Expert Committee Report

on

IFSC International Retail Business Development

October 2020

FinServe from India

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Glossary

Sr.no.	Abbreviations	Definition
1	AD	Authorised Dealer
2	ADRs	American Depository Receipts
3	AIFs	Alternative Investment Funds
4	AML	Anti-Money Laundering
5	ARFP	Asia Region Funds Passport
6	ASEAN	Association of Southeast Asian Nations
7	AUA	Assets Under Advice
8	AUM	Assets Under Management
9	AWM	Asset and Wealth Management
10	BCG	Boston Consulting Group
11	BIS	Bank for International Settlement
12	BUA	Built up Area
13	C.F.	Cost and Freight
14	CCIL	Clearing Corporation of India Ltd.
15	CDD	Customer Due Diligence
16	CDSL	Central Depository Services (India) Limited
17	COVID-19	Coronavirus disease 2019
18	CRR	Cash Reserve Ratio
19	CTF	Counter-Terrorism Financing
20	DC	Development Commissioner
21	DIFC	Dubai International Financial Centre
22	DIFCC	DIFC Court
23	DTA	Domestic Tariff Area
24	DTAA	Double Taxation Avoidance Agreement
25	ECBs	External Commercial Borrowings
26	EEFC	Exchange Earners Foreign Currency Accounts
27	ESG	Environmental, Social, and Governance
28	ESMA	European Securities and Markets Authority
29	ETFs	Exchange Traded Funds
30	EU	European Union

Sr.no.	Abbreviations	Definition
31	FATF	Financial Action Task Force
32	FCNR	Foreign Currency Non-Resident Accounts
33	FCY	Foreign Currency
34	FDI	Foreign Direct Investment
35	FEMA	Foreign Exchange Management Act, 1999
36	FOB	Free on Board
37	FPI	Foreign Portfolio Investor
38	FPO	Further Public Offer
39	FRB	Foreign Reinsurance Branches
40	FVCI	Foreign Venture Capital Investor
41	GDP	Gross Domestic Product
42	GDRs	Global Depository Receipts
43	GIFT City	Gujarat International Finance Tec-City
44	GoI	Government of India
45	G-Secs	Government Securities
46	GST	Goods and Services Tax
47	HKEX	Hong Kong Stock Exchange
48	HNIs	High Net Worth Individuals
49	HNW	High Net Worth
50	IAIS	International Association of Insurance Supervisors
51	IAs	Investment Advisers
52	IBUs	IFSC Banking Units
53	ICC	International Commercial Court
54	ICE	Intercontinental Exchange
55	IFCs	International Finance Centres
56	IFSC	International Financial Services Centre
57	IFSC Act	International Financial Services Centres Act, 2019
58	IFSCA	International Financial Services Authority
59	IIIO	IFSC Insurance Intermediary Office
60	IIO	IFSC Insurance Office
61	INR	Indian Rupee
62	Insurance Act	Insurance Act, 1938

Sr.no.	Abbreviations	Definition
63	InvITs	Infrastructure Investment Trusts
64	IOSCO	International Organization of Securities Commissions
65	IPO	Initial Public Offer
66	IRDA	Insurance Regulatory and Development Authority
67	ITA	Income-tax Act, 1961
68	KYC	Know Your Customer
69	LCR	Liquidity Coverage Ratio
70	LEI	Legal Entity Identifier
71	LLP	Limited Liability Partnership
72	LRS	Liberalised Remittance Scheme
73	MAS	Monetary Authority of Singapore
74	MCA	Ministry of Corporate Affairs
75	MFs	Mutual Funds
76	MoC	Memorandum of Cooperation
77	MoU	Memorandum of Understanding
78	NDDC	Non-deliverable derivative contract
79	NDF	Non-deliverable Forward
80	NISM	National Institute of Securities Markets
81	NOF	Net Owned Funds
82	NRI	Non-resident Indian
83	NSDL	National Securities Depository Limited
84	NSFR	Net Stable Funding Ratio
85	OECD	Organisation for Economic Co-operation and Development
86	PCFC	Packing Credit Loan in Foreign Currency
87	PFRDA	Pension Fund Regulatory and Development Authority
88	PIOs	Persons of Indian Origin
89	PMs	Portfolio Managers
90	RBI	Reserve Bank of India
91	REITs	Real Estate Investment Trusts
92	RFC	Resident Foreign Currency Accounts
93	RTC	Regional Treasury Centre
94	SAARC	South Asian Association for Regional Cooperation

Sr.no.	Abbreviations	Definition
95	SBN	Sustainable Banking Network
96	SEBI	Securities and Exchange Board of India
97	SEZ	Special Economic Zone
98	SIAC	Singapore International Arbitration Centre
99	SICC	Singapore International Commercial Court
100	SLR	Statutory Liquidity Ratio
101	SPV	Special Purpose Vehicle
102	SWFs	Sovereign Wealth Funds
103	TD	Term Deposits
104	UCC	Unique Client Code
105	UCITS	Undertakings for Collective Investments in Transferable Securities
106	US$	United States Dollar
107	USFDA	US-Food and Drug Administration
108	VCC	Variable Capital Company
109	WAIFC	World Alliance of International Financial Centers
110	WTO	World Trade Organization

Preface to the Report of the Expert Committee – IFSC International Retail Business Development

By office order dated 3 August 2020, the International Financial Services Authority (IFSCA) appointed a Committee with Mr. Pradip Shah as the Chairman with the following terms of reference:

1. To suggest how to develop international retail business in the International Financial Services Centre (IFSC) along with potential strategies for making the IFSC attractive for international financial services;
2. To provide a roadmap for future growth of international retail business in the IFSC;
3. The Committee may also examine and recommend any other issues that are important, although not specifically mentioned in the above terms of reference.

Other members of the Committee are Mr. G Srinivasan (ex CMD, New India Assurance Ltd.), Mr. Siddhartha Sengupta (ex DMD, State Bank of India), Mr. Shyamal Mukherjee (Chairman, PwC India), Mr. Prakash Subramanian (Head-Strategy, Standard Chartered Bank, India), Mr. Dipesh Shah (Head IFSC Department, Gujarat International Finance Tec-City Co. Ltd.), and Mr. Nitin Jaiswal (Head - Government Affairs & Strategic Relations, Bloomberg LP, Asia Pacific). A brief profile of each member is provided in ***Appendix***.

Given the immense potential and untapped opportunity, the Committee feels that swift action in certain identified areas can energize the IFSC and this will have a huge multiplier effect for the country's growth.

The Committee expects that the IFSC will offer living, learning and leisure infrastructure comparable to that available at other International Financial Centres (IFCs) to attract and retain high-quality talent. The operating philosophy for the IFSC retail business is envisaged as follows:

- Compliance with international standards on transparency, global standards on anti-money-laundering and combating terrorist financing and international information-exchange agreements to build a reputation for probity;
- Effective regulation of fiduciary entities to provide confidence to investors about the safety of their money and fairness in treatment;

- Light regulatory touch with simple-to-understand regulations, simple processes, only digital interactions, responsive regulators, minimum and only occasional form-filling, and ease of doing business for both individuals and business entities;
- Efficient, cost-effective and comprehensive services;
- Confidentiality;
- Tax efficiency (but not tax evasion);
- Prompt and effective redressal systems;
- Stability of rules and regulations.

The Committee envisages that the Liberalised Remittance Scheme (LRS) naturally fits with the IFSC and with the appropriate regulatory approach, the IFSC can swiftly attract LRS business. Out of the total LRS remittance of US$ 18 bn in 2019-20, LRS remittance for Deposits and Investments in equity/debt tantamount to almost US$ 623 m and US$ 431 m respectively[1]. This will energise economic activity from the IFSC and in approximately five years of operations, the IFSC will build a reputation amongst service providers and their clients and it will be recognised as a formidable competitor to the decades-old well-established centres, such as Singapore, Dubai, Hong Kong and London.

The IFSC should also position itself as a centre that has special experience in a functional area, such as green finance and investments. The IFSC will by then be moving swiftly towards a vibrant international financial centre and a destination for retail investors' funds (and not merely serve as a conduit for such funds). This will be measured in terms of assets under management (AUM), number of clients served globally, number of jobs created by entities in the IFSC in providing international financial services, and the income generated for the entities.

To address these goals, the Committee has identified Banking, Insurance, Financial Intermediation and Asset Management as key retail-oriented activities with other services such as investment advisory, financial planning, company formation, trusts administration, funds administration and tax advisory as necessary allied services.

The Committee has also identified other activities that can be advantageously combined with the retail activities. The Committee has then proceeded to discuss what the IFSC can

[1] RBI bulletin No. 35, Outward Remittances under the LRS for Resident Individuals as on 14 May 2020

do to attract players in these key activities, focusing on the enabling environment, which would attract such players and promote competition among them, leading them to offer customer-centric, comprehensive suite of financial products and services desired or needed by their clients. The Committee has interacted with entities providing different financial services in India and overseas and noted their suggestions for the IFSC to create a business environment conducive for operations. The Committee has also examined regulations in other or IFCs. The Committee has given pointers to the regulatory touch desirable without drafting actual regulations, which is the prerogative of the IFSCA. The Committee has also noted some pain points for businesses in the Indian laws, regulations and processes, which will inevitably apply to them.

Mr. Injeti Srinivas and the IFSCA have the challenging task of building a vibrant, large, reputed and respectable IFSC in the face of stiff competition from other established world centres. The Committee believes that the IFSC can seize the opportunity and become an engine of economic growth for India. The members of the Committee have worked in this spirit, offering their knowledge, experience, network and time in the service of the country.

Executive Summary

1. The IFSC can become an important gateway for international investors and businesses to access and participate in the India growth story. This role is currently played by other regional financial centres in Asia, the Middle East, and Europe.

2. Because of its strategic location, the Indian IFSC can further expand to become the offshore financial centre for countries in South Asia and the Mekong delta region.

3. As a greenfield IFSC and with a new regulatory body, there is also an opportunity for the IFSCA to set a new global benchmark by providing an environment that fosters innovation in financial products and services and the development of financial technology solutions on the back of a progressive regulatory framework and a conducive work environment.

4. The terms of reference of the Committee was to create a roadmap for the development of international retail business in the IFSC. The terms of reference also permitted the Committee to make other suggestions. In view of development of the IFSC, the Committee has taken the liberty to make recommendations that may not strictly be related to retail businesses.

5. The IFSC can aim for the following:

    - Become a gateway to India growth story for international investors and business
    - Provide the Indian diaspora and individuals from Asia and Africa with a comprehensive range of financial services from the IFSC
    - Provide International Financial Services to domestic residents under the LRS

6. There is immediate potential to promote international retail business in the IFSC, and if done efficiently, it will meet the three key objectives: a) boosting job creation, b) generating additional revenue for India, and c) attracting funds (especially from the Indian diaspora) for building India's infrastructure.

7. The IFSC with its approach of '**FinServe from IFSC**' would complement the 'Make in India' vision of the Government of India (GoI).

8. Inherent advantages for the IFSC

8.1. The inherent advantage of an IFSC is that the greenfield regulator can set new benchmark in defining a robust yet light-touch regulatory framework.

8.2. The IFSC can provide access to strong India hinterland opportunities.

8.3. The IFSC can tap into the strong Non-resident Indian (NRI) retail investors base and provide access to an efficient English-speaking talent pool.

8.4. Companies set up in the IFSC will be able to provide comprehensive, high quality financial services at a globally competitive cost to their customers.

8.5. Indian companies can tap into the opportunity of listing their products such as American Depository Receipts (ADRs)/ Global Depository Receipts (GDRs), Masala Bonds etc. in the IFSC exchanges, rather than going overseas, at a relatively low cost.

8.6. The IFSC can also become a significant capital-raising platform for neighbouring countries, such as Sri Lanka, Bangladesh, Nepal, Myanmar, etc. and for listing their companies on an international exchange.

9. Key Success factors for the IFSC

9.1. The IFSCA should aim to benchmark itself with the best-in-class jurisdictions and balance the regulatory touch with ease of doing business. Living, learning and leisure at the IFSC should be comparable to those in developed centres like Dubai and Singapore in order to attract and retain talent which would be a source of competitive advantage.

9.2. The IFSCA should perform the dual role of a regulator and of business development.

9.3. The IFSCA should act as a "Unified Regulator" in form and spirit – independent of onshore regulators.

9.4. It should adopt a new regulatory framework that is light-touch and principle-based. However, the IFSCA should also be mindful that there is no impasse of decision-making while transitioning to the new independent regulatory regime.

9.5. It should actively engage with other International regulators and position the IFSC in India as a jurisdiction of repute. Reciprocity agreements with host country regulators of important target countries should be explored to facilitate smooth flow of business with those countries.

9.6. It should focus on building the entire eco-system, which is required in the development of a strong IFSC.

9.7. The proposition for the IFSCA should be very simple - *Don't compete, complement and create a niche*. The IFSCA should identify unique value propositions to differentiate itself from other offshore jurisdictions.

9.8. The IFSCA should focus on capacity building – infrastructure, institutional and talent to be future ready. The aim should be to create a best-in-class institution and build a state-of-art infrastructure that acts as a magnetic force to attract people to the IFSC.

9.9. The IFSCA should focus on technology and aim to go completely digital with its regulatory framework and position itself as technology savvy, digitally driven Financial Markets Hub.

9.10. The IFSCA should build an aggressive global outreach and engagement program to create awareness, attraction and brand for the IFSC. It should take up marketing initiatives with Indian consulates, embassies, and NRI associations in targeted markets as well as engage in knowledge disseminating programs for targeted audiences to promote the IFSC. This should include sharing of detailed/ granular-level information with customers to help them invest in various products suitable to them.

9.11. The speed of go-to-market initiatives are important for the success of any business. The IFSCA should therefore adopt a 'use and file' approach to encourage firms to innovate, improvise and launch insurance products faster.

9.12. The IFSCA should support and encourage the formation of industry associations as a platform for engagement and market feedback. This will create an environment of trust and partnership.

9.13. Ideally for most investors in the IFSC markets, 'withholding tax should be the final tax' without any need for them to file income-tax returns. For capital gains tax purposes, there should be a system for withholding taxes on net capital gains.

10. Banking Sector - Recommendations

10.1. **Retail participation:**

- Permit retail participation including LRS investments by resident Indians and enable IFSC Banking Units (IBUs) to provide banking products and solutions to retail/ individual clients.

- Permit clients to open interest-bearing retail accounts such as savings, current and term deposits in the 'currency of their choice'.

- Wealth management capabilities should be enabled in the IBU by allowing investments in various markets across different geographies.

- Resident individuals and resident Family office entities should be allowed to access the LRS route for remittance purposes.

10.2. **Corporate business:**

- Permit IBUs to offer foreign currency (FCY) clearing services from the IFSC. For this purpose, a central clearing mechanism should be set-up in the IFSC.

- Permit IBUs to provide INR External Commercial Borrowings (ECBs) to Indian borrowers.

- Permit IBUs to obtain Foreign Portfolio Investor (FPI) license and invest in rupee-denominated Government Securities (G-Secs), corporate bonds and other permissible rupee-denominated securities.

- Permit IBUs to extend financing to Indian exporters for pre-shipment (in addition to post shipment) in FCY.

- Permit IBUs to open current account (including Escrow account) for all entities who wish to do so.

10.3. **Liquidity Ratios:**

Remove the requirement to maintain liquidity ratios [Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)].

