA to regulate financial products, financial services, and financial institutions in IFSCs.

### 7. Establishment of IFSCA (2020)

- IFSCA was formally established on 27 April 2020.
- It became the sole regulator for all financial activities in IFSCs.
- The headquarters of IFSCA is located at GIFT City, Gandhinagar, Gujarat.

### 8. Transition from Multiple Regulators to IFSCA

- Upon its establishment, regulatory powers relating to IFSCs were transferred from RBI, SEBI, IRDAI, and PFRDA to IFSCA.
- Existing financial institutions in IFSCs came under the supervision of IFSCA.
- This transition ensured consistency, efficiency, and regulatory clarity.

### 9. Initial Focus and Developmental Role

Post-establishment, IFSCA focused on:

- Framing sector-specific regulations for banking, capital markets, insurance, and fund management.
- Encouraging innovation through FinTech and regulatory sandbox frameworks.
- Developing market infrastructure such as exchanges, clearing corporations, and depositories.

### 10. Growth and Consolidation Phase

Over time, IFSCA has:

- Expanded the range of permissible financial activities.
- Introduced frameworks for sustainable finance and fintech.
- Strengthened India's presence in global financial markets.

IFSCA has evolved not just as a regulator, but also as a development authority promoting growth, stability, and competitiveness.

## IFSCA ACT, 2019 - GOALS AND OBJECTIVES

### Establishment of Authority

#### 1. Establishment and incorporation of Authority

- 1) The Central Government, by notification, established an Authority by the name of the International Financial Services Centres Authority.
- 2) The Authority must be a body corporate having perpetual succession and a common seal, and subject to the provisions of this Act, with power to enter into and execute contracts, acquire, hold and dispose of property, both movable and immovable, and shall, by the said name, sue and be sued.
- 3) The head office of the Authority must be at such place as the Central Government may, by notification, decide.
- 4) The Authority can, with the prior approval of the Central Government, establish its offices at other places in India or outside India.

#### 2. Composition of Authority

- 1) The Authority must consist of the following Members, to be appointed by the Central Government, namely:
  - a) a chairperson
  - b) one Member each to be nominated by
    - i. the Reserve Bank of India, ex officio

- ii. the Securities and Exchange Board of India, ex officio
    - iii. the Insurance Regulatory and Development Authority of India, ex officio
    - iv. the Pension Fund Regulatory and Development Authority, ex officio
  - c) two Members, from amongst the officials of the Ministry dealing with Finance, to be nominated by the Central Government, ex officio
  - d) two other Members to be appointed by the Central Government on the recommendation of a Selection Committee.
- 2) The Chairperson must be a whole-time Member, and other Members referred to in (d) of sub-section (1) may be appointed as whole-time or part-time Members as the Central Government may deem fit.
  - 3) The Members must be persons of ability, integrity and standing who have shown capacity in dealing with matters relating to financial sectors or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to the Authority.
  - 4) The Selection Committee referred to in (d) of sub-section (1) consists of such Members and is constituted by the Central Government in such manner as may be prescribed.

### **3. Terms of office and conditions of service of Chairperson and other Members**

- 1) The Chairperson and a Member must hold office for a term of three years from the date on which he enters upon his office and can be eligible for re-appointment. No person must hold office as a chairperson after he has attained the age of sixty-five years or as a whole-time member after he has attained the age of sixty-two years.
- 2) The salaries and allowances payable to, and other terms and conditions of service of, the Members, other than ex officio Members, must be such as may be prescribed.
- 3) A Member can
  - a) resign from his office by giving in writing to the Central Government a notice of not less than three months
  - b) be removed from his office.
- 4) No Member, other than ex officio Member, must, for a period of two years from the date on which they cease to hold office as such, except with the previous approval of the Central Government, accept—
  - a) any employment either under the Central Government or under any State Government
  - b) appointment in any financial institution in the International Financial Services Centres

### **4. Removal of Member from office**

- 1) The Central Government may remove from office a Member, who—
  - a) is, or at any time has been, adjudged as insolvent
  - b) has become physically or mentally incapable of acting as a Member
  - c) has been convicted of an offence which in the opinion of the Central Government involves moral turpitude

- d) has acquired such financial or other interest as is likely to affect prejudicially his functions as a Member
- e) has so abused his position so as to render his continuance in office detrimental to public interest.

No Member can be removed from office under (d) or (e) unless he has been given a reasonable opportunity of being heard in the matter.

#### **5. Meetings of Authority**

- 1) The Authority must meet at such times and places and must observe such rules of procedure in regard to the transaction of business at its meetings (including quorum at such meetings) as may be specified by regulations.
- 2) The Chairperson, if for any reason, he is unable to attend a meeting of the Authority, any other Member chosen by the Members present from amongst themselves at the meeting must preside at the meeting.
- 3) All questions which come up before any meeting of the Authority must be decided by a majority of votes of the Members present and voting, and, in the event of an equality of votes, the Chairperson, or in his absence, the person presiding, must have a casting vote.
- 4) Any Member who has any direct or indirect interest in any matter likely to come up for consideration at a meeting of the Authority must, as soon as possible after the relevant circumstances have come to his knowledge, disclose in writing, the nature of his interest at such meeting and such disclosure must be recorded in the proceedings of the Authority and such Member must not take part in any deliberation or decision of the Authority with respect to that matter.

#### **6. Vacancies, etc., not to invalidate proceedings of Authority**

No act or proceeding of the Authority must be invalid merely by reason of—

- a) any vacancy or defect in the constitution of the Authority
- b) any defect in the appointment of a person as a Member of the Authority.

#### **7. Administrative powers of Chairperson**

The Chairperson must have the powers of general superintendence and direction in respect of all administrative matters of the Authority.

#### **8. Officers and other employees of Authority**

- 1) The Authority can appoint such officers and other employees as it considers necessary for the efficient discharge of its functions under this Act.
- 2) The salaries and allowances payable to, and other terms and conditions of service of, officers and other employees of the Authority appointed under (1) must be such as may be specified by regulations.

## **POWERS AND FUNCTIONS OF AUTHORITY**

### **Powers of Authority in relation to financial products, financial services and financial institutions**

- 1) Notwithstanding anything contained in any other law for the time being in force, all powers exercisable by an appropriate regulator, under the respective Acts must, in the International Financial Services Centres, be exercised by the Authority in so far as it relates to the regulation of the financial products, financial services or financial institutions.

- 2) The Central Government may, by notification, amend the First Schedule by including therein any financial sector regulator and the law administered by it, or omitting therefrom any financial sector regulator or any law specified therein, and on the publication of such notification, such regulator and the law must be deemed to be included in, or omitted from, the First Schedule.
- 3) Every notification issued under (2) must be laid before each House of Parliament.
- 4) For the purposes of (1), the provisions of the respective Acts of the First Schedule relating to—
  - a) the manner of filing an application for recognition or registration or withdrawal of recognition or registration or furnishing of information or reports
  - b) the procedure of inspection, investigation or prosecution of offences, settlement of civil and administrative proceedings, compounding or adjudication of any offence or penalty, or actions to be taken in furtherance of such inspection, investigation, or adjudication or filing of appeals arising therefrom
  - c) the determination or settlement, of any fee or fine or penalty or any other sum of amount or punishment for the contravention of any provisions of respective Acts specified in the First Schedule and recovery of such fine or penalty, must, mutatis mutandis, apply to financial products, financial services and financial institutions under this Act, as they apply to the financial products, financial services and financial institutions under such respective Acts.
- 5) The penalties, fines, fees and settlement amounts must be collected or realised in the foreign currency equivalent of the penalty or fine imposed. The rate of exchange for computing the foreign currency equivalent to Indian rupees must be such as are as notified by the Reserve Bank of India on the date of the order imposing the penalty or fine.
- 6) All sums realised by way of penalties or fines under this Act must be credited to the Consolidated Fund of India in Indian rupees.
- 7) The Authority may, in addition to the above, specify by regulations the manner in which the functions may be performed by the Authority for carrying out the provisions of this section.

### Functions of Authority

- 1) It is the duty of the Authority to develop and regulate the financial products, financial services and financial institutions in the International Financial Services Centres, by such measures as it deems fit.
- 2) The powers and functions of the Authority shall include—
  - a) regulating the financial products, financial services and financial institutions in an International Financial Services Centre which have been permitted, before the commencement of this Act, by any regulator for any International Financial Services Centre;
  - b) regulating such other financial products, financial services or financial institutions in the International Financial Services Centres as may be notified by the Central Government from time to time;
  - c) recommending to the Central Government such other financial products, financial services and financial institutions which may be permitted in an International Financial Services Centre by the Central Government;
  - d) perform such other functions as may be prescribed.

**KEY BUSINESS ACTIVITIES AT IFSCA**

	Banking
	Fund Management
	Global In House Centre
	Capital Market
	Insurance
	Metals and Commodities
	BATF Service Providers
	Aircraft Leasing
	Fintech
	Foreign University
	Ship Leasing

IFSC: Business Segments		
<p><b>Banking</b></p> <ul style="list-style-type: none"> <li>● Indian Banks</li> <li>● Foreign Banks</li> <li>● Global Administrative Office</li> <li>● Rep. Offices</li> </ul>	<p><b>Capital Market</b></p> <ul style="list-style-type: none"> <li>● Stock Exchanges</li> <li>● Clearing Corporation</li> <li>● International Depository</li> <li>● Broker Dealers</li> <li>● Investment Bankers</li> <li>● Custodians</li> <li>● Depository Participants</li> <li>● Clearing Members</li> </ul>	<p><b>Asset Management</b></p> <ul style="list-style-type: none"> <li>● Fund Management Entities</li> <li>● Alternative Investment Funds</li> <li>● Investment Advisers</li> <li>● Portfolio Managers</li> <li>● Distributors</li> </ul>
<p><b>Insurance</b></p> <ul style="list-style-type: none"> <li>● Indian &amp; Foreign Insurer</li> <li>● Indian &amp; Foreign Reinsurer</li> <li>● Insurance Intermediaries</li> <li>● Insurance Web-Aggregators</li> </ul>	<p><b>Niche Institutions</b></p> <ul style="list-style-type: none"> <li>● International Bullion Exchange</li> <li>● Finance Companies</li> <li>● Global Treasury Centre</li> <li>● ITFS Platform</li> <li>● Aircraft Leasing &amp; Financing</li> <li>● Ship Leasing &amp; Financing</li> </ul>	<p><b>Emerging Businesses</b></p> <ul style="list-style-type: none"> <li>● Foreign Universities</li> <li>● TechFin Firms</li> <li>● Global in-House Centres</li> <li>● Ancillary Service Providers</li> <li>● Payment Service Providers</li> <li>● BATF Service Provider</li> </ul>

## ROLE OF IFSCA IN SUSTAINABLE ECONOMIC GROWTH

### 1. Understanding Sustainable Economic Growth

Sustainable economic growth refers to growth that:

- Is long-term and stable
- Encourages efficient use of resources
- Balances economic development with social and environmental considerations
- Strengthens the resilience of the financial system

IFSCA supports this form of growth by creating a globally competitive financial ecosystem while ensuring sound regulation and responsible practices.

### 2. Unified and Efficient Regulatory Framework

One of the most important contributions of IFSCA is the establishment of a single-window regulatory system for IFSCs. Unlike the domestic financial system, where multiple regulators operate, IFSCA brings banking, capital markets, insurance, pension, and fintech under one authority.

This unified framework:

- Reduces regulatory complexity and compliance costs
- Improves ease of doing business
- Enhances investor confidence
- Encourages long-term investments

A stable and predictable regulatory environment is essential for sustainable economic growth, as it promotes continuity and trust in the financial system.

### 3. Promoting Global Capital Flows into India

IFSCA enables India to attract global capital by allowing international financial activities to be conducted from IFSCs. These include offshore banking, fund management, insurance and reinsurance, and capital market activities.

By channeling foreign capital into productive sectors, IFSCA:

- Supports infrastructure development
- Encourages investment in priority sectors
- Reduces dependence on external financial centres

This strengthens India's economic base and supports long-term growth.

### 4. Development of Deep and Efficient Financial Markets

IFSCA supports the development of advanced financial markets such as:

- International exchanges for securities and derivatives
- Bullion markets like the India International Bullion Exchange (IIBX)
- Clearing corporations and depositories

Efficient financial markets ensure better price discovery, risk management, and liquidity. These features help businesses manage financial risks effectively, leading to stable and sustainable economic expansion.

## 5. Encouraging Innovation and FinTech Development

IFSCA actively promotes financial innovation through:

- FinTech regulatory frameworks
- Regulatory sandboxes
- Support for new-age technologies such as artificial intelligence, and digital finance

Innovation improves financial inclusion, efficiency, and transparency. By supporting responsible innovation, IFSCA ensures that technological progress contributes positively to economic growth without compromising stability.

## 6. Supporting Sustainable Finance and Green Initiatives

IFSCA encourages sustainable finance by facilitating:

- Green bonds and sustainable debt instruments
- ESG (Environmental, Social, and Governance)-linked financial products
- Responsible investment practices.

Such initiatives help channel funds toward environmentally and socially responsible projects, aligning financial growth with broader development goals and climate commitments.

## 7. Strengthening Risk Management and Financial Stability

IFSCA places strong emphasis on prudential norms, governance standards, and risk management practices. By ensuring that financial institutions operating in IFSCs are well-capitalized and well-governed, IFSCA:

- Reduces systemic risks
- Prevents financial crises
- Maintains confidence in the financial ecosystem

Financial stability is a cornerstone of sustainable economic growth.

## 8. Employment Generation and Skill Development

The growth of IFSCs under IFSCA's guidance leads to:

- Creation of highly skilled employment in finance, law, technology, and support services
- Development of specialized talent in international finance
- Knowledge transfer from global institutions to the domestic economy.

This contributes to human capital development, which is essential for long-term economic sustainability.

## 9. Enhancing India's Global Financial Position

By developing IFSCs as global financial hubs, IFSCA helps position India as a competitive player in international finance. This reduces capital flight to offshore jurisdictions and strengthens India's role in global financial governance. A stronger global presence supports resilient and inclusive economic growth.

IFSCA plays a vital role in promoting sustainable economic growth by combining effective regulation with developmental objectives. Through a unified regulatory framework, promotion of global capital flows, support for innovation, emphasis on financial stability, and encouragement of sustainable finance, IFSCA contributes to a balanced and resilient economic system.

## POWERS DELEGATED BY SEBI, RBI, IRDAI, AND PFRDA

Prior to IFSCA, financial activities in IFSCs were regulated by multiple domestic regulators—SEBI, RBI, IRDAI, and PFRDA—depending on the nature of the activity.

With the enactment of the IFSCA Act, 2019, the powers of these regulators relating to IFSCs were delegated and transferred to IFSCA, making it a unified regulator. This delegation ensures regulatory consistency, efficiency, and ease of doing business.

### 1. Delegation of Powers from Reserve Bank of India (RBI)

RBI is the primary regulator of banking, foreign exchange, and payment systems in India. Its powers relating to IFSCs have been delegated to IFSCA.

Key powers delegated from RBI include:

- Regulation and supervision of banking units in IFSCs
- Authorization and oversight of offshore banking units
- Regulation of foreign currency transactions in IFSCs
- Supervision of treasury operations and lending activities
- Regulation of payment systems operating within IFSCs

Through this delegation, IFSCA performs RBI-like functions for banking and currency-related activities within IFSCs.

### 2. Delegation of Powers from Securities and Exchange Board of India (SEBI)

SEBI regulates capital markets, securities trading, and market intermediaries in India. Its powers concerning IFSCs have been transferred to IFSCA.

Key powers delegated from SEBI include:

- Regulation of stock exchanges and international exchanges in IFSCs
- Oversight of clearing corporations and depositories
- Regulation of capital market intermediaries such as brokers, fund managers, and investment advisers
- Supervision of funds, alternative investment funds (AIFs), and portfolio managers in IFSCs
- Regulation of derivatives, debt instruments, and other securities

This enables IFSCA to independently regulate and develop international capital markets in IFSCs.

### 3. Delegation of Powers from Insurance Regulatory and Development Authority of India (IRDAI)

IRDAI regulates insurance and reinsurance businesses in India. For IFSCs, these regulatory powers are exercised by IFSCA.

Key powers delegated from IRDAI include:

- Regulation of insurance and reinsurance companies in IFSCs
- Approval and supervision of insurance intermediaries
- Oversight of cross-border insurance products
- Regulation of capital, solvency, and governance norms for insurers in IFSCs

This delegation supports the development of India as a global hub for insurance and reinsurance services.

#### 4. Delegation of Powers from Pension Fund Regulatory and Development Authority (PFRDA)

PFRDA regulates pension schemes and retirement funds in India. Its IFSC-related powers are now vested in IFSCA.

Key powers delegated from PFRDA include:

- Regulation of pension funds and retirement products in IFSCs
- Supervision of pension fund managers and intermediaries
- Approval of international pension and retirement schemes
- Regulation of operational and governance standards

This allows IFSCs to offer global pension and retirement solutions under a single regulator.

#### 5. Significance of Delegated Powers

The delegation of powers from SEBI, RBI, IRDAI, and PFRDA to IFSCA has several advantages:

- Single-window regulation for all financial services in IFSCs
- Reduction in regulatory overlaps and delays
- Greater clarity and certainty for market participants
- Faster decision-making and approvals
- Enhanced global competitiveness of Indian IFSC

### KEY REGULATIONS ISSUED BY IFSCA FOR BANKING, INSURANCE, CAPITAL MARKETS, AND ASSET MANAGEMENT

#### Key regulations issued by IFSCA for Banking

- IFSCA (Banking) Regulations, 2020

#### Key regulations issued by IFSCA for Insurance

##### 1. IFSC Insurance Office (IIO)

- IFSCA (Registration of Insurance Business) Regulations, 2021
- IFSCA (Re-insurance) Regulations, 2023

##### 2. IFSC Insurance Intermediary Office (IIIO)

- IFSCA (Insurance Intermediary) Regulations, 2021

#### Key regulations issued by IFSCA for Capital Markets

- IFSCA (Capital Market Intermediaries) Regulations, 2025
- IFSCA (Market Infrastructure Institutions) Regulations, 2021

#### Key regulations issued by IFSCA for Asset Management

- IFSCA (Fund Management) Regulations, 2025

## FINTECH & INNOVATIONS

FinTech (Financial Technology) refers to the use of technology to deliver financial products and services in a faster, more efficient, and innovative manner. In the context of International Financial Services Centres (IFSCs), FinTech plays a critical role in enhancing competitiveness, efficiency, and global integration.

The IFSCA actively promotes FinTech and innovation to position IFSCs, especially GIFT IFSC, as global hubs for next-generation financial services.

### 1. Importance of FinTech in IFSCs

FinTech and innovation are central to the development of IFSCs because they:

- Improve efficiency and reduce transaction costs
- Enable cross-border financial services
- Promote financial inclusion and transparency
- Enhance risk management and compliance
- Support sustainable and digital economic growth

IFSCA adopts a balanced approach, encouraging innovation while ensuring financial stability and consumer protection.

### 2. Regulatory Approach of IFSCA towards FinTech

IFSCA follows a principles-based and facilitative regulatory approach. Instead of rigid rules, it provides flexibility to test innovative solutions.

Key features of IFSCA's regulatory approach include:

- Technology-neutral regulations
- Risk-based supervision
- Proportionate compliance requirements
- Emphasis on governance and data security

This approach allows innovation to flourish without compromising systemic safety.

### 3. IFSCA Regulatory Sandbox

One of the most important initiatives for promoting FinTech is the IFSCA Regulatory Sandbox.

Key features of the sandbox include:

- Allows FinTech entities to test innovative products, services, or business models in a controlled environment
- Provides temporary regulatory relaxations
- Reduces time and cost of market entry
- Enables real-world testing with limited customers

The sandbox encourages experimentation while helping regulators understand emerging technologies.

### 4. Key Areas of FinTech Innovation in IFSCs

IFSCA permits and encourages innovation across multiple domains, including:

- Digital Banking and Neo-banks

- Blockchain and Distributed Ledger Technology (DLT)
- Artificial Intelligence and Machine Learning for risk assessment and fraud detection
- RegTech and SupTech solutions for compliance and supervision
- Cross-border payments and remittances
- WealthTech and InsurTech solutions
- Tokenization of assets and digital securities

These innovations strengthen the IFSC ecosystem and improve service delivery.

### **5. FinTech Entities in IFSC**

IFSCA allows various FinTech entities to operate from IFSCs, such as:

- FinTech service providers
- Technology companies offering financial solutions
- Ancillary service providers supporting financial institutions
- Global In-House Centres (GICs) for FinTech and technology operations

Such entities benefit from global exposure and a supportive regulatory environment.

### **6. Incentives and Support Framework**

To promote innovation, IFSCA provides:

- FinTech-specific regulatory frameworks
- Access to sandbox and innovation testing facilities
- Facilitation for global market access
- Supportive ecosystem involving regulators, exchanges, and financial institutions

These measures reduce entry barriers and encourage long-term innovation-led growth.

### **7. Role of FinTech in Sustainable Growth**

FinTech and innovation contribute to sustainable economic growth by:

- Enhancing transparency and efficiency
- Reducing operational risks and costs
- Supporting green finance and digital ESG reporting
- Enabling inclusive and scalable financial solutions

IFSCA ensures that innovation aligns with responsible and sustainable development objectives.

### **8. Challenges and Safeguards**

While promoting innovation, IFSCA also addresses challenges such as:

- Cybersecurity and data privacy risks
- Consumer protection concerns
- Operational and systemic risks

Appropriate safeguards, governance norms, and supervisory mechanisms are put in place to mitigate these risks.

FinTech and innovation form a cornerstone of the IFSC ecosystem. Through a supportive regulatory framework, sandbox mechanisms, and emphasis on responsible innovation, IFSCA fosters a dynamic and future-ready financial environment. By balancing innovation with regulation, IFSCA ensures that technological advancement contributes meaningfully to efficiency, stability, and sustainable growth in IFSCs.

## IFSC EXCHANGES, CLEARING CORPORATIONS, AND DEPOSITORIES

International Financial Services Centres (IFSCs) are designed to provide a world-class financial market infrastructure comparable with leading global financial hubs. A strong and efficient market infrastructure is essential for smooth trading, settlement, and safekeeping of securities and financial instruments. In an IFSC, this infrastructure is provided through exchanges, clearing corporations, and depositories, all of which are regulated by the International Financial Services Centres Authority (IFSCA).

Market Infrastructure Institutions (MIIs) in the IFSCs are the core entities like stock exchanges, clearing corporations, and depositories that provide the backbone for listing, trading, clearing, and settlement of securities in the IFSC, regulated by the IFSCA Regulations to ensure a robust, transparent, and globally compliant financial ecosystem. These regulations, established by the International Financial Services Centres Authority (IFSCA), simplify the framework, promote ease of business, and enhance governance for MIIs in the IFSC.

IFSCA unified the rules for MIIs, replacing fragmented regulations. MIIs are governed by the IFSCA (Market Infrastructure Institutions) Regulations, 2021. These Regulations were thoroughly revised in 2025. IFSCA also brought in the new Bullion market Regulations for IIBX in 2025.

### Key MIIs in IFSC:

**Stock Exchanges:** Platforms for trading financial instruments.

**Clearing Corporations:** Facilitate clearing and settlement of trades.

**Depositories:** Hold securities in electronic form.

The following are the MIIs in the IFSC:

1. India International Exchange (India INX)
2. NSE International Exchange (NSE IX)
3. NSE International Clearing Corporation (NSE ICC)
4. India INX Clearing Corporation (India ICC)
5. India International Depository IFSC (IIDI)

There is also a Bullion Exchange in the IFSC called the India International Bullion Exchange (IIBX)

### Products on MIIs in the IFSC:

1. Bonds
2. Derivatives - SGX Nifty Derivatives
3. Import of Gold and Silver
4. Equity (commencing soon)

While there are brokers, vault managers, depository participants and other intermediaries registered in the IFSC, it is also significant to note that there are unique intermediaries like Remote Trading Participants (RTPs).

MIIs in the IFSC are the essential building blocks for a sophisticated and well-regulated capital market, fostering international financial activities.

## Role and Functions of MIIs

### 1. IFSC Exchanges

IFSC exchanges are organized platforms that facilitate trading in a wide range of financial instruments for international participants.

Key features of IFSC exchanges:

- Provide electronic platforms for trading in securities and financial instruments.
- Enable access to global investors, foreign institutions, and non-resident participants.
- Operate in foreign currency (mainly USD), reducing exchange rate risk for international investors.
- Function under a regulatory framework aligned with best global practices.

Instruments traded on IFSC exchanges include:

- Equity shares and equity derivatives
- Debt securities (bonds and notes)
- Currency and interest rate derivatives
- Commodity and bullion derivatives
- Depository receipts and other permitted instruments

IFSC exchanges help in price discovery, liquidity creation, and efficient capital raising, making India competitive with other global financial centres.

### 2. Clearing Corporations in IFSC

Clearing corporations play a crucial role in ensuring the safety and stability of financial markets.

Role and functions of clearing corporations:

- Act as an intermediary between buyers and sellers in a trade.
- Guarantee settlement of trades, thereby reducing counterparty risk.
- Perform clearing, settlement, and risk management functions.
- Monitor margins, exposures, and defaults to maintain market integrity.

Once a trade is executed on an IFSC exchange, the clearing corporation steps in to:

- Confirm the trade
- Calculate settlement obligations
- Ensure timely payment and delivery of securities or funds

By acting as a central counterparty (CCP), clearing corporations enhance confidence among market participants and ensure smooth functioning of the IFSC markets.

### 3. Depositories in IFSC

Depositories provide the system for holding securities in electronic (dematerialized) form and enabling their transfer.

Key functions of IFSC depositories:

- Hold securities safely in dematerialized form.
- Facilitate transfer of ownership through electronic book entries.
- Eliminate risks associated with physical certificates, such as loss or forgery.
- Support settlement of trades executed on IFSC exchanges.

Participants in the depository system include:

- Depository Participants (DPs)
- Custodians
- Clearing members
- Investors (domestic and international)

Depositories ensure speedy settlement, transparency, and investor protection, which are essential for attracting global investors to IFSC markets.

#### **4. Regulatory Oversight by IFSCA**

IFSCA is the sole regulator for exchanges, clearing corporations, and depositories in IFSCs.

IFSCA's regulatory responsibilities include:

- Granting recognition and approval to market infrastructure institutions.
- Framing regulations governing operations, governance, and risk management.
- Ensuring compliance with international standards and best practices.
- Protecting investor interests and maintaining market integrity.

A unified regulatory framework under IFSCA reduces regulatory overlap and provides clarity and efficiency to market participants.

#### **5. Importance of Market Infrastructure in IFSC**

The presence of well-regulated exchanges, clearing corporations, and depositories in IFSCs:

- Strengthens India's position as a global financial hub.
- Attracts foreign investment and international listings.
- Enhances ease of doing business in cross-border financial markets.
- Promotes transparency, efficiency, and stability in financial transactions.

### **INVESTOR PROTECTION AND GRIEVANCE REDRESSAL**

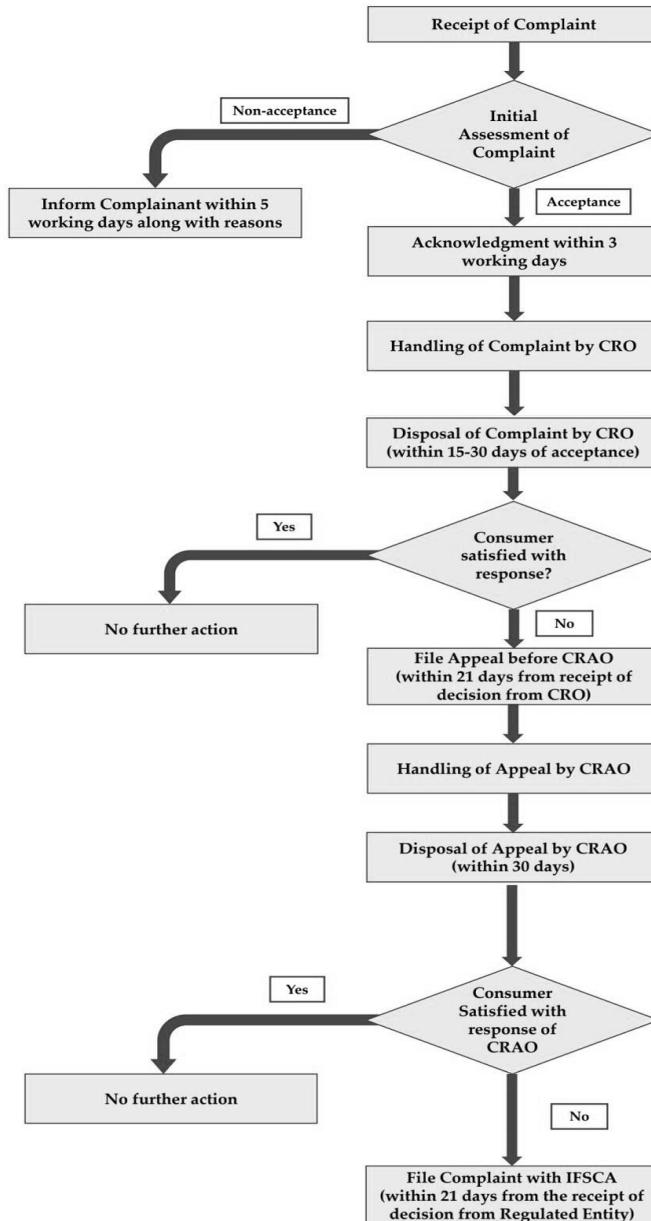
Investor protection and an effective grievance redressal mechanism are essential for building trust and confidence in any financial system. In IFSCs, where global investors participate in cross-border financial activities, strong safeguards become even more important.

IFSCA has been established with the objective to develop and regulate the financial services market in the IFSCs in India and for matters connected therewith or incidental thereto, as mentioned in the preamble of the IFSCA Act, 2019. One of the key regulatory functions of the IFSCA is to safeguard the interests of financial consumers. Ensuring consumer protection is crucial for maintaining trust and confidence in the financial markets within the

IFSCA. IFSCA recognises that robust consumer protection framework enhances long-term market integrity by holding financial service providers accountable, promoting responsible business practices, and contributing to the overall stability of the financial markets in the IFSC.

IFSCA has issued a circular on “Complaint Handling and Grievance Redressal by Regulated Entities in the IFSC” dated December 02, 2024, detailing the process for handling consumer complaints in IFSCs. Pursuant to Circular dated January 13, 2025, the said mechanism shall be effective with respect to April 01, 2025. The following have been specified by IFSCA in this regard:

**Complaint Resolution Process**



If the complaint is against a trading member/ a clearing member/ a depository participant/ a bullion trading member/ a bullion clearing member, the complainant shall first approach the relevant MII for redress of the complaint within 21 days, before approaching IFSCA.

The IFSCA places investor protection at the core of its regulatory framework, ensuring fairness, transparency, and accountability in IFSCs.

### 1. Importance of Investor Protection in IFSCs

Investor protection is critical because it:

- Builds confidence among domestic and international investors
- Encourages long-term participation in financial markets
- Reduces the risk of fraud and unfair practices
- Enhances the credibility of IFSCs as global financial hubs

IFSCA ensures that investor interests are safeguarded while maintaining a business-friendly environment.

### 2. Regulatory Framework for Investor Protection

IFSCA has framed comprehensive regulations to protect investors, drawing from global best practices.

Key elements include:

- Disclosure norms for issuers and intermediaries
- Fit and proper criteria for market participants
- Corporate governance standards
- Risk management and compliance requirements
- Code of conduct for financial institutions and intermediaries

These measures promote transparency and ethical conduct.

### 3. Investor Education and Awareness

IFSCA recognizes that informed investors are better protected.

Key initiatives include:

- Promoting awareness about financial products and risks
- Ensuring availability of clear and understandable information
- Encouraging responsible selling and advisory practices

Investor education supports informed decision-making and reduces disputes.

### 4. Grievance Redressal Mechanism in IFSCs

IFSCA has established a structured and time-bound grievance redressal system.

Key features include:

- Investors can file complaints against regulated entities in IFSCs
- Complaints relate to issues such as mis-selling, non-disclosure, delays, or unfair practices
- Regulated entities are required to address grievances within prescribed timelines
- IFSCA monitors the resolution process to ensure fairness and efficiency

This mechanism ensures accountability of financial institutions.

### 5. Role of Regulated Entities

Financial institutions and intermediaries operating in IFSCs are required to:

- Establish internal grievance redressal mechanisms

- Appoint dedicated grievance officers
- Maintain records of complaints and resolutions
- Report grievance data to IFSCA

This creates a first level of protection for investors.

## 6. Supervisory and Enforcement Powers of IFSCA

IFSCA has strong supervisory and enforcement powers to protect investors.

These include:

- Conducting inspections and audits
- Issuing directions and corrective measures
- Imposing penalties for non-compliance
- Suspending or canceling registrations in serious cases

Such powers act as deterrents against misconduct.

## 7. Dispute Resolution and Legal Recourse

In addition to grievance redressal:

- Investors may have access to arbitration and dispute resolution mechanisms
- Legal remedies are available under applicable laws and regulations
- IFSCA ensures alignment with international dispute resolution practices

These options strengthen investor confidence in IFSCs.

## 8. Alignment with Global Best Practices

IFSCA's investor protection framework is aligned with:

- International standards of market conduct
- Best practices followed by global financial centres
- Principles of transparency, fairness, and accountability

This alignment enhances the global acceptability of IFSC markets.

Investor protection and grievance redressal are foundational pillars of the IFSC regulatory framework. Through robust regulations, transparent disclosure norms, efficient grievance mechanisms, and strong enforcement powers, IFSCA ensures that investor interests are well protected. A credible and responsive investor protection system not only safeguards investors but also contributes to the sustainable growth and global reputation of IFSCs.

## ENFORCEMENT POWERS AND PENALTIES

The International Financial Services Centres Authority (IFSCA) has strong enforcement powers under the IFSCA Act, 2019, allowing it to investigate, inspect, and take action against non-compliant entities in IFSCs, including issuing directions, warnings, monetary penalties, suspending registrations, and initiating prosecution for violations of relevant acts, ensuring market integrity and investor protection. These powers extend across banking, capital markets, insurance, and other financial services, enabling enforcement actions like license cancellation for serious breaches.

## Key Enforcement Powers

**Investigations & Inspections:** Conducting thorough reviews of regulated entities.

**Issuing Directions:** Issuing mandatory enforcement-related instructions.

**Issuing Warnings/ Advisory/ Deficiency Letters:** Providing formal cautions for non-compliance.

**Adjudications:** Monetary Penalties: Imposing financial fines.

**Enquiry powers:** Suspension/Cancellation of Registration: Revoking an entity's license to operate.

**Prosecution:** Initiating legal proceedings against offenders.

### 1. Legal Basis of Enforcement Powers

The enforcement powers of IFSCA are derived from:

- The International Financial Services Centres Authority Act, 2019, and
- Regulations, circulars, and directions issued by IFSCA.

Under the Act, IFSCA functions as both a regulatory and supervisory authority with the power to take corrective and punitive actions against regulated entities.

### 2. Scope of Enforcement Powers

IFSCA's enforcement powers extend to all financial institutions, intermediaries, and market participants operating in IFSCs, including banking units, capital market intermediaries, insurance entities, pension funds, and FinTech firms.

### 3. Supervisory and Investigative Powers

IFSCA is empowered to:

- Conduct inspections, audits, and examinations of regulated entities
- Call for information, records, and documents
- Carry out investigations into suspected violations
- Appoint officers or agencies to examine compliance issues

These powers help in early detection and prevention of regulatory breaches.

### 4. Corrective and Remedial Measures

Before imposing penalties, IFSCA may adopt corrective measures to ensure compliance.

Such measures include:

- Issuing directions or advisories
- Requiring corrective action plans
- Restricting certain activities temporarily
- Issuing warnings or compliance notices

This approach supports proportionate and fair regulation.

### 5. Penalties and Punitive Actions

In cases of serious or repeated non-compliance, IFSCA may impose penalties.

Key penalties include:

- Monetary penalties and fines
- Suspension or cancellation of registration or license
- Restriction on business operations
- Disqualification of key managerial personnel
- Debarment from accessing IFSC markets

Penalties act as deterrents and promote market discipline.

## 6. Adjudication Process

IFSCA follows a structured and transparent adjudication process:

- Issue of show-cause notices to the concerned entity
- Opportunity to be heard, ensuring principles of natural justice
- Reasoned orders based on facts and regulations
- Communication of decisions to concerned parties

This ensures fairness and accountability in enforcement actions.

## 7. Appeal Mechanism

Entities aggrieved by IFSCA's orders have the right to:

- File appeals before the Appellate Tribunal
- Seek further judicial remedies as provided under law

The availability of an appeal mechanism strengthens confidence in the regulatory process.

## 8. Deterrence and Market Integrity

Strong enforcement powers help:

- Prevent fraud, misrepresentation, and unfair practices
- Ensure compliance with prudential and governance norms
- Protect investor interests
- Maintain trust in IFSC markets

This contributes to the overall stability and credibility of IFSCs.

## 9. Development-Oriented Enforcement

IFSCA adopts a balanced approach to enforcement:

- Encourages voluntary compliance
- Supports regulated entities through guidance and clarification
- Uses penalties as a last resort in serious violations

This approach ensures that enforcement supports growth without being excessively restrictive.

Enforcement powers and penalties form a critical pillar of the IFSC regulatory framework. Through strong supervisory authority, proportionate penalties, and a transparent adjudication process, IFSCA ensures compliance, protects investors, and preserves market integrity. Effective enforcement not only deters misconduct but also supports the long-term, sustainable development of IFSCs as trusted global financial centres.

### LESSON ROUNDUP

- International Financial Services Centres (IFSCs) are special jurisdictions set up to cater to cross-border financial services. India envisaged its own IFSC to retain offshore financial business and attract international capital.
- IFSCA was formally established on 27 April 2020. It became the sole regulator for all financial activities in IFSCs. The headquarters of IFSCA is located at GIFT City, Gandhinagar, Gujarat.
- With the enactment of the IFSCA Act, 2019, the powers of these regulators relating to IFSCs were delegated and transferred to IFSCA, making it a unified regulator. This delegation ensures regulatory consistency, efficiency, and ease of doing business.
- It is the duty of the Authority to develop and regulate the financial products, financial services and financial institutions in the International Financial Services Centres.
- Key business activities in IFSCs include banking, capital markets, insurance, asset management, fintech, leasing, bullion markets etc.
- IFSCA supports sustainable economic growth by creating a globally competitive financial ecosystem while ensuring sound regulation and responsible practices.
- IFSCA actively promotes financial innovation through FinTech regulatory frameworks, Regulatory sandboxes, and support for new-age technologies such as artificial intelligence, and digital finance.
- IFSCA places strong emphasis on prudential norms, governance standards, and risk management practices.
- FinTech (Financial Technology) refers to the use of technology to deliver financial products and services in a faster, more efficient, and innovative manner.
- FinTech and innovation form a cornerstone of the IFSC ecosystem. Through a supportive regulatory framework, sandbox mechanisms, and emphasis on responsible innovation, IFSCA fosters a dynamic and future-ready financial environment.
- Market Infrastructure Institutions (MIIs) in the IFSCs are the core entities like stock exchanges, clearing corporations, and depositories that provide the backbone for listing, trading, clearing, and settlement of securities in the IFSC.
- The IFSCA places investor protection at the core of its regulatory framework, ensuring fairness, transparency, and accountability in IFSCs.

### GLOSSARY

**Appellate Tribunal:** A judicial body where appeals against orders passed by IFSCA can be filed.

**Corporate Governance:** A system of rules, practices, and processes by which a financial institution is directed and controlled.

**Disclosure Norms:** Regulatory requirements mandating transparent and timely disclosure of relevant information to investors.

**Enforcement Powers:** Legal authority granted to IFSCA to take corrective and punitive actions against regulatory violations.

**Environmental, Social, and Governance (ESG):** Criteria used to evaluate sustainability and ethical impact of investments.

**Financial Technology (FinTech):** Use of technology to deliver financial services in innovative and efficient ways.

**Foreign Currency Transactions:** Financial transactions conducted in currencies other than the Indian Rupee.

**GIFT City:** Gujarat International Finance Tec-City, India's first operational IFSC.

**Grievance Redressal Mechanism:** A system for addressing and resolving investor complaints against regulated entities.

**International Financial Services Centre (IFSC):** A designated jurisdiction within India that provides financial services to non-residents and international markets.

**International Financial Services Centres Authority (IFSCA):** The unified regulator responsible for regulating and developing financial services in IFSCs.

**Market Infrastructure Institutions (MIIs):** Institutions such as exchanges, clearing corporations, and depositories that support financial markets.

**Offshore Banking Unit (OBU):** A banking unit in an IFSC that undertakes international banking activities.

**Payment Systems:** Mechanisms that enable transfer of funds between parties.

**Prudential Norms:** Regulatory standards related to capital adequacy, risk management, and financial stability.

**Regulatory Sandbox:** A controlled environment allowing testing of innovative financial products under regulatory supervision.

**Securities:** Financial instruments such as shares, bonds, and derivatives that can be traded in markets.

**Single-Window Regulation:** A regulatory system where one authority oversees multiple financial sectors.

**Sustainable Finance:** Financial activities that support long-term economic growth while considering environmental and social factors.

**Unified Regulator:** A single authority regulating multiple segments of the financial sector.

### TEST YOURSELF

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

#### A. Very Short Answer Questions

1. Name India's first IFSC.
2. When was the IFSCA established?
3. Which Act governs the functioning of IFSCA?
4. Where is the headquarters of IFSCA located?
5. Name any two regulators whose powers were delegated to IFSCA.
6. What is meant by single-window regulation in IFSCs?
7. What is a regulatory sandbox?

**B. Short Answer Questions**

1. Why was there a need for a unified regulator for IFSCs in India?
2. Briefly outline the objectives of the IFSCA Act, 2019?
3. State the key functions of IFSCA?
4. List the major business activities permitted in IFSCs?
5. Explain the role of IFSCA in promoting FinTech and innovation?
6. How does IFSCA ensure investor protection in IFSCs?
7. Mention the enforcement powers available with IFSCA.
8. What is the importance of sustainable finance in IFSCs?

**C. Long Answer Questions**

1. Discuss the chronological journey leading to the establishment of IFSCA?
2. Examine the role of IFSCA in promoting sustainable economic growth?
3. Explain the delegation of powers from RBI, SEBI, IRDAI, and PFRDA to IFSCA?
4. Describe the role of FinTech and innovation in the IFSC ecosystem?
5. Explain the structure and importance of IFSC exchanges, clearing corporations, and depositories?
6. Discuss the investor protection and grievance redressal mechanism in IFSCs?
7. Examine the enforcement powers and penalty framework of IFSCA?

**LIST OF FURTHER READING**

- The International Financial Services Centres Authority Act, 2019 (No. 50 Of 2019)
- [www.ifsc.gov.in](http://www.ifsc.gov.in)

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# Fund Management Services

## Lesson 3

### KEY CONCEPTS

■ Fund Management Entity ■ Accredited Investor ■ Fund of funds scheme ■ Third-Party Fund Management Services ■ Venture Capital Fund ■ Venture Capital Schemes ■ ESG Funds ■ Retail Schemes ■ Non-Retail Schemes ■ Special Situation Funds ■ Special Purpose Vehicle (SPVs) ■ Stewardship Code ■ Securities Transaction Tax

### Learning Objectives

#### To understand:

- The meaning and scope of fund management and its importance in the financial system.
- The regulatory framework of IFSCA governing fund management activities in IFSCs.
- The role, functions, and responsibilities of fund managers and Fund Management Entities (FMEs).
- Different types of investment funds and schemes operating in an IFSC.
- The concept of pooled investments and how funds are structured and managed.
- The importance of risk management, valuation, and diversification in fund management.
- Stewardship Code for Fund Managers and Institutional Investors operating within GIFT City IFSC.
- The importance of investor protection, disclosures, and governance standards.
- The taxation of funds in the IFSC

### Lesson Outline

- Introduction to Fund Management
- Fund Management Entity
- AIFs in IFSC – Types of Schemes
- Valuation for Fund Managers
- Investment Trust in IFSCs
- General Obligations and Responsibilities
- Third-Party Fund Management Services, SPVs and co-investments, ESG Funds at IFSC
- Ethics and Governance in Fund Management
- Taxation of Funds in the IFSC
- Lesson Round-up
- Glossary
- Test Yourself
- List of Further Readings

## INTRODUCTION TO FUND MANAGEMENT

Fund management is an important part of the financial system that helps individuals and institutions invest their money in a planned and professional manner. In simple terms, fund management refers to the process of collecting money from investors and investing it in different financial instruments such as shares, bonds, money market instruments, real estate, or other assets, with the objective of generating returns while managing risk.

Most investors may not have the time, knowledge, or expertise to study financial markets on a daily basis. Fund management solves this problem by allowing professional fund managers to make investment decisions on behalf of investors. These professionals analyze market trends, assess risks, select suitable investment opportunities, and continuously monitor the performance of investments. As a result, investors benefit from expert decision-making and diversification of their investments.

Fund management usually operates through pooled investment vehicles such as mutual funds, alternative investment funds (AIFs), venture capital funds, hedge funds, and investment trusts. In these structures, money from multiple investors is pooled together and invested according to a defined investment objective and strategy. Each investor holds units or shares of the fund in proportion to their investment.

A key feature of fund management is diversification. Instead of investing all money in a single asset, fund managers spread investments across different sectors, companies, or asset classes. This helps reduce risk, as losses in one investment may be offset by gains in another. At the same time, fund managers aim to achieve the best possible returns within the acceptable level of risk.

In an International Financial Services Centre (IFSC), fund management activities are carried out under a well-defined regulatory framework. Fund Management Entities (FMEs) are required to register with the International Financial Services Centres Authority (IFSCA) and comply with specific rules relating to investor protection, disclosure, risk management, and governance. This regulatory oversight ensures transparency, accountability, and confidence among investors.

### Fund Management Entity

A Fund Management Entity (FME) is an entity registered with the International Financial Services Centres Authority (IFSCA) under one of the prescribed categories, namely Authorised FME, Registered FME (Non-Retail), or Registered FME (Retail), for the purpose of carrying out the business of fund management in an International Financial Services Centre (IFSC). FME is governed as per IFSCA (Fund Management) Regulations, 2025.

The registration of a FME with the IFSCA enables the Authority to exercise direct regulatory oversight over the fund manager, in line with best-in-class global regulatory practices. This ensures effective supervision, transparency, and protection of investor interests within the IFSC framework.

Further, registration as FME allows the entity to undertake a wide range of fund management-related activities under a single regulatory approval, thereby providing operational flexibility and ease of doing business. Such activities may include managing alternative investment funds, venture capital funds, retail investment schemes, and other permitted fund management services, subject to the applicable regulatory provisions.

### Registration of Fund Management Entity (FME)

#### 1. Obligation to seek registration

- (1) Any entity desirous to undertake the business of fund management under these regulations must not commence operations in an IFSC unless it has obtained a certificate of registration from the IFSCA as a FME.
- (2) An entity desirous of obtaining a certificate of registration as a FME in IFSC must submit an

application form including the declarations and undertakings, along with documents and application fees as specified by the IFSCA.

- (3) An application which is not complete in all respects will be liable to be rejected.
- (4) The applicant must seek registration under any of the following three categories:
  - a) Authorised FME:
    - i) The FMEs that pool money from accredited investors or investors investing above the specified threshold by way of private placement and invest in start-ups or early-stage ventures through the Venture Capital Scheme.
    - ii) The FMEs set up by a Single Family to manage its Family Investment Fund for investing in financial products, including securities and such other permitted asset classes.
  - b) Registered FME (Non-Retail):
    - i) The FMEs that pool money from accredited investors or investors investing above a specified threshold by way of private placement for investing in financial products, including securities, and such other permitted asset classes through one or more restricted schemes.
    - ii) Such FMEs are also able to undertake Portfolio Management Services (including for multi-family office) and act as investment manager for private placement of Investment Trusts (REITs and InvITs).
    - iii) Such FMEs are also able to undertake all activities as permitted to Authorised FMEs.
  - c) Registered FME (Retail):
    - i) The FMEs that pool money from all investors or a section of investors under one or more schemes for investing in financial products, including securities, and such other permitted asset classes through retail schemes.
    - ii) A Registered FME (Retail) acts as investment manager for public offer of Investment Trusts (REITs and InvITs) and is also able to launch Exchange Traded Funds (ETFs).
    - iii) Further, such FMEs are also able to undertake all activities as permitted to Authorised FMEs and Registered FMEs (Non-retail).

## 2. Legal form of the applicant

- (1) The applicant set up in IFSC in the form of a company or LLP or branch or any other form as permitted by the IFSCA. A Registered FME (Retail) must not be permitted in the form of an LLP or branch. Further, the branch structure is permitted only for a FME which is already registered or regulated by a financial sector regulator in India or a foreign jurisdiction for conducting similar activities.
- (2) A FME operating in a branch structure in an IFSC must comply with the following conditions:
  - a) The parent entity must adequately ring-fence the operations of the branch in IFSC.
  - b) The parent entity must maintain such minimum capital as may be specified by the Authority, which at all times is earmarked for its branch in IFSC and held in the jurisdiction where the parent entity is incorporated.
  - c) Any other requirements as may be specified by the IFSCA.

- (3) The memorandum of association in case of a company, or the LLP agreement in case of a LLP, permits it to carry on the activity of Fund Management.
- (4) A Registered FME (Retail) must have at least four directors, with at least fifty per cent of them to be independent directors and not associated with the FME.

### 3. Track Record and Reputation of Fairness

- (1) The applicant must have a sound track record and a general reputation of fairness and integrity in all its business transactions.
- (2) Sound track record means:
  - a) In case of Registered FME (Retail):
    - i) The FME, its holding company, or their subsidiaries, must have at least five years of experience in collectively managing Assets under Management (AUM) of at least USD 200 million with more than twenty-five thousand investors, or
    - ii) Person(s) in control of the FME holding at least twenty-five per cent shareholding in the FME be carrying on activities related to fund management, including portfolio management, wealth management, distribution of financial products, and investment advisory, for a period not less than five years, collectively for at least one thousand investors on assets of at least USD 50 million, and such FME has a net worth of at least USD 2 Million or such other amount as may be specified. The Authority will specify any other criteria for determining a sound track record to facilitate new generation fintech companies with innovative ideas that may lead to further market development.
  - b) In the case of Registered FME (non-retail) and Authorised FME, their employees must have relevant experience.

### 4. Appointment of Principal Officers and other Key managerial personnel(s) (KMP)

- (1) The applicant must designate a principal officer who will be responsible for the overall activities of the FME, including but not limited to fund management, risk management and compliance.
- (2) In the case of a Registered FME, in addition to the principal officer, one additional KMP must be designated as Compliance Officer, who will be responsible for compliance with the regulations and ensure implementation of risk management policies and practices at the FME.
- (3) In case of Registered FME (Retail), the FME must, in addition to the principal officer and compliance officer, appoint, before filing with the IFSCA the offer document of its first retail scheme or ETF, an additional KMP who must be assigned the responsibility of fund management.
- (4) Any FME that is managing an AUM of at least USD 1 billion, excluding the AUM of fund of funds schemes, as at the close of a financial year, must, in addition to the principal officer and compliance officer, appoint an additional KMP, who will be assigned the responsibility of fund management. The appointment of the additional KMP must be made within 6 months from the end of such financial year. Further, the continuation of the additional KMP is optional if the AUM remains below USD 1 billion for any two subsequent consecutive financial years and there is a reasonable expectation that the AUM will not exceed USD 1 billion in the near term.

Also, that FMEs which are set up by the Government and Government-related investors such as central banks, sovereign wealth funds, international or multilateral organisations or agencies, including entities controlled or at least seventy-five per cent directly or indirectly owned by such

Government and Government related investor wherein such investors are the sole contributors, directly or indirectly, of the schemes launched by such FMEs, the appointment of the additional KMP is not required.

- (5) The applicant must ensure that the principal officer and other KMPs are based out of IFSC and meet the following educational qualifications and experience requirements:

- a) A professional qualification or post-graduate degree or post graduate diploma (minimum one year in duration) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association or a CFA or a FRM from Global Association of Risk Professionals or any other relevant educational qualifications as may be specified by the IFSCA.

If the principal officer has a work experience of at least 15 years in the activities related to fund management, including portfolio management, investment advisory or similar activities, the minimum educational qualification required for such a person is a graduate degree in any field.

- b) In addition to the qualifications mentioned in (a), an experience of at least five years in related activities in the securities market or financial products including in a portfolio manager, fund manager, investment advisor, broker dealer, investment banker, wealth manager, research analyst, credit rating agency, market infrastructure institution, financial sector regulator or consultancy experience in areas related to fund management, such as deal due diligence, transaction advisory or similar activities.

The consultancy experience in areas related to fund management, such as deal due diligence, transaction advisory, etc. must be considered for a maximum period of two years and experience in other areas as mentioned in (b) will be required for at least three years. Further, for the KMP, the experience mentioned in (b) will be required for a minimum period of three years if such a KMP possesses a professional qualification and has experience in compliance or risk management in a listed company or an entity regulated by a financial sector regulator.

The professional qualification includes membership of Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Institute of Cost Accountants of India or any institution equivalent thereto in a foreign jurisdiction, and for KMP also includes Bachelor of Laws (LLB) from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association.

- (6) The employees of FME shall undergo such certification courses from such institutions as may be specified by the IFSCA.
- (7) The proposal on the portfolio composition of a fund shall be initiated by a person who is based in the office of the FME in the IFSC.
- (8) The FME must appoint other personnel commensurate with the size of its operations and activities.
- (9) Any appointment and changes to the KMPs appointed must take place only in the manner specified by the IFSCA.

#### 5. Net worth requirements

- (1) An entity seeking registration as a FME must at all times comply with the net worth requirements as given below:

S. No.	Category	Net Worth
1	Authorised FME	USD 75,000
2	Registered FME (Non-retail)	USD 5,00,000
3	Registered FME (Retail)	USD 1,000,000

or such other amount as may be specified by the IFSCA.

- (2) An entity operating as a branch must at all times comply with the minimum net worth requirements for its activities in IFSC, which must be maintained at the level of the parent entity, and the parent entity must ensure that adequate funds are available for the day-to-day operations of the branch.
- (3) The minimum net worth requirements as stated above must be separate and in addition to the minimum net worth requirements applicable for other activities within or outside IFSC.

#### 6. Fit and proper requirements

- (1) The applicant and its principal officer, directors/ partners/ designated partners, key managerial personnel and controlling shareholders must be fit and proper persons at all times.
- (2) A person will be deemed to be a fit and proper person if:
  - a) such person has a record of fairness and integrity, including but not limited to
    - i) financial integrity
    - ii) good reputation and character
    - iii) honesty
  - b) such person has not incurred any of the following disqualifications –
    - i) the person has been convicted by a court of law for any offence involving moral turpitude or any economic offence or any offence against securities laws
    - ii) a charge sheet has been filed against such person by any Indian enforcement agency in matters concerning economic offences and is pending
    - iii) charges have been framed by a court of law or an equivalent institution in matters concerning economic offences
    - iv) a recovery proceeding has been initiated against the person by a financial regulatory authority and is pending
    - v) an order for winding up has been passed against the person for malfeasance
    - vi) the person has been declared insolvent and not discharged
    - vii) an order restraining, prohibiting or debarring the person from accessing or dealing in financial product(s) or financial service(s), has been passed by any regulatory authority, in any matter concerning securities laws or financial services market and such order is in force
    - viii) any other order against the person, which has a material bearing on the securities market, has been passed by the IFSCA or any other regulatory authority, and a period of three years from the date of the order has not elapsed.

- ix) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force
  - x) the person is not financially sound or has been categorised as a wilful defaulter
  - xi) the person has been declared a fugitive economic offender
  - xii) any other disqualification as may be specified by the IFSCA
- (3) Where any person has been declared as not 'fit and proper person' by an order of a regulatory authority, such a person must not be eligible to apply for any registration until she satisfies the fit and proper criteria.

#### **7. Consideration of Application and Grant of Certificate of Registration**

The IFSCA, on receipt of all information and on being satisfied, grant a Certificate of Registration as FME to the applicant under the appropriate category, subject to the applicant paying the applicable registration fee.

#### **8. Constitution of the Fund / Scheme**

- 1) A FME can launch various schemes as provided under the regulations.
- 2) A FME, prior to the filing of a scheme document with the IFSCA, must appoint fiduciaries as follows:
  - a) Board of Directors in case the scheme is set up in the form of a Company
  - b) Designated Partners in case the scheme is set up in the form of a Limited Liability Partnership
  - c) Trustees (including the Board in case of a Trustee company) in case the scheme is set up in the form of a Trust
- 3) A FME must ensure that all the fiduciaries meet the fit and proper requirements.
- 4) A FME intending to launch retail schemes must take prior approval of the IFSCA for appointing any person as a fiduciary.
- 5) The fiduciaries must comply with the Code of Conduct and obligations as detailed in Part B of Third Schedule of the regulations.

## **ALTERNATIVE INVESTMENT FUND IN IFSC – TYPES OF SCHEMES**

### **Schemes for Fund Management**

#### **Part A: Venture Capital Schemes**

##### **1. Venture Capital Schemes**

Venture Capital Schemes are such schemes that primarily invest in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model or other schemes which invest in such entities and shall also include an Angel Fund.

A Venture Capital Scheme filed with the IFSCA as a "venture capital fund" under Category I Alternative Investment Fund.

A Scheme filed is construed as "venture capital fund" under Category I Alternative Investment Fund as referred under the Income Tax Act, 1961, the Foreign Exchange Management Act, 1999, or any rules, regulations, circulars, notifications, guidelines issued under these Acts or any other relevant statute.

## 2. Filing of Placement Memorandum

- (1) A FME must launch Venture Capital schemes through private placement by filing a placement memorandum with the IFSCA along with the applicable fee.
- (2) The filing of scheme documents for such Venture Capital schemes must be under green channel whereby the schemes filed must be open for subscription by investors immediately upon communication from the IFSCA that the placement memorandum has been taken on record. The IFSCA may, at any stage, offer its comments, which shall suitably be incorporated by the FME in the placement memorandum. For the purpose of the Income Tax Act, 1961, the communication received by the FME from the IFSCA that the placement memorandum has been taken on record, must be construed as a Certificate of Registration.
- (3) The placement memorandum for launch of the Venture Capital scheme will be valid for twelve months from the date of communication from the IFSCA to the FME that the placement memorandum has been taken on record, during which period the FME must declare the first close of the scheme by achieving at least the minimum size of corpus. If a FME fails to achieve the minimum size of corpus, within the specified time period, it will have the one-time option to extend the validity of the placement memorandum for a further period of six months by paying fifty per cent of the fee as applicable for filing of a fresh scheme.
- (4) The FME must ensure that any material changes from the information provided in the placement memorandum are immediately informed to the IFSCA.

## 3. Eligible Investors

- (1) A Venture Capital scheme must not have more than fifty investors.
- (2) Investors investing at least USD 250,000 and Accredited Investors is permitted to invest in such schemes. Where the investors are employees or directors or designated partners of the FME, the minimum value of investment shall be USD 60,000. Further that a FME may accept investments in a Venture Capital scheme from multiple investors acting together as joint investors, wherein each such investor must invest at least the minimum applicable investment amount. Also, the total investments by the following individuals when acting as joint investors must be at least USD 250,000:
  - i) An investor and his/her spouse
  - ii) An investor and his/her parent
  - iii) An investor and his/her daughter/son

The minimum investment threshold specified above will not apply to an Accredited Investor. A Registered FME intending to launch Venture Capital Schemes to target more than fifty investors or pool money from investors investing with a lower application size of USD 150,000 will be able to do so under restricted schemes.

## 4. Nature and structure of Scheme

- (1) A Venture Capital scheme must only be a close-ended scheme.
- (2) The amount to be raised under a Venture Capital scheme and the tenure of the scheme, which must not be less than three years, must be disclosed in the placement memorandum.
- (3) The tenure of a close-ended scheme can be extended up to two years, subject to approval of two-thirds (2/3rd) of the investors by the value of their investment in the Venture Capital scheme.

- (4) Further extension to the tenure of a Venture Capital scheme beyond the two-year period shall be subject to the express consent of the willing investors and an exit opportunity being made available to the dissenting investors.
- (5) A Venture Capital scheme must be constituted in IFSC as a Company or LLP, or Trust under the applicable laws of India.

#### **5. Permissible investments**

- (1) A Venture Capital scheme may invest only in the following instruments or entities in IFSC, India or foreign jurisdiction:
  - a) Unlisted securities
  - b) Securities listed or to be listed or traded on stock exchanges
  - c) Money market instruments
  - d) Debt securities
  - e) Securitised debt instruments, which are either asset-backed or mortgage-backed securities
  - f) Units of other Venture Capital schemes subject to appropriate disclosure in the placement memorandum
  - g) Units of retail schemes and restricted schemes or alternative investment funds subject to appropriate disclosure in the placement memorandum
  - h) Limited liability partnerships
  - i) Such other securities or financial products/ assets or instruments as specified by the IFSCA. For pending deployment of monies, FME may invest in certificates of deposit, units of investment schemes such as overnight, liquid or money market schemes, money market instruments, bank deposits or any other securities or financial assets or instruments as may be specified by the IFSCA.
- (2) Any investment made must be in accordance with the provisions of the regulations, the investment objective of the Venture Capital scheme and disclosures made in the placement memorandum.

#### **6. Restrictions on Investment and Corpus of the Scheme**

- (1) In case of Venture Capital schemes, the minimum size of the corpus must be USD 3 Million, and the total corpus must not exceed USD 200 Million.
- (2) Venture Capital scheme can invest in its associate, subject to the prior approval of seventy-five per cent investors in the scheme by value.
- (3) Venture Capital schemes must invest at least 80 per cent of the corpus in Investee Companies where not more than ten years have elapsed since the incorporation of such companies, or other schemes which meet such requirement.
- (4) Venture Capital schemes must not buy or sell securities from associates, other schemes of the FME or its associates, or an investor who has committed to invest at least fifty per cent of the corpus of the scheme, unless prior approval has been obtained from seventy-five per cent investors in the scheme by value. The voting process must exclude such investor(s) who has committed to invest at least fifty per cent of the corpus of the scheme and is buying or selling the securities, from or to the scheme.

Further, such approval from investors will not be required for a fund of funds scheme which has disclosed

in its placement memorandum the details of the underlying scheme(s) wherein the investments are intended to be made and the nature of association, if any, that the FME has with the manager(s) of such underlying scheme(s).

## 7. Disclosures to investors

- (1) The placement memorandum for Venture Capital schemes must clearly include disclosures regarding the investment objective, the targeted investors, proposed corpus, investment style or strategy, investment methodology, proposed tenure of the scheme, fees and expenses, risk management practices, KMPs of the FME and other relevant details of the FME and the scheme.
- (2) The FME must ensure that the Net Asset Value (NAV) is disclosed to the investors at least on a yearly basis within such time period as disclosed in the placement memorandum of the scheme.
- (3) The FME must ensure that the portfolio under the scheme is disclosed to the investors at least on a yearly basis and not later than one month of the end of each financial year.
- (4) Any other material disclosure, as considered suitable by the FME or the fiduciaries, must be informed to the investors immediately.
- (5) The FME and fiduciaries must comply with the disclosure requirements as may be specified by the IFSCA.

## Part B: Restricted Schemes (Non-Retail Schemes)

### 1. Restricted Schemes (Non-Retail Schemes)

- (1) Restricted Schemes are schemes that may be launched by Registered FMEs for various investment strategies, such as:
  - a) investing in start-up, early-stage ventures, social ventures, SMEs, infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable, including venture capital funds, SME Funds, social venture/ impact funds, infrastructure funds, ESG Funds, Special Situation funds and such other Schemes/Funds as may be specified by the IFSCA and must be filed before the IFSCA as Category I Alternative Investment Fund.

