



**“Regulatory Framework for IFSC in
India: The experience of GIFT IFSC”**

by

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Presentation Overview



- Background
- Potential of IFSC
- International Scenario
- Indian Scenario
- Regulatory Framework
- Experience of GIFT IFSC
- IFSC Way forward

Evolution



- In Financial arena infrastructure is vast and expensive to construct.
- To keep costs down many activities are grouped at one location e.g. activities close to a stock exchange's trading floor.
- The world is politically segmented, but economically integrated.

Potential of IFSC



Financial Hubs



London

9



5.2



New York

10



5.4



Hong Kong

13



5.5



Singapore

12



5.2



Zurich

10



4.0



Franfurt

5



5.0



Sydney

8



4.0



Tokyo

20



10.0



Dubai

11



N/A



Channel Islands

60



30.0



Luxemburg

30



10.0





International Scenario

International Scenario



- Experience of developing International Financial Services Centre (IFSC) across the globe has been very encouraging.
- When fully developed these centres contribute between 8-60% to the GDP and create employment of around 5% in those centres.
(IFSL, UK, 2007).

Global Business IFSC



Banking



Insurance



AMC



Capital Markets

Financial services sector is growing rapidly worldwide..

- ▶ Global foreign claims (assets and liabilities) stood at USD32.3 trillion in 2013
- ▶ Global insurance premium stood at USD4.9 trillion in 2013
- ▶ Expected to grow at 18% to USD5.8 trillion by 2018
- ▶ Global AuM stood at USD68.7 trillion in 2013
- ▶ Expected to reach USD132.1 trillion by 2020
- ▶ Global IPO increased by 10%, USD216 billion raised via 1546 IPOs in 2013

*As of 2013

#Global Trade Flows – 37706 trillion at the end of 2013



Indian Scenario



Indian Scenario



- Financial Services has been contributing significantly to GDP with employment of around 3 mn people, GDP contribution of about 5% and estimated market capitalization of about USD 200 bn.
- By 2020, the sector could comprise a potential of about 10 mn jobs and GDP contribution of about 350 to 400 bn i.e. around 15-20%.

(Mckinsey Study for GIFT City).



IFSC



IFSC as envisaged in Indian context...



a jurisdiction that provides financial services to non-residents and residents, to the extent permissible under the current regulations, in any currency except Indian Rupee.

What does the IFSC seek to do?



Seeks to bring to the Indian shores, those financial services transactions that are currently carried on outside India by overseas financial institutions and overseas branches/subsidiaries of Indian financial institutions to a center which has been designated for all practical purposes as a location having the same eco system as their present offshore location, which is physically on Indian soil.

Need for IFSC in India



- Purchase by Indian households and firms of IFS is nearly \$50 billion (2015) and could exceed \$120 billion by 2025.
- India has already become a large purchaser of IFS from the rest of the world (ECB 2015-16 availed by Indian Companies US \$ 24 bn)
- Over half of the dollar-rupee market is now overseas.
- NIFTY Trading > 50% traded at SGX, Singapore