10.4. **Foreign Banks not having presence in India:**

Foreign Banks not having presence in India (or having only a representative office in India) should be permitted to setup an IBU in the IFSC.

11. Insurance Sector - Recommendations

11.1. **Life Insurance:**

- Permit NRIs/ Persons of Indian Origin (PIOs) to buy Insurance policies for themselves as well as their family members who are based in India and abroad from companies set up in the IFSC and allow them to pay premium in the currency of their choice (including Indian Rupees).

- Permit NRIs/ PIOs to buy portable insurance policies that offer them flexibility to pay premium in INR or in FCY, based on their choice, after they return to India.

- The focus should be on life products such as unit linked products, pension or annuity products etc.

11.2. **Health insurance:**

- Permit residents to buy overseas health insurance for themselves and their dependents (in India and overseas) from insurance companies or intermediaries in the IFSC for medical treatment anywhere in the world.

- Allow insurance companies to offer health insurance products to NRIs/ PIOs including covering their family members who are based in India.

- Allow Indian insurance companies to offer Mediclaim policies out of the IFSC for treatment in India, especially to residents of African countries who look at India as a popular destination for medical tourism.

- Allow life insurers to provide health indemnity policies separately or as riders to life products.

11.3. **Non-life insurance:**

- Permit insurance companies in the IFSC to offer personal accident cover, baggage loss, documents loss cover and travel health insurance anywhere in the world for NRIs/ PIOs and to any other non-resident.

- Permit insurance companies to issue homeowner policies from the IFSC for covering property owned by NRIs/ PIOs in India and abroad.

- Expand the insurance offerings to the nationals of other countries, especially frontier markets such as Bangladesh, Sri Lanka, and Mauritius, and African countries such as Kenya, Nigeria, Ghana and Morocco.

- Permit insurance companies to offer surety bonds, issue trade credit insurance and Protection and Indemnity insurance out of the IFSC.

- Encourage insurers to offer coverage for the global properties of Indian Companies and others.

- The IFSC can emerge as an Aviation Insurance Hub covering aviation companies across the world.

- The IFSC insurers can target Marine Cargo insurance taken abroad in respect of Imports and Exports.

11.4. **Reinsurance:**

- The IFSC has the potential to emerge as a Reinsurance Hub for Asia and Africa.
- Reduce Net Owned Funds (NOF) requirement to INR 5 bn to promote mid-sized foreign reinsurers to set up base in the IFSC.
- The IFSC Insurance Offices (IIOs) should be given an equal preference similar to the Foreign Reinsurance Branches (FRB) for participation in reinsurance placements of Indian insurers.

11.5. **Investments:**

- Exempt insurance companies in the IFSC from the investment restriction provisions provided by the Insurance Regulatory and Development Authority (IRDA).
- Draft separate investment regulations, offering more flexibility to invest both in India and abroad to get better returns, keeping in view the safety of the investments.

11.6. **Other suggestions**

- Allow subsidiaries to be set up in the IFSC with appropriate prescribed capital and NOF requirement.
- Allow Indian investors to set up direct insurance and reinsurance companies in the IFSC with lower capital requirements to promote insurance abroad.
- Reduce the capital requirement for foreign direct insurers to bring it at par with Indian insurance entities.
- No separate solvency requirement for IIOs should be prescribed for a branch of the insurance company.

- Increase the retrocession limit beyond the current 90% to such limit as the Board of the insurance company may deem fit.

- Encourage foreign reinsurance brokers to set up a base in the IFSC to promote a vibrant insurance market.

12. Asset management and Capital Markets - Recommendations

12.1. **IFSC exchanges:**

- Permit resident individuals to invest in companies listed on the IFSC exchanges via the LRS route.

- Allow block/ bulk deals on the IFSC exchanges.

- Develop a framework for allowing foreign or Indian issuers to raise equity or debt in the IFSC.

- Remove regulatory/ taxation bottlenecks for the issuance of ADRs/ GDRs by Indian companies in the IFSC.

- Increase the range of products that can be offered on the IFSC market.

12.2. **Intermediaries:**

- Allow foreign brokers to setup branch structure in the IFSC.

- Allow wholly owned subsidiaries of banks to operate as Trading/ Clearing Members without setting up a separate company.

- Permit Omnibus Structures in the IFSC with appropriate safeguards.

- Provide direct access to institutions/ intermediaries based in the IFSC to participate in markets outside India.

12.3. **Depositories:**

- Provide 'Foreign' depository status to branches set up by Indian/ Foreign depositories in the IFSC.

12.4. **Asset and Wealth Managers**

- Permit resident individuals to invest in Alternative Investment Funds (AIFs) or Mutual Funds (MFs) in the IFSC via the LRS route.

- Issue/ develop own set of comprehensive Regulations/ Guidelines for AIFs, MFs and Investment Advisers (IAs) and Portfolio Managers (PMs) rather than adapting, tweaking and modifying existing regulations from the mainland.

- Seek preferential treatment for the IFSC entities investing into India.

- Relax single (25%)/ aggregate (50%) NRI investment limits for the IFSC Funds investing into India.

- Implement a separate safe harbour regime which is simple and practical for IFSC Fund Managers and which is comparable to other international jurisdictions.

- Provide clarity on the substance and outsourcing requirement for Asset and Wealth Managers in the IFSC.

- Allow hybrid structures such as a Variable Capital Company (VCC) for managing funds in the IFSC.

- The IFSCA should aim to showcase that its regulatory regime is at par with global standards and also enter into a Memorandum of Cooperation (MoC) of Asian Region Fund Passporting.

12.5. **Other suggestions**

- Promote ease of doing business in the IFSC by obviating the need for tax compliances wherever possible and to implement the principle of 'withholding tax is final tax'.

- Develop a payment system for USD and other FCY settlements in the IFSC.

13. Dispute Resolution

13.1. Conflicts, grievance and disputes are inevitable in a commercial contract. As the IFSCA aims to be a jurisdiction of international repute, it would be necessary for it to focus on implementing a dispute resolution mechanism, that is independent, time-bound, digitally accessible and cost effective for participants. Fast-track hearings and finality of proceedings should be its cornerstone.

13.2. The various redressal systems suggested herein include Customer Grievance Redressal Cell within the service provider, an Office of Ombudsman at the IFSCA, a Complaint Redressal system at the IFSCA, Mediation, Arbitration and an International Commercial Court (ICC).

13.3. Online Dispute Resolution should be the preferred method for the resolution of disputes, particularly small and medium-value cases.

14. Support Services in the IFSC

14.1. It is recommended that the IFSCA explicitly lists the support services that fall within the definition of 'financial service' under the IFSC Act, 2019 on its website. For those support services that do not currently fall within the definition of the term 'financial service', it may request the Central Government to notify those services as 'financial service'.

14.2. All IFSC units are entitled to a ten-year tax holiday period; therefore, this suggestion should be enabled with appropriate safeguards.

14.3. Increase in support services entities in the IFSC will not only lead to job creation but also lead to development of the entire ecosystem around the IFSC.

1.1. Background

Several countries have undertaken initiatives to develop an IFSC in the course of their economic development. IFSCs have historically contributed to the growth of overall economy of the countries in which they operate and also led to employment generation. Centres like New York, London, Frankfurt, Tokyo, Hong Kong and Singapore have emerged as the front-runners in the space of IFS.

India is one of the fastest growing economies in the world and a large-scale consumer of IFS. With developments in technology shrinking global boundaries, the stage is set for India to enter the arena of global Financial Centre. A dedicated IFSC will provide a platform to India to undertake international financial services (IFS) efficiently to expand its economic and strategic activities globally.

1.2. IFSC in India

Those financial services transactions that are currently carried on outside India by overseas financial institutions, Indian financial institutions/ entities and overseas branches/ subsidiaries of Indian financial institutions are sought to be brought to a centre in India by offering a one-stop solution in the form of an IFSC in India. Thus, in the context of India, IFSC can be defined as a jurisdiction that provides International financial services to non-residents and residents.

1.3. Setting up India's first IFSC in GIFT City

The GoI is developing an IFSC in India under the Special Economic Zone (SEZ) route to help India unlock its potential in the international financial services space. The setting up of an IFSC in Gujarat International Finance Tec-City (GIFT City), Gujarat was approved in 2011, and operating guidelines issued in April 2015. In October that year, India's first IBU became operational.

The **<u>Hon’ble Prime Minister</u>** provided the following vision for the IFSC:

*“The concept of an International Financial Services Centre is simple but powerful. It aims to provide onshore talent with an offshore technological and regulatory framework. This is to enable Indian firms **<u>to compete on an equal footing with offshore financial centres</u>**. GIFT City IFSC will be able to provide facilities and **<u>regulations comparable</u>** to any other leading international finance centres in the world.”*

The idea behind GIFT City is to create a state-of-the-art Finance and IT zone in India to provide IFS. It is spread over 886 acres with a development plan for 62 m sq.ft of Built up Area (BUA) for Commercial, Residential and Social facilities. A total of 11 m sq.ft of BUA covering commercial, residential and social facilities has already been allotted. GIFT City has created high quality infrastructure in the form of District Cooling System, Underground Utility Tunnel, Automated Waste Collection System and City Level Water Treatment Plant.

At present, around 10,000 people are working in GIFT City including around 1,200 in the IFSC. It houses around 200 financial and IT companies.

The IFSC caters to Banking, Insurance and Capital Market companies. It is India’s only approved IFSC which allows businesses to transact in a foreign currency and provides a gateway for all inbound and outbound investment to India.

1.4. Current business scenario in IFSC

Banking

- A total of 12 Indian banks and 1 foreign bank have set up their IBUs.
- IBUs have crossed business transactions amounting to around US$ 28 bn.
- IBUs have been providing ECBs, trade finance, buyers’ credit, FCY term loan etc.

Insurance

- Four insurance firms including a reinsurance company have set up an IFSC Insurance Office.
- A total of 15 Insurance/ reinsurance firms have set up operations at IFSC.
- The sum insured has already crossed US$ 30 bn.

Capital Market

- Two international exchanges and clearing corporations and nearly 40 broking firms have set up operations at the IFSC.
- IFSC exchanges have connected with other global exchanges.
- The average daily trading volume has crossed US$ 4 bn at IFSC Exchanges and debt listing of around US$ 50 bn.
- Key products include index futures and options, commodity derivatives, Indian stock futures, foreign stock futures etc.
- AIFs to invest in the Indian domestic market, IFSC exchanges and other overseas markets are being set up in the IFSC.

The export of services from the IFSC has crossed US$ 646 m in Financial Year (FY) 2019-20 and represents approximately 10% of the financial services exports from the country.

1.5. *Why IFSC?*

India has a distinctive advantage in offering internal financial services for four reasons:

- The Indian workforce is adept at the requisite knowledge and skillset — Trading and risk taking, English, Mathematics, Computer Science, Law.

- People of Indian origin are often part of the top-level management of global financial firms. Thus, they may take note of developments in the Indian international financial services sphere and avail them.

- No other established IFSC is available during the operational hours of the Indian Standard Time (IST). For some hours a day of the IST, India is the only player in the global finance arena.

- India has a vast hinterland economy, which small city-based financial centres such as Singapore or Dubai lack. In this respect, India is comparable to New York, London and Hong Kong, which have the United States, Europe, and China, respectively, as their hinterlands.[2]

[2] National Institute of Public Finance and Policy (NIPFP) – concept note to Ministry of Finance, 6 February 2015

Chapter 2: Why international retail business in the IFSC, which retail businesses for them

2.1. *Why and which retail businesses?*

So far, the IFSC has served mainly as a booking centre for wholesale loans, which limits the number of jobs that can be created from international financial services offered by entities operating from the IFSC. With the GoI appointing a Unified Regulator, the IFSCA under the Chairmanship of Mr. Injeti Srinivas, IAS, the IFSCA has the opportunity to broaden the range of services the IFSC can provide to a variety of clients.

Many countries have successfully taken up the economic opportunity of providing offshore residents with financial services.

Ireland created an IFSC in 1987 "to create jobs"; the centre had created 32,700 jobs by 2015 and contributed to 7.8% of the Irish GDP. The Irish IFSC accounted for around 90 percent of overall portfolio flows in 2015.[3]

The financial sector in the UK employed 1.1 million people in 2013 (3.8% of the total UK workforce), of which an estimated 338,000 worked on providing offshore services. In 2018, the financial services sector in the UK contributed £132 bn to the UK economy, 6.9% of total economic output. Financial services accounted for 23% of all UK service exports and 9% of all service imports. [2] The PwC research report indicates that the financial sector contributed £75.0 bn or 10.9% of total government tax receipts in 2017-18.[4] By 2019, the financial services sector accounted for 10% of the UK's GDP, the highest of all G7 economies. The second highest was Canada, at 6.7%, and the lowest was Germany, at 3.9%.

Financial markets in the US are the largest and most liquid in the world. In 2018, finance and insurance represented 7.4% (or US$ 1.5 tn) of the USA's GDP. In 2017, the US exported US$ 114.5 bn in financial services and insurance and had a US$ 40.8 bn surplus in financial

[3] International Monetary Fund, IMF Country Report No. 16/256, July 2016
[4] City of London Corporation and PwC UK, The total tax contribution of UK financial services, December 2018

services and insurance trade (excluding re-insurance, the financial services and insurance sectors had a surplus of US$ 69.6 bn). The financial services and insurance sectors employed more than 6.3 million people at the end of 2018.[5]

The OECD, in 2018, said there were more than 321,000 companies in Singapore. It is a major wealth management centre, 80% of which is sourced from outside Singapore.[6]

The Dubai International Financial Centre (DIFC), set up in 2004, has grown into an impressive cluster of banks, fund managers, and law and accounting firms, with over 2,500 registered companies—820 of them financial—and 25,000 professionals.[7]

PwC Asset and Wealth Management research report[8] (pre-COVID-19) states that if interest rates remain relatively low globally, and economic growth is sustained, AUM is projected to be growing from US$ 84.9 tn in 2016 to US$ 111.2 tn by 2020, and then again to US$ 145.4 tn by 2025. Retail (mutual) funds (including ETFs) will almost double assets by 2025 and institutional mandates will expand similarly. Alternative asset classes – in particular, real assets, private equity and private debt – will more than double in size, as investors diversify to reduce volatility and achieve specific outcomes. Personal wealth is accumulating fast, mainly in developing countries, and individual retirement and pension funds are expanding.

The industry is set to manage a greater share of this wealth. If current growth is sustained, the industry's penetration rate (managed assets, as a proportion of total assets) will expand from 39.6% in 2016 to 42.1% by 2025. Growing individual wealth investor wealth, and comfort with entrusting financial assets to professional managers, will counterbalance a move by the largest pension funds and SWFs to manage more assets internally. Growth will be uneven; on a percentage basis, it will be slowest in developed markets and fastest in developing markets (see figure below).