A Scheme filed can be construed as Category I Alternative Investment Fund as referred under the Income Tax Act, 1961, the Foreign Exchange Management Act, 1999, or any rules, regulations, circulars, notifications, guidelines, etc. issued under these Acts or any other relevant statute. Venture capital funds may not be required to comply with conditions specified for Venture Capital schemes.

- b) investment for undertaking diverse or complex trading strategies, including investment in listed or unlisted derivatives and must be filed before the Authority as Category III Alternative Investment Fund.

A Scheme filed can be construed as a Category III Alternative Investment Fund as referred under the Income Tax Act, 1961, the Foreign Exchange Management Act, 1999, or any rules, regulations, circulars, notifications, guidelines, etc. issued under these Acts or any other relevant statute.

- c) investment which does not fall under (a) and (b), must be filed before the IFSCA as a Category II Alternative Investment Fund.

The Scheme can be construed as a Category II Alternative Investment Fund as referred under

the Income Tax Act, 1961, the Foreign Exchange Management Act, 1999, or any rules, regulations, circulars, notifications, guidelines, etc. issued under these Acts or any other relevant statute.

- (2) The schemes covered under (a) and (c) must file before the IFSCA as a close-ended scheme, and those covered under (b) must file before the IFSCA either as a close-ended scheme or an open-ended scheme.

## 2. Eligible FMEs and Filing of Placement Memorandum

- (1) A Registered FME can launch restricted schemes through private placement by filing the placement memorandum with the IFSCA along with the applicable fees.
- (2) The filing of scheme documents for restricted schemes must be under the green channel, whereby the schemes filed must be open for subscription by investors immediately upon communication from the IFSCA that the placement memorandum has been taken on record. The Authority may, at any stage, offer its comments, which must suitably be incorporated by the FME in the placement memorandum. For the purpose of the Income Tax Act, 1961, the communication received by the FME from the IFSCA that the placement memorandum has been taken on record can be construed as a Certificate of Registration.
- (3) The placement memorandum for the launch of the restricted scheme will be valid for twelve months from the date of communication from the IFSCA to the Registered FME that the placement memorandum has been taken on record, during which period the FME has declared the first close of the scheme by achieving at least the minimum size of corpus. If a FME fails to achieve the minimum size of corpus, within the specified time period, it will have the one-time option to extend the validity of the placement memorandum for a further period of six months by paying 50 per cent of the fee as applicable for filing of a fresh scheme.
- (4) The FME must ensure that any material changes from the information provided in the placement memorandum must be immediately informed to the IFSCA.

## 3. Eligible Investors

- (1) Restricted schemes must not have more than one thousand investors or such number as may be specified by the IFSCA.
- (2) Investors investing at least USD 150,000 and Accredited Investors can invest in such schemes. In case of investors who are employees or directors, or designated partners of the FME, the minimum value of investment shall be USD 40,000. Further, a FME can accept investments in a Restricted scheme from multiple investors acting together as joint investors, wherein each such investor must invest at least the minimum applicable investment amount.

Also, the following individuals, not more than two, when act as joint investors, the total investment by such individuals must be at least USD 150,000:

- (i) An investor and his/her spouse
- (ii) An investor and his/her parent
- (iii) An investor and his/her daughter/son

The minimum investment threshold will not apply to an accredited investor.

## 4. Nature and Structure of Scheme

- (1) Restricted schemes may be launched as open-ended or close-ended schemes.
- (2) In case of a close-ended restricted scheme, the amount to be raised and the tenure of the scheme, which will not be less than one year, must be disclosed in the placement memorandum.

- (3) The tenure of the close-ended restricted schemes can be extended up to two years, subject to the approval of two-thirds of the investors by the value of their investment in the restricted scheme.
- (4) Further extension to the tenure of a close-ended restricted scheme beyond the two year period shall be subject to express consent of the willing investors and exit opportunity being made available to the dissenting investors.
- (5) Restricted schemes shall be constituted in IFSC as Company or LLP or Trust under the applicable laws of India.

## 5. Permissible investments

- (1) Subject to other provisions of these regulations, a restricted scheme may invest only in the following instruments or entities in IFSC, India or foreign jurisdiction:
  - a) Unlisted securities
  - b) Securities listed or to be listed or traded on stock exchanges
  - c) Money market instruments
  - d) Debt securities
  - e) Securitised debt instruments, which are either asset backed or mortgage-backed securities
  - f) Units of other investment schemes subject to appropriate disclosure in the placement memorandum
  - g) Derivatives including commodity derivatives subject to suitable disclosures in the placement memorandum
  - h) Limited liability partnerships
  - i) Such other securities or financial products/assets or instruments as specified by the IFSCA.

In case of pending deployment of monies, FME can invest in certificates of deposit, units of investment schemes such as overnight, liquid or money market schemes, money market instruments, bank deposits or any other securities or financial assets or instruments as may be specified by the IFSCA.

- (2) Any investment made must be in accordance with the provisions of the regulations, the investment objective of the restricted scheme and disclosures made in the placement memorandum.
- (3) In addition to the above, a close-ended scheme can invest up to twenty per cent of the corpus in physical assets such as real estate, bullion, art or any other physical asset as may be specified by the IFSCA.

## 6. Restrictions on Investment and Corpus of the Scheme

- (1) In case of an open-ended scheme, the maximum investment in unlisted securities must not exceed twenty-five per cent of the corpus of the scheme. In case of an open-ended fund of funds scheme, this requirement will not be applicable if such a scheme is investing in other open-ended scheme(s) which will not have investment in unlisted securities in excess of twenty-five per cent of their corpus.
- (2) The minimum size of the corpus of the restricted schemes must be USD 3 Million. An open-ended scheme can commence investment activities upon raising at least USD 1 Million in funds and shall achieve the minimum corpus of USD 3 Million within twelve months from the date of communication from the IFSCA that the placement memorandum of the scheme has been taken on record.

- (3) Restricted schemes can invest in its associate, subject to the prior approval of seventy-five per cent investors in the scheme by value.
- (4) Restricted schemes must not buy or sell securities from associates, other schemes of the FME or its associates, or an investor who has committed to invest at least fifty per cent of the corpus of the scheme, unless prior approval has been obtained from seventy-five per cent investors in the scheme by value. The voting process must exclude such investor(s) who have committed to invest at least fifty per cent of the corpus of the scheme and is buying or selling the securities, from or to, the scheme. Further, such approval from investors may not be required for a fund of funds scheme which has disclosed in its placement memorandum the details of the underlying scheme(s) wherein the investments are intended to be made and the nature of association, if any, that the FME has with the manager(s) of such underlying scheme(s).
- (5) A Restricted scheme filed with the Authority as a Category I AIF, Category II AIF or Category III AIF must invest in accordance with such additional conditions as may be specified by the IFSCA.

## 7. Disclosures to investors

- (1) The placement memorandum for restricted schemes must clearly include disclosures regarding the investment objective, the targeted investors, proposed corpus, investment style or strategy, investment methodology, proposed tenure of the scheme, proposed fees and expenses, risk management practices, KMPs of the FME and other relevant details of the FME and the scheme.
- (2) Any material deviation or alteration to the fund strategy should be made with the consent of at least two-thirds of investors by value.
- (3) The FME must ensure that the NAV is disclosed to the investors at least on a monthly basis in case of an open-ended scheme and half-yearly in case of a close-ended scheme within such time period as disclosed in the placement memorandum.
- (4) The FME must ensure that the portfolio under the scheme is disclosed to the investors at least on a quarterly basis within one month from the end of the quarter.
- (5) Any other material disclosure as considered suitable by the FME or the fiduciaries must be informed to the investors immediately.
- (6) The FME and the fiduciaries must comply with the disclosure requirements as may be specified by the IFSCA.

## Part C: Retail Schemes

### 1. Retail Schemes

Retail Schemes are schemes that can be launched by Registered FMEs (Retail) for pooling money from all investors or a section of investors through an offer document for investment as per its stated investment objective in various permissible investments.

### 2. Eligible FMEs and Filing of Offer Document

- (1) No scheme must be launched unless a draft offer document is filed with the IFSCA along with the applicable fees at least twenty-one working days before the launch of the scheme.
- (2) The validity of the offer document for the launch of the scheme shall be twelve months from the date of communication from the IFSCA to the FME that the offer document has been taken on record. For the purpose of the Income Tax Act, 1961, the communication received by the FME from the IFSCA that the offer document has been taken on record can be construed as a Certificate of Registration.

- (3) The FME must ensure that the comments of the IFSCA are incorporated in the offer document prior to launch of the scheme.
- (4) The FME must ensure that any material changes from the information disclosed in the draft offer document are informed to the IFSCA immediately.
- (5) No retail scheme can be filed with the IFSCA unless it has been approved by the fiduciaries.

### **3. Minimum number of Investors**

Retail schemes shall have at least twenty investors, with no single investor investing more than twenty-five per cent in a scheme and shall ensure compliance with this requirement within a maximum period of six months from the closure of the offer.

### **4. Nature and Structure of Scheme**

- (1) Retail schemes can be open-ended or close-ended.
- (2) The tenure of a close-ended scheme, which cannot be less than three years, must be disclosed in the offer document.
- (3) The tenure of the close-ended scheme can be extended up to two years, subject to the approval of two-thirds of the investors by value of their investment in the scheme and the approval of the IFSCA.
- (4) Retail schemes must be constituted in IFSC as a Company or Trust under the applicable laws of India.
- (5) Retail schemes can be launched for various investment strategies including for investment in Social Ventures, Infrastructure, towards ESG objectives, specific sectors (sectoral schemes), certain themes such as infrastructure (thematic schemes), certain asset class (equity schemes, debt schemes, etc.) or a combination thereof or towards certain solution (retirement schemes, schemes for children education, etc.) subject to such terms and conditions as may be specified by the IFSCA.

### **5. Permissible investments**

- (1) A retail scheme can invest only in the following instruments or entities in IFSC, India or foreign jurisdictions:
  - a) Securities listed or to be listed or traded on stock exchanges
  - b) Unlisted securities
  - c) Money market instruments
  - d) Debt securities
  - e) Securitised debt instruments, which are either asset-backed or mortgage-backed securities
  - f) Units of other investment schemes subject to appropriate disclosure in the offer documents
  - g) Derivatives, including commodity derivatives, only for the purpose of hedging, subject to suitable disclosures in the offer document
  - h) Such other securities or financial products/ assets or instruments as specified by the IFSCA

In case of pending deployment of monies, FME can invest in certificates of deposit, units of investment schemes such as overnight, liquid or money market schemes, money market

instruments, bank deposits or any other securities or financial assets or instruments as may be specified by the IFSCA.

- (2) Any investment made in accordance with the provisions of the regulations, the investment objective of the retail scheme and disclosures in the offer document.

#### **6. Restrictions on Investment and AUM of the Scheme**

- (1) In case of an open-ended scheme, the maximum investment in unlisted securities must not exceed fifteen per cent of the total AUM of the scheme. This restriction will not be applicable in case of investment in unlisted securities issued by an investment fund which is open-ended in nature, regulated by the concerned regulatory authority in its home jurisdiction, and is permitted for offering to retail investors in its home jurisdiction.
- (2) The minimum amount of investment by an investor in the case of close-ended schemes investing more than fifteen per cent in unlisted securities, must be USD 10,000. A close-ended scheme must not invest more than fifty per cent in unlisted securities. Further, the minimum amount of investment of USD 10,000 and the cap of fifty per cent cannot be applicable in case of investment by a close-ended retail scheme in unlisted securities issued by an investment fund which is regulated by the concerned regulatory authority in its home jurisdiction, and is permitted for offering to retail investors in its home jurisdiction.
- (3) A Retail scheme must not invest more than ten per cent of its AUM in securities of a single company. A retail scheme can invest up to fifteen per cent in a single company with the prior approval of the fiduciaries. Further the limit on investment in single company in case of sectoral or thematic or Index schemes will be the weightage of that company in the representative index, provided by an independent entity, that such scheme intends to benchmark with, or 15%, whichever is higher.

Also, the fund of funds schemes can be permitted to invest in other scheme(s) if such scheme(s) meets the requirement under this regulation.

- (4) Retail schemes must not invest more than twenty-five per cent of its AUM in a single sector. In the case of the financial services sector, the amount shall not exceed fifty per cent of the AUM of the scheme. Further, the limit on sectoral caps cannot apply in case of a sectoral or thematic or an Index Scheme.

Also, in case of a fund of funds scheme, the limit on sectoral cap will not be applicable if such scheme is investing in other scheme(s) which does not have investment in a single sector in excess of 25% of their AUM, or 50% of their AUM in case of financial services sector or when such scheme(s) are sectoral or thematic or index scheme(s).

- (5) A Retail scheme must not invest more than twenty-five per cent of the AUM in its associate. This restriction will not be applicable in case of fund of funds schemes which have made disclosure in the offer document regarding the details of the underlying scheme(s) wherein the investments are intended to be made and the nature of association, if any, that the FME has with the manager(s) of the underlying scheme(s).
- (6) The minimum size of the retail schemes must be USD 3 Million. An open-ended scheme can commence its investment activities upon receiving at least USD 1 Million from investors, and it must receive at least USD 3 Million from investors within 12 months from the date of communication from the IFSCA that the offer document has been taken on record.

Further, if a FME fails to achieve the minimum investment within the specified time, it can have a

one-time option to extend the validity of the offer document for a further period of six months by paying 50 per cent of the fee as applicable for filing of a fresh scheme.

## 7. Disclosures to Investors

- (1) The offer document for retail schemes must clearly include all disclosures which are material for investors to make a decision regarding investing in such schemes.
- (2) The disclosures in the offer document must include disclosures regarding the investment objective, the targeted investors, proposed size, investment style or strategy, investment methodology, proposed tenure of the scheme fees and expenses, risk management practices, KMPs of the FME and other relevant details of the FME and the scheme.
- (3) Any material deviation or alteration to the fund strategy must be made with the consent of at least two-thirds of investors by value.
- (4) The FME must ensure that the NAV is disclosed to the investors on a daily basis in case of an open-ended scheme and on weekly basis in case of a close-ended scheme.
- (5) The FME must ensure that the portfolio under the scheme is disclosed to the investors at least on a quarterly basis within one month from the end of the quarter.
- (6) Any other material disclosure as considered suitable by the FME or the fiduciaries must be informed to the investors immediately.
- (7) The FME and the fiduciaries must comply with the disclosure requirements as specified above or as may be specified by the IFSCA.

## Part D: Special Situation Funds

**A Registered FME may launch a special situation fund in accordance with the provisions.**

### 1. Eligible FMEs and Filing of Placement Memorandum

- 1) A Registered FME can launch a special situation fund through a private placement memorandum by filing the memorandum with the IFSCA along with the applicable fees in the manner as specified by the IFSCA.
- 2) The filing of scheme documents for restricted schemes must be under a green channel whereby the schemes filed shall be open for subscription by investors immediately upon communication from the IFSCA to the FME that the placement memorandum has been taken on record. The IFSCA, at any stage, offers its comments which must suitably be incorporated by the FME in the placement memorandum.

For the purpose of the Income Tax Act, 1961, the communication received by the FME from the IFSCA that the placement memorandum has been taken on record, shall be construed as Certificate of Registration.

- 3) The validity of the placement memorandum for launch of the scheme shall be twelve months from the date of communication from the IFSCA, that the placement memorandum has been taken on record, during which period the FME shall declare the first close of the scheme by achieving at least the minimum size of corpus. If a FME fails to achieve the minimum size of corpus within the specified time, it must have the one-time option to extend the validity of the placement memorandum for a further period of six months by paying 50 per cent of the fee as applicable for filing of a fresh scheme.
- 4) The FME must ensure that any material changes in the placement memorandum are informed to the IFSCA immediately.

## 2. Nature and Structure of Scheme

- 1) A special situation fund must only be a close-ended fund.
- 2) The tenure of a special situation fund, which must not be less than three years, must be disclosed in the placement memorandum.
- 3) The tenure of a special situation fund may be extended up to two years, subject to approval of two-thirds of the investors by value of their investment in the scheme.
- 4) Further extension to the tenure of a special situation fund beyond the two-year period must be subject to express consent of the willing investors and exit opportunity being made available to the dissenting investors.
- 5) A special situation fund must be constituted in IFSC as a company, or LLP or Trust or any other form as may be permitted by the IFSCA under the applicable laws of India.

## 3. Permissible Investments

A special situation fund must invest only in special situation assets.

## 4. Scheme corpus, eligible investors, investment conditions

- 1) A special situation fund must have the minimum corpus as may be specified by the IFSCA.
- 2) A special situation fund must accept such eligible investors as may be specified by the IFSCA.
- 3) A special situation fund must comply with such additional investment conditions as may be specified by the IFSCA.

## VALUATION FOR FUND MANAGERS

- 1) The FME and fiduciaries must ensure compliance of investment valuation norms, as specified in the Sixth Schedule of the regulations.
- 2) In line with the investment valuation norms, the assets of the scheme must be valued by an independent service provider, such as a fund administrator, a custodian, a credit rating agency registered with the IFSCA, or a valuer registered with Insolvency and Bankruptcy Board of India, or such other person as may be specified by the IFSCA. This requirement must not apply in case of a fund of funds scheme that invests in scheme(s) regulated by a financial sector regulator, directly or through a manager, in IFSC, India or foreign jurisdiction(s), which are valued by any independent entity.

## INVESTMENT TRUST IN IFSCs

The following are the provisions relating to the Investment Trust:

1. Any person from IFSC or India or a foreign jurisdiction, desirous to operate an Investment Trust in the IFSCs must obtain registration with the IFSCA.
2. An Investment Trust is permitted to raise funds through:
  - a) Public issue with units listed on a recognised stock exchange
  - b) Private placement with units listed on a recognised stock exchange
  - c) Private placement whose units are not proposed to be listed on any recognised stock exchange.

3. The recognised stock exchange(s) must specify the detailed framework which must *inter-alia*, include initial disclosure requirements in the offer document, continuous obligations and disclosure requirements, trading, clearing and settlement for Investment Trust whose units are listed or proposed to be listed on a recognised stock exchange(s).
4. The Investment Trust must comply with the requirements specified by the recognised stock exchange(s).

1. Registration

- 1) An application for the grant of certificate of registration as Investment Trust must be made, by the sponsor on behalf of the trust to the IFSCA in the format specified by the recognised stock exchange(s) or the IFSCA and must be accompanied by a non-refundable fee as may be specified by the IFSCA.
- 2) The IFSCA, in order to protect the interests of investors, appoint any person to take charge of records, documents of the Investment Trust and for this purpose, also determine the terms and conditions of such an appointment.
- 3) The IFSCA must require the applicant to furnish any such information or clarification as may be required by it for the purpose of processing the application.
- 4) The IFSCA, if it so desires, must require the applicant or any authorized representative to appear before the IFSCA for personal representation in connection with the grant of certificate of registration.
- 5) The IFSCA, on receipt of all information and on being satisfied, may grant Certificate of Registration as an Investment Trust, subject to the applicant paying the applicable fee.

2. Trust

The following are the eligibility conditions for the Investment Trust:

- a) The trust must be created under the laws of India (IFSC or outside IFSC) or foreign jurisdiction
- b) The trust deed has its main objective as undertaking activity of Investment Trust (REIT or InvIT) and includes responsibilities of the Trustee in accordance with the requirements specified in the regulations
- c) persons have been designated as sponsor(s), investment manager and trustee and all such persons are separate entities.

3. Sponsor

The following are the eligibility conditions for a sponsor of an Investment Trust:

- a) Each sponsor must hold or propose to hold not less than five per cent of the number of units of the Investment Trust on post-initial offer basis. In case the holding goes below five per cent, the sponsor must comply with the requirement within a time period of one year from the date of such decline.
- b) Each sponsor must maintain net worth not less than USD 15 million if it is a body corporate or a company, or net tangible assets of value not less than USD 15 million in case it is a limited liability partnership. In case of REIT, each sponsor must maintain a net worth of not less than USD 3 million and the sponsor(s), on a collective basis, must maintain a net worth of not less than USD 15 million.
- c) The sponsor(s) or its associate(s) must have a sound track record in development of real estate or infrastructure or fund management in the infrastructure / real estate sector.

Here, 'sound track record' means relevant experience of at least five (5) years, and where the sponsor is a developer, at least two projects of the sponsor have been completed.

## 4. Investment Manager

- 1) In case of private placement, any Registered FME will be eligible to be appointed as Investment Manager.
- 2) In case of public issues, only a Registered FME (Retail) will be eligible to be appointed as an Investment Manager.

## 5. Trustee

The following are the eligibility conditions for a trustee of an Investment Trust:

- a) The entity must be authorised/ registered as a trustee with the IFSCA or any other securities market regulator and must not be an associate of the sponsor(s) or investment manager
- b) The trustee has necessary wherewithal with respect to infrastructure, personnel, etc. to the satisfaction of the IFSCA and the recognised stock exchange(s).

## 6. Offer of units of Investment Trust

- 1) No initial offer of units by an Investment Trust shall be made unless–
  - a) the Investment Trust is registered with the IFSCA
  - b) the value of assets of Investment Trust is not less than USD 75 million
  - c) the offer size is not less than USD 35 million
- 2) The minimum offer and allotment of units, to public through an offer document or placement memorandum in respect of Investment Trust, proposed to be listed on a recognised stock exchange must be as per the below table:

Post Issue Capital	Minimum no./ value of units to be offered
Less than USD 240 million	At least twenty-five per cent of the total outstanding units of the Investment Trust
USD 240 million or more but less than USD 600 million	At least USD 60 million
Equal to or more than USD 600 million	At least ten per cent of the total outstanding units of the Investment Trust

The units offered to sponsor or the investment manager or the project manager or their related parties or their associates shall not be counted towards units offered to the public.

## 7. Private Placement with listing

- 1) The fund raising by an Investment Trust by way of private placement whose units are proposed to be listed on the recognised stock exchange(s) must subject to compliance with the following:
  - a) The Investment Trust must obtain in-principle approval from the recognised stock exchange(s). The in-principle approval must be valid for a period not greater than six months from the date of its receipt from the recognised stock exchange.
  - b) The Investment Trust, through the Investment Manager or Investment Banker, must file a placement memorandum with the IFSCA along with the applicable fee at least five working days prior to opening of the issue.

Such opening of the issue must not be at a date later than six months from the receipt of in-principle approval for listing, from recognised stock exchange(s).

- c) The Investment Trust must raise funds from accredited investor or from investors investing at least USD 150,000.

If a privately placed Investment Trust invests or proposes to invest less than eighty per cent of the value of the assets of Investment Trust in completed and revenue generating assets, the minimum investment from each investor shall be USD 1 million.

- d) The Investment Trust must raise funds from at least two and not more than one thousand investors.
- e) The Investment Trust, through the Investment Manager, must file the final placement memorandum with the IFSCA within a period of ten working days from the date of listing of the units.

#### 8. Private Placement without listing

The fund raising by an Investment Trust by way of private placement, whose units are not proposed to be listed on the recognised stock exchange(s), must be subject to compliance with the following:

- 1) The Investment Trust must file a draft placement memorandum with the IFSCA in the manner as specified by the IFSCA, along with the applicable fee, at least five working days prior to opening of the issue.

Such opening of the issue must not be at a date later than three months from the date of communication from the IFSCA that the placement memorandum has been taken on record.

- 2) The Investment Trust must raise funds from investors investing at least USD 250,000 or accredited investors.
- 3) The Investment Trust must raise funds from not more than fifty investors.
- 4) The Investment Trust must file the final placement memorandum with the IFSCA within a period of ten working days from the date of allotment of the units to the investors.

#### 9. Surrender of certificate by an Investment Trust whose units are not listed

- 1) An Investment Trust whose units are not listed on a recognised stock exchange can choose to surrender its certificate of registration to the IFSCA and on acceptance of surrender of certificate of registration, it shall no longer undertake the activity of an Investment Trust.
- 2) The Investment Trust and parties to the Investment Trust can continue to be liable for all their acts of omissions and commissions with respect to activities of the Investment Trust notwithstanding surrender of registration to the IFSCA.

## GENERAL OBLIGATIONS AND RESPONSIBILITIES

### 1. Code of Conduct

Every FME, fiduciaries, KMPs (including Principal officer, Fund Managers and Designated Compliance Officer) must abide by the Code of Conduct specified in Third Schedule.

### 2. Maintenance of books of accounts, records and other documents

- 1) Every FME must keep and maintain proper books of account, records and documents for each scheme so as to explain its transactions and to disclose at any point of time the financial position

of each scheme and in particular, give a true and fair view of the state of affairs of the scheme, and intimate to the IFSCA the place where such books of account, records and documents are maintained.

- 2) Every FME must maintain and preserve at least the following books of accounts, records and documents, in electronic retrieval form for a minimum of eight years, namely:
  - a) a copy of the balance sheet at the end of each accounting period
  - b) a copy of profit and loss account for each accounting period
  - c) a copy of the auditor's report on the accounts for each accounting period
  - d) a statement of net worth for each quarter
  - e) documents relating to compliance with AML and CFT guidelines
  - f) documents relating to account opening of each client and any power of attorney or signature authority forms of the clients
  - g) relevant records and documents relating to its activities under these regulations
  - h) such other books of accounts, records and documents as may be specified by the IFSCA from time to time.
- 3) The FME must be required to maintain following records, in electronic retrieval form for a minimum of five years after the winding up of the scheme, namely:
  - a) the assets under each scheme
  - b) valuation policies and practices
  - c) investment strategies
  - d) particulars of investors and their contribution
  - e) rationale for investments made

### **3. Information to the Authority**

- 1) The FME, fiduciaries or any person involved in the activities as detailed in the regulations must accurately and timely furnish such reports, returns, statements and particulars, in such manner, interval and form, as may be specified by the IFSCA from time to time.
- 2) The Authority can call for any information, documents or records from FME and entities engaged by FME for any related functions on activities detailed under the regulations.
- 3) Where any information is called for under (2) the FME must furnish accurately within the time specified by the IFSCA.

### **4. Business Continuity Plan**

- 1) A registered FME must maintain a business continuity plan identifying procedures relating to an emergency or significant business disruption.
- 2) A registered FME must update its business continuity plan in the event of any material change in its operations, structure, business, or location.
- 3) A registered FME must conduct an annual review of its business continuity plan.

## 5. Cyber Security and Cyber Resilience

A registered FME must have robust cyber security and cyber resilience framework in accordance with the requirements as may be specified by the IFSCA from time to time.

## 6. Risk Management and Internal Controls

- 1) A FME must have a sound risk management system for comprehensively managing all risks.
- 2) A FME must have adequate internal procedures and controls, given the types of business in which it engages, including any activities which have been outsourced, with the aim of protecting the interests of clients/investors and their assets and ensuring proper management of risk.

## 7. Guaranteed returns

No guaranteed return shall be offered in a scheme or under an agreement for PMS,

- a) unless such returns are fully guaranteed by the FME
- b) unless a statement indicating the guarantee including details thereof is made in the offer document/ agreement
- c) the manner in which the guarantee is to be met has been stated in the offer document/ agreement

## 8. Change in control

- 1) A FME shall seek prior approval of the IFSCA in case of any direct or indirect change in control of the FME.

Where a FME operating in the form of branch is required to take prior approval from its sectoral regulator in its principal place of operation, it must only inform such change to the IFSCA, within fifteen days thereof.

- 2) The IFSCA can consider such request for change in control subject to such conditions.

## 9. Payment of Fees

A FME must pay the fees pertaining to annual fees, scheme filing fee or any other fees as may be specified by the IFSCA from time to time.

## 10. Advertisements

Advertisements issued by FME, must be in conformity with the Advertisement Code as specified in the Fifth Schedule of the regulations.

## 11. Fees and Expenses of the Schemes.

- 1) All fees and expenses must be clearly identified and appropriated separately for each scheme.
- 2) The FME must ensure suitable disclosure in the offer document / placement memorandum regarding the maximum fees and expenses that it may charge and each expense item must be disclosed separately as a specific line item in the offer document / placement memorandum.

## 12. Appointment of Investment Committee

- 1) The FME may, at its discretion, constitute an Investment Committee to make investment decisions for the schemes.
- 2) All responsibilities casted upon the FME and Fund Managers under these regulations, to the extent applicable, shall also be complied with by the members of such Investment Committee.

**13. Merger, demerger or restructuring of schemes**

Merger, demerger and restructuring of the scheme(s) must be in accordance with the conditions as may be specified by the IFSCA and with the prior approval by the IFSCA.

**14. Winding up of the Scheme**

- 1) A scheme of the FME must be wound up:
  - a) When the tenure of the scheme, as mentioned in the placement memorandum / offer document, is over
  - b) If seventy-five per cent of the investors, by value of their investment in the scheme, pass a resolution at a meeting of investors that the scheme be wound up.
- 2) The Authority, in the interest of investors and for orderly development of the financial market, may direct a FME to:
  - a) wind up a scheme, subject to such conditions as deemed appropriate
  - b) merge certain schemes
  - c) manage schemes of other FMEs

**15. Appointment of Custodian**

The FME must appoint an independent custodian to provide the custodial services for the following schemes:

- a) Retail schemes
- b) Open ended restricted schemes
- c) All other schemes managing AUM above USD 70 Million

The requirement of appointment of custodian must not be mandatory for fund of funds schemes where the underlying scheme(s) have appointed independent custodian(s).

The Custodian appointed must be based in IFSC, unless the local laws of the jurisdiction where the securities have been issued mandate appointment of a custodian in that jurisdiction, in which case, the FME can appoint a custodian based in that jurisdiction regulated by the financial sector regulator in that jurisdiction for such securities and make necessary arrangement to provide such information to IFSCA whenever directed to do so.

In case of schemes which are required to appoint custodian in IFSC in terms of the abovementioned provision, if any agreement has been entered into with a custodian which is not based in IFSC as on the date of notification of these regulations, such schemes must be required to appoint custodian in IFSC within twelve months from the date of notification of the regulations.

**16. Redemption of Close ended scheme**

A close-ended scheme, unless its tenure is extended as specified under the regulations, must be fully redeemed at the end of maturity period.

**17. Scheme Annual Report**

- 1) FME must prepare an annual report of accounts of the schemes and abridged summary thereof, in respect of each financial year and must submit the same to the Authority not later than four months from the end of financial year.
- 2) The annual report and abridged summary must contain details that are necessary for the purpose of providing a true and fair view of the operations of the scheme.

- 3) An abridged summary of the annual report of the scheme must be shared with the investors within four months from the end of the financial year.

If an investor seeks the full annual report, the FME must provide the same within fifteen days from the date of the receipt of such request.

#### **18. Auditor's report**

- 1) Every scheme launched by FME must have the annual statement of accounts audited by an auditor who is not in any way associated with the FME.
- 2) The auditor must be appointed by the fiduciaries.
- 3) The auditor must forward his report to the fiduciaries and such report must form part of the Annual Report of the schemes.

#### **19. Other disclosures to the investors**

- 1) The FME must ensure that investors are provided information about their holding in the schemes of FME at the end of every month and within ten working days in case of receipt of such request from an investor.
- 2) The fiduciaries must make such disclosures to the investors as are essential in order to keep them informed about any information which may have an adverse bearing on their investments.

#### **20. Restrictions on business activities of the FME**

The FME must not undertake any business activities other than as specified under the regulations, without prior approval of the IFSCA.

A FME operating in the form of branch in an IFSC must inform the IFSCA within fifteen days regarding any approval obtained from the sectoral regulator in its principal place of operations, if the activity it intends to conduct outside IFSC requires such specific approval.

Further, the FME intending to open a branch or representative office in other jurisdictions for the purpose of marketing their offerings and client service must give prior intimation to the IFSCA with the details regarding such branch or representative office.

## **THIRD-PARTY FUND MANAGEMENT SERVICES, SPVs AND CO-INVESTMENTS, ESG FUNDS AT IFSC**

### **Third-Party Fund Management Services**

A FME can launch a scheme on behalf of a third-party.

#### **1. Definitions**

Here, "third-party fund management services" or "third-party fund management arrangement" refers to the activity wherein a Registered FME manages the schemes on behalf of a third-party.

"third-party fund manager" means and includes an entity registered or regulated, for the purposes of fund management, portfolio management, investment advisory or any other similar activity, by whatever name called, with the concerned financial sector regulator in the country of its incorporation, and which avails the third-party fund management services from a Registered FME.

#### **2. Obligation to seek Authorisation and compliances**

- 1) A FME intending to set up and manage schemes on behalf of a third-party must seek authorisation from the IFSCA for undertaking third-party fund management services in accordance with the

terms and conditions and must comply with other conditions as may be specified by the IFSCA from time to time.

Such FME may also set up schemes, offer Portfolio Management Services or carry out other activities as permitted under the regulations, as per the category of its registration, wherein a third-party fund management arrangement is not involved.

- 2) The FME must be responsible for strengthening its overall compliance function and must deploy resources commensurate to the size of its operations in the IFSC, so as to ensure adequate focus on the compliance for each scheme.
- 3) The FME and the fiduciaries must ensure compliance.
- 4) Notwithstanding any arrangement of FME with the third-party including the indemnification arrangement, the FME must continue to be liable for any and all obligations or liabilities arising in connection with the third-party fund management arrangement.

### **3. Legal Form of the FME**

- 1) The FME seeking authorisation must set up in the IFSC in the form of a company, limited liability partnership (LLP) or any other form as may be permitted by the IFSCA.
- 2) In case of a company, its memorandum of association, and in case of a LLP, its limited liability partnership agreement, must contain a provision enabling it to offer third-party fund management services.

### **4. Appointment of Principal Officers and other Key managerial personnel**

- 1) For each scheme managed under the third-party fund management arrangement, the FME must appoint a dedicated person as the Principal Officer who must be responsible for the overall activities with respect to that scheme, including but not limited to fund management, risk management and compliance.
- 2) In case of a Registered FME (Non-Retail), the Compliance Officer for its self-managed schemes or Portfolio Management Services can also act as the Compliance Officer for the schemes managed under the third-party fund management arrangement.
- 3) In case of a Registered FME (Retail), the Compliance Officer for its Retail Schemes must be separate from the Compliance Officer for the Non-Retail Schemes that are either self-managed or managed through third-party fund management arrangement.
- 4) For appointment of additional KMP, the AUM of the schemes managed under the third-party fund management arrangement must also be considered, excluding the AUM of fund of funds schemes managed under third-party fund management arrangement.
- 5) Any appointment or changes in the KMPs appointed under (1) and (3) must be carried out in the manner specified by the IFSCA.

### **5. Net worth requirement**

A FME seeking authorisation to offer third-party fund management services must, at all times, maintain an additional net worth of USD 500,000 or such other amount as may be specified by the IFSCA.

Such net worth must be separate and in addition to:

- i) the minimum net worth requirements applicable for its activities as a FME for the schemes, Portfolio Management Services or any other activities as permitted under these regulations as per the category of its registration, wherein a third-party fund management arrangement is not involved
- ii) the minimum net worth requirements applicable for any other activities within or outside the IFSC.

## 6. Schemes under third-party fund management arrangement

- 1) A FME must manage Restricted Schemes under third-party fund management arrangement in accordance with the regulations.

Such scheme does not exceed the corpus of USD 50 million, or such other value as may be specified by the IFSCA.

- 2) The third party, under the third-party fund management arrangement, must be deemed to be an associate of the FME for the purpose of compliance.

## 7. Eligibility of 'third-party'

- 1) A FME must provide third-party fund management services only to such third-party who is a third-party fund manager and meets the following criteria, namely:
  - a) It is incorporated either in India, IFSC or a foreign jurisdiction
  - b) It allocates adequate resources to discharge its functions
  - c) The persons responsible for its functions have adequate and requisite experience
  - d) The third-party, its officers, directors/ partners/ designated partners, key managerial personnel and controlling shareholders are 'fit and proper' persons

A third-party fund manager can be eligible to avail third-party fund management services even if its ultimate or interim parent entity is not engaged in the fund management activities.

## 8. Disclosures to investors

- 1) For the Restricted Schemes that are managed under the third-party fund management services, besides making disclosures, the FME must make the following disclosures under a separate head/ section at a prominent place in the placement memorandum:
  - a) Details of the third-party and the persons who effectively conduct the business of such third-party
  - b) Details of the segregated responsibilities of the FME and such third-party
  - c) Potential conflicts of interest that may arise due to the third-party fund management arrangement along with the measures proposed to avoid, resolve and mitigate such conflicts
  - d) such other disclosures as may be specified by the IFSCA.

## 9. Risk Management

- 1) The FMEs must have the following risk management measures in place:
  - a) An internal policy comprising of a comprehensive risk management framework to identify and address the unique risks associated with third-party fund management and conflicts emerging from the same.
  - b) Segregation of funds and operational independence for all the schemes, whether under self-management or third-party fund management.
  - c) Existing mechanism to address the investors' complaints and disputes is extended to the complaints and disputes of the investors of the schemes under third-party fund management arrangement.

- d) An internal policy for conducting periodic internal audits and reviews to ensure compliances with the regulatory requirements with respect to third-party fund management; and the submission of the report thereon to the fiduciaries.
- e) Such other measures as may be specified by the IFSCA.

#### 10. Other obligations of the FME

- 1) It must be the duty of the FME to ensure that
  - a) the third-party meets the eligibility criteria
  - b) the schemes set up by the FME under the third-party fund management arrangement are treated to be the schemes of the FME
  - c) the liability of the FME towards any Restricted Scheme and its investors is not affected due to the third-party fund management services
  - d) the third-party is qualified and capable of undertaking the entrusted functions, and that such third-party was onboarded with due care and caution
  - e) the activities undertaken by the third-party are monitored by the FME and in doing so, the FME must issue such instructions to such third-party as it may deem necessary
  - f) the third-party fund management arrangement enables the FME to terminate the arrangement at any time, in the interest of investors or on the directions of the IFSCA
  - g) it reviews the services rendered by each third-party on an ongoing basis and periodically shares these reports with the respective fiduciaries
  - h) a suitable indemnity mechanism is in place which requires the third-party to indemnify the FME from any potential liabilities arising from the funds managed under the third-party fund management arrangement
  - i) it pays such fees within such timelines as specified by the IFSCA
  - j) such other requirements as may be specified by the IFSCA
- 2) The FME must be responsible for all the acts of omissions and commission of the third-party in relation to the third-party fund management services.

#### Special Purpose Vehicle

Here, “special purpose vehicle” or “SPV” means any company or LLP or any other structure as approved by the IFSCA-

- i) In which either the Investment Trust or the holdco holds or proposes to hold controlling interest and not less than fifty-one per cent of the equity share capital or interest. This must not apply in case of PPP projects where such acquiring or holding is disallowed by the government or regulatory provisions under the concession agreement or such other agreement, and shall be subject to provisions under clause (e) of Part D under Fourth Schedule.
- ii) which holds not less than eighty per cent of its assets directly in infrastructure projects or properties and does not invest in other SPVs
- iii) which is not engaged in an activity other than holding and developing properties or infrastructure projects, and activities pertaining to and incidental to such holding or development.

### Co-investment and Leverage

- 1) A scheme may co-invest in permissible investments either through a special purpose vehicle (SPV) in accordance with the framework specified by the IFSCA or through a segregated portfolio by issuing a separate class of units.
- 2) The FME must ensure that:
  - a) The investments by such segregated portfolios must, in no circumstances, be on terms more favourable than those offered to the common portfolio of the scheme.
  - b) Appropriate disclosures have been made in the placement memorandum regarding creation of segregated portfolio.
- 3) A SPV must undertake leverage as disclosed in the placement memorandum.

### Environmental, Social and Governance (ESG)

- 1) A FME managing AUM above USD 3 billion as at the close of a financial year or any other threshold of AUM as may be specified by the IFSCA, must
  - a) establish policy on governance around material sustainability-related risks and opportunities
  - b) disclose in its annual report how the FME identifies, assesses and manages material sustainability-related risks
  - c) establish and disclose in its annual report the process of factoring sustainability related risks and opportunities into fund manager's investment strategies and processes, including, where relevant, data and methodologies used
  - d) comply with any other sustainability related requirements as may be specified by the IFSCA.
- 2) A FME that launches a scheme related to ESG, shall make full disclosure regarding investment objective, investment policy, strategy, material risk, benchmark, etc., in the manner as may be specified by the IFSCA.
- 3) All scheme documents filed by FME with the IFSCA must disclose whether sustainability-related risks are incorporated in the decision making along with the details of the same. In case where the sustainability-related risks are not incorporated in the decision making, a negative statement must be included.

### ETHICS AND GOVERNANCE IN FUND MANAGEMENT – THE STEWARDSHIP CODE OF IFSCA

International Financial Services Centres Authority (IFSCA) has introduced a new Stewardship Code for Fund Managers and Institutional Investors operating within GIFT City IFSC. This forward-looking framework aligns with global best practices and aims to promote responsible investment, transparency, and long-term value creation.

IFSCA's Stewardship Code aims to align the practices of institutional investors in IFSC with global standards of responsible ownership and long-term value creation. It seeks to promote active and informed engagement by investors with investee companies to enhance governance, sustainability, and accountability. The Stewardship Code shall apply to all Fund Management Entities (FMEs) and Institutional Investors, including Alternate Investment Funds (AIFs) and Retail Funds (RFs) operating in the IFSC. Entities are encouraged to adopt the Stewardship Code as detailed in Annexure-A of the Circular; or adopt a Stewardship Code issued by:

1. A financial regulator in their home jurisdiction; or
2. Indian financial regulators such as SEBI, IRDAI, or PFRDA; or
3. A statutory professional body such as the Institute of Company Secretaries of India (ICSI).

However, any adopted code must substantially reflect the core principles outlined in IFSCA's framework.

Principles of IFSCA's Stewardship Code:

The Code outlines seven core principles that Fund Management Entities (FMEs) must adopt and implement.

The 7 Principles of the IFSCA Stewardship Code are:

**1. Stewardship Policy**

FMEs must establish a publicly available stewardship policy that outlines their investment philosophy, governance approach, and oversight mechanisms.

**2. Monitoring**

Investors are expected to actively monitor portfolio companies, assessing business models, financial performance, ESG issues, and governance practices.

**3. Intervention and escalation**

The stewardship policy must, therefore, include a framework for intervention in investee companies and possible escalation.

**4. Managing Conflicts of Interest**

FMEs must implement robust framework and formulate a detailed policy to identify, mitigate, and disclose conflicts of interest, always acting in the best interest of clients and beneficiaries.

**5. Responsible Voting Policy**

A structured voting policy must be in place to ensure decisions are transparent, aligned with long-term goals, and go beyond rubber-stamping management proposals.

**6. Collaboration**

Investors are encouraged to collaborate with peers to enhance effectiveness of stewardship activities and promote long term value creation and corporate governance.

**7. Disclosure and Reporting**

FMEs must publish annual reports detailing their stewardship activities, outcomes, and any deviations from their stated policies.

**Compliance:**

The adopted Stewardship Code must be communicated to IFSCA and disclosed publicly on the entity's website. For Fund of Funds Schemes, the FME may disclose the Stewardship Code of the underlying or target fund instead of creating a separate one.

Entities must ensure regular, transparent reporting on adherence to the Stewardship Code via their website and periodic reports to IFSCA and mechanisms must be in place to periodically review the efficacy and compliance of the adopted code and related reporting framework.

**Ensuring Governance – supervision of funds by IFSCA**

The IFSCA regularly conducts onsite and offsite supervision of funds at the IFSC.

Key Aspects of Fund Supervision at IFSC:

- **Regulatory Framework:** Establishing rules for safety, soundness, and market conduct (e.g., capital adequacy, large exposure limits).

- **Monitoring s Enforcement:** Checking compliance through examiner visits (onsite) and data analysis (offsite), taking action for violations.
- **Risk Management:** Ensuring institutions control risks like money laundering (AML), terrorist financing (CFT), and operational failures.
- **Prudential Supervision:** Focusing on viability, resilience, and reducing systemic risk through capital/liquidity requirements.
- **Evolving Focus:** Adapting to new challenges like digitalization, AI, and climate change.

## TAXATION OF FUNDS IN THE IFSC

### Taxation of Category III AIF

A special tax regime has been introduced for Category III AIF which has only non-resident investors (except for the sponsor or manager). Under this regime, the investors are completely exempt from tax on the income earned from investment in a Category III AIF as per Section 10(23FBC) of the IT Act. While AIF is liable to tax on dividend income, interest income and capital gain on sale of shares in an Indian company, following income streams are exempt from tax (refer Section 10(4D) of the IT Act):

- Capital gain on transfer of bonds, global depository receipts, rupee denominated bonds and derivatives, on a recognised stock exchange located in any IFSC and where the consideration for such transaction is paid or payable in convertible foreign exchange.
- Income from transfer of securities (other than shares of an Indian resident company).
- Income from securities issued by a non-resident (not being a permanent establishment of a non-resident in India) and where such income otherwise does not accrue or arise in India.
- Income from securitisation trust subject to certain conditions.

Tax on dividend income and interest from securities is taxable at the rate of 10% (with no surcharge and cess being applicable). Long term capital gain on sale of equity shares held in an Indian company is taxable at 10% (plus surcharge and cess) whereas short term capital gain is taxable at 30% / (15% on sale of equity shares which is subject to STT), plus applicable surcharge and cess (refer section 115AD of the IT Act). The aforesaid tax treatment is limited to the income of AIF which is attributable to non- resident unitholders (not having a permanent establishment in India).

### Taxation of Business Income of AIF

The Business Income of an AIF is taxable at AIF level at the rate specified in the Finance Act for AIF being a company or a limited liability partnership or at maximum marginal rate ("MMR") if the AIF is set up as a trust. The provisions of Section 80LA of the IT Act provide a tax holiday on 100% of the Business Income for a period of 10 assessment years (out of a block of 15 years) to a unit of IFSC which has been approved for undertaking such business in IFSC in a Special Economic Zone. The block of 15 years commences from the year in which the permission or registration is obtained under International Financial Services Centres Authority Act, 2019. Therefore, where the AIF qualifies to be a 'unit' within the provisions of Section 80LA, it could claim a tax holiday on its Business Income for any 10 years within the 15 years block.

Nature of Income	Tax Rate for Non-Resident Investors	Tax Rate for Resident Investors
Long-Term Capital Gains (LTCG) on specified securities listed on an IFSC exchange	Exempt	12.5% (no indexation, over Rs. 1.25 lakh annual exemption for equity-oriented)
Short-Term Capital Gains (STCG) on specified securities listed on an IFSC exchange	Exempt	20% (for equity- oriented funds) or slab rates
Dividend Income	10% concessional rate	Applicable income tax slab rates
Interest Income (on borrowings/ bonds for IFSC Unit)	Not taxable (if paid by an IFSC unit)	Applicable income tax slab rates

#### Dividend and interest income:

Dividend income is taxable in the hands of an Indian resident investor at the ordinary applicable rate, subject to a maximum of 30%. In the case of a non-resident investor, dividend income is taxable at the rate of 20%.

Interest income is also taxable for an Indian resident investor at the ordinary applicable rate, with the maximum being 30%. For non-resident investors, interest income is taxable at 40% where the investor is a foreign company and at 30% for other non-residents.

#### Long-term capital gains on listed shares and securities:

Long-term capital gains arising from the sale of listed shares that are subject to securities transaction tax (STT) are taxable in excess of INR 100,000 at the rate of 10% for both Indian resident and non-resident investors.

Where long-term capital gains arise from the sale of listed shares on which STT is not levied, such gains are taxable for an Indian resident investor at 10% without indexation or 20% with indexation, whichever is lower, while for a non-resident investor the applicable rate is 10%.

In the case of long-term capital gains on the sale of listed securities other than shares, the tax rate for an Indian resident investor is 10% without indexation or 20% with indexation, whichever is lower, and for a non-resident investor it is 10%.

#### Long-term capital gains on unlisted securities:

Long-term capital gains arising from the sale of unlisted shares and securities are taxable at the rate of 20% in the case of an Indian resident investor, whereas such gains are taxable at 10% for a non-resident investor.

Short-term capital gains and deemed short-term gains:

Short-term capital gains on the sale of shares that are subject to STT are taxable at 15% for both Indian resident and non-resident investors.

Short-term capital gains on the sale of other shares and securities are taxable for an Indian resident investor at the ordinary applicable rate, with a maximum of 30%, while for non-resident investors the applicable rate is 40% in the case of a foreign company and 30% for others.

Gains arising from market-linked debentures and specified mutual funds, which are deemed to be short-term capital gains in all cases in accordance with Section 50AA, are taxable for Indian resident investors at the

ordinary applicable rate, subject to a maximum of 30%, and for non-resident investors at 40% for foreign companies and 30% for others.

### Dividend and Interest Income

Dividend income is taxable for a company at the ordinary applicable rate, which ranges from 22% to 30%, while for an LLP it is taxable at the rate of 30%.

Interest income is also taxable for a company at the ordinary applicable rate, ranging from 22% to 30%, and for an LLP at 30%.

### Long-Term Capital Gains on Listed Shares

Long-term capital gains arising from the sale of listed shares or from the sale of shares under an offer for sale, where the transaction is subject to securities transaction tax (STT), are taxable on gains exceeding INR 100,000 at the rate of 10%.

Long-term capital gains on the sale of listed shares outside the exchange are taxable at 10% without indexation or at 20% with indexation, whichever is lower.

### Long-Term Capital Gains on Listed Securities Other Than Shares

Long-term capital gains on the sale of listed securities other than shares are taxable at 10% without indexation or at 20% with indexation, whichever is lower.

Long-Term Capital Gains on Unlisted Shares and Securities

Long-term capital gains arising from the sale of unlisted shares and securities are taxable at the rate of 20%.

### Short-Term Capital Gains

Short-term capital gains on the sale of shares that are subject to STT are taxable at the rate of 15%.

Short-term capital gains on the sale of other shares and securities are taxable for a company at the ordinary applicable rate, ranging from 22% to 30%, and at 30% for an LLP.

### Gains on Market-Linked Debentures and Specified Mutual Funds

Gains arising from market-linked debentures and specified mutual funds are deemed to be short-term capital gains in all cases. Such gains are taxable for a company at the ordinary applicable rate, ranging from 22% to 30%, and at 30% for an LLP.

#### LESSON ROUNDUP

- Fund management involves collecting money from investors and investing it in different financial instruments to achieve returns while managing risk.
- It allows investors to benefit from professional expertise, market analysis, and diversification without directly managing investments.
- In IFSCs, fund management activities are regulated by the International Financial Services Centres Authority (IFSCA) to ensure transparency, stability, and investor protection.
- Fund Management Entities (FMEs) must be registered with IFSCA and are classified as Authorised FMEs, Registered FMEs (Non-Retail), and Registered FMEs (Retail) based on the nature of schemes and investors.

- FMEs can launch various investment schemes such as Venture Capital Schemes, Restricted Schemes, Retail Schemes, and Special Situation Funds under the AIF framework.
- Each scheme is governed by specific rules relating to eligibility of investors, minimum corpus, investment limits, tenure, and disclosures.
- Diversification and risk management are core principles of fund management and help reduce overall investment risk.
- Valuation of assets and disclosure of Net Asset Value (NAV) are essential to maintain fairness and enable informed investor decisions.
- Investment Trusts (REITs and InvITs) enable pooling of funds for real estate and infrastructure investments within IFSCs.
- FMEs are required to maintain sound governance practices, including internal controls, audits, record-keeping, and compliance with a Code of Conduct.
- Third-party fund management, co-investments, SPVs, and ESG-focused investments reflect the evolving and global nature of fund management services.

### GLOSSARY

**Accredited Investor:** An investor who meets the prescribed financial criteria and is permitted to invest in certain regulated investment schemes.

**Alternative Investment Fund (AIF):** A privately pooled investment vehicle that collects funds from investors for investing in accordance with a defined investment policy.

**Asset Under Management (AUM):** The total market value of assets managed by a fund or Fund Management Entity at a given time.

**Authorised Fund Management Entity (Authorised FME):** A category of FME permitted to manage funds for accredited investors or specific private schemes in an IFSC.

**Close-ended Scheme:** An investment scheme with a fixed maturity period and limited entry and exit for investors.

**Fund Management:** The professional process of investing pooled funds in financial instruments to achieve defined investment objectives.

**Fund Management Entity (FME):** An entity registered with IFSCA to carry out fund management activities in an IFSC.

**Fund of funds scheme:** A scheme that invests in other schemes whether in IFSC or India or foreign jurisdictions, except to the extent of funds required for meeting expenses, hedging or liquidity requirements for the purpose of repurchases, redemptions and distribution, as disclosed in the placement memorandum or offer document of the scheme.

**Hedging:** A risk management technique used to offset potential losses in investments.

**Investment Manager:** A person or entity responsible for making investment decisions on behalf of a fund or scheme.

**Investment Trust:** A trust structure used to pool investor funds, such as REITs or InvITs, for investment in income-generating assets.

**Net Asset Value (NAV):** The per-unit value of a fund, calculated by dividing the net value of assets by the number of outstanding units.

**Registered FME (Non-Retail):** An FME authorised to manage non-retail investment schemes and portfolio management services in an IFSC.

**Registered FME (Retail):** An FME authorised to manage retail investment schemes and offer funds to the general public in an IFSC.

**Special Purpose Vehicle (SPV):** A separate legal entity created for holding specific investments or assets.

**Venture Capital Fund:** A fund that invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings primarily involved in new products, new services, technology or intellectual property right-based activities or a new business model or other schemes which invest in such entities.

### TEST YOURSELF

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

#### A. Very Short Answer Questions

1. What is fund management?
2. Who is a Fund Management Entity (FME)?
3. What is the role of IFSCA in fund management?
4. What is meant by pooled investment?
5. Define diversification in the context of fund management.
6. What is an Alternative Investment Fund (AIF)?

#### B. Short Answer Questions

1. Describe the main functions of a fund manager.
2. Explain the importance of diversification in managing investment risk.
3. Distinguish between Authorised FME and Registered FME (Non-Retail).
4. What are the basic disclosure requirements for fund managers?
5. Explain the role of valuation in fund management.
6. What is the significance of regulatory oversight by IFSCA?

#### C. Long Answer / Descriptive Questions

1. Explain the concept of fund management and discuss its importance in the financial system.
2. Describe the registration and regulatory framework of Fund Management Entities (FMEs) in IFSCs.
3. Discuss the different types of schemes under the AIF regulatory framework in IFSC.
4. Explain the general obligations and responsibilities of FMEs under IFSCA regulations.





#### KEY CONCEPTS

■ Initial Public Offer ■ Listing ■ Further Public Offer ■ Secondary Listing ■ Special Purpose Acquisition Companies (SPAC) ■ Specified Securities ■ Transition Bonds ■ Transition Finance ■ Greenwashing ■ Climate Financing ■ Business Combination ■ ESG-Labelled Securities

#### Learning Objectives

##### To understand the:

- regulatory framework for listing of securities in IFSCs as prescribed by IFSCA.
- various modes of listing available in GIFT IFSC, including IPOs, secondary listings, and listings without public offer.
- process of Initial Public Offering (IPO) in IFSC for companies incorporated in India and outside India.
- concept, structure, and regulatory treatment of Special Purpose Acquisition Companies (SPACs) in IFSC.
- meaning and importance of ESG-labelled debt securities and other sustainable finance instruments permitted for listing in IFSC.
- concept of Transition Bond and Greenwashing
- eligibility criteria, disclosure requirements, and compliance obligations applicable to issuers under different listing routes.
- currency denomination, dematerialisation, and trading requirements for securities listed in IFSC.
- role of IFSCA listing regulations in promoting international capital raising and global market integration.

#### Lesson Outline

- Introduction of Listing at IFSCA
- Applicability
- General Conditions
- Public Offer of Specified Securities – Initial Public Offer and Follow-On Public Offer
- Listing of Specified Securities without Public Offer and Listing of Specified Securities Already Listed in Other Jurisdiction
- Special Purpose Acquisition Companies (SPACs)
- Rights Issue, Preferential Issue, Qualified Institutional Placement
- Listing of Depository Receipts and Debt Securities
- ESG Labelled Debt Securities
- Listing of Other Financial Products
- Transition Bond Framework
- Greenwashing
- Listing Obligations and Disclosure Requirements
- Entities with specified securities listed on recognised stock exchanges as a primary listing
- Secondary Listing of specified securities
- Indian Companies – Listing of Companies incorporated outside India – IPO in GIFT IFSC
- Lesson Round-up
- Glossary
- Test Yourself
- List of Further Readings

### INTRODUCTION OF LISTING AT IFSCA

In financial markets, listing refers to the process where securities (like stocks, bonds, depository receipts, etc.) are officially accepted on a recognised stock exchange so that investors can buy and sell them. At IFSCs, this means securities are listed on exchanges that operate within these special international finance zones and enable trading in both domestic and international currencies. The IFSCA provides the regulatory framework for this process.

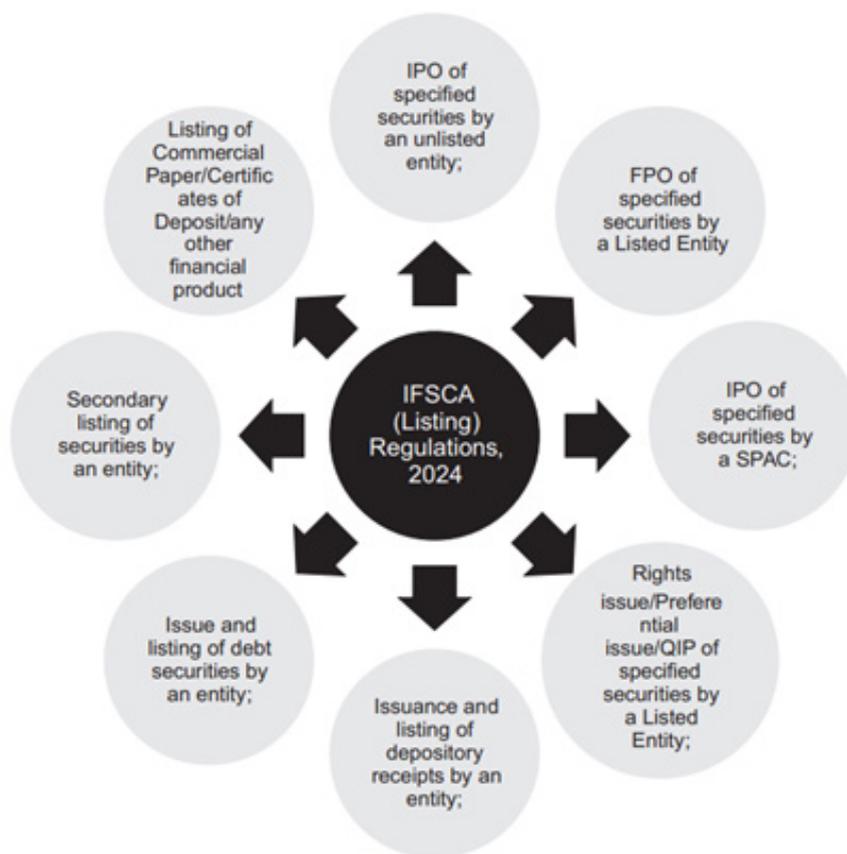
The IFSCA has introduced the IFSCA (Listing) Regulations, 2024, which set out clear, structured rules for how various financial products can be issued and listed on IFSC stock exchanges. These regulations are benchmarked against global standards and are intended to:

- a) Promote ease of doing business in IFSCs.
- b) Protect the interests of investors.
- c) Ensure markets are fair, efficient, and transparent.

Under the IFSCA’s framework, a wide range of financial products can be listed on IFSC-based exchanges. While the official listing page highlights the regulatory framework, it shares that these regulations cover the listing of permitted financial products on recognised IFSC exchanges. This includes long-term instruments such as debt securities and could include other categories such as equity-linked products and depository receipts, aligned with global capital market practices.

### APPLICABILITY

IFSCA (Listing) Regulations, 2024



These regulations apply to:

- a) an initial public offer of specified securities by an unlisted entity
- b) a follow-on public offer of specified securities by a Listed Entity
- c) an initial public offer of specified securities by a Special Purpose Acquisition Company
- d) a rights issue or a preferential issue or a qualified institutions placement of specified securities by a Listed Entity
- e) issuance and listing of depository receipts by an entity
- f) issue and listing of debt securities by an entity
- g) secondary listing of securities by an entity
- h) listing of Commercial Paper or Certificates of Deposit or other financial products as permitted by the IFSCA

## GENERAL CONDITIONS

### General Principles

The underlying principles for an issuer proposing to list its securities or any other permitted financial product on the recognised stock exchange(s) are as under:

- a) There should be true, correct and adequate disclosure of material information in the offer document to enable the investors to take an informed decision.
- b) There should be full, accurate and timely disclosure of financial results, risk and other non-financial information which may be material for investors to take an informed decision.
- c) All holders will be treated in a fair and equitable manner.
- d) The directors of an issuer must ensure to act in the best interest of all stakeholders.

### General Eligibility Criteria

- (1) An issuer will be eligible to list its securities or any other permitted financial product on a recognised stock exchange, subject to the following conditions:
  - a) the issuer is incorporated or set up either in an IFSC or in India or in a Foreign Jurisdiction, in accordance with the relevant laws of its home jurisdiction
  - b) the issuer operates in conformity with its constitution
  - c) the issuer is eligible to issue such securities or other financial products that are proposed to be listed on the recognised stock exchange, in conformity with the relevant laws of its home jurisdiction.

A public Indian company proposing to list its equity shares on a recognised stock exchange must also be required to meet the eligibility criteria of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 and the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024.

The following entities will also be eligible to list its debt securities on a recognised stock exchange:

- a) a supranational or a multilateral, or a statutory institution

- b) a municipality or any similar body
  - c) an entity which offers or proposes to offer sovereign debt securities
- (2) An issuer will not be eligible to list its securities if the issuer or any of its promoters or controlling shareholders or directors, or the existing shareholders offering shares in the issue is –
- a) debarred from accessing the capital market
  - b) a wilful defaulter
  - c) a fugitive economic offender

Here, 'wilful defaulter' or 'fugitive economic offender', by whatever name called, means a person who is categorised as such, as per relevant laws of its home jurisdiction.

### Dematerialised Form

The securities and other permitted financial products listed or proposed to be listed on a recognised stock exchange must be freely transferable and held in dematerialised form.

Debt securities and such other financial products can also be held with an international central securities depository.

### Currency

The securities and other permitted financial products must be denominated in a specified foreign currency for listing and trading on a recognised stock exchange.

## PUBLIC OFFER OF SPECIFIED SECURITIES – INITIAL PUBLIC OFFER (IPO) AND FOLLOW-ON PUBLIC OFFER (FPO)

### Initial Public Offer (IPO)

#### Eligibility criteria

An issuer will be eligible to make an initial public offer of specified securities, only if:

- a) the issuer has an operating revenue, based on consolidated audited accounts, of at least USD twenty million in the last financial year or averaged over the last three financial years
- b) the issuer has a pre-tax profit, based on consolidated audited accounts, of at least USD one million in the last financial year or averaged over the last three financial years
- c) The issuer has a post issue market capitalization of at least USD twenty-five million
- d) It qualifies under any other eligibility criteria specified by the IFSCA

#### SR Equity Shares

An issuer, which has issued SR equity shares, must be allowed to make an initial public offer of its ordinary shares for listing on a recognised stock exchange, subject to the conditions that:

- (a) The issue of SR equity shares had been authorised by a resolution passed at a general meeting of the shareholders of the issuer.
- (b) The SR equity shares have been held for a period of at least three months prior to the filing of the draft offer document.

**Offer for Sale**

- (1) In case of an offer for sale, the specified securities must have been held by the existing holders for a period of at least one year prior to the date of filing of the draft offer document.

In case equity shares received on conversion are being offered for sale, the holding period of convertible securities or depository receipts, and the holding period of resultant equity shares, together, must be considered for the purpose of calculation of the period of one year.

Where equity shares arising out of conversion are being offered for sale, such conversion should be completed prior to filing of the offer document and full disclosures of the terms of conversion should be made in the draft offer document.

