

# ENABLING PROFESSIONAL SERVICES: A CATALYST FOR GROWTH OF GIFT-IFSC

## Abstract

*The purpose of this article is to highlight one of the most profound financial sector reforms undertaken by the Government of India in the recent past with establishment of GIFT-IFSC recognizing the imperative of integrating with the global financial system while acknowledging the challenges of immediate full capital account convertibility, and adopted a strategic "enclave approach". Subsequently, recognizing the need for a cohesive regulatory framework to nurture the IFSC ecosystem, the Government of India in the Ministry of Finance took a decisive step in December 2019 with the passage of the International Financial Services Centres Authority (IFSCA) Act for establishment of IFSCA. The IFSCA empowers GIFT-IFSC to realize its full potential as a dynamic hub for global finance, driving India's aspirations of becoming a leading player in the global financial arena. The article also talks about the importance of Professional Services providers including Cost and Management Accountants in the growth and success of an International Financial Services Centres by showcasing their contributions in the development of the financial services market in an international finance ecosystem.*

**T**his article is aimed at highlighting the significant role of professional service providers like Cost and Management Accountants in the growth and success of GIFT IFSC, by showcasing their contributions in the development of an international finance ecosystem.

In an era marked by geopolitical uncertainty, investors are reevaluating their strategies to safeguard capital



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and optimize returns. In this backdrop, India emerges as a beacon of stability and opportunity, positioning itself as a preferred destination for international capital flows. At the heart of this opportunity lies the Gujarat International Finance Tec-City (GIFT) International Financial Services Centre (IFSC), poised to transform into a global financial powerhouse.

India's economic growth story is well-documented, but amidst the bustling landscape of opportunity lies a gem yet to be fully explored, the International Financial Services Centres (IFSCs). While India's domestic financial markets have garnered attention, the establishment of the International Financial Services Centres Authority (IFSCA) signals a strategic move to elevate India's position in the global financial arena. This initiative stands as one of the most profound financial sector reforms undertaken by the Government of India. Its objective is clear, to enable India, now the world's fifth-largest economy with a GDP of USD 3.5 trillion (and the fastest-growing large economy), to seamlessly integrate into the global financial system and unlock its full economic potential.

India boasts robust macroeconomic fundamentals, a burgeoning demographic dividend, the world's third-largest startup ecosystem, robust democratic principles, a vast domestic market, abundant skilled manpower, and a sophisticated financial market. However, to harness these advantages fully, India requires significant foreign



capital inflows to bridge the gap in domestic capital availability and meet its investment needs.

According to a joint white paper by GE-EY, India's commitment to achieving net-zero emissions by 2070 necessitates an investment of over USD 10 trillion. This underscores the imperative for India to triple or even quadruple its foreign capital inflows. Achieving this goal hinges on India's ability to integrate seamlessly into the global financial system.

**Unlocking India's Potential- GIFT IFSC as a Global Financial Hub:** The IFSCA serves as a unified authority for international financial services centres in India, with the Gujarat International Finance Tec-City IFSC in Gandhinagar being the pioneer centre. To truly grasp the significance of the GIFT IFSC, one must contextualize its emergence within the broader narrative of India's evolving economic landscape. Rooted in the Economic Survey 2022-23, GIFT IFSC emerges as a path-breaking financial sector reform emblematic of India's progressive stance towards capital account convertibility. Recognizing the imperative of integrating with the global financial system while acknowledging the challenges of immediate full capital account convertibility, the Government of India adopted a strategic "enclave approach." This approach laid the groundwork for the establishment of India's first IFSC within the GIFT City Special Economic Zone (SEZ) in 2015.

In its nascent stages, domestic regulators were tasked with overseeing their respective functions within the newly created economic zone for financial services market. However, recognizing the need for a cohesive regulatory framework to nurture the IFSC ecosystem, the Government of India in the Ministry of Finance took a decisive step in December 2019 with the passage of the International Financial Services Centres Authority (IFSCA) Act.

The mandate bestowed upon IFSCA is nothing short of revolutionary. By consolidating the powers of existing financial sector regulators such as the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI), and Pension Fund Regulatory and Development Authority (PFRDA), IFSCA aims to streamline regulatory processes and ensure consistency, ease of doing business and certainty within the IFSC ecosystem.

This consolidation not only signifies a paradigm shift in regulatory governance but also underscores India's commitment to fostering an environment conducive to financial innovation, international investment, and economic growth. By centralizing regulatory oversight,

IFSCA empowers GIFT IFSC to realize its full potential as a dynamic hub for global finance, driving India's aspirations of becoming a leading player in the global financial arena.

In essence, the genesis of GIFT IFSC represents a bold step towards reshaping India's financial landscape and propelling the nation towards a future defined by economic prosperity, innovation, and global relevance. As GIFT IFSC continues to evolve and mature under the stewardship of IFSCA, it stands poised to unlock new vistas of opportunity, cementing its status as a cornerstone of India's financial future.