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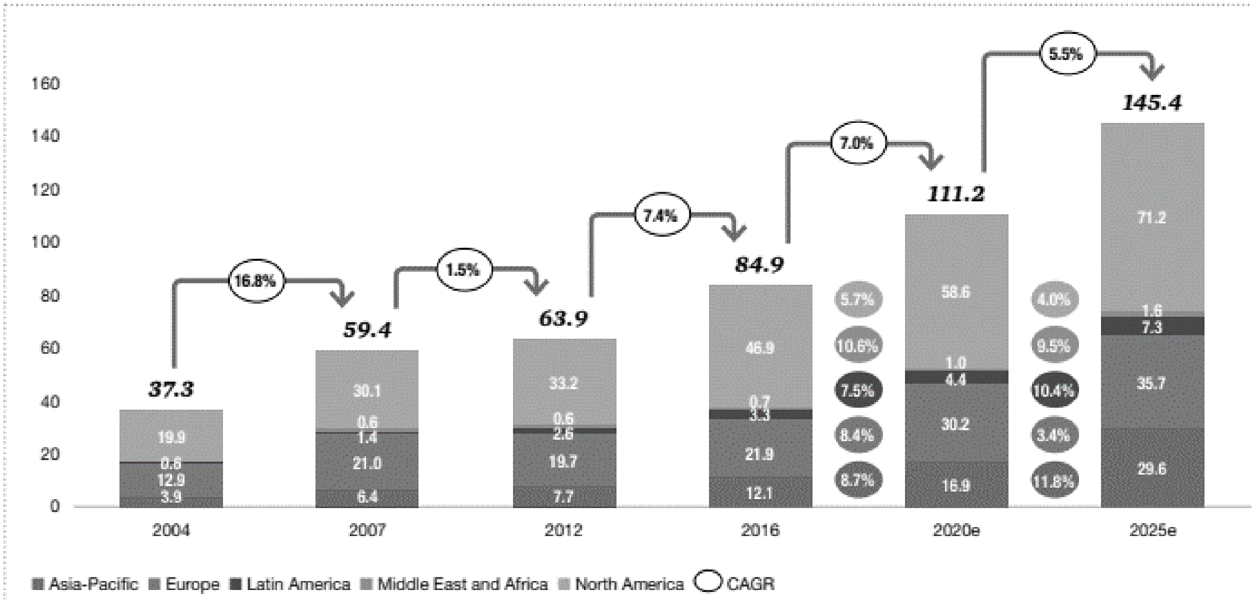
[5] https://www.selectusa.gov/financial-services-industry-united-states
[6] Tax justice network, Financial Secrecy Index, 2020
[7] https://www.economist.com/finance-and-economics/2020/08/22/can-dubai-enter-the-premier-league-of-financial-centres, The Economist, 22 August 2020
[8] PwC, Asset & Wealth Management Revolution: Embracing Exponential Change, 2017

Global AUM by region in US$ tn (Base scenario)



Source: PwC AWM Research Centre analysis. Past data based on Lipper, ICI, EFAMA, City UK and Hedge Fund research

The Boston Consulting Group (BCG), in its report[9], estimates that global personal financial wealth was US$ 201.9 tn or about 2.5 times the global GDP. Of this amount, 60% or about US$ 121.6 tn was in investable assets—equities, bonds, funds, bank deposits—and 40% was in low-liquidity assets such as life insurance and unquoted equities. Savings and time deposits were estimated at 27% or US$ 32 tn, with traded equities at US$ 26 tn, investable funds at US$ 23 tn, current accounts or transferable deposits at US$ 19 tn, and the balance US$ 22 tn in bonds and other smaller asset classes.

The amount of global offshore wealth, which can be taken as the size of the addressable market, was estimated by the BCG, in its other report[10], at US$ 9.6 tn towards the end of 2019. It is estimated to grow at a compound rate of 1.4%–4.5% per year (depending on low-case or high-case post COVID-19 recovery scenarios) for the next five years, with Switzerland managing US$ 2.4 tn of offshore money, Britain and its Channel/ Caribbean islands, US$ 0.8 tn; Hong Kong, US$ 1.9 tn; US, US$ 0.8 tn; UAE, US$ 0.5 tn; and Luxembourg, US$ 0.3 tn.

[9] BCG, Global Wealth 2018, June 2018
[10] BCG, Global Wealth 2020, June 2020

In terms of revenues, McKinsey & Company[11] estimate that, as of the end of 2019, wealth management revenue pools for Asia alone—for both onshore and offshore assets—stood at an estimated US$ 90 bn (prior to the COVID-19 pandemic), with incremental revenues reduced by COVID-19, but still increasing by US$ 25 bn by 2025. BCG estimates that Asia's share of global wealth would go up from 25.3% at end-2019 to 40% by 2024. Clearly, the market opportunity is massive.

The IFSC has the opportunity to generate economic activity in India by providing financial services to non-resident individuals (whether of Indian origin or otherwise). It could offer them services through banks and insurance entities operating from the IFSC, deposits and insurance products; through intermediaries, MFs, AIFs and IAs; investment products in India or elsewhere in the world; through banks, asset management companies and intermediaries, investment products outside India to Indian residents availing the LRS.

2.2. *Which segment to target?*

Indian diaspora

India was the leading country of origin of international migrants in 2019 with a 17.5 million strong diaspora, according to United Nations' estimates published in October 2019. The Ministry of External Affairs estimates the number of NRIs and PIOs at around 31.23 million[12]. India has been holding the top spot amongst remittance-receiving countries in the world. The large number of Indians outside India, many of them with active connections to India (such as the IT executives and many employees in the Middle East), offers an opportunity for India to serve them with banking, brokerage/ intermediation (including investment research), asset management and insurance products, investment advisory, financial planning and other services. Many NRIs are familiar with the names of Indian banks, insurance companies, asset managers and intermediaries, and the cultural and language familiarity in dealing with Indians and Indian organisations adds to their comfort. Many Indians lost all their deposits in banks in places like Iraq and Libya when they had to be suddenly evacuated because of political developments. Providing such

[11] McKinsey & Company, Asia wealth management post-Covid-19: Adapting and thriving in an uncertain world, June 2020

[12] The Ministry of External Affair's reply to the Lok Sabha, April 2018

investors with a comprehensive range of financial services from the IFSC is a manifest opportunity that will generate economic activity in India. The BCG states that "Proximity remains a key factor in determining where investors choose to seek offshore financial services. Historical and cultural ties also play a role."

Individuals from Asia and Africa

While the Indian diaspora is low-hanging fruit, there is also an opportunity to serve global citizens, including PIOs, with high-quality talent and comprehensive and cost-effective services. As incomes increase in other emerging countries, it is possible to envisage the IFSC becoming a preferred location for individuals from Asia and Africa for obtaining financial services because of the quality and cost of those services and the reliability and regulatory comfort at the IFSC.

Indian residents

The IFSC also has the opportunity to serve domestic residents that avail of the LRS, an activity that currently creates jobs and generates revenues for organisations outside India. *The Economist,* in its article[13], states about Dubai that, "Indians flock to it because of Mumbai's clogged, clunky and capricious courts; some joke that Dubai and Singapore are India's real financial capitals."

Currently, the Securities Exchange Board of India (SEBI) has permitted a person who is a resident in India, having a net worth of at least US$ 1 m during the preceding financial year, to invest in AIFs or MFs operating in the IFSC, to the extent allowed in the LRS scheme of the Reserve Bank of India (RBI) and subject to the guidelines of the RBI. It is important that the RBI allows residents to use the IFSC as the destination for their LRS. This way, the income generated for financial service providers from such LRS accrues to entities operating from India and helps generate employment and economic activity in India than Dubai or Singapore. It is possible that the proximity of the IFSC and familiarity with institutions operating from the IFSC may lead to an increase in LRS outflows from residents, leading to larger foreign exchange remittances. However, that is an inevitable

[13] https://www.economist.com/finance-and-economics/2020/08/22/can-dubai-enter-the-premier-league-of-financial-centres, The Economist, 22 August 2020

concomitant of economic growth and freedom of economic choice for resident individuals. In any case, the RBI even now allows feeder funds investing overseas to gather rupee-denominated assets from resident individuals outside LRS limits.

2.3. *What will attract them?*

It is evident that the IFSC will help generate foreign exchange revenues from the export of financial services. The IFSC can also be a source of demand for INR outside India, which can counter LRS outflows, by allowing the business entities at the IFSC to offer investment products such as bank deposits and insurance products denominated in rupees. With a large NRI population overseas that still considers India its home base, there is an opportunity to offer rupee-denominated annuity products from the IFSC to NRIs planning to return to India or to benefit their relatives in India. One product-innovation could be a "portable" (discussed later in the chapter on insurance) insurance policy, where premiums are payable in foreign currency while the premium-payer is overseas and in rupees when the premium-payer returns to India.

Another opportunity is to attract retail investors in MF or AIF run out of the IFSC. Mauritius levies a lower tax rate in some countries with which it has tax treaties for avoiding double taxation, resulting in many AIFs being registered there for investment in India or any of the 46 countries with which it has tax treaties. With Mauritius in the grey list of the FATF, there is an opportunity to attract such funds to operate from the IFSC. The premise offered by the IFSC is of full capital account convertibility, i.e., providing full exemption from FEMA norms for transactions from and to the IFSC. For all current transactional and regulatory aspects, an AIF operating from the IFSC is an offshore AIF. "The regulatory provisions applicable to AIFs in IFSCs do offer a viable alternative to offshore feeder funds, and can act as a feeder fund for an Indian AIF....Indian overseas fund managers looking to set up funds for investing outside India, may find it easier to raise capital from overseas investors and Indian investors simultaneously. Indian offshore fund managers can also use AIFs in GIFT City as feeder fund to invest funds offshore."[14]

[14] https://www.mondaq.com/india/fund-management-reits/824084/opportunities-and-challenges-for-aifs-in-india39s-first-ifsc-gift-city-gujarat, NovoJuris Legal, 11 July 2019

Hong Kong-China relations are causing concern amongst its financial services clientele, and the cost to customers of financial services is increasing in financial centres such as Singapore, Switzerland and the UK. Switzerland came in for much criticism in the past over concerns of tax evasion; it thereafter signed agreements for automatic exchange of information with 40 countries, losing a perceived competitive advantage. As mentioned earlier, Mauritius is on the grey list of the FATF.

The large Indian diaspora, the availability of high-quality financial skills and technology in India at globally competitive cost, the travails of some of the existing financial centres, and the enormous addressable market provide an opportunity to the IFSC to serve as an engine of economic growth for India by serving the retail market. For the obvious market opportunity to be seized by businesses by establishing operations in the IFSC, they and their customers will need to be convinced about the ease of doing business in and from the IFSC.

2.4. *Why retail?*

The retail activities at the IFSC in India would serve three objectives:

1. Serve the Indian diaspora, and others, by offering them a place for accumulating savings in a safe well-regulated environment; a place with contemporary technology and expertise to invest their savings; and a stable, well-governed place to pass on their wealth to their next generation;

2. Create jobs in India; and

3. Generate additional revenues for India, and not require any major capital expenditure from the GoI.

While the IFSC will equip itself to cater to all retail customers–retail (wealth up to US$ 250,000); affluent (US$ 250,000 – US$ 1 m); lower High Net Worth (HNW) (US$ 1 m– US$ 20 m); Upper HNW (US$ 20 m – US$ 100 m); and Ultra-HNW (>US$ 100 m), in the initial years, the IFSC can be expected to have the greatest competitive advantage and greater appeal for individuals up to and including the lower HNW category. According to BCG report, the segment of affluent individuals in 2017 was estimated at 72 million with assets of US$ 17 tn, with the numbers of individuals growing very strongly.[15] In Asia alone, McKinsey & Company has estimated the total AUM in Asia at the end of 2019 at US$ 0.6 tn for the retail segment and US$ 1.3 tn for the affluent segment.[16]

The IFSC with its approach of **FinServe from India** would complement the **Make in India** vision of the GoI, serve the non-resident India diaspora, create service-sector jobs in India, generate revenues for the Government, and be an engine of economic growth for the country.

[15] BCG, Global Wealth, 2018
[16] McKinsey & Company, Asia wealth management post-Covid-19: Adapting and thriving in an uncertain world, June 2020

Chapter 3: Key Success Factors for the IFSC

Under section 12 of the International Financial Services Centres Act, 2019 (the IFSC Act), it is the duty of the IFSCA to develop and regulate the financial products, financial services and financial institutions in the IFSCs, by such measures as it deems fit.

To enable the IFSC to take its place amongst the top IFCs in the world, add to employment in India and contribute meaningfully to India's GDP, the IFSCA will have to combine robust regulations that build confidence amongst participants for safety and fairness. It would also require an efficient redressal system with a developmental role that makes it stress-free, simple and convenient for participants to comply with regulations, so that they can concentrate on their business. Prime Minister Narendra Modi has exhorted his administration to simplify onerous compliances[17], including increasing the validity period of compliances and renewals, and ensuring that compliance can be done online.

The IFSC should aim to **benchmark itself with the best in class** jurisdictions and aim to build its competitiveness in terms of key factors such as reputation, regulatory environment, taxation and ease of operations. The report on "The Global Financial Centres Index – year 2019" identifies that the quality of regulation in a centre and the overall Government effectiveness are significant factors in a financial centre's competitiveness. Clients acquainted with the operating practices and regulatory environment of the well-established international centres will expect similar or more convenient operating practices and regulatory comfort, as prevailing in those centres. Over the next five years, the IFSCA should aim to be amongst the top five IFSC in global rankings.

The IFSCA, which is a unified authority, has now assumed powers of four important financial service regulators i.e. the RBI, SEBI IRDA and PFRDA. The Central Government has already appointed members on the board of the IFSCA from the DFS, DEA, RBI, SEBI and IRDA. Since the IFSCA has assumed power, it should act as the **"Unified Authority in Form and Spirit"** - independent of onshore regulator. There must be a well thought-out inter-regulatory coordination between the various regulators and government departments, which will avoid or quickly address any regulatory loopholes, regulatory

[17] PM Keen to Reduce Compliance Burden, The Economic Times, dated 3 September 2020. Please see media article in ***Annexure 1***.

arbitrage and regulatory impasse which might adversely affect the growth of business in the IFSC. Taxation and Corporate affairs are not within the ambit of the IFSC. It will be important for the IFSCA to ensure that appropriate coordination/ communication protocols are established with those ministries as well.

The IFSCA could draw from the experience of the Monetary Authority of Singapore (MAS)[18] whose role is to not only regulate and supervise the financial sector but to also promote and sustain economic growth. It supervises the banking and insurance industries, as well as the capital markets. To avoid any tensions between the supervisory and developmental roles, the MAS clearly separates the two functions. Officers involved in prudential or market conduct supervision are not charged with initiating and implementing developmental initiatives. There are separate and dedicated departments within MAS for financial supervision and financial centre development. Any potential tensions or trade-offs between supervision and development is resolved at the senior management level which has collective responsibility for the dual mandate of MAS. As mentioned above, the duty of the IFSCA is also to develop and regulate the financial products, financial services and financial institutions in the IFSC. It should examine the MAS operating model of **separation of regulation and development role** and adapt it to Indian circumstances.

International recognition of the IFSCA is of paramount importance. The IFSCA should seek membership of international organisations such as International Organization of Securities Commissions (IOSCO), World Alliance of International Financial Centers (WAIFC), International Association of Insurance Supervisors (IAIS) and Sustainable Banking Network (SBN). This will enable it to actively engage with other International regulators and position the IFSC in India as a **jurisdiction of repute**. Certain EU legislation provides for 'third country' regimes which allow non-EU based firms to offer services into the EU if their home country regulatory regime is accepted as being 'equivalent' to EU standards. Similarly, the Asia Region Funds Passport (ARFP) is an initiative led by Asia-Pacific Economic Cooperation with the objective of attracting and keeping finance within the region to foster its economic growth and strengthen the investment management industry. A few Asian countries have signed a MoU to participate in the ARFP. The IFSCA should aim to showcase that its regulatory regime is at par with global standards and also

[18] MAS, Objectives and Principles of Financial Supervision in Singapore, April 2004 (revised in September 2015)

seek to participate in these MoUs which will increase its international recognition and stature.