- (2) The requirement of holding equity shares for a period of one year shall not apply:
  - a) Where the equity shares offered for sale were acquired pursuant to any scheme of merger or amalgamation in lieu of business and invested capital which had been in existence for a period of more than one year prior to approval of such scheme; or
  - b) Where the equity shares offered for sale were issued under a bonus issue on securities held for a period of at least one year prior to the filing of the draft offer document with the IFSCA, and subject to the following:
    - i) such equity shares being issued out of free reserves and share premium existing in the books of account as at the end of the financial year preceding the financial year in which the draft offer document is filed with the IFSCA.
    - ii) such equity shares not being issued by utilisation of revaluation reserves or unrealized profits of the issuer.

**Lead manager**

The issuer shall appoint lead manager(s) to the issue and other intermediaries in consultation with the lead manager(s).

**In-principle approval from recognised stock exchange(s)**

- (1) The issuer must file an application with a recognised stock exchange seeking in-principle approval for listing of specified securities. Where the application is made to more than one recognised stock exchange, the issuer must choose one of them as the designated stock exchange.
- (2) The recognised stock exchange must grant an in-principle approval or reject the application within fifteen days from the date of receipt of complete application from the issuer.

**Filing of Offer Document**

- 1) Where size of the proposed issue is USD fifty million or below,
  - a) the issuer, through the lead manager(s), must file a draft offer document along with applicable fee with the IFSCA.
  - b) the lead manager(s) must also submit a due diligence certificate along with the draft offer document.
  - c) the draft offer document must be hosted on the websites of the IFSCA, the recognised stock exchange(s) where the specified securities are proposed to be listed, the issuer and the lead manager(s) of the issue.
- 2) Where size of the proposed issue is more than USD fifty million,

- a) the issuer, through the lead manager(s), must file a draft offer document along with applicable fee with the IFSCA.
- b) the lead manager(s) must also submit a due diligence certificate along with the draft offer document.
- c) the draft offer document must be hosted on the websites of the IFSCA, the recognised stock exchange(s) where the specified securities are proposed to be listed, the issuer and the lead manager(s) for seven working days, inviting comments from public.
- d) the lead manager(s) must file with the IFSCA details of material comments received by them or by the issuer from the public on the draft offer document during such period and the consequential changes, if any, that are proposed to be made pursuant thereto, in the draft offer document.
- e) the IFSCA can issue observations, if any, on the draft offer document within twenty-one working days from the later of the following dates:
  - i) the date of receipt of the draft offer document
  - ii) the date of receipt of satisfactory reply from the issuer and/or the lead manager(s) where the IFSCA has sought any clarification or additional information from them
  - iii) the date of receipt of clarification or information from any regulator or agency, where the IFSCA has sought any clarification or information from such regulator or agency
  - iv) the date of receipt of a copy of in-principle approval given by the recognised stock exchange(s)
- f) the issuer must carry out changes advised by the IFSCA, if any, in the draft offer document
- g) the issuer shall, through the lead manager(s), file the updated offer document with the IFSCA and the recognised stock exchange(s) prior to going ahead with the issue.

### **Offer Timing**

The offer must be made by the issuer within a period of not more than twelve months from the date of issuance of observations by the IFSCA.

If the proposed size of the issue is USD fifty million or below, the period of twelve months must be from the date of receipt of offer document by the IFSCA. Further, if the offer is not made within the specified time period, a fresh draft offer document shall be filed with the IFSCA and the recognised stock exchange(s).

### **Reservations**

The issuer must choose to make reservations out of the issue size in favour of the following categories of persons, and the same will suitably be disclosed in the offer document:

- (a) employees
- (b) directors
- (c) shareholders (other than controlling shareholders) of its group entities which are listed.

### **Pricing**

The issuer can determine pricing, in consultation with the lead manager(s), either through fixed price or book building process and must suitably disclose the same in the offer document. In case of listing of equity shares by a public Indian company, the issuer must also comply with the requirements prescribed under schedule XI of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019.

**Offer period**

The initial public offer must be kept open for at least one working day and not more than ten working days.

In case the issuer has made a simultaneous offer in any other jurisdiction, the offer period may be for same period as applicable in the other jurisdiction.

**Minimum public offer**

- 1) Where the issuer is a company incorporated in India, including in an IFSC, such issuer must comply with the minimum offer and allotment to public and minimum public shareholding norms prescribed under the Securities Contracts (Regulation) Rules, 1957.
- 2) Where the issuer is a company incorporated outside India, the minimum offer and allotment to public must be at least ten per cent of the post issue capital and such issuer must also maintain the minimum public shareholding of ten per cent of the post issue capital on a continuous basis.

**Minimum subscription**

An offer can be considered successful only if the minimum subscription as disclosed in the offer document is received. The concept of minimum subscription must apply only to the fresh issue of specified securities and not for the Offer for Sale component of the public offer.

**Anchor Investor**

The issuer offers a portion of the issue size for subscription by an anchor investor, by providing relevant disclosures in the offer document such as details of anchor investor, proposed maximum limit of allotment to anchor investor, lockup (if any), pricing etc.

**Underwriting**

A public issue of specified securities may be underwritten by an underwriter and in such a case, adequate disclosures regarding underwriting arrangements must be disclosed in the offer document.

**Monitoring Agency**

The issuer must choose to appoint a credit rating agency registered with the IFSCA or a globally recognised credit rating agency which is registered with a regulator in India or a regulator in a Foreign Jurisdiction, as a monitoring agency for monitoring the use of proceeds of the issue.

Where a monitoring agency has been appointed, the issuer must, within forty-five days from the end of each quarter, publicly disseminate the report of the monitoring agency by uploading the same on its website as well as submitting the same to the recognised stock exchange(s) on which its specified securities are listed.

**Allotment**

- 1) Allotment to investors must be on proportionate basis or discretionary basis as decided by the issuer in consultation with the lead manager(s) and disclosed in the offer document.
- 2) The issuer and lead manager(s) must ensure that the specified securities are allotted and the payments and refunds are completed within eight working days from the date of closing of the issue.

**Listing**

The issuer must list its specified securities on the recognised stock exchange(s) within such period, as specified by the recognised stock exchange(s). In case the issuer has made a simultaneous offer in any other jurisdiction, the specified securities shall be listed on the same date.

**Post-issue report**

The issuer, through the lead manager(s), must file a post-issue report with the recognised stock exchange(s) giving details including relating to number, value and percentage of all applications received, allotments made, basis of allotment, subscription, details of credit of specified securities, details relating to payments and refunds, and the date of filing of listing application, within ten working days from the date of closing of the issue.

**Price stabilisation through green shoe option**

- 1) An issuer must provide a green shoe option for stabilising the post listing price of its specified securities, subject to the following conditions:
  - a) the draft offer document contains all material disclosures about the green shoe option
  - b) the issuer has appointed an investment banker or a broker-dealer registered with the Authority as a stabilising agent, who must be responsible for the price stabilisation process
  - c) the maximum number of specified securities that must be borrowed from pre-issue shareholders for the purpose of allotment or allocation of specified securities must not exceed 15% of the total issue size.
- 2) The price stabilisation process must be available for a period not exceeding ninety days from the date of obtaining trading permission from the recognised stock exchange(s) in respect of the specified securities allotted in the public issue.
- 3) The stabilising agent must open a special account, distinct from the issue account, with a Banking Unit for crediting the monies received from the applicants against the over-allotment and a special account with a depository participant for crediting specified securities to be bought from the market during the stabilisation period out of the monies credited in the special bank account.
- 4) The specified securities bought from the market must be returned to the pre-issue shareholders promptly and not later than two working days after the end of the stabilization period.
- 5) On expiry of the stabilisation period, if the stabilising agent has not been able to buy specified securities from the market to the extent of such securities over-allotted, the issuer must allot specified securities at issue price to the extent of the shortfall within five working days of the closure of the stabilisation period and such specified securities must be returned to the pre-issue shareholders by the stabilising agent in lieu of the specified securities borrowed from them and the demat account with the depository participant must be closed thereafter.
- 6) The issuer must make a listing application in respect of the further specified securities allotted, to all the recognised stock exchanges where the specified securities allotted in the public issue are listed.
- 7) Any monies left in the special bank account after remittance of monies to the issuer and deduction of expenses incurred by the stabilising agent for the stabilisation process must be transferred to the pre-issue shareholders who lent their specified securities towards the green shoe option, and the special bank account must be closed soon thereafter.

**Lockup of securities**

- 1) The pre-issue shareholding of promoters and controlling shareholders of the issuer must be locked-up for a period of one hundred and eighty days from the date of allotment in the initial public offer. The lockup provisions must not apply with respect to the specified securities lent to stabilising agent for the purpose of green shoe option, during the period starting from the date of lending of such specified securities and ending on the date on which they are returned to the lender.

- 2) The shareholding of the SR Equity Shares must be locked up after the initial public offering, until the later of:
  - a) their conversion to ordinary shares
  - b) One year from the date of allotment in the initial public offer.
- 3) The specified securities that are locked up may be pledged as collateral security. Such lockup must continue pursuant to the invocation of the pledge, and the transferee must not be eligible to transfer the specified securities till the lockup period stipulated in these regulations has expired.

**Other responsibilities of lead manager**

- 1) The lead manager(s) must prepare a schedule, listing the activity-wise allocation of responsibilities relating to the issue, the name of the lead manager(s) responsible for each set of activities or sub-activities, and disclose the same in the offer document.
- 2) A lead manager must be designated for coordinating with the IFSCA and must be responsible for ensuring that all intermediaries fulfil their obligations and functions as specified in their agreements with the issuer.
- 3) The responsibilities of the lead manager(s) must continue for all pre and post-issue activities related to the issue.

**Prohibition on payment of incentives**

Any person connected with the issue must not offer or receive any incentive, whether direct or indirect, in any manner, whether in cash or kind or services or otherwise, to or from any person for making an application in the public offer, except for fees or commission for services rendered in relation to the issue.

**Follow-On Public Offer or Further Public Offer (FPO)****1. Applicability**

A Listed Entity must make a follow-on public offer of specified securities in the manner provided in the IFSCA (Listing) Regulations, 2024.

**2. Offer for sale**

- 1) In case of an offer for sale, the specified securities must have been held by the existing holders for a period of at least one year prior to the date of filing of the draft offer document. In case equity shares received on conversion are being offered for sale, the holding period of convertible securities or depository receipts, and the holding period of resultant equity shares together can be considered for the purpose of calculation of the period of one year. Where equity shares arising out of conversion are being offered for sale, such conversion should be completed prior to filing of the offer document and full disclosures of the terms of conversion should be made in the draft offer document.
- 2) The requirement of holding equity shares for a period of one year shall not apply
  - a) Where the equity shares offered for sale were acquired pursuant to any scheme of merger or amalgamation in lieu of business and invested capital which had been in existence for a period of more than one year prior to approval of such scheme
  - b) Where the equity shares offered for sale were issued under a bonus issue on securities held for a period of at least one year prior to the filing of the draft offer document with the IFSCA, and also subject to the following:

- i) such equity shares being issued out of free reserves and share premium existing in the books of account as at the end of the financial year preceding the financial year in which the draft offer document is filed with the Authority
- ii) such equity shares not being issued by utilisation of revaluation reserves or unrealised profits of the issuer.

### **3. Lead manager**

The issuer must appoint lead manager(s) to the issue and other intermediaries in consultation with the lead manager(s).

### **4. In-principle approval from recognised stock exchange(s)**

- 1) The issuer must file an application with a recognised stock exchange seeking in-principle approval for listing of specified securities. Where the application is made to more than one recognised stock exchange, the issuer must choose one of them as the designated stock exchange.
- 2) The recognised stock exchange must grant an in-principle approval or reject the application within fifteen days from the date of receipt of the complete application from the issuer.

### **5. Fast track follow-on public offer**

- 1) An issuer must make a follow-on public offer through the fast track route if the issuer satisfies the following conditions:
  - a) equity shares of the issuer have been listed on a recognised stock exchange for a period of at least eighteen months
  - b) issuer has complied with all the regulatory requirements specified by the IFSCA and the recognised stock exchange(s) in the preceding three years
  - c) no show-cause notice has been issued and pending against the issuer or its promoters or controlling shareholders or whole-time directors by the IFSCA or any other financial sector regulator
  - d) there is no adverse opinion, disclaimer of opinion, qualified opinion by the auditors on the financial statements of the issuer, or any of the issuer's subsidiaries or associates (having a material impact on the issuer's consolidated accounts), in the preceding three years
  - e) there has not been any disclosure relating to irregularities having a material impact on the issuer, by any director, key managerial personnel or compliance officer. Where the issuer is listed for a period of less than three years, the period under (b) and (d) shall be calculated from the date of initial listing.
- 2) The issuer, through the lead manager(s), must file the offer document along with applicable fee with the IFSCA.
- 3) The lead manager(s) must also submit a due diligence certificate along with the offer document.
- 4) The issuer must simultaneously file the offer document with the recognised stock exchange(s).
- 5) The offer document must be hosted on the websites of the IFSCA, the recognised stock exchange(s), the issuer and the lead manager(s) of the issue.

## 6. Follow-on public offer without fast track

The issuer not meeting the conditions for a fast track follow-on public offer, must make follow-on public offer by filing the draft offer document in the same manner as applicable for Initial Public Offers.

## 7. Issue Process

The provisions relating to offer timing, pricing, offer period, minimum subscription, anchor investor, underwriting, monitoring agency, allotment, listing, post-issue report, other responsibilities of lead manager and prohibition on payment of incentives provided for Initial Public Offers must mutatis mutandis apply to follow-on public offer.

# LISTING OF SPECIFIED SECURITIES WITHOUT PUBLIC OFFER AND LISTING OF SPECIFIED SECURITIES ALREADY LISTED IN OTHER JURISDICTION

## Listing of Specified Securities without Public Offer

An issuer must list its specified securities on a recognised stock exchange without making public offer in the manner as may be specified by the IFSCA.

## Listing of Specified Securities already Listed in other Jurisdiction

### 1. Secondary Listing without public offer

An issuer, having its specified securities listed in a jurisdiction outside IFSC, must list those specified securities on a recognised stock exchange(s), without making public offer, subject to the following conditions:

- a) It must file a listing application, in the manner specified by the recognised stock exchange(s)
- b) It must comply with the listing requirements of the recognised stock exchange(s) and such other conditions as may be specified by the IFSCA.

### 2. Listing with public offer

- 1) An issuer, having its specified securities listed in a jurisdiction outside IFSC, may list the specified securities on a recognised stock exchange(s) through a public offer.
- 2) The provisions relating to appointment of lead manager, in-principle approval from recognised stock exchanges, filing of offer document, offer timing, disclosures in offer document, reservations, pricing, offer period, minimum public offer, minimum subscription, anchor investor, underwriting, monitoring agency, allotment, listing, post-issue report, price stabilisation through green shoe option, lockup of securities, other responsibilities of lead manager and prohibition on payment of incentives provided for Initial Public Offers must mutatis mutandis apply to listing by way of public offer. For the purpose of initial disclosures, the issuer may submit the disclosures in a draft offer document by providing references to a recent prospectus or other disclosures made with any stock exchange or any regulatory body.
- 3) A public Indian company, with dual listing in IFSC and in India, must comply with the additional regulatory requirements as may be specified by the IFSCA.

### 3. Qualified Institutions Placements

A public Indian company having its equity shares listed on a stock exchange in India may be permitted to make a qualified institutions placement in the manner as may be specified by the IFSCA from time to time.

**SPECIAL PURPOSE ACQUISITION COMPANIES (SPACs)****Listing Of Special Purpose Acquisition Companies (SPAC)****1. Eligibility**

- 1) A SPAC is eligible to raise capital through initial public offer of specified securities on the recognised stock exchange(s), only where:
  - (a) The target business combination has not been identified prior to the IPO.
  - (b) The SPAC has the provisions for redemption and liquidation in line with these Regulations.
  - (c) The sponsor of the SPAC has a good track record in SPAC transactions, business combinations, fund management or investment banking activities and the same must be disclosed in the offer document.

Here, sponsor shall mean a person sponsoring the formation of the SPAC and must include persons holding any specified securities of the SPAC prior to the IPO.

- 2) A SPAC is not eligible to list specified securities if the issuer or any of its sponsors is:
  - a) debarred from accessing the capital market, or
  - b) a wilful defaulter, or
  - c) a fugitive economic offender.

**2. IPO Process**

The provisions relating to appointment of lead manager, in-principle approval from recognised stock exchange(s) and filing of offer document provided for Initial Public Offers must apply to initial public offer by a SPAC.

**3. Offer Timing**

The offer shall be made by the issuer within a period of not more than twelve months from the date of issuance of observations by the IFSCA.

If the offer is not made within the specified time period, a fresh draft offer document shall be filed.

**4. Issue size**

- 1) The issue must be of size not less than USD fifty million or any other amount as may be specified by the IFSCA from time to time.
- 2) The sponsors must hold at least fifteen per cent and not more than twenty per cent of the post issue paid up capital.
- 3) Prior to an IPO, the sponsor must have aggregate subscription (all securities) in the SPAC amounting to USD ten million or an amount equivalent to at least two and half per cent of the issue size, whichever is lower; or any other threshold as may be specified by the IFSCA.

**5. Pricing**

The issue must be through a fixed price mechanism, and the issuer must determine the price in consultation with the lead manager(s).

**6. Offer period**

The initial public offer must be kept open for at least one working day and not more than ten working days.

**7. Underwriting**

- 1) A public issue of specified securities must be underwritten by an underwriter and in such a case adequate disclosure regarding underwriting arrangements must be made in the offer document.
- 2) At least fifty per cent of the underwriting commission is deferred until successful completion of the business combination and must be deposited in the escrow account.
- 3) In case of liquidation, the underwriter must have no right on the deferred commission deposited in the escrow account.

**8. Application and Allotment**

- 1) The minimum application size in an initial public offer of SPAC must be USD one hundred thousand.
- 2) Allotment to investors must be on proportionate basis or discretionary basis, as disclosed in the offer document.
- 3) The issuer and lead manager(s) must ensure that the specified securities are allotted, and the payments and refunds are completed within eight working days from the date of closing of the issue.

**9. SPAC specific obligations**

- 1) The SPAC must ensure that the entire proceeds of the IPO are kept in an interest-bearing escrow account controlled by an independent custodian until consummation of the SPAC's business combination.
- 2) The proceeds kept in the escrow account must be invested only in short-term investment grade liquid instruments, as disclosed in the offer document.
- 3) The interest and other income derived from the proceeds placed in the escrow account must be withdrawn by the SPAC only for the following purposes:
  1. Payment of taxes
  2. General working capital expenses are subject to prior approval by way of special resolution of the shareholders other than sponsors.
- 4) The SPAC must seek shareholders' approval on the proposed business combination and must file a detailed prospectus with the recognised stock exchange(s) containing all relevant disclosures including the following:
  - a) Information about the target company(ies) must include overview of industry and business, organisational structure, board of directors, management and key managerial personnel (KMPs), major shareholders, material shareholders' agreements, audited financial statements for at least previous three financial years, outstanding material litigations against the company and its directors and KMPs, potential conflicts of interest and other material information
  - b) Information about the business combination transaction including valuation of the entities and the methodologies used for valuation
  - c) Information about the process involved in the business combination and the various regulatory and statutory approvals required for completion of the transaction
  - d) Information about the resultant company that would be formed after completion of the business combination

- e) Any other information as may be required by the recognised stock exchange(s) or the IFSCA.
- 5) The SPAC must seek prior approval from majority of shareholders other than sponsors, for the proposed business combination.
- 6) A shareholder (other than sponsors) who has voted against the proposed business combination must have the redemption right for converting his securities into a pro rata portion of the aggregate amount held in the escrow account (net of taxes payable).

A SPAC may have the option to not afford the redemption right to the shareholders who have not voted.

- 7) In the event of change in control of the SPAC, it must provide the redemption option to the shareholders (other than sponsors) for converting their securities into a pro rata portion of the aggregate amount held in the escrow account (net of taxes payable).
- 8) The SPAC shall complete the business combination within the timeline disclosed in the offer document, which shall not exceed thirty-six months from the date of listing on the recognised stock exchange(s).
- 9) Where the business combination is not completed within the specified time frame, the escrow account shall be liquidated, and specified securities shall be delisted in the manner as disclosed in the offer document.

In the event of liquidation and delisting, the sponsors shall not participate in the liquidation distribution.

- 10) A sponsor must not transfer or sell any of his specified securities prior to the completion of a business combination.
- 11) The SPAC must ensure that the businesses combination has an aggregate fair market value of at least eighty per cent of the amount deposited in the escrow account, excluding deferred underwriting commissions held in escrow plus any taxes payable on the income earned on the escrowed funds.
- 12) The SPAC and the sponsors must ensure that there is no related party transaction or connection of sponsor or any of their associates with the business combination.
- 13) Where warrants have been issued in the IPO, the SPAC must comply with the following:
  - a) Each unit consists of one share and not more than one share purchase warrants
  - b) The exercise price of the warrants must not be lower than the price of the equity shares offered in the IPO
  - c) The warrants and the equity shares can be traded separately on the recognised stock exchanges, as per the details disclosed in the offer document
  - d) The warrants are not be exercisable prior to the completion of the business combination
  - e) In case of liquidation of SPAC, the warrants will expire
  - f) The warrants must not have any entitlement to the funds lying in the escrow account upon liquidation or redemption.
- 14) The Authority may, from time to time, specify additional requirements regarding listing of SPACs on the recognised stock exchange(s).

**RIGHTS ISSUE, PREFERENTIAL ISSUE, QUALIFIED INSTITUTIONAL PLACEMENT**

A Listed Entity makes rights issues, preferential issues or qualified institutions placement of specified securities, subject to compliance with the requirements that may be specified by the IFSCA.

**LISTING OF DEPOSITORY RECEIPTS****Depository Receipts****1. Listing of depository receipts**

## a) Eligibility

An issuer incorporated outside an IFSC must be eligible to make an issue of depository receipts only if –

- i) It is authorised to issue depository receipts as per the applicable laws of its home jurisdiction
- ii) The underlying securities represented by such depository receipts is in dematerialised form, fully paid and free from all encumbrances.

**2. Public offer of depository receipts**

## b) Offer size

The issue of depository receipts must be of size not less than USD seven hundred thousand, or any other amount as may be specified by the IFSCA.

## c) Filing of Draft Offer Document

The filing of the draft offer document must be in the manner as specified for the filing of the offer document for the initial public offer.

## d) Pricing

The issuer can determine price of the depository receipts in consultation with the lead manager(s) through fixed price or book building process.

## e) Offer period

The initial public offer of depository receipts must be kept open for at least one working day and not more than ten working days.

## f) Minimum subscription

The listing of depository receipts must be permitted only if the subscription in the offer is not less than USD seven hundred thousand or any other amount as may be specified by the IFSCA.

## g) Allotment

The issuer and lead manager(s) must ensure that the depository receipts are allotted, and the payments and refunds are completed within eight working days from the date of closure of the issue.

## h) Listing

The issuer must list the depository receipts on the recognised stock exchange(s) within such period, as may be specified by the concerned recognised stock exchange.

**3. Secondary Listing without Public Offer**

An issuer, having its depository receipts listed in a jurisdiction outside IFSC, must list its depository receipts on a recognised stock exchange by filing the listing application in such form and manner as may be specified by the recognised stock exchange(s).

**LISTING OF DEBT SECURITIES****1. Listing of Debt Securities**

An issuer must list its debt securities on a recognised stock exchange.

The debt securities proposed to be issued and listed on a recognised stock exchange may be offered on a standalone basis or through a series of issuances (including medium term note programme).

**2. Filing of documents**

- 1) The issuer desirous of listing its debt securities on a recognised stock exchange shall file the listing application along with a copy of the offer document or information memorandum, as applicable, with the recognised stock exchange in accordance with the requirements specified by the recognised stock exchange.
- 2) The issuer must file the listing application with a recognised stock exchange along with applicable regulatory fee and the same must be remitted to the IFSCA in the manner specified by the IFSCA.

**3. Minimum subscription in case of private placement**

The minimum subscription amount for an investor in case of private placement must be disclosed in the offer document.

**4. Credit Rating**

- 1) The issuer must obtain credit rating for its debt securities proposed to be listed on a recognised stock exchange from a credit rating agency registered either with the IFSCA or with a regulator in a Foreign Jurisdiction. The issuer must obtain a credit rating from at least one credit rating agency registered with the IFSCA and can obtain any additional credit rating(s) from a globally recognised rating agency which is registered with a regulator in a Foreign Jurisdiction.
- 2) The issuer must disclose details of the ratings, assigned to the debt securities, in the prospectus, shelf prospectus or information memorandum, as the case may be.

**5. Public Issue**

In respect of a public issue of debt securities on a recognised stock exchange, the issuer must comply with requirements such as appointment of trustee, creation of debenture redemption reserve and such other requirements as may be specified by the IFSCA or the recognised stock exchange(s).

**6. Exempt Issuers**

A recognised stock exchange can, if satisfied on the basis of an application made by an issuer, relax the applicability of certain requirements, in accordance with its internal policy or guidelines, for the following issuers:

- a) Supranational, multilateral or statutory institutions /organisations /agencies
- b) Entities whose securities are irrevocably guaranteed by a Sovereign
- c) Any other entity as may be specified by the IFSCA

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) LABELLED DEBT SECURITIES****Applicability**

- 1) This applies to Environmental, Social and Governance (ESG) labelled debt securities including “green”, “social”, “sustainability”, “sustainability linked” debt securities or any other ESG labelled debt securities as may be specified by the IFSCA, which is listed or proposed to be listed on a recognised stock exchange.
- 2) The requirements under ESG Labelled Debt Securities will be in addition to the requirements detailed in Listing of Debt Securities.

**Recognised Standards**

- 1) The debt securities will be labelled as “green”, “social” or “sustainability” only if the funds raised through the issuance of such debt securities are proposed to be utilised for financing or refinancing projects and/or assets aligned with any of the following recognised standards:
  - a) International Capital Market Association (ICMA) Principles / Guidelines
  - b) Climate Bonds Standard
  - c) ASEAN Standards
  - d) European Union Standards
  - e) Any framework or methodology specified by a competent authority or a financial sector regulator in India
  - f) Other international standards as may be permitted by the IFSCA on case-by-case basis
- 2) The debt securities will be labelled as “sustainability-linked” if they are aligned with any of the recognised standards or any other such qualifying criteria as may be specified by the IFSCA.
- 3) The issuer must appoint an independent external reviewer to ascertain that the ESG labelled debt securities are in alignment with any of the recognised standards, in compliance with the following conditions:
  - a) The reviewer must be independent of the issuer, its directors, senior management, key managerial personnel and advisers
  - b) The reviewer must be remunerated in a way that prevents any conflicts of interest
  - c) The reviewer must have sufficient expertise in assessing ESG debt securities
- 4) The independent external reviewer can take one or more of the following forms recommended by the International Capital Market Association:
  - a) Second Party Opinion
  - b) Verification
  - c) Certification
  - d) Scoring / Rating

A credit rating agency or an ESG rating provider registered with the IFSCA or a regulator in India or a Foreign Jurisdiction will also be eligible to act as an external reviewer.
- 5) The issuer must ensure that the details regarding the independent external reviewer are adequately disclosed and easily accessible to the investors.

**Additional disclosures in Offer document / Information Memorandum**

- 1) The issuer must make the following additional disclosures in the offer document or information memorandum, in respect of ESG labelled debt securities (other than sustainability-linked debt securities):
  - a) A statement on ESG objectives of the issue of debt securities
  - b) Details of process followed by the issuer for evaluating and selecting the project(s) and/or asset(s)
  - c) Proposed use of the proceeds of the issue including details of the project(s) and/or asset(s)
  - d) Details of the systems and procedures to be employed for tracking the deployment of the proceeds of the issue
- 2) The issuer must make the following additional disclosures in the offer document or information memorandum, in respect of sustainability-linked debt securities:
  - a) The issuer must disclose the rationale for issuance of sustainability-linked debt securities and consistency with issuers' overall sustainability and business strategy.
  - b) The issuer must adhere to pre-issuance and post-issuance obligations in accordance with the relevant international standards that the securities are aligned with. For example, where the debt securities are aligned with ICMA Sustainability-Linked Bond Principles (2024), the guidelines related to five core components - Selection of Key Performance Indicators, Calibration of Sustainability Performance Targets, Bond characteristics, Reporting and Verification must be followed for all the disclosures and continuous obligations.

**Additional Continuous Disclosure Requirements**

- 1) The issuer must provide the following additional disclosures to the recognised stock exchange(s), at least on an annual basis, until full utilisation of the proceeds, in respect of ESG labelled debt securities (other than sustainability-linked debt securities):
  - a) Utilisation of proceeds of the issue
  - b) Allocation: List of project(s) and/or asset(s) to which proceeds of the debt securities have been allocated/invested, including a brief description of such project(s) and/or asset(s), and the amounts disbursed.

Where confidentiality agreements restrict the disclosure of details about specific project(s) and/or asset(s), the information must be presented in generic terms or on an aggregated portfolio basis.
  - c) Impact:
    - i) Qualitative performance indicators and, where feasible, quantitative performance measures of the expected/achieved ESG impact of the project(s) and/or asset(s).
    - ii) Where the quantitative benefits/impact cannot be ascertained, then the said fact can be appropriately disclosed along with the reasons for non-ascertainment of the benefits/impact on the ESG.
    - iii) The methods and the key underlying assumptions used in preparation of the performance indicators and metrics must be disclosed.
- 2) The issuer of sustainability-linked debt securities must provide the following additional disclosures to the recognised stock exchange(s), at least on an annual basis, and additionally for any date or period relevant for assessing the performance of Sustainability Performance Targets (SPT), which can lead to a potential adjustment of the debt securities' financial or structural characteristics:

- a) up-to-date information on the performance of the selected Key Performance Indicator(s), including baselines where relevant
- b) any information enabling investors to monitor the level of ambition of the SPTs
- c) a verification report by an independent external reviewer outlining the performance against the SPTs and the related impact, and timing of such impact, on the debt securities' financial and/or structural characteristics.

## TRANSITION BOND FRAMEWORK - IFSC

### The Global Landscape of Transition Finance

#### 1. Global Disclosure Developments

Over the past few years, the global architecture for transition finance has evolved from voluntary principles into structured, mandatory systems. The most significant development is the establishment of a global baseline for disclosure, led by the International Sustainability Standards Board (ISSB). The IFRS S2 standard, strengthened by new 2025 guidance, now requires companies to disclose transition plans if they materially affect climate risk understanding. This global baseline is being implemented across major jurisdictions. The European Union (EU) through its Corporate Sustainability Reporting Directive (CSRD), will see its first disclosures in 2025, while the United Kingdom's (UK) Transition Plan Taskforce (TPT) framework is expected to embed into regulatory requirements by the Financial Conduct Authority (FCA). These developments mark a decisive shift, from optional sustainability reporting to legally enforceable transition accountability.

The IFSCA's Framework for Transition Bonds intends to function as the architect's blueprint for this complex renovation, by mandating credible transition plans, taxonomic alignment, and transparent disclosure mechanisms that enables foreign investors to fund the modernization of India's hard-to-abate sectors. This regulatory framework acknowledges a fundamental truth: achieving economy-wide decarbonization requires not just building the new but systematically upgrading what already exists and cannot be abandoned.

#### 2. Taxonomy Evolution and Market Alignment

Parallel to disclosure reforms, taxonomies defining "green" and "transition" activities have advanced rapidly. These frameworks give investors a common language to assess the credibility of decarbonization efforts.

- Singapore has emerged as a leader through its Singapore-Asia Taxonomy for Sustainable Finance, introducing an "amber" category for credible transition activities. This taxonomy supported its first S\$500 million transition bond in October 2025.
- The ASEAN Taxonomy for Sustainable Finance and the Australian Sustainable Finance Taxonomy similarly integrate transition activities as distinct classifications.
- The EU Platform on Sustainable Finance, in January 2025, issued detailed guidance for evaluating high-quality corporate transition plans, linking disclosure standards with activity classification.

Beyond governments, global coalitions such as the G20 Sustainable Finance Working Group, OECD, and ICMA are shaping common standards. In November 2025, ICMA launched the Climate Transition Bond Guidelines (CTBG), a dedicated instrument-level framework that complements entity-level practices under the Climate Transition Finance Handbook (CTFH).

Together, these developments underscore a growing consensus: transition finance is no longer peripherality, it is becoming a core pillar of sustainable finance, grounded in disclosure, taxonomy, and transparency.

### India's Climate Ambition and the Transition Finance Imperative

At COP26 in Glasgow (November 2021), Prime Minister Narendra Modi announced India's net-zero emissions target by 2070 and updated the country's Nationally Determined Contributions (NDCs). India's climate finance requirements to achieve those targets vary significantly depending on scope, sectoral coverage, and time horizon, as demonstrated in the table below.

Source	Year	Estimates to 2030	Estimates to 2050/2070	Remarks
CEEW-CEF	2021	Part of USD 10.1 trillion	USD 10.1 trillion to 2070 (net-zero)	Investment gap: USD 3.5 trillion, Concessional finance need: USD 1.4 trillion
Climate Policy Initiative	2024	USD 170 billion/year (INR 11 trillion/year)	Not specified to 2070	Covers mitigation sectors, 87% domestic sources
NITI Aayog India Energy Security Scenarios (IESS) 2047	2025	USD 250 billion/year (energy transition only)	USD 250 billion/year to 2047	Energy transition only, excludes EV infrastructure and demand sectors
Centre for Social & Economic Progress	2025	USD 467 billion (2022-2030, four sectors: Steel, Cement, Power and Road transport only)	Not specified	Steel (USD 251Bn), Cement (USD 141Bn), Power (USD 57Bn), Transport (USD 18Bn), 1.3% of GDP annually

India's climate finance landscape between 2020 and 2025 presents a sharp paradox. A raft of supportive policies has successfully "crowded in" significant capital for "green" sectors, particularly renewable energy and electric mobility. However, this success has created a profound sectoral imbalance, leaving the capital-intensive, hard-to-abate industrial sectors, such as steel, cement, chemicals, and heavy transport, facing significant barriers to accessing the transition finance required for their decarbonisation.

CPI in its 2024 report, tracked total green finance flows of \$65 billion in FY 2021-22. The sectoral distribution of this capital is heavily skewed. Clean Energy (primarily solar and wind) and Clean Transport (overwhelmingly electric vehicles) attracted \$23.9 billion and \$9 billion, respectively. Together, these two "green" sectors accounted for 53% of all tracked green finance. The said reports systematically exclude chemicals, petrochemicals, aviation, shipping, and oil & gas transition finance. This omission reflects both data scarcity and the absence of established financing frameworks for these sectors' transition pathways.

As per the Centre for Social and Economic Progress's 2025 study indicates that steel sector requires USD 251 billion (2022-2030) and Cement needs USD 141 billion (additional capital expenditure) for decarbonization efforts. This imbalance is not accidental, it is the direct result of targeted, successful policy interventions aimed at de-risking and incentivising mature green technologies. Against this, hard-to-abate sectors face a combination of policy gaps, market perception issues, and technological risk that deter competitive capital. This has resulted in a situation where investors are comfortable financing inherently "green" assets, they remain hesitant to fund "greening" activities within "brown" industrial sectors. "Framework for Transition Bonds" issued by IFSCA on July 29, 2025, aims to address policy gaps for the Indian and other issuers from hard-to-abate sectors.

## IFSCA's Transition Bond Framework: Bridging Policy and Practice

### 1. Purpose and Context

India's industrial decarbonization challenge requires a financing mechanism tailored to its high-emission sectors where transition is gradual and capital intensive. The IFSCA Framework for Transition Bonds is designed precisely to fill this policy and financing gap.

By allowing companies in hard-to-abate sectors to issue bonds at GIFT IFSC while adhering to credible transition standards, the framework seeks to unlock foreign capital and build investor confidence through transparency, verification, and accountability.

### 2. Structural Design and Core Principles

The framework is built on four core pillars that collectively strengthen its credibility and investor appeal:

1. **Credible entity-level transition plans** aligned with the Paris Agreement and supported by measurable emission-reduction targets.
2. **Taxonomic alignment** with recognized international frameworks or technology roadmaps to ensure consistency and comparability.
3. **Mandatory independent external reviews** such as second-party opinions, certification, or verification, to safeguard investor trust.
4. **Comprehensive disclosure requirements**, both at issuance and annually, covering governance, emission metrics, and capital expenditure rollout.

These pillars directly address global investors' expectations for clarity, accountability, and science-based alignment, key prerequisites for scaling transition finance.

### 3. Taxonomic Flexibility and Global Alignment

Recognizing that India's own Climate Finance Taxonomy remains in draft form, IFSCA has adopted a pragmatic approach. Issuers are permitted to reference internationally recognized taxonomies and technology roadmaps, such as:

- EU, Japan, Singapore-Asia, ASEAN, and Australian frameworks, and
- Japan's METI and the International Energy Agency (IEA) decarbonization roadmaps.

This flexibility provides immediate functionality for Indian issuers while maintaining international credibility and minimizing transaction costs, crucial for attracting foreign institutional capital familiar with these benchmarks.

### 4. Disclosure Architecture and Governance Integrity

Drawing on ICMA's Climate Transition Finance Handbook, the framework mandates detailed disclosures across four key dimensions:

- **Transition Plan & Governance:** Measurable GHG reduction targets, board-level oversight, and linkage with overall sustainability strategy.
- **Business Model Materiality:** Project-level relevance, sectoral emissions footprint, and Scope 3 emissions reporting timeline.
- **Science-based Strategy:** Transparent use of modeling frameworks such as SBTi, ACT, and IEA scenarios.
- **Implementation Transparency:** Capital expenditure roadmap, timeline for phasing out incompatible activities, and disclosure of locked-in emissions.

Together, these requirements institutionalize credibility and ensure that transition bonds reflect authentic, verifiable climate action.

### 5. Integration with Domestic Policy Ecosystem

IFSCA Framework for Transition Bonds create a powerful policy synergy with India's newly notified Greenhouse Gases Emission Intensity (GEI) Target Rules, 2025, operationalizing the Carbon Credit Trading Scheme (CCTS) effective from fiscal year 2025-26. Hence, establishing a dual-pathway financial model for hard-to-abate sectors. This has the potential to create a triple financial value proposition for transition-focused companies. First, access to cost-effective foreign capital through transition bonds to finance low-carbon infrastructure, technology upgrades, and decarbonization pathway. Second, compliance revenue through carbon credit generation and trading when emissions reductions exceed intensity targets and third, regulatory certainty within India's evolving carbon market framework. This complementarity addresses a fundamental challenge in hard-to-abate transition finance i.e. the extended capital payback periods (often 15-25 years for CCS infrastructure) that make pure debt financing unattractive without auxiliary revenue streams. By combining transition bond financing with carbon credit monetization under the GEI framework, India's policy architecture converts compliance obligations into financial opportunities.

### 6. Outlook and Potential Impact

The framework explicitly targets hard-to-abate sectors such as steel, cement, chemicals, aviation, shipping etc. Industries such as steel and cement alone are estimated to require USD 392 billion in investment by 2030. If the IFSCA succeeds in mobilizing even 10% of the capital requirements, taking conservative estimates, for the steel and cement sectors during 2025–2030, and if this effort is complemented by similar mobilization in other hard-to-abate sectors, it could potentially facilitate around USD 10 billion in annual investments by 2030.

#### Structural Barriers to Transition Finance

In spite of lot of potential for transition finance, the full utilization of the IFSCA's "Framework for Transition Bonds" is facing following barriers.

- a) **Lack of Climate Finance taxonomy:** India's draft Climate Finance Taxonomy (released May 2025) acknowledges the need to address *"transition, in line with country circumstances, in hard-to-abate sectors"* with iron, steel, and cement prioritized. However, taxonomy remains in draft form as of October 2025, creating regulatory uncertainty.
- b) **Sector Specific Transition Roadmap:** The Asia Investor Group on Climate Change's consultation response to India's taxonomy highlights that *"the government could consider issuing guidance for corporate transition plans, aligned with national targets and sectoral roadmaps to help standardize disclosures and improve investor confidence in transition-aligned activities"*. The absence of clearly defined transition pathways, technical screening criteria for intermediate decarbonization steps, and prescribed sunset dates creates hesitation among institutional investors accustomed to binary green/non-green classifications.
- c) **Risk Perception:** Hard-to-abate sectors face multiple risk layers such as technology risk (CCS, Green hydrogen), asset stranding risk and long payback period, discourage the investor from finance transition activities.

#### Building India's Transition Finance Future

The IFSCA Framework for Transition Bonds marks a significant milestone in India's sustainable finance journey. While green finance has successfully driven growth in renewable energy and electric mobility, the next frontier lies in transforming the country's industrial core, the hard-to-abate sectors that power its economic engine.

The framework fills this critical gap by introducing a credible, transparent, and globally aligned mechanism to channel capital into these sectors' decarbonization pathways.

Yet, its success will depend on implementation depth, policy convergence, and market adoption. The transition finance ecosystem in India still faces foundational challenges: the absence of a finalized national taxonomy, lack of sector-specific decarbonization roadmaps, and persistent perception of technological and policy risk among investors. Addressing these will require a coordinated approach among regulators, industry bodies, government and financial institutions to standardize disclosures, validate credible transition plans, and provide blended finance instruments that reduce perceived risks.

Looking ahead, India's transition finance architecture must evolve from being regulation-driven to market-led. The real test will be whether private capital, domestic and global, views transition finance not as compliance, but as opportunity. By linking financial performance with measurable climate outcomes, instruments such as transition bonds can reshape how capital markets support industrial competitiveness and sustainability.

IFSCA framework has the potential to anchor GIFT-IFSC as a regional hub for transition finance, setting benchmarks for emerging economies balancing growth and decarbonization. In doing so, India would not only steer its own industrial transition but also demonstrate how developing nations can finance climate ambition without compromising development priorities.

## GREENWASHING

### The Evolution of ESG and Climate Financing Over the Last Decade

Consider entrusting your capital to a "green" fund, convinced that your investment is a bulwark against ecological ruin—only to unearth the disconcerting truth that it sustains the industries you sought to thwart. Over the past decade, the realm of Environmental, Social, and Governance (ESG) investing and climate financing has undergone extraordinary metamorphosis, evolving from a peripheral interest to an institutional subject to a formidable multi-trillion-dollar force concerning all stakeholders. The *Global Landscape of Climate Finance 2024* report by the Climate Policy Initiative reveals that climate finance reached an impressive USD 1.46 trillion in 2022, with projections exceeding USD 1.5 trillion in 2023.

As an affirmation to this, the Climate Bonds Initiative notes that the market for Green, Social, Sustainability, and Sustainability-Linked (GSS+) bonds swelled to USD 5.4 trillion by the close of Q3 2024. Yet, amid this virtuous ascent, a sinister undercurrent emerges -*greenwashing*. This article on greenwashing discusses it in the following phases:

- a. the meteoric rise of ESG and climate financing,
- b. the pervasive challenge of greenwashing,
- c. global regulatory efforts to curb its risks, and
- d. the pioneering approach of the International Financial Services Centres Authority (IFSCA) in tackling this deception.

### Climate Financing

Climate financing, in particular, has gained traction as governments and corporations commit to net-zero targets. Green bonds, sustainability-linked loans, and ESG-labeled debt securities have emerged as key instruments, with issuers raising trillions of dollars to fund renewable energy, carbon reduction, and social impact projects. Regulatory bodies worldwide, recognizing the potential of finance to drive sustainability, have introduced disclosure mandates and taxonomies to standardize and legitimize these efforts. Meanwhile, institutional

investors, pension funds, and retail clients have increasingly integrated ESG criteria into their decision-making, pushing asset managers to innovate and market “sustainable” financial products.

### The Green Tightrope: Navigating the Perils of Promise and Pitfalls

However, this rapid expansion has not come without challenges. Below is a summary of various challenges that have accompanied the rise of sustainable finance. The table highlights the interconnected nature of these challenges, with each feeding into the others, creating a complex landscape for stakeholders.

Sr. No	Category	Specific challenges
1	Regulatory Environment	Fragmented regulations, lack of unified frameworks
2	Data and Analytics	Data quality, measurement difficulties, inconsistent ratings
3	Standardization and Trust	Lack of definitions, greenwashing, transparency issues

The rise of climate and ESG financing is a double-edged sword, offering immense potential but fraught with significant hurdles. Addressing these challenges requires co-ordinated global action, improved data infrastructure, and innovative financial instruments coupled with constant supervision to ensure that the promise of sustainability is not just a mirage.

### The Shadows Beneath the Green Boom: Setting the Stage for Greenwashing

#### What is Greenwashing?

By now a well-known concept, Greenwashing refers to the deceptive practice of making unsubstantiated, exaggerated, or misleading claims about the sustainability benefits of a product, service, or entity. In the context of the financial market, it involves financial institutions, asset managers, or issuers promoting investments as environmentally or socially beneficial, often labeled as “green,” “sustainable,” or “ESG-compliant” without sufficient evidence or alignment with actual sustainability outcomes. This can include overstating the environmental impact of a fund, selectively reporting ESG metrics, or concealing negative externalities like continued fossil fuel investments. Below are some examples of greenwashing in international financial markets.

- i. DWS, the asset management arm of Deutsche Bank, faced allegations of greenwashing in 2021-2023 after claiming its funds were heavily ESG-integrated. A whistleblower, Desiree Fixler (former head of sustainability), revealed that despite marketing claims of using an ESG integration for investment decisions, ESG factors were minimally considered. DWS has agreed to a \$19 million fine to settle the charges, marking the largest-ever greenwashing penalty imposed on an asset manager by the SEC.
- ii. In 2023, Barclays classified a \$10 billion revolving credit facility to Shell as “social and environmental” financing within its \$150 billion sustainability target. Critics, including environmental groups, labeled this as greenwashing, arguing that Shell’s modest carbon intensity reduction goals (9-13% by 2025) and continued oil and gas expansion contradicted sustainability claims.

### Greenwashing challenges

Greenwashing can undermine the credibility of the sustainable finance market and hinder the transition to a low-carbon economy. If investors cannot trust the environmental claims made by companies, they may lose faith and become reluctant to invest in sustainable products, slowing the flow of capital to genuinely sustainable projects. Additionally, it may mislead stakeholders and risk a regulatory backlash.

## Greenwashing in the Financial Market: Insights from Global Regulatory Guidance

As greenwashing has gained prominence, regulatory bodies worldwide have issued reports and recommendations to address it. Below, we examine key findings and strategies from the International Organization of Securities Commissions (IOSCO), Securities and Exchange Board of India (SEBI), Financial Conduct Authority (FCA) UK, International Capital Market Association (ICMA), and Australian Securities & Investments Commission (ASIC).

### IOSCO

IOSCO published a report on “Supervisory Practices to Address Greenwashing” in December 2023 and a paper on “IOSCO Good Sustainable Finance Practices” in November 2022 Identifying good practices to counter the risk of greenwashing. The good practices identified by IOSCO are focused on product-level disclosures which cover areas like naming, labeling and classification of sustainability- related products, investment objectives, and strategies disclosure, monitoring of compliance and sustainability-related performance of products.

### SEBI

SEBI has introduced guidelines for green debt securities to avoid occurrences of greenwashing by emphasizing fund utilization, continuous monitoring, and disclosure requirements. Further, vide circular dated February 03, 2023, SEBI also issued a circular on “*Dos and don'ts relating to green debt securities to avoid occurrences of greenwashing*”.

### FCA UK

**FCA UK** has also come up with the Anti greenwashing rule for all FCA-authorized firms. The Rule requires that references made to the sustainability characteristics of a product or service are (i) consistent with the sustainability characteristics of the product or services and (ii) clear, fair, and not misleading. FCA also came up with guidance to help firms understand and comply with the anti-greenwashing rule.

### ICMA

ICMA published a report on market integrity and greenwashing risks in sustainable finance in October 2023 and identified four areas of concern of greenwashing concerning sustainable bonds viz. lack of ambition, strategic inconsistency, mismanagement of wider sustainability risks, and actual deception.

### ASIC

ASIC issued an “information sheet 271” in June 2022 on avoiding greenwashing while offering or promoting sustainability-related products. It focuses on disclosure requirements and investor protection measures.

### Common Parameters to Mitigate Greenwashing Risk

Parameter	IOSCO	SEBI	FCA (UK)	ICMA	ASIC
Clear Definitions/Labels	Yes	Yes	Yes	Yes	Yes
Transparent Disclosures	Yes	Yes	Yes	Yes	Yes
Third-Party Verification	Yes	Yes	-	Yes	Yes
Alignment with Standards	Yes	Yes	Yes	Yes	Yes
Use of Proceeds Clarity	Yes	Yes	Yes	Yes	Yes
Impact Reporting	Yes	Yes	Yes	Yes	Yes

Parameter	IOSCO	SEBI	FCA (UK)	ICMA	ASIC
Regulatory Oversight	Yes	Yes	Yes	-	Yes

Across these bodies, transparency, alignment with recognized frameworks, and robust disclosures are universal priorities. SEBI and ICMA emphasize third-party reviews, while IOSCO and FCA focus on regulatory enforcement. ASIC uniquely ties greenwashing to consumer law, reflecting a broader accountability lens.

### IFSCA efforts to combat greenwashing

#### IFSCA Circular Principles to Mitigate Greenwashing in ESG-Labeled Debt Securities

On November 21, 2024, IFSCA issued a circular titled “*Principles to Mitigate the Risk of Greenwashing in ESG Labelled Debt Securities in the IFSC.*” Aimed at issuers of financial instruments at IFSCs, the circular outlines five key principles:

**A. *Being True to Label - Avoid misleading labels and terminology***

Issuers must align ESG-labeled securities with recognized frameworks (e.g., ICMA Principles) and avoid misleading terminology. Additionally, offer documents should specify how proceeds contribute to sustainability goals.

**B. *Screen the Green - Transparency in methodology for project selection and evaluation***

Issuers shall disclose in the offer documents ESG objectives, project selection processes, and fund allocation plans in offer documents, avoiding vague or generic statements to describe investment screening criteria.

**C. *Walk the talk - Managing and tracking the use of proceeds***

The issuer should outline procedures along with internal control to ensure that funds are directed only towards projects or activities as defined in the offer document.

**D. *Overall Impact - Quantification of Negative Externalities***

The issuer should quantify the negative externalities associated with ESG debt utilization. This could include metrics for residual environmental impacts or potential environmental risks associated with the financed projects.

**E. *Be alert - Monitoring and Disclose***

Issuers of green debt securities should continuously monitor and disclose the environmental impact of their projects financed by the issuance.

### Greenwashing - Comparative Analysis of IFSCA Circular with Global regulatory efforts

**IOSCO:** IFSCA's emphasis on external reviews and impact reporting mirrors IOSCO's call for verifiable disclosures and oversight, though IFSCA is more prescriptive about annual reviews.

**SEBI:** The IFSCA circular builds on SEBI's third-party verification and disclosure mandates but adds specificity on negative externalities and project-level impact, reflecting a deeper focus on transparency.

**FCA (UK):** While FCA (UK) focuses on labels and anti-greenwashing rules, IFSCA goes further by requiring detailed tracking systems and external validation, offering a more hands-on approach.

**ICMA:** IFSCA aligns closely with ICMA's voluntary principles, providing further guidance and adding quantitative impact assessment, which strengthens accountability.

**ASIC:** Both emphasize clarity in claims, but IFSCA's structured principles and mandatory reviews contrast with ASIC's broader, principle-based guidance.

Greenwashing is not merely a regulatory hurdle; it is a mirage that lures investors into a desert of false promises, leaving sustainable ambitions parched. The evolution of ESG and climate financing reflects humanity's hope for a greener future, but the shadow of greenwashing reveals a stark truth: not all that glitters green is gold. Bodies like IOSCO and regulators like SEBI and IFSCA are arming investors with tools — transparency, verification, and accountability—to pierce this illusion. Yet, the most profound defense lies in the investor. The fight against greenwashing is not just about compliance, it's about reclaiming the soul of sustainable finance.

## LISTING OF OTHER FINANCIAL PRODUCTS

### Listing of Funds and Investment Trusts

An issuer can list a fund or an investment trust on a recognised stock exchange in terms of IFSCA (Fund Management) Regulations, 2025.

### Listing of Commercial Papers

An issuer may list commercial paper on a recognised stock exchange in such manner and subject to such conditions as may be specified by the IFSCA.

### Listing of Certificates of Deposit

An issuer may list a certificate of deposit on a recognised stock exchange in such manner and subject to such conditions as may be specified by the IFSCA.

### Listing of other financial products

An issuer may list such other financial product on a recognised stock exchange in such manner and subject to such conditions as may be specified by the IFSCA.

## LISTING OBLIGATIONS AND DISCLOSURE REQUIREMENTS UNDER IFSCA (LISTING) REGULATIONS, 2024

### General Obligations

#### 1. Applicability

The provisions must apply to the securities listed on the recognised stock exchange(s) under IFSCA (Listing) Regulations, 2024.

#### 2. Principles governing disclosures and obligations

The Listed Entity must make disclosures and abide by its obligations under the regulations in accordance with the following principles:

- a) Information must be prepared and disclosed in accordance with applicable accounting standards for financial disclosure
- b) The Listed Entity must implement the applicable accounting standards in letter and spirit in the preparation of financial statements, taking into consideration the interests of all stakeholders, and must also ensure that the annual audit is conducted by an independent and qualified auditor
- c) The Listed Entity must refrain from misrepresentation and ensure that the information provided to recognised stock exchange(s) and investors is not misleading

- d) The Listed Entity must provide adequate and timely information to recognised stock exchange(s) and investors
- e) The Listed Entity must ensure that the disseminations made under the provisions of the regulations and circulars issued are adequate, accurate, explicit, timely and presented in simple language
- f) The Listed Entity must ensure that the channels for disseminating information provides for equal, timely and cost efficient access to relevant information by investors
- g) The directors of the Listed Entity must act in good faith in order to promote the objects of the company for the benefit of its members as a whole, and in the best interests of the Listed Entity, its employees, the shareholders, the society and for the protection of environment
- h) The Listed Entity must abide by all applicable laws of its home jurisdiction as well as securities laws and also such other requirements as may be specified by the IFSCA and the recognised stock exchange(s).
- i) The Listed Entity must make the specified disclosures and follow its obligations in letter and spirit taking into consideration the interest of all stakeholders.
- j) The Listed Entity must ensure that the relevant filings, reports, statements, documents and information are duly filed within the specified timelines and contain requisite information.
- k) The Listed Entity must ensure that periodic filings, reports, statements, documents must contain information that can enable investors to track the performance of a Listed Entity over a period of time and can provide sufficient information to enable investors to assess the current status of a Listed Entity. It must include all material updates on the business, financial performance, management, etc.

### 3. General obligation of compliance

The Listed Entity must ensure that key managerial personnel, directors, promoters, controlling shareholders or any other person dealing with it comply with responsibilities or obligations as assigned to them under the regulations.

### 4. Compliance Officer and Obligations

- 1) A Listed Entity must appoint a **qualified company secretary** as the compliance officer. Where the entity is incorporated outside India, a company secretary or equivalent must be appointed as compliance officer.
- 2) The compliance officer of the Listed Entity must be responsible for
  - a) ensuring conformity with the applicable regulatory obligations under these regulations, in letter and spirit
  - b) co-ordination with and reporting to the IFSCA, recognised stock exchange(s) and depositories with respect to compliance with rules, regulations and other directives of these authorities in such manner as may be specified
  - c) ensuring that the correct procedures are followed to ensure the correctness, authenticity and comprehensiveness of the information, statements and reports filed under the regulations.

**ENTITIES WITH SPECIFIED SECURITIES LISTED ON RECOGNISED STOCK EXCHANGES AS A PRIMARY LISTING****1. Material or Price Sensitive Information**

- 1) The Listed Entity must immediately make disclosure to the recognised stock exchange(s) of any event or information concerning it or any of its subsidiaries or associates which, in the opinion of the board of directors of the Listed Entity, is material or price sensitive. The Listed Entity must consider the following criteria for determination of materiality of events/ information:
  - a) the omission of an event or information, which is likely to result in discontinuity or alteration of event or information already available publicly
  - b) the omission of an event or information which is likely to result in a significant market reaction if the said omission came to light at a later date
  - c) where the criteria specified in (a) and (b) are not applicable, an event/information can be treated as being material if in the opinion of the board of directors of Listed Entity, the event / information is considered material. For the purpose of the regulations, immediately means promptly but not later than twenty-four hours.
- 2) The Listed Entity must frame a policy for the determination of materiality, based on criteria specified in these regulations, duly approved by its board of directors, which must be disclosed on its website.

**2. Amendment to Memorandum or Articles of Association**

The Listed Entity must immediately disclose to the recognised stock exchange(s) any amendment to its constitutional documents viz. memorandum or articles of association or any other similar document, by whatever name called.

**3. Intimation about Board Meeting**

- 1) The Listed Entity must give prior intimation about the meeting of the board of directors and immediately disclose outcome of the meeting of the board of directors, to the recognised stock exchange(s) in respect of any of the following proposals:
  - a) dividends
  - b) buyback of securities
  - c) decision with respect to fund raising or change in capital
  - d) financial results
  - e) decision on voluntary delisting by the Listed Entity from stock exchange(s)
  - f) any material business event such as acquisition, demerger, sale or purchase of assets/ businesses/ companies
  - g) material litigation
- 2) The intimation must be given at least two working days in advance, excluding the date of the intimation and date of the meeting.

**4. Annual and Extraordinary General Meetings**

The Listed Entity must immediately disclose to the recognised stock exchange(s) the proceedings of Annual and extraordinary general meetings, by whatever name called.

**5. Change in Director, KMP, Auditor or Compliance Officer**

- 1) The Listed Entity shall immediately disclose to the recognised stock exchange(s) any change in director, key managerial personnel, auditor or Compliance Officer.
- 2) In case of a resignation of the auditor of the Listed Entity, detailed reasons for resignation of auditor, as given by the said auditor, shall be disclosed by the Listed Entity to the recognised stock exchange(s) as soon as possible but not later than one working day of receipt of such reasons from the auditor.
- 3) In the case of a resignation of any director, key managerial personnel or compliance officer, such person shall inform to the recognised stock exchange(s), in writing if he is aware of any irregularities which would have a material impact on the Listed Entity, including financial reporting, as soon as possible but not later than one working day.

**6. Adverse opinion by auditor**

The Listed Entity must immediately disclose to the recognised stock exchange(s) any adverse opinion, disclaimer of opinion, qualified opinion by the auditor on the financial statements of-

- i) the Listed Entity
- ii) any of the Listed Entity's subsidiaries or associates, if the adverse opinion, disclaimer of opinion, or qualified opinion has a material impact on the consolidated accounts of the Listed Entity.

**7. Investigation**

- 1) The IFSCA or a recognised stock exchange may require a Listed Entity to appoint a competent person to review or investigate its affairs and report its findings to the IFSCA, recognised stock exchange(s) and its Audit Committee.
- 2) The Listed Entity must ensure that any information with respect to the appointment of a person and findings by such person must be immediately disclosed to the recognised stock exchange(s) for public dissemination.

**8. Encumbrances**

- 1) The promoters and the controlling shareholders of the Listed Entity must disclose details of any encumbrance of specified securities of the Listed Entity created or invoked or released, within two working days of such creation or invocation or release, as the case may be, to:
  - a) The recognised stock exchange (s)
  - b) The Listed Entity
- 2) The Listed Entity must ensure that the disclosures received are immediately disclosed to the recognised stock exchange(s).

**9. Shareholding Pattern**

The Listed Entity must submit its shareholding pattern to the recognised stock exchange(s), in such form and manner as may be specified by the IFSCA or the recognised stock exchange(s) on a quarterly basis, within fifteen working days from the end of each quarter.

**10. Financial Statements**

- 1) The Listed Entity must disclose the audited standalone and consolidated financial statements for the full financial year to the recognised stock exchange(s) immediately after the approval of its board of directors, but in any event not later than three months of the end of the financial year.

- 2) The Listed Entity must disclose the financial statements for first half of the financial year to the recognised stock exchange(s) immediately after the approval of its board of directors, but in any event not later than forty-five days after the end of first half year.
- 3) The Listed Entity must prepare its financial statements in accordance with IFRS or US GAAP or Ind AS or other accounting standards as applicable in its home jurisdiction. A Listed Entity preparing financial statements as per the accounting standards of its home jurisdiction (other than IFRS, US GAAP and Ind AS) must be required to reconcile the same with IFRS.

#### **11. Annual Report**

- 1) The Listed Entity must submit the annual report to the recognised stock exchange(s) immediately after the finalisation of the same, and also publish the annual report on its website.
- 2) The annual report must contain the following:
  - a) Audited standalone and consolidated financial statements
  - b) Directors report
  - c) Management discussion and analysis report
  - d) Corporate Governance practices
  - e) Sustainability Report, if applicable
  - f) Mandatory requirements as specified in the laws of the jurisdiction of incorporation

#### **12. Statement of deviation(s) or variation(s)**

- 1) The Listed Entity must submit to the recognised stock exchange(s) the statement(s) of deviation (indicating category-wise variation between projected utilisation of funds made by it in its offer document), if any, in the use of proceeds from the objects stated in the offer document on a quarterly basis for public issue.
- 2) The statement(s) specified in 1), must be continued to be given till such time the issue proceeds have been fully utilised or the purpose for which these proceeds were raised has been achieved.
- 3) The statement(s) specified in 1), must be submitted to the recognised stock exchange(s) immediately after review by the audit committee but not later than forty five days from the end of quarter.
- 4) The Listed Entity must furnish an explanation for the variation, in the directors' report in the annual report.

#### **13. Corporate Governance**

- 1) The Listed Entity must describe its corporate governance practices in its annual report in the manner specified by the laws of the jurisdiction of its incorporation.
- 2) The Listed Entity must also comply with the corporate governance norms as may be specified by the IFSCA.

#### **14. Sustainability Report**

- 1) The Listed Entity must disclose to the recognised stock exchange(s) a sustainability report with respect to environmental, social and governance factors for financial year, no later than six months after the end of its financial year. This will not apply to the Listed Entities having market capitalisation of less than USD 50 million.
- 2) The sustainability report specified in (1) must be prepared based on:

- a) internationally accepted reporting standards such as Global Reporting Initiative, International Sustainability Standards Board, Task Force on Climate-related Financial Disclosures
- b) Business Responsibility and Sustainability Reporting
- c) any other standards that may be specified by the IFSCA

#### **15. Corporate actions**

- 1) The Listed Entity must inform the recognised stock exchange(s) in advance of any proposed corporate actions such as stock split, consolidation, dividend, bonus issues or similar events.
- 2) The Listed Entity must give notice of the record date for such corporate action to the recognised stock exchange(s), wherever applicable at least three working days in advance, specifying the purpose of the record date.

#### **16. Meetings of shareholders and voting**

- 1) The Listed Entity must provide the remote e-voting facility to its shareholders in respect of all shareholders' resolutions.
- 2) The Listed Entity must submit the voting results to the recognised stock exchange(s), within two working days from the date of conclusion of its General Meeting.
- 3) The Listed Entity must send proxy forms to holders of the securities in all cases, mentioning that a holder may vote either for or against each resolution.
- 4) The Listed Entity must provide a one-way live webcast of the proceedings of the annual general meetings to all its shareholders.

#### **17. Whistle-blower mechanism**

The Listed Entity must establish a whistle-blower mechanism for directors, employees and others to report genuine concerns while ensuring adequate safeguards against victimisation of persons who use such mechanism.

#### **18. Website**

The Listed Entity must maintain a functional website that contains basic information about the entity, including details about its business, board of directors, key managerial personnel, compliance officer, financial statements, e-mail address for grievance redressal and annual reports.

#### **19. Dissemination by recognised stock exchange(s)**

The recognised stock exchange(s) must ensure that the disclosures made by the Listed Entities are immediately disseminated on their websites.