India's commitment to establishing the IFSC as a full-service International Financial Centre is unwavering. The GIFT IFSC boasts unique selling points such as a unified regulatory regime, a robust domestic economy, a large Indian diaspora, and a talent pool ripe for financial innovation. These advantages position it to emerge as a prominent player in the global financial landscape.

IFSCA envisions the GIFT IFSC as a leading global financial hub with strong ties to international markets. The focus lies on creating a diversified, efficient, and globally competitive financial platform supported by modern regulatory frameworks and top-notch infrastructure. This platform encompasses banking, insurance, asset management, funds, aircraft leasing & Finance, Ship leasing & finance, International Bullion Exchange, FinTech ecosystem, foreign university branch campus, Global Capability Centre, and ancillary services, all while prioritizing ease of doing business and promoting diversity among products and participants.

In line with global standards, IFSCA prioritizes financial stability and compliance with anti-money laundering measures and counter-financing of terrorism. However, it also champions innovation, striking a balance between regulation and fostering financial creativity.

**GIFT IFSC- A Vision for the Future:** In the visionary words of the Hon'ble Prime Minister, Shri Narendra Modi, who conceived the concept of GIFT City way back in 2007 during his tenure as the Chief Minister of the State of Gujarat, the GIFT IFSC serves as a vital link connecting India with global opportunities and facilitating global investors' access to India's vast potential. With a forward-looking perspective, Prime Minister Modi envisioned GIFT IFSC as more than just a financial centre, and it is a gateway to unleash India's economic prowess on the world stage. During his visit to GIFT City in July 2022, he had also mentioned that "The vision of India's future is associated with the GIFT City; the dreams of India's golden past are also associated with it."



In its initial phase, spanning five to ten years, GIFT IFSC assumes the crucial role of facilitating the smooth flow of global capital into and out of the country. As a conduit for international investment, it lays the foundation for India's integration into the global financial ecosystem, fostering economic growth and prosperity.

Looking ahead, GIFT IFSC is poised to evolve further. In its second phase, fuelled by the accumulation of critical mass and experience, it aspires to compete with leading International Financial Centres (IFCs) for a greater share in the global market for financial services. Armed with resilience, innovation, and a commitment to excellence, GIFT IFSC is on course to emerge as a formidable player in the global financial arena, embodying India's aspirations for a brighter, more prosperous future.

The unique features of GIFT IFSC include the existence of a unified financial regulator in the form of IFSCA, best-in-class regulations, treatment of GIFT IFSC as a separate international financial jurisdiction under FEMA, 1999, a competitive tax regime, full capital account convertibility, concentration of financial institutions across banking, insurance, capital market, funds etc., including the supporting ecosystem, and above all the full support of the Government of India. As per the Statement of Objects and Reasons of the IFSCA Act, 2019, the primary purpose of the IFSCA is to bring back financial transactions and financial services carried out in foreign financial centres by Indian entities (or the subsidiaries of Indian entities) to India by offering world-class business and regulatory environment.

IFSCA has been given the twin mandate of development and regulation. As a modern regulator, IFSCA acts as an enabler and catalyst, and encourages innovation. It is also responsible to protect the interests of investors and depositors, ensure orderly conduct of market, ensure financial stability, and prevent money laundering and financing of terrorist activities. Apart from development of the financial sector, IFSCA has also developed a suitable framework for development of ancillary support services such Accounting, bookkeeping, legal advisory services, fund administration, asset management, auditing, and compliance services to financial institutions.

**Empowering Financial Ecosystems-The Crucial Role of Professional Services Firms:** In the dynamic landscape of International Financial Centres (IFCs), the presence of financial services firms and professional service providers is paramount.

The professional service providers serve as indispensable pillars supporting the delivery of financial services within IFCs. By offering expertise in providing consultancy services and advisory roles related to financial reporting, compliance, and taxation,

these professional services providers provide essential support to financial institutions, capital market entities, insurance firms, fund managers, and fintech companies. Their meticulous oversight also contributes transparency, accountability, and regulatory compliance, thereby instilling confidence in investors and stakeholders.

Beyond their role as support entities, globally, accounting firms, auditing, Book keeping, law firms and Taxation firms also offer as standalone financial services treated as financial services in their own right. Through their specialized knowledge and skill sets, they contribute directly to the financial ecosystem by facilitating efficient resource allocation, employment generation and efficient decision making.

**Global Trends and Developments:** The emergence of new-age financial centres such as Dubai International Financial Centre (DIFC), Abu Dhabi Global Markets (ADGM), Qatar Financial Centre (QFC), and Singapore has underscored the importance of promoting these jurisdictions as hubs for professional services, including accounting, auditing, bookkeeping, compliance services and taxation, under the category of Designated Non-Financial Business Professions (DNFBPs).