The IFSCA should balance the regulatory touch with ease of doing business to build confidence amongst the constituents of the IFSC as a great place to do business. Its motto should be ***'Minimum Government, Maximum Governance'***. It should do so, without compromising international standards on transparency, global standards on anti-money-laundering and international information-exchange agreements, while enabling confidentiality of participants' activities for all other purposes.

Concurrent development of conducive social and institutional **eco-system** should also be focused on. The financial service industry thrives on the availability of talent. The local institutions should be encouraged to act as feeders of talent. Courses relevant to jobs in IFSC units should be offered at these educational institutions, which will help build talent over the long term.

New age digital banks, fintech payers and niche products such as ETFs and green bonds should be promoted in the IFSC. The IFSCA should take up **marketing initiatives** with Indian consulates, embassies and NRI associations in targeted markets, and engage in knowledge disseminating programs for targeted audience to socialise IFSC. The IFSCA should support and encourage the formation of industry associations as a platform for engagement and market feedback. This will create an environment of trust and partnership.

The business conducted in the IFSC is mainly international, and **overseas connectivity** is an important factor. Business travelers prefer to fly in and out via direct flights rather than changing airports and transferring domestically to reach their destination. Changi airport in Singapore offers connectivity to over 400 cities all over the world in more than 100 countries. International connectivity from Sardar Vallabhbhai Patel International airport in Ahmedabad, which is the closest airport to the current IFSC, is limited. The IFSC should work closely with the Central Government and State Government to promote free flow of international traffic.

This report lists some key success factors that are required for a vibrant IFSC to emerge in India. Elsewhere in this report, there are specific recommendations for individual lines of business that the IFSC can attract.

1. **Ease of doing business:** To attract businesses to start operating from the IFSC, to encourage competition amongst them so that end-users receive continually improving quality and cost of services, and to enable the scalability of their businesses, the regulatory approach should focus on ease of doing business for both the businesses and their clients. The tax holiday for business entities is not by itself a sufficient measure to pull businesses into the IFSC. This principle of ***"ease of doing business"*** dovetails well with the stated philosophy of Hon'ble Prime Minister Narendra Modi's Government. The elements of this include:

    - **Ease of KYC:** Opening of accounts with a bank for an NRI is currently extremely inconvenient with requirements to provide proof of identity and proof of address, requiring the customers' their physical presence, consular attestation, etc. For instance, it is easy to open an account in a New York bank sitting in India but much more difficult for an NRI to open an account with a bank in India. It is imperative that IFSC adopts a contemporary KYC verification norm through electronic means, with minimum documents which can also be self-certificated and have automatic renewal or infrequent renewal of KYC; investors would also welcome reminders for renewals and fair curing time in case deadlines are missed. A central KYC that an individual can use to open any account is desirable.

    - **Ease of registration:** The IFSCA should endeavour to register business entities with minimum form-filling: a simple, one-window process that does not require the business to engage a consultant, is all-digital requiring no personal interface.

    - **Time-bound approvals:** The approvals provided by the IFSCA should be time-bound with a tight timeframe. The registrations should be valid for a long duration, say, five years, with provision for automatic renewal where applicable. The registration fees should be initially attractive to encourage clients to come in; renewal fees may be higher.

- **Ease of setting up operations in IFSC:** Banks, insurance companies, asset management companies, brokers and other entities operating in India will be attracted to set up operations in the IFSC, either as subsidiaries or as branches. The IFSC should seek to provide a single-window clearance for setting up their subsidiaries, including the appropriate licenses; the IFSC should ideally work out arrangements with the RBI and SEBI for single-point clearance for such entities wishing to set up branch operations in the IFSC.

  The need for multiple registrations/ licenses should be avoided. For example, presently, all entities wishing to commence operations in the IFSC not only need approval from the RBI or SEBI or IRDA as the case may be (to be delegated to the IFSCA) for setting up a unit in the IFSC but also need the approval of the Development Commissioner (DC) in the SEZ. While the committee granting SEZ approval meets regularly (at-least once a month) and grants approval promptly, the fact that there are multiple approving authorities for an IFSC unit creates an impression of red tape which can be avoided. Preferably, the DC's powers to approve an IFSC unit should be granted to the IFSCA.

2. **Transparency and stability of rules and regulations:** A rule-based regulatory system that does not depend on discretion, is transparent, which requires no or minimal physical paperwork or is frictionless is an important success factor. An online repository of updated rules and regulations, simple FAQs and circulars consolidating relevant changes should be available at all times. Before the implementation of any new changes to existing rules and regulations, which may have wide-spread impact, the IFSCA should hold stakeholder consultations and should provide appropriate time for implementation. Amendments should be prospective and existing structures, if any, should be grandfathered.

3. **Taxation:** The Hon'ble Prime Minister, when launching the platform for "Transparent Taxation - Honouring the Honest" has stated that the Government's resolve is to provide maximum governance with minimum government. The reforms are aimed at making the tax system ***"Seamless, Painless, Faceless"***. The taxpayer's charter emphasises the trust factor and on treating every taxpayer as honest unless there is a

reason to believe otherwise. The IFSC will be a great place for the GoI to demonstrate this intent and AIF taxation will be a great place to start with.

The current provisions relating to income earned by units/ investors in the IFSC is scattered all over the Income-tax Act, 1961 (the ITA). A separate chapter within the ITA consolidating all the relevant provisions at one place will help ease of reference.

The principle that 'withholding tax is the final tax' should be adopted and should be extended to AIFs. Where fund level taxation is adopted for, i.e. in the case of Category III AIFs, appropriate taxes should be collected at the fund level, thereby, exempting investors from having to obtain a Permanent Account Number and filing a tax return in India.

Non-residents who have to pay tax would also welcome a system that allows them ease of payment of tax. For instance, on capital gains earned by non- residents, since all transactions are electronic, there can be a system for tax deduction at source by a custodian or depositary on capital market transactions at the IFSC. This would also provide for granting refunds (when there is a capital loss in a financial year after the entity has paid tax on capital gains made earlier in that financial year), without non-residents having to file tax returns.

A separate bench of Authority for Advance Rulings focused on IFSC matters should be set up in the IFSC which should be promptly and efficiently deal with taxation issues that are relevant to IFSC units and investors in the IFSC.

4. **Attractive living, learning and leisure facilities to attract talent to the IFSC:** The IFSC needs to offer attractive living, learning and leisure facilities to attract talent, especially since that talent may have income-tax advantages in places such as Singapore, Hong Kong and Dubai. The IFSC should build an ecosystem that echoes the concept of ***'A place for everything and everything in a place'***.

   Skilled talent will be one key element for the competitive success of the IFSC. Recognising the residential facilities, international schools and curriculum and recreational choices including restaurants, bars and clubs available to executives working in other IFCs such as Dubai or Singapore, the IFSCA will need to work with the GIFT City authorities for the creation of such facilities.

5. **Redressal systems:** The IFSCA can have a system of ombudsmen, empowered by the IFSCA, who investigate complaints by customers against businesses. They attempt to quickly resolve the conflicts or concerns by mediation or by making recommendations, without the parties having to go to courts. This can be one element of a redressal system, which would be more appealing to users of the IFSC than having to depend on long-drawn and expensive judicial processes.

6. **IFSC as a base for LRS users:** As indicated in Chapter 2, it is imperative that the IFSC has the freedom to allow resident Indians to open accounts in the IFSC using the LRS.

7. **Currency denominated for the IFSC:** As explained earlier, and especially because India has a large migrant diaspora that may return, the choice of denomination of currency - whether INR or any FCY - should be left to the market players i.e. the businesses and their customers. The well-established centres such as Singapore or London do not impose any specific currency on the participants, although DIFC requires all transactions in foreign currency.

8. **IFSC as a base for AIFs, MFs investing in India or outside India:** As indicated in Chapter 2, there is an opportunity to compete with other centres such as Mauritius or Singapore or the Netherlands by making the IFSC, a base for feeder funds investing in India or investing outside India. For AIFs, NovoJuris Legal says: "Although investment under FDI, FVCI or FPI route is allowed for AIFs in IFSCs, it has not been specified whether such AIFs would require separate licenses to invest as FPIs or FVCIs. Ideally, as a recognised AIF, they must be granted FPI/ FVCI status as well."

9. **A responsive IFSCA:** In its developmental role, the IFSCA will need to listen and be responsive to its constituents, and continuously obtain feedback from those touched by its regulations to understand their pain points and consider alleviating them without sacrificing the robustness of the regulatory regime for investors and businesses operating from the IFSC.

The IFSCA has an uphill task before it, but ***'The journey of thousand miles begins with the first step'.*** [19]

[19] A Chinese proverb attributed to Chinese philosopher Lao Tsu

4.1. Introduction

Financial services sector is the engine in India's growth story and the banking sector is its fuel. The Indian banking sector has been at centre of the growth and economic aspirations of the country. Banking is highly regulated activity and the RBI's pervasiveness is evident in every aspect of banking.

4.2. Role of the IFSCA

Banking ecosystem in the IFSC is at a nascent stage. It is imperative that the IFSCA and other regulatory bodies adopt an approach to not only to regulate but also nourish and develop.

The IFSCA should adopt a consultative and agile approach on regulations and prescribe easier and need based reporting requirements. It should aim to follow principle-based regulations rather than rule-based regulation.

Predictability, reasonability, consistency and stability is a **'must have'** for any regulatory framework if its aspiration is to be world class.

The IFSCA should also position itself as a supporter of financial innovation. Digital banks and fintech companies, the new age entities, should be encouraged. These companies are agile, nimble and creative and have a lower cost structure compared to the conventional banks. However, the very nature of the digital business and frictionless banking brings along increased risk. A fresh thought process is needed to regulate them and the IFSCA has an advantage since it does not carry baggage or overhang from the past. Regulatory sandbox approach could also be adopted for product innovation and customization in these areas.

The IFSCA should also facilitate setting up of banking infrastructure which will help bring down the overall cost in the system. For instance, currently collateralised borrowing and lending obligation transactions are carried out onshore through the Clearing Corporation of India Ltd. (CCIL). As the CCIL assumes the role of the central counterparty and all borrowings are fully collateralised, the parties are protected from default risk. The Authority should facilitate a similar infrastructure in the IFSC which will help reduce the capital provisioning requirements and attract global players to the IFSC.

4.3. Banks with IBUs

The RBI allows banks to set up IBUs, that operate as an offshore branch and are treated as a person resident outside India under the FEMA. The concept of IBU has been well received by the banking industry participants and several Indian banks and foreign banks have either set up or are in the process of setting up an IBU.

Currently, there are three public sector banks, nine private sector banks, and one foreign bank with IBUs in the IFSC.[20]

List of Banks with IBU	
Public Sector Banks	
1	Bank of Baroda
2	State Bank of India
3	Indian Bank
Private Sector Banks	
1	Axis Bank
2	Federal Bank
3	HDFC Bank Ltd.
4	ICICI Bank
5	IDBI Bank Limited
6	Indus Ind Bank
7	Kotak Mahindra Bank Ltd.
8	RBL Bank
9	Yes Bank
Foreign Banks	
1	Standard Chartered Bank

[20] https://rbidocs.rbi.org.in/rdocs/Content/pdfs/IFSCIBU01102019.pdf

In addition, the Hongkong and Shanghai Banking Corporation Ltd. and Citibank N.A. are in the process of setting up an IBU. [21] The IBU business transactions in the IFSC as on 31 March 2020 stands at US$ 28 bn. [22]

4.4. Regulatory framework

Eligibility criteria and Licensing

Indian banks (i.e. both public and private sector banks) authorised to deal in foreign exchange are eligible to set up IBUs. IBUs of Indian banks are treated at par with a foreign branch. Foreign banks already having presence in India are eligible to set up IBUs subject to the requirement of obtaining specific permission from the home country regulator for setting up of an IBU. The eligible banks are required to obtain prior permission of the RBI for opening an IBU under section 23(1)(a) of the Banking Regulation Act, 1949. In addition to the RBI approval, an approval from the DC of the SEZ is also needed prior to setting up the IBU.

Capital

The parent bank is required to provide a minimum capital of US$ 20 m or equivalent in any foreign currency to the IBU. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, is required to be maintained on an ongoing basis at the parent/ head office level. Foreign banks have to provide a certificate to the RBI to this effect from the head office on a half-yearly basis. Foreign Banks also need to provide a Letter of Comfort to the RBI to state that they will maintain the Capital Adequacy levels and also ensure adequate liquidity is provided to their IBU at all times.

While IBUs are exempt from maintaining Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) they still need to maintain LCR and NSFR as and when made applicable to Indian banks.

[21] https://www.thehindu.com/business/hsbc-to-set-up-ifsc-unit-at-gift-city/article32071364.ece, The Hindu, 13 July 2020
[22] http://giftsez.com/

Sources of Funds

The current sources for raising funds are very limited to persons not resident in India and overseas branches of Indian banks. This will include borrowing in foreign currency. IBUs however cannot raise funds in any manner from individuals, including high net worth individuals (HNIs)/ retail customers. Therefore, the usual low-cost source of funds is currently beyond IBU's reach. IBU can raise short-term liabilities from banks and accept fixed deposits from non-bank entities without any time thresholds.

What is important to note is that the RBI does not provide any liquidity support, nor does it act as a Lender of Last Resort to the IBUs. As per the IFSC regulations, IBUs have to look up for its parent for any such financial support.

Permissible activities in IBUs

A. Lending and Trade Finance

- From a deployment standpoint, funds can be deployed with both persons resident in India as well as persons not resident in India. However, they cannot undertake transactions with individuals, including HNIs/ retail customers.

- Monies can be deployed by way of lending to residents under the ECB route. Monies can also be deployed by way of lending to non-residents (including wholly owned subsidiaries/ joint ventures of Indian companies registered abroad).

- Additionally, IBU are permitted to carry out factoring/ forfeiting and extend the facility of bank guarantees and short-term loans to IFSC stock broking/ commodity broking entities.

B. Derivatives and Capital Markets

- IBUs are allowed to deal in derivatives (including structured products permitted for banks operating in India). Further, recently, Authorised Dealer (AD) Category 1 banks having IBU have been permitted to transact in Non-deliverable Derivative Contracts

(NDDCs or NDFs) involving the Rupee (or otherwise) with persons not resident in India and other eligible AD Category 1 banks. Banks can undertake such transactions through their IBUs or through their branches in India or through their foreign branches.

- IBUs are also allowed to trade in listed currency derivatives on Rupee (with settlement in foreign currency) in the IFSC exchanges, to act as an underwriter/ arranger of INR-denominated overseas bonds issued by Indian entities in overseas markets as well as act as trading member of an exchange in the IFSC for trading in interest rate and currency derivative segments.

- They can also become a Professional Clearing Member of the exchange in the IFSC for clearing and settlements in any derivative segments subject to stipulated conditions.

C. Permitted Bank accounts

- IBUs are permitted to open FCY current accounts for units operating in the IFSC, for non-resident institutional investors to facilitate their investment transactions and for their corporate borrowers (including escrow accounts). IBUs are also allowed to open Escrow accounts of Indian resident entities to temporarily hold subscriptions to the ADR/ GDR issues until the receipts are issued.