### **SECONDARY LISTING OF SPECIFIED SECURITIES**

#### **1. Disclosure by entities with secondary listing of specified securities**

The issuer with secondary listing of specified securities on a recognised stock exchange must comply with the following requirements:

- a) It must ensure that the specified securities are continued to be listed on its home exchange and abide by the listing and other rules of such exchange and home regulator
- b) It must release all disclosures in English to the recognised stock exchange(s) simultaneously with their release to its home exchange and home regulator where it has a primary listing

- c) It must comply with such other requirements as may be specified by the IFSCA or recognised stock exchange(s)

### **Listing Obligations and Disclosure Requirements for Companies having Depository Receipts listed on Recognised Stock Exchange (s)**

#### **1. Financial Statements**

- 1) The Listed Entity must disclose the audited financial statements for the full financial year to the recognised stock exchange(s) immediately after the approval of its board of directors, but in any event not later than three months of the end of financial year.
- 2) The Listed Entity must disclose the financial statements for first half of the financial year to the recognised stock exchange(s) immediately after the approval of its board of directors, but in any event not later than forty-five days after the end of first half year.
- 3) The Listed Entity must prepare its financial statements in accordance with IFRS or US GAAP or Ind AS or other accounting standards as applicable in its home jurisdiction. A Listed Entity preparing financial statements as per the accounting standards of its home jurisdiction (other than IFRS, US GAAP and Ind AS) must be required to reconcile the same with IFRS.

#### **2. Material or price-sensitive events**

- 1) The Listed Entity must immediately make disclosure to the recognised stock exchange(s) of any event or information concerning it or any of its subsidiaries or associates which, in the opinion of the board of directors of the Listed Entity, is material or price sensitive. The Listed Entity must consider the following criteria for determination of materiality of events/ information:
  - a) the omission of an event or information, which is likely to result in discontinuity or alteration of event or information already available publicly
  - b) the omission of an event or information which is likely to result in significant market reaction if the said omission came to light at a later date
  - c) where the criteria specified in (a) and (b) are not applicable, an event/information may be treated as being material if in the opinion of the board of directors of Listed Entity, the event / information is considered material.
- 2) The Listed Entity must frame a policy for determination of materiality based on criteria specified in the regulations, duly approved by its board of directors, which must be disclosed on its website.

#### **3. Shareholding pattern**

The Listed Entity must submit its shareholding pattern to the recognised stock exchange(s), in the format specified by the IFSCA or by such recognised stock exchange(s) on a quarterly basis, within fifteen working days from the end of each quarter.

#### **4. Corporate Governance**

- 1) The Listed Entity must describe its corporate governance practices in its annual report in the manner specified by the relevant laws in its home jurisdiction.
- 2) The Listed Entity must also comply with the corporate governance norms as may be specified by the IFSCA.

#### **5. Change of depository bank**

- 1) The Listed Entity must take prior approval of the recognised stock exchange(s) before changing its depository bank.

- 2) The Listed Entity must disclose any change of depository bank to the recognised stock exchange(s) within twenty-four hours of such change.

#### **6. Corporate actions**

- 1) The Listed Entity must inform the recognised stock exchange(s) in advance of any proposed corporate action pertaining to the depository receipts or the underlying securities.
- 2) The Listed Entity must give notice of the record date to the recognised stock exchange(s), wherever applicable, at least three working days in advance, specifying the purpose of the record date.

#### **7. Other compliances**

The Listed Entity must comply with the following additional requirements:

- a) Where the underlying specified securities are listed on its home exchange, it must abide by the listing and other rules of such exchange and home regulator
- b) It must release all disclosures in English to the recognised stock exchange(s) simultaneously with their release to its home exchange or home regulator where it has a primary listing
- c) It must comply with such other requirements as may be specified by the IFSCA or recognised stock exchange(s).

#### **8. Voting Rights**

The voting rights of the depository receipts holders must be exercised in accordance with the depository agreement.

#### **9. Dissemination by recognised stock exchange(s)**

The recognised stock exchange(s) must ensure that the disclosures made by the Listed Entities are immediately disseminated on their websites.

### **Listing Obligations and Continuous Disclosure Requirements for Debt Securities**

#### **1. Material or price-sensitive events**

- 1) The issuer must immediately disclose to the recognised stock exchange(s) all events which are material or price sensitive.
- 2) The issuer must immediately disclose to the recognised stock exchange(s) the following events:
  - a) any redemption or cancellation of the debt securities
  - b) details of any interest payment(s), except where the debt securities are having fixed rate
  - c) any buy back or put option exercised
  - d) any delay in payment of principal and/or interest amount
  - e) any modification in terms and conditions of the issue

#### **2. Financial Statements**

- 1) The issuer must disclose the audited financial statements for the full financial year to the recognised stock exchange(s) immediately after the approval of its board of directors, but in any event not later than three months of the end of the financial year.
- 2) The issuer must prepare its financial statements in accordance with IFRS or US GAAP or Ind AS or other accounting standards as applicable in its home jurisdiction. An issuer preparing financial statements as per the accounting standards of its home jurisdiction (other than IFRS, US GAAP and Ind AS) must be required to reconcile the same with IFRS.

### 3. Annual Report

The issuer must submit to the recognised stock exchange(s) a copy of the annual report immediately after the finalisation of the same, but in any event not later than six months of the end of financial year.

### 4. Revision in Credit Rating

The issuer must immediately disclose to the recognised stock exchange(s) any revision in the credit rating of its debt securities listed on such exchange(s).

### 5. Record Date

The issuer must disclose the record date relevant to the holders of debt securities in a timely manner.

### 6. Exempt Issuers

A recognised stock exchange, if satisfied on the basis of an application made by an issuer, can relax the applicability of certain requirements, in accordance with its internal policy or guidelines, for the following issuers:

- (a) Supranational, multilateral or statutory institutions /organizations /agencies
- (b) Entities whose securities are irrevocably guaranteed by a Sovereign
- (c) Any other entity as may be specified by the IFSCA from time to time,

## REGULATORY FRAMEWORK UNDER FOREIGN EXCHANGE MANAGEMENT (NON-DEBT INSTRUMENTS) RULES, 2019 AND COMPANIES (LISTING OF EQUITY SHARES IN PERMISSIBLE JURISDICTIONS) RULES, 2024

On July 28, 2023, Union Minister for Finance and Corporate Affairs announced the direct listing of Indian Companies at GIFT- IFSC exchanges. Accordingly, the Department of Economic Affairs (DEA), Ministry of Finance, has amended Foreign Exchange Management (Non-debt Instruments) Rules, 2019, and notified the **'Direct Listing of Equity Shares of Companies Incorporated in India on International Exchanges Scheme' (Direct Listing Scheme)**. Simultaneously, the Ministry of Corporate Affairs (MCA) has issued Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024.

Direct Listing Scheme provides an overarching framework for issuing and listing of equity shares of public Indian companies on international exchanges. Prior to this, Indian companies were not allowed to issue or list equity shares abroad.

Apart from framework provided under the Scheme, an unlisted Indian company may issue equity shares on international exchanges subject to compliance with the Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024. Further, such company will also be required to adhere to the regulatory framework of permitted international exchanges in GIFT-IFSC.

Further, as per the framework provided under the Scheme and Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024 issued by Ministry of Corporate Affairs, a listed public Indian company is also required to ensure compliance with the conditions and other requirements as per the norms notified by the Securities and Exchange Board of India (SEBI).

### Issue and Listing on International Exchanges

As per Direct Listing Scheme, a public Indian company may issue equity shares or offer equity shares of existing shareholders, subject to the following conditions, namely:-

- (i) such issue or offer of equity shares of existing shareholders shall be permitted and such shares shall be listed on any of the specified International Exchange

- (ii) such issue or offer of equity shares of existing shareholders shall be subject to prohibited activities, and sectoral caps
- (iii) such equity shares to be issued by the public Indian company or offered by its existing shareholders on an International Exchange shall be in dematerialised form and rank pari passu with equity shares listed on a recognised stock exchange in India.

The prior Government approval, wherever applicable, must be obtained.

### Permissible holder

As per Direct Listing Scheme, Permissible holder means a holder of equity shares of the Company which are listed on International Exchange, including its beneficial owner. A permissible holder is not a person resident in India

A holder who is a citizen of a country which shares land border with India, or an entity incorporated in such a country, or an entity whose beneficial owner is from such a country, shall hold equity shares of such public Indian company only with the approval of the Central Government. A permissible holder may purchase or sell equity shares of an Indian company listed on an international exchange subject to limit specified for foreign portfolio investment.

### Eligibility

Under the Scheme, only public Indian companies, listed or unlisted, are allowed to issue and list their shares on an international exchange. Para 3 of the Direct Listing Scheme provides that a public Indian company shall be eligible to issue equity shares in permissible jurisdiction, if-

- (a) the public Indian company, any of its promoters, promoter group or directors or selling shareholders are not debarred from accessing the capital market by the appropriate regulator; (b) none of the promoters or directors of the public Indian company is a promoter or director of any other Indian company which is debarred from accessing the capital market by the appropriate regulator;
- (c) the public Indian company or any of its promoters or directors is not a wilful defaulter;
- (d) the public Indian company is not under inspection or investigation under the provisions of the Companies Act, 2013;
- (e) none of its promoters or directors is a fugitive economic offender.

Additional eligibility conditions may be specified by the permitted international exchanges under their regulations.

Further, Rule 5 of Companies (Listing of equity shares in permissible jurisdictions) Rules, 2024 provide that a company shall not be eligible for issuing its equity shares for listing in accordance with these rules, in case it –

- (a) has been registered under section 8 or declared as Nidhi under section 406 of the Companies Act, 2013;
- (b) is a company limited by guarantee and also having share capital;
- (c) has any outstanding deposits accepted from the public as per Chapter V of the Companies Act, 2013 and rules made thereunder;
- (d) has a negative net worth;
- (e) has defaulted in payment of dues to any bank or public financial institution or non-convertible debenture

holder or any other secured creditor, provided that this clause shall not apply if the company had made good the default and a period of two years had lapsed since the date of making good the default;

- (f) has made any application for winding-up under the Act or for resolution or winding-up under the Insolvency and Bankruptcy Code, 2016 and in case any proceedings against the company for winding-up under the Act or for resolution or winding-up under the Insolvency and Bankruptcy Code, 2016 is pending;
- (g) has defaulted in filing of an annual return under section 92 or financial statement under section 137 of the Act within the specified period.

### Obligations of companies

The public Indian company must ensure compliance with extant laws relating to issuance of equity shares, including requirements prescribed in this Scheme, the Securities Contracts (Regulation) Act, 1956, the Securities and Exchange Board of India Act, 1992, the Depositories Act, 1996, the Foreign Exchange Management Act, 1999, the Prevention of Money-laundering Act, 2002 or the Companies Act, 2013 and rules and regulations made thereunder, as applicable.

### Filing of Prospectus

As per rule 4(4) of Companies (Listing of equity shares in permissible jurisdictions) Rules, 2023, the concerned unlisted public company shall file the prospectus in e-Form LEAP-1 within seven days after the same has been finalised and filed in the permitted international stock exchange.

### LESSON ROUNDUP

- IFSCA acts as a single unified regulator for capital market activities in IFSCs, ensuring transparency, efficiency, and investor protection.
- Listing refers to the admission of securities for trading on recognised stock exchanges in IFSCs, mainly located at GIFT IFSC.
- The regulatory framework is governed by the IFSCA (Listing) Regulations, 2024, which prescribe rules for issuance, listing, trading, and compliance.
- Securities listed in IFSCs must be held in dematerialised form and are generally denominated in foreign currencies, in line with global market practices.
- The chapter discusses various modes of listing, including:
  - a) Initial Public Offerings (IPOs)
  - b) Follow-on Public Offers (FPOs)
  - c) Secondary listings
  - d) Listings without public offer
- Both Indian companies and companies incorporated outside India are permitted to list their securities in IFSCs, subject to regulatory compliance.
- Special emphasis is given to IPOs by foreign incorporated companies, enabling access to international capital through GIFT IFSC.

- The Special Purpose Acquisition Companies (SPACs) act as an alternative route for capital raising and their listing framework in IFSCs.
- Debt securities and ESG-labelled instruments such as green bonds, social bonds, and sustainability-linked securities are permitted for listing, promoting sustainable finance.
- The roles and responsibilities of issuers, stock exchanges, and intermediaries are outlined to ensure orderly market functioning.
- Provisions related to disclosures, corporate governance, and investor protection are emphasised to maintain market integrity.
- The IFSC listing framework supports international capital flows, enhances market liquidity, and strengthens India's position as a global financial centre.

### GLOSSARY

**Listing:** The process by which securities are admitted for trading on a recognised stock exchange in an IFSC.

**Recognised Stock Exchange (IFSC):** A stock exchange authorised by IFSCA to operate and facilitate trading of securities in an IFSC.

**Securities:** Financial instruments such as equity shares, debt securities, depository receipts, and other permitted instruments that can be issued and listed in IFSCs.

**Initial Public Offering (IPO):** The first public issue of securities by a company for the purpose of listing on a recognised stock exchange in an IFSC.

**Follow-on Public Offer (FPO):** An issue of securities by a company that is already listed on an IFSC stock exchange.

**Secondary Listing:** Listing of securities that are already listed on another recognised stock exchange.

**Listing without Public Offer:** Admission of securities for trading without making a public issue, subject to IFSCA regulations.

**Company Incorporated Outside India:** A company formed and registered under the laws of a foreign jurisdiction that is eligible to list securities in IFSCs.

**Special Purpose Acquisition Company (SPAC):** A company with no commercial operations formed for the purpose of acquiring or merging with another company, permitted to list in IFSCs under IFSCA regulations.

**Business Combination:** A merger or acquisition undertaken by a SPAC with a target company within a prescribed time period.

**Debt Securities:** Instruments representing borrowed funds, such as bonds and debentures, issued by entities and listed in IFSCs.

**ESG-Labelled Securities:** Debt securities labelled as green, social, sustainability, or sustainability-linked instruments that focus on environmental, social, and governance objectives.

**Dematerialisation:** The process of holding securities in electronic form instead of physical certificates.

**Disclosure Requirements:** Information that an issuer is required to provide to ensure transparency and enable informed investment decisions.

**TEST YOURSELF**

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

**A. Very Short Answer Questions**

1. What is meant by the listing of securities in an IFSC?
2. Name the main IFSC in India where listing activities take place.
3. Which regulations govern the listing of securities in IFSCs?
4. In what form must securities be held in IFSCs?
5. Are securities in IFSCs generally denominated in Indian Rupees or foreign currency?
6. What is a secondary listing?

**B. Short Answer Questions**

1. Explain the role of IFSCA in regulating listing and issuance of securities in IFSCs?
2. What are the different modes of listing permitted under the IFSCA Listing Regulations?
3. Briefly explain the concept of an IPO in GIFT IFSC?
4. Who can list securities in IFSCs – Indian companies, foreign companies, or both? Explain.
5. What are SPACs? Why are they permitted to list in IFSCs?
6. Write a short note on ESG-labelled debt securities permitted in IFSCs.
7. State the importance of dematerialisation in IFSC listings.

**C. Long Answer / Descriptive Questions**

1. Explain the process and regulatory requirements for IPOs in IFSCs?
2. Describe the listing framework for companies incorporated outside India in GIFT IFSC?
3. Explain the concept, structure, and regulatory treatment of Special Purpose Acquisition Companies (SPACs) in IFSCs?
4. Explain the significance of ESG and sustainable finance instruments in the IFSC regulatory framework?

**LIST OF FURTHER READING**

- IFSCA (Listing) Regulations, 2024
- [www.ifsc.gov.in](http://www.ifsc.gov.in)
- [https://aigcc.net/wp-content/uploads/2025/07/Public-Consultation-response\\_India-Taxonomy\\_050625.pdf](https://aigcc.net/wp-content/uploads/2025/07/Public-Consultation-response_India-Taxonomy_050625.pdf)
- <https://www.ifrs.org/news-and-events/news/2025/06/ifrs-publishes-guidance-disclosures-transition-plans/>
- <https://www.gov.uk/government/consultations/climate-related-transition-plan-requirements/transition-plan-requirements-implementation-routes-accessible-webpage>
- <https://www.mas.gov.sg/-/media/mas-media-library/development/sustainable-finance/singaporeasia-taxonomy-updated.pdf>



### KEY CONCEPTS

■ Insurance ■ Reinsurance ■ Managing General Agent ■ Lloyd's and Lloyd's IFSC ■ Assigned Capital ■ Available Solvency Margin ■ Domestic Tariff Area ■ Net Owned Fund

### Learning Objectives

#### To understand:

- Basic concepts of insurance and reinsurance in an IFSC
- Regulatory role of IFSCA in insurance and reinsurance
- Entities eligible to operate as IFSC Insurance Offices (IIOs)
- Process of setting up and registering an IIO
- Permissible insurance and reinsurance activities in an IFSC
- Capital, solvency, and governance requirements for IIOs
- Re-insurance strategies and their objectives

### Lesson Outline

- Key Concepts
- Regulatory Framework
- Setting up of an IFSC Insurance Office
- Procedure for Registration
- Permissible Activities
- Basic Regulatory and Governance Requirements
- Re-insurance Strategy and Objectives of Re-insurance Programme
- Lesson Round-up
- Glossary
- Test Yourself
- List of Further Readings

## INSURANCE & REINSURANCE - KEY CONCEPTS

To understand insurance and reinsurance activities in an International Financial Services Centre (IFSC), it is important to become familiar with certain key terms and concepts used in the regulatory framework prescribed by the IFSCA.

### International Financial Service Centre Insurance Office (IIO)

An IIO is a financial institution, which means a unit set up in an IFSC that is engaged in rendering financial services in respect of any financial product such as securities, contracts of insurance, deposits, credit arrangements, that is registered with the IFSCA to undertake permitted insurance or reinsurance activities in an IFSC.

An IIO may operate as:

- A place of business of an Indian insurer
- A branch office of a foreign insurer or reinsurer
- An MGA or Lloyd's IFSC entity

No insurance or reinsurance activity can be carried out in an IFSC without registration as an IIO.

### Insurance

Insurance is a financial arrangement under which an insurer agrees to provide financial protection against specified risks in exchange for a premium. In an IFSC, insurance business may include:

- Life Insurance Business
- General Insurance Business
- Health Insurance Business

Insurance contracts entered into by IFSC Insurance Offices (IIOs) are regulated by the IFSCA and must comply with the conditions laid down in the Registration of Insurance Business Regulations, 2021.

### Reinsurance

Reinsurance means the insurance of part of one insurer's risk by another insurer who accepts the risk for a mutually acceptable premium. The primary objective of reinsurance is to:

- Spread risk
- Improve financial stability of insurers
- Enhance underwriting capacity

An IIO registered to transact reinsurance business may be permitted to do so

- from the cedents based in the IFSC,
- in relation to risk emanating from other SEZs and
- from outside India
- from insurers operating in DTA subject to the IRDAI (Re-insurance) Regulations, 2018

### Applicant

An Applicant refers to any eligible entity seeking registration to operate insurance or reinsurance business in an IFSC. This includes:

- Indian insurers registered with IRDAI

- Foreign insurers or foreign reinsurers
- Society of Lloyd's on behalf of Members of Lloyd's
- Branch Office of foreign insurer or Lloyd's India registered by the IRDAI
- Public company or a wholly owned subsidiary of an insurer or a Reinsurer which is formed and registered under the Companies Act, 2013
- Managing General Agents (MGAs) who has a valid binding agreement with a Foreign Insurer or Foreign Re-insurer
- Body corporate incorporated under the law of any country outside India not being of the nature of a private company
- Insurance co-operative societies.

Each Applicant must meet eligibility, capital, and governance requirements prescribed by IFSCA .

### Managing General Agent (MGA)

MGA means

- a body corporate incorporated outside India that is authorized to undertake insurance or re-insurance or both pursuant to a binding agreement with a Foreign Insurer or Foreign Re-insurer; or
- a company incorporated under the Companies Act, 2013 that is authorized to undertake business of insurance or re-insurance or both pursuant to a binding agreement with a Foreign Insurer or Foreign Reinsurer.

### Lloyd's and Lloyd's IFSC

Lloyd's means the society of underwriters incorporated in the United Kingdom as Lloyd's. Lloyd's IFSC means the branch office of the Lloyd's granted certificate of registration by the IFSCA under the Registration of Insurance Business Regulations, 2021 to transact insurance or re-insurance business.

### Domestic Tariff Area (DTA)

The Domestic Tariff Area (DTA) means the whole of India (including the territorial waters and continental shelf) but does not include the areas of the Special Economic Zones.

### Net Owned Fund (NOF)

Net Owned Fund (NOF) means the sum of paid-up equity capital, free reserves and securities premium account reduced by accumulated losses and book value of intangible assets.

*Note:* NOF should be computed based on last audited Balance Sheet. Any capital raised after date of the Balance Sheet, should not be accounted for calculating NOF.

### Assigned Capital

An Indian Insurer desirous of setting up place of business, a Foreign Insurer, a Foreign Re-insurer or MGA or Lloyd's desirous of setting up branch office in an IFSC shall maintain a minimum assigned capital in any freely convertible foreign currency equivalent to USD 1.5 million.

### Available Solvency Margin

Available Solvency Margin means the excess of value of assets over the value of life insurance liabilities and other liabilities of policyholders' fund and shareholders' funds.

## REGULATORY FRAMEWORK

The regulatory framework for insurance and reinsurance activities in an International Financial Services Centre (IFSC) in India is governed by the International Financial Services Centres Authority (IFSCA).

The key regulation governing insurance operations in an IFSC is the IFSCA (Registration of Insurance Business) Regulations, 2021, as amended from time to time. These regulations lay down the eligibility conditions, registration process, permissible activities, governance norms, and supervisory powers of the Authority.

### Role of IFSCA in Insurance and Reinsurance

IFSCA acts as a single unified regulator for all insurance and reinsurance entities operating in an IFSC. Its role includes:

- Granting registration to eligible insurers and reinsurers
- Regulating operations of IFSC Insurance Offices (IIOs)
- Ensuring financial soundness, solvency, and governance standards
- Monitoring compliance with international best practices
- Protecting policyholders' and market interests

Through this framework, IFSCA aims to promote IFSCs as globally competitive insurance and reinsurance hubs while maintaining strong regulatory oversight.

### Entities Covered under the Regulatory Framework

The regulatory framework applies to a wide range of entities that may operate in an IFSC, including:

- Indian insurers and reinsurers
- Foreign insurers and foreign reinsurers
- Managing General Agents (MGAs)
- Lloyd's and Lloyd's IFSC
- Public companies and wholly owned subsidiaries
- Insurance co-operative societies
- Other eligible body corporates

Each category of applicant is subject to specific eligibility and operational requirements as prescribed under the Registration of Insurance Business Regulations, 2021.

### Requirement of Registration

Registration with IFSCA is mandatory.

No person or entity is allowed to commence insurance or reinsurance business in an IFSC without obtaining a Certificate of Registration from the IFSCA.

This requirement ensures that only entities with adequate financial strength, governance structure, and regulatory compliance record are permitted to operate in the IFSC ecosystem.

### Regulatory Objectives

The regulatory framework has been designed to achieve the following objectives:

- Establish a transparent and predictable regulatory environment
- Encourage participation of global insurers and reinsurers
- Ensure capital adequacy and solvency
- Maintain high standards of corporate governance
- Prevent money laundering and terrorist financing
- Align IFSC insurance regulation with international standards

These objectives support the long-term development of IFSCs as international insurance and reinsurance centres.

### Supervisory and Enforcement Powers

IFSCA is empowered to:

- Inspect and investigate the affairs of IIOs
- Call for information and records
- Issue guidelines, circulars, and clarifications
- Take disciplinary action, including suspension or cancellation of registration
- Permit surrender of registration subject to conditions

These powers enable IFSCA to ensure continuous compliance and protect the integrity of the IFSC insurance market.

### Significance of the Regulatory Framework

The regulatory framework for insurance and reinsurance in IFSCs strikes a balance between ease of doing business and robust regulation. By providing flexibility in currency operations, global participation, and governance norms while maintaining strict oversight, IFSCA creates a secure and competitive environment for international insurance business in India.

## SETTING UP OF AN IFSC INSURANCE OFFICE

### Registration

To ensure that only qualified and properly supervised entities operate within the IFSC, the IFSCA requires all insurance and reinsurance providers to obtain formal registration before commencing business.

#### 1) Requirement of Registration

No person or entity may commence the business of insurance or reinsurance in the IFSC unless they have obtained registration from the IFSCA in accordance with the provisions Registration of Insurance Business Regulations, 2021.

This ensures that all participants meet minimum standards of financial soundness, governance, and operational capability.

## 2) Application for Registration

An Applicant including Lloyd's seeking registration must make an application in the forms as specified by the IFSCA.

These forms outline the information, documents, and declarations required for assessment by the IFSCA.

### Explanation:

#### (i) Provisions related to Lloyd's

All regulatory provisions concerning:

- Lloyd's
- Lloyd's IFSC
- Registration of a Service Company of Lloyd's IFSC

are detailed in the Second Schedule of Registration of Insurance Business Regulations, 2021.

This includes eligibility criteria, operational requirements, reporting obligations, and governance standards specific to the Lloyd's market structure.

#### (ii) Provisions Related to Managing General Agents (MGAs) and Foreign Insurers/Reinsurers

Regulatory provisions applicable to:

- MGAs
- The Foreign insurer or Foreign reinsurer they represent
- Their requirements for registration in the IFSC

are set out in the Third Schedule of Registration of Insurance Business Regulations, 2021.

These provisions govern the conditions under which such entities may operate through MGAs within the IFSC framework.

## Eligibility Conditions for Registration

- 1) An Indian insurer or re-insurer, desirous of setting up a place of business in an unincorporated form in an IFSC, must meet with the following requirements –
  - a) The Applicant is duly registered with IRDAI for undertaking the business of insurance or re-insurance in India
  - b) The Applicant has been granted a No Objection Certificate by the IRDAI to set up place of business in an IFSC
  - c) The Board of the Applicant must submit a reporting structure of the officials
  - d) The Applicant has a satisfactory track record in respect of regulatory and supervisory compliance
  - e) The Board of the Applicant undertakes to meet all liabilities arising out of IIOs insurance or re-insurance business
  - f) The Board of the Applicant undertakes to comply with the assigned capital, solvency and other requirements as may be specified by the IFSCA from time to time.
- 2) A foreign insurer or foreign re-insurer or MGA or Lloyd's, desirous of setting up a branch in an unincorporated form in an IFSC, shall meet with the following requirements –

- a) the Applicant is registered or licensed for transacting insurance or re-insurance business, or both, in its home country or country of its incorporation or domicile
  - b) the Applicant has been granted No Objection Certificate by the regulatory or supervisory authority of its home country or country of its incorporation or domicile, to set up an IIO in an IFSC
  - c) the Applicant desirous to transact re-insurance business shall comply with the Net Owned Fund requirement specified under the Insurance Act, 1938
  - d) the Board of the Applicant undertakes to comply with the assigned capital, solvency and other requirements as may be specified by the IFSCA from time to time
  - e) the Board of the Applicant undertakes to meet all liabilities arising out of IIO insurance or re-insurance business
  - f) the Applicant has a satisfactory track record in respect of regulatory or supervisory compliance in its home country or country of incorporation or domicile, and also in any other country in which it is functioning
  - g) the Applicant is registered or certified in a national regulatory environment with which the Government of India has signed a Double Taxation Avoidance Agreement
  - h) the Board of the Applicant shall submit a reporting structure of the officials
    - i) the Applicant has a minimum credit rating having at least good financial security characteristics from any of the internationally renowned credit rating agencies for the last three years.
    - j) the Applicant shall submit all the details and information as may be required and shall comply with any additional requirements as may be specified by the IFSCA. In case the Applicant is an MGA and the relevant Foreign Insurer or Foreign Re-insurer, the IFSCA may advice to comply with applicable requirements.
- 3) 'Branch Office of foreign insurer' or 'Lloyd's India' registered by the IRDAI and desirous of setting up an office in an unincorporated form in an IFSC, must meet with the following requirements:
- a) the Applicant of the 'Branch Office of foreign insurer' or 'Lloyd's India' has been granted No Objection Certificate by the regulatory or supervisory authority of its country of incorporation, to set up an IIO in India
  - b) the Board of the Applicant of the 'Branch Office of foreign insurer' or 'Lloyd's India' shall undertake to comply with the assigned capital, solvency and other requirements as may be specified by the IFSCA from time to time
  - c) the Board of the Applicant of the 'Branch Office of foreign insurer' or 'Lloyd's India' undertakes to meet all liabilities arising out of business undertaken by the IIO
  - d) the Board of the Applicant of the 'Branch Office of foreign insurer' or 'Lloyd's India' shall submit to the Authority a reporting structure of the officials
  - e) the Applicant must submit all the details and information as may be required and shall comply with additional conditions as may be specified by the IFSCA.
- 4) A public company or a wholly owned subsidiary of an insurer or a re-insurer, desirous of setting up an IIO in an IFSC, must be a company limited by shares, which is formed and registered under the Companies Act, 2013.
- 5) An insurance co-operative society desirous of setting up an IIO in an IFSC shall be a co-operative society registered under the Co-operative Societies Act, 1912, or under any other law for the time being

in force in any State relating to co-operative societies or under the Multi-State Cooperative Societies Act, 1984.

- 6) A Body corporate incorporated under the law of any country outside India, not being of the nature of a private company, desirous of setting up its place of business in an IFSC, must meet the following requirements:
  - a) It establishes its place of business in an IFSC, under the provisions of the Companies Act, 2013
  - b) It is registered or certified in a national regulatory environment with which the Government of India has signed a Double Taxation Avoidance Agreement.
- 7) The Authority, before granting registration, may satisfy itself that the Applicant, its Promoters, Principal Officer, Directors, Partners, Designated Partners or any other Key Managerial Personnel (KMPs) are fit and proper persons.
- 8) The Applicant entity and its promoters, partners or controlling shareholders shall be from a FATF-compliant jurisdiction and comply with international standards set by the Financial Action Task Force to combat money laundering and terrorist financing.
- 9) Notwithstanding anything, the IFSCA may specify such additional eligibility conditions and may require additional details and information to be submitted by a particular class of Applicants as it deems fit or may relax any of these eligibility conditions stated in these regulations, for reasons recorded in writing.

## PROCEDURE FOR REGISTRATION

- 1) An Applicant, including Lloyd's, seeking registration as an IIO may make an application in the relevant form.
- 2) After considering the application the IFSCA, if satisfied, may grant certificate of registration in subject to the conditions as specified under the Regulations or such other additional conditions as it may deem fit. The registration granted remains valid unless it is revoked or cancelled by the IFSCA.
- 3) If, after considering the application, the IFSCA is of the opinion that registration cannot be granted, it shall communicate the deficiencies to the Applicant, giving it thirty days' time to rectify them.
- 4) If the Applicant fails to rectify such deficiencies to the satisfaction of the IFSCA within the specified time, the IFSCA may refuse to grant registration and must communicate the same to the Applicant, giving reasons for such refusal. No such refusal shall be made by the IFSCA without giving the Applicant an opportunity to make written submissions on the grounds on which the registration is proposed to be refused.

## PERMISSIBLE ACTIVITIES

- 1) An IIO registered with the IFSCA must carry any of the following class of businesses as may be permitted by the IFSCA, subject to such conditions as may be specified:
  - a) Life Insurance Business
  - b) General Insurance Business
  - c) Health Insurance Business
  - d) Re-insurance Business

The IIO registered as a place of business of an Indian Insurer or Branch Office of a Foreign Insurer or Re-insurer must be permitted to transact such class of business which is permitted to the Applicant by its home country regulatory or supervisory authority.

Further that at the time of making the application, the applicant shall opt for the category as specified under the Insurance Regulatory and Development Authority of India (Re-insurance) Regulations, 2018, under which it intends to participate in reinsurance business emanating from the DTA.

- 2) An IIO conducts its business in any freely convertible foreign currencies other than INR, with such persons, whether resident in India or otherwise, as may be permitted by the IFSCA.
- 3) An IIO shall not engage itself in any business other than for which the registration has been granted by the IFSCA.
- 4) An IIO registered to transact direct insurance business permitted to do so within the IFSC, from other SEZs and also from outside India.
- 5) The IIO registered to transact direct insurance business must not write direct insurance business from the DTA except in accordance with the Insurance Act, 1938.
- 6) In the case of re-insurance business, the IIO –
  - a) may accept re-insurance business from the cedents based in the IFSC, in relation to risk emanating from other SEZs and re-insurance business from outside India
  - b) may accept re-insurance business from the insurers operating in DTA in accordance with the order of preference for cession specified in the IRDAI (Re-insurance) Regulations, 2018.
- 7) An IIO may render such other insurance or re-insurance business-related services as may be specified by the IFSCA. The applicant must obtain prior approval of the IFSCA for rendering such services, subject to such conditions as may be specified.

### BASIC REGULATORY AND GOVERNANCE REQUIREMENTS

An IIO shall follow the following basic regulatory requirements or such other requirements as may be specified by the Authority –

#### 1) Net Owned Funds (NOF):

- i) an Applicant, being a foreign company engaged in re-insurance business through a branch established in an IFSC shall comply with Net Owned Funds requirement prescribed under of the Insurance Act, 1938
- ii) an Applicant may demonstrate compliance with the NOF requirement in any freely convertible foreign currency
- iii) the NOF must be maintained by the Applicant at all times during the subsistence and validity of the certificate. The Applicant is an MGA, the relevant Foreign Insurer or Foreign Re-insurer shall comply with the NOF requirements. Further, where the Applicant is other than a public company, the NOF shall be as specified by the IFSCA.

#### 2) Assigned Capital:

An Indian Insurer desirous of setting up a place of business, a Foreign Insurer, a Foreign Re-insurer or MGA or Lloyd's desirous of setting up a branch office in an IFSC shall maintain a minimum assigned capital in any freely convertible foreign currency equivalent to USD 1.5 million. Provided that –

- i) The assigned capital must be earmarked and held by the Applicant in the home country, country of its incorporation or domicile
- ii) Such assigned capital must be invested as per the requirements of its home country regulatory or supervisory authority

- iii) The assigned capital, including additional assigned capital, if any, as mandated by the IFSCA, must be maintained by the Applicant at all times during the subsistence and validity of registration of IIO. Further, where the Applicant is an MGA, the relevant Foreign Insurer or Foreign Re-insurer must comply with the Assigned Capital requirements.

### 3) Paid-up Equity Capital:

A Public Company, a Wholly Owned Subsidiary of an insurer or a re-insurer, an insurance co-operative society or a Body Corporate seeking registration from the IFSCA must comply with paid-up equity capital requirements as prescribed under the Insurance Act, 1938.

### 4) Solvency Margin Requirement:

- i) An Applicant registering an IIO as 'place of business' of Indian Insurer, 'branch office' of the foreign insurer, foreign re-insurance, MGA, or Lloyd's shall maintain such solvency margin for its IIO, as stipulated by its home country regulatory or supervisory authority.

Provided that –

- a) Such solvency margin must be maintained in the home country, country of its incorporation or domicile
  - b) The assets backing such solvency margin must be invested as per the requirements of its home country regulatory or supervisory authority
  - c) The assets backing such solvency margin shall remain unencumbered at all times during the subsistence and validity of the certificate
  - d) The IIO furnishes a quarterly certificate issued by the Appointed Actuary of the Applicant, to the effect that assets, liabilities and solvency margin on behalf of IIO are being maintained at Head Office of the Applicant. Further, where the Applicant is an MGA, the relevant Foreign Insurer or Foreign Re-insurer comply with the Solvency Margin requirements.
  - ii) A public company, a wholly owned subsidiary of an insurer or a re-insurer, an insurance co-operative society or a body corporate registering an IIO in an IFSC, maintain such solvency margin as may be specified by the IFSCA.
- 5) An IIO must comply with provisions of the Act rules, regulations, circulars and guidelines issued thereunder.

### 6) Commencement of Business Operations -

- i) An IIO shall commence business, for which it has been registered, within twelve months from the date of grant of the Certificate of Registration by the IFSCA. If an IIO is not able to commence business within the specified period of twelve months, it can, before the time limit expires, but at least thirty days in advance, must make an application for extension of time to the Chairperson of the IFSCA.
  - ii) On receipt of the application, the Chairperson of the IFSCA shall examine it and communicate the decision thereon, in writing. No extension of time must be granted by the Chairperson of the IFSCA beyond eighteen months from the date of grant of certificate of registration.
- 7) An Applicant desirous of setting up a place of business or branch, including Applicant of Service Company of Lloyd's IFSC or MGA shall, with prior permission of the IFSCA, appoint a Principal Officer for the IIO or Service Company of Lloyd's IFSC, who must be responsible for the day-to-day administration of the IIO as well as for its regulatory compliances -

- i) An Applicant, other than Lloyd's, for its IIO shall appoint –
    - a) Principal Officer
    - b) An Officer in charge of underwriting of risk, having relevant experience
    - c) An officer in charge of finance and accounts, having relevant experience
  - ii) An Applicant of Lloyd's IFSC shall appoint –
    - a) Principal Officer
    - b) An officer in charge of finance and accounts having relevant experience. An officer in charge of finance and accounts of Lloyd's IFSC must also be responsible for finance and accounts-related matters of the Service Companies of Lloyd's IFSC
  - iii) An Applicant of Service Company of Lloyd's IFSC shall appoint –
    - a) Principal Officer
    - b) An Officer in charge of underwriting of risk having relevant experience.
  - iv) The above-mentioned officers shall –
    - a) be in direct employment of the IIO or the Service Company of Lloyd's IFSC as the case may be, and shall be resident in India
    - b) satisfy the 'fit and proper' criteria as specified by the IFSCA.
- 8) The Applicant, other than those mentioned in sub-regulation (7) of Regulation 17, with prior permission of the Authority, must:
- i) appoint at least the following Key Managerial Persons (KMP) who will be responsible for the day-to-day administration and regulatory compliance of the IIO:
    - a) a Chief Executive Officer
    - b) a Chief Finance Officer
    - c) a Chief Underwriting Officer
  - ii) the IIO shall appoint such additional Key Managerial Persons as may be specified by the IFSCA from time to time
  - iii) The above-mentioned Key Managerial Persons shall:
    - a) be in direct employment of the IIO and resident in India
    - b) satisfy the 'fit and proper' criteria as specified by the IFSCA
- 9) The IIOs must comply with such re-insurance and retrocession-related requirements as may be specified by the IFSCA from time to time.
- 10) An IIO must maintain its books of accounts, records and documents in such form and manner as may be specified by the IFSCA
- 11) An IIO must comply with the Know Your Customer (KYC) and Anti-Money Laundering (AML) guidelines as may be issued by the IFSCA from time to time.
- 12) Reporting requirements:**
- i) Every IIO must furnish information relating to its operations to the IFSCA, in such manner, interval and in such form, as may be specified by the IFSCA

- ii) Every financial reporting by an IIO to the IFSCA shall be in USD, unless otherwise specified by the IFSCA.

**13) Operational Requirements:**

- i) An IIO must pay such fees and charges as may be specified by the IFSCA
- ii) An IIO may be permitted to have an INR account out of the freely convertible foreign currency to defray its administrative, statutory expenses and for such other purposes as may be specified by the IFSCA.

**14) Change in shareholding:**

A public company granted registration as an IIO shall seek prior approval of the IFSCA for any change in the shareholding exceeding five per cent of its paid-up equity share capital, whether by way of transfer of existing shares or by way of fresh issue of shares to either new or existing shareholders. Any change in shareholding which is less than five per cent of its paid-up equity share capital will be made with prior intimation to the IFSCA.

- 15) Besides those requirements, an IIO must follow such prudential norms as may be specified by the IFSCA.

## RE-INSURANCE STRATEGY AND OBJECTIVES OF RE-INSURANCE PROGRAMME

To provide framework for oversight and control of inward and outward arrangement of re-insurance business by IFSCA, the IFSCA (Re-insurance) Regulations, 2023 has been notified. As per regulations :-

1. Every IIO must develop and document its Re-insurance Strategy and Re-insurance Programme (RSRP), which forms an integral part of the IIO's overall underwriting strategy and risk management philosophy.
2. The policies and procedures for selecting and monitoring re-insurance arrangements as well as management responsibilities and controls including re-insurance management systems must be included in the RSRP.
3. An IIO, ceding or retroceding the risk shall inter-alia clearly document the risk concentration levels and cession or retrocession limits as per its risk appetite.
4. The senior management of the IIO or Parent Entity of the IIO, must –
  - a) develop, implement and maintain RSRP which is relevant to the operations of the IIO and ensure that the IIO has sufficient resources to meet their business obligations.
  - b) formulate operational policies and procedures for implementing the RSRP
  - c) develop clear methodologies for evaluating re-insurance arrangements of the IIOs, including but not limited to -
    - (i) identification of tolerance to risk
    - (ii) identification of the segment-wise risk retention levels vis-à-vis tolerance to risk with appropriate re-insurance arrangements
    - (iii) selection of the panel of re-insurers used, including consideration of diversification and credit worthiness of the re-insurers
    - (iv) management of all possible concentration of risks with respect to a particular industry, geographical region, product type, and/or single insured in the insurer's underwriting books

- (v) involvement of re-insurance brokers if any, including their role in structuring the reinsurance arrangements
  - (vi) the process for monitoring, reviewing and updating the RSRP
  - (vii) management of credit and liquidity risk
  - (viii) management of legal risk arising from the re-insurance contract
- d) develop robust internal control systems to ensure that all business activities are carried out in compliance with the RSRP
- e) develop effective reporting systems to satisfy the requirements specified by the Board. Here, the expression “senior management” means personnel of the IIO or Parent Entity of IIO, who are members of its core management team excluding Board of Directors, comprising all members of management one level below the executive directors, including the functional heads.
5. The Board of the IIO must approve accounting year wise RSRP within the timelines as may be specified by the IFSCA.
- In case of an IIO in an unincorporated form, its Parent Entity shall provide details of RSRP designed for the IIO.
6. The approved RSRP must be submitted to the IFSCA, as and when directed by it.

#### LESSON ROUNDUP

- Insurance and reinsurance in IFSCs can be carried out only through IFSCA-registered IFSC Insurance Offices (IIOs).
- An IIO may operate as a place of business of an Indian insurer, branch of a foreign insurer/reinsurer, MGA, or Lloyd’s IFSC entity.
- IFSCA acts as the single regulator for insurance and reinsurance activities in IFSCs.
- The governing law is the IFSCA (Registration of Insurance Business) Regulations, 2021.
- Registration with IFSCA is mandatory before commencing any insurance or reinsurance business.
- Eligible applicants include Indian and foreign insurers, reinsurers, MGAs, Lloyd’s, public companies, subsidiaries, co-operatives, and eligible foreign body corporates.
- IIOs may undertake life, general, health insurance, and reinsurance as permitted by IFSCA.
- Business must be conducted in freely convertible foreign currencies (other than INR).
- Direct insurance from the Domestic Tariff Area (DTA) is restricted and subject to applicable laws.
- Key financial requirements include Net Owned Funds, minimum assigned capital of USD 1.5 million, and solvency margins.
- Compliance with KYC, AML, reporting, accounting, and prudential norms is mandatory.
- Every IIO must frame and implement a Re-insurance Strategy and Re-insurance Programme (RSRP).
- The RSRP defines risk appetite, retention limits, choice of reinsurers, and risk management practices.
- The regulatory framework aims to promote IFSCs as globally competitive insurance and reinsurance hubs with strong regulatory oversight.

### GLOSSARY

- **Assigned Capital:** Minimum capital required to be maintained by an Indian Insurer, Foreign Insurer, a Foreign Re-insurer or MGA or Lloyd's branch in an IFSC, currently equivalent to USD 1.5 million in a freely convertible foreign currency.
- **Cedent:** An insurer that transfers a portion of its risk to a reinsurer under a reinsurance arrangement.
- **Domestic Tariff Area (DTA):** The whole of India excluding areas designated as Special Economic Zones (SEZs).
- **Fit and Proper Criteria:** Standards prescribed by IFSCA to assess integrity, competence, financial soundness, and reputation of promoters, directors, and key managerial personnel.
- **Foreign Insurer / Foreign Reinsurer:** An insurance or reinsurance company incorporated and regulated outside India.
- **Freely Convertible Foreign Currency:** A foreign currency that can be freely exchanged internationally, used for conducting insurance business in IFSCs.
- **IFSC Insurance Office (IIO):** A registered unit in an IFSC authorised by IFSCA to carry out permitted insurance or reinsurance activities.
- **Insurance:** A contract under which an insurer provides financial protection against specified risks in exchange for a premium.
- **Lloyd's:** The society of underwriters incorporated in the United Kingdom that operates a specialist insurance market.
- **Lloyd's IFSC:** The branch office of Lloyd's registered with IFSCA to undertake insurance or reinsurance business in an IFSC.
- **Managing General Agent (MGA):** An entity authorised under a binding agreement with a foreign insurer or reinsurer to underwrite insurance or reinsurance business.
- **Net Owned Fund (NOF):** Sum of paid-up equity capital and free reserves, and securities premium account reduced by accumulated losses and book value of intangible assets.
- **Reinsurance:** Insurance of an insurer's risk by another insurer to spread risk and improve financial stability.
- **Re-insurance Strategy and Re-insurance Programme (RSRP):** A documented framework outlining IIO's risk retention, cession or retrocession limits, and reinsurance arrangements.

### TEST YOURSELF

#### A. Very Short Answer Questions

1. What is an IFSC Insurance Office (IIO)?
2. Who is the regulator for insurance and reinsurance in IFSCs?
3. Name the regulation governing insurance business in IFSCs.
4. What is meant by reinsurance?
5. Expand the term MGA.

6. What is Domestic Tariff Area (DTA)?
7. What is Net Owned Fund (NOF)?
8. In which currency is insurance business conducted in IFSCs?
9. What is Assigned Capital?
10. What does RSRP stand for?

**B. Short Answer Questions**

1. Explain the concept of insurance in an IFSC.
2. What are the objectives of reinsurance?
3. List the different forms in which an IIO can operate.
4. Briefly explain the role of IFSCA in insurance regulation.
5. Who are eligible applicants for setting up an IIO?
6. Why is registration with IFSCA mandatory for insurance business?
7. List the permissible insurance and reinsurance activities of an IIO.
8. State the minimum assigned capital requirement for an IIO.
9. What are the basic governance requirements for an IIO?
10. Why is solvency margin important for insurance entities?

**C. Long Answer / Descriptive Questions**

1. Explain the regulatory framework governing insurance and reinsurance in IFSCs.
2. Discuss the procedure for registration of an IFSC Insurance Office.
3. Explain the eligibility conditions for Indian and foreign insurers to set up an IIO.
4. Describe the permissible activities of an IIO with respect to DTA and SEZs.
5. Explain the capital, solvency, and financial requirements applicable to IIOs.
6. Discuss the importance of governance and compliance requirements for IIOs.
7. Explain the concept, objectives, and components of a Re-insurance Strategy and Re-insurance Programme (RSRP).
8. How does the IFSC insurance framework promote global insurance and reinsurance business?

**LIST OF FURTHER READING**

- [www.ifsc.gov.in](http://www.ifsc.gov.in)



# Banking Services and Finance Companies in IFSC

## Lesson 6

### KEY CONCEPTS

■ IFSC Banking Unit ■ Core and Non-Core Activities ■ International Trade Finance Services (ITFS) Platform ■ Permissible Activities ■ Know Your Customer (KYC) and Anti-Money Laundering (AML) ■ Payment Service Providers ■ Finance Companies in IFSC ■ Global/Regional Corporate Treasury Centre (GRCTC)

### Learning Objectives

#### To understand:

- Concept and significance of Banking Services and Finance Companies in IFSC
- Structure and types of banking units in IFSC (IBU and IBC)
- Process and requirements for setting up banking units and finance companies in IFSC
- Regulatory role of IFSCA and applicable prudential norms
- Permissible banking and financial activities in IFSC
- Importance of KYC, AML, and CFT compliance
- Operational and reporting requirements in IFSC
- Role and regulation of Payment Service Providers (PSPs)
- Core and non-core activities of finance companies
- Framework for ITFS, ship leasing, aircraft leasing, and treasury centres in IFSC

### Lesson Outline

- Basic Concepts
- Setting up of a Banking Unit at IFSC
- Regulatory Requirements
- Permissible Activities
- Know Your Customers and Anti-Money Laundering
- Operational Requirements
- Payment Service Provides in the IFSC
- Finance Companies in IFSC
- Permitted Core activities
- Permitted Non-Core activities
- International Trade Finance Services (ITFS) Platform in IFSC
- Ship Leasing as Finance Company
- Aircraft Leasing as Finance Company
- Global/Regional Treasury Centre
- Lesson Round-up
- Glossary
- Test Yourself
- List of Further Readings

## REGULATORY FRAMEWORK

- IFSCA (Payment Services) Regulations, 2024
- IFSCA (Finance Company) Regulations, 2021
- IFSCA (Banking) Regulations, 2020
- Guidelines on setting up and operation of International Trade Finance Service Platform, 2024
- IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022
- Framework for Finance Company/Finance Unit undertaking the activity of Global/Regional Corporate Treasury Centres.

## BASIC CONCEPTS

Before understanding banking units and finance companies operating in an International Financial Services Centre (IFSC), it is important to become familiar with certain basic concepts and terms that form the foundation of this lesson.

### International Financial Services Centre (IFSC)

An International Financial Services Centre (IFSC) is a designated area within India that is treated as a financial jurisdiction outside the domestic economy for the purpose of financial services. IFSCs are set up to provide international financial services such as banking, insurance, capital markets, fund management, and trade finance in foreign currencies.

The objective of an IFSC is to bring global financial business to India and make Indian financial institutions globally competitive.

The Central Government may approve the setting up of an IFSC in a Special Economic Zone and prescribe the requirements for setting up and operation of such centre

### International Financial Services Centres Authority (IFSCA)

The International Financial Services Centres Authority (IFSCA) is the unified regulatory authority responsible for regulating and developing financial services in IFSCs. It was established under the IFSCA Act, 2019.

IFSCA regulates banking, capital markets, insurance, finance companies, payment services, and other financial activities in IFSCs. It also frames regulations, grants licenses, supervises entities, and ensures financial stability in line with international best practices.

### Banking Units in IFSC

Banks operating in IFSC provide international banking services such as lending, trade finance, treasury operations, and foreign currency transactions. These banks can operate in IFSC in two forms:

- IFSC Banking Unit (IBU): A branch of the parent bank operating in IFSC
- IFSC Banking Company (IBC): A subsidiary company of the parent bank incorporated in IFSC

Both forms are regulated by IFSCA and primarily deal in foreign currency transactions.

Parent Bank means a Foreign Bank or an Indian Bank or both.

### Finance Companies in IFSC

A Finance Company in IFSC is a separately incorporated financial institution that undertakes permitted financial activities other than traditional banking. Finance companies do not accept public deposits and are not registered as banking units.

They support international trade, cross-border investments, leasing, treasury operations, and risk management services.

### Core and Non-Core Activities

Finance companies in IFSC are allowed to undertake two categories of activities:

- **Core Activities:** These include lending, credit support, securitisation, derivatives, investment activities, trade finance, and treasury services.
- **Non-Core Activities:** These include merchant banking, asset management support services, leasing, distribution of financial products, and other ancillary services, subject to registration and approval.

### Foreign Currency Operations

Entities in IFSC primarily conduct business in freely convertible foreign currencies such as USD, EUR, or GBP. Although limited transactions may involve Indian Rupees, settlement generally takes place in foreign currency. This feature distinguishes IFSC operations from domestic financial services.

### Know Your Customer (KYC) and Anti-Money Laundering (AML)

KYC and AML are regulatory requirements designed to prevent money laundering, terrorist financing, and other financial crimes.

All banking units, finance companies, and payment service providers in IFSC must follow strict KYC, AML, and Counter-Terrorist Financing (CTF) guidelines issued by the IFSCA to ensure transparency and integrity of the financial system.

### Payment Service Providers (PSPs)

Payment Service Providers are entities authorised by the IFSCA to provide payment-related services such as cross-border money transfers, e-money issuance, merchant acquisition, and escrow services in or from IFSC.

PSPs play a crucial role in facilitating secure and efficient international payment systems.

### International Trade Finance Services (ITFS) Platform

ITFS platform is a digital platform established in IFSC to facilitate international trade finance. It connects exporters, importers, banks, finance companies, and insurers to enable invoice financing, bill discounting, supply chain finance, and other trade-related financial services in a transparent and efficient manner.

## SETTING UP OF A BANKING UNIT AT IFSC

An International Financial Services Centre (IFSC) allows both Indian and foreign banks to provide international financial services from India. To operate here, banks must obtain a licence or permission from the International Financial Services Centres Authority (IFSCA).

Banks can set up a Banking Unit in an IFSC in two possible forms:

1. IFSC Banking Unit (IBU) – operates as a branch of the Parent Bank
2. IFSC Banking Company (IBC) – operates as a subsidiary company of the Parent Bank

A Parent Bank that already has set up an IBU in an IFSC can convert it into an IBC, but only with prior approval from the IFSCA.

### 1. Application Process

- The Parent Bank must submit an application to the IFSCA in the form and manner specified by the IFSCA.

- The Parent Bank is free to withdraw the application at any time before the licence or permission is granted by the IFSCA.

## 2. Requirements to Set Up an IFSC Banking Unit (IBU)

To get approval for setting up an IBU (branch), the Parent Bank must satisfy the following conditions:

### a) Minimum Capital Requirement

- The Parent Bank must provide a minimum capital of USD 20 million, or a higher amount that may be specified by the IFSCA.
- This capital must be maintained with the Parent Bank, in the manner prescribed by the IFSCA.

### b) No Objection Letter from Home Regulator

- The Parent Bank must obtain a No Objection Letter from its home regulator regarding setting up of the Banking Unit in the IFSC as a branch of the Parent Bank.

### c) Undertaking

- The Parent Bank must give an undertaking that it will provide liquidity to its IBU whenever needed for the operations of the IBU.

## 4. Requirements to Set Up an IFSC Banking Company (IBC)

To obtain permission to establish an IBC, the applicant must fulfil the following:

### a) Minimum Capital Requirement

- The Parent Bank must provide at least USD 50 million, or a higher amount as may be specified by the IFSCA.

### b) No Objection Letter from Home Regulator

- The Parent Bank must obtain a No Objection Letter from its home regulator regarding setting up the banking unit in the IFSC as a subsidiary company of the parent bank.

## 5. Additional Requirements for Foreign Banks

A foreign bank that does not have its presence in India must fulfil additional conditions that may be specified by the IFSCA.

## 6. Grant of Licence or Permission by the IFSCA

After reviewing the application:

- The IFSCA may grant a licence or permission subject to the conditions provided in the Banking Regulations, 2020.
- It may also impose additional conditions if considered necessary.

## 7. If the Licence or permission cannot be granted

If the IFSCA believes it cannot grant the licence:

- It will inform the applicant of the grounds on which it cannot grant a licence or permission and give the applicant 30 days to submit written explanations or clarifications.

## 8. Rejection of Application

After reviewing the applicant's submissions:

- If the IFSCA is still not satisfied, it may reject the application.
- The Authority must communicate the rejection in writing with reasons, within 30 days.

## 9. Setting Up Representative or Global Administrative Offices

A Parent Bank may also set up a:

- Representative Office, or
- Global Administrative Office

in the IFSC, subject to the suitable mechanism and conditions specified by the IFSCA.

## REGULATORY REQUIREMENTS

Banks operating in the IFSC must follow a specific set of prudential and regulatory norms designed to ensure financial stability, sound risk management, and alignment with international best practices. These norms are issued by the IFSCA and apply to all Banking Units, whether they operate as International Banking Units (IBUs) or International Branches of Indian Banks (IBCs).

### Prudential Regulatory Requirements

#### General Prudential Requirements

##### 1. Compliance with IFSCA Guidelines:

All Banking Units must follow the prudential norms and guidelines issued by the IFSCA from time to time.

##### 2. Applicability to Both IBUs and IBCs:

Whether a Banking Unit is structured as an IBU or as an IBC, it is required to comply with all relevant IFSCA norms and guidelines.

##### 3. Compliance with Home Regulations (For IBUs):

An IBU must also comply with the regulations and instructions issued by the home regulator of its Parent Bank unless the IFSCA specifies otherwise.

#### Liquidity Requirements

Liquidity requirements ensure that a bank maintains sufficient liquid assets to meet its short-term and long-term obligations. IFSCA mandates the following key liquidity ratios:

##### 1. Liquidity Coverage Ratio

1. A Banking Unit must maintain the Liquidity Coverage Ratio as specified by the IFSCA.
2. For IBUs, the Parent Bank may maintain the Liquidity Coverage Ratio on their behalf, but only with prior approval from the IFSCA.
3. The Liquidity Coverage Ratio ensures that the bank can withstand a short-term liquidity stress scenario.

##### 2. Net Stable Funding Ratio

- The Net Stable Funding Ratio must be maintained by a Banking Unit from the time the IFSCA makes it applicable.
- Similar to the Liquidity Coverage Ratio, the Net Stable Funding Ratio for an IBU may be maintained by its Parent Bank with prior approval from the IFSCA.
- The Net Stable Funding Ratio ensures stable long-term funding for a bank's assets and off-balance sheet activities.

**Leverage Ratio**

Banking Units must adhere to the norms and guidelines relating to leverage ratio as may be specified by the IFSCA, from time to time.

The leverage ratio acts as a non-risk-based safeguard, preventing banks from taking on excessive debt relative to their capital.

**Exposure Ceiling**

Banking Units must adhere to the norms and guidelines relating to exposure ceiling as may be specified by the IFSCA, from time to time. Exposure ceilings prevent excessive concentration of credit to a single borrower or group, thereby reducing systemic risk.

**Reserve Requirements**

Reserve requirements differ for IBUs and IBCs due to their regulatory structures and types of liabilities.

**1. Exemption for Certain IBU Liabilities:**

For IBUs, liabilities other than deposits taken from individuals (resident inside or outside India) are exempt from the Cash Reserve Ratio (CRR) or other requirement as may be specified by the IFSCA.

**2. Reserve Ratios for Deposits from Individuals:**

Deposits collected by an IBU from individuals, whether resident or non-resident, may be subject to reserve ratios as may be specified by the IFSCA.

**3. Reserve Requirements for IBCs:**

An IBC must maintain reserves as required under:

- The Banking Regulation Act, 1949, and
- The Reserve Bank of India Act, 1934.

These reserves are similar to those maintained by domestic Indian banks.

**Lender of Last Resort**

Banking Units in the IFSC do not have access to Lender of Last Resort support.

This means that institutions such as the Reserve Bank of India (RBI) or any other central bank will not provide emergency liquidity assistance to these units.

Banks must therefore maintain strong internal liquidity and risk management frameworks to handle the stress situations.

**PERMISSIBLE ACTIVITIES**

Banking Units operating in an IFSC can undertake a wide range of activities. These activities are guided by the rules and permissions issued by the IFSCA. The scope of permissible activities covers the types of currencies in which business can be conducted, the nature of accounts that may be opened, and the overall functions a Banking Unit is allowed to perform.

**Currency for conducting Business**

A Banking Unit may conduct business in foreign currencies and with persons, whether resident or otherwise, as may be specified by the IFSCA. Although the focus is on foreign currency operations, a Banking Unit may also conduct business in Indian Rupees (INR) with eligible persons, provided that the actual settlement of these transactions takes place in the specified foreign currency.

This framework ensures international orientation while allowing operational flexibility.

## Foreign Currency Accounts

Banking Units may maintain various foreign currency accounts for different categories of customers. The following rules apply:

### 1. Accounts opening

Banking Units may open foreign currency accounts for:

- Individuals and
- Corporate or institutional entities

subject to the conditions laid down by the IFSCA.

### 2. Accounts under LRS

Residents in India may also open and maintain accounts in the specified foreign currencies with a Banking Unit for undertaking transactions connected with or arising from any permissible current or capital account transaction or a combination of both as specified in the Liberalised Remittance Scheme (LRS) of the Reserve Bank.

## Transactions through Foreign Currency Accounts

Several specific rules govern how transactions can be carried out through foreign currency accounts in the IFSC:

### 1. No Cash Transactions

Cash transactions in foreign currency accounts are not permitted.

All operations must take place through non-cash modes such as transfers, remittances, or digital instruments.

### 2. Types of Accounts Allowed

Foreign currency accounts may be opened in different forms:

- **For Individual Customers:**

- Current Account
- Savings Account
- Term Deposit

- **For All Other Customers (e.g., corporates, institutions):**

- Current Account
- Term Deposit

These must adhere to the conditions that may be specified by the IFSCA.

## Permitted Activities of Banking Units

### 1. Broad Scope of Activities

A Banking Unit may engage in any activity that is **not expressly prohibited** by:

- The IFSCA, or
- The Home Regulator of the Parent Bank (in the case of an IBU),

as long as it complies with the terms and conditions or guidelines, design, execution, and risk management issued by the IFSCA.

This allows Banking Units to participate in a wide range of global banking, financial, and capital market activities within a regulated framework.

## 2. Referral Services

To avoid ambiguity, the regulations explicitly state that Referral Services are a permitted activity.

This means that a Banking Unit may refer customers to other financial service providers and earn fees or commissions for such referrals, subject to regulatory compliance.

## KNOW YOUR CUSTOMER (KYC) AND ANTI-MONEY LAUNDERING (AML)

### Know Your Customer (KYC) and Anti-Money Laundering (AML) Requirements for Banking Units

Banking Units operating in an IFSC must maintain strong safeguards to prevent financial crime. To achieve this, every Banking Unit is required to comply with the Anti-Money Laundering (AML), Counter-Terrorist Financing (CFT), and Know Your Customer (KYC) guidelines issued by the IFSCA.

These guidelines ensure that Banking Units:

- Verify the identity of their customers before establishing a business relationship or carrying out transactions.
- Monitor customer transactions to detect suspicious patterns or unusual behavior.
- Report suspicious activities to the appropriate authorities, as required under the regulatory framework.
- Assess and manage risks related to money laundering, terrorist financing, and other unlawful financial activities.
- Maintain proper records of customer identities, transactions, and risk assessments.

The purpose of these requirements is to protect the integrity of the financial system, promote transparency, and ensure that Banking Units do not become channels for illegal or harmful financial activities.

## OPERATIONAL REQUIREMENTS

Banking Units in the IFSC must comply with several operational standards designed to ensure transparency, proper record-keeping, and smooth functioning. These requirements relate to reporting, maintenance of accounts, and the management of records.

### Reporting Requirements

#### 1. Submission of Information to the IFSCA

Every Banking Unit must provide the IFSCA with information related to its operations. The nature, format, and frequency of this reporting will be specified by the IFSCA.

This ensures effective regulatory oversight and enables timely monitoring of the Banking Unit's activities.

#### 2. Reporting Currency

Unless the IFSCA specifies otherwise, reports submitted by a Banking Unit must be prepared in US Dollars (USD).

Using a common reporting currency helps standardize financial information and simplifies regulatory review.

### Maintenance of Books of Accounts, Records, and Documents

A Banking Unit must keep its books of accounts, records, and documents in the specified foreign currencies it has declared at the time of making an application.

This ensures consistency between the Banking Unit's operational framework and its record-keeping practices.

### Maintenance of Accounts

#### 1. INR Account for Administrative and Statutory Purposes

Although Banking Units primarily operate in specified foreign currencies, they are permitted to maintain an INR account to meet:

- Administrative expenses,
- Statutory payments, and
- Any other purpose as may be specified by the IFSCA.

This allows Banking Units to handle local obligations efficiently while maintaining their foreign-currency focus.

#### 2. Separate Nostro Accounts

Banking Units must maintain their own nostro accounts with correspondent banks. These accounts must be distinct from the nostro accounts maintained by other branches of the same Parent Bank in India.

This separation ensures clear segregation of transactions and eliminates operational and regulatory overlap between the Banking Unit and other domestic branches.

## PAYMENT SERVICE PROVIDERS (PSPs) IN THE IFSC

### Requirement of Authorisation for Commencing or Carrying on Payment Services

Any person or entity that wishes to provide Payment Services within the International Financial Services Centre (IFSC), or to offer such services from the IFSC to clients outside it, must first obtain a Certificate of Authorisation under the IFSCA (Payment Services) Regulations, 2024.

This requirement ensures that only eligible, fit-and-proper, and appropriately supervised entities operate as Payment Service Providers (PSPs) in the IFSC. It also promotes safety, trust, and stability in the payments ecosystem by ensuring that PSPs:

- Meet minimum capital and operational standards,
- Comply with technology, security, and risk-management norms,
- Adhere to KYC, AML, and CFT guidelines, and
- Are subject to ongoing regulatory oversight.