Singapore, a leading global financial centre in Asia, has spearheaded initiatives such as the Professional Services Industry Transformation Map (ITM). This strategic roadmap aims to elevate the professional services industry to global market leadership status through innovation and partnerships, fostering high-value, specialist services over a 5–10-year horizon.

Similarly, new-age financial centres like DIFC are prioritizing the development of a robust professional services industry, recognizing its role in generating significant employment opportunities. Services encompass areas such as accounting and audit, management and strategy consulting, and legal services, catering to both financial and non-financial institutions on a global scale.

In this background, IFSCA vide circular dated 10th February 2021 issued the Ancillary Services Framework, which enabled specified ancillary service providers to set up business operations in the GIFT-IFSC to provide professional services, namely, (i) Legal, Compliance and Secretarial services; (ii) Auditing, Accounting, Book-keeping and Taxation Services; (iii) Professional & Management Consulting Services; (iv) Administration, Assets Management Support Services and Trusteeship Services. Under the IFSCA's ancillary services framework, as present, around 68 entities were granted authorization as on March 31, 2024. These include the leading professional services firms, the fund administration services providers, trusteeship service



providers, Accounting & Auditing firms, Advisory and Consultancy firms and Law firms, Voice Broking and Ship Broking service providers.

In the evolving landscape of financial services, it is imperative to address the scope and ambit of support services such as Accounting, Auditing, Bookkeeping, and Taxation. While these services are encompassed within the Framework for enabling Ancillary services issued by IFSCA, their current scope is limited to aiding and assisting the delivery of financial services to defined entities and BFSI sector only.

To fully leverage India's dynamic and talented workforce and propel GIFT IFSC's competitiveness, there is an urgent need to consider expanding the scope of these support services to be treated as standalone financial services. This strategic progression aligns with the global demand for essential financial services, including the preparation of financial statements, reporting, bookkeeping, audit, tax filing, and compliance.

In a significant development, recently, the Government of India has issued a notification designating professional services, including accounting, bookkeeping, taxation, and financial crime compliance services, as standalone financial services under the purview of the International Financial Services Centres Authority (IFSCA) Act. This strategic move aims to propel GIFT IFSC into a global Finance and Accounting Hub, positioning India as a key player in the international financial landscape.

With the formal recognition of professional services as standalone financial services, GIFT-IFSC is poised to emerge as a centre of excellence for finance and accounting on the world stage. This is not only underscores India's commitment to fostering innovation and competitiveness but also highlights the immense potential of GIFT-IFSC to meet global demand for essential financial services.

India's dynamic and talented workforce, coupled with its robust regulatory framework and state-of-the-art infrastructure, positions GIFT-IFSC as a preferred destination for financial services outsourcing. GIFT-IFSC can harness its inherent strengths to capture a significant share of the global market, driving economic growth and prosperity for the nation.

The challenges before us are that even though these DNFBPs globally play a key role in protecting financial systems and economies from ML and TFS risks, but as gatekeepers, they are exposed to tremendous amounts of information, and act on behalf of their customers in many transactions. Some of these transactions are highly vulnerable to ML/TFS risks due to the nature of services offered by these DNFBPs. Some examples

could be the following, (i) A lawyer or legal services provider structuring different legal arrangements for its customers to thwart legal scrutiny in their respective jurisdictions; (ii) An accountant or auditor who provides professional services to window-dress financials for group of companies to avoid tax incidence while dealing with different accounting activities; (iii) A dealer in precious metals selling high-value items and accepting payments in cash.

The IFSCA has taken proactive steps in mitigating ML, TF and PF risks by way of issuing, monitoring and implementation of the IFSCA (AML, CFT and KYC) Guidelines in 2022.

Collaboration with professional institutes like Institute of Cost Accountants of India (ICMAI) is important to showcase business opportunities for professionals in GIFT IFSC. These outreach efforts will build awareness, foster collaboration, and attract talent to support GIFT IFSC's growth.

In conclusion, professional services providers are indispensable components of thriving financial ecosystems within International Financial Centres. As IFSCs continue to evolve and expand their footprint, the role of these professional service providers will remain integral, shaping the future of finance and fostering economic prosperity on a global scale.

IFSCA extends an invitation to professional services firms worldwide to leverage the vast potential of India's IFSC. With full cooperation and support from IFSCA, international financial services businesses can thrive in India, tapping into global capital flows while contributing to regional and global financial activities. The journey towards unlocking India's financial potential begins here.

### **Concluding Thoughts**

In looking to promote the SDGs within the financial services industry, the United Nations Global Compact and KPMG International (2015) produced the 'SDG Industry Matrix' which outlines opportunities for financial services companies to 'create value for their business whilst creating a more sustainable and inclusive path to economic growth, prosperity and well-being. Professional institution like Institute of Cost Accountants of India and its members play an important role in promoting SDG by way of providing project management, consultancy and advisory services to financial institutions towards increasing financial inclusion; investing in, financing and insuring renewable energy and infrastructure projects; and positively influencing environmental, social and governance practices of corporate clients and investment companies. **IMA**