D. Other Activities / Compliance:

- IBUs are not permitted to deal in the Indian Rupee except for having a special rupee account out of convertible fund for administrative and statutory expenses through an AD.

- They are prohibited to undertake any cash transactions or participate in the domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.

As can be seen from above, there are many restrictions that prevent IBUs from becoming attractive propositions for banks – ranging from capital requirements to lack of recourse to low cost deposits.

In the subsequent section, the Committee suggests some specific action points for the asset and liability side to help attract more banks, transactions and funds to the IFSC.

4.5. Recommendations- Key regulatory asks by relevant authority

The current regulatory regime and the modifications, relaxations and incentives granted over the last few years has provided the initial impetus, predictability and growth to IBU landscape in the IFSC. Having crossed this milestone, it is important that the regulatory regime continues to evolve through timely reforms in order to broad base the product offerings by IBUs and ensure sustained future growth by attracting longer term Indian and the global customers to participate in the IFSC banking ecosystem. This can be achieved in number of ways such as expanding the participation (retail), permissible products and activities, relaxation in regulatory norms and offering specific tax incentives to customers.

In order to develop a deep and robust financial sector at the IFSC, one of the key enablers is to broaden participation. It is also important to enable products and services which are currently permissible to be offered to Indian clients from other global financial centres. In order to deepen the markets at the IFSC, it is essential that the regulations support the competitiveness of the entities based in the IFSC vis-à-vis their global competitors.

A. Liability side suggestions:

A large stable deposit base is essential for long term stability of IBUs and provides them with a reasonably priced alternative for funding their assets.

The table below covers key suggestions that would help achieve above objectives:

4.5.1. Dealings in Retail participations

Description

- The development of a vibrant international financial service centre requires a broad based and stable liability source for the institutions present therein. Current regulations applicable to IBUs at the IFSC permit them to raise liabilities from overseas corporate and institutional clients. These sources of liabilities are inherently volatile and are also impacted / capped by India's sovereign rating.

  The guidelines on maintenance of LCR prescribes different outflow percentages for various types of liabilities in the balance-sheets of banks. Retail deposits are considered more stable (5-10% outflow factor) as compared to corporate deposits (25-40% outflow factor). Operating accounts are considered as more stable compared to term deposits. The outflow percentage factor prescribed for liabilities from financial institutions is 100%. This means that everything else remaining same, the LCR requirements for institutional deposits is higher. This makes institutional liabilities relatively cost inefficient from LCR perspective. Building sustainable sources of high quality and low-cost liabilities at the IFSC is important to enable continued availability of low-cost credit to Indian corporates to increase their competitiveness.

  Some of the potential sources of high quality and stable liabilities could include both NRI and onshore resident Indians with overseas assets. This will also meet the needs of overseas residents of India by providing them a new investment avenue while still retaining the funds in foreign currency.

- NRIs/ PIOs:

  As mentioned earlier, the total population of NRIs and PIOs is around 31.23 million[23]. The affluent overseas Indians/ NRIs are mainly based in North America and Middle East. In addition, Europe and South East Asia also has a sizeable NRI base.

[23] The Ministry of External Affair's reply to the Lok Sabha, April 2018

Globally, India tops the chart as highest receiver of inward remittances. The propensity of NRIs to place their deposits with Indian banking system is high. As of May 2020, total NRI deposits in India was US$ 132 bn. Over 80% of these deposits are in INR.[24] In addition, it is estimated that a sizeable base of bank deposits of overseas Indians is also maintained with banks in various countries across the globe.

The regulations should aim to attract these deposits to India by enabling the NRI/overseas banking at the IFSC.

- FCY operating accounts of onshore Indian Individuals under LRS:

LRS was introduced by the RBI in 2004 for all Indian residents, including minors. It is allowed to remit money to foreign countries for specific purposes. These purposes include education, investment in shares or property, medical expenses/ care of relatives overseas, travel, gifts/ donations etc. The rules permit Individuals to open, maintain, and hold FCY accounts with overseas banks for carrying out transactions. The current remittance limit is set to US$ 250,000 per person per financial year. The annual outflows under LRS for past years is as below[25]:

Year	Amount (US$ bn)
2014-15	1.33
2015-16	4.47
2016-17	8.17
2017-18	11.33
2018-19	13.79
2019-20*	18.76

Currently these accounts are maintained in overseas banks located in different parts of the world. It is proposed to permit maintenance of these accounts at the IFSC – so that the float funds can stay within India. It will also provide better visibility of end use of these funds to the GoI.

[24] https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics#!5_3
[25] https://dbie.rbi.org.in/DBIE/dbie.rbi?site=statistics#!5_3

➢ FCY operating accounts of onshore Family Offices under LRS

Many Family Offices are keen to explore overseas opportunities. This can be another segment that can be opened up under LRS.

Recommendation

Enable raising liabilities from individuals – particularly NRIs, PIOs, and resident Indians under LRS.

Some of the operating suggestions would include:

➢ **Variants / Type of bank accounts and deposits**

- Savings, Current and/ or Term Deposits (TD) accounts across multiple currencies
- Online Banking facility to be offered to customers for monitoring balances and movement of funds
- Allow ease in onboarding through Video KYC

➢ **Flexible Tenure and Pricing**

- Aligned to the onshore banking practice, TD accounts in the IFSC should have minimum 7 days tenor. There should be no tenure restriction for savings and current accounts

- Interest should be offered on FCY savings and current account as well

- There should be no maximum cap on interest rate offered on TD. Rates on Current Accounts and Savings Accounts and TD should be decided basis market factors like demand and supply

- This will support in sourcing larger size of deposits from customers with rates only marginally higher compared to rates in India

- **Allow overseas borrowing against FCY deposit in the IFSC**

    - Allow customers to seek funding from within or outside of the IFSC against the deposit held in an IBU

- **No restriction on Inward and Outward remittance**

    - Allow customers to freely deposit/make payments from the funds held in IBU in any permissible currency without any repatriation limits, monetary thresholds, end use restrictions and with minimum reporting requirements. Choice of currency should be at the option of the retail customer.

    - Strong AML / CTF / CDD checks to be applied

- In order to attract investment accounts of NRIs and to offer investment opportunities under LRS, wealth management capabilities would need to be enabled in the IBU for these account holders including:

    - **Direct participation in secondary markets across multiple geographies/ exchanges**

      Investment in various asset classes like equity or debt products like government bond, private sector bonds, etc. in NASDAQ, SGX, etc. and in the equivalent exchange within the IFSC.

    - **Invest in alternate asset classes**

      Allow overseas investment in commodities like Gold, Oil, Metals, real estate, agriculture, etc. assets across multiple markets (and multiple exchanges) including India.

    - **Private Equity / Venture Capital Fund / Structure Funds / FCY MFs**

Permit investment in above Funds directly from NRI account at the IFSC in multiple currencies / geographies (as allowed by guidelines of country of investment).

- **Access capital markets across multiple geographies for investments**

  Allow investors to participate in IPO/ FPO across several markets through account in the IFSC depending on the guidelines of the country of investment.

  Permit subscribing to Overseas bonds (or other debt instruments) of Indian or overseas companies.

- **Avail FCY Insurance from Overseas/ Indian underwriter**

  NRIs should be allowed to avail of FCY insurance for multiple purposes from the IFSC account.

- 'Family-office' entity should be allowed to invest under the LRS route in the IFSC.

➢ **Allow structured derivative products**

The RBI has permitted IBUs to offer structured derivative products only if these products are available in India. Else, specific permission is needed.

However, overseas branches of Indian banks can offer products available in certain host jurisdiction. [26]

IBUs should to allowed to offer structured derivative products available in overseas markets, subject to pricing ability and risk management framework.

➢ **Allow Complex Financial products**

[26] RBI/2013-14/588 DBOD.No.BP.BC111/ 21.04.157/2013-14 dated 12 May 2014

Going forward – once the basic products get established – the next step should include introduction of financial instruments such as FX forwards, swaps, futures and options derivatives or more complex structured instruments / variants for NR and resident individual customers. This will provide a means to individuals to hedge exposures from existing investments and trading activities in India and overseas and enhance the suite of IBU product offerings for retail customers.

4.5.2. Liabilities from corporates

Description

- **Regional Treasury Centre (RTC) / Hub for MNCs:** One of the key characteristics of global financial hubs such as Singapore, Hong Kong, London etc. is that they have also emerged as regional headquarters of several multinational corporations. They often have centralised/ regional control over treasuries. The control and financial management are usually managed from the regional treasuries' setup in these locations.

  In 2016, Cushman and Wakefield published a report that found Singapore as the city of choice for companies looking to establish a regional headquarters in the Asia Pacific, although it faced growing competition from Hong Kong and Shanghai. About 4,200 firms had regional headquarters in Singapore at the time, compared to 1,389 in Hong Kong and 470 in Shanghai[27].

  Similar to other IFSCs, the possibility of allowing large Indian corporates / MNCs to base their corporate treasury functions in IFSC by providing them fiscal incentives including tax exemption (partial / limited number of years) can be evaluated. This will also require allowing easier cash flow for corporate treasury functions between on-shore entities, off-shore entities and the corporate treasury in the IFSC.

  This will add market depth in treasury products and create financial expertise and ecosystem in the IFSC for non-India MNCs to set up RTC's in India.

[27] https://www.treasury-management.com/article/1/446/3720/asias-top-treasury-hotspots.html

Presence of these global / regional corporate treasuries results in significant employment opportunities for the skilled workforce in the economy. In addition, it also helps boosting up availability of corporate liabilities at these centres.

This is a long-term measure and need in depth pre-implementation evaluation.

Recommendation

- Over a longer horizon, the IFSC should also be developed as a regional hub for multi-national organizations with presence in South Asia, ASEAN countries and Mekong delta region.

4.5.3. Restrictions in Opening Current accounts

Description

- IBUs are allowed to open current accounts only for units operating in IFSCs and of non-resident institutional investors to facilitate their investment transactions. In December 2019, IBUs were also permitted to open FCY current accounts (including escrow accounts) of their corporate borrowers. This was subject to restriction under FEMA 1999 and subject to limiting the source of funds, to persons not resident in India and overseas branches of Indian banks.

- Indian corporates do not appear to be permitted to open FCY current accounts in the IFSC. Similarly, other overseas clients (non-borrowers) are also not permitted to open current accounts with IBUs.

- IBUs are recognised at par with an overseas branch of an Indian Bank and are permitted to do all permitted Banking products with Non-Residents; accordingly, there is no rationale for not allowing IBUs to open current accounts for all entities who wish to do so.

- Current account will enable an IBU to have a longer duration float of funds .

Recommendation

- IBUs may be permitted to open current account (including Escrow account) for all entities who wish to do so.

4.5.4. Liabilities from institutions – FCY Clearing
<u>Description</u> ➢ Currently Indian banking system manages its FCY clearing requirements through the Nostro accounts maintained with banks present in global centre of corresponding currency (e.g. with banks in New York for USD clearing). This process stakes about T+1 day for settlement. ➢ This results in maintenance of sizeable FCY float of Indian banks at these global centres. ➢ If this float can move to banks in the IFSC – it can significantly help build up of liabilities at the IFSC. In addition, it can also offer benefits of common time zone for Indian banks from settlement perspective. ➢ The balances will be within India. It will also aid in real time and faster settlements. Many countries have USD clearing in country and only the net settlement is done through NY to facilitate local settlement in their respective time zone. This will give India an opportunity to do local USD settlements.
<u>Recommendation</u> ➢ Enable regulations to permit FCY clearing services to be offered from the IFSC. ➢ There should be a central clearing mechanism set-up in IBU to settle transactions in FCY to avoid the delay.

B. Asset side suggestions :

Some of the suggestions on the asset side which are equally important for an IBU are as under:

4.5.5. ECBs in INR

Description

- The Master Direction on ECBs, Trade Credits and Structured Obligations issued by the RBI lays down framework for commercial loans raised by eligible resident borrowers from recognised non-resident lenders.

- These include ECBs, trade credits (>3 years), financial lease as well as rupee-denominated bonds issued overseas.

- Currently, eligible overseas lenders are permitted to provide ECBs in INR as per above circular. However, the IBUs present in the IFSC do not have the permission to offer such INR denominated products which puts them at a disadvantage compared to other eligible overseas lenders.

- In an INR ECB transaction, the exchange rate risk is borne by the IBU lender and the borrower is not exposed to any exchange rate fluctuations. INR ECB is thus an effective tool of raising debt from foreign/ IFSC lenders without exposing the Indian borrowers to exchange rate fluctuations.

- Choice of currency should be at the option of the borrower.

Recommendation

- To permit IBUs based in the IFSC to provide INR ECBs to Indian borrowers to provide a level playing field to IBUs vis – a- vis eligible lenders in other offshore jurisdictions.

4.5.6. FPI

Description

- In order to address the requirements of the evolving securities market, the SEBI, in September 2019 issued the SEBI (FPI) Regulations, 2019. Under these regulations, overseas banks can register themselves as Category I FPIs.

➢ Section 20(1)(g) of the above regulations provides that the investment may be in "any debt securities or other instruments as permitted by the RBI for foreign portfolio investors to invest in from time to time". Currently there are about 9,820 FPIs registered in India with an outstanding investment portfolio (net as on 5 September 2020) of INR 585.65 bn. These investments have been made in a broad set of asset categories including Equity, G-Secs and corporate debt, exchange-traded derivatives, securitized products, REITs etc. ➢ Currently most FPIs investing into India are located at Mauritius, Singapore and the USA in terms of value of investment. ➢ However, IBUs of foreign banks are currently not permitted to invest in the Indian markets as an FPI. Existing regulations prohibit INR transactions from the IFSC (even though such transactions are permitted from other overseas centres under FEMA).
<u>Recommendation</u> ➢ IBUs should be permitted to obtain FPI license. The documentation for IBUs should be simple and easy. ➢ IBU should also be permitted to invest in rupee-denominated G-Secs, corporate bonds and other permissible rupee-denominated securities. ➢ This will help migration of such FPI investment activity from overseas financial centres to the IFSC. ➢ Further, investments by IBUs made under the FPI route in Indian G-Secs, should be counted for the purposes of calculating / maintaining the LCR by IBUs.

4.5.7. Financing to Exporters

Description

Exporters in India face stiff competition typically from Chinese and ASEAN exporters. Such countries extend various incentives to their exporters to enhance their competitiveness. One of the prevalent tools available for promoting exports is to create Special Export Zones that provide various incentives and infrastructure to enable exports from the countries.

Challenging Environment

Besides the current COVID-19 situation that would have an impact on global trade, there are other challenges which the Indian exporters face, such as -

- ✓ India continues to face pressure from WTO and international community to bring down incentives for exports.
- ✓ Software and related service exports are expected to be impacted by new policies of US administration – which aim to increase employment for local people in US.
- ✓ Increased vigilance measures from the USFDA have added to uncertainty overgrowth of Indian pharma exports – particularly to US.
- ✓ Volatility in exchange rate also adversely impacts the exporters. This can be mitigated by financing them in currency of trade i.e. USD.

Tools that can be used to enable exports:

From Banking perspective, the country's exports can be enabled by extending low cost FCY funding to exporters at a competitive rate. This becomes more pertinent in view of liquidity measures announced by various central banks globally.

Pre-shipment financing is required by exporters primarily to fund the inventory and work-in-progress. This is usually a larger component of working capital as compared to financing for post-shipment. Under current regulations, Indian exporters are permitted to avail post-shipment financing from offshore as well as onshore lenders. However, pre-shipment financing can be availed from onshore lenders only[28].