### Application for Authorisation to Provide Payment Services

Any person desirous of providing Payment Services in or from IFSC shall submit an application to the IFSCA for grant of authorisation as a Payment Service Provider, in the format and in the manner as may be specified by the IFSCA.

Certain persons are exempt from the requirement of obtaining authorisation. They are listed below-

- An IFSC Banking Company (IBC) or an IFSC Banking Unit (IBU) licensed or permitted under the Banking Regulation Act, 1949.

- A person licensed to carry on the business of issuing credit cards in IFSC.
- Any other person or class of persons, as may be specified by the Authority.

These exempted entities may provide Payment Services without going through the formal authorisation process.

### Application Fee

The application must be accompanied by a non-refundable application fee, the amount of which will be specified by the IFSCA.

This fee is required for processing and evaluating the application.

### Scope of Permitted Payment Services

Once authorised, a Payment Service Provider may offer one or more Payment Services listed below-

- account issuance service (including e-money account issuance service)
- e-money issuance service
- escrow service
- cross border money transfer service
- merchant acquisition service

This means an authorised PSP is not restricted to a single service; they may operate across multiple payment categories, depending on their authorisation and capabilities.

### Designation as a Significant Payment Service Provider

In addition to being authorised to provide one or more Payment Services, a PSP may be classified as a Significant Payment Service Provider if it meets the following conditions-

- a) The Regular Payment Service Provider carries on a business of providing one or more of the payment services (other than e-money account issuance service).

The monthly average, over a calendar year, of the total value of all payment transactions that are accepted, processed, executed exceeds

- \$2 million (or its equivalent in a Specified Foreign Currency), for any one of the payment services (other than e-money account issuance service)
  - \$4 million (or its equivalent in a Specified Foreign Currency), for two or more of the payment services (other than e-money account issuance service)
- b) if the Regular Payment Service Provider intends to carry or carries on a business of providing an e-money account issuance service and the average daily value, over a calendar year, of all e-money that is stored in any payment account issued by the Regular Payment Service Provider exceeds \$3 million (or its equivalent in a specified foreign currency).
  - c) if the applicant or the Regular Payment Service Provider carries on a business of providing an e-money issuance service and the average daily value, over a calendar year, of the total value in one day of all e-money that is intended to be issued or issued by the Regular Payment Service Provider exceeds \$3 million (or its equivalent in a Specified Foreign Currency).

This designation typically applies to PSPs that:

- Have substantial scale of operations, or

- Provide services that are systemically important, or
- Meet specific criteria defined by the IFSCA.

Being designated as a Significant PSP may subject the entity to enhanced regulatory and supervisory requirements, reflecting its importance in the IFSC payment ecosystem.

### Legal form

An Applicant making an application for authorisation must be incorporated as a Company with its registered office in IFSC.

### Minimum Net worth requirement

To ensure financial stability and resilience, every Payment Service Provider (PSP) operating in or from the IFSC must maintain an adequate financial base. The IFSCA sets minimum net worth standards that PSPs must comply with at all times. These requirements help promote confidence, reduce systemic risk, and ensure that PSPs can continue operations even during periods of financial stress.

#### 1. Ongoing Compliance with Minimum Net Worth

A PSP must continuously maintain the minimum net worth given below:

- A Regular Payment Service Provider shall have a minimum net-worth of USD 100,000 (or equivalent in a Specified Foreign Currency) on the date of commencement of operations. A Regular Payment Service Provider shall achieve a minimum net-worth of USD 200,000 (or equivalent in a Specified Foreign Currency) by the end of the third financial year (i.e., March 31) from the year of commencement of operations.
- A Significant Payment Service Provider shall achieve a minimum net-worth of USD 250,000 (or equivalent in a Specified Foreign Currency) within ninety days of the date of being so designated by the Authority. A Significant Payment Service Provider shall achieve a minimum net-worth of USD 500,000 (or equivalent in a Specified Foreign Currency) by the end of the third financial year (i.e., March 31) from the year of designation as a Significant Payment Service Provider.

This is not a one-time requirement; PSPs must meet the standard on an ongoing and sustained basis.

#### 2. Review and Revision of Net Worth Requirements

The Authority may periodically review the minimum net worth levels to ensure they remain effective and relevant.

Based on such review, the IFSCA may revise the minimum net worth requirement to better align with the changing financial landscape.

#### 3. Timeframe for Meeting Additional Net Worth Requirements

If the IFSCA prescribes a higher net worth requirement following its review, the PSP must comply with the revised threshold within 180 days from the date on which the IFSCA communicates the new requirement.

This transition period allows PSPs to adjust their capital position without disrupting their operations.

#### 4. Framework for Prompt Corrective Action

The IFSCA may introduce a prompt corrective action framework that applies when a PSP's net worth falls below the required level.

## 5. Stress Testing Requirements

To assess resilience against adverse conditions, the Authority may require PSPs to conduct stress tests on their net worth. These stress tests help evaluate whether a PSP can withstand economic scenarios.

### Grant of authorisation

- i) The IFSCA, on being satisfied that the Applicant has complied with the conditions and is eligible to act as a Payment Service Provider, grants a Certificate of Authorisation to the Applicant subject to such conditions as the IFSCA may deem fit.
- ii) The Certificate of Authorisation granted will be valid unless revoked by the IFSCA or surrendered by the Payment Service Provider.
- iii) Every application for authorisation shall be processed by the IFSCA as soon as possible, and an endeavour shall be made to dispose of such application within six months from the date of filing such application.
- iv) The IFSCA, if it so desires, either at the time of grant of authorisation or at any other time thereafter, require a Payment Service Provider to maintain a security deposit of such amount and in such form as may be specified by the IFSCA.
- v) A Payment Service Provider shall identify an IFSC Banking Unit or an IFSC Banking Company as its Nodal Bank and intimate the same to the IFSCA along with a concurrence of the said bank to act as the Nodal Bank.
- vi) The Payment Service Provider, at any time after the grant of authorisation, must inform the IFSCA of any material change in the information or particulars previously furnished.
- vii) The IFSCA may modify one or more conditions for commencing or carrying on Payment Services.

### Commencement of operations

- i) The Payment Service Provider must commence its operations within six months from the date of issuance of the Certificate of Authorisation.
- ii) The Payment Service Provider may submit an application for extension of time, if instructed to do so by way of a resolution passed by its board of directors, for commencing operations at least two months before the latest date of commencement.
- iii) The application must include complete details of the reasons behind the request for extension, duration of extension sought, steps being undertaken to overcome the delay and any other information which, in the opinion of the Payment Service Provider, is relevant to the request for extension.
- iv) On receipt of the application, if the IFSCA is satisfied that Payment Service Provider cannot commence its operation within stipulated time period, it may extend the time period by such further period, as it thinks fit, but not exceeding three months. Any extension of the time period will not be granted more than once.

### Duties of the Payment Service Provider

#### a) Duty to protect Applicable Funds

- (1) The Payment Service Provider must safeguard Applicable Funds, including but not limited to compliance with the directions.
- (2) The Payment Service Provider must at all times keep Applicable Funds segregated from any other types of funds that it holds.

- b) **Duty to comply with International Financial Services Centres Authority (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022 (AML, CTF & KYC Guidelines)**
- (1) The Payment Service Provider ensures compliance with AML, CTF & KYC Guidelines and other provisions of Prevention of Money Laundering Act, 2002 and the Rules made thereunder including any statutory modification(s) or re-enactment thereof for the time being in force.
  - (2) The Payment Service Provider using agents for providing its services shall:
    - a) maintain an up-to-date list of such agents
    - b) include such agents in their AML/CTF programmes and monitor them for compliance with these programmes.
  - (3) A Payment Service Provider will be responsible and accountable for the transactions/actions undertaken by their authorised agents.
  - (4) A Payment Service Provider must maintain a log of all the transactions undertaken for at least ten years. This data must be made available for scrutiny to the IFSCA or any other agency/ agencies as may be directed by the IFSCA.

**c) Duty to comply with laws**

The Payment Service Provider must comply with all applicable laws in India as well all applicable laws of any jurisdiction/s outside India where it provides services or where the Payment Service Users are based.

**d) Duty of co-operation with the Authority**

- (1) A Payment Service Provider must deal with the IFSCA in an open and co-operative manner. A Payment Service Provider must keep the IFSCA duly informed of any significant event(s) relating to the Payment Service Provider.
- (2) Any proposed major change, such as change in product features/process, structure or operation of the payment services, etc., must be communicated to the IFSCA with complete details.
- (3) A Payment Service Provider must obtain prior approval of the IFSCA before entering into any transaction of merger, consolidation, re-organisation, scheme of arrangement or compromise with its shareholders or effect any scheme of amalgamation or reconstruction.
- (4) The IFSCA, for the purpose of carrying out its functions, conducts or gets conducted audits and inspections of a Payment Service Provider and a Third-Party Service Provider, and it shall be the duty of the Payment Service Provider and a Third-Party Service Provider to assist the IFSCA to carry out such audit or inspection, as the case may be.

**e) Duty towards Payment Service Users**

- (1) A Payment Service Provider must ensure that due regard is given to protecting the interests of Payment Service Users and the relevant information is communicated to them in a clear and fair manner that minimises the possibility of them getting misled.
- (2) A Payment Service Provider must comply with the disclosure requirements.

**f) Duty to secure the information technology systems and other infrastructure**

- (1) A Payment Service Provider must secure its information technology systems and other infrastructure used for providing Payment Services from unauthorised access and manipulation.

- (2) A Payment Service Provider must prepare and maintain a written document outlining the security policies and procedures put in place to fulfil the duty.
- (3) The IFSCA, if it feels necessary to do so, issues directions to the Payment Service Providers about the procedures to be followed for securing the information technology systems and other infrastructure used for providing Payment Services.
- (4) The IFSCA, if it feels necessary to do so, directs a Payment Service Provider to submit certificate (s) issued by independent professionals confirming the compliance and with the directions.

### Redressal of grievances and dispute resolution

- (1) A Payment Service Provider must depute adequate staff at its permanent place of business or registered office in IFSC to address any queries, complaints or grievances from a Payment Service User that uses one or more of the payment services provided by the Payment Service Provider and shall do so within a period of thirty days from receipt of a complaint or a grievance.
- (2) Payments Service Users will be provided with one or more channels web-based or paper-based complaint forms, IVR, mobile application, call centre, SMS, through branches or offices, etc., for raising queries and for lodging complaints and grievances.
- (3) Disputes between a Payment Service User and a Payment Service Provider, which could not be resolved by the internal grievance redressal mechanism, must be resolved by harnessing online conciliation and/or online arbitration in the manner as specified by the IFSCA.
- (4) A Payment Service Provider must maintain records regarding queries, complaints and grievances received by it and redressal of such complaints and grievances.

### Action in case of default

The IFSCA may initiate appropriate enforcement action in case a Payment Service Provider contravenes any of the provisions of these regulations, directions, or orders made thereunder.

### FINANCE COMPANIES IN IFSC

Finance Company means a financial institution as defined as a separately incorporated to deal in one or more of the permissible activities the Finance Company Regulations, 2021 provided:

- (i) It does not accept public deposit from resident and non-resident, as defined in the Finance Company Regulations, 2021
- (ii) It is not registered with the IFSCA as a Banking Unit

### PERMITTED CORE ACTIVITIES

Finance Companies operating in the IFSC are permitted by the IFSCA to undertake a range of core financial activities.

These activities are designed to support international trade, cross-border investment, and risk management, and global financial operations, while ensuring compliance with globally accepted regulatory standards.

The permitted core activities are explained below:

#### a) Lending and Credit-Related Activities

Finance Companies in IFSC are allowed to lend and provide credit support in various forms, including:

- Loans

- Commitments and Guarantees
- Credit Enhancement
- Securitisation
- Financial Leasing
- Sale and Purchase of Portfolios

These activities help improve liquidity, credit availability, and financial efficiency in international markets.

**b) Factoring and Forfeiting of Receivables**

Finance Companies in IFSC may engage in:

- **Factoring:**

Purchasing short-term trade receivables from exporters or suppliers, thereby providing immediate working capital.

- **Forfeiting:**

Financing medium- to long-term receivables arising from international trade, usually without recourse to the exporter.

Both services reduce credit risk and cash-flow constraints, especially for exporters involved in cross-border trade.

**c) Investment Activities**

Finance Companies are permitted to undertake investments, including:

- Subscribing to securities
- Acquiring and holding securities and other instruments
- Transferring securities and other permitted financial instruments

Such investments may be made for strategic purposes, treasury management, or returns, subject to limits and conditions prescribed by IFSCA.

**d) Buying and Selling of Derivatives**

Finance Companies in IFSC are allowed to buy and sell derivative instruments, such as:

- Interest rate derivatives
- Foreign exchange derivatives
- Credit derivatives
- Commodity derivatives (where permitted)

These instruments are used primarily for hedging risks, managing exposures, and optimizing financial performance in international markets.

**e) Global / Regional Corporate Treasury Centres**

Finance Companies may operate as Global or Regional Corporate Treasury Centres, providing centralized treasury services for multinational groups.

The IFSC provides a tax-efficient and globally regulated environment for locating such treasury operations.

**f) Other Core Activities Permitted by IFSCA**

IFSCA may permit additional core activities from time to time, based on:

- Market developments
- Financial innovation
- Policy objectives

This provision ensures that the regulatory framework remains flexible, adaptive, and future-ready, allowing finance companies to adopt new financial products and services as approved by the Authority.

**PERMITTED NON-CORE ACTIVITIES**

1. Subject to specific registration requirements, wherever applicable, permitted non-core activities for a Finance Company or a Finance Unit, as the case may be, shall include the following activities:
  - a) Merchant Banking
  - b) Authorised person
  - c) Registrar and Share Transfer Agent
  - d) Trusteeship Services
  - e) Investment Advisory Services
  - f) Portfolio Management Services
  - g) Operating lease of any products, including aircraft lease, ship lease or any other equipment as may be specified by the Authority from time to time
  - h) International Trade Financing Services Platform
  - i) Distribution of financial products (including mutual fund units and insurance products)
  - j) Function as trading and clearing members or professional clearing member of exchanges and clearing corporations set up in IFSCs
  - k) Asset Management support services permitted under the Framework for Enabling Ancillary Services as specified by the Authority
  - l) Undertaking to act as facilitators of permissible activities as and when permitted by the Authority
  - m) Any other activity without involving a customer interface, as may be permitted with the prior approval of the Authority, that is classified as a non-core activity by the Authority, under these regulations
  - n) any other activity, as may be permitted and classified as a non-core activity by the Authority, under these regulations
2. A Finance Company or a Finance Unit registered for carrying out one or more non-core activities only, may be permitted to undertake investment activities for the purpose of liquidity and balance sheet management as part of its normal business operations and such investment activity shall not be treated as a core activity for the purpose of Finance Company Regulations, 2021.
3. A Finance Company or a Finance Unit intending to undertake either a single or a combination of non-core activities shall fulfil the following conditions:
  - a) It carries out each such activity through a separately identifiable department (SID)

- b) It ensures a firewall between various non-core activities so that no conflict-of-interest situation arises
- c) It formulates Board-approved grievance redressal and customer compensation policy to deal with such complaints

A Finance Company or a Finance Unit intending to undertake any of the non-core activities subject to the provisions of the respective framework as specified by the IFSCA for that particular activity.

4. The Finance Company or a Finance Unit undertake transactions in financial products and financial services as part of permissible activities with both residents and non-residents. Any dealing with residents shall be subject to the provisions of Foreign Exchange Management Act, 1999.
5. Every Finance Company or a Finance Unit carrying out non-core activities may also undertake derivative transactions only for the purpose of hedging their underlying exposures.
6. A Finance Company or a Finance Unit do not undertake or fund any speculative transaction.
7. The source of funds for the Finance Company or a Finance Unit must be from residents and non-residents. Any dealings with residents shall be subject to the provisions of the Foreign Exchange Management Act, 1999.

### Setting up of a finance company

#### Registration Requirement

1. An entity must commence business as a Finance Company or Finance Unit. IFSCs only, after obtaining a certificate of registration from the IFSCA for carrying out the activities specified in the Schedule to these regulations.

A certificate of registration under these regulations shall be required to be obtained by an entity intending to carry out such permissible activities that are not covered under the framework or regulations under which it was previously granted registration or authorisation.

*Explanation:* An entity that has obtained a certificate of registration or authorisation for a specific activity under another framework or regulations, issued or notified by the IFSCA, does not require seeking a fresh registration for carrying out the same activity, if it is a permissible activity.

2. A Finance Company can be set up either as a subsidiary or a joint venture, or as a newly incorporated company under the Companies Act, 2013, or in any other form as may be specified by the IFSCA from time to time.

If the parent of a Finance Company is carrying out a regulated financial activity in its home jurisdiction, it obtains a No-objection Certificate from its home country regulator for setting up a Finance Company in the IFSCs, wherever applicable.

3. A Finance Unit can be set up if the applicant is an incorporated entity in its home jurisdiction.

Provided that a Finance Unit can be set up for undertaking core activities as specified in these regulations only if the applicant, being an incorporated entity in its home jurisdiction, is engaged in the business of financial services and is regulated by a financial sector regulator in its home jurisdiction and has obtained a No-Objection Certificate from the home regulator for setting up a Finance Unit in the IFSCs, wherever applicable.

The conditions under the above proviso shall not apply to an incorporated entity that desires to set up a Global/Regional Corporate Treasury Centre as a Finance Unit in the IFSCs for undertaking treasury activities or treasury services in accordance with the relevant regulatory framework specified by the IFSCA.

4. An application for grant of registration as a Finance Company or a Finance Unit made by the applicant in the form and manner as specified by the IFSCA.

An applicant intending to undertake either one or more non-core activities may be considered for registration as a 'finance company' for the purposes of these regulations, even if incorporated in the form of a Limited Liability Partnership or a Trust.

5. A Finance Company or a Finance Unit seeking registration must comply with following conditions:
  - (i) The applicant seeking registration as a 'Finance Company' must have and maintain minimum owned fund, depending on the category of activity(ies) or a combination of activities and must maintain the higher of the minimum capital or owned funds or net worth prescribed for each activity or category of activities or under any of the relevant regulatory framework issued by the IFSCA.
  - (ii) In case the applicant, being an incorporated entity in its home jurisdiction, is seeking to set up and register a 'Finance Unit', it must provide and maintain minimum owned fund on unimpaired basis at all times, depending on the category of activity(ies) or a combination of activities and must maintain the higher of the minimum capital or owned funds or net worth prescribed for each activity or category of activities or under any of the relevant regulatory framework issued by the IFSCA.
6. The applicant entity and/or its promoters must be from a FATF-compliant jurisdiction and comply with international standards set by the Financial Action Task Force to combat money laundering and terrorist financing.
7. After considering the application, if the Authority is satisfied that the terms and conditions, it may grant a certificate of registration to the applicant, in such form and subject to such conditions as may be specified:

Provided that on a request received from an applicant, if the Authority is satisfied that the applicant may be given more time to comply with certain conditions for the grant of registration, it may, for the reasons to be recorded in writing, consider the grant of provisional registration giving additional time to the applicant, subject to such conditions, as it may deem necessary:

The provisional registration can be withdrawn by the IFSCA if the IFSCA is satisfied that the applicant is unable to comply with any of the conditions under which the provisional registration was granted.

8. After considering the application for registration, if the IFSCA believes that registration cannot be granted, it shall communicate the deficiencies to the applicant, giving it thirty days' time to rectify them.
9. If the applicant fails to rectify such deficiencies to the satisfaction of the IFSCA within the specified time, the IFSCA may refuse to grant a certificate of registration and shall communicate the same to the applicant, giving reasons for such refusal.

No such refusal must be made by the IFSCA without giving the applicant an opportunity to make written submissions on the grounds on which the registration is proposed to be refused.

### Prudential regulatory requirements

#### 1. Applicable prudential regulations

The prudential regulations applicable to a Finance Company or a Finance Unit must be such as may be specified by the IFSCA.

**2. Capital Ratio (CR)**

A Finance Company or a Finance Unit must maintain a minimum capital ratio at eight per cent of its regulatory capital to its risk-weighted assets, or at such percentage as may be specified by the IFSCA.

**3. Liquidity Coverage Ratio (LCR)**

A Finance Company or a Finance Unit must maintain LCR on stand-alone basis, at all times, as may be determined by the IFSCA.

In the case of a Finance Unit, the LCR may be allowed to be maintained by the parent entity, with specific approval of the IFSCA.

**4. Exposure Ceiling (EC)**

The sum of all the exposures of a Finance Company or a Finance Unit to a single counterparty or group of connected counterparties must not exceed twenty-five per cent of its available eligible capital base without the approval of the IFSCA.

**Know Your Customer and Anti-Money Laundering**

Every Finance Company and Finance Unit must follow the Know Your Customer norms, combating of financing of terrorism and other anti-money laundering requirements, including reporting requirements, as specified for a Banking Unit in IFSCs.

**Corporate Governance and Disclosure Requirements**

- (1) Every Finance Company and Finance Unit must adhere to the guidelines on corporate governance and disclosure requirements to be specified by the IFSCA.
- (2) Any mergers, acquisitions, takeovers or change in management of a Finance Company, which results in its change in control of at least twenty per cent of total share capital, or of business decisions under an agreement, subject to prior approval and such other requirements as may be specified by the IFSCA.

Mergers, acquisitions, takeovers or change in management in the parent of a Finance Unit must be in compliance with its registration requirements and shall be intimated to the IFSCA within a period of 15 days from the date of such event.

**Reporting Requirements**

- (1) Every Finance Company and Finance Unit must furnish information relating to its operations to the IFSCA, in such manner, interval and form, as may be specified by the IFSCA.
- (2) Every financial reporting by a Finance Company and a Finance Unit to the IFSCA must be in US dollars, unless otherwise specified by the IFSCA.

**Action in Case of Default**

If a Finance Company or a Finance Unit, as the case may be, fails to fulfil any of the conditions subject to which the registration under Regulation 3 has been granted, the Authority may take any action as it may deem fit, including suspension, withdrawal or cancellation of registration, after giving an opportunity to the entity, of making its submissions.

## INTERNATIONAL TRADE FINANCE SERVICES (ITFS) PLATFORM IN IFSC

To strengthen trade finance and bring innovative solutions to global exporters and importers, the IFSCA has introduced a special digital framework in the IFSC. This framework is called the International Trade Finance Services (ITFS) platform and governed as per the Guidelines on setting up and operation of International Trade Finance Service Platform, 2024.

### What is ITFS?

The ITFS is an electronic (digital) platform established in the IFSC, designed to facilitate trade finance transactions in a transparent and efficient way. It connects exporters, importers, banks, finance companies, insurers, payment service providers, and other eligible participants on one platform.

### Permissible Activities

The ITFS must act as a facilitator for transactions relating to Factoring, Reverse Factoring, Bill discounting under Letter of Credit, Supply Chain Financing, Pre-shipment Credit, Forfeiting any other activity as permitted by the Authority. The ITFS may also permit secondary market transactions of the products specified above.

ITFS operator intending to undertake any activity permitted to be undertaken by financial institutions in IFSC other than those mentioned above must obtain permission from the Authority prior to applying to undertake such activity.

### Principles of operation

- The ITFS operator must have well documented rules and regulations including, but not limited to, on-boarding of participants, suspension and cessation of membership, roles and responsibilities of participants and operator, liability framework for ITFS and users in case of breach of rules and regulations, restrictions or other requirements that may apply for using the ITFS, processing and execution of orders, risk management and control.
- The ITFS operator must ensure that financiers seeking to be on-boarded as participants under also satisfy the following criteria :
  - the financier has either gross loans and advances made in the current or previous financial year or Assets Under Management (AUM) of the entity as on the date of onboarding shall be a minimum of USD 5 million;
  - AUM refers to the total market value of all financial assets owned by the financier or managed by it on behalf of its clients.
  - the financier should have at least USD 5 million of capital
  - The financier should have proven capability (either on its own or through outsourcing arrangements) for credit/ debt recovery;
  - The financier shall be an incorporated entity carrying out the business of factoring]
  - The financier including any shareholders holding more than 10% of its share capital shall be from a jurisdiction which has not been identified in the public statement of Financial Action Task Force (FATF) as “High Risk Jurisdiction – subject to call for action.
- The ITFS operator must comply with the applicable provisions of the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022, dated October 18, 2022

- The ITFS operator must facilitate transparent and competitive bidding by the financiers on the electronic platform
- The ITFS operator must ensure that the electronic platform displays details of bids placed for a TFU to other bidders without revealing the name of the entities who has placed such bids
- The ITFS operator must provide an option on its electronic platform that allows the participants to opt out of invoice-wise (i.e. TFUs) bidding and choose onetime bidding option for the whole turnover
- The ITFS operator must not assume any credit risk on the transactions carried out on its platform
- Defaults due to non-payment, if any, by the participant/s on an ITFS shall be handled by the financier/s directly with the defaulting participant
- Legal proceedings initiated by the financier/s or the participant/s shall be outside the purview of the ITFS.
- ITFS operator may connect the ITFS with any other electronic platform/market infrastructure, within and outside IFSC, with the prior approval from the Authority
- ITFS operator must put in place a Complaint Handling and Grievance Redressal mechanism in compliance with the circular on “Complaint Handling and Grievance Redressal by Regulated Entities in the IFSC”.
- The ITFS operator must comply with all applicable laws in India as well all applicable laws of any jurisdiction/s outside India where it provides services.

### Technology

- The ITFS operator must have and maintain robust technology infrastructure with a high degree of reliability, availability, scalability and security in respect of its systems, data and network, appropriate to support its operations and manage the associated risks.
- The ITFS operator must have in place a suitable Business Continuity Plan (BCP) including contingency and disaster recovery arrangements that are appropriate to the nature, scale, and complexity of its business to ensure continuity and availability of its operation.
- An ITFS operator must get an IT/IS Audit of the ITFS platform done :
  - every year within 30 days from close of financial year, and;
  - prior to major technical changes/updates being made to the ITFS platform.
- The audit at (3) may be undertaken by :
  - a CERT-In empanelled auditor,
  - an auditor possessing the following certifications:
    - a. Certified Information System Auditor (CISA) or
    - b. Certified Information Security Manager (CISM) or
    - c. GIAC Systems and Network Auditor (GSNA) or
    - d. Certified Information Systems Security Professional (CISSP)
- All data related to transactions generated on ITFS shall be maintained in easily retrievable form.

### Clearing and Settlement

An ITFS operator intending to provide clearing and /or settlement of funds shall, prior to offering such a service, seek authorisation from IFSCA as a payment system operator under the International Financial Services Centres Authority (Payment and Settlement Systems) Regulations, 2024.

### Risk Management

An ITFS operator must put in place a comprehensive risk management framework covering all aspects of its operations. An ITFS operator must ensure that risks associated with the activities of the ITFS platform are identified properly and managed prudently.

### Corporate Governance

Every ITFS operator must have a Board approved corporate governance policy in line with the Circular on Guidelines on Corporate Governance and Disclosure Requirements of a Finance Company dated August 9, 2021. The policy must comprehensively and clearly document its governance arrangements i.e., the framework under which its Board and senior management shall function.

## SHIP LEASING AS FINANCE COMPANY

The 'ship lease' includes operating lease, and hybrid of operating and financial lease, of a ship or ocean vessel, engines of ship or ocean vessel, or any other part thereof, as a financial product.

As per International Financial Services Centres Authority (Finance Company) Regulations, 2021 an operating lease transactions for ship lease is classified as a 'permitted non-core activity' and as per Finance Company Regulations, a financial lease transaction for ship lease including a hybrid of financial lease and operating lease transaction for ship lease is classified as a 'permitted core activity'.

The IFSCA in order to facilitate the Ship Leasing business in IFSCs in India specifies the following Framework for entities to get registered under the Finance Company Regulations for undertaking ship lease transactions:

### Some important terms related to Ship leasing

1. **Financial lease:** For a ship lease arrangement, finance lease means the activity of leasing such that it transfers substantially all the risks and rewards incidental to the ownership of the asset involved.
2. **Lessor:** An entity registered with IFSCA as a Finance Company or Finance Unit in accordance with the Framework for Ship Leasing, and engaged in the business of providing ships or ocean vessel, engines of ship or ocean vessels, or any other part thereof under an operating lease, financial lease and/or a hybrid of financial and operating lease, and/or; any other related activity as may be specified by the IFSCA from time to time.
3. **Ocean vessel:** It includes every description of watercraft used or capable of being used in the marine environment, such as ship, boat, sailing vessel, fishing vessel, submersible, semi-submersible, hydrofoils, non-displacement crafts, amphibious crafts, wing-in-ground crafts, pleasure crafts, barges, lighters, Mobile Offshore Drilling units, Mobile offshore Units, or of any other description and shall include inland water vessels and coasting vessels, but does not include fishing or sailing watercraft.
4. **Operating lease:** For a ship lease arrangement operating lease means the activity of leasing such that it does not transfer substantially all the risks and rewards incidental to the ownership of the asset involved.
5. **Single Window IT Systems (SWITs):** It is an online platform designed to facilitate the processing of applications submitted by the applicant for obtaining Certificate of Registration under the Finance Company Regulations.

- 6. Ship:** It includes any watercraft, used or capable of being used in navigation by its own propulsion, in, above, or under the water but does not include fishing or sailing watercraft.

### Eligibility of Applicant

An applicant desirous of undertaking permissible activities in IFSCs as a lessor shall meet the eligibility criteria and other requirements as specified under the Finance Company Regulations, including the following:

The applicant shall set up operations in an IFSC in the form of a Company or a Limited Liability Partnership (LLP) or a Trust or a Branch or in any other form as may be specified by the IFSCA from time to time.

In case the applicant is a company, the 'promoter', as defined in the Companies Act, 2013, of the applicant shall be located in a Financial Action Task Force compliant jurisdiction. In case the applicant is a LLP or a Trust, the partners or the trustees, as the case may be, shall also comply with this requirement.

This means that the branch set up in IFSC may also be of a wholly owned subsidiary (including a subsidiary incorporated outside IFSC) of the IFSC registered entity, for the purpose.

All entities set up in IFSC for carrying out permitted activities as envisaged in the Framework must comply with all requirements, exceptions, regulations and conditions imposed by any applicable statute including the Merchant Shipping Act, 1958 ("Shipping Act"), and shall also include circulars and notifications issued by competent authorities established under the Shipping Act or other applicable statutes, by the Ministry of Shipping or Director General of Shipping.

### Registration of lessor

An applicant desirous of undertaking permissible activities as a lessor shall submit an application to the IFSCA through SWITs portal, along with the application fees.

An applicant must not undertake any activity as a lessor unless it has obtained a Certificate of Registration from the IFSCA under Finance Company Regulations means an applicant desirous of undertaking 'Asset Management Support Services related to ship lease' for an asset.

An entity registered or authorised with IFSCA, which is not undertaking Ship leasing and is desirous of undertaking permissible activities, must apply separately for registration under this framework.

For this purpose, an entity registered with IFSCA for undertaking an operating lease for a ship must also seek permission if it is desirous of undertaking permissible activities.

### Ship Operating Lease

Permissible Activities under operating lease:

A lessor in IFSCs is permitted to undertake all or any of the following activities:

- (i) Operating lease
- (ii) Voyage Charters, Contract of Affreightments, employment in shipping pools and all other legal commercial transactions for employment of ships. A lessor may undertake these activities only if such a lessor has an absolute or leasehold right over the ship/ocean vessel.
- (iii) Asset Management Support Services for assets owned or leased out by the lessor or by any of its Group Entities set up in IFSCs in India.

Here, the term 'Group Entities' means an arrangement involving two or more entities related to each other through any of the relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in

terms of AS 27), Associate (defined in terms of AS 23), a related party (defined in terms of AS 18), Common brand name and investment in equity shares (of 20% and above).

Sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in relation to ship lease any other related activity, with the prior approval of the IFSCA.

A transaction here is classified as a lease if it is in accordance with the Indian Accounting Standards (Ind AS 116) on Leases.

### Capital Requirement

A minimum owned fund of USD 200,000 or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity.

“Owned fund” for a lessor means the paid-up capital and free reserves balance in share premium account and capital reserves representing surplus arising out of the sale proceeds of the asset, excluding reserves created by revaluation of assets, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure. In addition, the IFSCA may specify maintenance of additional capital as a risk management measure, based on the nature and scale of the business of the lessor.

### Ship Financial Lease

Permissible Activities under financial lease and a hybrid of operating and financial lease:

A lessor in IFSCs shall be permitted to undertake all or any of the following activities:

- i. Financial lease
- ii. Hybrid of financial and operating lease
- iii. Permitted Activities
- iv. any other related activity with the prior approval of the IFSCA.

A transaction shall be classified as a lease if it is in accordance with the Indian Accounting Standards (Ind AS 116) on Leases.

### Capital Requirement

A minimum owned fund of USD 3 million or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity. Additionally, the IFSCA may specify maintenance of additional capital, as a risk management measure, based on the nature and scale of business of the entity.

### Action in Case of Default

If a lessor fails to fulfil the conditions subject to which the registration is granted, the IFSCA may take any action as it may deem fit, after giving an opportunity of making submissions.

## AIRCRAFT LEASING AS A FINANCE COMPANY

As per the International Financial Services Centres Authority (Finance Company) Regulations, 2021, an operating lease transaction for aircraft lease is classified as a ‘permitted non-core activity’ and a financial lease transaction for aircraft lease is classified as a ‘permitted core activity’, which includes a hybrid of financial lease and operating lease transaction for aircraft lease.

The IFSCA, in order to facilitate the setting up of the Aircraft Leasing business in the IFSCs and in exercise of the powers conferred by the IFSCA Act, 2019, hereby specifies the following framework for entities to get registered

under the Finance Company Regulations as a 'Finance Company' or a 'Finance Unit' for undertaking aircraft lease transactions.

### Some important terms related to Ship leasing

"Lessor" means an entity registered with IFSCA as a Finance Company or a Finance Unit in accordance with Finance Company Regulations and engaged in the business of providing aircraft or helicopter and engines of aircraft or helicopter or any other part thereof and/or aircraft ground support equipment and/or aviation training simulation device under an operating lease, financial lease and/or a hybrid of financial and operating lease or any other related activity as may be specified by the IFSCA from time to time.

### Eligibility and Registration Requirement

An applicant desirous of undertaking permissible activities in IFSCs as a Lessor must meet the eligibility criteria and other requirements as specified under the Finance Company Regulations including the following:

- a) The applicant shall set-up operations in IFSC in the form of a Company or a Limited Liability Partnership (LLP) or a Trust or in any other form as may be specified by the IFSCA from time to time.
- b) In case the applicant is a company, the 'promoter', as defined in the Companies Act, 2013, of the applicant shall be located in a Financial Action Task Force compliant jurisdiction. In case the applicant is an LLP or a Trust, the partners or the trustees, as the case may be, shall also comply with this requirement.

An entity in IFSC, intending to undertake aircraft lease only through its wholly owned subsidiary(ies) setup in IFSC for the purpose, will also be deemed to be a Lessor and it can make application for registration accordingly.

### Application for Registration

An applicant desirous of undertaking permissible activities as a Lessor must submit an application to the IFSCA in the Single Window IT System (SWITS) portal, along with the application fees.

An applicant shall not undertake permissible activities as a Lessor unless it has obtained a Certificate of Registration from the IFSCA under the Finance Company Regulations. An applicant desirous of undertaking 'Asset Management Support Services' for an asset must obtain a separate authorisation for enabling ancillary services at IFSC.

### Aircraft Operating Lease

A Lessor shall be permitted to undertake all or any of the following activities:

- Operating lease for an aircraft lease arrangement
- Operating lease for an aircraft ground support equipment
- Operating lease for an aviation training simulation device
- Asset Management Support Services for assets owned or leased out by the entity or by any of its Group Entities set up in IFSCs in India

Here, "Group Entities" mean an arrangement involving two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), a related party (defined in terms of AS 18), Common brand name and investment in equity shares (of 20% and above).

- Sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in

relation to permitted activities subject to such restriction, and any other related activity with the prior approval of the IFSCA.

#### **Capital Requirement:**

A minimum owned fund of USD 200,000 or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity.

Here, the “Owned fund” for a Lessor means the paid-up capital and free reserves balance in the share premium account and capital reserves representing surplus arising out of the sale proceeds of asset, excluding reserves created by revaluation of the asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure. Additionally, the IFSCA may specify maintenance of additional capital, as a risk management measure, based on the nature and the scale of business of the Lessor.

### **Aircraft Financial Lease**

#### **Permissible Activities under financial lease:**

A Lessor shall be permitted to undertake all or any of the following activities:

- Financial lease or a hybrid of financial and operating lease for an aircraft lease arrangement
- Financial lease or any hybrid of financial and operating lease for an aircraft ground support equipment
- Financial lease or any hybrid of financial and operating lease for an aviation training simulation device
- Sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in relation to permitted activities
- Permitted activities
- Any other related activity with the prior approval of the IFSCA

#### **Capital Requirement for Lessors undertaking financial lease:**

- i) A minimum owned fund of USD 3 million or its equivalent in freely convertible foreign currency is to be maintained at all times by the entity.
- ii) Additionally, the IFSCA may specify maintenance of additional capital, as a risk management measure, based on the nature and scale of business of the entity.

### **Action in Case of Default**

If a Lessor fails to fulfil the conditions subject to which the registration is granted, the IFSCA may take any action as it may deem fit, after giving an opportunity of making submissions, if any.

## **GLOBAL/REGIONAL CORPORATE TREASURY CENTRE (GRCTC)**

### **Registration for undertaking the activity of GRCTC**

#### **1. Conditions for Grant of Registration**

- i) An entity desirous to commence the activity of GRCTC (hereinafter referred to as “the applicant”) shall apply to the Authority for obtaining a registration as a Finance Company/Finance Unit under sub-regulation (4) of regulation 3 of the FC Regulations.
- ii) The Applicant shall, at the time of submitting the application, meet the following conditions, namely:

- the Applicant possesses or undertakes to set up the necessary infrastructure in IFSC, including adequate office space, equipment, and communication facilities to undertake the permissible activities
- the Applicant undertakes to employ at least five qualified personnel, based in IFSC, to undertake the permissible activities, including the Head of Treasury and the Compliance Officer, before commencement of operations
- the Applicant demonstrates the ability to meet the owned fund requirements to the satisfaction of the IFSCA
- the Parent of the Applicant is from a jurisdiction which has not been identified in the public statement of the Financial Action Task Force (FATF) as “High Risk Jurisdiction – subject to call for action”
- the Applicant and its Key Managerial Personnel and persons exercising control over it collectively referred to as “Relevant Persons” satisfy the ‘fit and proper’ requirements
- the Applicant has not, during one year prior to the date of submission of the application, been refused authorisation or registration by the IFSCA

## 2. Application for Registration

The Applicant must submit the application for registration through the SWIT portal.

The Applicant, along with the application, must provide a list of its Service Recipients for which it proposes to undertake permissible activities. The list shall contain the names of service recipients as on the date of application. Other service recipients may be added to the list from time to time.

## 3. Legal Form

The Applicant shall be required to be set-up in IFSC either in the form of a company or a branch of a company incorporated in India or outside India.

## 4. Owned Fund requirements

A Finance Company/Finance Unit undertaking the activity of GRCTC shall have and maintain a minimum owned fund of USD 0.2 million at all times. In case of a Finance Unit undertaking the activity of GRCTC, the required owned fund may be maintained at the parent level.

## 5. Grant of Registration

- The IFSCA may, on being satisfied that the Applicant has complied with the conditions required for obtaining Certificate of Registration and upon receipt of specified registration fees, grant Certificate of Registration to the Applicant.
- The Certificate of Registration shall be valid unless suspended, withdrawn or cancelled by the IFSCA or surrendered by the Finance Company/Finance Unit.
- The Applicant shall conduct business in IFSC only after the receipt of the Certificate of Registration under the FC Regulations and ensure that it continues to hold a valid and subsisting Letter of Approval (“LoA”) under the Special Economic Zones Act, 2005 (Act No. 28 of 2005) during the time it is conducting business in IFSC.

## 6. Refusal or withdrawal of Registration

- If the IFSCA is of the opinion that the registration cannot be granted due to certain deficiencies, it must communicate the same to the Applicant, advising it to rectify such deficiencies within thirty days from the date of such communication.

- If the Applicant fails to rectify such deficiencies within the specified time, the IFSCA may refuse to grant the Certificate of Registration and communicate the same to the Applicant.
- The application filed can be withdrawn by the Applicant at any time before the grant of registration by making a communication to this effect to the IFSCA.

#### **7. Cancellation of Registration**

- If the IFSCA is satisfied that a Finance Company/Finance Unit undertaking the activity of GRCTC has failed to comply with any of the conditions of the Certificate of Registration, it may suspend, withdraw or cancel the registration granted to such Finance Company/Finance Unit.
- The order for suspension, withdrawal or cancellation of the Certificate of Registration shall be issued only after giving such Finance Company/Finance Unit a reasonable opportunity of filing its written reply on the grounds of the proposed action.

#### **8. Service Recipient**

- A Finance Company/Finance Unit undertaking the activity of GRCTC may undertake permissible activities for its Group Entities and/or for the Group Entities of its Parent and/or for the branch(es) of such Parent or Group Entities collectively referred to as “Service Recipients”, where such Parent and/or Group Entities may either be a person resident in India or a person resident outside India within the meaning of Foreign Exchange Management Act, 1999.
- A Finance Company/Finance Unit undertaking the activity of GRCTC must maintain an updated list of its Service Recipients and provide such list to the IFSCA, when called for.
- The Service Recipients must be registered under any law with any competent or statutory body in their home jurisdiction. Means a Finance Company/Finance Unit undertaking the activity of GRCTC and undertaking permissible activities with Service Recipients, who are person resident in India, must comply with the provisions of the Foreign Exchange Management Act, 1999, as applicable.

#### **9. Permissible activities**

- i) A Finance Company/Finance Unit, which has been granted Certificate of Registration to undertake the activities of GRCTC, may undertake the activities as specified below:
  - Raising capital by issuance of equity shares
  - Borrowing including in the form of inter-company deposits
  - Credit arrangements
  - Transacting or investing in financial instruments issued in IFSC or outside IFSC
  - Undertaking derivative transactions (Over the counter (OTC) and Exchange traded)
  - Foreign exchange transactions in such currencies as specified by the IFSCA
  - Factoring and Forfaiting
  - Acting as a Re-invoicing centre
  - Liquidity management
  - Maintaining relationships with financial counterparties
  - Management of obligations of its service recipients towards insurance and pension related commitments

- Advisory service related to activities and relating to:
  - financial management including financial risk management
  - funding and capital market activities
- Acting as a holding company

#### 10. Commencement of operations

- i) A Finance Company/Finance Unit, which has been granted the Certificate of Registration for undertaking the activity of GRCTC, shall commence its operations within six months from the date of grant of Certificate of Registration.
- ii) A Finance Company/Finance Unit undertaking the activity of GRCTC may submit an application for extension of time for commencing operations, at least two months prior to the last date of commencement, along with the resolution in this regard passed by the Board of Directors of the Finance Company or the Board of Directors of the parent of the Finance Unit.
- iii) Any application, including complete details of the reasons for such request, duration of extension sought, measures undertaken to prevent the delay, and any other information which, in the opinion of the Finance Company/Finance Unit, is relevant for requesting such extension.
- iv) On receipt of the application, if the IFSCA is satisfied that the Finance Company/Finance Unit cannot commence its operation within the stipulated time period, it may extend the time period by such further period as it deems fit, but not exceeding three months.

### Governance Requirements

#### Corporate Governance

- i) A Finance Company/Finance Unit undertaking the activity of GRCTC must have a Board-approved corporate governance policy, which shall comprehensively and clearly document its governance arrangements, i.e., the framework under which its Board and senior management shall function.
- ii) A Finance Company/Finance Unit undertaking the activity of GRCTC must have a Board-approved risk management policy, which shall inter alia include the procedures and systems to identify, measure, monitor and manage the range of risks that the GRCTC is exposed to.
- iii) A Finance Company/Finance Unit undertaking the activity of GRCTC must have a Board-approved policy for undertaking permissible activities, which shall include the following aspects:
  - Approval process for undertaking permissible activities, including delegation of powers
  - Financial limits for undertaking permissible activities
  - Procedure for oversight/audit of permissible activities
  - Any other relevant control mechanisms based on the nature of the activity undertaken
- iv) The above policies must be reviewed by the Board of the Finance Company/Finance Unit periodically.
- v) Any mergers, acquisitions, takeovers or change in management of the Finance Company undertaking the activity of a GRCTC, which results in its change in control of at least twenty per-cent of total share capital, or of the authority to take business decisions under an agreement, shall be subject to prior approval of the IFSCA and such other requirements as may be specified by the IFSCA. Mergers, acquisitions, takeovers or change in management in the parent of a Finance Unit must be in compliance to the conditions for grant of registration and must be intimated to the IFSCA within a period of 15 days from the date of such event.

### LESSON ROUNDUP

- IFSCs enable India to offer global banking and financial services within a regulated international framework.
- IFSCA is the single regulatory authority governing all banking, finance, payment, and trade finance activities in IFSC.
- Banking operations in IFSC are carried out through IBUs and IBCs, primarily dealing in foreign currency transactions.
- Strict prudential, liquidity, and governance norms ensure financial stability and risk control.
- KYC, AML, and CFT compliance is central to maintaining transparency and preventing financial crimes.
- Payment Service Providers (PSPs) play a key role in facilitating cross-border payments under IFSCA oversight.
- Finance companies in IFSC support international trade, investment, leasing, and treasury functions without accepting public deposits.
- Activities of finance companies are clearly divided into core and non-core activities to ensure regulatory clarity.
- The ITFS platform strengthens international trade by enabling digital, efficient, and transparent trade finance.
- Specialized frameworks for ship leasing, aircraft leasing, and treasury centres position IFSC as a global financial hub.

### GLOSSARY

- **Aircraft Leasing:** Leasing of aircraft, engines, or related equipment under operating or financial lease arrangements.
- **Anti-Money Laundering (AML):** Regulations to prevent money laundering and terrorist financing.
- **Banking Unit:** A bank operating in IFSC as an IBU or IBC.
- **Capital Adequacy Ratio:** Measure of capital strength based on risk-weighted assets.
- **Core Activities:** Main financial activities of finance companies, such as lending, trade finance, and derivatives.
- **Exposure Ceiling:** Maximum permissible exposure to a single borrower or group.
- **Finance Company:** A non-deposit-taking financial institution operating in IFSC.
- **Foreign Currency Account:** Account maintained in a specified foreign currency for international transactions.
- **Global/Regional Corporate Treasury Centre (GRCTC):** Entity managing treasury and financial risks of group companies.
- **IFSC Banking Company (IBC):** Subsidiary bank incorporated in IFSC.
- **IFSC Banking Unit (IBU):** Branch of a parent bank operating in IFSC.
- **International Financial Services Centre (IFSC):** Designated area in India for international financial services.

- **International Financial Services Centres Authority (IFSCA):** Unified regulator for IFSC operations.
- **International Trade Finance Services (ITFS) Platform:** Digital platform for trade finance transactions in IFSC.
- **Know Your Customer (KYC):** Process of verifying customer identity.
- **Liquidity Coverage Ratio (LCR):** Requirement to maintain liquid assets for short-term obligations.
- **Net Stable Funding Ratio:** Requirement to maintain stable long-term funding.
- **Non-Core Activities:** Ancillary financial services.
- **Payment Service Provider (PSP):** Entity authorised to provide payment and settlement services.
- **Ship Leasing:** Leasing of ships or ocean vessels under operating or financial lease.
- **Trade Finance:** Financial services supporting export and import transactions.

### TEST YOURSELF

#### A. Very Short Answer Questions

1. What is an International Financial Services Centre (IFSC)?
2. Name the regulatory authority governing IFSCs in India.
3. Mention any two objectives of setting up IFSCs in India.
4. What is meant by foreign currency operations in IFSC?
5. Define KYC.
6. What is the role of AML guidelines in IFSC?
7. Who are Payment Service Providers (PSPs)?
8. What is the ITFS platform?

#### B. Short Answer Questions

1. Explain the role and functions of the International Financial Services Centres Authority (IFSCA).
2. Distinguish between an IFSC Banking Unit (IBU) and an IFSC Banking Company (IBC).
3. What are the capital requirements for setting up an IBU and an IBC?
4. Explain the importance of KYC and AML compliance in IFSC.
5. Describe the permissible activities of banking units in IFSC.
6. What are core activities of finance companies in IFSC?
7. Explain the role of Payment Service Providers in IFSC.
8. What is International Trade Finance Services (ITFS)? Explain its objectives.
9. What are non-core activities permitted for finance companies?
10. Explain the significance of foreign currency accounts in IFSC.



# Book-Keeping, Accounting, Taxation and Financial Crime Compliance Services (BATF) and TechFin and Ancillary Services (TAS)

## Lesson 7

### KEY CONCEPTS

■ Book-keeping Services ■ Accounting Services ■ Taxation Services ■ Financial Crime Compliance (FCC) ■ BATF Services Provider ■ TechFin and Ancillary Services ■ Group Entities ■ Principal Officer ■ Compliance Officer ■ Ancillary Service Provider

### Learning Objectives

#### To understand:

- The role and importance of Book-keeping, Accounting, Taxation and Financial Crime Compliance (BATF) services in an IFSC.
- The scope and meaning of BATF services as per IFSCA regulations.
- The eligibility criteria, legal forms, and step-by-step registration process for setting up a BATF Service Provider in IFSC.
- The regulatory safeguards related to business restructuring, prohibition on transfer of existing contracts, and ring-fencing of operations.
- The roles, responsibilities, qualifications, and experience requirements of the Principal Officer and Compliance Officer.
- The concept and importance of fit and proper criteria for service providers, promoters, and key managerial personnel.
- The reporting, disclosure, and compliance obligations imposed on BATF Service Providers by the IFSCA.
- Overview of the TechFin and Ancillary Services (TAS) Regulations, 2025 and their relevance to technology-driven support services in IFSC.
- The Foreign University framework in IFSC and its role in developing global-standard education and talent for financial services.
- Purpose, registration requirements, and operational responsibilities under the IFSCA (KYC Registration Agency) Regulations, 2025.
- How these regulatory frameworks collectively promote transparency, integrity, risk management, and global credibility of IFSCs such as GIFT City.

### Lesson Outline

- Introduction
- Key Definitions
- Setting up of a BATF Service Provider, Registration Process, Exception
- Appointment of Principal Officer and Compliance Officer
- Reporting Requirements
- IFSCA Techfin and Ancillary Services (TAS) Regulations, 2025
- Foreign University framework at the IFSC
- IFSCA (KYC Registration Agency) Regulations, 2025
- Lesson Round-Up
- Glossary
- Test Yourself
- List of further readings

## REGULATORY FRAMEWORK

- IFSCA (Book-keeping, Accounting, Taxation and Financial Crime Compliance Services) Regulations, 2024
- IFSCA TechFin and Ancillary Services (TAS) Regulations, 2025
- IFSCA (Setting up and Operation of International Branch Campuses and Offshore Education Centres) Regulations, 2022
- IFSCA (KYC Registration Agency) Regulations, 2025

## IFSCA (BOOK-KEEPING, ACCOUNTING, TAXATION AND FINANCIAL CRIME COMPLIANCE SERVICES) REGULATIONS, 2024

### Introduction

International Financial Services Centres (IFSCs), like the GIFT IFSC in India, are emerging global hubs for cross-border finance, fintech, and professional services.

To support global businesses and financial institutions, IFSCs need strong professional service capabilities such as:

- Book-keeping
- Accounting
- Taxation
- Financial Crime Compliance (FCC)

The IFSCA (Book-keeping, Accounting, Taxation and Financial Crime Compliance Services) Regulations, 2024 were issued to create a clear and robust regulatory framework for these services. These regulations ensure:

- High standards of professionalism
- Prevention of misuse of IFSC for round-tripping
- Real economic activity within IFSC
- Strong AML/CFT safeguards
- Transparent registration and oversight

The regulations aim to:

1. Develop a regulated ecosystem for Book-keeping, Accounting, Taxation & FCC services.
2. Provide rules for registration, operations, and governance of such service providers.
3. Ensure IFSC becomes a trusted and compliant global jurisdiction.

These services are collectively referred to as BATF Services.

### Key Definitions

Some important definitions under the IFSCA (Book-keeping, Accounting, Taxation and Financial Crime Compliance Services) Regulations, 2024 are as under:

#### 1. Book-keeping Services

Book-keeping Services includes classifying and recording transactions including payroll ledgers in terms of money or any other unit of measurement in the books of account and other related documents.

It may be noted that Payroll and taxation services are not part of book-keeping services.

## 2. Accounting Services

These services include:

- reviewing annual and interim financial statements or other accounting information without any attestation or assurance;
- compilation of financial statements from information provided by the client, without giving any attestation or assurances regarding the accuracy of the resulting statements;
- preparation of financial statements;
- compilation of income statements, balance sheets or other financial information;
- analysis of financial statements;
- other related accounting support services in relation to any of the above including valuation support services.

It is important to note that accounting services do not include auditing services.

## 3. Taxation Services

These services mean services of tax consultation, tax preparation or tax planning and include providing advice and guidance concerning taxes as well as preparing and filing of tax returns of all kinds.

It may be noted that in the above definition 'Taxes' include all forms of direct or indirect taxes, cesses, duties or levies.

## 4. Financial Crime Compliance (FCC) Services

FCC services include services rendered in relation to compliances of Anti- Money Laundering (AML)/ Countering the Financing of Terrorism (CFT) measures and Financial Action Task Force (FATF) recommendations, and other related activities.

## 5. Group Entities

Group entities include an arrangement involving two or more entities related to each other through any of the following relationships:

- Parent–subsidiary
- Joint ventures
- Associate
- Common brand name
- Investment in equity shares/capital contribution of 20 per cent and above
- Part of a network

The 'Network' in the above definition means a larger structure of a group of firms that have come together for mutual benefits by pooling resources, showcase their combined strength, and have uniform policies, technology and collaterals, and showcase themselves as one big unit, with one lead firm acting on behalf of the member-firms.

## 6. BATF Service Provider

BATF Service Provider means the entity registered under these regulations to undertake all or any of the following:

- book-keeping services
- accounting services
- taxation services
- financial crime compliance services

## SETTING UP OF A BATF SERVICE PROVIDER, REGISTRATION PROCESS, EXCEPTION

### Who Can Provide BATF Services? [Regulation 4]

1. No person, except an Ancillary Service Provider, shall provide BATF Services in IFSC without obtaining certificate of registration from the Authority, in accordance with BATF Regulations, 2024.
2. An Ancillary Service Provider intending to provide BATF Services shall, within a period of sixty days from the date of commencement of BATF regulations, communicate its willingness to operate under these regulations to the Authority, in such form and manner as specified.
3. The Ancillary Service Provider communicating its willingness shall ensure compliance with the following regulations, from the date of commencement of these regulations until it receives a letter of continuation from the Authority:
  - i) The applicant shall ensure that their business in IFSC is not set up either by
    - splitting up of business already in existence in India; or
    - reconstructing of business already in existence in India; or
    - reorganising of a business already in existence in India.
  - ii) The BATF Service Provider shall not offer BATF Services by way of transferring or receiving of existing contracts or work arrangements from their Group Entities in India.

### Legal Form Requirement under the BATF Regulations, 2024

The applicant desirous of providing BATF Services requires to be set up in IFSC either in the form of a Company or Limited Liability Partnership.

### Registration Process (Step-by-Step) [Regulation 5 & 6]

As defined under regulations 5 and 6 of BATF regulations, 2024, the process of registration is as follows:

#### STEP 1: Submit Application

The applicant must:

- File an application in the prescribed format
- Pay a non-refundable application fee

#### STEP 2: IFSCA checks application and rejects the application which is not complete in all respect.

After considering the application the IFSCA may:

- Approve the application
- Ask for corrections (provide 30 days to rectify issues)
- Reject it only after giving a chance to reply

#### STEP 3: Certificate of Registration Issued

Once approved:

- The certificate of registration remains valid until surrendered by the BATF Service Provider or cancelled by the IFSCA.

It may be noted here that the surrender of certificate of registration by the BATF Service Provider will be effective only after approval by the Authority.

- BATF Service Provider must inform IFSCA about any material change in the information or particulars previously furnished (ownership, address, etc.)

### Special Case: Ancillary Service Providers

As mentioned in the second schedule of the BATF Regulations, 2024, an existing Ancillary Service Providers, after receiving a letter of continuation from the IFSCA, may continue to provide BATF services in its existing legal form for a period of three years from the date of commencement of the BATF regulations. They should ring-fence its BATF Service operations from their other existing operations in IFSC. They must comply with the requirements of Regulation 8 (safeguarding conditions on splitting/reconstruction of businesses), Regulation 9 (prohibition on transfer of existing contracts/work arrangements from group entities in India), and Regulation 14 (reporting requirements to the IFSCA).

However, the requirements of Regulations 8 and 9 shall not apply to contracts, manpower or assets already deployed before commencement of the BATF Regulations, nor at the time of migration of BATF Services into a newly incorporated entity formed under Regulation 5(4). Further, Ancillary Service Provider must comply with Regulations 11 (appointment of Principal Officer and Compliance Officer based in IFSC) and 12 (minimum office space criteria) within six months from commencement of the Regulations and must also pay the applicable fees as may be specified by the IFSCA.

This transition protects existing businesses while ensuring future regulatory compliance.

## APPOINTMENT OF PRINCIPAL OFFICER (PO) AND COMPLIANCE OFFICER (CO)

### Key Managerial Personnel (PO & CO) [Regulation 11]

The BATF Service Provider must designate a Principal Officer who will be responsible for its overall activities in IFSC. In addition to the above, they must also designate a Compliance Officer who will be responsible for reporting to the Board of Directors or head of the organization, as the case maybe, besides the compliance of policies, procedures, maintenance of records and the implementation of the requirements as specified under the BATF Regulations and other applicable laws in force.

The BATF Service Provider must ensure that its Principal Officer and Compliance Officer are based out of IFSC and meet the following requirements:

- i) A professionally qualified Chartered Accountant (CA), **Company Secretary (CS)**, Cost and Management Accountant (CMA), Certified Public Accountant (CPA), Chartered Financial Analyst (CFA) or any other equivalent qualifications from professional bodies or institutes or a post-graduate degree in finance, accountancy, business management, commerce, economics, taxation or a degree in law from a university or an institution recognized by the UGC or AICTE or such other equivalent authority in India or a foreign jurisdiction.

Principal Officer of a BATF Service Provider, who provides Financial Crime Compliance Services, must also hold relevant qualifications from a reputed foreign or domestic institution in financial crime compliance.

- ii) No person shall be eligible to be appointed as Principal Officer or Compliance Officer, unless he has experience in the relevant field of not less than five years and three years, respectively.

### Fit & Proper Criteria [Regulation 7]

The BATF Service Provider must ensure that the entity and its principal officer, directors/ partners/ designated partners, key managerial personnel and controlling shareholders are fit and proper persons, at all times.

A person shall be deemed to be a fit and proper person if:

- a) such a person has a record of fairness and integrity, including but not limited to-
  - financial integrity
  - good reputation and character and
  - honesty
- b) such a person has not incurred any of the following disqualifications:
  - the person has been convicted by a court for any offence involving moral turpitude or any economic offence.
  - a recovery proceeding has been initiated against the person by a statutory body or financial regulatory authority and is pending.
  - an order for winding up has been passed against the person for malfeasance.
  - the person has been declared an undischarged insolvent.
  - an order, restraining, prohibiting or debaring the person from accessing, providing or dealing in financial products or financial services, has been passed by any regulatory authority, and a period of three years from the date of the expiry of the period specified in the order has not elapsed.
  - any other order against the person has been passed by the Authority or any other regulatory authority, and a period of three years from the date of the order has not elapsed.
  - the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force.
  - the person is financially not sound or has been categorised as a wilful defaulter.
  - the person has been declared a fugitive economic offender.
  - any other disqualification as may be specified by the IFSCA.

This ensures competent and ethical leadership.

### **REPORTING REQUIREMENTS [REGULATION 14]**

The BATF Service Provider shall furnish information relating to its operations to the IFSCA, in such manner, interval and form, as may be specified by the IFSCA.

Any financial reporting by the BATF Service Provider to the Authority shall be in US Dollar, unless otherwise specified by the IFSCA.

The BATF Service Provider must submit a certificate, issued by an independent third party practicing professional namely, CA, CS or CMA, certifying compliance with the requirements specified in the BATF regulations including that of regulation 8 (safeguarding conditions on splitting/reconstruction of businesses) and 9 (prohibition on transfer of existing contracts/work arrangements from group entities in India), within ninety days from the closure of each Financial Year.

### **IFSCA TECHFIN AND ANCILLARY SERVICES (TAS) REGULATIONS, 2025**

The IFSCA TechFin and Ancillary Services (TAS) Regulations, 2025 were notified to establish a unified regulatory framework for technology-driven and support-service providers operating within an IFSC such as GIFT City, with the objective of supplementing and enabling financial services regulated under the IFSCA Act. The regulations mandate that any entity providing TechFin or Ancillary Services or both — such as Artificial Intelligence or Machine Learning, cybersecurity, big data & analytics, Compliance management support services, Fund administration services, Legal services, Trusteeship services— must obtain a Certificate of Registration from

IFSCA before commencing operations and must meet “fit and proper” criteria for promoters, directors, and key officers.

The TechFin and Ancillary Service Provider may provide the services only to an Intermediary or a Service Recipient, who is a Non-resident and from a jurisdiction which has not been identified in the public statement of Financial Action Task Force (FATF) as “*High-Risk Jurisdiction subject to call for action*”. It may also provide the services to a Resident, for the limited purpose of setting up of their office in the IFSC or Overseas :

### Important Definition

- **“Ancillary Services”** means those services which, directly or indirectly, aid, help or assist in making arrangements for carrying on any of the financial services listed in sub-clauses (i) to (xi) of clause (e) of sub-section (1) of section 3 of the Act;
- **“Single Window IT Systems (SWIT)”** refers to an online platform specified by the Authority, to facilitate the processing of applications submitted by the applicants for obtaining certificate of registration under these regulations;
- **“Specified Foreign Currency”** means the currencies specified in the First Schedule of the International Financial Services Centres Authority (Banking) Regulations, 2020, as amended from time to time;
- **“TechFin and Ancillary Service Provider”** means an entity which has been granted registration under these regulations for providing one or more of the Ancillary Services or TechFin Services, specified in the First and Second Schedule, respectively, directly or indirectly, to aid, help or assist in making arrangements for carrying on any of the financial services listed in sub-clauses (i) to (xi) of clause (e) of sub-section (1) of Section 3 of the Act.
- **“TechFin Services”** means technology solutions or services provided, directly or indirectly, to aid, help or assist in making arrangements for carrying on any of the financial services listed in sub-clauses (i) to (xi) of clause (e) of sub-section (1) of Section 3 of the Act.

### Registration [Regulation 4]

- 1) An entity desirous of providing either TechFin or Ancillary Services or both, must not commence its operations in the IFSC unless a certificate of registration is granted by the IFSCA to it in accordance with these regulations.

An existing ancillary service or an existing TechFin must within a period of twelve months from the date of commencement of the regulations, obtain a certificate of registration under the regulations. Further, where an existing Ancillary Service Provider or TechFin entity is unable to obtain the certificate of registration within the period specified above, on an application made by the entity, the Chairperson of the IFSCA may, for reasons recorded in writing, grant an extension beyond twelve months, but not exceeding twenty-four months in aggregate.

- 2) The IFSCA may, upon receipt of a declaration from the existing Ancillary Services Provider or TechFin entity, certifying the compliance with the requirements specified under the regulations, and on being satisfied with such declaration, issue a certificate of registration.

### Legal Form of the Applicant and Eligibility [Regulation 5]

- 1) The applicant must be an entity incorporated as a company or limited liability partnership in the IFSC, or a branch of a company or of a limited liability partnership incorporated outside the IFSC, or in any other form as may be permitted by the IFSCA. A partnership firm registered under the Indian Partnership Act, 1932, wherein all its partners are members of professional body or institute constituted under any Act of Parliament, must also be eligible to make an application under the regulations.

