

BANKING IN GIFT CITY



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As one of the largest and fastest growing economies, India has been a major consumer of financial services from the International Financial Centres like Singapore, Hong Kong, Dubai, etc. With the objective of bringing back to India the international financial service business generated from India, and gradually emerge as an international financial services hub at the regional and global level, the Government of India established India's maiden International Financial Services Centre (IFSC) at GIFT Multi Services SEZ in April 2015. The International Financial Services Centres Authority (IFSCA) was established on April 27, 2020, under the provisions of the IFSCA Act, 2019, as a unified regulator for the financial product, financial services and financial institutions (FIs) in IFSC

The Banking ecosystem is the cornerstone of the GIFT IFSC playing multiple roles as a financial intermediary, providing financial services to clients both outside and from India and facilitator of various services for registered units like mutual funds, AIF, stock exchanges within IFSC. The vibrant banking ecosystem in GIFT IFSC comprises 28 Banks and has a healthy mix of both foreign and domestic banks, set up as branches of their parent bank and termed as IFSC Banking Units (IBUs). The total Asset size of IBUs accounts for USD 60 Bn as on March, 2024 and cumulative value of transactions at USD 795 Bn. The IBUs' credit exposures on March 2024 stands at USD 34.92 Bn, covering countries like US, UK, Singapore, UAE etc. apart from India. Additionally, the cumulative derivatives trades by IBUs has crossed USD 796 Bn and the cumulative Non-Deliverable Forwards

Abstract

The Banking ecosystem is not only the cornerstone of the GIFT IFSC but also one of its most thriving financial services. The IFSCA (Banking) Regulations, 2020 and the IFSCA Banking Handbook lay down the comprehensive principle-based regulatory framework for banking business in GIFT IFSC. This enabling framework is benchmarked with best global standards and practices and has been a game changer in the road map of banking business in GIFT IFSC, resulting in an impressive growth of total banking asset size from \$14 bn. in September 2020 to \$60 billion in March, 2024. As India is evolving towards its 2047 goal of 'Viksit Bharat', IFSCA is determined to develop the GIFT IFSC as an international nerve centre for Banking activity.

(NDF) booked was over USD 439 Bn as on March, 2024.

The key enablers for such a thriving and stable banking ecosystem, showcasing exceptional growth rates over the past three years are the various policy measures like progressive Regulatory Framework, facilitating ease of doing business, competitive tax structures, etc.

Regulatory Framework for Banks in IFSC

To enable a sound, robust and stable banking ecosystem in IFSC, IFSCA notified the IFSC (Banking) Regulations, 2020 on November 18, 2020. These Regulations are proportionate, principle based and benchmarked with global best practice, aligned with the Basel Consolidated Framework. With a view to enhance ease of doing banking business in GIFT IFSC, the Authority issued the IFSCA Banking Handbook which is a single comprehensive source of all the instructions / directions governing banking operations in IFSC, aligned with the international standards. It comprises following three Directives:

- a. General directions (GEN)- includes provisions on licencing of IBUs, defines the 'controlled' and 'designated' functions and the requirements for 'approved / authorised individuals' who can

carry out such functions. It also lays out the broad principles for banking business and provides information about the IFSCA's supervisory powers, functions and approach.

- b. Conduct of Business directions (COB)- aims at ensuring that IBUs meet the minimum standard of conduct expected, particularly regarding the treatment of their clients, their dealings with counterparties and other market participants and contribute to fostering and maintaining the integrity of financial markets in the IFSC
- c. Prudential directions (PRU)-Prescribes the non-qualitative prudential requirements applicable to the Banking Company. On the principle that prudential requirements are meant for and are to be maintained and monitored at the bank level, for prudential requirements IBUs are to be guided by the requirements of the home regulator (i.e., the banking regulator of the jurisdiction where the parent bank has been incorporated).

Banking Activity- Permitted Currency

Under the provisions of the Foreign Exchange Management Act, 1999 ('FEMA'), FIs set up in the IFSC are treated as a person resident outside India and such FIs can undertake business in such foreign currency and with such persons, whether resident or otherwise, as prescribed by the concerned Regulator i.e IFSCA. These Directions enable capital to flow freely between FIs in IFSC and rest of the world and also facilitate FIs to freely channelise capital from rest of the world into India.

In line with these provisions, IBUs are permitted to undertake activities in 15 foreign currencies, termed as "specified currencies" which are USD, EUR, GBP, JPY, CAD, AUD, RUB, CHF, HKD, SGD, AED, SEK, NOK, NZD and DKK. The IBUs are barred from undertaking transactions in INR amongst themselves. However, they can deal in INR for administrative purposes by opening a SNRR account with AD Bank in India. IBUs can undertake transactions with persons resident in India in INR (subject to provisions of FEMA) or in any of the specified currency and transact with persons resident outside India, in any of the specified currency.

Banking in GIFT City-Mode of presence and operation

The IFSCA Banking Regulations permits a banking company to be established in four modes as described below. Once licenced by IFSCA, these entities can undertake the activities in the form stipulated under the

conduct of business direction of the IFSCA Banking Handbook.