[28] RBI/2015-16/47 DBR No.DIR.BC.14/04.02.002/2015-16 dated 1 July 2015

At present, the onshore lenders do provide FCY financing to exporters from the following sources:

- ✓ Exchange Earners Foreign Currency (EEFC) Accounts
- ✓ Resident Foreign Currency (RFC) Accounts
- ✓ Foreign Currency Non-Resident (FCNR) Accounts
- ✓ Borrowings from overseas banks specifically for the purpose of granting of Packing Credit Loan in Foreign Currency (PCFC)

The quantum of onshore FCY liquidity from the above sources is limited and hence expensive. As a result, the pricing of this financing is higher than FCY pricing available in overseas financial markets. This increases the financing cost for Indian exporters as compared to their overseas competitors; thus, adversely impacting the competitiveness of Indian exporters.

Enabling pre-shipment financing in FCY for Indian exporters from the IBU (combined with post-shipment) can significantly boost trade financing volumes at the IFSC. Additional controls/ eligibility criteria may be specified for exporters to ensure appropriate end use and export performance.

Financing corporates often involves various complex transaction structures (including security structure) to safeguard interests of lenders. In this context, it is important to highlight that the regulations should not cause hinderance for banks being able to take part in various complex security structure. Example – accepting cash collateral at the IFSC for facilities issued by the bank either from the IFSC or from other offshore branches.

Recommendation

- ➢ Permit pre-shipment financing to Indian exporters (in addition to post shipment) in FCY from IBUs at the IFSC.

B. Other Suggestions:

4.5.8. Maintenance of Liquidity Ratios (LCR/ NSFR)
<u>Description</u> ➢ Current regulations require banks present in the IFSC to maintain following liquidity ratios in line with the regulations applicable to onshore banks in India: • LCR on a standalone basis • NSFR – currently under not applicable to banks in India; but likely to be made applicable soon. ➢ Currently the permitted sources of liabilities at the IFSC are limited and constrained by India's sovereign rating. Borrowings raised directly by IBUs at the IFSC will be more expensive than the borrowing raised in financial centres of countries which carry a better international Sovereign credit rating. ➢ The deployment of funds under these liquidity ratios usually entails investment in G-Secs of developed markets (such as US Treasury bonds). This reduces the net funding available to finance the needs of Indian economy; and also increases the cost for Indian borrowers / economy since the negative carry of these investments increases the cost of balance funds available for lending. ➢ The head offices of Indian and foreign banks/ international branches of the foreign banks already maintain LCR/ NSFR in line with the prevailing local regulations which may in some cases exceed/ be more than the stipulated requirements. ➢ Foreign banks have the option of giving loans to Indian corporate borrowers at the IFSC or from their branches in other overseas financial centres. Thus, presently Indian corporate borrowers have an option of raising ECBs/ trade loans directly from these offshore branches of foreign banks. The cost of raising funds at overseas centres (with higher sovereign credit rating) is usually lower. ➢ Regulations and maintenance of LCR/ NSFR at an IBU level in the IFSC on borrowings raised from head office/ network offices will result in maintaining LCR/ NSFR twice

on the same capital thus resulting in an increased cost of funds for the IBU (as compared to cost of funds at other offshore funding centres).

- The additional maintenance of LCR/ NSFR in the form of Government securities (e.g. US Treasuries) results in increased cost of funds resulting in IBU becoming non-competitive compared to other offshore branches.

Recommendation

- To remove the liquidity ratio requirements (LCR and NSFR) for IBUs.

- Permit IBUs of foreign banks to invest in India onshore G-Secs and corporate debt as an FPI. Such FPI investments in G-Secs can be counted for calculating the LCR required to be maintained by the IBU.

- For customer liabilities – it is suggested to set up the LCR/ NSFR framework at the IFSC in a manner that need for investment in Govt securities is reduced.

4.5.9. Foreign Banks not having presence in India

Description

- Currently only those Foreign Banks having presence in India are allowed to set-up an IBU

- Foreign Banks looking to set-up an IBU would find it cumbersome and time consuming to first set-up an onshore branch/ subsidiary and then open an IBU in the IFSC.

- Permitting such foreign banks to set up IBU will incentivise all big and mid-size foreign banks to set-up an IBU.

- The RBI can prescribe enhanced due diligence for permitting setting up of IBU to such foreign banks

➢ Clarification on foreign banks having liaison office will be allowed to set up an IBU. Some of other International IFSCs also do not insist on local bank presence before setting up an IBU.
<u>Recommendation</u> ➢ To permit setting-up of an IBU by Foreign Banks not having presence in India. ➢ Provide clarification that foreign banks having liaison office are eligible for setting-up an IBU.

5.1. Introduction

'*Yat bhavathi tat nasyathi*'. This Hindu philosophy states the axiomatic truth of the nature of insurance[29]. It means that creation is inevitably followed by destruction. What has been created will be destroyed. Nothing is ever lasting. Risk is inevitable. Be it an individual's life cycle or any business life cycle. The prudent will insure, and the imprudent will bear the wagers.

5.2. Global insurance

The spread of the pandemic has yet again demonstrated that the world is a global village, trade spans across national borders and there is no decoupling of economies. As more businesses go overseas, global insurance programmes are also gaining importance. But there is another change that is happening.

The Swiss Re Institute believes that there is an ongoing shift in the global insurance market opportunity to emerging Asia, and China in particular, which will continue. China's share of global premiums will continue to rise rapidly to an estimated 18% in 2030, still only half the share of the US. However, excluding medical insurance premiums, China remains on track to become the largest insurance market globally by the mid-2030s.[30]

Top 15 insurance markets by total direct premium volume showing 2019 rankings is provided as ***Annexure 2***.

5.3. Indian insurance sector

Clearly, the global opportunity is immense.

The Indian insurance sector is underperforming compared to that of developed and emerging economies. Insurance penetration and density, which are the key performance

[29] K. S. N. Murthy, Modern Law of Insurance in India
[30] Swiss Re Institute, Sigma No 4/2020, July 2020

indicators of the insurance industry, are especially low in India. Further, there is a significant gap between insurance coverage and value at risk. While these parameters are improving at a stagnant growth rate, there is a long way to go. Insurance penetration, which is measured as the ratio of insurance premium paid and GDP of the country, has increased from 2.71% in 2001 to 3.69% in 2017 in India. Although this is significant development considering the volume of business, it lags behind the penetration levels in the rest of the world (6.13%) and emerging Asian economies (5.62%)[31.]

As per available estimates, Insurance Premium (Direct and Reinsurance Premium) written in the GIFT IFSC has grown from US$ 11 m in 2018–19 to US$ 21 m in 2019–20.

With a focussed approach, the IFSC can tap the huge opportunity in insurance and grow at a much faster rate.

5.4. Regulatory framework

In March 2015, the Central Government notified the IRDA (Regulation of Insurance Business in Special Economic Zone) Rules, 2015. Pursuant to it, the IRDA issued the IFSC guidelines for insurance companies in April 2015 which were replaced with detailed guidelines in December 2017.

These rules mainly discuss the permitted activities of Indian and foreign insurers. They permit them to carry on business in the IFSC subject to the following conditions:

1. It requires the insurer to set up its place of business in a SEZ.
2. A foreign insurer can set up its branch in the IFSC to transact the business of insurance and reinsurance business.
3. An insurer can underwrite **only such** classes or sub-classes of business of life insurance, general insurance, health insurance or re-insurance as may be specified by the IRDA from time to time for the SEZ.

[31] Confederation of Indian Industry and PwC India, Competing in a new age of insurance: How India is adopting emerging technologies, June 2019

4. However, the insurer is allowed to accept re-insurance of **all** classes of business involving cover either within the SEZ or from outside the country, i.e., foreign to foreign, foreign to India.
5. Domestic Tariff Area (DTA) entities may be allowed to procure services relating to **insurance and re-insurance** from insurers operating from the IFSC on the same terms, as they may be allowed in general from offshore entities.

5.4.1. IFSC Insurance Office

The IRDA has further issued the IRDA (Registration and Operations of IIO) Guidelines, 2017 amended from time to time. Amongst other things, the guidelines require mandatory registration with the IRDA for operating in the IFSC.

The guidelines also cover:

1. Permitted Business

- The IIO is permitted to transact in direct Life insurance or General insurance but not both or Reinsurance business.
- However, IIO is allowed to transact health insurance business to the extent of the Health Insurance Regulations notified by the IRDA.

Direct insurance business

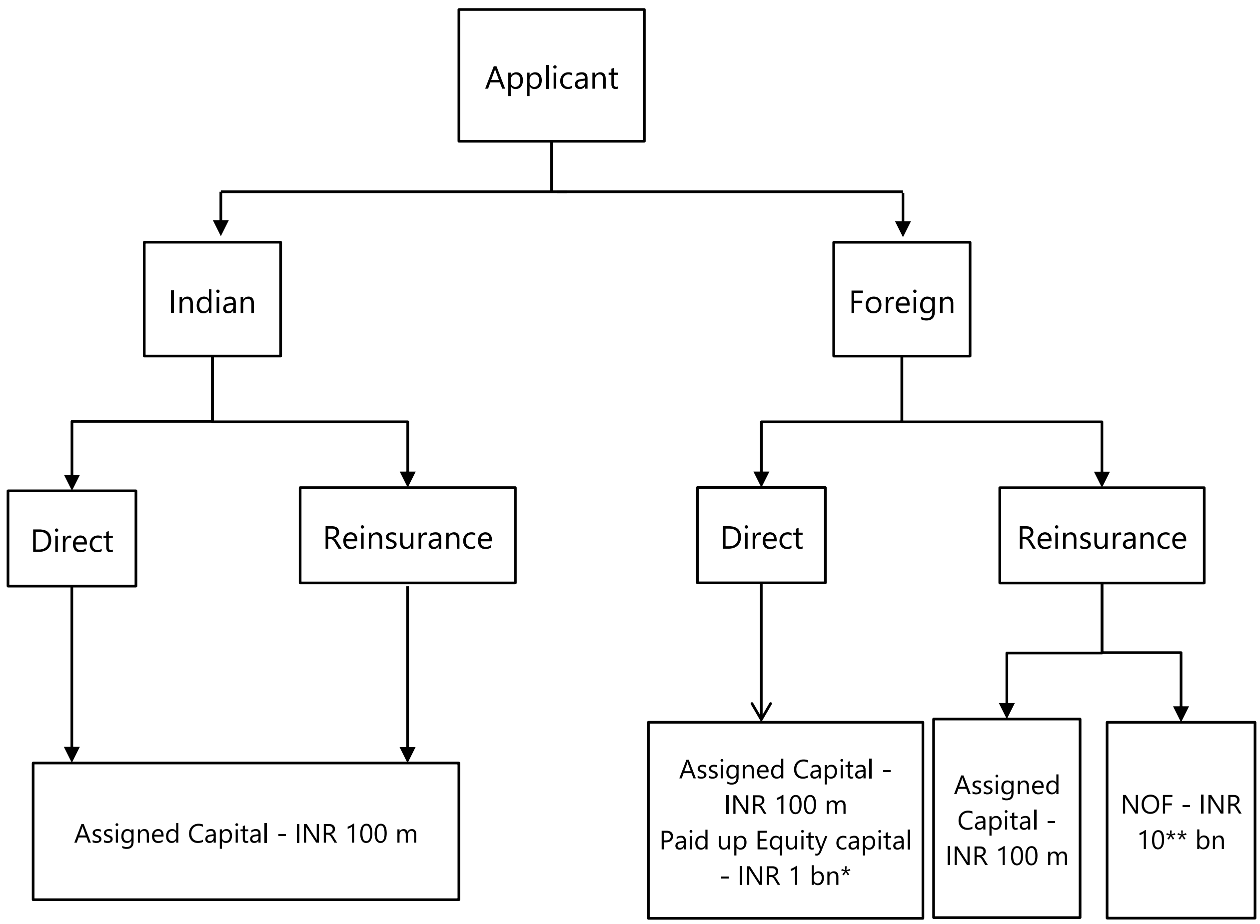
- Offshore direct insurance business including business from global subsidiaries of Indian conglomerate companies / individuals present in any offshore location is permitted, in addition to direct insurance business from entities in the IFSC and other SEZs.
- The IIO registered to transact direct insurance business, is not permitted to write direct Insurance business from the DTA except in accordance with section 2CB of the Insurance Act, 1938 (the Insurance Act).

Re-insurance business

- Offshore reinsurance business of cedents/ insurers present in any offshore location is permitted in addition to reinsurance business of the cedents in the IFSC.
- Reinsurance business emanating from India is subject to IRDA regulations on reinsurance.

2. Capital requirements

- Minimum capital and NOF requirements for an insurer to setup in the IFSC are as follows:



*As per section 6(1) of the Insurance Act
** As per section 6(2) of the Insurance Act

Such Assigned Capital shall be held in the form of G-Secs issued by the GoI or held in deposits with Scheduled Banks in India and shall be maintained by the IIO at all times during the subsistence and validity of its registration.

All the monetary transactions with respect to insurance or reinsurance business made by an IIO shall be in foreign currency and not in Indian Rupees.

5.4.2. IFSC Insurance intermediaries

The IRDA has also issued IRDA (IFSC Insurance Intermediary Offices) Guidelines, 2019. This allows entities to be registered as i) Insurance Broker; ii) Corporate Agent; iii) Surveyor and Loss Assessor; iv) Third Party Administrator – Health Services; v) Any other category of intermediary recognised by the IRDA from time to time.

The IFSC Insurance Intermediary Offices (IIIO) shall ensure compliance with the following minimum requirement:

1. IIIO shall be a branch office of the applicant;
2. IIIOs are authorised to undertake insurance intermediary business to the extent permitted under the SEZ Act, 2005 and the rules framed thereunder;
3. IIIOs can undertake insurance intermediary business emanating outside the country;
4. No IIIO shall undertake insurance intermediary business, which is otherwise not permitted to the applicant by the IRDA;
5. There is no requirement to bring capital by an IIIO in the IFSC;
6. IIIOs are permitted to undertake following dollar-denominated businesses from the IFSC:
   - Within the IFSC in SEZ;
   - All other SEZs in India;
   - From foreign countries (this covers Foreign to Foreign, India to Foreign and Foreign to India);
   - Allowed to facilitate cross-border Insurance and Re-insurance business in line with the provisions of IRDA regulations.

5.5. Key success factors for insurance business

In this section we focus on some of the key factors that are important for the success of insurance business based out of the IFSC. These are in addition to key success factors enumerated in Chapter 3.

The IFSCA should be seen as the **Sole Regulatory Authority** by those who wish to do insurance related business in the IFSC and the regulations should be seen as comparable to the leading International Financial Centres of the world in terms of protection of the policy holders, ease of doing business and stability of the rules and regulations. It should be the only point of interface with the entities in the IFSC for regulatory matters.

Speed of go-to-market initiatives are important for success of any business and insurance firms are no exception to it. Currently, IIO can offer products only with the prior approval of IRDA i.e. on a file and use basis. This reduces the ability of the insurance companies to go-to-market with their products quickly and compete with international players. Adopting a **use and file** approach with the IFSCA will encourage firms to innovate and improvise faster.