- 2) All the promoters or partners of the applicant entity must be from a jurisdiction which has not been identified in the public statement of Financial Action Task Force (FATF) as “High-Risk Jurisdictions subject to call for action”.

#### **Procedure for making application and grant of Certificate of Registration [Regulation 6]**

- 1) An applicant desirous of obtaining certificate of registration as TechFin and Ancillary Services Provider must submit the application to the IFSCA through SWIT, along with the requisite documents and application fees, in the manner specified by the IFSCA.
- 2) After considering the application, if the IFSCA is of the opinion that the certificate of registration cannot be granted due to certain deficiencies, it must communicate the same to the applicant, advising it to rectify those deficiencies within thirty days from the date of communication, failing which the application must be liable to be rejected. No application must be rejected without giving the applicant a reasonable opportunity of being heard by way of written submissions.
- 3) On consideration of the application, the IFSCA can grant in-principle approval to the applicant, subject to such conditions as deemed fit.
- 4) On receipt of in-principle approval, the applicant must, within a period of one hundred eighty days, unless extended by the IFSCA, take necessary steps to comply with these regulations and conditions of the in-principle approval.
- 5) On being satisfied that the applicant has fulfilled the conditions of the in-principle approval, the IFSCA may grant a certificate of registration, subject to such conditions as it deemed fit.
- 6) The certificate of registration granted under the regulations must be valid, unless suspended or cancelled by the IFSCA or voluntarily surrendered by the TechFin and Ancillary Service Provider in accordance with these regulations. The voluntary surrender of certificate of registration must be effective only after its acceptance by the IFSCA.
- 7) The TechFin and Ancillary Service Provider must immediately furnish to the IFSCA of any material changes, having bearing on the certificate of registration granted to it including any change in the information or particulars previously furnished.

#### **Fit and Proper requirements [Regulation 7]**

- 1) The TechFin and Ancillary Services Provider must ensure that the entity and its principal officer, compliance officer, directors/ partners/ designated partners, and controlling shareholders are ‘fit and proper’ persons, at all times.
- 2) A person must be deemed to be a ‘fit and proper’ if-
  - i) such a person has a record of fairness and integrity, including but not limited to-
    - a) financial integrity
    - b) good reputation and character
    - c) honesty
  - ii) such a person has not incurred any of the following disqualifications:
    - a) the person has been convicted by a court of law for any offence involving moral turpitude or any economic offence or any offence, under the Act or Acts mentioned in the First Schedule of the Act, in the last five years

- b) charge sheet has been filed against such person by any Indian or foreign enforcement agency in matters concerning economic offences and is pending
  - c) charges have been framed by a court of law or an equivalent institution in matters concerning economic offences
  - d) a recovery proceeding has been initiated against the person by a statutory body or financial regulatory authority and is pending
  - e) an order has been passed against the person for malfeasance
  - f) the person has been declared an undischarged insolvent
  - g) An order, restraining, prohibiting or debarring the person from accessing, providing or dealing in financial product (s) or financial service (s), has been passed by any regulatory authority, in any matter concerning financial services market and such order is in force
  - h) any other order , which has a material bearing on the financial services market, has been passed against the person by the IFSCA or any other regulatory authority, and a period of three years from the date of the order has not elapsed. The decision to determine materiality will be with the IFSCA
  - i) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force
  - j) the person is financially not sound or has been categorized as a wilful defaulter
  - k) the person has been declared a fugitive economic offender
  - l) any other disqualification as may be specified by the IFSCA
- 3) Where any person has been declared as not 'fit and proper' by an order of a regulatory authority, such a person must not be eligible to apply for any registration, until such person satisfies the 'fit and proper' requirements.

#### **Code of Conduct [Regulation 8]**

- 1) The TechFin and Ancillary Service Provider must ensure compliance with the requirements prescribed in the relevant rules issued by the Central Government and in any regulations, guidelines, circulars or instructions as may be issued from time to time by the IFSCA or any concerned regulators or authorities.
- 2) The TechFin and Ancillary Service Provider must inform the IFSCA of any material change in the information or particulars previously furnished, which have a bearing on the certificate of registration granted by the IFSCA.
- 3) The TechFin and Ancillary Service Provider must notify the IFSCA, if any of its promoter's or significant beneficial owner's home jurisdiction is identified in the public statement of Financial Action Task Force (FATF) as "High-Risk Jurisdiction subject to call for action", within ten business days from the date of publication by FATF.
- 4) The TechFin and Ancillary Service Provider must deploy adequate manpower and infrastructure in the IFSC, commensurate with its business operations.
- 5) The TechFin and Ancillary Service Provider must seek registration or authorisation, separately under the appropriate regulations or framework issued by the IFSCA for undertaking regulated activities in the IFSC.

**Appointment or Designation [Regulation 9]**

- 1) The TechFin and Ancillary Service Provider shall appoint a principal officer or designate one of its existing officers as a principal officer, who must be responsible for its overall activities. In the case of a TechFin and Ancillary Service Provider providing services exclusively to its Group Entities located in the IFSC, the appointment of a principal officer is optional subject to the approval of the IFSCA.
- 2) The TechFin and Ancillary Service Provider must appoint a compliance officer or designate one of its existing officers as a compliance officer, who must be responsible for the compliance of policies, procedures, maintenance of records, implementation of the requirements under the regulations, other applicable laws, and reports to the Board of Directors or head of the organization.
- 3) The principal officer and compliance officer must be full-time employees of TechFin and Ancillary Service Provider and must be based out of the IFSC.

**Eligible Intermediaries and Service Recipients [Regulation 10]**

- 1) The TechFin and Ancillary Service Provider provides the services only to an Intermediary or a Service Recipient, who is a Non-resident and from a jurisdiction which has not been identified in the public statement of Financial Action Task Force (FATF) as “High-Risk Jurisdiction subject to call for action”.
- 2) The TechFin and Ancillary Service Provider also provides the services to a Resident, for the limited purpose of setting up of their office in the IFSC or Overseas.

**Reporting requirements [Regulation 12]**

- 1) The TechFin and Ancillary Service Provider must furnish information relating to its operations to the Authority, in such manner, interval and form, as may be specified by the IFSCA.
- 2) Any financial reporting by the TechFin and Ancillary Service Provider to the IFSCA must be in US Dollar, unless otherwise specified by the IFSCA.

**Power to Inspect [Regulation 18]**

The IFSCA, may suo motu or upon receipt of information or complaint, appoint one or more persons as Inspecting Authority to, inter-alia, undertake the inspection of books of accounts, records, documents, infrastructure, procedures and systems of a TechFin and Ancillary Service Provider.

**Action in case of default [Regulation 19]**

- 1) The IFSCA initiates any action, as it may deem fit, in case a TechFin and Ancillary Service Provider contravenes any of the provisions of the regulations, circulars, guidelines or directions issued.
- 2) No action must be taken without giving the TechFin and Ancillary Service Provider, a reasonable opportunity of being heard by way of written submissions.

Overall, the framework strengthens governance, supports innovation, and enhances IFSC’s position as a global financial and technology services hub.

**Why This Matters — What It Enables in IFSC / GIFT City**

- The unified TechFin and Ancillary framework makes GIFT IFSC an integrated hub: not just for banks, funds, exchanges, but also for technology providers, legal-compliance firms, audit & accounting firms, fintech infrastructure firms, etc. This broadens the ecosystem, enabling end-to-end services.
- It encourages innovation and regulatory compliance. TechFins bring global-style fintech / deep-tech / RegTech / SupTech capabilities, while being subject to IFSCA oversight — offering a blend of agility and trust.

- For global clients / non-resident investors / financial institutions, this means easier access to high-quality support, compliance, fintech solutions, and outsourced services all under one regulated roof.
- For India, and especially GIFT IFSC, this helps attract global business, technology-led finance, employment, and builds capacity — positioning IFSC as a global financial and technology services hub rather than just conventional finance.

### FOREIGN UNIVERSITY FRAMEWORK AT THE IFSC

The IFSCA (Setting up and Operation of International Branch Campuses and Offshore Education Centres) Regulations, 2022 provide a framework for foreign universities and foreign educational institutions to establish International Branch Campuses (IBCs) or Offshore Education Centres (OECs) in India's GIFT IFSC, offering globally recognized degree and research programmes in areas such as Financial Management, FinTech, and Science, Technology, Engineering and Mathematics (STEM).

### Important Definitions

- **“Foreign Educational Institution”** shall mean an education institution outside India, which is not a university, and is duly authorized to offer courses including research programmes in the permissible subject areas, within and outside its home jurisdiction;
- **“Foreign University”** shall mean a university established outside India which is duly accredited to award degree for courses including research programmes in the permissible subject areas, within and outside its home jurisdiction;
- **“International Branch Campus”** or **“IBC”** shall mean a campus set up as a branch by a Foreign University on stand-alone basis, or in such other form as may be permitted by the Authority in the GIFT IFSC for the purpose of delivering courses including research programmes in the permissible subject areas, that are duly accredited under the relevant framework in their respective home jurisdiction, and is registered with the Authority;
- **“Offshore Education Centre”** or **“OEC”** shall mean a centre set up as a branch by a Foreign Educational Institution (other than a Foreign University) in the GIFT IFSC on stand-alone basis or in such other form as may be permitted by the Authority for the purpose of delivering courses including research programmes in the permissible subject areas, that are duly accredited under the relevant framework in their respective home jurisdiction, and is registered with the Authority;
- **“Parent Entity or Applicant”** shall mean the Foreign University or a Foreign Educational Institution that intends to establish and operate an IBC or OEC, as the case may be, in the GIFT IFSC.

### Permissible Subject Areas [Regulation 4]

Courses including research programmes in Financial Management, FinTech, Science, Technology, Engineering and Mathematics are permitted in GIFT IFSC.

### Eligibility [Regulation 5]

- (1) In case the Applicant is a Foreign University, it must have secured a position within Top 500 in global overall ranking and / or subject ranking in the latest QS World Universities ranking.
- (2) In the case of Foreign Educational Institution, the Applicant must be a reputed Institution in its home jurisdiction.
- (3) The Applicant must satisfy the IFSCA about its financial capability to establish and ensure the continuity of the proposed activities in GIFT IFSC.

- (4) The Applicant must undertake to put in place suitable infrastructure and facilities to conduct the courses, including research programmes in the permissible subject areas.

#### **Application for Registration [Regulation 6]**

- (1) An Applicant satisfying the eligibility conditions specified in the regulations, must apply to the IFSCA, in the specified format, for the grant of registration to conduct the courses including research programmes or/and executive education programmes, in the permissible subject areas.
- (2) An Application must be accompanied by-
  - a) a resolution passed by the Applicant's Board of Trustees, Senate or other Governing Body, by whatever name called, resolving the establishment of IBC or OEC
  - b) details regarding infrastructural facilities, facilities available for instruction, faculty, prescribed fee, academic plan, courses, curricula and requisite funds to operate for a minimum period of five years, along with other relevant details as may be specified
  - c) details of the alternative arrangements for students in the event of discontinuation of the course or program for any reason
  - d) an undertaking by the Applicant declaring that the degrees, diplomas or certificates issued to the students in the GIFT IFSC must be recognized in the home jurisdiction of the Parent Entity and must be treated equivalent to the corresponding degrees, diplomas or certificates awarded or issued, as the case may be, by the Parent Entity in its home jurisdiction
  - e) the latest Quality Assurance Audit report from a recognized Quality Assurance Agency in the home jurisdiction of the Applicant.

#### **Procedure for Grant of Registration [Regulation 7]**

- (1) An application received under the regulations must be referred to the Committee of Experts constituted by the Gujarat International Finance Tec City Company Limited for appraisal and recommendations.
- (2) Based on the recommendations of the Committee of Experts, the IFSCA may upon its satisfaction, at first instance, grant in-principle approval to the Applicant giving it one hundred and eighty (180) days' time to set up all required infrastructure and engage necessary manpower etc. If an applicant is not able to set up the required infrastructure and /or engage necessary manpower etc. within the specified period of one hundred and eighty days, it may, before expiry of such period, but at least seven days in advance, make an application for extension of time to the Chairperson of the IFSCA.
- (3) On receipt of the application, if satisfied with the reasons for delay, the Chairperson can extend the period for not more than Ninety days. An application for extension of date beyond the period referred must be entertained only with the approval of the Board of the IFSCA.
- (4) The IFSCA on being satisfied that the applicant fulfills all the conditions for the grant of registration, can issue a Certificate of Registration with or without conditions.
- (5) The registration, once granted, must be valid for a period of five years and be renewable for an additional period of five years at a time, with or without any additional condition(s), as the IFSCA may deem fit.
- (6) The registration can be cancelled, or renewal can be refused by the IFSCA, for reasons to be recorded in writing, after following due procedure and giving due opportunity to the registered entity.

**Non-Permissible Activities [Regulation 9]**

An IBC or OEC must not act as a representative office of the Parent Entity for the purposes of undertaking promotional activities for their programmes in their home jurisdiction or any other jurisdiction outside GIFT IFSC.

**Safeguarding the interest of Students [Regulation 13]**

- (1) No IBC or OEC must wholly or partially discontinue, suspend or close any of its approved courses or programmes in the permissible subject areas for any reason without the prior written approval of the IFSCA.
- (2) In the eventuality of disruption or discontinuation of a course or programme for any reason, it must be the responsibility of the Parent Entity to provide an alternative to the affected students, including reallocation to the course or programme conducted by it.

These campuses ensure global academic standards while enabling international education access within India. The initiative aims to strengthen talent development and support the growth of GIFT City as a global educational and financial hub.

**IFSCA (KYC REGISTRATION AGENCY) REGULATIONS, 2025**

The International Financial Services Centres Authority (KYC Registration Agency) Regulations, 2025, provides a regulatory framework for entities that operate as KYC Registration Agencies (KRAs) in the IFSC. These regulations ensure standardized, secure, and compliant handling of client KYC data across financial entities in IFSC.

**Application for grant of certificate of registration [Regulation 3]**

An entity desirous of obtaining a certificate of registration as a KRA must submit, electronically or otherwise, an application along with the application fees in such form and manner as may be specified by the IFSCA.

**Legal form of the Applicant [Regulation 4]**

The applicant seeking registration as a KRA must be set up in the IFSC in the form of a Company. An entity registered with the SEBI to undertake activities similar to those of a KRA may set up a wholly owned subsidiary or a branch in the IFSC.

**Net Worth requirements [Regulation 5]**

- 1) An entity seeking registration as a KRA must maintain the net worth of at least USD 1 Million at all times.
- 2) Where a KRA is set up in the form of a branch by the entity registered with the SEBI, the minimum net worth requirement must be earmarked and ringfenced by such entity.

**Fit and proper requirements [Regulation 6]**

- (1) A KRA must ensure that the entity and its Principal Officer, directors/ key managerial personnel and controlling shareholders must be fit and proper persons, at all times.
- (2) A person must be deemed to be a fit and proper person if -
  - a) such person has a record of fairness and integrity, including but not limited to-
    - i) financial integrity
    - ii) good reputation and character
    - iii) honesty

- b) such person has not incurred any of the following disqualifications –
- i) the person has been convicted by a court of law for any offence involving moral turpitude or any economic offence or any offence under the Act and the other Acts listed in Schedule-I of the Act
  - ii) charge sheet has been filed against such person by any Indian enforcement agency in matters concerning economic offences and is pending
  - iii) charges have been framed by a court of law or an equivalent institution in matters concerning economic offences
  - iv) a recovery proceeding has been initiated against the person by a financial regulatory authority and is pending
  - v) an order has been passed against the person for malfeasance
  - vi) the person has been declared insolvent and not discharged
  - vii) an order, restraining, prohibiting or debarring the person from accessing or dealing in financial product (s) or financial service (s), has been passed by any regulatory authority, in any matter concerning financial services market and such order is in force
  - viii) any other order against the person, which has a material bearing on the financial services market, has been passed by the IFSCA or any other regulatory authority, and a period of three years from the date of the order has not elapsed. The decision to determine materiality must be that of the IFSCA.
  - ix) the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force
  - x) the person is financially not sound or has been categorised as a willful defaulter
  - xi) the person has been declared a fugitive economic offender
  - xii) any other disqualification as may be specified by the IFSCA
- (3) Where any person has been declared as not 'fit and proper person' by an order of a regulatory authority, such a person must not be eligible to apply for any registration, until she satisfies the fit and proper criteria.

#### **Appointment of Principal Officer, Compliance Officer and other human resources [Regulation 7]**

- (1) A KRA must designate a Principal Officer, and a separate Compliance Officer based out of IFSC.
- (2) A KRA must ensure that the Principal Officer and the Compliance Officer meet the following educational qualification requirements:
  - a) A professional qualification or post-graduate degree or post graduate diploma (minimum one year in duration) in finance, law, accountancy, business management, commerce, economics, capital market, banking, insurance or actuarial science from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association or a CFA or a FRM from Global Association of Risk Professionals or any other relevant educational qualifications as may be specified by the IFSCA.

A graduation degree in any field from a university or an institution recognised by the Central Government or any State Government or a foreign university would suffice where the Principal Officer or the Compliance Officer has a work experience of at least fifteen years in the financial

services market. Further, a person who has a qualification of Bachelor of Law from a university, or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association is also eligible for appointment as a Compliance Officer.

Here, the professional qualification must include membership of Institute of Chartered Accountants of India, Institute of Company Secretaries of India, Institute of Cost Accountants of India or any institution equivalent thereto in a Foreign Jurisdiction.

- (3) A KRA must ensure that the Principal Officer and Compliance Officer meet the following experience requirements:
  - a) A Principal Officer must have an experience of at least ten years in the financial services market.
  - b) A Compliance Officer must have an experience of at least five years in the financial services market.
- (4) The Compliance Officer must immediately and independently report to the IFSCA any non-compliance.
- (5) A KRA must have adequate manpower commensurate with its business activities in the IFSC.

#### **Grant of Registration [Regulation 9]**

- (1) An entity must be eligible to be registered as KRA only if it belongs to one of the following categories, namely:
  - a) a wholly owned subsidiary of a stock exchange regulated in India, in the IFSC or in a Foreign Jurisdiction
  - b) a wholly owned subsidiary of a depository regulated in India, in the IFSC or in a Foreign Jurisdiction
  - c) a wholly owned subsidiary of an entity undertaking activities similar to those of a KRA and regulated by SEBI or regulated in a Foreign Jurisdiction. A branch of an entity undertaking activities similar to those of a KRA and regulated by SEBI must also be eligible to be registered as a KRA. Further, any conflict of interest does not exist between the role of the applicant as KRA and other commercial activities of the applicant, its Associates and Group Entities.
- (2) The IFSCA may, after considering the application and on being satisfied that the applicant has complied with the conditions laid down in the regulations and is eligible to act as a KRA, and upon receipt of specified registration fees, grant registration to the applicant subject to the conditions as the IFSCA may deem fit.
- (3) If the IFSCA is of the opinion that the registration cannot be granted, it must communicate the deficiencies to the Applicant, giving it thirty days' time to rectify them.
- (4) If the Applicant fails to rectify such deficiencies to the satisfaction of the IFSCA within the specified time, the IFSCA may refuse to grant registration and must communicate the same to the Applicant, giving reasons for such refusal. No such refusal must be made by the IFSCA without giving the Applicant an opportunity to make written submissions on the grounds on which the registration is proposed to be refused.
- (5) The KRA must comply with any other condition as may be imposed by the IFSCA as it deems fit in the interest of the investors or orderly development of the securities market or for regulating the working of the KRA, in the IFSC.
- (6) The registration granted to a KRA may be withdrawn by the IFSCA after giving an opportunity of being heard.

**Code of Conduct [Regulation 12]**

1. A KRA must make all efforts to protect the interest of its Clients.
2. A KRA must maintain high standards of integrity, dignity and fairness in the conduct of its business.
3. A KRA must fulfill its obligations in a prompt, ethical and professional manner.
4. A KRA must at all times exercise due diligence, ensure proper care and exercise independent professional judgment.
5. A KRA must ensure that any change in registration status/any penal action taken by the IFSCA or any material change in financial position which may adversely affect the interests of Clients is promptly displayed on its website.
6. A KRA must not divulge to anybody either orally or in writing, directly or indirectly, any confidential information about the Clients which has come to its knowledge, without taking prior permission of its Clients, except where such disclosures are required to be made in compliance with any law for the time being in force
7. A KRA must not indulge in any unfair competition.
8. A KRA must display on its website adequate and appropriate information about its business, including contact details of persons and services available to Clients.
9. A KRA must ensure that grievances of Clients are redressed in a timely and appropriate manner.
10. A KRA must make reasonable efforts to avoid misrepresentation and ensure that the information provided to the Clients and intermediaries is not misleading.
11. A KRA must abide by the provisions of the Act and the rules, regulations issued by the Government and the IFSCA, from time to time, as may be applicable.
12. A KRA must not make untrue statement or suppress any material fact in any documents, reports, papers or information furnished to the IFSCA.
13. A KRA must ensure that the IFSCA is promptly informed about any action, legal proceeding, etc., initiated against it in respect of any material breach or non-compliance by it, of any law, rules, regulations and directions of the IFSCA or of any other regulatory body.
14. A KRA or any of his employees must not render, directly or indirectly, any investment advice about any security in the publicly accessible media.
15. A KRA must not make a recommendation to any Client who might be expected to rely thereon to acquire, dispose of or retain any securities.
16. A KRA must ensure that any person it employs or appoints to conduct business is fit and proper and otherwise qualified to act, in the capacity so employed or appointed, including having relevant professional training or experience.
17. A KRA must have internal control procedures and financial and operational capabilities which can be reasonably expected to protect its operations, its Clients from financial loss arising from theft, fraud, and other dishonest acts, professional misconduct or omissions.
18. A KRA must be responsible for the acts or omissions of its employees in respect to the conduct of its business.
19. A KRA must provide adequate freedom and powers to its Compliance Officer for the effective discharge of its duties.

20. A KRA must ensure that the senior management, particularly decision makers have access to all relevant information about the business on a timely basis.
21. A KRA must ensure that good corporate policies and corporate governance are in place.
22. A KRA must have adequately trained staff and arrangements to render fair, prompt and competence services to its Clients.
23. A KRA must develop its own internal code of conduct for governing its internal operations and laying down its standards of appropriate conduct for its employees and officers in the carrying out of their duties. Such a code may extend to the maintenance of professional excellence and standards, integrity, confidentiality, objectivity, avoidance of conflict of interests, disclosure of shareholdings and interests, etc.
24. A KRA must not be party to—
  - a) creation of a false market
  - b) price rigging or manipulation
  - c) passing of unpublished price sensitive information in respect of securities which are listed and proposed to be listed in any stock exchange to any person.
25. A KRA must maintain proper inward and outward system for all types of mail received and dispatched in all forms.
26. A KRA must implement an automated system with validation mechanisms minimizing manual intervention to ensure data accuracy.
27. A KRA must not indulge in manipulative, fraudulent practices in the process of identification, verification and updation of a Client's KYC information with a view to distort market equilibrium or making personal gains.

#### **Information to the Authority [Regulation 14]**

- (1) A KRA must immediately furnish to the IFSCA any material change in the information or particulars previously furnished along with the application, which has a bearing on the certificate of registration granted to it.
- (2) A KRA must intimate to the IFSCA any change in Principal Officer, Compliance Officer or key managerial personnel to the IFSCA, within 15 days of such change.
- (3) A KRA must furnish such reports, returns, statements and particulars, in such manner, interval and form, as may be specified by the IFSCA from time to time.

#### **Functions and obligations of a Regulated Entity [Regulation 25]**

The Regulated Entity shall have the following functions and obligations –

- (a) The Regulated Entity must perform the initial KYC/due diligence of the Client, upload the KYC information with proper authentication on the system of the KRA, furnish the scanned images of the KYC documents to the KRA, and retain the physical KYC documents.
- (b) The Regulated Entity must upload the KYC information on the system of KRA within 3 working days from the date of completion of KYC process or any other timeline as specified by the IFSCA from time to time.
- (c) When the Client approaches another Regulated Entity subsequently, the Regulated Entity must verify and download the Client's details from the system of KRA. Upon receipt of information on change in

KYC details and status of the Clients by the Regulated Entity or when it comes to the knowledge of the Regulated Entity, at any stage, the Regulated Entity shall be responsible for uploading the updated information on the system of KRA and retaining the physical documents.

- (d) A Regulated Entity must not use the KYC data of a Client obtained from the KRA for purposes other than it is meant for; nor must it make any commercial gain by sharing the same with any third party including its affiliates or Associates.
- (e) A Regulated Entity must have the ultimate responsibility for the KYC of its Clients, by undertaking enhanced KYC measures commensurate with the risk profile of its Clients.
- (f) The Regulated Entity must integrate its systems with the KRA to facilitate seamless movement of KYC documents to and from the Regulated Entity to the KRA. The IFSCA may, after taking into consideration the relevant factors, exempt certain classes of Regulated Entities from the applicability of these regulations.

### **Suspension, cancellation of registration or any other actions [Regulation 31]**

- (1) A KRA who contravenes any of the provisions of these regulations, guidelines, circulars or directions made thereunder must be liable for enforcement action under the Act, including suspension or cancellation of registration.
- (2) No enforcement action as referred to in (1) must be taken without giving reasonable opportunity to the KRA to make its submissions.

### **Why It Matters – What’s the Impact**

These regulations aim to strengthen trust in the IFSC ecosystem by establishing a unified, secure, interoperable, and regulated KYC framework. By clearly defining operational responsibilities and compliance standards for KRAs and financial institutions, the regulations ensure smooth functioning of capital market activities while safeguarding client information.

The regulation helps streamline and standardize KYC/AML compliance for all financial players in IFSC reducing duplication, onboarding friction, and improving data integrity. By centralizing and authorising KYC via KRAs, it helps build trust, transparency, and global-standard compliance — important for attracting international clients and investors to IFSC-based entities. The framework enables shared KYC infrastructure across entities (banks, funds, capital-market intermediaries, payment providers, etc.) operating in IFSC — promoting efficiency, cost-effectiveness, and smoother cross-border operations.

#### **LESSON ROUNDUP**

- Book-keeping, Accounting, Taxation and Financial Crime Compliance (BATF) services play a critical supporting role in the smooth functioning of entities operating in an IFSC like GIFT City.
- The IFSCA has introduced a comprehensive regulatory framework to ensure that BATF services are provided in a transparent, professional, and compliant manner.
- Clear definitions of book-keeping, accounting, taxation, and FCC services help avoid overlaps, ensure regulatory clarity, and maintain service quality.
- Only registered entities are permitted to provide BATF services in IFSC, ensuring proper oversight and accountability.

- The regulations lay down strict eligibility and registration requirements, including legal form, operational safeguards, and prohibition on business splitting or contract transfers from India.
- Appointment of a Principal Officer and Compliance Officer, based in IFSC and meeting qualification and experience norms, ensures effective governance and regulatory compliance.
- The fit and proper criteria safeguard the IFSC ecosystem by ensuring ethical conduct, financial integrity, and professional competence of service providers and key personnel.
- Periodic reporting and disclosure requirements strengthen regulatory supervision and promote transparency in operations.
- The TechFin and Ancillary Services (TAS) Regulations, 2025 support technology-driven and support services, enabling innovation while maintaining regulatory discipline.
- The Foreign University framework enhances skill development and global education standards within IFSC, supporting long-term ecosystem growth.
- The KYC Registration Agency (KRA) framework standardizes KYC processes, improves data security, and strengthens AML/CFT compliance across financial entities.

### GLOSSARY

**Accounting Services:** Services relating to preparation, compilation, review, and analysis of financial statements without providing audit or assurance.

**Ancillary Service Provider:** An entity providing support services in IFSC which may include BATF services, subject to registration and compliance with IFSCA regulations.

**Anti-Money Laundering (AML):** Laws, regulations, and procedures aimed at preventing the generation of income through illegal activities.

**BATF Services:** Collective term for Book-keeping, Accounting, Taxation, and Financial Crime Compliance services regulated by the IFSCA.

**BATF Service Provider:** An entity registered with the IFSCA to provide one or more BATF services within an IFSC.

**Book-keeping Services:** Services involving recording and classifying financial transactions in books of accounts, excluding payroll and taxation services.

**Countering the Financing of Terrorism (CFT):** Measures designed to prevent funds from being used to support terrorist activities.

**Financial Crime Compliance (FCC) Services:** Services relating to AML, CFT, FATF recommendations, and other measures to prevent financial crimes.

**Financial Action Task Force (FATF):** An inter-governmental body that sets global standards for combating money laundering and terrorist financing.

**KYC (Know Your Customer):** A process of verifying the identity of clients to prevent fraud, money laundering, and other financial crimes.

**KYC Registration Agency (KRA):** An IFSCA-registered entity that maintains, verifies, and manages standardized KYC records for financial entities in IFSC.

**Limited Liability Partnership (LLP):** A business structure combining features of a partnership and a company, offering limited liability to partners.

**Ring-fencing:** Segregation of BATF operations from other business activities to prevent risk spill-over and ensure regulatory compliance.

**TechFin Services:** Technology-driven services such as AI, cybersecurity, data analytics, and RegTech that support financial services in IFSC.

**Taxation Services:** Services involving tax advisory, planning, preparation, and filing of direct and indirect tax returns.

### TEST YOURSELF

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

#### A. Very Short Answer Questions

1. What is meant by BATF Services?
2. Name any two services included under Financial Crime Compliance (FCC).
3. Which authority regulates BATF Service Providers in IFSC?
4. What is the full form of TAS?
5. Who is a Principal Officer?
6. Name the minimum legal forms permitted for a BATF Service Provider.
7. What is a KYC Registration Agency (KRA)?

#### B. Short Answer Questions

1. Explain the importance of BATF services in an International Financial Services Centre.
2. Distinguish between book-keeping services and accounting services.
3. What are Taxation Services under the BATF Regulations, 2024?
4. What are the key eligibility conditions for registering as a BATF Service Provider?
5. State the responsibilities of a Compliance Officer.
6. What is meant by the fit and proper criteria?
7. What reporting obligations are imposed on BATF Service Providers by IFSCA?
8. Explain the objective of the TAS Regulations, 2025.
9. Why is the Foreign University framework important for IFSC?

#### C. Long Answer / Descriptive Questions

1. Discuss the regulatory framework governing Book-keeping, Accounting, Taxation and Financial Crime Compliance Services in IFSC.
2. Explain the registration process for setting up a BATF Service Provider in IFSC.
3. Describe the roles, qualifications, and experience requirements of the Principal Officer and Compliance Officer under BATF Regulations.
4. Examine the safeguards provided under the BATF Regulations to prevent misuse of IFSC for business restructuring or round-tripping.





# India International Bullion Exchange (IIBX)

## Lesson 8

### KEY CONCEPTS

- Bullion ■ Bullion Exchange ■ Vault Manager ■ BDR (Bullion Depository Receipt) ■ Qualified Jeweller
- Qualified Supplier ■ Trading Member ■ Clearing Member ■ IIBX (India International Bullion Exchange)

### Learning Objectives

#### To understand:

- the purpose and structure of the India International Bullion Exchange (IIBX) within the IFSC framework.
- the major roles and responsibilities of IIBX, including trading, regulation, supervision, and market development.
- the various market participants involved in the bullion exchange ecosystem.
- the prescribed norms and eligibility criteria for Qualified Jewellers to trade on IIBX.
- the process flow for Qualified Suppliers (QS and QS-LPTM) for supplying bullion and creating BDRs.
- the key components of the IIBX ecosystem, including vault managers, clearing corporations, and depositories.
- the players and regulatory mechanisms governing the bullion exchange under IFSCA.

### Lesson Outline

- Introduction
- Role of IIBX
- Market Participants
- Prescribed Norms for Jeweller
- Qualified Supplier Process Flow
- Eco system
- Players of Bullion Exchange
- Regulation of Bullion Exchange
- Lesson Round-up
- Glossary
- Test Yourself
- List of Further Readings

## INTRODUCTION

The International Financial Services Centres Authority (IFSCA) introduced the Bullion Market Regulations, 2025 with the objective of establishing a transparent, efficient and globally competitive bullion ecosystem within India's International Financial Services Centres (IFSCs). These regulations provide a comprehensive framework for the recognition, governance, and functioning of key market infrastructure institutions involved in bullion trading including Bullion Exchanges, Bullion Clearing Corporations, Bullion Depositories and Vault Managers. They set out the eligibility criteria, operational responsibilities, risk-management standards, and investor-protection mechanisms necessary to support a robust bullion market structure.

Formulated under the powers granted to IFSCA by the IFSCA Act, 2019 and relevant provisions of the Securities Contracts (Regulation) Act, 1956 and Depositories Act, 1996, the regulations aim to facilitate orderly growth of bullion trading, promote fair price discovery, and strengthen India's position in the global precious metals market. By introducing high standards for market governance, ownership norms, clearing and settlement, vaulting, and custody arrangements, these regulations not only enhance regulatory oversight but also foster market integrity, financial stability, and international participation.

## ROLE OF INDIA INTERNATIONAL BULLION EXCHANGE (IIBX)

IIBX operates as the primary market infrastructure institution for bullion trading in the IFSC, and its functions and duties are extensively defined under Chapter III and Schedule I of the Bullion Market Regulations, 2025.

### 1. Consumer Protection & Market Development

It is the duty of the bullion exchange to protect the interests of consumers in the bullion market, to regulate bullion contracts, and work with associations, global agencies or institutions in the bullion industry to promote growth, transparency and orderly development of the bullion market by such measures as the bullion exchange may deem fit including such measures, as the IFSCA may direct, from time to time.

### 2. Trading Infrastructure & Market Operations

It provides and operates trading facilities, maintains IT infrastructure for core and critical functions, keep record and disclosure of trade related information, and supports business continuity plans and disaster recovery operations, and cyber security and cyber resilience framework measures for the market.

### 3. Regulatory and Supervisory Functions

IIBX performs key regulatory functions such as member registration, surveillance and investigation, risk management, compliance monitoring, enforcement actions, handling of member defaults, admission of issuers of financial products and ensuring effective arbitration and grievance redressal, legal compliance and listing mechanisms, consumer protection and services.

### 4. Post-Trade and Regulatory Responsibilities

IIBX must manage the clearing and settlement of trades, ensure accurate record keeping related to clearing and settlement of trades, and maintain robust IT infrastructure for core and critical functions, establish a strong business continuity plan and disaster recovery operations, along with comprehensive cyber security and cyber resilience framework.

It also performs key duties such as risk management, member registration, compliance monitoring, inspections, enforcement actions, handling of member defaults, legal oversight, and customer protection and services, supports business development and administrative functions, including sales, marketing, product development, and finance.

### 5. Dissemination of Market Information

The exchange must publish all information required under the Bullion Market regulations, 2025, host on its website all rules, regulations, byelaws and guidance issued by it, including all amendments, provide clear information regarding the process for applying for its membership or association, along with other material information relating to its functions.

### 6. Consumer Education & Protection Fund

IIBX must establish a consumer education and protection fund to promote consumer education and provide compensation to consumers in case of defaults by the bullion trading members, in a manner as may be specified by the IFSCA.

### 7. Governance & Compliance Accountability

IIBX must adopt the broader principles of governance prescribed by International Organization of Securities Commissions (IOSCO) and Principles for Financial Market Infrastructures (PFMIs) and such other governance norms as may be specified by the IFSCA.

## MARKET PARTICIPANTS

Market participants are the various individuals, institutions, and organisations that play a role in the operation, support, and regulation of a bullion exchange. Together, they form the complete ecosystem that allows the exchange to function efficiently, transparently, and securely.

These participants contribute to different aspects such as trading, settlement, storage, compliance, technology, and governance ensuring that the bullion market operates smoothly and in accordance with regulatory standards.

### Role in the Ecosystem

The bullion exchange ecosystem is complex and requires the coordinated efforts of multiple entities. Market participants fulfil roles such as:

- **Trading:** Buying and selling bullion on the exchange.
- **Clearing and Settlement:** Ensuring that trades are successfully completed and obligations are fulfilled.
- **Storing and Delivering Bullion:** Maintaining secure vaults and handling physical delivery.
- **Regulating and Supervising:** Ensuring that trading is transparent, fair, and compliant with laws.
- **Providing Essential Services:** Offering technology, legal support, risk management, cybersecurity, and audit services to keep the market reliable and efficient.

Importantly, not every market participant trades bullion. Many support the exchange indirectly through specialised services.

### Types of Market Participants

#### a. Trading and Clearing Members

These are entities formally authorised to participate in trading or to handle the clearing of trades.

- **Trading members** can place buy/sell orders on the exchange.
- **Clearing members** ensure that trades are settled and financial obligations are met.

They are at the core of the exchange's trading activity.

**b. Qualified Jewellers**

These are jewellers who meet specific regulatory criteria such as net worth, GST registration, and business track record and are allowed to buy or sell bullion through the exchange.

Their participation represents the retail and jewellery industry's demand for bullion.

**c. Banks and Financial Institutions**

Banks may serve as settlement banks, liquidity providers, or intermediaries for clients. They facilitate payments, provide credit lines, and help maintain liquidity in the bullion market.

**d. Clearing Corporations**

Clearing corporations manage the clearing and settlement of trades. Their functions include:

- guaranteeing settlement,
- managing counterparty risk, and
- maintaining risk management systems.

They provide stability and reduce systemic risk in the bullion trading process.

**e. Vault Managers**

Vault managers store physical bullion in high-security vaults. They handle:

- safe custody of gold and silver,
- verification of purity and weight, and
- facilitating physical delivery when required.

**f. Depositories**

Depositories maintain electronic records of bullion ownership. They ensure that ownership transfers take place securely without needing to handle the physical metal every time.

**g. Regulators and Authorities**

Regulatory bodies oversee the functioning of the bullion market. Their responsibilities include:

- ensuring compliance,
- monitoring trading behavior,
- preventing market manipulation, and
- protecting investor interests.

They provide the legal and ethical framework within which the market operates.

**h. Service Providers**

These include specialised professionals and organisations that offer essential support services, such as:

- technology and IT infrastructure,
- cybersecurity services,
- legal and compliance support,

- auditing and accounting expertise,
- risk assessment and management.

Without these services, the exchange cannot maintain modern, secure, and efficient operations.

### Key Characteristics of Market Participants

- **Broad and Inclusive Category:**

Market participants encompass every entity involved in the bullion exchange system, whether directly or indirectly.

- **Not Limited to Traders:**

Many participants, such as regulators, vault managers, or service providers, do not trade bullion themselves but are still essential for the system's operation.

- **Essential for Market Integrity and Functioning:**

They collectively ensure that the bullion exchange operates reliably, maintains transparency, and protects the interests of all users.

### PRESCRIBED NORMS FOR JEWELLER

The entities fulfilling the following conditions are considered as 'Qualified Jewellers' and shall be permitted to transact as trading members / clients of trading members, on IIBX, for the purpose of import of gold:

#### i) Business Activity Requirement

The entity must be actively involved in dealing with goods that fall under specific ITC(HS) codes—7108, 7113, 7114 and 7118.

These codes relate to products under Chapter 71, which includes:

- Gold (including gold plated with platinum) unwrought or in semi-manufactured forms, or in powder form
- Articles of jewellery and of precious metal or of metal clad with precious metal
- Articles of goldsmiths' or silversmiths' wares and of precious metal or of metal clad with precious metal
- Coin (other than gold coin) and other similar items

The business must primarily deal in gold, gold jewellery, or other precious metal products. Only businesses already operating in the precious metals sector are eligible.

#### ii) GST Compliance and Turnover Requirement

The entity must have:

1. Filed all GST returns up to the preceding month prior to making an application to the IIBX
2. It must submit a certificate, duly attested by a practising Chartered Accountant, Company Secretary or Cost Accountant, stating that at least 90% of the average turnover in the last 3 financial years is through dealing in goods under precious metals.

The business should be a regular GST-compliant entity, and almost all its revenue (90%) over the past 3 years must come from the gold/precious-metals industry. This proves that the applicant is a genuine and experienced participant in the bullion sector.

### iii) Minimum Net Worth Requirement

The entity must have a minimum net worth of ₹ 15 crore, based on its latest audited financial statements.

The business must be financially strong, with assets that clearly show a net worth of at least ₹ 15 crore. This requirement ensures that only reputable and stable companies participate in the bullion market, given the high-value nature of gold and precious metals.

“Net Worth” means the aggregate value of the paid-up share capital (or capital contribution) and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.

The entity shall provide the net worth certificate from a **practising company secretary** or practising chartered accountant or a practising cost accountant.

The entity must maintain the net worth specified above at all times.

### Fit and Proper criteria

The Qualified Jewellers must comply with the ‘fit and proper criteria’ specified under the Bullion Market Regulations, 2025, at all times.

A person shall be deemed to be a fit and proper person if:

- (a) such person has a general reputation and record of fairness and integrity, including but not limited to –
  - (i) financial integrity;
  - (ii) good reputation and character; and
  - (iii) honesty;
- (b) such person has not incurred any of the following disqualifications –
  - (i) has been convicted by a court for any offence involving moral turpitude or any economic offence or any offence of the securities laws;
  - (ii) an order for winding up has been passed against the person;
  - (iii) the person, or any of its whole-time directors or managing partners, has been declared insolvent and has not been discharged;
  - (iv) an order, restraining, prohibiting or debarring the person from dealing in securities or from accessing the securities market or the bullion market, has been passed by the Authority or any other regulatory authority and a period of three years from the date of the expiry of the period specified in the order has not elapsed;
  - (v) any order against the person which has a bearing on the bullion market, has been passed by the Authority or any other regulatory authority and a period of three years from the date of the order has not elapsed;
  - (vi) a recovery proceeding has been initiated against the person by a financial sector regulatory authority that is pending;
  - (vii) has been found to be of unsound mind by a court of competent jurisdiction;

- (viii) is not financially sound or has been categorized as a wilful defaulter;
- (ix) has been declared a fugitive economic offender; or
- (x) any other disqualification, as may be specified by the IFSCA.

### Trading Member / Client of a Trading Member

Qualified Jewellers who meet the eligibility requirements must approach the exchange for obtaining authorisation from the exchange for transacting on IIBX as a trading member or as a client of a trading member.

Before registering a jeweller as a 'Qualified Jeweller', the exchange will verify the entity's "Dealing in Goods and Services" eligibility norms through the GST portal to ensure it meets the eligibility criteria. This verification is part of the Know Your Customer (KYC) process.

The exchange will also develop Standard Operating Procedures (SOPs) for onboarding jewellers as trading members or clients. These SOPs will outline all necessary steps, including the required KYC procedures.

A Qualified Jeweller onboarded by IIBX may transact on the exchange platform in the following manner:

- a. Client: Pursuant to onboarding by the exchange as a Qualified Jeweller, the entity may register as a client with a registered bullion trading member in accordance with the applicable norms.
- b. Trading member: A Qualified Jeweller may establish a branch or a subsidiary in IFSC and apply for becoming a trading member of IIBX in accordance with the IFSCA (Bullion Market) Regulations, 2025, Operating Guidelines specified by IFSCA and regulatory requirements as may be specified by IFSCA and IIBX from time to time.
- c. Limited purpose trading membership: A Qualified Jeweller based in India and not having a physical presence in IFSC, may apply for a limited purpose trading membership, wherein the entity can only trade on its own account (proprietary trading). No client onboarding shall be permitted for such a trading member. The entity shall comply with all the other applicable norms specified in IFSCA (Bullion Market) Regulations, 2025, Operating Guidelines specified by IFSCA and regulatory requirements as may be specified by IFSCA and IIBX from time to time.

### Periodic Reporting

IIBX shall submit a report to IFSCA, on a monthly basis, providing details relating to transaction in bullion by Qualified Jewellers, including details of products traded, quantity, value, quantity of gold imported, etc.

### QUALIFIED SUPPLIER PROCESS FLOW

To facilitate supply of bullion at IIBX, eligible body corporate, i.e. a company, a Limited Liability Company (LLC) or a limited liability partnership (LLP), incorporated as per the applicable laws in the home jurisdiction have been enabled to become a Qualified Supplier (QS) on the IIBX, either as a client (QS Client) of a Bullion Trading Member or as a Qualified Supplier - Limited Purpose Trading Members (QS-LPTM).

QS- Client shall participate on IIBX through a Bullion Trading Member (TM / TCM) and may undertake 'sell' as well as 'buy' transactions on IIBX. The onboarding of QS-Client shall be as per the process prescribed by the IIBX and IIDL. QS-Client may approach a Bullion Trading Member for opening a client account for the purpose of supplying bullion for selling as well as for trading in Bullion Depository Receipts (BDRs) on IIBX.

QS-LPTM shall be permitted to participate directly on IIBX for the limited purpose of undertaking only 'sell' transactions, subject to the additional eligibility criteria.

**Additional eligibility conditions for becoming a QS-LPTM on IIBX**

An applicant entity wishing to participate as a QS-LPTM on IIBX shall have to satisfy the following conditions:

- The entity must be engaged in the business of supplying precious metals for at least five years.
- The entity must have a minimum net worth equivalent to US\$ 10 Million or equivalent amount as per the latest audited statement.
- The entity must be a member of at least one of the below-mentioned associations / exchanges, for a cumulative and contiguous period of five years:
  - a. London Bullion Market Association (LBMA)
  - b. CME Group (COMEX)
  - c. Shanghai Gold Exchange International (SGEI)
  - d. Dubai Multi Commodities Centre (DMCC)
  - e. Borsa Istanbul (BIST)
  - f. Or any other association / exchange as may be specified by the Authority from time to time.
- QS-LPTM must maintain a minimum interest-free security deposit as may be specified by IIBX for the purpose.
- IIDIL and / or IIBX may seek additional documents wherever considered necessary, including clarifications from the applicant entity.

**Process for onboarding of QS-LPTM on IIBX**

1. An entity seeking to become a Qualified Supplier -LPTM on IIBX shall submit duly filled common application form prescribed by IIBX and India International Depository IFSC Limited (IIDIL), along with the supporting documents and applicable fees, if any, to IIBX.
2. IIBX, in coordination with IIDIL, will prescribe the Standard Operating Procedures (SOP) for the process of onboarding of the applicants for QS-LPTM status.
3. IIDIL, in coordination with IIBX, carry out the due diligence on the applicant for opening an account for maintaining BDRs, in respect of the bullion to be brought in one of the IFSCA registered Vault Managers that are linked with IIDIL.
4. The KYC/AML/CFT guidelines specified by the IFSCA from time to time shall be applicable on Qualified Supplier-LPTM.

**Mode of participation by Qualified Supplier on IIBX**

1. Qualified Supplier participating as QS-LPTM must be enabled by IIBX to directly access the IIBX trading system, as per the guidelines issued by IIBX.
2. QS-LPTM have to associate itself with a clearing member for clearing of its transactions, in the manner specified by IIBX.
3. The responsibility of surveillance of the Bullion ecosystem in IFSC must be with IIBX. In order to maintain the market integrity, IIBX shall put in place the necessary infrastructure, mechanisms, safeguards and controls for conducting live surveillance of the activities of Bullion market participants including the QS-LPTMs.

4. QS-LPTM must comply with the code of conduct and any other operational guidelines that may be issued by IIBX.

#### **Movement of bullion by QS-LPTM to and from IFSCA registered Vault Managers**

- QS-LPTMs may bring their bullion into any of the IIDIL empanelled Vault operated by IFSCA registered Vault Managers in GIFT-IFSC or in other SEZs, after completing the customs procedures.
- The IFSCA registered Vault Managers must ensure a physically separate and segregated vault space for storing bullion in the IIDIL empaneled Vaults for the purpose of selling or trading on IIBX after creating Bullion Depository Receipts (BDRs).
- QS-LPTM must intimate IIDIL and the IFSCA registered Vault Manager about the supply of the bullion in the IIDIL empaneled Vaults adhering to the good delivery standards prescribed by IIBX for the creation of BDR.
- The IFSCA registered Vault Manager shall provide the following details of the bullion held in its IIDIL empaneled vault to initiate the process of creation of BDRs in electronic form to IIDIL :
  - a) Name & address of the beneficial owner
  - b) Details of the IIDIL empanelled vault of IFSCA registered Vault Managers
  - c) Details of the refiner whose markings are engraved on the physical bars
  - d) The serial numbers provided by the refiner and engraved on the physical bars.
  - e) The purity of the bar in parts per 1000 viz. 995/1000, 999/1000, 999.9/1000 etc.
  - f) Weight of the physical bar denominated in grams, kilograms or ounces, as the case may be.
- IIDIL issues a BDR in electronic form with underlying bullion, subject to the fulfilment of the above conditions, within the prescribed time limit after the confirmation of allocation of bars towards creation of BDRs, as provided in the detailed SOP by IIBX and IIDIL.
- IIDIL puts in place necessary systems and processes to keep track of the beneficial owner of each BDR created, at all times, till it is extinguished.
- The QS-LPTMs must be permitted to only sell BDR on IIBX in respect of bullion brought by them. The QS-LPTMs must be permitted to cancel or modify the 'sell' order previously entered.
- Upon execution of the 'sell' trade, the transaction shall be cleared and settled through the clearing member, as per the settlement mechanism of IIBX.
- IIBX, IIDIL and Vault Managers ensure that a statement of accounts is issued by the Bullion Trading Members / Bullion Clearing Members, as the case may be, to the beneficial owners of BDRs, on a daily basis.
- A QS-LPTM intending to obtain physical bullion against the BDRs lying in credit to its account with IIDIL, before it is sold on IIBX, must be required to surrender the BDRs to IIDIL. On receipt of the request for surrender of BDRs, IIDIL shall extinguish for re-materialisation into physical bullion of the corresponding specifications through the integrated system of IIDIL and the Vault Managers.
- The Vault Manager and QS-LPTM ensure the removal of bullion from the IFSC designated vaults post such extinguishment of BDRs.

## ECO SYSTEM

Ecosystem is designed to integrate global bullion suppliers, domestic jewellers, banks, vaulting infrastructure, regulatory oversight, and technology-backed clearing and settlement systems into a single, efficient framework.

The IIBX ecosystem comprises all institutions, entities, processes, and support systems that enable the safe, transparent, and smooth functioning of bullion trading. This ecosystem ensures that every gram of bullion traded is verified, securely stored, transparently priced, and properly settled.

### 1. Bullion Exchange – The Core Trading Platform

At the centre of the ecosystem is the India International Bullion Exchange (IIBX) itself. Following are the main functions of the Bullion Exchange

- Provides a transparent and regulated platform for trading gold and silver.
- Ensures international-standard price discovery.
- Defines rules, membership criteria, and operational workflows.
- Facilitates both spot trading and physical delivery of bullion.

The exchange is the heart of the ecosystem, connecting suppliers with buyers in a secure digital environment.

### 2. Bullion Clearing Corporation – Ensuring Financial Integrity

Complementing the exchange is the Bullion Clearing Corporation, which performs the crucial role of clearing and settling trades. Following are the main functions of the Bullion Clearing Corporation

- Acts as a Central Counterparty (CCP) to all trades.
- Guarantees timely settlement of funds and bullion.
- Manages risk through margins, collateral, and monitoring.
- Provides a secure financial backbone to the trading system.

This ensures that even high-value bullion transactions are completed safely and reliably.

### 3. Vault Managers – Secure Storage and Delivery Infrastructure

For a bullion market, secure physical handling is essential. Vault Managers form the backbone of the ecosystem's storage and logistics. Following are the main functions of the Vault Managers:

- Receive bullion from Qualified Suppliers.
- Store gold and silver in high-security vaults within the IFSC.
- Conduct purity verification through accredited assayers.
- Enable physical delivery to buyers after successful trades.
- Maintain audit trails and strict security protocols.

Their role guarantees that the bullion traded is authentic, secure, and deliverable.

### 4. Bullion Depository – Electronic Recordkeeping System

The Bullion Depository supports the dematerialized (electronic) holding of bullion. Following are the main functions of the Bullion Depository

- Maintains electronic records of ownership of bullion units.

- Allows easy transfer of ownership without physical movement.
- Ensures accuracy, transparency, and traceability of holdings.
- Integrates with the clearing corporation and vault managers.

This system reduces operational risks and brings bullion trading closer to securities-style efficiency.

#### 5. Qualified Suppliers (QS) – The Source of Bullion

Qualified Suppliers are approved entities that bring internationally compliant bullion into the IIBX ecosystem.

*Who can be a Qualified Suppliers*

- Overseas bullion banks
- International precious metals refiners
- Global bullion traders
- IFSC-based suppliers (QS-IFSC)

Following are the main functions of the Qualified Suppliers

- Supply gold and silver of globally accepted purity (e.g., LBMA standards).
- Ensure continuous availability of bullion for trading.
- Link India's bullion market with global suppliers.

They form the supply-side pillar of the ecosystem.

#### 6. Qualified Jewellers (QJs) – The Retail and Manufacturing Demand Segment

Qualified Jewellers participate in IIBX to procure bullion for jewellery manufacturing.

##### Eligibility

- Must meet net worth, turnover, and compliance norms prescribed by IFSCA.

Following are the main functions of the Qualified Jewellers

- Purchase bullion directly through the exchange.
- Ensure transparent procurement and standardized quality.
- Support downstream industries like jewellery manufacturing and export.

They represent a large share of India's domestic bullion demand.

#### 7. Trading and Clearing Members – Market Intermediaries

These entities enable access to the exchange and settlement system.

##### Types

- Trading Members (TMs)
- Clearing Members (CMs)
- Trading-cum-Clearing Members (TCMs)
- Professional Clearing Members (PCMs)

Following are the main functions of the Trading and Clearing Members

- Execute buy and sell orders on behalf of clients.
- Provide liquidity to the market.
- Manage settlement obligations and collateral.
- Support risk management activities.

They act as the connective tissue linking users with the exchange.

#### **8. Special Category Client Banks (SCC Banks) – Key Import Channel**

SCC Banks are approved domestic and foreign banks permitted to import bullion through IIBX. Following are the main functions of the Special Category Client Banks:

- Act as major buyers of bullion for industrial and retail distribution.
- Enable efficient bullion imports through the IFSC.
- Support financing, clearing, and settlement of bullion deals.

Their involvement strengthens India's formal gold import ecosystem.

#### **9. Assayers and Refineries – Ensuring Quality Standards**

Assayers and refineries ensure that bullion supplied or delivered meets strict quality standards. Following are its main functions

- Certify purity and weight of bullion.
- Perform melting, assaying, and re-refining where required.
- Support vault managers and Qualified Suppliers.
- Ensure exchange-standard gold and silver bars.

They maintain the technical quality of all bullion circulating through the IIBX.

#### **10. Regulator – International Financial Services Centres Authority (IFSCA)**

IFSCA is the unified regulator responsible for the entire bullion ecosystem within the IFSC.

##### **Functions**

- Issues regulations, circulars, and guidelines for the bullion market.
- Approves exchange, clearing corporations, and intermediaries.
- Ensures investor protection, compliance, and transparency.
- Aligns Indian bullion markets with global best practices.

IFSCA's role ensures that the IIBX ecosystem is credible, global, and well-regulated.

#### **11. Technology and Infrastructure Providers**

The IIBX ecosystem also includes backend technology and infrastructure systems. Following are its main functions:

- Provide the trading platform and matching engine.
- Support depository, clearing, and risk management software.
- Ensure cybersecurity and real-time data flow.
- Enable efficient connectivity for members and clients.

Technology ensures speed, accuracy, and security in all transactions.

## 12. Logistics & Support Services

The ecosystem additionally relies on:

- Transport and security services for bullion movement
- Compliance and audit professionals
- Insurance providers
- Market data providers
- Banking and payment gateways

These entities complete the operational chain.

## PLAYERS OF BULLION EXCHANGE

Players are the core trading participants of the bullion market. They are directly involved in the purchase, sale, and price formation of bullion such as gold and silver. Their activities generate liquidity, influence market trends, and enable the smooth functioning of the bullion exchange. Players in a bullion exchange are entities or individuals who actively engage in trading bullion.

Unlike other market participants who may support the system indirectly (such as vault managers, regulators, or service providers), players participate directly in time-to-time trading on the exchange. They place buy and sell orders, respond to market movements, and contribute to the continuous price discovery process, which determines the fair market price of bullion.

## Role in the Market

Players perform several critical functions that keep the bullion market active and efficient:

### a. Creating Market Liquidity

By regularly buying and selling bullion, players ensure the market has enough trading volume.

High liquidity makes the market more stable and allows trades to occur quickly without major price distortions.

### b. Influencing Price Movements

Since players actively respond to global prices, demand conditions, and market sentiment, their trades directly impact:

- the day's bullion price levels,
- price trends, and
- short-term volatility.

### c. Supporting Price Discovery

Through their continuous trading activity, players help determine the true, competitive market price of bullion based on real supply and demand.

### d. Driving Market Efficiency

Active players help the exchange operate smoothly by:

- narrowing bid-ask spreads,
- enabling quick order execution,

- reducing arbitrage gaps, and
- stabilizing prices during high trading periods.

### *Examples of Players*

Players include several categories of entities that trade bullion for business, investment, or market-making purposes. Key players include the following:

#### **a. Traders and Brokers**

These are professionals or firms that trade bullion either on their own behalf or on behalf of clients.

They aim to profit from price movements or to provide execution services.

#### **b. Qualified Jewellers (Active Traders)**

Jewellers who meet eligibility norms and participate directly in bullion buying and selling for:

- manufacturing jewellery,
- inventory management, or
- hedging price risks.

Their participation connects the exchange to the real economy of jewellery demand.

#### **c. Bullion Dealers**

Specialized merchants dealing exclusively in gold, silver, or other precious metals. They often trade in larger quantities and play a vital role in wholesale market operations.

#### **d. Banks or Institutions That Trade**

Some banks or financial institutions engage in bullion trading to:

- meet customer demands,
- maintain bullion accounts,
- offer gold products, or
- participate in international gold flow.

They increase market depth and support institutional-level liquidity.

#### **e. Market Makers**

These players commit to offering continuous buy (bid) and sell (ask) prices.

Their role includes:

- ensuring there is always a counterparty for a trade,
- reducing price gaps,
- stabilizing markets during low-activity periods.

They are crucial for maintaining trading momentum and reducing volatility.

### **Key Characteristics of Players**

#### **a. Subset of Market Participants**

While all players are market participants, not all market participants are players. Players constitute the active trading subset of the larger market ecosystem.

**b. Direct Involvement in Trading**

Players always engage directly in:

- placing orders,
- executing trades,
- holding or delivering bullion.

Their core activity depends on trading, unlike regulators, vault managers, or technology providers.

**c. Influence on Volumes and Liquidity**

High participation from players leads to:

- better liquidity,
- narrower spreads, and
- smoother trading operations.

Their presence is essential for a healthy and efficient bullion exchange.

**d. Key Role in Price Discovery**

Since players respond instantly to changes in supply, demand, global gold prices, and economic events, their trades collectively determine the real-time market price of bullion.

**IFSCA (BULLION MARKET) REGULATIONS 2025****Recognition of Bullion Exchange****STEP 1: Application for recognition of Bullion Exchange**

Submission of application along with the applicable fee. Every application must contain such particulars as may be specified by the IFSCA and shall be accompanied by the copy of the memorandum of association, articles of association, bye-laws and such other documents for the regulation and control of bullion contracts.

**STEP 2: Conditions for grant of recognition as a Bullion Exchange**

- a) the applicant is a company limited by shares;
- b) the applicant is demutualised;
- c) the applicant, its directors and shareholders who hold or intend to hold shares, are fit and proper persons, as specified in these regulations;
- d) the applicant satisfies the conditions relating to ownership and governance structure, as specified in these regulations;
- e) the applicant satisfies the net worth requirements, as specified in these regulations;
- f) the applicant has the requisite capability including financial capacity, functional expertise and infrastructure.

In addition to these conditions, the applicant must comply with following conditions:

- a) the applicant has necessary infrastructure for the orderly execution of trades;
- b) the applicant has an online screen-based trading system;

- c) the applicant has an online surveillance capability which monitors positions, prices and volumes in real time so as to ensure market integrity;
- d) the applicant has adequate infrastructure to list bullion depository receipts for trading on its platform, wherever applicable;
- e) the applicant has necessary capability to have a comprehensive network of bullion trading members and has adequate facility to admit and regulate its members;
- f) the applicant has made necessary arrangements to establish connectivity with its bullion trading members and bullion clearing corporation;
- g) the applicant has adequate consumer grievance redressal mechanism and arbitration mechanism to resolve disputes arising out of trades and their settlement;
- h) the applicant has the facility to disseminate information about trades, quantities and quotes in real time to at least two information vending networks which are accessible to consumers;
- i) the applicant has adequate systems' capacity supported by a business continuity plan including a disaster recovery site;
- j) the applicant has in its employment, sufficient number of persons having adequate professional and other relevant experience; and
- k) any other conditions as may be specified by the IFSCA.

### **STEP 3: Grant of recognition as a Bullion Exchange**

The IFSCA may, after considering the application and on being satisfied that the applicant has complied with the conditions and is eligible to be recognised as a bullion exchange, grant recognition to the applicant in terms of section 4 of the Securities Contracts (Regulation) Act, 1956 and may impose such additional conditions as it may deem fit.

### **STEP 4: Renewal of recognition**

The provisions of Bullion Market Regulations, 2025, as applicable to the grant of recognition, shall also apply in relation to an application for renewal of recognition of a bullion exchange.

### **STEP 5: Withdrawal of recognition**

The recognition granted to a bullion exchange may be withdrawn by the IFSCA, after being given an opportunity of being heard, in the manner provided under Section 5 of the Securities Contracts (Regulation) Act, 1956.

## **Operational Framework of Bullion Exchange**

Every bullion exchange shall, with effect from the date of the commencement of its operations, use the services of Bullion Clearing Corporation for clearing and settlement of its trades.

### **Functions of the Bullion Exchange**

It shall be the duty of the bullion exchange to protect the interests of consumers in the bullion market, to regulate bullion contracts, and work with associations, global agencies or institutions in the bullion industry to promote growth, transparency and orderly development of the bullion market by such measures as the bullion exchange may deem fit including such measures, as the IFSCA may direct, from time to time.

The measures referred above may provide for:

- a) regulating the bullion contracts;
- b) regulating the working of the bullion trading members, and such other intermediaries who may be associated with the bullion exchange;
- c) establishing and enforcing good delivery standards;
- d) prohibiting fraudulent and unfair trade practices in the bullion market;
- e) promoting consumers' education and training of intermediaries of bullion market;
- f) calling for information from, undertaking inspection, conducting inquiries and audits of the bullion trading members, intermediaries and other persons associated with the bullion exchange;
- g) levying fees or other charges for carrying out the purposes of these regulations;
- h) setting standards of quality, quantity and other parameters and means of verification of such standards;
- i) setting standards for vaulting and transport of bullion in consultation with the bullion depository; and
- j) performing such other functions as may be specified by the IFSCA.

### Net Worth of Bullion Exchange

#### Net worth requirements

- a) A bullion exchange shall have a minimum net worth of USD 10 million at all times.
- b) If required, as a risk management measure, the IFSCA may specify higher net worth for a bullion exchange based on the nature and scale of their respective business.
- c) A bullion exchange shall not distribute profits in any manner to its shareholders until the net worth specified in this regulation is achieved.
- d) Every bullion exchange shall submit an audited net worth certificate to the IFSCA issued by statutory auditor on a yearly basis by the thirtieth day of September of every year for the preceding financial year.

### Ownership of Bullion Exchange

#### Shareholding in a bullion exchange

The shareholding in a bullion exchange shall be held by:

- a) A bullion exchange or stock exchange recognised in India or a Foreign Jurisdiction with a minimum of twenty-six per cent of the paid-up equity share capital of the bullion exchange;
- b) a joint venture of market infrastructure institutions recognised in India, an International Financial Services Centre or a Foreign Jurisdiction with a minimum of fifty-one per cent of the paid-up equity share capital of the bullion exchange held by such joint venture.

Any other person in India, an International Financial Services Centre or a Foreign Jurisdiction shall not at any time, directly or indirectly, either individually or together with persons acting in concert, acquire or hold more than twenty-five per cent of the paid-up equity share capital in the bullion exchange.