Indian IFSC Opportunity

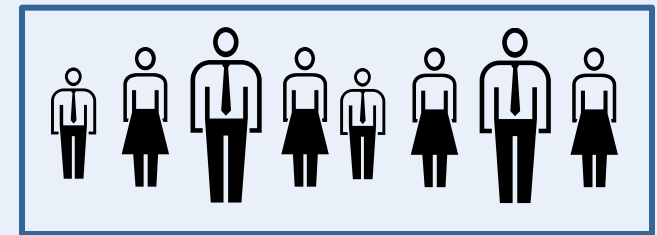
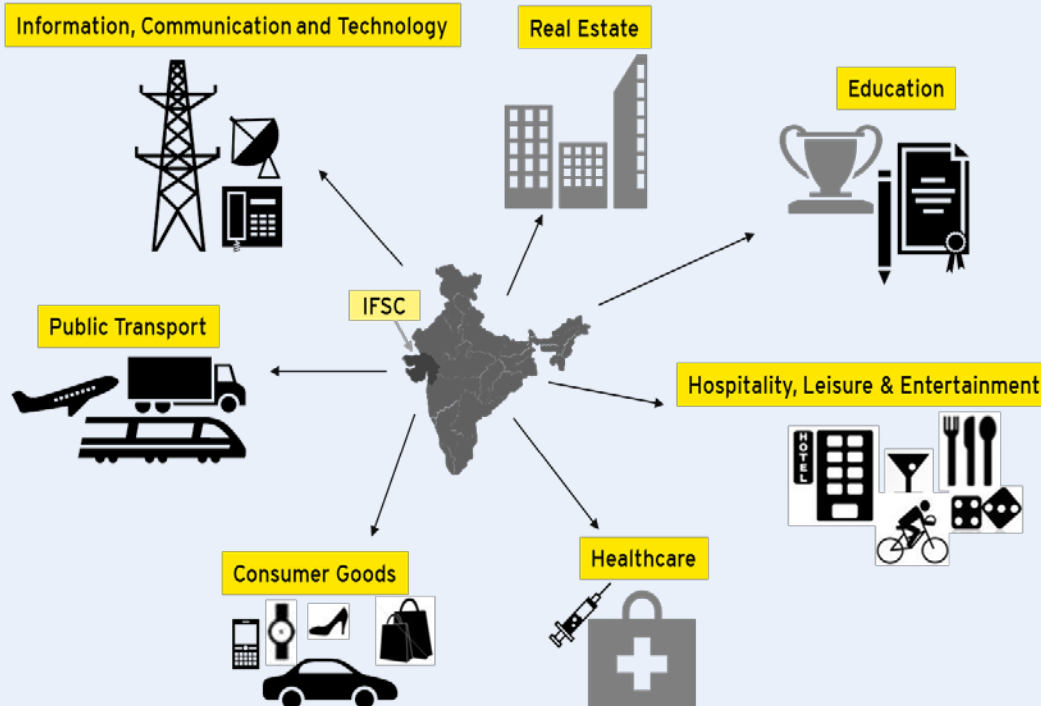
Indirect Benefits



IFSC will have a multiplier effect on the Indian economy through growth in employment in support and services sectors such as Real Estate, Utilities, Telecom, Education, Healthcare, Consumer goods etc.

IFSC driving growth in secondary sectors
(Multiplier effect)