Thirdly, the success of insurance companies in the IFSC also depends upon their ability to offer their products in other countries. Often, host country regulations act as an impediment in participation by foreign insurance companies and intermediaries. **Reciprocity agreements** with host country regulators of important target countries should be explored to facilitate smooth flow of business with those countries.

The IFSCA could also seek to have **mutual equivalence recognition** with these key jurisdictions so that supervision of the insurance companies and intermediaries in the IFSC and the counter-part jurisdiction can be harmonized, regulatory overlap can be avoided, and co-operation can be facilitated/improved.

As mentioned in Chapter 3 – Key success factors – the importance of marketing an IFSC cannot be overstated. While undertaking **marketing initiatives**, sharing of detailed/granular level information with customers will be very important. Many Overseas Indians, especially in the Middle East, are blue-collared workers and not very financially literate. This segment of the population will need simpler products, more education and extra handholding in initial years.

Insurance in the IFSC is still at a nascent stage. This should be turned to its advantage by positioning the IFSC as the upcoming jurisdiction for product innovation. From the

Industrial Age to the Information Age and the present Digital Age, technological innovation has been the backbone of progress while complemented by competition and other key factors that influence new business and economic trends. InsureTech are sources of competitive advantage to deliver better customer experience, leverage data and analytics to generate deeper risk insights and enable business with simplified and efficient processes. [32] Start-up InsureTech companies across Europe and the US are currently offering innovative products to customers e.g. Zego (for delivery drivers), Flock (insurance for drones), Zeguro (cyber risk insurance coverage) etc. **Encouraging InsureTech companies in the IFSC** to innovate with products and distribution channels, premium collection and intermediation will help in faster growth of insurance ecosystem in the IFSC.

Insurance training institutes should be promoted to set up operations in the IFSC. This can help in skill development and ensure steady pipeline of talent for insurers in the IFSC.

The IFSC promises a cost-effective and tax-efficient set-up for insurance companies. It is imperative that the accompanying ecosystem should also be given a conducive environment for insurance companies to flourish. The experience of players in the reinsurance business suggests that there are globally many mid-sized reinsurance companies from developing economies that have a good track record of ability and have willingness to pay claims. They could possibly find the infrastructure and operating costs of the IFSC a competitive advantage for doing Global Business.

5.6. Business opportunities

First and second-generation overseas Indians have an attachment and cultural affinity towards the country. As mentioned in the report earlier, there are currently close to 31.23 million Indians staying outside India. Recognising this as the low hanging fruit, NRIs/ PIOs should be permitted to buy insurance from companies set up in the IFSC and pay premium in the currency of their choice (including Indian Rupees).

[32] Confederation of Indian Industry and PwC India, Competing in a new age of insurance: How India is adopting emerging technologies, June 2019

Further, there could be a range of products that can be provided from the IFSC such as term assurance, endowment type products, unit-linked plans, annuities and pension products health, property etc.

There is an added attraction for NRIs purchasing insurance policies for their Indian dependents from the IFSC unit. Insurance premium paid by them in foreign currency is not subjected to Goods and Services Tax (GST) levy. This should make the policies more attractive from a pricing standpoint.

Apart from the retail customer base, the IFSC customer base may further be expanded by encouraging foreign corporates to avail insurance cover on Free on Board (FOB) or Cost and Freight (C.F.) imports made from India.

The IFSC can produce insurance products of Global standards and market them to customers in other foreign jurisdictions especially SAARC nations and Middle East.

The IFSC has great potential to emerge as an Aviation Insurance Hub with insurers providing Aviation insurance cover to aviation companies all over the world, as detailed elsewhere in the report.

In subsequent sections, we discuss each of the sub-sectors within insurance and provide more details on measures that can be taken and relaxations that can be provided to promote these businesses from the IFSC.

The suggestions are broken down into Life insurance, Health insurance, Non-life insurance, Reinsurance and Investments.

5.6.1. Life insurance

Life insurance is a contract between two parties, where one party agrees to pay the other party (the insured) or his designated beneficiary an agreed sum of money upon happening of an event—death or terminal illness or critical illness or maturity —in exchange for a premium either one time or regular, as may be agreed.

We can categorise the policies further into protection policies and investment policies. Between these two broad categories, several variants exist, which include but are not limited to pure term policy, whole life policy, endowment policy and unit-linked insurance policies.

1. NRIs/ PIOs	First and second-generation overseas Indians have a lot of attachment and cultural affinity towards the country. They love India not only because it is great, but also because it is their country and it is this feeling that comforts them when subscribing to products issued by Indian companies. As mentioned earlier, there are currently close to 31.23 million Indians staying outside India. Recognising this, NRIs should be permitted to buy Insurance from companies set up in the IFSC and allow them to pay premium in the currency of their choice (including Indian Rupees). They should be permitted to take these policies for themselves as well as for their family members who are staying overseas or for their close relatives who stay in India. Term assurance, endowment type products, unit-linked products, annuities and pension products would be products which will be of interest to them. Current GST exemption will also make these products attractive. NRIs should also be permitted to buy portable insurance policies while they are outside India. Entities in the IFSC should be permitted to issue policies that give the policyholders an option to convert the policies into rupee policies, upon their return to India. The policy benefits should continue even after they migrate to the mainland and the policyholder should be allowed to pay the premium in Indian Rupees. The sum insured, if it is in foreign currency, can be converted to Indian Rupees at the time of migration.

	Flexibility should also be provided to people migrating back to India to continue to service policy taken in the IFSC in foreign currency and they should be allowed to remit premium under the LRS route. NRIs should be able to subscribe to online policies while they are outside India.

5.6.2. Health insurance

1. Resident individuals	Most of the Indian Health insurance policies do not cover treatment outside India. In case an individual requires treatment outside India for any ailment, he must spend out of his pocket, despite maintaining a large health insurance cover in India. A limited number of polices that are currently available in India to cover overseas treatment are very expensive and offer limited benefits. Therefore, it is recommended that residents must be permitted to buy overseas health insurance for themselves and their dependents (in India or overseas) from insurance players operating out of the IFSC to be treated anywhere in the world. The premium payable on such policies should be permitted under the LRS route.
2. NRIs/ PIOs	Similarly, Insurance companies should be allowed to offer health insurance products even to NRIs/ PIOs including covering their family members who are based in India. The products offered should meet global standards for it to be attractive. As mentioned earlier, GST exemption will also help in increasing the penetration of these products in the IFSC. The IIO should be permitted to provide health cover to employees of any Indian companies working abroad.

	There is a large section of employees from the Information Technology sector who may find this useful.
3. Other Nationals	Conversely, India is a popular destination amongst African countries for medical tourism. It is recommended that Indian insurance companies should be permitted to offer Mediclaim policies out of the IFSC for treatment in India. The policies discussed above for NRIs/ PIOs should also be made available to nationals of other countries without any restriction.
4. Other suggestion	Life insurers can be allowed to give health indemnity policies separately or as riders to life products. Currently, this is not allowed in mainland.

5.6.3. Non-life insurance

1. NRIs/ PIOs	The IIO should also be permitted to offer personal accident cover, baggage loss, documents loss cover and travel health insurance anywhere in the world for NRIs/ PIOs. It is recommended that IIO should be permitted to issue homeowner policies from the IFSC for covering property owned by NRIs/ PIOs in India and abroad. The above policies can be also be extended to foreign nationals.
2. Other Nationals	The next logical step would be to expand the offerings to the nationals of other countries, especially frontier markets such as Bangladesh, Sri Lanka, and Mauritius, and African countries such as Kenya, Nigeria, Ghana and Morocco. Given the relative cost advantage that the IFSC offers compared to other international centres, policies are likely to be attractively priced to attract individuals from these nations. Further many of them may perceive India to be financially stronger and well-regulated for entrusting their insurance needs.
3. Surety bonds	As the name suggests, Surety bonds provide surety to the obligee of payment, in the event of default by the Contractor. These bonds

	are designed to ensure that the Contractor acts in accordance with agreed terms of the contract. It provides the obligees comfort that if the Contractor breaks any of the agreed terms, he can make a claim on the surety bond to recover the losses incurred. The surety company will seek reimbursement from the Contractor if it is required to pay any claim of the obligee. These bonds include Bid Bonds, performance guarantee bonds, advance payment bonds, etc. It is recommended that IIOs in the IFSC should be permitted to offer these bonds to Indian corporates for their domestic and overseas projects as well as to foreign corporates for all their projects out of India.
4. Trade credit Insurance	Businesses face various risks, including risk of default in payment by purchasers. These risks could arise due to the bankruptcy of the payer, worsening of political situations immediately after the supply of goods, including trade sanctions and war, volatile currency fluctuations, etc. Therefore, trade credit insurance plays a major role in international trade. Currently, Indian insurance market offers cover only for trade receivables due to default of the buyer. Other forms of credit insurance like risk of banks, financial institutions and factoring companies which provide finance to suppliers by way of discounting or purchase of bills are not available. These covers can be made available in the IFSC by IIOs with reinsurance support. Insurance companies based in the IFSC should be allowed to issue trade credit insurance to banks based in the IFSC. These trade credit insurance policies can cover two categories – Corporate Risk (mainly Indian corporates borrowing from the IFSC) and Financial Institution Risk (various global banks issuing Letter of Credit for exports from India). The insurance companies can reinsure their risk with global reinsurers.

5.	Aviation direct insurance	The IFSC has a tremendous potential to emerge as an Aviation Insurance Hub for the whole world. The presence of GIC Re, New India Assurance and other new insurers who are big Aviation insurance players can bring large Aviation Insurance business into the IFSC. The IFSC emerging as an Aircraft Leasing Centre can also facilitate this.
6.	Protection and Indemnity insurance	Protection and indemnity insurance cover is not available in India, except in a limited manner. Currently, all shipowners go abroad for availing insurance cover. This can be made available from the IFSC.
7.	Property and project insurance	Direct insurers can cover the properties of Indian companies located abroad or projects abroad. Currently, Indian companies are doing this in a limited way. The IFSC can offer these covers better due to its ease of dealing with foreign reinsurers and brokers. Insurers can also cover properties located abroad in countries that allow policies to be taken anywhere.
8.	Other products	Oil marketing companies in India have insurance coverage requirement for import of oil from overseas. These companies could be supported by insurance companies from the IFSC. The gems and jewellery (including bullion) business also offers a huge business opportunity to insurance companies in the IFSC that they can tap into.

5.6.4. Reinsurance

The IFSC has a great potential to emerge as a re-insurance hub for Asia and Africa and can give significant competition to Dubai and Singapore. India has all the ingredients to make this happen; it has insurance talent, professionals proficient in English, technology, and strong local players such as GIC Re, New India Assurance who have already set up base in the IFSC, offering tax holiday, low costs of operation.

1.	NOF requirement	NOF requirement should be reduced to INR 5 bn to promote mid-sized foreign reinsurers to set up base in the IFSC and carry out re-insurance business from the IFSC. These reinsurers could undertake Global reinsurance business from the IFSC.
2.	Participation in reinsurance placements	Indian Insurance companies can procure services relating to reinsurance from entities operating within the SEZ/ IFSC on the same terms and conditions as they are allowed in general to procure services from insurers outside India. Under the current law, a Cedant is required to offer the best terms obtained, for participation in the prescribed order of preference. An IIO comes very low in terms of preference to be offered. It can be given preference only after FRB having an office in India have been considered, subject to certain conditions. It is recommended that an IIO should be given equal preference similar to the FRB.
3.	Reinsurance Support	IIOs should be allowed to purchase reinsurance support directly through foreign reinsurance brokers for risks that are in foreign jurisdictions, without the involvement of an Indian broker. As the IIO will be directly working in foreign geographies, the brokers operating in these countries may not have any tie up with brokers in India. This waiver is not required for business written for risks within the IFSC and SEZ in India.

5.6.5. Investments

1.	Investment regulations to be simplified	Currently, every insurer is allowed to invest its controlled fund as defined under section 27A/ all assets as defined under section 27(2) of the Insurance Act as amended from time to time, only within the

	exhaustive category of investments listed in the guidelines issued by the IRDA. Also, Insurance companies are currently not permitted to invest in private limited companies. This restriction is replicated under the Insurance regulations. However, the Central Government has the power to relax the restriction for insurers in an SEZ. Hence, it is suggested that the MoF issue a notification to exempt insurance companies in the IFSC from the investment restriction provisions under the Insurance Act. They may be permitted to invest in private companies up to a specified limit. Further, it is necessary to draft separate investment regulations, offering more flexibility to invest both in India and abroad to get better returns, considering safety of the sum insured for any claims. Foreign insurers and Indian insurers in the IFSC should be allowed to make investments across the globe with appropriate safeguards. Separately, transfer of funds from IIO to parent in India and vice versa should be allowed freely. IIO may require funds to pay claims at a short notice. The repatriation of funds for foreign companies can be separately regulated. As specified earlier, Assigned Capital is required to be held in the form of G-Secs or held in deposits with Scheduled Banks in India and should be maintained by the IIO at all times during the subsistence and validity of its registration. It is suggested that Assigned Capital should just be allowed to be kept as an earmarked fund rather than the mandatory requirement

	of maintaining it in form of G-Secs/ Deposits with Scheduled Banks in India.
2. Prohibition on investment of funds abroad	Under section 27E of the Insurance Act, Insurance companies are not permitted to invest funds of policyholders outside India either directly or indirectly. This appears to bar IIOs to invest in the IFSC and overseas. Hence, it is suggested that the MoF may notify that the IFSC entities are exempted from the restriction on overseas investment.

5.6.6. Other suggestions

1. Subsidiary set up	Currently, IIOs are allowed to be set up only as branches in the IFSC. Subsidiaries should also be allowed to be set up. Appropriate Capital and NOF requirement should be prescribed for subsidiaries to allow both regulatory comfort without putting stress on the subsidiaries' balance sheet.
2. Indian companies	Indian entities should be allowed to set up companies to do direct and reinsurance business in the IFSC and overseas. The capital requirement could be INR 500 m and INR 1 bn, respectively. These companies can focus on niche retail business for NRIs/ PIOs as well as foreign mass affluent (especially from countries like Asia and Africa), as bigger Indian companies focus on the huge Indian market. Consequently, capital requirement for foreign direct insurers could also be reduced to bring it at par with Indian entities. The IFSC could also be considered for captive insurance structures for Indian non-insurance entities as well as overseas entities.
3. Solvency of IIO	The IIO is required to prepare and submit a separate statement of assets, liabilities and solvency margin requirements as specified by the IRDA regulations.

	Currently, the solvency of the IIO is measured independent of its parent. It is recommended that solvency of the entities in the IFSC should be measured along with that of their parents and not independently. As the IIO is a branch of the parent company, it has access to the global balance sheet. Therefore, there should not be any separate solvency requirements for IIO. The insurance business is very volatile. In the initial years, the entity may collect little premium but may end up with huge claims. As a branch of the parent, it will be able to meet the claims comfortably. The branch should be mandated to produce a Letter of Comfort from its parent stating that the parent will support the branch at all times to meet its claim related obligations.
4. Retrocession	As per current regulations, an IIO cannot cede more than 90% of the reinsurance business. The first principle of re-insurance is to build capacity over a period of time. Domestic insurance companies do not have much experience, and therefore, the 10% retention appears to be a significant threshold. Such a large retention amount makes them non-competitive in the international market. Therefore, companies are keen to cede higher than the current 90% threshold. Even the IRDA (Re-insurance) Regulations, 2018 does not lay down any percentage for retention except for life insurance policies. The policy merely states that every Indian insurer should maintain the maximum possible retention in commensuration with its financial strength, quality of risks and volume of business, formulate a suitable insurance segment-wise retention policy, bearing in mind the above-stated objectives, and ensure that the re-insurance arrangement is not fronting. It is recommended that the retrocession limit can be increased beyond the current 90% to such limit as the board of the insurance company may, deem fit and intimate the same to the IFSCA.