- i. IFSC Banking Units (IBUs) can be set up as a branch of the parent bank and are permitted to undertake the business of 'banking' permitted under the Banking Regulation Act, 1949, financial product and financial service as specified under section 3 (d) & 3 (e), respectively, of the IFSCA Act, 2019 and are restricted from writing contracts of insurance.
- ii. IFSC Banking Company (IBC) can be set up in the form of a WoS of the Banking Company. This is a potential opportunity for existing IBUs whose business has grown substantially, to convert themselves into IBC for better regulatory comfort and also an enabling framework for issuing licence for Digital banks in IFSC. The Authority is in the process of issuing the Regulatory framework for the same.
- iii. Global Administrative Office (GAO) established by a Banking company, would primarily undertake management, supervision and coordination of operations of overseas branches (including IBU) of the Parent Bank and provide "support services" for banking activities undertaken within and outside IFSC.
- iv. Representative Office (REPO) established by a Banking company is permitted to provide marketing activities pertaining to financial services or financial products offered in a jurisdiction outside the IFSC by a 'related party' (i.e., its head office, another branch of the head office or a group member) and are prohibited from undertaking banking business in IFSC.

Banking in GIFT City- key advantages

- i. Unified Regulator-IFSCA is the single point of contact for registration under multi sectoral activities undertaken by IBUs. The upcoming single window application process and the SupTech project is expected to streamline the licensing process and regulatory reporting by IBUs.
- ii. Multiple business lines can be enabled under a single unit- The Banking Licence issued by IFSCA is a full stack licence enabling IBUs to undertake a whole gamut of financial services without setting up a separate entity.
- iii. Ease of doing business due to adoption of prudential Regulations prescribed by the Home Regulator - This facilitates ease of doing business

for IBUs who do not have to comply with disparate sets of prudential regulatory requirements prescribed by Home and Host Regulator.

- iv. Adoption of best international practices: For developing GIFT-IFSC as a global hub for banking, one of first steps is to create the regulatory regime akin to other peer International Centres. IFSCA's banking regulatory framework has been appropriately benchmarked with the best international practices and standards, for wide spectrum of aspects like licencing, prudential norms, outsourcing, permitting risk management instruments like participating in synthetic securitisation program of the parent bank, conduct of permitted activities, etc.
- v. Availability and proximity to large hinterland ecosystem- Being located on Indian Land, GIFT IFSC has emerged as preferred offshore banking jurisdictions for Indian clients (who were availing offshore financial services), owing to the easy connectivity and operating in the same time zone. Access to pool of manpower with requisite skillset of working both in domestic as well as international organization, state of the art infrastructure and the budding social infrastructure are some of the promising enablers for the Banking ecosystem.
- vi. Beneficial cost of operations-. The administrative expenses like rentals, maintenance, legal, salary etc. is significantly lesser than in other global IFSCs and is permitted to be undertaken in Rupee through the designated SNRR account.
- vii. Tax benefits under direct and indirect taxes- In order to boost investment in IFSC and provide parity to Regulated entities, GIFT-IFSC enjoys tax dispensation at par with other IFCs. These are in the form of tax holidays, relaxation in withholding tax etc.

Banking in GIFT City- Bank for the Future

The IFSCA Banking Regulations provide a full stack licence to bank which implies that a single unit along with providing traditional banking services can undertake other myriad financial services. GIFT City has a plethora of opportunities available in financial services for IBUs, some of them are as under

- i. Providing wholesale banking services (e.g., lending, ECB, trade finance CASA, etc.) for foreign subsidiaries of India headquartered corporations
- ii. Participate in global markets business, including treasury operations, dealing in non-deliverable

forwards (in INR and other currencies) and participatory notes

- iii. Provide acquisition financing to Indian & Foreign companies
- iv. Providing services to designated entities without risk participation
- v. Providing private wealth banking for NRIs in form of structured deposits, distribution of foreign currency denominated capital market and insurance products
- vi. Distribution of capital market products
- vii. Participate in an authorised payment system and offer payment services
- viii. Participate in aircraft-leasing and associated ecosystem for India & near shore markets, ship acquisition, financing and leasing of India and nearshore markets
- ix. Enable opening and managing of Foreign Currency Accounts (FCA) for Resident Individuals for undertaking permissible transactions under the Liberalised Remittance Scheme of the Reserve Bank of India.

Conclusion

As India is evolving towards its 2047 goal of 'Viksit Bharat', IFSCA is determined to develop the GIFT IFSC as an international centre for Banking activity. The availability of international banking services at competitive costs in GIFT IFSC and the enabling regulatory environment for the same has immense potential to boost the Indian corporates and entities, by providing key international banking services and in effect completely shifting such markets in other overseas financial jurisdictions, to India. Due to its proximity to the hinterland, IBUs can also effectively cater to the FCY requirements of SMEs, who have limited access to FCY funds from other offshore centres and in turn boost their competitiveness in the global export market.

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