Growth in Employment



Contribution to India's
GDP

Tax Revenue for the
Government*



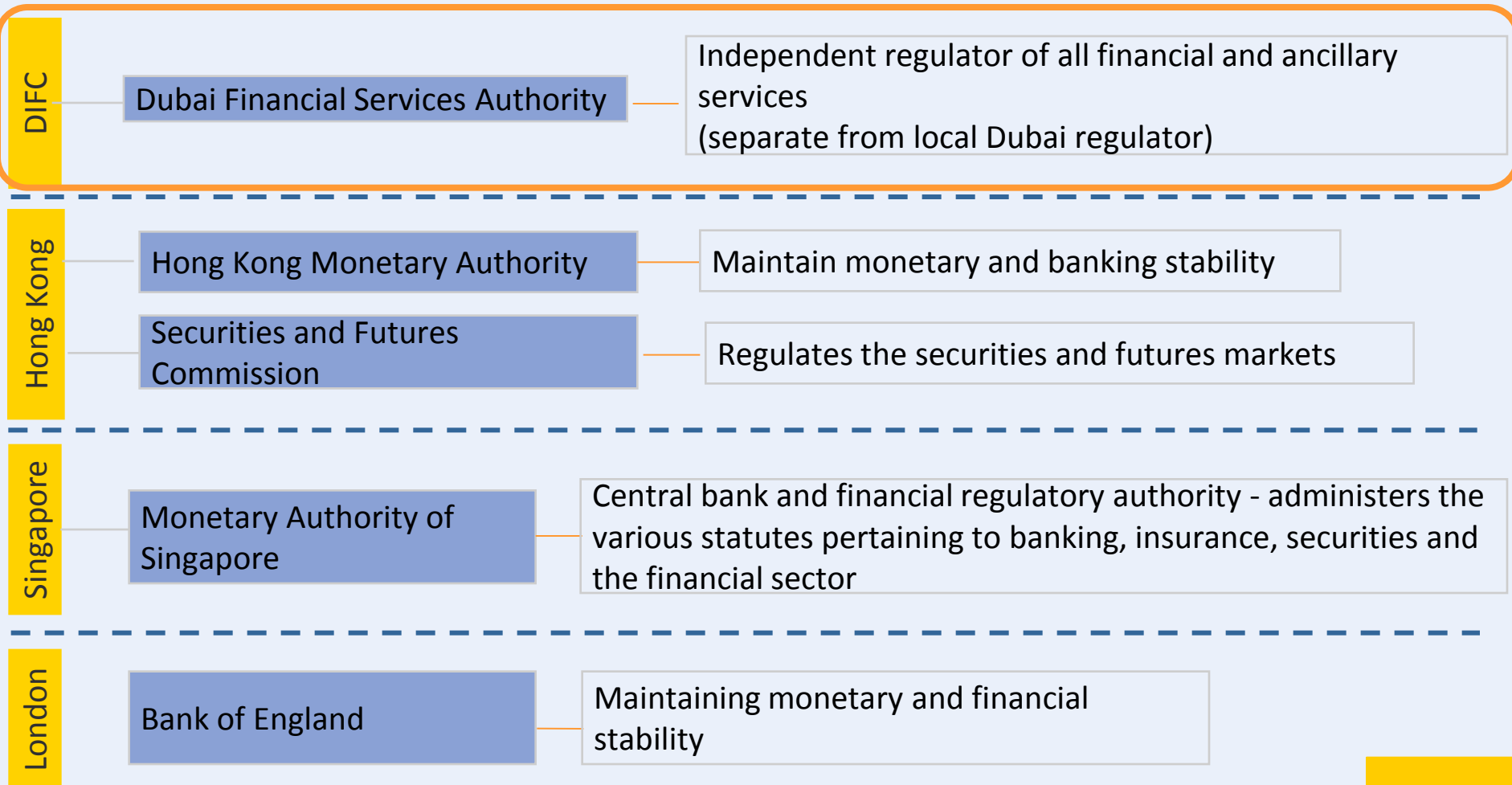
*Tax Revenue includes Direct tax revenues (Income tax etc.) as well as Indirect tax revenues

Setting up of IFSC in India



- Govt. of India (GoI) initiative – SEZ route
- Announcement in Budget 2015
- Regulators RBI, SEBI & IRDA issued operating guidelines
- India's first IFSC operationalized at GIFT City, Gujarat

International Regulatory Structures



Hon'ble Finance Minister's Budget Speech (February 28, 2015) covering IFSC



“While India produces some of the finest financial minds, including in international finance, they have few avenues in India to fully exhibit and exploit their strength to the country’s advantage.

GIFT in Gujarat was envisaged as International Finance Centre that would actually become as good an International Finance Centre as Singapore or Dubai, which, incidentally, are largely manned by Indians. The proposal has languished for years. I am glad to announce that the first phase of GIFT will soon become a reality. Appropriate regulations will be issued in March.”

Announcement by Government of India



➤ Ministry of Finance

- Announced the contours of IFSC on 01-Mar-2015.
- IFSC tax incentives announced in Union Budget 2016
- Clarification for IFSC Banking Units on Withholding Tax

➤ Ministry of Commerce

- Procedure for setting up an IFSC unit in SEZs on 08-Apr-2015.
- Allowed Legal & Accounting firms to operate from multi services SEZ (Jan 2017)