## Governance of Bullion Exchange

### Composition of the Governing Board

#### (1) Adoption of Global Best Practices

Every bullion exchange must follow the key governance standards set by:

- the International Organisation of Securities Commissions (IOSCO),
- the Principles for Financial Market Infrastructures (PFMIs), and
- any additional governance norms specified by the IFSCA.

#### (2) Members of the Governing Board

Each governing board must include:

1. Non-independent directors,
2. Public interest directors, and
3. Managing Director (MD).

#### (3) Chairperson

The chairperson of the board must be elected by the governed board from amongst the public interest directors, and this election requires the IFSCA's prior approval.

#### (4) Majority of Public Interest Directors

The number of public interest directors must always be equal to or greater than the number of non-independent directors on the governing board.

#### (5) Managing Director's Category

The Managing Director shall be included in the category of non-independent director.

#### (6) Employee Directors

Employees of the bullion exchange may also be appointed as a director on the governing board in addition to the managing director. Such directors are treated as non-independent directors.

#### (7) Restrictions on Membership

No trading member, clearing member, or their associates and agents in an International Financial Services Centre (IFSC) may serve on the governing board regardless of the exchange or clearing corporation they belong to.

#### (8) Definition of Trading Member for Governance

A person is considered a trading member if they serve as a director in an entity that is itself a trading member, or have associates who are trading members.

*Exceptions:*

- A person serving on the board of a public financial institution or a scheduled commercial bank will not be treated as a trading member even if that institution is one.
- Independent directors of associates of such banks or institutions (where the majority shareholding lies with them) are also not treated as trading members.

**(9) Additional Conditions**

The appointment of directors must meet any other conditions specified by the IFSCA.

**(10) Continuous Monitoring**

The exchange must continuously ensure that none of its directors become associated with any trading member.

**(11) Quorum Requirement**

For board meetings, the number of public interest directors present must be at least equal to the number of non-independent directors for the meeting to proceed.

**(12) Voting Requirement**

A board decision is valid only when the public interest directors cast their votes on the resolution are equal to or more than the number of non-independent directors who have cast their votes on that resolution.

**(13) Casting Vote**

If there is a tie in voting, the chairperson has the casting (decisive) vote.

**(14) Qualifications and Expertise**

The governing board of the bullion exchange must include directors with appropriate knowledge and experience in areas such as:

- bullion markets
- securities markets
- finance and accountancy
- legal and regulatory practice
- technology
- risk management
- management/administration

At least one public interest director must be qualified in each of the following key areas:

- bullion markets
- securities markets
- finance & accountancy
- legal and regulatory practice
- technology

**Appointment of Key Officers in a Bullion Exchange and Bullion Clearing Corporation****1. Appointment of Compliance Officer****a. Role and Responsibilities**

Every bullion exchange must appoint a Compliance Officer who is responsible for monitoring the compliance of the provisions of the Act or relevant rules, regulations and circulars, guidelines or

directions issued thereunder by the IFSCA or any other regulatory Authority, and also for the redressal of customers' grievances.

**b. Reporting Duties**

The Compliance Officer must:

- Immediately and independently report any non-compliance to the IFSCA.
- Submit a quarterly compliance report, within 45 days of the end of each quarter, in the format prescribed by the IFSCA.

**2. Appointment of Chief Risk Officer**

**a. Role and Responsibilities**

A bullion exchange must appoint a Chief Risk Officer (CRO). The CRO is responsible for:

- Identifying risks associated with the functioning of a bullion exchange.
- Monitoring these risks.
- Initiating necessary steps to reduce or mitigate them.

**b. Reporting Duties**

The CRO must:

- Oversee the organization's entire risk management framework.
- Submit a half-yearly risk report to the Authority, within 90 days from the end of each half-year.

**3. Appointment of Chief Legal Officer**

**a. Mandatory Appointment**

A bullion exchange must appoint a Chief Legal Officer if it is not:

- a subsidiary of a Market Infrastructure Institution (MII)
- a joint venture of MIIs

**b. Use of Parent Entity's Legal Resources**

If the exchange is a subsidiary or joint venture of an MII, it may use the legal assistance of its parent institution.

However:

- If the parent entity does not provide the required legal support, the entity must appoint a Chief Legal Officer.
- The Authority may also require any bullion exchange with a large scale of operations in an IFSC to appoint a Chief Legal Officer.

**c. Responsibilities of the Chief Legal Officer**

The Chief Legal Officer is responsible for managing all legal risks and must carry out tasks such as:

- Drafting and vetting of the bye-laws, and checking any amendments before submission of documents to the Authority for approval.

- Vetting of legal documents related to cross-border arrangements proposed to be entered into by a bullion exchange.
- Performing any additional legal functions specified by:
  - the governing board
  - the IFSCA

#### 4. Appointment of Chief Information Security Officer

##### a. Separate Appointment

Every bullion exchange must appoint a Chief Information Security Officer (CISO).

This position is separate from and in addition to the role of the Chief Technology Officer (CTO).

##### b. Responsibilities and Reporting

The CISO is responsible for overseeing the cyber security posture of bullion exchange. It must report directly to the Managing Director (MD) or Chief Executive Officer (CEO).

### General Obligations of Bullion Exchange

#### 1. Consumer Education and Protection Fund

Every bullion exchange shall establish a consumer education and protection fund to promote consumer education and provide compensation to consumers in case of defaults by the bullion trading members, in a manner as may be specified by the IFSCA.

#### 2. Utilization of Profits and Investments

The utilization of profits and investments by the bullion exchange shall be in accordance with the norms as specified by the IFSCA. It must not carry out any other activity involving the deployment of funds or otherwise without prior approval of the IFSCA.

The prior approval of the IFSCA may not be required in case of treasury investments if such investments are as per the investment policy approved by the governing board of Bullion Exchange. Also, bullion exchange may engage in activities involving deployment of funds or otherwise that are unrelated or not incidental to its activity as a bullion exchange, as the case may be, through a separate legal entity and subject to approval of the IFSCA.

#### 3. Equal, fair and transparent access

The bullion exchange must ensure equal, unrestricted, transparent and fair access to all persons without any bias towards their associates and related entities.

#### 4. Information and Data Sharing Policy

Every bullion exchange shall lay down a framework for the sharing and monitoring of data, including confidential and sensitive data. Such a framework shall contain:

- (a) means and manner of data sharing;
- (b) types of data that can be shared;
- (c) escalation matrix for data sharing;
- (d) provisions to have a digital database for recording details of information shared along with recipients and reasons for sharing, etc.;

- (e) mechanism to monitor the data shared, utilizing technology, conducting periodic audits to ensure compliance with the policy framework; and
- (f) accountability mechanism, including assigning individual accountabilities for any breach of the data sharing policy.

### Qualification for Membership of the Bullion Exchange

#### *Qualification Criteria*

The bye-laws of the bullion exchange shall lay down the qualification criteria for the grant of membership to the bullion exchange, including-

- (i) form of the organisation structure, minimum qualifications and experience of the professional employees
- (ii) the financial strength in terms of the threshold of key financial ratios, disqualifications, categories of the members and minimum net worth requirements that such a member can perform in the bullion exchange
- (iii) the manner in which the applications for membership shall be processed by the bullion exchange
- (iv) the provisions for avoiding conflicts of interest, ethical behaviour and conduct of the applicants and the members

#### *Contracts between Member of a Bullion Exchange and Consumer*

A contract between members of a bullion exchange or a consumer shall be in writing and shall be enforced in accordance with the rules and bye-laws of the Bullion Exchange of which they are members.

### LESSON ROUNDUP

- The India International Bullion Exchange (IIBX) is India's first global-standard platform for trading gold and silver within the International Financial Services Centre (IFSC). Established under the IFSCA Bullion Market Regulations, 2025, it aims to promote transparent pricing, secure trading, and international participation in the Indian bullion market.
- IIBX performs several key functions: providing a regulated trading system, ensuring proper clearing and settlement, maintaining strong risk management, supervising member activities, and protecting consumers through grievance mechanisms and a consumer protection fund. It also follows global governance norms such as IOSCO and PFMI principles.
- The bullion ecosystem includes multiple market participants—trading and clearing members, qualified jewellers, banks, vault managers, depositories, and regulators—all working together to ensure secure storage, accurate records, transparent pricing, and smooth settlement processes.
- Only jewellers that meet strict norms relating to turnover, GST compliance, and net worth are recognised as Qualified Jewellers and allowed to import gold through IIBX. International suppliers can also participate if they meet global industry standards, follow due diligence, and keep bullion in IFSCA-registered vaults, where it is converted into electronic Bullion Depository Receipts (BDRs) before trading.
- Overall, IIBX has strengthened India's bullion market by integrating global suppliers, domestic jewellers, robust regulations, advanced technology, and secure vaulting systems into a single platform. It supports fair price discovery, boosts transparency, and enhances India's role in the global precious metals market.

**GLOSSARY**

- 1. IIBX (India International Bullion Exchange)**

A regulated international platform in GIFT-IFSC where gold and silver are traded.
- 2. Bullion Exchange**

A marketplace where trading of gold and silver takes place under strict rules and transparency.
- 3. Clearing Corporation**

An institution that ensures trades are settled safely, manages risk, and guarantees that both parties fulfil their obligations.
- 4. Settlement**

The process of completing a trade transferring money to the seller and bullion/BDR to the buyer.
- 5. Vault Manager**

An approved entity that stores physical gold and silver in high-security vaults and verifies purity and weight.
- 6. BDR (Bullion Depository Receipt)**

A digital certificate issued by the depository representing ownership of physical gold or silver stored in a vault.
- 7. Qualified Jeweller**

A jeweller who meets strict eligibility criteria (GST compliance, turnover, net worth) and is allowed to import gold through IIBX.
- 8. Trading Member**

An entity authorised to place buy/sell orders directly on the exchange.
- 9. Clearing Member**

A member responsible for clearing and settling trades on behalf of traders.
- 10. QS (Qualified Supplier)**

A foreign company allowed to supply bullion to IIBX after meeting specific global standards.
- 11. QS-LPTM (Qualified Supplier – Limited Purpose Trading Member)**

A global bullion supplier allowed to participate directly in the exchange only for **selling** bullion.
- 12. KYC/AML/CFT**

Regulatory checks to prevent:

  - **KYC:** Know Your Customer
  - **AML:** Anti-Money Laundering
  - **CFT:** Combating Financing of Terrorism

**TEST YOURSELF****A. Very Short Answer Questions**

1. What is the main objective of establishing the India International Bullion Exchange (IIBX)?
2. Define “Qualified Jeweller” under the Bullion Market Regulations, 2025.
3. Who regulates the bullion market operations at IFSCA?
4. What is the minimum net worth required for a Qualified Jeweller?
5. State one key responsibility of a Vault Manager.
6. What is the meaning of QS-LPTM?
7. Mention any two ITC(HS) codes relevant for jewellers under eligibility norms.
8. Name any two global bullion associations recognised for Qualified Supplier eligibility.

**B. Short Answer Questions**

1. Explain the role of IIBX in ensuring consumer protection and market development.
2. Describe the key trading and post-trade functions performed by IIBX.
3. Who are the major market participants in the bullion ecosystem?
4. Explain the GST and turnover requirements for a jeweller to become a Qualified Jeweller.
5. Write a short note on the role of Clearing Corporations in the bullion market.
6. What is the process of onboarding a Qualified Supplier (QS-Client) on IIBX?
7. Briefly explain the role of Depositories in the bullion exchange ecosystem.

**C. Long Answer Questions**

1. Discuss in detail the functions, duties, and governance responsibilities of IIBX as laid down in the Bullion Market Regulations, 2025.
2. Explain the eligibility criteria, net worth requirements, and onboarding process for Qualified Jewellers on IIBX.
3. Describe the complete process flow for a Qualified Supplier–LPTM (QS-LPTM), from application to creation and sale of BDRs.
4. Elaborate the structure and components of the IIBX ecosystem. How do these components ensure transparent and secure bullion trading?
5. Discuss the regulatory framework governing the bullion exchange, highlighting the role of IFSCA, IIBX, IIDIL, Vault Managers, and Clearing Corporations.

**LIST OF FURTHER READING**

- [www.ifsc.gov.in](http://www.ifsc.gov.in)

# Overview of Fintech and Service Providers in IFSC

## Lesson 9

### KEY CONCEPTS

■ TechFin ■ FinTech entity ■ FinTech Regulatory Sandbox ■ FinTech Innovation Sandbox ■ Inter-Operable Regulatory Sandbox ■ FinTech Incentive Scheme ■ Ancillary Service Providers ■ Payment Service Providers ■ Global In-House Centre ■ Permissible Activities

### Learning Objectives

#### To understand the:

- legal structure and prerequisites for setting up a FinTech entity in GIFT IFSC.
- eligible categories of FinTech, TechFin applicants and understand permissible activities under the FE Framework.
- authorisation process and requirements for establishing a FinTech Entity in IFSC.
- purpose, eligibility, and functioning of the FinTech Regulatory Sandbox (FRS), Innovation Sandbox (FIS), and Inter-Operable Regulatory Sandbox (IoRS).
- key provisions of the IFSCA FinTech Incentive Scheme, 2022, including eligibility and types of grants.
- framework for Ancillary Service Providers and list the permissible ancillary activities in IFSC.
- business opportunities for Payment Service Providers (PSPs) and the authorisation process under Payment Services Regulations.
- concept, salient features, and benefits of setting up a Global In-House Centre (GIC) in IFSC.

### Lesson Outline

- Legal Structure and Pre-requisites for Fintech in GIFT IFSC
- FinTech/ TechFin Entities — Who can apply
- Permissible Activities for FinTech Entities under FE Framework
- Process for set-up FinTech Entities
- Sandbox Process
- IFSCA Fintech Incentive Scheme, 2022
- Ancillary Service Providers - Framework at glance and permissible activities
- Payment Services Providers - Key Business Opportunities-Process Flow for Authorisation
- Global in House Centre (GIC) - GIC IN IFSC
- Salient Features -Key Benefits for GIC In IFSC
- Lesson Round-Up
- Glossary
- Test Yourself
- List of Further Readings

## LEGAL STRUCTURE AND PRE-REQUISITES FOR FINTECH IN GIFT IFSC

To operate as a FinTech Entity (FE) or offer any regulated fintech/financial activity in the International Financial Services Centre (IFSC) at GIFT City, an applicant must establish a proper legal entity within IFSC. IFSCA requires a formal and identifiable corporate structure so that the authority can regulate, supervise, and enforce compliance.

### Permitted Legal Structure

A FinTech applicant must establish its presence in IFSC through any one of the following:

- A Company Incorporated in IFSC
- A Branch of an Existing Indian or Foreign Entity
- A Subsidiary of an Indian or Foreign Company
- Other Approved Forms (For Ancillary/Tech Service Providers)

### Pre-Requisites for Setting Up a FinTech Entity in GIFT IFSC

IFSCA has defined a structured framework for FinTech Entities (FEs). Before an applicant can test or operate in IFSC whether through the Regulatory Sandbox, Innovation Sandbox, or full Authorisation it must satisfy key pre-conditions.

#### (1) Eligibility of the Applicant

The entity must be:

- An Indian or foreign incorporated entity from an FATF-compliant jurisdiction
- A company, branch, or subsidiary established in IFSC
- Engaged in providing or intending to provide fintech solutions related to financial products or services regulated by IFSCA
- Capable of meeting compliance and reporting requirements of IFSCA

#### (2) Genuine FinTech Innovation

The applicant must demonstrate:

- A unique or innovative solution that adds value to the financial ecosystem in IFSC
- A business model aligned with financial products/services regulated by IFSCA
- Clear differentiation from conventional services available in the market

#### (3) Readiness for Testing/Deployment

Before seeking entry into IFSCA's FinTech ecosystem (FRS/FIS/loRS), the solution must show:

- Limited prior testing or proof-of-concept
- Technical readiness
- Clear testing objectives and expected outcomes
- Adequate resources—technology, manpower, and financial capacity

#### (4) Robust Risk Management

The fintech solution must not pose risks to:

- Financial stability
- Consumer protection
- Market integrity

Applicants must submit:

- Safeguards to mitigate operational, cyber, and technology risks
- Measures to manage potential failures during testing

#### **(5) Fit & Proper Management**

Key managerial personnel and promoters must meet fit and proper criteria, including:

- Integrity and reputation
- Financial soundness
- Absence of regulatory violations
- Competence and experience in financial/technical domains

#### **(6) Compliance Capability**

FinTech entities must demonstrate the ability to comply with:

- IFSCA regulations
- Reporting and disclosure norms
- Data protection requirements
- AML/CFT guidelines (if applicable)
- Any sector-specific rules (payment systems, capital markets, insurance, fund management, etc.)

#### **(7) Use of Freely Convertible Foreign Currency**

Business carried out in IFSC is generally conducted in freely convertible foreign currency.

- INR usage is restricted only to administrative expenses or as permitted by the regulations.
- This supports IFSC's global financial orientation.

#### **(8) Intention and Ability for Broader Deployment**

Beyond testing, the fintech must show:

- Capability to deploy the solution at a larger scale
- A transition and exit strategy from the sandbox
- A clear business roadmap for operations from IFSC

### **FINTECH/ TECHFIN ENTITIES — WHO CAN APPLY**

#### **Under the Framework for FinTech Entity in the IFSCs (FE Framework) issued by IFSCA**

**FinTech** refers to entities providing financial-technology solutions that result in new business models, process, applications or products in financial services regulated by IFSCA.

**TechFin** refers to entities providing advanced/emerging technology solution(s) which aid and assist activities in

relation to financial products or financial institutions or financial services (but may not themselves be financial institutions) e.g. technology vendors, infrastructure providers.

### Eligible applicants (for Indian and foreign entities)

The entity shall satisfy the following conditions:

1. In case Applicant is from India:
  - i) An entity registered with DPIIT as a start-up related to FinTech; or
  - ii) A company or LLP incorporated in India; or
  - iii) Branch of an Indian Company or LLP in IFSC; or
  - iv) An entity working directly or indirectly in the ecosystem regulated by RBI / SEBI/ IRDAI/ PFRDA
2. In case Applicant is from Outside India:
  - i) An entity from any jurisdictions except those jurisdictions which are identified in the public statement of FATF as “High-Risk Jurisdictions subject to a Call for Action” (i.e. black list)
  - ii) The entity shall undertake one of the activities under the permissible areas/ activities of FE Framework.

### Other pre-requisites:

1. The entity must undertake one or more of the “permissible activities” under FE Framework.
2. For full “Authorization” (as opposed to limited-use/sandbox), a revenue-earning track record in at least one of the last three financial years is mandatory.

### PERMISSIBLE ACTIVITIES FOR FINTECH ENTITIES UNDER FE FRAMEWORK

The FE Framework defines a broad set of permissible areas / activities for FinTech entities. These include (but are not limited to) technologies and solutions across banking, capital markets, insurance, funds, etc.

Some of the typical activities include:

- FinTech products or services that lead to new business models, applications, processes or financial products.

List of permissible FinTech areas/activities linked to financial services regulated by IFSCA is given below:

Banking Sector	Capital Markets and Funds Management	Insurance sector
1. Remittance and payments	1. Crowd funding	1. InsurTech
2. Digital lending	2. Personal finance	2. Innovative technologies for insurance life cycle (underwriting, claims management of life/health products etc.)

Banking Sector	Capital Markets and Funds Management	Insurance sector
3. Buy Now Pay Later	3. Wealth Tech	3. Digital innovation for global health insurance cover
4. Crowd Lending	4. Robo Advisory	4. Innovation in commercial insurance
5. Digital Bank (Neo Banking/ Challenger bank)	5. Sustainable Finance products	5. Digital platform for settlement of balances between insurance companies
6. Open banking	6. Alternate trading platforms	6. Open insurance
		7. Embedded insurance
		8. Cyber insurance

- Activities spanning across banking, capital markets, insurance, fund management, and other financial services regulated by IFSCA.

### PROCESS FOR SET-UP FINTECH ENTITIES

The IFSCA may, after examining the application and on being satisfied that the applicant has fulfilled the eligibility criteria, grant Authorization to the Applicant as a 'FinTech Entity', subject to the conditions that the Applicant:

- separately incorporates an entity in the IFSC; or
- establishes a branch or a subsidiary of an Indian or foreign incorporated entity in IFSC.

In case the IFSCA is of the opinion that the Authorization under Framework for FinTech Entity in the International Financial Services Centres (IFSCs) cannot be granted, it shall communicate the deficiencies to the Applicant giving it thirty days' time to rectify them.

If the Applicant fails to rectify such deficiencies to the satisfaction of the IFSCA within the specified time, the IFSCA may refuse to grant Authorization.

### SANDBOX PROCESS

#### Permissible Activities under the sandbox process

An Applicant shall be permitted to undertake one or more of the following activities under Framework for FinTech Entity in the International Financial Services Centres (IFSCs) subject to fulfilment of the following requirements:

- Test FinTech ideas or solutions in IFSCA FinTech Regulatory Sandbox (FRS); or
- Develop and test FinTech ideas or solutions in IFSCA FinTech Innovation Sandbox (FIS); or
- Test FinTech ideas or solutions in Inter-Operable Regulatory Sandbox (IoRS); or
- Provide FinTech ideas or solutions in the Overseas Regulatory Referral mechanism/FinTech Bridge offered by IFSCA.

### IFSCA FinTech Regulatory Sandbox (FRS)

#### Eligibility

An Applicant who satisfies any of the following conditions shall be eligible to make an application to IFSCA:

1. In case the Applicant is from India:
  - i) An entity registered with Department for Promotion of Industry and Internal Trade (DPIIT) as a start-up related to FinTech; or
  - ii) A company or LLP incorporated in India; or
  - iii) Branch of an Indian Company or LLP in IFSC; or
  - iv) An entity working directly or indirectly in the ecosystem regulated by domestic financial sector regulator, such as RBI / SEBI/ IRDAI/ PFRDA.
2. In case the Applicant is from Outside India:
 

An incorporated entity or a branch of an incorporated entity from FATF compliant countries/jurisdictions.
3. The Applicant proposes to use innovative technology in its core product or service, business model, distribution model or methodology to provide financial services that are or likely to be regulated by the IFSCA.

#### Eligibility Criteria for the Proposed Solution

The proposed solution by the applicant must exhibit following:

- (a) **Genuineness of innovation** - The idea or solution should be innovative enough to add significant value to the existing offering related to financial service or financial product regulated by IFSCA.
- (b) **Genuine need to test** - The applicant should have a genuine need for live testing the solution on real customers/investors. Further, the applicant should demonstrate that the idea or solution cannot be developed/deployed without relaxing certain regulatory requirements, if any, being sought.
- (c) **Limited prior testing** - Before applying for testing in sandbox, limited offline testing of the idea or solution should have been carried out by the applicant.
- (d) **Direct benefits to users** - The idea or solution should offer identifiable benefits (direct or indirect) to the customers/investors or entities or to the Banking, Capital Market, Funds Management, Insurance sector etc at large.
- (e) **No risks to the financial system** - The idea or solution should have proper risk management strategy to incorporate appropriate safeguards to mitigate and control potential risks to any market participants/ users that may arise from the testing of the idea or solution and shall propose appropriate safeguards to manage the risks and contain the consequences of failure.
- (f) **Testing readiness of the solution** - The Applicant should have the necessary resources to support testing in the sandbox and must demonstrate well developed testing plans/scenarios and expected outcomes with clear objectives, parameters and success criteria.
- (g) **Deployment post-testing** - The Applicant should demonstrate the intention and ability to deploy the idea or solution on a broader scale. To this effect the applicant should share a proposed sandbox exit and transition strategy.

**Application Process for IFSCA FinTech Regulatory Sandbox (FRS)****1. Submitting the Application**

An Applicant meeting the eligibility criteria under the Framework for FinTech Entity in the International Financial Services Centres (IFSCs) shall apply to the IFSCA by way of an application.

**2. Authorized Signatory Requirement**

The application form must be signed by a person who is officially authorized to represent the entity. This ensures accountability and confirms that the application has been approved at the organizational level.

**3. Submission Through Email**

The completed application in all aspects must be submitted via electronic mail.

**4. Screening of the Application**

Once the application is received, IFSCA conducts a detailed screening to assess the potential suitability for the sandbox.

- Within 30 working days, the Authority informs the applicant about the likelihood of admission into the sandbox.
- During this screening stage, IFSCA may reach out for clarifications, additional information, or risk-related insights.
- The Authority may also issue guidance according to the specific characteristics and risks associated with the proposed solution.

**5. Possible Relaxation for Participants of IFSCA Cohorts**

Applicants who have already taken part in IFSCA's supported Cohorts or Special Programmes may receive certain relaxations from such stages of the application screening process as may be deemed fit by the IFSCA provided the applicant fulfils the eligibility criteria.

**6. Handling Deficiencies in the Application**

If any part of the application is incomplete or deficient:

- IFSCA will communicate the deficiencies to the Applicant.
- The applicant will be given 30 days to rectify the deficiencies.
- If the applicant does not correct the issues within the given timeframe or if the corrections are not satisfactory the application may be rejected.

**Approval Process in the IFSCA FinTech Regulatory Sandbox**

Before a FinTech innovation can be tested in the IFSCA Sandbox, it must go through a structured approval process. This ensures that only eligible, safe, and well-designed solutions enter the testing environment.

**1. Assigning a Contact Person**

The applicant must appoint a contact person who will serve as the main point of communication with a designated IFSCA officer.

This helps ensure smooth and timely coordination during the approval process.

**2. Evaluation Stage**

During this stage, the evaluation committee works closely with the applicant to determine the specific

regulatory requirements and conditions (including test parameters and control boundaries) to be applied to the proposed solution.

The time required to fully assess the application is dependent on its completeness and complexity, and the specific legal and regulatory requirements involved.

If the applicant is able and willing to meet all proposed regulatory requirements and conditions, IFSCA grants permission to proceed with developing and testing the FinTech innovation(s) in the sandbox.

### **3. Limited Use Authorisation**

IFSCA may then provide Limited Use Authorization as a FinTech Entity (FE) to develop and test the proposed solution in the IFSCA FinTech Regulatory Sandbox.

### **4. Moving to the Testing Stage**

Once authorised as an FE by the IFSCA, it enters the Testing Stage.

During this stage, the FE must:

- Clearly disclose to all users that the solution is being tested under the sandbox,
- Inform users about the potential risks associated with the solution,
- Obtain user's acknowledgement confirming they understand these risks.

This ensures transparency and user protection.

### **5. Approval for Material Changes**

If the FE wants to make any material change to the solution during testing, such as altering features, processes, or risk controls, it must first get prior approval from IFSCA.

### **6. Duration of the Testing Stage**

The standard testing period is a maximum of twelve months. The FE may request an extension of up to six additional months, and IFSCA may grant it if justified.

### **7. Rejection of an Application**

IFSCA may reject an application at any stage.

Common reasons for rejection include:

- The proposal does not meet the objectives of the sandbox,
- The applicant fails to meet the eligibility criteria,

If rejected, the applicant is informed of the decision. The FE may re-apply once it is able to meet the requirements, after completing a cooling-off period set by IFSCA.

## **Regulatory Exemptions in the IFSCA FinTech Sandbox**

When a FinTech innovation is tested in the IFSCA Regulatory Sandbox, the IFSCA may allow certain regulatory rules to be relaxed to support experimentation. However, these relaxations come with important limits to ensure safety and compliance.

### **1. Types of Exemptions Allowed**

IFSCA may grant exemptions/ relaxations which could be in the form of exemption from certain regulatory requirements depending on the specific needs of the FinTech solution to be tested.

These relaxations help innovators in testing, without facing the full regulatory burden initially.

However, certain rules can never be relaxed, especially those related to:

- Customer or investor protection requirements
- Know-Your-Customer (KYC) requirements
- Anti-Money Laundering (AML) Rules

These safeguards are essential for ensuring user security and preventing financial crime, even during testing.

## 2. Requesting Exemptions

If a FinTech Entity needs any regulatory relaxation from a certain provision, it must include these details during the sandbox application process.

IFSCA will only consider exemptions that are properly documented and justified.

## 3. Granting of Regulatory Relaxations

IFSCA evaluates each sandbox application individually.

Regulatory relaxations may be approved only after a careful review of:

- The nature of the innovation,
- The potential risks involved,
- The testing plan submitted by the applicant.

Only those exemptions that do not compromise user safety or market integrity will be granted.

## Extending or Exiting the IFSCA FinTech Regulatory Sandbox

When a FinTech Entity (FE) tests its innovative product or service inside the IFSCA Sandbox, it does so for a limited period and under relaxed rules. At the end of this period, certain decisions must be made about continuing, expanding, or ending the experiment. The following are the key points for extending or the exiting Regulatory Sandbox.

### 1. End of the Testing Period

Once the approved testing period finishes, the Limited Use Authorization given to the FinTech Entity automatically ends.

This also means that any legal or regulatory relaxations granted during the test period no longer apply.

### 2. What Happens After Testing?

After the testing is completed, the IFSCA decides whether to permit the FinTech innovation to be introduced in the market on a wider scale.

#### Conditions to Scale Up

If the innovation performs well and poses manageable risk, the FE may continue in one of two ways:

#### i) Operate as a Fully Regulated Business

The FE must obtain the required licence, registration, or recognition under applicable IFSCA regulations.

## ii) Operate With Modified Regulatory Dispensation

If the solution proves reliable and shows that internal controls address key risks, the IFSCA may allow the FE to continue business with specific regulatory modification.

### If the Innovation is Not Allowed to Scale Up

If IFSCA decides the innovation cannot be introduced on a wider scale, the FE has two options:

- Exit the sandbox using an exit strategy, or
- Request an extension to continue testing for a longer period (if granted by the IFSCA).

## 3. Voluntary Exit from the Sandbox

The FE can choose to exit the sandbox at any time by giving IFSCA a written notice at least 30 working days in advance.

## 4. Obligations Before Exiting

Before leaving or discontinuing the sandbox test, the FE must fully meet all commitments made to the users of the FinTech innovation(s) in the sandbox.

## 5. Record-Keeping After Exit

The FE must keep records showing that all users have acknowledged that the FE has met its obligations towards them. These records must be stored by FE for five years from the date of exit from the sandbox.

## Revocation of Approval

Participation in the IFSCA FinTech Regulatory Sandbox is a privilege that comes with serious responsibilities. If a FinTech Entity (FE) violates the rules, creates risks, or fails to maintain expected standards, IFSCA has the authority to revoke its approval. The revocation process is designed to protect users, preserve market integrity, and maintain the credibility of the sandbox environment.

### 1. Reasons for Revocation

IFSCA may revoke the approval to participate in the sandbox at any time before the end of the testing period, if the FE:

- i) Fails to put in place risk mitigating measures.
- ii) Submits false, misleading or inaccurate information, or has concealed or failed to disclose material facts in the application
- iii) Contravenes any law which adversely affects its functioning in IFSC.
- iv) Suffers a loss of reputation that is likely to impact the engagement of the users with the product or solution.
- v) Order for initiation of insolvency or liquidation process has been passed against it or its parent.
- vi) Compromises the digital security and integrity of the service or product or elevates the risk of a cyber-security attack.
- vii) Carries on business in a manner detrimental to users or the public at large.
- viii) Fails to effectively address any technical defects, flaws or vulnerabilities in the product, service or solution which gives rise to recurring service disruptions or fraudulent activities.
- ix) Fails to implement any directions given by the IFSCA.

Before revoking the approval to participate in the sandbox, the IFSCA shall:

- i) Give the FE prior notice of its intention to revoke the approval
- ii) Provide an opportunity to the FE to file written submissions to the IFSCA on the grounds for the proposed revocation.

Upon revocation of an approval, the FE must:

- i) Immediately implement its exit plan and discontinue the usage of the product, process, service or solution by all users
- ii) Notify its users about the cessation and their rights of grievance redressal
- iii) Comply with obligations imposed by the IFSCA to dispose of all confidential information including user's personal information collected over the duration of the testing
- iv) Submit a report to IFSCA on the actions taken within thirty days from the revocation
- v) Comply with any other directions given by the IFSCA.

### Authorization as FinTech Entity (FE)

1. Upon successful exit from the Sandbox, the FE who desires to carry out its business as FinTech under any existing or the modified regulatory dispensation specified by the IFSCA, shall be Authorized as "FinTech Entity" to operate under the appropriate regulatory regime.
2. The Applicant authorised by IFSCA as "FinTech Entity" shall:
  - i) Separately incorporate an entity in the IFSC
  - ii) Establish a branch or a subsidiary of an Indian or Foreign incorporated entity in IFSC

### IFSCA FinTech Innovation Sandbox (FIS)

The FinTech Innovation Sandbox (FIS) is a controlled, safe testing environment created by IFSCA to support early-stage innovation. It allows FinTech firms to experiment with their ideas using real market data, without interacting with the live financial markets or real customers. This gives innovators the freedom to develop and refine their solutions before seeking regulatory permissions.

#### 1. Purpose and Nature of the Innovation Sandbox

The FIS enables FinTech firms to test their concepts in isolation from the live market. This means the testing environment is completely separate from actual market operations, reducing risks and allowing firms to focus on development.

- Firms can experiment using market-related data provided by regulated entities in the IFSC.
- Since the testing does not involve real users or live market activity, the environment supports safer early-stage experimentation.

#### 2. Role of Regulated Entities in IFSC

All regulated entities operating in the IFSC such as exchanges, banks, or intermediaries must put in place the necessary systems and infrastructure for operationalizing the Innovation Sandbox.

#### 3. Eligibility and Application Process

The eligibility criteria for the Applicant, proposed solution, application and screening process for the FIS are the same as those for the FinTech Regulatory Sandbox (FRS).

However, two important differences apply:

- No regulatory exemptions are granted, since testing does not involve real customers.
- Obligations toward users do not apply, because the testing is data-driven and not customer-facing.

This makes the FIS a suitable option for firms in the early stages of product development.

#### 4. Grant of Limited Use Authorisation

If the IFSCA is satisfied with the application and the proposed solution, it grants the applicant a “Limited Use Authorization” as a FinTech Entity. This authorization allows the firm to develop and test its solution within the IFSCA FinTech Innovation Sandbox.

It does not permit live deployment or real customer interaction. At the end of the testing period, the Limited Use Authorisation as FinTech Entity granted to the applicant shall expire.

#### 5. Post-Testing Outcome

After completing testing in the FIS:

- The Limited Use Authorization expires, and
- The applicant becomes eligible to apply for the IFSCA FinTech Regulatory Sandbox (FRS), where live testing with real users can occur (subject to regulatory approval).

This creates a structured innovation pipeline—from early-stage testing in FIS to market-ready testing in FRS.

#### 6. Voluntary Exit by the FinTech Entity

A FinTech Entity may exit the Innovation Sandbox voluntarily at any time.

The FE may exit the sandbox on its own by giving prior notice of 30 working days to IFSCA, in writing, of its intention to exit the sandbox.

#### 7. Revocation of Approval

The rules for revocation of approval in the Innovation Sandbox are identical to those in the FinTech Regulatory Sandbox (FRS).

### Inter-operable Regulatory Sandbox (IoRS) with IFSCA as Principal Regulator

The Inter-operable Regulatory Sandbox (IoRS) is a unique framework designed for innovations that span across multiple financial sectors and therefore require oversight from more than one regulator. When the IFSCA acts as the *Principal Regulator*, it coordinates the entire process while working closely with other domestic regulators.

This sandbox is especially relevant for foreign FinTech firms that want to enter the Indian market with hybrid or cross-sector financial solutions.

#### 1. Eligibility for Foreign FinTechs

Foreign FinTech entities may be allowed to participate in the IoRS if:

- Their financial technology product, service whose business models, activities or features fall under the jurisdiction of more than one domestic financial sector regulator in India.
- These domestic regulators become Associate Regulators under the IoRS framework.

## 2. Application and Screening Process

Applications submitted to IFSCA either directly from domestic regulators or through the IoRS Coordination Group go through the same application and screening process as that used in the IFSCA FinTech Regulatory Sandbox (FRS).

IFSCA may seek clarifications, additional data, or risk-mitigation details during the screening.

## 3. Decision-Making by IFSCA (as Principal Regulator)

As the Principal Regulator, IFSCA leads the evaluation process. However, it works in consultation with Associate Regulators to determine:

- Whether the proposed hybrid product/solution/innovation falls within the scope of the IoRS
- Whether it aligns with the IFSCA FinTech Regulatory Sandbox Framework
- Whether it should be admitted into the sandbox

Based on the joint assessment, IFSCA communicates the decision to the applicant.

## 4. Post-Testing Requirements

After FinTech entity successfully exits the IoRS, it must approach IFSCA and the Associate Regulators to:

- Obtain the necessary authorisation, and
- Seek any regulatory dispensation before launching the product in the market market.

This ensures that the product enters the market with full regulatory approval across all relevant sectors.

## 5. Compliance with the Standard Operating Procedure (SoP)

The entire process from application to testing to exit must comply with the Standard Operating Procedure (SoP) developed by the IoRS Coordination Group, which functions under the Inter-Regulatory Technical Group on FinTech.

### Overseas Regulatory Referral Mechanism /FinTech Bridges of IFSCA

To support global collaboration and cross-border innovation, the IFSCA operates FinTech Bridges and Overseas Regulatory Referral Mechanisms. These frameworks help FinTech firms smoothly interact with foreign regulators when they wish to expand internationally or test cross-border financial solutions.

#### What Are FinTech Bridges and Referral Mechanisms?

A FinTech Bridge is a formal partnership between IFSCA and an overseas financial sector regulator.

It allows FinTech firms in both jurisdictions to:

- Access to each other's regulatory ecosystems
- Share knowledge and best practices
- Explore opportunities for cross-border testing or expansion
- Receive regulatory support during international entry

The Overseas Regulatory Referral Mechanism is a structured process through which IFSCA can refer an Indian/IFSC-based FinTech to a foreign regulator or receive referrals from abroad for smoother regulatory engagement.

### Eligibility and Governance

Any applicant seeking to use these cross-border mechanisms will be governed strictly by the terms of:

- The Memorandum of Understanding (MoU), or
- Any collaboration,
- Special arrangement

that exists between IFSCA and the corresponding overseas Financial Sector Regulator(s).

This means that each FinTech Bridge has its own rules, conditions, obligations, and benefits, depending on what was mutually agreed between the authorities.

### Key Features

**1. Cross-border regulatory support**

Firms can receive guidance and smoother access to foreign regulatory frameworks.

**2. Structured cooperation**

Regulators share data, insights, and information as allowed under the MoU.

**3. Reduced friction for international expansion**

FinTech avoids repeated or conflicting regulatory procedures.

**4. Enhanced global innovation**

Firms can test or deploy financial solutions in multiple jurisdictions more easily.

**5. Mutual recognition (in some cases)**

Certain approvals, test results, or sandbox outcomes may be acknowledged across borders—depending on the MoU.

### Why Is This Important?

FinTech innovations often have global applications, such as payments, blockchain solutions, digital identity, and cross-border transaction platforms.

The FinTech Bridges of IFSCA help:

- Reduce entry barriers
- Promote international cooperation
- Encourage global competitiveness
- Support safe and responsible innovation
- Strengthen India's presence in global FinTech ecosystems

### IFSCA FINTECH INCENTIVE SCHEME, 2022

#### Objective

1. The principal objective of the scheme is to promote the establishment of a world class FinTech Hub, comparable with those located in advanced International Financial Centers (IFCs) across jurisdictions, at International Financial Services Centre (IFSC) in India by providing financial support to FinTech activities

in the form of specific grant(s) as specified in the scheme, based on their eligibility and fulfilment of terms and conditions as may be specified.

2. This scheme shall be open to –
  - i) Domestic FinTechs seeking access to overseas markets
  - ii) Domestic FinTechs seeking listing on IFSCA recognised stock exchanges
  - iii) Foreign FinTechs seeking market access to IFSCs in India and work within the Authority's regulatory framework
  - iv) Foreign FinTechs seeking access to domestic market under Inter-Operable Regulatory Sandbox (IORS) framework
  - v) Domestic FinTechs extending business to the IFSCs either by way of authorisation or registration or through the regulatory sandbox

### Eligibility

1. An Applicant, satisfying any of the conditions mentioned below, shall be eligible to make an application for availing incentive under this Scheme:
  - i) Where the Applicant is from India:
    - a) An entity registered with DPIIT (Department for Promotion of Industry and Internal Trade) as a start-up entity relating to FinTech
    - b) A company or LLP incorporated in India
    - c) Branch of an Indian Company or LLP in IFSC
    - d) An Individual who is a resident citizen
    - e) An entity working directly or indirectly in the ecosystem regulated by RBI, SEBI, IRDAI or PFRDA
  - ii) Where the Applicant is from Outside India:
 

A Non-resident Individual or an entity from FATF compliant countries/jurisdictions provided that where the applicant is a body corporate incorporated outside India, the shareholding of non-resident Individuals in the applicant, shall, at all times, be more than 51%.
2. The Applicant undertakes to use technology in its core product or service, business model, distribution model or methodology to solve the problem being targeted.
3. An entity who has received any grant earlier from the Central or State Government schemes for the same project scope and activities shall not be eligible to apply under this Scheme. Also, the prize money from competitions and grand-challenges, founder monthly allowance, etc. shall not be considered as grant received earlier.
4. Applicant shall be required to submit separate proposals, in case there is more than one projects or innovative components each of which fits into the qualifying criteria and they shall be treated as separate projects and be evaluated and incentivised separately.

### Types of Incentives for eligible applicants subject to meeting the terms and conditions as may be specified

1. **FinTech Start-up grant-** This grant shall be utilized for developing a product or a service and related 'goto-market' initiatives for a start-up with a novel FinTech idea or solution. An eligible FE may receive up to Rs. 15 lacs under this scheme. The grant is expected to meet expenses towards product development, manpower costs, IT costs, etc. At this stage the focus is on converting the idea into an MVP.

2. **Proof of Concept (PoC) grant-** This grant shall be utilized for the purpose of conducting a PoC by an early or mature FE in domestic market or overseas. An amount of up to Rs. 50 lacs may be provided to an eligible FE for the purpose of conducting a PoC either in Indian markets or overseas and shall cover expenses towards manpower costs, IT costs, marketing, prototyping costs etc.
3. **Sand-box grant-** This grant shall be utilized by FEs to experiment with innovative products or services in a sandbox. An amount of upto Rs. 30 lacs may be provided to an eligible FE to cover the costs of developing a software, prototyping, manpower costs, consulting, tech related, IT related, admin costs, etc.
4. **Green FinTech Grant-** This grant shall be utilized towards developing solutions facilitating sustainable finance and sustainability linked finance, including 'Environmental, Social and Governance (ESG)' investments. An amount of up to Rs. 75 lacs of grant may be provided to an eligible FE focussed on sustainable finance.
5. **Accelerator Grant-** This grant shall be utilized for supporting accelerators at the IFSC. An amount of up to Rs. 10 lacs of grant may be provided to an eligible Accelerator applicant for capacity building, build capabilities around mentors, bringing investors, bringing more projects or PoC, tie ups, etc.
6. **Listing Support Grant -** The grant shall be utilized for supporting Domestic FEs aspiring to go for listing on stock exchanges recognised by the Authority. An amount of up to Rs. 15 lacs may be provided to an eligible Domestic FE for meeting expenses pertaining to road shows, international travel and listing requirements, etc.

## Execution of the Scheme

### 1. Process for sanction of grant

- i) The Applicant shall make the application in the form and manner, containing such particulars and accompanied by such documents and fees, as may be specified by the IFSCA.
- ii) On receipt of application, the IFSCA shall scrutinize the application and conduct due diligence with respect to eligibility, compliance with regulatory requirements including KYC-AML guidelines, disclosure norms, corporate governance norms and any other criteria as may be specified by the IFSCA.
- iii) The application shall be evaluated by an Evaluation Committee which shall submit its recommendation along with comments and observations, to the IFSCA.
- iv) The IFSCA on being satisfied with the recommendations of the Evaluation Committee, may issue a sanction letter containing specific terms & conditions of the grant, requiring the FE to enter into such agreements, with such terms and conditions, as may be specified by the IFSCA.
- v) The Internal Committee shall monitor pre and post disbursement conditions, compliance, end use of grant, progress, milestone achievements and shall perform any other function as specified by the IFSCA.
- vi) Disbursement shall be made subject to the satisfactory compliance of the terms and conditions mentioned in the sanction letter and achieving requisite milestones.

### 2. Conditions for Sanction of grant

- i) FE shall need proper authorisation and delegation of power in favour of its representative who shall be interacting with the IFSCA. The FE shall ensure compliance with regulatory requirements and be responsible for all the acts of omission or commission of its representative.

- ii) The FE or its project team or its implementation team shall operate from IFSC during the sandbox or accelerator period.
- iii) On successful completion of the Sandbox/accelerator/cohort/special program, the FE shall incorporate an entity at IFSC and seek registration/license/authorisation etc. under the Act, if applicable.
- iv) The FE shall undertake not to implement a successful solution using the grant under this scheme in any other jurisdiction for a period of 3 years.
- v) If the FE fails to meet any conditions of the sanction of a grant, the FE shall undertake to return the grant to the IFSCA along with simple interest at the rate of 8% per annum.

### 3. Disbursement of Grants

- i) Disbursement of the grant shall be linked to milestones set for the FE. The milestones shall be decided in consultation with the Internal Committee.
- ii) The disbursement shall be done on 'reimbursement' basis after submission of necessary documents, invoices, technical reports, etc. The Authority shall normally release the disbursement within 30 working days of submission of all the documents.
- iii) Advance under the scheme may be considered only under exceptional circumstances.

## ANCILLARY SERVICE PROVIDERS – FRAMEWORK AT GLANCE

Considering the importance of professional and other service providers for the development of financial products, financial services and financial institutions in the International Financial Services Centres (IFSC), a framework for enabling ancillary services has been provided by IFSCA.

Ancillary services shall mean those services which directly or indirectly aid, help, assist or strengthen or are attendant upon or connected with the services.

### Permissible ancillary services

The service providers may engage in any one or more of the following activities:

- i) Legal, Compliance and Secretarial
- ii) Auditing, Accounting, Bookkeeping and Taxation Services
- iii) Professional & Management Consulting Services
- iv) Administration, Assets Management Support Services and Trusteeship Services
- v) Any other services as approved by IFSCA from time to time

### Legal services, Compliance & Secretarial Services:

#### 1. Legal Services

- **Legal advisory services:** Legal advisory services shall include tendering legal opinions, drafting legal documents including pleadings, representing before IFSCA or entities regulated by it. It shall also include research and other work for the preparation of a non-judicial case (e.g. researching legal documentation, reviewing reports), and the execution of post-litigation work.
- **Legal documentation and certification services:** Preparation, drawing up and certification services of legal documents. These services comprise of related legal services including the

provision of advice and the execution of various tasks necessary for the drawing up or certification of documents including commercial contracts, business charters, etc.

- **Other legal advisory and information services:** Advisory services to clients related to their legal rights and obligations, and providing information on legal matters not classified elsewhere. This includes services such as escrow and settlement services.

## 2. Compliance & Secretarial Services

- a) Compliance Services means providing advice, consultancy, assistance or other related services, for fulfilling legal obligations/compliances under various laws for the time being in force
- b) Secretarial services in relation to any applicable law including laws of foreign jurisdictions.

## Accounting, Auditing, Bookkeeping & Taxation Services

### 1. Accounting and auditing services:

- **Financial auditing services:** Examination of the accounting records and other supporting evidence of an organization for the purpose of expressing an opinion as to whether financial statements of the organisation present its financial and operational position fairly on a given date, in accordance with generally accepted accounting principles.
- **Accounting review services:** Reviewing services of annual and interim financial statements and other accounting information. The scope of a review is less than that of an audit and therefore, the level of assurance provided is lower.
- **Compilation of financial statements services:** This includes compilation of financial statements from information provided by the client. No assurances regarding the accuracy of the resulting statements are provided. This service shall also include the preparation services of business tax returns, when provided as a bundle with the preparation of financial statements for a single fee.
- **Other accounting services:** Other accounting services such as attestations, valuations, preparation services of pro forma statements, etc.

### 2. Bookkeeping services, except tax returns:

Bookkeeping services consisting of classifying and recording business transactions in terms of money or some unit of measurement in the books of account.

### 3. Taxation Services:

- **Business Tax Planning and Consulting Services:** Advisory services to enterprises to do tax planning.
- **Business Tax Preparation and Review Services:** Services consisting of preparing or reviewing various returns and reports required for compliance with the income tax laws and regulations and representing before the tax authorities. This may also include tax planning and control.
- **Other Tax Related Services:** Services consisting of assisting entities in tax planning and preparing all documentation required by law.

## Professional and Management Consulting Services

### 1. Professional Services:

Professional Services provided by any of the service provider in relation to the following:

- a) Advisory Services to entities within IFSC in relation to a financial product or any other advisory services as required in connection with their business in IFSC or their business with an Indian company or an overseas company

- b) Advisory Services to companies/entities outside India in relation to their business or investment activity including in India or in IFSC
- c) Advisory Services to companies/entities in India in relation to their business or investment activities outside India or in IFSC.

## 2. Management Consulting Services:

- **General management consulting services:** Advisory, guidance and operational assistance services concerning business policy and strategy and the overall planning, structuring and control of an organization. More specifically, general management consulting assignments may deal with one or a combination of policy formulation, determination of the organizational structure (decision-making system) that will most effectively meet the objectives of the organization, legal organization, strategic business plans, defining a management information system, development of management reports and controls, business turnaround plans, management audits, development of profit improvement programs and other matters which are of particular interest to the higher management of an organization.
- **Financial management consulting services (except business tax):** Advisory, guidance and operational assistance services concerning decision areas which are financial in nature, such as working capital and liquidity management, determination of an appropriate capital structure, analysis of capital investment proposals, development of accounting systems and budgetary controls, business valuations prior to mergers and/or acquisitions, etc.
- **Marketing management consulting services:** Advisory, guidance and operational assistance services concerning the marketing strategy and marketing operation of an organization. Marketing consulting assignments may deal with one or a combination of analysis and formulation of a marketing strategy, formulation of customer service and pricing policies, sales management and staff training, organization of distribution channels (sell to wholesalers or directly to retailers, direct mail, franchise, etc.), organization of the distribution process, package design and other matters related to the marketing strategy and operations of an organization.

## Administration, Assets Management Support Services and Trusteeship Services:

### 1. Administration Services:

Offering support services in relation to safeguarding and administering assets consisting of financial products, belonging to another person, or agreeing to do so.

### 2. Assets Management Support Services:

Offering support services to Asset Management Companies. Providing services for maintenance of various physical assets belonging to another person / used by other person.

### 3. Trusteeship Services:

Trusteeship services in relation to debenture, bonds, management of private trust, external commercial borrowing, facility and escrow agent, safe keeping and other related financial services.

## Eligibility Conditions for Ancillary Services Provider

The following entities are eligible to act as a service provider so as to provide permissible ancillary services pertaining to activities in relation to financial products, financial services and financial institutions in the IFSC:

- i) Any existing or newly incorporated entity set up in the IFSC or
- ii) Any Indian or foreign incorporated entity by establishing a branch or a subsidiary

### Service Recipients

Service providers can provide permissible services to any one or more of the following:

- i) Entity(ies) set up in the IFSC
- ii) Financial services entities from foreign jurisdictions for various activities in the IFSCs in India or other related activities overseas
- iii) Indian entities who propose to open, set up or carry out operations in IFSCs or foreign jurisdiction, provided consideration is received in freely convertible foreign currency

### Application Process

An applicant desirous to act as a service provider and eligible under this framework to provide permissible ancillary services shall apply to IFSCA in the application form.

### Currency for conduct of business

Service providers shall transact in freely convertible foreign currency only. However, the service providers may defray their administrative expenses in INR by maintaining an INR account.

### Maintenance of Books of Accounts, Records and Documents

Every service provider shall maintain its books of accounts, records, and documents in such foreign currency, as may be declared at the time of making an application.

### Submissions of Report / Information

- i) Every service provider shall furnish the following information to the IFSCA:
  - a) Annual financial statements for the entity registered.
  - b) Confirmation of compliance with the regulations, circulars, guidelines and/or directions as issued by the International Financial Services Centres Authority from time to time.
  - c) Details of material regulatory action, if any
- ii) Every service provider authorized by the IFSCA shall submit the financial information to the IFSCA in US Dollar, unless otherwise specified by the IFSCA.
- iii) The IFSCA from time to time may call for any information, documents, or records as it may deem necessary from the service provider.

### Compliance with other requirements

The service providers shall comply with all the applicable and relevant regulatory obligations, standards, policies and guidelines as issued by any other competent authority(ies).

### Action in case of default

If a service provider fails to comply with any of the requirement under this framework and/or other directions and guidelines issued from time to time, the IFSCA may take appropriate action as it deems fit, after giving a reasonable opportunity to make its written submissions.

## PAYMENT SERVICES PROVIDERS – PROCESS FLOW FOR AUTHORISATION

The International Financial Services Centres Authority (IFSCA) regulates all Payment Service Providers (PSPs) operating in or from an International Financial Services Centre (IFSC). Any entity wishing to provide payment services such as e-money issuance, merchant acquisition, escrow services, or cross-border transfer must first obtain a Certificate of Authorisation from IFSCA.

The authorisation process is systematic and ensures that only financially sound, well-governed, and fit-and-proper entities can operate in the IFSC ecosystem.

### 1. Requirement for Authorisation

Any person/entity that wants to provide Payment Services in or from IFSC must hold a valid Certificate of Authorisation issued under the IFSCA (Payment Services) Regulations, 2024.

### 2. Submission of Application

- The applicant must submit an application to IFSCA in the prescribed form and manner.
- The application must be accompanied by a non-refundable application fee.
- Once authorised, a PSP can offer one or more payment services such as account issuance service (including e-money account issuance service), e-money issuance service, escrow service, cross border money transfer service and merchant acquisition service.
- An IFSC Banking Company (IBC) or an IFSC Banking Unit (IBU), a person licensed to carry on the business of issuing credit cards in IFSC, any other person or class of persons, as may be specified by the IFSCA, are exempted.

### 3. Legal Form Requirement

The applicant must be incorporated as a Company with its registered office in IFSC. Foreign entities or domestic companies must set up an IFSC-incorporated company for this purpose.

### 4. Meeting Minimum Net Worth Requirements

The regular PSP must have a minimum net-worth of USD 100,000 (or equivalent in a Specified Foreign Currency) on the date of commencement of operations and a minimum net-worth of USD 200,000 (or equivalent in a Specified Foreign Currency) by the end of the third financial year (i.e., March 31) from the year of commencement of operations.

A significant PSP must have a minimum net-worth of USD 250,000 (or equivalent in a Specified Foreign Currency) within ninety days of the date of being so designated by the IFSCA and a minimum net-worth of USD 500,000 (or equivalent in a Specified Foreign Currency) by the end of the third financial year (i.e., March 31) from the year of designation as a significant PSP.

### 5. Fit and Proper Requirements

The applicant or a PSP must ensure that all its Directors, Key Managerial Personnel and Persons exercising control over it must meet the Fit and Proper Criteria.

### 6. Detailed Evaluation of the Application

During evaluation, IFSCA examines whether:

- Relevant persons of the Applicant possess adequate experience, including an existing authorisation to provide similar services in any other jurisdiction, in the activities that it seeks to provide as a Payment Service Provider.

- the applicant possesses the necessary infrastructure like adequate office space, equipment, communication facilities and manpower to effectively discharge its activities
- Net worth and financial soundness requirements are fulfilled
- the Applicant and Relevant Persons satisfy the fit and proper requirements
- the Applicant or its Group Entities have in the past been refused authorisation by the IFSCA and if so, the ground for such refusal
- the Applicant or the Relevant Persons are not subject to any proceeding for breach of law by the IFSCA
- the interests of Payment Services Users, including the terms and conditions governing their relationship with a Payment Service Provider, shall be adequately protected if such authorisation is granted

#### **7. Issuance of In-Principle Approval**

After considering an application for authorisation, if the IFSCA is satisfied that the said application, prima facie, satisfies the conditions for granting authorisation, the IFSCA may issue an “in-principle approval” letter to the Applicant and shall require the Applicant to satisfy such conditions as may be specified by the IFSCA in the “in-principle approval” letter before grant of authorisation.

#### **8. Grant of Certificate of Authorisation**

The IFSCA may, on being satisfied that the Applicant has complied with the conditions laid down in these regulations and is eligible to act as a Payment Service Provider, grant a Certificate of Authorisation to the Applicant subject to such conditions as the IFSCA may deem fit.

Key points:

- Authorisation remains valid unless revoked or surrendered.
- IFSCA aims to process the application within six months from the date of filing.
- IFSCA may require the PSP to maintain a security deposit.
- The PSP must identify an IFSC Banking Unit/Company as its Nodal Bank.
- Any material change in earlier submitted information must be reported to IFSCA.
- IFSCA may modify authorisation conditions even after approval.

#### **9. Refusal of Authorisation**

IFSCA may refuse authorisation if deficiencies exist.

**Procedure:**

1. IFSCA notifies the applicant of deficiencies.
2. Applicant gets 30 days to rectify these.
3. If not rectified IFSCA refuses authorisation after giving a reasonable opportunity of being heard.
4. A fresh application can be filed after six months from the date of refusal or withdrawal.

### **Key Business Opportunities**

#### **1. Cross-Border Money Transfer Services**

PSPs can offer inbound and outbound cross-border remittances for individuals and businesses.

This is one of the strongest opportunities due to:

- Large global diaspora
- High cross-border trade flows
- Demand for faster, cheaper, more transparent international transfers

PSPs can build models similar to international money transfer operators (IMTOs), digital remittance platforms, or blockchain-based transfer networks.

## 2. Merchant Acquisition & Payment Facilitation

Businesses can provide services enabling merchants to accept payments using:

- Cards
- e-money wallets
- UPI-like rails (when permitted)
- QR-based systems
- Online/digital payment gateways

This opens opportunities for:

- Global merchant acquirers
- Payment gateway operators
- Cross-border e-commerce payment processors
- Aggregator and sub-aggregator models

## 3. Issuance of E-Money (e-wallets)

PSPs can issue e-money wallets backed by freely convertible foreign currency.

This supports:

- Global prepaid wallets
- Multi-currency travel wallets
- Corporate spending wallets
- Digital stored-value instruments

E-money issuance can transform IFSC into a hub for international digital wallet innovation.

## 4. Operation of Payment Accounts (Non-Bank Payment Accounts)

PSPs can offer payment accounts for holding funds and executing payment transactions.

Opportunities include:

- Business accounts for global start-ups
- Forex-linked payment accounts
- Multi-currency settlement accounts
- Accounts for cross-border digital platforms

This elevates IFSC as a base for global digital financial operations.

## 5. Escrow Services (Digital & Non-bank Escrow Operations)

PSPs can provide escrow account services, enabling secure payments between parties.

Examples:

- E-commerce escrow
- Marketplace settlement accounts
- Trade transaction escrows
- Investment/real estate escrows
- Platform-based escrow for fintechs

This is a high-value institutional business model.

## 6. Payment Initiation Services

This allows entities to initiate payment instructions on behalf of customers without holding their funds.

Business opportunities:

- Account-to-account payment apps
- Payment initiation API providers
- FinTechs offering global payment routing

This aligns with open banking and API-led payment infrastructure.

## 7. Account Information Services

AIS providers can aggregate customer financial data (with consent) and provide insights to:

- Banks
- Investment managers
- Insurers
- FinTech platforms

This opens opportunities for:

- Cross-border credit scoring
- Personal finance management tools
- Data aggregation platforms
- Embedded finance solutions

## 8. Payment Switching / Routing Infrastructure

Entities can operate payment switching systems, enabling:

- Transaction routing
- Authorisation
- Clearing and processing

This is a major opportunity for building:

- Cross-border card networks

- Payment platforms
- International payment rails
- FinTech switching services

### 9. Payment Clearing & Settlement Services

Non-bank entities can operate systems for clearing and settling payment instructions.

This can support:

- International settlement hubs
- Blockchain-based clearing
- Multilateral netting platforms
- Trade and remittance clearing
- FX settlement systems

### 10. FX Payment Services

PSPs may provide payment services involving foreign exchange, including:

- FX conversions linked to payment transactions
- Multi-currency wallets
- Cross-border payment FX rails

This enables innovative multi-currency payment experiences.

### 11. Technology & Infrastructure-Based Payment Support

The regulations indirectly encourage tech-led models such as:

- Blockchain / DLT-based payment rails
- Tokenised value transfers
- AI-based payment fraud analytics
- Cloud-based payment processing
- RegTech for PSP compliance

These enable global FinTech firms to operate from IFSC.

## GLOBAL IN HOUSE CENTRE (GIC) – GIC IN IFSC

“**Global-In-House Centre (GIC)**” means a service provided by a GIC Unit for delivering services relating to financial products and financial services to a Financial Institution Group;

A Global In-House Centre (GIC) is a business unit established within an International Financial Services Centre (IFSC), such as GIFT City, to provide support services to non-resident entities belonging to the same financial services group. These services support or enable the delivery of financial services or activities relating to financial products (such as banking, insurance, investment, or capital markets).

The GIC can serve group entities like:

- Banks
- Non-banking financial companies (NBFCs)

- Insurance/reinsurance companies
- Funds
- Stock exchanges, depositories, custodians
- Financial intermediaries, brokers, actuaries, etc.

GICs are regulated by the International Financial Services Centres Authority (IFSCA) under the IFSCA Act, 2019. The IFSCA has issued a dedicated regulatory framework to enable, supervise, and promote GICs in IFSC.

**“Global-In-House Centre Unit (GIC Unit)”** means a unit set up in International Financial Services Centre by an entity of a Financial Institution Group, either directly or through a third party service provider, and registered under these regulations for undertaking the activities of Global In-House Centres under any of the operating models, viz Captive Centre, Build-Operate-Transfer, Joint Venture, Hybrid or any other model as may be permitted by the IFSCA.

### Eligibility

Any entity that:

- Belongs to a financial services group regulated in a jurisdiction compliant with the Financial Action Task Force (FATF)
- Intends to offer support services related to financial services in respect of financial product.
- Plans to serve only non-resident entities
- Complies with the SEZ rules and obtains required approvals

Eligibility ensures that only serious, well-regulated groups operate within IFSC, maintaining a high standard of governance.

### Salient Features of GICs in IFSC

The following are the important characteristics and regulatory features of GICs:

1. A Global In-House Centre provides services to non-resident entities only.
2. Relocation of employees from an existing entity in the domestic area in India shall be permissible with respect to supervisory personnel only, which may be allowed with prior approval of the IFSCA up to a maximum of twenty percent of the strength in such category.
3. A Global In-House Centre deals in freely convertible foreign currency only. It may defray its administrative expenses in INR by maintaining an INR account as may be specified by the IFSCA.
4. A Global In-House Centre may conduct its business in any mode permitted by the IFSCA, including branch mode.

### Key Benefits of Setting Up a GIC in IFSC

#### 1. Access to International Markets and Clients

Since a GIC in IFSC can only serve non-resident group entities, it becomes a global delivery hub for multinational financial groups. This allows firms to centralize their international operations in a competitive jurisdiction while being geographically located in India.

#### 2. Advantage of Operating in Foreign Currency

GICs deal exclusively in freely convertible foreign currency, offering the benefit of smoother global

transactions, reduced currency conversion risk, and easier integration with international financial systems.

### 3. Flexible Operational Structures

IFSCA allows GICs to operate in various modes including branch mode giving financial groups complete flexibility to structure their global support operations according to business needs. This enhances efficiency and reduces administrative barriers.

### 4. Ability to Relocate Key Personnel

The regulations permit relocation of up to 20% supervisory staff from the domestic unit to the IFSC GIC with prior approval. This enables continuity of leadership, smooth transition, and knowledge transfer when establishing or scaling the GIC.

### 5. Regulatory Clarity and Supportive Framework

IFSCA provides a well-defined regulatory framework, single-window approvals, and a globally benchmarked compliance environment. This supports efficient operations and enhances the credibility of GICs set up in the IFSC.

### 6. Strategic Presence in a Global Financial Hub

Operating from GIFT IFSC places the GIC within a rapidly growing financial ecosystem with world-class infrastructure, global market access, and supportive government policies. This strengthens the group's global operating footprint.