IFSC Regulations by Regulators

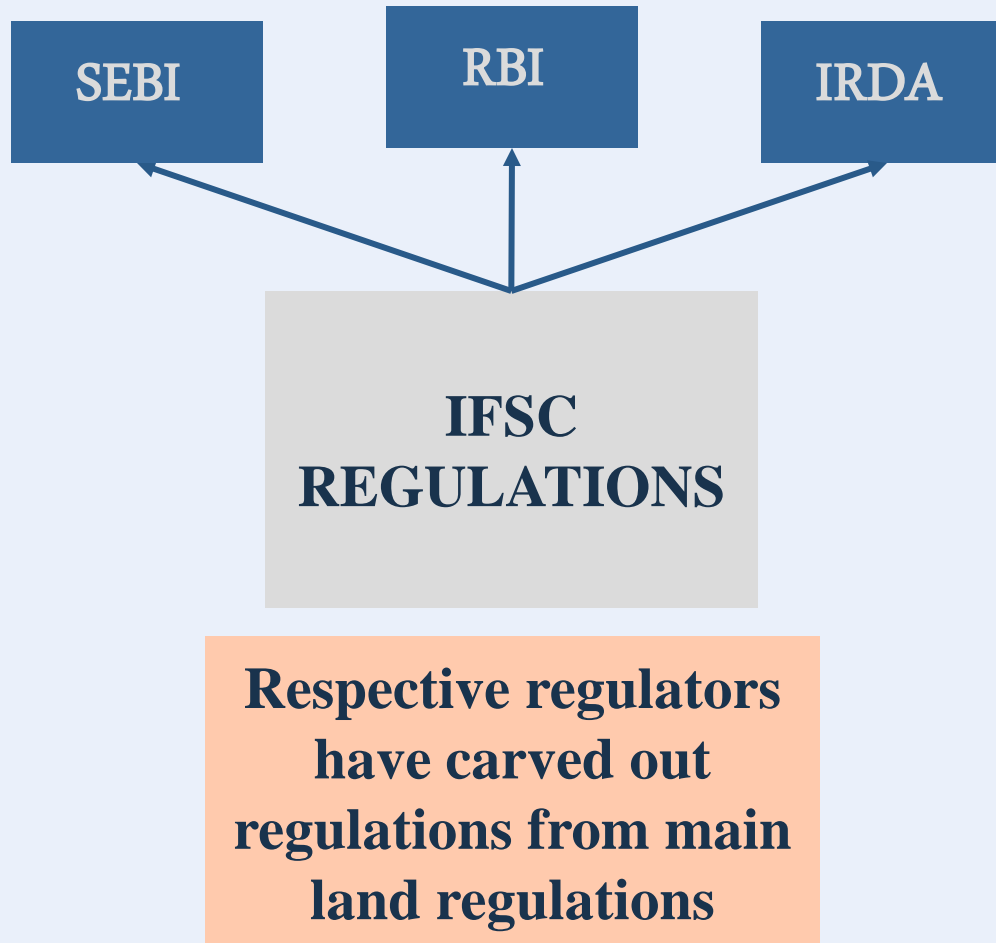


- **SEBI** :
 - Announced IFSC guidelines on 27-Mar-2015.
 - Allowed Commodity Derivative trading from IFSC on March 17, 2016
 - Guidelines for functioning of Stock Exchanges and Clearing Corporations in IFSC on November 28, 2016

- **RBI** :
 - Announced Foreign Exchange Management (IFSC) Regulations, 2015 on 02-Mar-2015; Setting up of IFSC Banking Unit on 01-Apr-2015.
 - Circular on “Setting up of IFSC Banking Units (IBUs) - Permissible activities” on January 07, 2016
 - Circular on “Setting up of IFSC Banking Units (IBUs) - Permissible activities” on November 10, 2016

- **IRDAI** :
 - Announced IRDA (IFSC) Guidelines, 2015 on 06-Apr-2015.
 - Circular on Issues pertaining to opening of offices in IFSC, GIFT City, Gujarat on January 28, 2016

Regulatory Framework



Important Pillars of Successful IFSC

- Competitive Tax Regime
- Ease of Doing Business – Company Law Provisions
- International Dispute Resolution - SIAC





Competitive Tax Regime

- **Department of Revenue**

- MAT reduced to 9% for IFSC units
- DDT, CTT, STT, LTG tax waived off
- Withholding Tax exempted for IFSC Banking Units

Ease of Doing Business

- **Ministry of Corporate Affairs**

- Notification issued exempting certain provisions of Company law for IFSC entities – Jan 04, 2017.

- Public Limited Company
- Private Limited Company

- Nodal officer appointed for GIFT IFSC for ease in company incorporation process

Key Provisions under Companies Act



- Formation of company
- Registered office
- Appointment of directors
- Management and administration
- Audit and auditors
- Corporate social responsibility (CSR)
- Relax timelines
- Administrative flexibility

Regulatory Announcements - Regulators

- Clarifications received from RBI:
 - Opening of Account by IFSC Banking Units
 - Exposure ceiling for IBUs
 - Interbank borrowings
 - Raising & Deployment of Funds
 - Derivative Structured transactions by IBUs
 - IBUs are allowed to act as Underwriter for INR denominated overseas bonds
 - IBUs are allowed to open temporally escrow account of Indian resident entities

Regulatory Announcements - Regulators

- Clarifications received from SEBI:
 - Commodities included in a definition of “Securities” for IFSC
 - Allowed 23 hours 30 minutes operations for IFSC exchanges
 - Single market structure for IFSC exchanges
 - Product category defined
 - Allowed trading of Masala Bonds
 - Allowed IFSC entities to avail dispute resolution mechanism offered in IFSC
- Clarifications received from IRDAI:
 - Allowed Reinsurance Brokers to operate from GIFT IFSC

PM's VISION



There has been criticism for long that a lot of trading, even in Indian financial instruments, is currently taking place abroad. It is said that India has stopped becoming the price setter for even some Indian financial instruments. Gift city will be able to mitigate many of these criticisms.

But my vision for GIFT City is larger. My vision is that in ten years from now, GIFT City should become the price setter for at least a few of the largest traded instruments in the world, whether in commodities, currencies, equities, interest rates or any other financial instrument.

Shri Narendra Modi

Hon'ble Prime Minister of India

Jan 09, 2017

India on the MAP of Global Financial Centre's



April 10, 2015, GoI -Operationalized India's 1st IFSC – GIFT IFSC

IFSC entities at GIFT

Type of entity	No.
Capital Market intermediaries	87
International Exchanges	02
Clearing Corporations	02
Alternate Investment Fund	01
Banks	09
Insurance Companies	02
Reinsurance Brokers	02
Total	105

IFSC Banking Business at GIFT

- IFSC Banking Units have done business transactions of around USD 2.5 bn from GIFT IFSC till date.
- The transactions include :
 - External Commercial Borrowing (ECB)
 - Loan Syndication
 - Trade Finance
 - Term loan
 - Inter Bank borrowing / lending

INSTITUTIONS OCCUPYING SPACE at GIFT IFSC

International Arbitration



To open office at GIFT & GIFT to provide hearing facilities

IFSC Transactions worth US \$ 2.5 Billion Executed

Banking

YES BANK



State Bank of India



बैंक ऑफ़ बड़ौदा
Bank of Baroda

IndusInd Bank FEDERAL BANK
YOUR PERFECT BANKING PARTNER



Insurance



THE NEW INDIA ASSURANCE COMPANY LTD.
(Wholly owned by the Govt. of India)



आपत्काले रक्षिष्यामि
GIC Re

Brokers



PINC PIONEER INSURANCE & REINSURANCE BROKERS PRIVATE LIMITED

Capital Markets



87 Brokers Incorporated,
Additional 40 in process
of incorporation



IFSC Way Forward

- **Regulations will play key role for growth of IFSC**
- **Benchmark Business & Regulations with Global Centre(s)**
- **Carved out Vs. Unified Regulator**
- **Domestic Vs. International Zone**



Thank You