### 7. Cost Efficiency and Business Enablers

The IFSC framework offers several cost advantages such as:

- Lower operating costs compared to other international hubs
- Reduced compliance burden (due to a single unified regulator)
- Operational savings through centralized processes

These benefits make IFSC an attractive location for global capability centres.

### 8. Enhanced Data, Control, and Standardization

Centralizing support services in a GIC within IFSC helps financial groups achieve:

- Better process standardization
- Improved oversight and governance
- Stronger data management and analytical capabilities

This leads to better global coordination across the financial services group.

#### LESSON ROUNDUP

- IFSC provides a dedicated and globally aligned regulatory ecosystem for FinTech, service providers, and financial innovation under IFSCA.
- FinTech entities must be set up in IFSC through approved legal structures and meet eligibility, compliance, and fit-and-proper requirements.

- The FE Framework recognises both FinTech and TechFin entities and allows participation by Indian and foreign applicants from FATF-compliant jurisdictions.
- A wide range of technology-driven financial activities across banking, capital markets, insurance, payments, funds, and sustainable finance are permitted.
- IFSCA enables innovation through multiple sandbox mechanisms including Regulatory Sandbox, Innovation Sandbox, and Inter-operable Regulatory Sandbox.
- Sandbox participation allows controlled testing of innovative financial solutions with defined safeguards, timelines, and exit conditions.
- Successful sandbox participants may scale operations through full authorisation under applicable IFSCA regulations.
- The IFSCA FinTech Incentive Scheme, 2022 supports FinTech development through targeted grants for innovation, sandbox testing, sustainable finance, and market expansion.
- Ancillary Service Providers play a supporting role in IFSC by offering legal, compliance, accounting, consulting, administration, and trusteeship services.
- Payment Service Providers in IFSC operate under a separate authorisation framework with defined net worth, governance, and consumer protection requirements.
- IFSC offers significant business opportunities in cross-border payments, e-money, escrow services, payment infrastructure, and FX-linked services.
- Global In-House Centres (GICs) in IFSC enable financial groups to centralise global support services for non-resident entities in a foreign-currency environment.

## GLOSSARY

**Ancillary Service Providers:** Entities authorised by IFSCA to provide support services such as legal, compliance, accounting, consulting, and trusteeship services in IFSC.

**FinTech:** Technology-driven innovation that results in new or improved financial products, services, processes, or business models regulated by IFSCA.

**FinTech Innovation Sandbox (FIS):** A controlled testing environment allowing FinTech firms to test innovations using market data without live customers or real market transactions.

**FinTech Regulatory Sandbox (FRS):** A framework that allows live testing of innovative FinTech solutions on real users under regulatory supervision and limited relaxations.

**Freely Convertible Foreign Currency:** A foreign currency that can be freely exchanged on international markets and is generally used for conducting business in IFSC.

**Global In-House Centre (GIC):** A unit set up in IFSC to provide support services to non-resident group entities of a financial services group.

**IFSCA FinTech Incentive Scheme, 2022:** A scheme providing financial grants to eligible FinTech entities to promote innovation and development of FinTech ecosystem in IFSC.

**Inter-operable Regulatory Sandbox (IoRS):** A sandbox framework for FinTech innovations that fall under the jurisdiction of more than one financial sector regulator.

**Limited Use Authorisation:** Temporary permission granted by IFSCA to a FinTech entity to test its innovation within a sandbox environment.

**Payment Service Provider (PSP):** An entity authorised by IFSCA to provide payment services such as e-money issuance, cross-border transfers, escrow services, and merchant acquisition.

**Permissible Activities:** Approved financial or FinTech activities that an entity is allowed to undertake under IFSCA regulations.

**Regulatory Relaxation:** Temporary exemption from certain regulatory requirements granted by IFSCA during sandbox testing, excluding core safeguards like KYC and AML.

**Sandbox Exit Strategy:** A planned approach submitted by a FinTech entity outlining how it will discontinue testing or transition to full-scale operations after sandbox completion.

**TechFin:** Technology-focused entities that provide advanced or emerging technological solutions supporting financial services without directly offering financial products.

**Overseas Regulatory Referral Mechanism / FinTech Bridge:** A framework facilitating cooperation between IFSCA and foreign regulators to support cross-border FinTech innovation.

### TEST YOURSELF

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

#### A. Very Short Answer Questions

1. What is meant by a FinTech Entity under the IFSCA framework?
2. Who regulates FinTech activities in the IFSC?
3. Name any one legal structure through which a FinTech entity can be set up in IFSC.
4. What currency is generally used for conducting business in IFSC?
5. What is meant by TechFin?
6. State one objective of the IFSCA FinTech Incentive Scheme, 2022.
7. What is a FinTech Regulatory Sandbox (FRS)?
8. Who can be the service recipients of Ancillary Service Providers in IFSC?
9. What does GIC stand for?

#### B. Short Answer Questions

1. State the basic eligibility requirements for setting up a FinTech entity in GIFT IFSC.
2. Differentiate between FinTech and TechFin entities.
3. List any four permissible activities for FinTech entities under the FE Framework.
4. What is the purpose of the FinTech Innovation Sandbox (FIS)?
5. What is meant by Limited Use Authorisation in the sandbox framework?
6. Mention any three types of grants available under the IFSCA FinTech Incentive Scheme, 2022.
7. What are Ancillary Services in IFSC? Give two examples.
8. State any two salient features of a Global In-House Centre (GIC) in IFSC.



# Capital Market Intermediaries

## Lesson 10

### KEY CONCEPTS

- Capital Market Intermediaries ■ Business Activities ■ Capital Adequacy ■ Code of Conduct ■ Internal Controls
- Record-Keeping ■ Grievance Redressal ■ Dispute Resolution ■ Investor Protection

### Learning Objectives

#### To understand:

- the Capital Market Intermediaries (CMIs) and their importance in IFSC capital markets.
- the identification of key business activities carried out by CMIs under the IFSCA (CMI) Regulations, 2025.
- the different categories of intermediaries such as broker-dealers, custodians, investment bankers, advisers, distributors, CRAs, and research entities.
- the eligibility criteria and minimum net-worth requirements for each intermediary category.
- the major obligations, compliance requirements, and conduct standards applicable to CMIs.
- the “fit and proper” criteria for key managerial personnel and controlling shareholders of CMIs.
- the qualifications and roles of the Principal Officer, Compliance Officer, and other key human resources.
- the general obligations including record-keeping, risk management, cybersecurity, grievance redressal, and business continuity planning.
- the IFSCA (Capital Market Intermediaries) Regulations, 2025 and their significance for IFSC’s global capital-market ecosystem.

### Lesson Outline

- Overview of IFSCA (Capital Market Intermediaries) Regulations, 2025
- Key Business Activities
- Capital Market Intermediaries
- Intermediary Categories
- Eligibility & Net Worth Requirements
- Obligations
- Fit and proper requirements
- Appointment of Principal Officer, Compliance Officer and other human resources
- General obligations and responsibilities
- Specific Obligations and Responsibilities
- Lesson Round-up
- Glossary
- Test Yourself
- List of further readings

## OVERVIEW OF IFSCA (CAPITAL MARKET INTERMEDIARIES) REGULATIONS, 2025

The IFSCA (Capital Market Intermediaries) Regulations, 2025 represent a modernized, unified legal- regulatory framework designed to govern the multitude of entities that act as intermediaries in the capital-market ecosystem within India's International Financial Services Centres (IFSC). At its heart, the 2025 Regulations aim to ensure that intermediaries such as broker-dealers, custodians, clearing members, credit-rating agencies, investment advisers, distributors and, newly added, "research entities" operate under robust standards of governance, integrity, and professional competence.

By requiring formal registration with the International Financial Services Centres Authority (IFSCA) and prescribing minimum eligibility criteria for officers (like a "Principal Officer" and "Compliance Officer"), the Regulations raise the bar for operational accountability and oversight. Each intermediary must also meet minimum net-worth or capital adequacy norms relevant to their activity — this ensures that entities are financially sound and capable of handling the responsibilities entrusted to them.

Beyond entry-level requirements, the 2025 Regulations lay down a comprehensive code of conduct, obligations around record-keeping, conflict-of-interest management, investor grievance redressal, business continuity planning, risk management and internal controls, cyber-security frameworks, and regular compliance audits. Such requirements help promote transparency, protect investor interests, and maintain market integrity — especially important in a dynamic, cross-border capital market environment like IFSC.

Importantly, it formally adds "Research Entity" as a class of intermediary and subsumes earlier-circular-based categories such as "Distributors" and "ESG Ratings & Data Products Providers" (ERDPP) into the regulatory framework, while removing the "Account Aggregator" category. This reflects IFSCA's evolving view of the capital-market ecosystem: recognizing that modern markets need not only traditional brokers and custodians, but also analytical, advisory, distribution, and data-services players — all operating under regulatory oversight.

To sum up, the IFSCA (CMI) Regulations, 2025 mark a significant evolution toward a more integrated, transparent, and resilient regulatory architecture in IFSC's capital markets. For students and market participants alike, understanding these Regulations is key to appreciating how modern capital-market ecosystems are structured balancing ease of doing business with investor protection, fostering innovation while safeguarding trust, and ensuring that intermediaries are not just "market enablers" but responsible custodians of market integrity.

## KEY BUSINESS ACTIVITIES

The IFSCA (Capital Market Intermediaries) Regulations, 2025 identify a wide spectrum of business activities that form the backbone of the IFSC capital-market ecosystem. These activities enable smooth trading, settlement, advisory, data services, analysis, and market support in a globally connected financial environment. The key business activities performed by Capital Market Intermediaries include:

### 1. Trading Facilitation & Brokerage Services

Intermediaries such as broker-dealers enable clients (domestic and international) to buy and sell securities on IFSC-based exchanges. They provide trading platforms, execute orders, manage client positions, and ensure adherence to trading and regulatory norms.

### 2. Clearing & Settlement of Trades

Clearing Members ensure that every trade executed in the IFSC is accurately cleared and settled. They manage risk, margins, and guarantee mechanisms to ensure smooth completion of transactions and reduce systemic risks in the market.

**3. Custody & Asset Safekeeping**

Custodians are responsible for the safekeeping of client securities, handling corporate actions, reconciling positions, and ensuring secure settlement and asset servicing for institutional and global investors.

**4. Depository and Securities Servicing**

Depository Participants (DPs) maintain dematerialised securities accounts, enable transfer and settlement of securities, and act as the link between investors and the IFSC's depository system.

**5. Capital Raising & Investment Banking**

Investment Bankers advise companies and issuers on raising funds—through equity, debt, or hybrid instruments—in international markets. They manage IPOs, bond issuances, private placements, mergers & acquisitions, restructurings, and underwriting commitments.

**6. Investment Advisory & Portfolio Planning**

Investment Advisers provide personalised advisory services, including security selection, portfolio construction, asset allocation, wealth management, and financial planning for clients in IFSC and globally.

**7. Distribution of Capital-Market Products**

Distributors act as intermediaries between issuers or product manufacturers and investors, distributing financial products such as funds, bonds, structured products, and other securities in exchange for fees or commissions.

**8. Credit Assessment & Rating Services**

Credit Rating Agencies (CRAs) evaluate and rate financial instruments, issuers, and securities, helping investors assess creditworthiness, risks, and repayment capacity of borrowers or issuers in the IFSC environment.

**9. Debenture Trusteeship**

Debenture Trustees safeguard the interests of debenture-holders, monitor issuer compliance, maintain security cover, and represent investor interests during default or restructuring scenarios.

**10. ESG Ratings & Data Services**

ESG Ratings and Data Products Providers (ERDPPs) deliver ESG-related ratings, assessments, datasets, and analytical tools that help investors evaluate environmental, social, and governance risks and performance of IFSC-listed companies.

**11. Research and Analytical Services**

Research Entities—newly introduced under the 2025 Regulations—prepare research reports, financial analysis, sector studies, valuation models, and investment recommendations to support informed decision-making in the capital markets.

**CAPITAL MARKET INTERMEDIARIES**

Capital market intermediaries in IFSCA are entities registered and regulated by the International Financial Services Centres Authority (IFSCA) to facilitate, support, and enable activities in the international capital markets operating within the IFSC (such as GIFT City).

They act as the bridge between issuers and investors, ensuring smooth functioning of trading, clearing, settlement, custodial services, advisory, and other related activities in the IFSC ecosystem.

In simple terms, they are the service providers that make global capital market transactions possible inside an IFSC.

### Intermediary Categories

Under the IFSCA (Capital Market Intermediaries) Regulations, 2025, intermediaries include a wide range of entities such as:

1. Broker-Dealer
2. Clearing Member
3. Credit Rating Agency
4. Custodian
5. Debenture Trustee
6. Depository Participant
7. Distributor
8. ESG Ratings and Data Products Provider
9. Investment Adviser
10. Investment Banker
11. Research Entity

The role of various intermediaries under IFSCA (CMI) Regulations, 2025 is placed as under :

Intermediary	Role / Business Activities
Broker-Dealers	<ul style="list-style-type: none"> <li>● Facilitate buying and selling of securities for clients.</li> <li>● Provide trading access to IFSC exchanges (i.e., act as intermediaries for clients to trade in securities within IFSC).</li> </ul>
Clearing Member	<ul style="list-style-type: none"> <li>● Handle clearing and settlement of trades.</li> <li>● Manage risk, margins, guarantee mechanisms in trade settlement.</li> </ul>
Credit Rating Agency (CRA)	<ul style="list-style-type: none"> <li>● Rate securities, financial products, issuers (corporate, sovereign) in the IFSC context.</li> </ul>
Custodian	<ul style="list-style-type: none"> <li>● Safeguard client securities.</li> <li>● Manage settlements, corporate actions, reporting.</li> </ul>
Debenture Trustee	<ul style="list-style-type: none"> <li>● Maintain dematerialized securities accounts for clients.</li> <li>● Support settlement of trades, serves as the link between the depository (like a central securities depository) and clients.</li> </ul>
Distributor	<ul style="list-style-type: none"> <li>● Distribute / sell capital market products (e.g., securities, funds) to investors.</li> <li>● Act as intermediary between issuers or service providers and clients, for a commission or fee.</li> </ul>

Intermediary	Role / Business Activities
ESG Ratings & Data Products Provider	<ul style="list-style-type: none"> <li>● Provide ESG-related ratings (e.g., ESG scoring, thematic ESG ratings) and ESG data products.</li> <li>● Data services that help investors assess environmental, social, and governance risks &amp; performance in IFSC securities.</li> </ul>
Investment Adviser	<ul style="list-style-type: none"> <li>● Provide advice on investments (securities, financial products).</li> <li>● Perform research, asset allocation, financial planning for clients.</li> </ul>
Investment Banker	<ul style="list-style-type: none"> <li>● Advise and manage capital raising (equity, debt issuances) for issuers.</li> <li>● Underwrite or arrange issues, IPOs / debt offerings, mergers &amp; acquisitions advisory at IFSC.</li> </ul>
Research Entity	<ul style="list-style-type: none"> <li>● Publish or provide research reports on securities / financial products (e.g., “buy / hold / sell” recommendations, price targets).</li> <li>● Provide analysis, valuation, sector / macro research.</li> </ul>

These intermediaries operate in line with international best practices and are regulated for transparency, investor protection, and global competitiveness.

## Eligibility & Net Worth

### 1. Definition of Net Worth

Under the CMI Regulations, 2025 “net worth” is defined as:

- 1) The aggregate value of the paid-up share capital (or capital contribution) and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.
- 2) However, for certain intermediaries (broker-dealers, clearing members, investment bankers), the ‘net worth’ shall mean the aggregate value of its liquid assets.

Liquid assets include cash & bank balances, fixed deposits, government securities, and other instruments as may be specified by IFSCA.

### 2. Net Worth Requirements by Category

According to Schedule I of the CMI Regulations 2025, the minimum net worth required for different categories of CMIs is:

Category	Net worth
Broker dealer (Trading member)	As specified by recognised stock exchange
Clearing Member	As specified by recognised clearing corporation
Credit Rating Agency	USD 200,000

Category	Net worth
Custodian	As specified by the Authority from time to time
Debenture Trustee	USD 1.5 million
Depository Participant	As specified by depository
Distributor	USD 50,000
ESG Ratings and Data Products Provider	USD 25,000
Investment Adviser	USD 25,000
Investment Banker	USD 100,000
Research Entity	USD 25,000

### 3. Minimum Net Worth and Structural Requirements for Capital Market Intermediaries in the IFSC

- The Regulations allow a CMI to be set up in the IFSC in the form of a company or an LLP or a body corporate.
- When a capital market intermediary is set up in the form of a branch, the minimum net worth requirements specified in these regulations may be maintained at the parent level in the home jurisdiction where the parent entity is incorporated. The minimum net worth maintained at the parent level shall be earmarked for its branch in IFSC.
- The minimum net worth requirements must be separate and in addition to the minimum net worth requirements applicable for other activities outside IFSC or within IFSC under any other regulations or framework.
- When an entity intends to operate as a capital market intermediary in multiple categories covered under these regulations, it shall maintain the highest of the applicable minimum net worth requirements, unless otherwise specified by the IFSCA.

## Obligations

### 1. Registration, net-worth & fit-and-proper requirements

- 1) Every entity must obtain a valid registration from IFSCA to act as a CMI (e.g. broker-dealer, custodian, investment adviser, etc.).
- 2) The entity must meet the prescribed minimum net worth (or liquid net worth, for certain categories).
- 3) The CMI must also satisfy “fit and proper” criteria for key persons (directors, major shareholders, etc.) and appoint key internal officers.

### 2. Appointment of Key Officers — Principal Officer & Compliance Officer

- Each registered CMI must designate a Principal Officer (PO) and a Compliance Officer (CO), both based out of IFSC.
- The PO and CO must meet the minimum qualification and experience requirements laid down under the Regulations.

- If an entity has multiple registrations (i.e. does more than one intermediary activity), normally a PO must be designated for each activity. However, in certain combinations (e.g. broker-dealer + clearing member + depository participant; or credit-rating agency + ESG/data provider), a common PO may be allowed subject to review depending on scale and complexity.
- The same entity may have a common Compliance Officer across multiple registrations (at least at present), subject to review.

### 3. Conduct of Business, Code of Conduct & General Obligations

All CMIs must comply with a set of general and conduct-related obligations. This includes but isn't limited to the following:

- Maintenance of books of account, records and other documents.
- Furnish information to the Authority about any material change in the information or particulars previously furnished along with the application, any change in principal officer, compliance officer or key managerial personnel and reports, returns, statements and particulars, interval and form as may be specified by the Authority.
- Have a grievance-redressal mechanism / dispute-resolution mechanism for clients / investors.
- Maintain business continuity plans, cybersecurity, and IT-systems safeguards (or as per IFSCA's specifications) as part of general obligation towards operational resilience.
- Have and implement proper risk management framework and internal controls.
- Intimate the Authority, and the market infrastructure institution of which it is a member and seek prior approval of the Authority, of any direct or indirect change in control of the intermediary.
- Pay the fees pertaining to annual fees, turnover based fees and any other fees specified by the Authority.
- Furnish Annual Compliance Audit report to the Authority by the 30th of September of each year.

#### Common Code for All CMIs

All Capital Market Intermediaries must:

1. Protect investor interest and offer useful advice.
2. Maintain integrity, fairness, professionalism & due diligence
3. Avoid:
  - Fraudulent, manipulative or deceptive activities
  - False market creation or rumor-based market influence
  - Unfair competition & discrimination among clients
4. Ensure:
  - Confidentiality of client information
  - Effective grievance handling
  - Transparency on conflicts of interest
  - Prompt disclosure to clients & regulator about action/penalties/financial impact

- Fit & proper officials & strong internal controls
- No insider trading or misuse of privileged information
- Reliable operational infrastructure and risk safeguards
- Freedom & authority to the compliance officer
- Senior management accountability for compliance

#### 4. Additional / Category-specific Obligations

Depending on the type of intermediary (broker-dealer, clearing member, custodian, credit rating agency, distributor, ESG-data provider, etc.), there are additional obligations tailored to the nature of services rendered.

##### Examples:

- For intermediaries offering cross-border/global access services (“Global Access Providers” / GAPs), compliance with additional norms, disclosures, client eligibility, transaction-level restrictions, and record-keeping for cross-border transactions.
- For entities holding or rating securities (e.g. custodian, credit-rating agency, ESG-data provider), specific obligations relating to transparency, data integrity, disclosure, independence/conflict-of-interest management, etc.

#### 5. Purpose / Underlying Principles behind these Obligations

The obligations under CMI Regulations 2025 are designed to ensure that intermediaries operating in the IFSC (such as GIFT City IFSC) do so in a manner that:

- Protects investor interests, by ensuring transparency, segregation of client funds/assets, fair conduct and proper disclosures.
- Maintains integrity and stability of the capital-market infrastructure, via proper net worth, risk management, compliance, and internal controls.
- Aligns with global standards and best practices for financial-market intermediaries (governance, audit, compliance, accountability, etc.).

### Fit and Proper requirements [Regulation 8]

A capital market intermediary must ensure that the entity and its principal officer, directors/ designated partners, key managerial personnel and controlling shareholders are fit and proper persons at all times.

A person shall be deemed to be a fit and proper person if –

- a) such person has a record of fairness and integrity, including but not limited to-
  - financial integrity
  - good reputation and character
  - honesty
- b) such person has not incurred any of the following disqualifications –
  - i. the person has been convicted by a court of law for any offence involving moral turpitude or any economic offence or any offence against securities laws
  - ii. charge sheet has been filed against such person by any Indian enforcement agency in matters concerning economic offences and is pending

- iii. charges have been framed by a court of law or an equivalent institution in matters concerning economic offences
  - iv. a recovery proceeding has been initiated against the person by a financial regulatory authority and is pending
  - v. an order has been passed against the person for malfeasance
  - vi. the person has been declared insolvent and not discharged
  - vii. an order restraining, prohibiting or debarring the person from accessing or dealing in financial product(s) or financial service(s), has been passed by any regulatory authority, in any matter concerning securities laws or financial services market and such order is in force
  - viii. any other order against the person, which has a material bearing on the securities market, has been passed by the IFSCA or any other regulatory authority, and a period of three years from the date of the order has not elapsed. For this provision, the decision to determine materiality shall be that of the IFSCA
  - ix. the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force
  - x. the person is financially not sound or has been categorized as a wilful defaulter
  - xi. the person has been declared a fugitive economic offender
  - xii. any other disqualification as may be specified by the IFSCA
- c) Where any person has been declared as not 'fit and proper person' by an order of a regulatory authority, such a person shall not be eligible to apply for any registration, until he satisfies the fit and proper criteria.

### Why Fit & Proper Standard Matters

- It ensures that senior leadership and controlling persons of CMI's are honest, competent and financially sound, which helps uphold investor trust and market integrity.
- Prevents conflicts of interest, fraud, misuse of information, and financial instability by disqualifying persons with poor financial/ regulatory history or compromised reputation.
- Helps ensure governance standards, accountability, and operational soundness in IFSC-based intermediaries.

### Appointment of Principal Officer, Compliance Officer and other human resources [Regulation 9]

#### Designation Requirement

A capital market intermediary (CMI) shall designate a principal officer and a separate compliance officer based out of IFSC.

#### Educational Qualifications

The CMI must ensure that both the Principal Officer and the Compliance Officer possess appropriate educational qualification requirements, as detailed below:

- a) A professional qualification, postgraduate degree, or a post-graduate diploma (minimum duration: one year) in finance, law, accountancy, business management, commerce, economics, capital markets, banking, insurance, or actuarial science, obtained from:

- a university or institution recognized by the Central or any State Government in India, or
- a recognized foreign university, institution, or association, or
- a CFA from the CFA Institute or an FRM (Global Association of Risk Professionals), or
- any other relevant qualification as may be prescribed by the Authority.

**Provisos:**

Individuals holding a graduation degree in any discipline from a university or an institution recognised by the Central Government or any State Government or a foreign university shall be considered eligible if they also possess a minimum of ten years of experience in the financial services market.

Individuals with a Bachelor of Law (LL.B.) degree from a university, or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association are also eligible for appointment as a compliance officer.

In the case Principal Officer of distributors, investment advisers, or research entities, a graduation degree in any field from a university or an institution recognised by the Central Government or any State Government or a foreign university accompanied by Certified Financial Planner (CFP) certification from the Financial Planning Standards Board shall also be deemed sufficient.

The term professional qualification includes memberships of the Institute of Chartered Accountants of India (ICAI), the Institute of Company Secretaries of India (ICSI), the Institute of Cost Accountants of India (ICMAI), or equivalent professional bodies in foreign jurisdictions.

**Experience Requirements**

The CMI must also ensure that the appointees, i.e. principal officer and compliance officer, meet the following professional experience requirements:

- a) The Principal Officer must possess a minimum of three years' experience in the financial services market. An individual with at least one year of experience specifically in ESG-related functions may be appointed as Principal Officer of an Environmental, Risk Disclosure, and Pricing Platform (ERDPP).
- b) The Compliance Officer must have at least two years of experience in the financial services sector. Additionally, experience in other sectors may be recognised if the individual has at least two years of experience in a compliance-related role within a corporate entity.

**Employee Certification Requirement**

The CMI shall ensure that its workforce undergoes such certification courses from such institutions as may be specified by the Authority.

**Adequacy Manpower**

The CMI must maintain staffing levels that are adequate and proportionate to the nature and volume of its business operations in the IFSC.

**Responsibility of Principal Officer**

The principal officer must be responsible for the overall operations undertaken by the CMI and also ensure that other employees of the CMI comply with the obligations under the IFSCA CMI Regulations, 2025.

Principal Officer Requirement in case of multiple registrations:

Where a CMI holds multiple registrations, a separate Principal Officer shall be designated for each registration.

However, the same individual may act as Principal Officer for:

- Broker Dealer, Clearing Member, and Depository Participant activities
- Credit Rating Agency and ERDPP functions

### Compliance Officer Requirement in case of multiple registrations

A single Compliance Officer may be appointed to oversee regulatory compliance obligations across all business activities of the CMI within the IFSC.

## GENERAL OBLIGATIONS AND RESPONSIBILITIES [CHAPTER III]

### Code of Conduct [Regulation 15]

Every CMI, regardless of its category, must adhere to some of the following foundational principles:

- **Investor-first approach:** CMIs must make all efforts to protect the interests of investors, and render the best possible advice to the clients, having regard to the needs of the clients, the environment and their own professional skills.
- **Integrity, fairness and professionalism:** All business conduct must be ethical, fair and professional. CMIs must discharge their obligations with honesty, promptness and good faith.
- **Due diligence and independent judgment:** CMIs must exercise care, maintain high standards of diligence, and apply independent professional judgment.
- **Prohibition of market misconduct:** CMIs must refrain from manipulative, fraudulent, or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.
- **No false markets, no collusion:** CMIs must not create false markets, either alone or in collusion with others (other intermediaries or issuers), in ways that disadvantage investors or undermine market fairness.
- **Client confidentiality:** Sensitive client information must be kept confidential by the CMI about its clients, except where such disclosures are required to be made in compliance with any law for the time being in force.
- **Conflict-of-interest management:** CMIs must avoid conflicts of interest. Where conflicts exist or may appear, they must be adequately disclosed, and mechanisms put in place to manage or resolve them.
- **Fair treatment and non-discrimination:** CMIs must indulge in any unfair competition, which is likely to harm the interests of other capital market intermediaries and investors. It must not discriminate amongst its clients, except on ethical and commercial considerations.
- **Truthful representation and transparency:** CMIs must not make exaggerated or misleading statements (oral or written) about their qualifications, services, or achievements. They must be truthful in all client communications.
- **Suitability of advice / recommendations:** Before recommending any security or financial product, a CMI must ensure that the recommendation is suitable for the client, based on a reasonable assessment of the client's profile.
- **Governance, internal controls & infrastructure:** CMIs must maintain adequate operational and financial capability, internal control procedures, robust risk management, and appropriate infrastructure to safeguard client interests and prevent misconduct.
- **Outsourcing controls:** If any function is outsourced (especially outside IFSC), the CMI must have an internal policy covering outsourcing and ensure compliance with that policy.

- **Regulatory compliance & disclosure obligations:** CMIs must be fit and proper; ensure all key persons are qualified; and must not hide or suppress material facts in documents, reports or information submitted to the regulator.
- **Management responsibility:** Senior management bears primary responsibility for ensuring compliance with the Code and proper conduct at all times.

#### **Maintenance of books of account, records and other documents [Regulation 16]**

A CMI must maintain and preserve the following books of account, records and documents, in electronic retrieval form for a minimum of eight years.

#### **Information to the Authority [Regulation 17]**

A CMI must furnish to the IFSCA any material change in the information or particulars previously furnished along with the application, which has a bearing on the certificate of registration granted to it. It must also intimate to the IFSCA any change in principal officer, compliance officer or key managerial personnel to the IFSCA, within 15 days of such change. It shall furnish such reports, returns, statements and particulars, in such manner, interval and form, as may be specified by the IFSCA.

#### **Redress of grievances [Regulation 18]**

A CMI must take adequate steps for redress of grievances of the investors in accordance with the requirements as may be specified by the IFSCA.

#### **Dispute Resolution [Regulation 19]**

A CMI must take adequate steps to ensure that disputes between a CMI and its clients and/or investors arising out of or in relation to the activities of the CMI in IFSC shall be dealt with in accordance with the dispute resolution mechanism as may be specified by the IFSCA.

#### **Business Continuity Plan [Regulation 20]**

- 1) A CMI must maintain a business continuity plan identifying procedures relating to an emergency or significant business disruption, commensurate with its size, nature and scale of business.
- 2) A CMI must update its business continuity plan in the event of any material change to operations, structure, business, or location.
- 3) A CMI must conduct an annual review of its business continuity plan.

#### **Cyber Security and Cyber Resilience [Regulation 21]**

A CMI must have robust cyber security and cyber resilience framework in accordance with the requirements as may be specified by the IFSCA.

#### **Risk Management and Internal Controls [Regulation 22]**

- 1) A CMI must have a sound risk management system for comprehensively managing risks.
- 2) A CMI must have adequate internal procedures and controls, given the types of business in which it engages (including any activities which have been outsourced) with the aim of protecting the interests of clients and their assets and ensuring proper management of risk.

**Change in control [Regulation 23]**

- 1) When a CMI is operating in the form of branch in an IFSC, it must intimate the IFSCA, and the market infrastructure institution of which it is a member (if applicable), within fifteen days of any direct or indirect change in control of the intermediary.
- 2) When a CMI is incorporated in an IFSC, it must seek prior approval of the IFSCA, in case of any direct or indirect change in control of the intermediary.

**Payment of Fees [Regulation 24]**

A CMI must pay the fees pertaining to annual fees, turnover based fees and any other fees specified by the IFSCA.

**Annual Compliance Audit [Regulation 25]**

- 1) A CMI must have an annual audit conducted in respect of compliance with these regulations by a member of the Institute of Chartered Accountants of India or a member of the **Institute of Company Secretaries of India** or a member of the Institute of Cost Accountants of India or any person authorised to conduct audit in a Foreign Jurisdiction.
- 2) A copy of such compliance audit report for a financial year must be furnished to the IFSCA by the 30th of September of such year. However, a trading member, a clearing member and a depository participant also file a copy of such report to the recognised stock exchange, recognised clearing corporation and depository, as the case may be.
- 3) A CMI must have additional audits and submit such reports as may be specified by the IFSCA from time to time.

**SPECIFIC OBLIGATIONS AND RESPONSIBILITIES [CHAPTER IV]****Broker dealers and Clearing members [Regulation 26]**

- 1) A broker dealer must ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised stock exchange.
- 2) A clearing member must ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised clearing corporation.

**Global Access [Regulation 27]**

A CMI, including a broker dealer, desirous of dealing in securities in Foreign Jurisdictions must comply with the norms and requirements specified by the IFSCA.

**Credit rating agencies [Regulation 28]**

- 1) A registered credit rating agency must enter into a written agreement with each client whose securities or other permitted financial products it proposes to rate, and every such agreement must include the right and liabilities of each party and fee to be charged by such credit rating agency.
- 2) The client must provide all co-operation required for arriving at a true and accurate rating of the securities or other permitted financial products by a registered credit rating agency.
- 3) A registered credit rating agency must inform to the client the rating assigned to the securities or other permitted financial products.

- 4) A registered credit rating agency must continuously monitor the rating of securities or other permitted financial products and carry out periodic reviews of the rating, unless the rating is withdrawn.
- 5) A registered credit rating agency must generally not withdraw a rating so long as the obligations under the security /instrument/ facility rated by it are outstanding. However, a registered credit rating agency can withdraw a rating in the following situations:
  - a) Where the entity whose security/instrument/facility is rated is wound up or merged or amalgamated with another entity
  - b) In case of non-cooperation from the issuers, or non-payment of agreed fee
  - c) At the request of an issuer, except where such request might give rise to avoiding an imminent rating change
  - d) Where such credit rating agency is constrained from providing service due to events beyond its control. Further, the reason for withdrawal of rating must be mentioned in the press release issued by the registered credit rating agency withdrawing such rating.
- 6) A registered credit rating agency must disseminate information regarding change in ratings promptly through press releases and simultaneously to the recognised stock exchanges (if the securities or other permitted financial products are listed on a recognised stock exchange in an IFSC).
- 7) A registered credit rating agency must make public the definitions of the concerned rating, along with the symbol and also state that the ratings do not constitute recommendations to buy, hold or sell any securities or other permitted financial products.
- 8) A registered credit rating agency must make available to the general public, the information relating to the rationale of the ratings, which must cover an analysis of various underlying factors.
- 9) A registered credit rating agency must specify the rating process and file a copy of the same to the IFSCA for record.
- 10) A registered credit rating agency must have professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating, and all rating decisions must be taken by the said committee.
- 11) A registered credit rating agency must exercise due diligence to ensure that the rating given by it is fair and appropriate.
- 12) A registered credit rating agency must not rate securities or other permitted financial products issued by it or any of its group entity.
- 13) A registered credit rating agency must have appropriate procedures and systems for preventing trading on the basis of unpublished price sensitive information obtained by them in the course of any professional assignment.

### **Custodians [Regulation 29]**

- 1) A custodian must separate and segregate its custodian activities from all other activities.
- 2) A custodian must have adequate mechanisms for reviewing, monitoring and evaluating its controls, systems, procedures and safeguards.
- 3) A custodian must enter into an agreement with each client detailing various circumstances relating to custody of the securities or other permitted financial products or funds.
- 4) A custodian must have adequate internal controls to prevent any manipulation of records and documents, and to protect the records from theft and natural hazard.

**Debenture trustees [Regulation 30]**

- 1) A registered debenture trustee must enter into an agreement with the issuer before the opening of the subscription list for issue of debentures.
- 2) A person must not be appointed as a debenture trustee, in cases where the debenture trustee is an associate of the issuer or is likely to have conflict of interest in any manner.
- 3) A registered debenture trustee must ensure that:
  - a) It accepts the trust deed which must contain details on standard information pertaining to the debt issue and details specific to the particular debt issue and must not contain covenants prejudicial to the interest of the debenture holders.
  - b) The trust deed is consistent with the terms of the proposed issue of debenture.
  - c) It calls for periodical reports/ performance report from the issuer company within seven days of the relevant board meeting or within forty five days of the respective quarter, whichever is earlier.
  - d) It calls for reports on the utilisation of funds raised by the issue of debentures.
  - e) It communicates to the debenture holder defaults, if any, in respect of the payment of interest or redemption of debentures and actions taken thereunder.
  - f) It appoints a nominee director on the board of the issuer in the event of two consecutive defaults in payment of interest or default in creation of security or default in redemption of debentures and the issuer must be obliged to provide all requisite support in this regard, if legally permissible.
  - g) In case of breach of terms of the issue of debentures or covenants of the trust deed, it must take reasonable steps to remedy such breach and inform the debenture holders immediately of any such breach.
  - h) The issuer satisfies the conditions, if any, regarding creation of security for the debentures, debenture redemption reserve and recovery expense fund.
    - i) The assets of the issuer and of the guarantors are sufficient to discharge the interest and principal amount at all times, and such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders.
    - j) It must perform all acts necessary for the enforcement of the security and for protection of the interest of the debenture holders.
    - k) It must call for reports on the utilisation of funds raised by the issue of debentures.
    - l) It takes steps to convene a meeting of debenture holders as and when required.
  - m) The debentures have been converted or redeemed in accordance with the terms of the issue of debentures.
  - n) It takes possession of the trust property in accordance with the terms of the trust deed.
  - o) The debentures have been credited in the demat accounts of the debenture holders.
  - p) Debenture holders have been paid the interest due on the debentures and the monies due to them on the date of redemption of the debenture.
  - q) It informs the IFSCA immediately of any breach of trust deed or provision of any applicable laws.
  - r) It obtains reports from the lead bank regarding the progress of the project.

- s) It may inspect books of account, record, registers of the issuer and trust property to the extent necessary for discharging its obligations.
- 4) Before creating a charge on the security for the debentures, the debenture trustee must exercise independent due diligence to ensure that such security is free from any encumbrance or that it has obtained the necessary consent from other charge-holders if the security has an existing charge, in the manner as may be specified by the IFSCA from time to time.
- 5) No debenture trustee must relinquish its assignment as debenture trustee in respect of the debenture issue of any issuer, unless and until another debenture trustee is appointed in its place by the issuer.

### Depository Participants [Regulation 31]

- 1) A depository participant must ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised depository.
- 2) A depository participant must ensure that separate accounts are opened in the name of each of the beneficial owners, and the securities of each beneficial owner must be segregated and must not be mixed up with the securities of other beneficial owners or with the participant's own securities.
- 3) A depository participant must have adequate mechanisms for the purpose of reviewing, monitoring and evaluating its internal accounting controls and systems.
- 4) Where the records are maintained in electronic form, a depository participant must ensure that the integrity of the data processing system is maintained at all times.
- 5) A depository participant must reconcile its records with the depository, on a daily basis.

### Distributors [Regulation 32]

- 1) A registered distributor can undertake the following activities:
  - a) Distribution of capital market products and/or services to any client in IFSC or Foreign Jurisdiction: The capital market products and/or services offered by any regulated financial entity set up in India, IFSC, jurisdictions which are identified in the notification published in the Gazette of India vide no. G.S.R. 882(E) dated November 28, 2019, as must be revised from time to time, or any other jurisdiction as may be specified by the IFSCA, must be distributed to any client in IFSC or foreign jurisdictions.
  - b) Distribution of capital market products and/or services to sophisticated investors in IFSC or Foreign Jurisdictions: The capital market products and/or services offered by any issuer or service provider, respectively, which is set up in India, IFSC or any foreign jurisdiction must be distributed to sophisticated investors in IFSC or foreign jurisdictions.
  - c) Distribution of capital market products and/or services to any client in India: The capital market products and/or services offered by any regulated financial entity set up in IFSC, jurisdictions which are identified in the notification published in the Gazette of India vide no. G.S.R. 882(E) dated November 28, 2019, as can be revised from time to time, or any other jurisdiction as may be specified by the IFSCA, may be distributed to any client in India.
  - d) Distribution of capital market products and/or services to sophisticated investors in India: The capital market products and/or services offered by any issuer or service provider, respectively, which is set up in IFSC or any foreign jurisdiction, may be distributed to sophisticated investors in India.
  - e) Any other activities as must be specified by the IFSCA.

- 2) For distribution of capital market products and/or services offered by a regulated financial entity to all types of clients, the registered distributor must ensure that such products or services have been authorised, vetted or approved for offering to all types of investors, by the relevant regulatory or supervisory authority of such regulated financial entity. Here, “regulated financial entity” means an issuer or a service provider set up in India, an IFSC or any Foreign Jurisdiction, which is registered, authorised, licensed or regulated by any regulatory or supervisory authority of its home jurisdiction for carrying out activities related to asset management, funds management, investment advisory, portfolio management or any other similar activity, by whatever name called.
- 3) A registered distributor while undertaking various permissible activities must ensure compliance with all applicable laws as prevalent in the jurisdictions of issuers, service providers and clients.
- 4) A registered distributor must comply with the requirements specified by the IFSCA.

### ESG Ratings and Data Products Providers (ERDPP) [Regulation 33]

- 1) An ERDPP can undertake services relating to ESG Ratings and ESG Data Products in an IFSC or a Foreign Jurisdiction.
- 2) An ERDPP must not provide any other service without the prior approval of the IFSCA.
- 3) An ERDPP must adhere to the following “Code of Conduct”, on a “comply” or “explain” basis.

#### a) Principle on Good Governance

ERDPP must ensure appropriate governance arrangements are in place that enable it to promote and uphold the principles and overall objectives of the Code of Conduct.

#### b) Principle on Securing Quality (Systems and Controls)

ERDPP must adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG Ratings and Data Products.

#### c) Principles on managing Conflicts of Interest

- i. ERDPP must adopt and implement written policies and procedures designed to help ensure that its decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, ERDPP’s organisational structure, business or financial activities, or the financial interests of the ERDPP, its officers and employees.
- ii. ERDPP must also identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ERDPP’s operations.

#### d) Principle on Transparency

ERDPP must make adequate levels of public disclosure and transparency a priority for its ESG Ratings and Data Products, including its methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

#### e) Principle on Confidentiality (Systems and Controls)

ERDPP must adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to it by any entity, or its agents, related to their ESG Ratings and ESG Data Products, in a manner appropriate in the circumstances.

**f) Principles on Engagement (Systems and Controls)**

- i. ERDPP must regularly consider whether its information gathering processes with entities covered by its products lead to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, the ERDPP must consider what measures can be taken to implement them.
  - ii. Where feasible and appropriate, the ERDPP must respond to and address issues flagged by entities covered by its ESG Ratings and Data Products and by users while maintaining the independence and integrity of these products.
- 4) An ERDPP must disclose compliance of the “Code of Conduct” provided above on a “comply” or “explain” basis on its website.
- 5) An ERDPP providing ESG Ratings must have guidelines/ criteria/ methodology on the rating process and the same must be disclosed on its website.
- 6) An ERDPP must disclose all ESG Ratings provided by it on its website.
- 7) An ERDPP must segregate its activities relating to ESG Ratings and ESG Data Products from its other activities to ensure that there is no conflict of interest between these activities.

**Investment advisers [Regulation 34]**

- 1) An investment adviser must disclose to a prospective client, all material information about itself including its business, disciplinary history, the terms and conditions on which it offers advisory services, affiliations with other intermediaries and such other information so as to enable the client to take an informed decision on whether or not to avail its advisory services.
- 2) An investment adviser must make the following disclosures to its clients:
  - a) its holding or position, if any, in the financial products or securities which are subject matter of advice
  - b) any potential or actual conflict of interest arising from any connection to or association with any issuer of products/securities
  - c) all material facts relating to the key features of the products or securities, particularly performance track record
  - d) warnings, disclaimers in documents and advertising materials relating to an investment product which it is recommending to the client
- 3) An investment adviser must act in a fiduciary capacity towards its clients and must disclose all conflicts of interest as and when they arise.
- 4) An investment adviser must not receive any consideration by way of remuneration or compensation or in any other form from any person other than the client being advised, in respect of the underlying products or securities for which advice is provided.
- 5) An investment adviser must maintain an arm’s-length relationship between its activities as an investment adviser and its other activities.
- 6) An investment adviser must not enter into transactions on its own account which is contrary to the advice given to its clients for a period of 15 days from the day of such advice. During the period of 15 days, if the investment adviser is of the opinion that the situation has changed, then it may enter into such a transaction on its own account after giving such revised assessment to the client at least 24 hours in advance of entering into such transaction.

- 7) An investment adviser must not act on its own account, knowingly to sell securities or investment products to or purchase securities or investment products from a client.
- 8) An investment adviser must ensure that, for the purposes of risk profiling:
  - a) it obtains such information from the client as is necessary for the purpose of giving investment advice
  - b) it has a process for assessing the risk a client is willing and able to take
  - c) risk profile of the client is communicated to the client after completion of risk assessment
  - d) the information provided by clients and their risk assessment is updated periodically
- 9) An investment adviser must ensure that all investments on which investment advice is provided is suitable to the risk profile of the client and is consistent with the client's investment objectives and financial position.
- 10) An investment adviser must have client level segregation for investment advisory and distribution services.
- 11) An investment adviser must maintain an arm's length relationship between its activities as investment adviser and distributor by providing advisory services through a separately identifiable department or division, including separate manpower for conduct of these activities.
- 12) An investment adviser can provide implementation services to its advisory clients in securities market. The investment adviser shall ensure the following:
  - a) the potential conflicts of interest, if any, are adequately disclosed to its clients
  - b) the fee charged, if any, for the implementation services is pursuant to an agreement with its clients and disclosed in a transparent manner
- 13) The client must not be under any obligation to avail implementation services offered by the investment adviser.

### Investment Bankers [Regulation 35]

- 1) An investment banker must enter into an agreement with the issuer of securities specifying the roles and responsibilities of the investment banker in the issue.
- 2) Where there is more than one lead investment banker to the issue, the responsibilities of each of such lead investment banker must be clearly demarcated.
- 3) An investment banker must not undertake any activity, except for marketing of the issue or offer, if the investment banker is a promoter or an associate of the issuer of securities or of any person making an offer to sell or purchase securities in terms of any regulations made by the IFSCA.
- 4) No investment banker or any of its principal officer, directors, partner or manager must either on their respective accounts or through their associates or relatives enter into any transaction in securities of issuer on the basis of unpublished price sensitive information obtained by them in the course of any professional assignment.
- 5) An investment banker must submit to the IFSCA complete particulars of any transaction for acquisition of securities of any body corporate whose issue is being managed by that investment banker within fifteen days from the date of entering into such transaction.

- 6) An investment banker can act as an underwriter of an issue in an IFSC, subject to the following conditions:
  - a) An investment banker acting as an underwriter, must enter into an agreement with the issuer of securities, on whose behalf it is acting as an underwriter, which must have the understanding in relation to amount of underwriting obligations and commission, allocation of duties and responsibilities, timelines and other relevant details.
  - b) At any point of time, the total underwriting obligations under all the agreements must not exceed twenty times the net worth of the investment banker.

### Research Entities [Regulation 36]

- 1) A research entity must have written internal policies and control procedures governing the dealing and trading by any employee for:
  - a) addressing actual or potential conflict of interest arising from such dealings or trading of securities of subject company
  - b) promoting objective and reliable research that reflects unbiased view of research analyst
  - c) preventing the use of research report or research analysis to manipulate the financial market
- 2) A research entity must ensure that the procedures or controls designed to manage actual or potential conflicts of interest are based on the nature, scale and complexity of the business.
- 3) The internal policy must ensure that the conflicts of interest are identified and adequately addressed so that the quality of the research report is not compromised.
- 4) A research entity must have in place appropriate mechanisms to ensure independence of its research activities from its other business activities.
- 5) A research entity must establish, implement and enforce policies and procedures for personal trading by its analysts and their associates.
- 6) Personal trading activities of the individuals employed as research analyst by research entity must be monitored, recorded and wherever necessary, must be subject to a formal approval process.
- 7) The policy must ensure that an analyst does not trade for himself in a manner that is contrary to his outstanding research recommendations, except in special circumstances, where the analyst must be required to obtain prior written approval for each trade.
- 8) A research entity must ensure that the remuneration of analysts is structured in a way to avoid any bias in his research analyses and recommendations.
- 9) A research entity must ensure that there are robust and effective barriers between the entity and other business dealings of the entity or its group entity to ensure independence and objectivity of the research reports.
- 10) A research entity must not provide any promise or assurance of favourable review in its research report to a company or industry or sector or group of companies or business group as consideration to commence or influence a business relationship or for the receipt of compensation or other benefits.
- 11) A research entity must ensure that the information provided in the report is complete, concise and specific such that investors can understand the actual or potential conflicts of interest and their likely impact on the quality of the research report published.
- 12) A research entity must disclose any material interest in the report that may create a potential conflict

of interest and thereby affect the ability of the entity to maintain independence and objectivity. The research entity must disclose in the report if the research entity or the research analyst or his associate or his relative has:

- a) any material financial interest in the subject company and the nature of such financial interest
  - b) beneficial ownership of one or more per cent of the securities of the subject company
  - c) any material business relationship with the subject company over the past 12 months that may result in conflict of interest
  - d) any other material conflict of interest relating to the subject company
- 13) A research entity must take steps to ensure that facts in its research reports are based on reliable information and must define the terms used in making recommendations, and these terms must be consistently used.
- 14) A research entity must have adequate documentary basis, supported by research, for preparing a research report.
- 15) Where a research entity employs a rating system, it must clearly define the meaning of each such rating including the time horizon and benchmarks on which a rating is based.

#### LESSON ROUNDUP

- Capital market intermediaries act as linking institutions between investors and the capital market, facilitating trading, investment, advisory, and settlement activities.
- The 2025 Regulations bring uniformity and clarity by placing all intermediaries under a common regulatory structure.
- Registration ensures that only competent, financially sound, and trustworthy entities are allowed to operate in the capital market.
- The fit and proper criteria ensure that intermediaries maintain integrity, professional competence, and ethical behavior.
- Clearly defined roles and permitted activities help prevent conflicts of interest and misuse of investor funds.
- Strong governance and internal controls reduce operational risks and market manipulation.
- Capital adequacy requirements ensure that intermediaries can absorb losses and protect investor interests.
- Mandatory disclosures and record-keeping promote transparency and accountability in market operations.
- Regulatory supervision and inspections act as preventive tools against misconduct and systemic risk.
- Penalties and enforcement provisions create discipline and deterrence, encouraging compliance with regulations.
- Overall, the regulations strengthen investor confidence, ensure orderly market functioning, and support long-term capital market development.

**GLOSSARY**

**Capital Market:** A financial market where long-term securities such as shares, bonds, and debentures are issued and traded.

**Capital Market Intermediary:** An entity or individual that facilitates transactions between investors and issuers in the capital market, such as brokers, dealers, investment advisers, and portfolio managers.

**Fit and Proper Criteria:** Standards relating to integrity, competence, financial soundness, and reputation that an intermediary must satisfy to be eligible for registration.

**Investor Protection:** Regulatory measures designed to safeguard the interests, rights, and funds of investors in the capital market.

**Code of Conduct:** A set of ethical and professional standards that capital market intermediaries must follow while dealing with investors and the market.

**Capital Adequacy:** The minimum level of capital that an intermediary is required to maintain to absorb losses and ensure financial stability.

**Internal Controls:** Policies and procedures implemented by intermediaries to manage risks, ensure compliance, and prevent fraud or errors.

**Disclosure:** The act of providing complete, accurate, and timely information to investors and the regulator.

**Record-Keeping:** Maintenance of proper books, documents, and data relating to transactions and activities of intermediaries.

**Inspection:** Examination of records and operations of intermediaries by the regulator to assess compliance with regulations.

**Supervision:** Ongoing monitoring of intermediaries by the regulator to ensure continuous compliance.

**Enforcement:** Actions taken by the regulator, including penalties or restrictions, to address violations of regulations.

**Penalty:** A monetary or non-monetary punishment imposed for non-compliance with regulatory requirements.

**Grievance Redressal:** A mechanism for addressing and resolving complaints raised by investors against intermediaries.

**TEST YOURSELF**

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

**A. Very Short Answer Questions**

1. What is meant by a capital market intermediary?
2. Why is registration mandatory for capital market intermediaries?
3. What is the purpose of the “fit and proper” criteria?
4. State one key objective of the Capital Market Intermediaries Regulations, 2025.
5. What role do capital market intermediaries play in investor protection?





## WARNING

### ***Regulation 27 of the Company Secretaries Regulations, 1982***

*In the event of any misconduct by a registered student or a candidate enrolled for any examination conducted by the Institute, the Council or any Committee formed by the Council in this regard, may suo-moto or on receipt of a complaint, if it is satisfied that, the misconduct is proved after such investigation as it may deem necessary and after giving such student or candidate an opportunity of being heard, suspend or debar him from appearing in any one or more examinations, cancel his examination result, or registration as a student, or debar him from re-registration as a student, or take such action as may be deemed fit.*

*It may be noted that according to regulation 2(ja) of the Company Secretaries Regulations, 1982, 'misconduct' in relation to a registered student or a candidate enrolled for any examination conducted by the Institute means behaviour in disorderly manner in relation to the Institute or in or around an examination centre or premises, or breach of any provision of the Act, rule, regulation, notification, condition, guideline, direction, advisory, circular of the Institute, or adoption of malpractices with regard to postal or oral tuition or resorting to or attempting to resort to unfair means in connection with writing of any examination conducted by the Institute, or tampering with the Institute's record or database, writing or sharing information about the Institute on public forums, social networking or any print or electronic media which is defamatory or any other act which may harm, damage, hamper or challenge the secrecy, decorum or sanctity of examination or training or any policy of the Institute.*

# PROFESSIONAL PROGRAMME

## IFSCA – REGULATIONS, LISTING AND COMPLIANCES

### ELECTIVE 1 • PAPER 4.6

*(This test paper is for practice and self-study only and not to be sent to the Institute)*

Time allowed: 3 hours

Maximum Mark: 100

#### **Answer all Questions**

#### **Question No. 1**

AlphaGlobal Capital Ltd., a multinational financial services firm, plans to establish operations in GIFT City IFSC. The company intends to register for multiple activities under the IFSCA Capital Market Intermediaries Regulations, 2025, including:

- Broker-Dealer (to provide trading access to IFSC exchanges)
- Investment Banking (to manage IPOs and debt offerings)
- Investment Advisory (to offer portfolio planning and wealth management)
- Research Entity (to publish research reports and recommendations)

The firm also plans to distribute capital market products to clients in IFSC and foreign jurisdictions. AlphaGlobal has a strong global presence but faces following issues in meeting regulatory requirements for IFSC operations.

#### **1. Registration & Net Worth Compliance:**

AlphaGlobal needs clarity on minimum net worth requirements for multiple registrations and whether it can maintain net worth at the parent level.

#### **2. Appointment of Key Officers:**

The firm must appoint a **Principal Officer** and **Compliance Officer** for IFSC operations. It is not sure about qualification and experience requirements.

#### **3. Fit and Proper Criteria:**

One of the proposed directors was previously penalized by a foreign regulator for non-disclosure in a securities transaction.

#### **4. Conflict of Interest:**

The investment advisory division also plans to distribute products, raising concerns about conflict of interest.

#### **5. Operational Obligations:**

AlphaGlobal must implement cybersecurity, risk management, grievance redressal, and business continuity plans.

#### **6. Research Independence:**

The research team is under pressure from the investment banking division to issue favorable reports for issuers managed by AlphaGlobal.

In view of the above scenario, advise the company on the following:

- (a) What steps must AlphaGlobal take to obtain registration for all proposed activities under the CMI Regulations, 2025?
- (b) How should AlphaGlobal comply with net worth requirements for multiple categories?
- (c) What qualifications and experience are required for the Principal Officer and Compliance Officer?
- (d) What are the consequences of non-compliance with these obligations under IFSCA Regulations?

*(5 marks each)*

### Question No. 2

- (a) ABC Bank, headquartered in London, wants to establish an offshore banking unit in India to cater to global clients and participate in foreign currency lending and derivative transactions. The bank is evaluating GIFT City as its preferred location.

In view of the above, what steps must ABC Bank follow to set up an IFSC Banking Unit in GIFT City? How does the currency of operation differ from a Domestic Tariff Area (DTA) unit?

*(5 marks)*

- (b) FinEdge Technologies, a FinTech startup specializing in cross-border digital payments, plans to leverage GIFT IFSC's regulatory sandbox for innovation.

Answer the following in view of the above statement:

- i. What initiatives by IFSCA support FinTech innovation in GIFT IFSC?
- ii. List two financial activities permitted for FinTech firms in IFSC.
- iii. What exemptions under Companies Act, 2013 will apply to FinEdge Technologies if incorporated in IFSC?

*(5+2+3 = 10 marks)*

### Question No. 3

FinServe Global LLP, a multinational professional services firm, plans to establish operations in GIFT City IFSC. The firm intends to provide Book-keeping, Accounting, Taxation, and Financial Crime Compliance (BATF) services, along with TechFin solutions such as AI-driven compliance tools and cybersecurity services. Additionally, it wants to act as an Ancillary Service Provider for its group entities and explore opportunities to become a KYC Registration Agency (KRA) in the future. The management faces the challenges such as Understanding registration requirements for BATF and TechFin services; Meeting eligibility criteria, including legal form and net worth; Appointing qualified Principal Officer (PO) and Compliance Officer (CO); Ensuring compliance with fit and proper criteria for promoters and key personnel; Implementing ring-fencing of operations to avoid regulatory breaches; Preparing for reporting obligations and AML/CFT compliance; and Managing business continuity and cybersecurity frameworks. In view of the challenges mentioned above, the following issues are identified:

#### 1. Legal Form & Registration:

Should FinServe Global LLP incorporate as a company or LLP in IFSC? What is the step-by-step process for registration under BATF and TAS Regulations?

#### 2. Fit and Proper Criteria:

One of the proposed directors was previously penalized for non-compliance with tax laws in a foreign jurisdiction. Does this affect eligibility?

**3. Operational Compliance:**

What reporting requirements must FinServe meet? How should it implement AML/CFT measures and cybersecurity protocols?

**4. Future Expansion as KRA:**

What additional conditions and net worth requirements apply if FinServe decides to register as a KYC Registration Agency?

Answer the following questions in light of the above case:

1. Outline the registration process for FinServe Global LLP to become a BATF Service Provider and TechFin Service Provider in IFSC.
2. Analyze the impact of the director's past penalty on the firm's compliance with fit and proper criteria.
3. List the reporting and disclosure obligations under BATF and TAS Regulations.
4. What are the net worth and governance requirements for becoming a KYC Registration Agency?

*(5 marks each)*

**Question No. 4**

- (a) Robin Ltd., incorporated in India, plans to list its equity shares on a recognised stock exchange in GIFT IFSC through an Initial Public Offer (IPO). The company has an operating revenue of USD 18 million and a pre-tax profit of USD 1.2 million in the last financial year. Its projected post-issue market capitalization is USD 30 million.

Based on IFSCA Listing Regulations, analyze whether ABC Ltd. is eligible to make an IPO in GIFT IFSC. What additional conditions must it comply with before proceeding?

*(5 marks)*

- (b) XYZ SPAC Ltd. intends to raise USD 60 million through an IPO in GIFT IFSC. The sponsors have subscribed USD 8 million prior to the IPO and hold 18% of the post-issue capital. The SPAC has identified a target business combination before filing the offer document.

In view of the above, evaluate whether XYZ SPAC Ltd. meets the eligibility criteria for listing under IFSCA regulations. What regulatory issues arise in this case?

*(5 marks)*

- (c) GreenFuture Ltd. proposes to issue ESG-labelled debt securities in IFSC to finance renewable energy projects. The company claims alignment with ICMA principles but does not appoint an independent external reviewer. It also fails to disclose the process for project selection in its offer document. Identify the compliance gaps in GreenFuture Ltd.'s approach. What steps should the company take to meet IFSCA's requirements for ESG-labelled debt securities?

*(5 marks)*

**Question No. 4A**

- (i) FinEdge Technologies Pvt. Ltd., an Indian start-up registered with DPIIT, has developed an AI-driven cross-border payment solution that integrates blockchain for secure transactions and offers real-time FX conversion. The company intends to test its solution in GIFT City's International Financial Services Centre (IFSC) and later scale globally. The founders are exploring the IFSCA regulatory framework for FinTech entities and related incentives.

- (a) What legal structure must FinEdge adopt to operate as a FinTech Entity in IFSC?
- (b) Can FinEdge seek exemptions from KYC and AML requirements during sandbox testing? Justify your answer.

*(5 marks each)*

- (ii) EcoFinance Ltd. markets its debt securities as “green bonds” but allocates 40% of the proceeds to upgrade fossil fuel-based power plants without disclosure. Investors later alleged greenwashing.

Analyze the regulatory implications of this case under IFSCA’s circular on mitigating greenwashing risk. What principles were violated, and what preventive measures should issuers adopt?

*(5 marks)*

### Question No. 5

- (a) GlobalProtect Ltd., a foreign insurer incorporated in Singapore, wants to set up a branch in GIFT IFSC. It has a strong credit rating for the last three years and meets solvency requirements in its home country. However, it has not obtained a No Objection Certificate (NOC) from the regulator of its home country yet.

Analyze whether GlobalProtect Ltd. can proceed with registration as an IFSC Insurance Office (IIO). What specific eligibility conditions under IFSCA regulations must it fulfill before approval?

*(5 marks)*

- (b) SecureLife India Ltd., an Indian insurer registered with IRDAI, plans to open an IFSC Insurance Office IIO in GIFT IFSC. It proposes to maintain assigned capital of INR 12 crore in its Indian bank account and conduct business in Indian Rupees.

Evaluate whether SecureLife India Ltd.’s plan complies with IFSCA requirements. What changes must it make regarding assigned capital and currency operations?

*(5 marks)*

- (c) ReSecure Ltd., a foreign reinsurer operating through an IIO in IFSC, maintains solvency margin in its home country but pledges the assets backing the margin for another loan. It also delays quarterly solvency reporting to IFSCA.

Analyze the violations in this case. What are the solvency margin and reporting obligations under IFSCA regulations?

*(5 marks)*

### Question No. 6

- (a) GlobalInsure Ltd., an IIO, fails to implement Anti-Money Laundering (AML) procedures and does not maintain books of accounts in the prescribed format. It also delays reporting operational data to IFSCA.

Discuss the compliance risks and regulatory consequences. What operational and reporting requirements must an IIO adhere to?

*(5 marks)*

- (b) SteelPro Ltd., a major steel manufacturer, plans to issue Transition Bonds under IFSCA’s framework to fund decarbonization projects. However, its transition plan lacks measurable emission-reduction targets and does not reference any international taxonomy or technology roadmap.

Discuss why SteelPro Ltd.'s bond issuance may fail to attract investors under the IFSCA Transition Bond Framework. Suggest corrective measures to align with the framework's four core pillars.

(5 marks)

- (c) Zenith Capital Pvt. Ltd., an investment firm, wants to set up operations in GIFT City IFSC. Initially, it plans to launch a Restricted Scheme for accredited investors with a minimum investment of USD 150,000. Later, it intends to introduce Retail Schemes for the general public. The firm also wants to ensure compliance with IFSCA regulations regarding net worth, disclosures, and risk management.
- Under which category (Restricted Scheme or Retail Scheme) of Fund Management Entity (FME) should Zenith Capital register to launch?
  - What is the minimum net worth requirement for Registered FME (Non-Retail) and Registered FME (Retail)?
  - State two key disclosure requirements in the placement memorandum for Restricted Schemes.

(1+2+2=5 marks)

### Question No. 6A

Universal Bank Ltd., a leading international bank headquartered in London, plans to expand its operations in India by setting up a unit in the International Financial Services Centre (IFSC) at GIFT City. The bank aims to offer foreign currency lending, trade finance, and treasury services to global clients. Additionally, it intends to provide cross-border payment services and explore opportunities in aircraft leasing and treasury management for its multinational clients.

The management team is evaluating the following options and requirements:

- Whether to establish an IFSC Banking Unit (IBU) or an IFSC Banking Company (IBC).
- The minimum capital requirement for each option.
- The regulatory approvals and documents needed from its home regulator.
- Compliance with KYC, AML, and CFT guidelines.
- The possibility of offering Payment Services without separate authorisation.
- Exploring aircraft leasing as a permitted activity under IFSC regulations.
- Setting up a Global/Regional Corporate Treasury Centre (GRCTC) for its group entities.

In view of the above scenario, answer the following questions

- Advise Universal Bank Ltd. on whether it should choose an IBU or an IBC, considering regulatory requirements and capital commitments.
- What are the minimum capital requirements for setting up an IBU and an IBC in IFSC?
- List the key regulatory approvals and undertakings Universal Bank must obtain before commencing operations.
- Explain the importance of KYC and AML compliance for Universal Bank's IFSC operations.
- Can Universal Bank provide payment services without obtaining a separate authorisation? Justify your answer with reference to IFSCA regulations.

(3 marks each)