	The amount should be calculated on an annual aggregative basis. Broad guidelines should be prescribed for companies to maintain the percentage annually.
5. Eligibility conditions	It is recommended to remove the condition that only insurers and reinsurers from countries with which India has a Double Taxation Avoidance Agreement (DTAA) are to be allowed to operate in the IFSC.
6. Promote foreign brokers to set up base in the IFSC	Foreign reinsurance brokers should also be encouraged to set up base in the IFSC. They should be allowed to operate in the IFSC as either branches or subsidiary entities. This has the potential to create a vibrant insurance market in the IFSC. They are likely to facilitate reinsurers/ direct insures undertake international re-insurance/ direct insurance business from the IFSC.
7. Global in-house centres	Insurance is a niche business and requires experts from various fields such as actuarial sciences, marketing, research, claims handling etc. Insurers from any part of the world should be allowed to set up an in-house centre in the IFSC to cater to this need in a cost-efficient manner.
8. Certain clarifications	• Provide express clarification that IIOs are permitted to provide retail services to employees and other individuals in other SEZs will be welcome. • The IFSCA should have oversight over the Indian and foreign insurers and re-insurers. They should be subject to standalone reporting obligations for their operations out of the IFSC.

6.1. Background

The Asia-Pac asset and wealth management industry is expected to be the centre for global AUM growth in the coming years.

As mentioned earlier in the report, the amount of global offshore wealth, which can be taken as the size of the addressable market, was estimated by the BCG[33], at US$ 9.6 tn towards the end of 2019. It is estimated to grow at a compound rate of 1.4%–4.5% per year (depending on low-case or high-case post COVID-19 recovery scenarios) for the next five years, with Switzerland managing US$ 2.4 tn of offshore money, Britain and its Channel/ Caribbean islands, US$ 0.8 tn; Hong Kong, US$ 1.9 tn; US, US$ 0.8 tn; UAE, US$ 0.5 tn; and Luxembourg, US$ 0.3 tn. BCG estimates that Asia's share of global wealth would go up from 25.3% at end-2019 to 40% by 2024. Asia-Pac region may become the hub for new wealth creation.

By 2025, we believe that these trends will propel the Asia-Pac asset and wealth management industry to global heights. The large global firms in the region will be known for their scale, internationalisation and technological adoption. Smaller, specialist firms in the region, on the other hand, will prosper by becoming strong niche players, offering excellent performance or providing services for the larger global players that enter the market.

Currently, Singapore, Hong Kong and Dubai are the main regional asset management hubs with Japan, Shanghai and Shenzhen also contributing to play important role. India's IFSC can aspire to emerge as the new Asset Management hub.

The existing regional hubs are efficient and have a strong reputation. The international retail investors (including NRIs) are also well served from these centres with access to global and India specific investment opportunities. These hubs are a significant force to reckon with and therefore competition from them will be stiff.

[33] BCG, Global Wealth 2020, June 2020

There has to be a strong value proposition for the retail investors (with special emphasis on NRIs) and the institutions which service them to move away from these well-established hubs to a new hub like the IFSC.

The subsequent sections are divided into two parts:

- Part one - Focus on the developmental role of the IFSCA
- Part two - Focus on the regulatory framework that the IFSCA should create

Part one: Developmental role of the IFSCA

Since launch of the IFSC in 2015, several initiatives at policy, regulatory and operational level have helped India's IFSC dream to take shape and gain attention from far and wide.

The key aspects that merit attention have been discussed in the forthcoming sections.

6.2. Key structural changes

Amid the unprecedented crisis, most Capital Market players and Asset managers have afforded themselves little time to bring the future into focus. However, the Industry stands on the precipice of a number of fundamental shifts that will shape the Capital Markets and Asset and Wealth Management industry. The way asset managers will operate in the next decade will be significantly different compared to how they operate today.

Some of the key structural changes taking place in the Capital Markets and Asset and Wealth Management industry are highlighted below:

1. Stricter global compliance measures and alignment of regulatory and tax regime is taking away the regulatory trade-offs. Regulators are observing and learning from each other, exchanging information better and acting and aligning themselves faster to plug such situations.

2. Technology is becoming a key enabler and digitisation of asset management industry is redefining the role of intermediaries and making the process location agnostic. It is the brick and mortar in the new world.

3. There is a demographic transition taking place. New money owners are asking for opportunities that meet Environmental, Social, and Governance (ESG) criteria while the rapidly ageing population demands for high yield investment opportunities.

4. Among other things, the inability of the active managers to consistently beat the benchmark, the relatively low cost of passive investing as well as the regulatory focus on fees charged is resulting in the shift away from active management of funds to passive and alternative assets.

   The focus of investment is shifting away from active management to passive and alternative. Currently, active fund management has the largest pie, it is expected the share of active fund management to come down from 69% in 2017 to 59% by 2025.[34]

Period / Focus	Active	Passive	Alternate
2017 (a)	69.1%	12.1%	18.9%
2025 (e)	59.4%	17.1%	23.5%

   While it is important to support the Active Fund Management Industry, the IFSCA has an opportunity to position the IFSC as the new hub for two of the fastest growing segments of asset management – Passive and Alternative.

5. With rising cost and falling margins, asset and wealth management firms are now forced to look at their cost structures closely.

6.3. Inherent advantages of IFSC

The IFSC has certain inherent advantages which, if nurtured well, will allow it to capitalise the structural changes.

[34] PwC, Asset & Wealth Management 2025 - The Asian Awakening, January 2019

The six key inherent advantages that the IFSC has are:

1. As a greenfield regulatory authority, the IFSCA can set new benchmark in defining regulatory framework, which is progressive, light touch and completely digital. It should benchmark itself with the best and measure its progress against those standards rather than making incremental progress against the archaic.

2. It can provide access (gateway) to strong India hinterland opportunities in long term infrastructure investment and green and clean energy as an asset class – thus catering two of the most important investor profiles – the old and the new money owners.

3. It can tap into the strong NRI retail investors base who are keen to participate in India growth story. The gap between the welcoming dialogue and the demand for documentation to prove antecedents needs to be filled in. If the IFSCA can 'walk the talk', this investor base will be a force to reckon with.

4. Access to an efficient English-speaking talent pool with expertise in programming and financial management (new and experienced) available at competitive renumeration levels with strong work ethic and a track record of delivery of service.

5. Companies set up in the IFSC will be able to provide high quality financial services at a globally competitive cost to their customers.

6. It also has an opportunity to become a significant capital-raising platform for neighbouring countries like Sri Lanka, Bangladesh, Nepal, Myanmar, etc. and for listing their companies on an international exchange.

6.4. Key Success Factors

Considering the key inherent advantages, it is imperative that the IFSCA focus on the key factors that are important for the success of Capital Markets and Asset and Wealth Management industry in the IFSC. These are suggestions for the developmental role that will be played by the IFSCA in addition of the key success factors enumerated in the earlier chapters.

Focus on the Entire Ecosystem

The IFSCA should take a wholistic approach in creating its own regulations and infrastructure for entire Financial Markets eco-system using the development heatmap approach (tabled at the end of this Chapter).

Currently, the Indian Financial Markets are governed and regulated by the domestic regulators i.e. the SEBI and RBI. Recently, the IFSCA has assumed powers for regulating the International Financial Services (IFS) of four financial service regulators i.e. the RBI, SEBI, IRDA and PFRDA for the IFSC. Hence, it is an opportunity for the IFSCA to detach itself from the Indian regulatory framework and adopt a new framework which is **light-touch, principle-based** in nature and also in line with global best practices. However, the IFSCA should also be mindful that there is no impasse of decision-making while transitioning to the new Independent regulatory regime.

The common perception amongst global investors is that there are too many regulations and a lot of paperwork which requires yearly updation. The IFSCA should consciously work to dispel this perception. If entities are from the FATF compliant jurisdictions and are already registered with the home country regulator then there should be minimum incremental KYC requirements for such entities at the IFSC.

Also, the world's best Asset and Wealth Management hubs have built an eco-system which allowed the Asset and Wealth Management industry to thrive. We recommend the IFSCA to follow the same approach and provide an eco-system for the whole of the financial market.

Focus on Technology

The IFSCA should aim to **go completely digital** with its regulatory framework and position itself as **technology savvy, digitally driven** Financial Markets Hub.

For instance, KYC should be completed through electronic means (i.e. non face-to-face), with minimum documents resulting into minimum inconvenience to the customers.

The processes in a jurisdiction whose regulator seeks to promote it as a technology hub should reflect the 'tech' element.

As both retail and institutional clients increasingly migrate to digital channels, the opportunity exists to take bold steps to significantly reduce or even eliminate non-digital channels. With the advent of technology disruptors and improved telepresence, the ability to create meaningful virtual experiences will increasingly impact the strategies of Asset and Wealth Management hubs.

A **staggered plan** should be developed whereby the IFSCA can allow Asset and Wealth Management players to actually relocate themselves to the IFSC. In Britain, whose Fund Managers oversee GBP 8.5 tn of assets, GBP 2.1 tn sits in EU-domiciled Funds as per The Economist.

In order to differentiate itself from other jurisdictions, the IFSCA should make the access of doing operations in the IFSC completely digitally interactive using Artificial Intelligence, Machines Learning and Data Analytics.

This may also encourage a lot of **FinTech companies and Robo advisors** to participate and support the ecosystem in the IFSC.

Focus on 'Creating A Niche'

The proposition is very simple - ***Don't compete, complement and create a niche***. The IFSCA should identify unique value propositions to differentiate itself from other asset management hubs. They could be the following:

1. **Longevity Finance hub:** The rapidly ageing population which accounts for over 1 billion people with a combined net worth of US$ 15 tn is emerging as an important investor class. The needs of this population segment are different – more personalised service, high yielding and stable investment opportunities, health insurance and pension products. The IFSC should position itself to provide comprehensive solutions to capture this market and become the hub for Longevity Finance.

2. **Fin-Tech and Knowledge hub**: The disruption on back of digitisation and product innovation is driving the next phase of growth for Asset and Wealth Management industry. The IFSCA should create an eco-system which will attract the best-in-class talent from the domain knowledge of technology, finance and accounting where such talent can transform this industry regionally and globally.

3. **Green and climate finance and ESG hub:** Other IFCs are aspiring to become the hub for green and climate finance. The IFSC with its access to one of the largest growing economy with the right focus and framework has a better opportunity to succeed. For example, opportunity in electric vehicles and batteries or solar power or other renewable energy in India[35].

4. **FCY-denominated Exchange-traded products:** The success of NIFTY Options on SGX has shown that there is a large latent demand from investors who want to access the India growth story if available in dollars. The IFSCA should encourage and promote institutions to create FCY-denominated exchange-traded products which can capitalise on this latent demand.

   The IFSCA can start with India specific products. This will increase liquidity in the domestic markets as all settlements will be carried out on the local exchanges in India. Later, the IFSCA should extend its focus to include other regional markets.

Focus on Capacity building

The IFSCA should focus on **capacity building** – infrastructure, institutional and talent to be **future ready**. The aim should be to create a best-in-class institution and build a state-of-art infrastructure which acts as a magnetic force to attract people to the IFSC.

Focus on global outreach - aggressively!

The IFSCA should build aggressive global **outreach** and **engagement** program to create awareness, attraction and brand for the IFSC. The IFSCA should sign bilateral co-operations with other IFCs and thereby creating necessary global awareness amongst

[35] NITI Aayog, Zero Emission Vehicles (Zevs):Towards A Policy Framework, September 2018

other leading regulators across the world. This will enable the IFSCA to actively engage with other International regulators and position the IFSC as a jurisdiction of repute. This will also help the IFSC to become a competitive and transparent jurisdiction with International best practices. For instance, the MoU of the DIFC with ESMA ensures that DIFC based fund managers can also manage EU based funds from the DIFC, giving a huge fillip to the fund management industry in the DIFC.

Focus on Primary Listing

Recently, the MCA has allowed primary listing of certain class of Indian securities in permissible foreign jurisdictions. Thereby, Indian companies can now list their securities on overseas stock exchanges prior to listing it on the Indian stock exchanges. Since, the IFSC is also termed as a "foreign" jurisdiction from an investment perspective, it may be prudent to retain the primary listing of such Indian securities in the IFSC exchanges, followed by a secondary listing in overseas stock exchanges. Alternatively, it may consider mandatory dual listing whereby the secondary listing can be done on the IFSC exchange within a liberal timeline.

Listing of Masala Bonds on overseas stock exchanges and raising money from foreign investors is a golden opportunity. Indian companies can tap into that opportunity on the IFSC exchanges, rather than going overseas, at a very low cost. For instance, the market for dim sum bonds (bonds issued outside of China and denominated in Chinese renminbi) in Hong Kong SAR has expanded significantly since 2011 and peaked in 2015.

This may not only bring huge liquidity and volumes on the IFSC exchanges but also expand the horizon for Indian companies to raise capital from overseas investors.

Part two: Regulatory framework

6.5. Financial Markets eco-system

To build the eco-system we have identified and discussed the regulatory framework and recommendations for the key Asset and Wealth Mangers and Capital Market players which are required for building the Financial Markets eco-system.

Asset and Wealth Managers	Capital Market Players
• AIFs • Asset Managers (MF houses) • Portfolio Managers • Investment Advisers	• IFSC Exchanges • Depositories • Clearing Corporations • Intermediaries • Issuers

We have highlighted below the existing regulatory framework for Asset and Wealth Mangers and Capital Market players in the IFSC and have recommended some of the business opportunities for the IFSCA to consider.

6.6. Existing regulatory framework in the IFSC

In March 2015, the SEBI had issued detailed guidelines to facilitate and regulate the securities market in the IFSC. These guidelines, as amended from time to time, largely provide the regulatory framework for Asset and Wealth Managers and Capital Market players.

From Asset and Wealth Management industry perspective, the IFSC guidelines permit AIFs and MFs to operate from the IFSC. Further, from wealth management perspective, PMs and IAs are permitted to operate in the IFSC.

The SEBI has already issued operating guidelines for AIFs, IAs and PMs to setup a unit in the IFSC. However, the operating guidelines for MFs to operate in the IFSC are awaited. With the IFSCA now assuming power, it should revisit the erstwhile guidelines and come up with a new light-touch principle-based guidelines to regulate the fund management industry. The IFSCA should aim to benchmark its regulations with the best in class practices adopted by various other IFCs.

The broad features of the prevailing regulatory framework for each of the Asset and Wealth Managers in the IFSC has been provided in the ***Annexure 3*** below for ready reference. For Capital Market players, the broad features of the prevailing regulatory framework have been provided in ***Annexure 4*** below for ready reference.

6.7. Recommendations

We have highlighted some of the business opportunities/ recommendations for various Capital Market players and Asset and Wealth Managers.

The detailed recommendations for each of the above players has been provided as under.

6.7.1. IFSC Exchanges

Allow LRS investments in the IFSC exchanges	Resident individuals should be permitted to invest on the IFSC exchanges via the LRS route. Illustrative list of products that may be available for investment is given below: o GDRs issued by foreign companies; o Units of the MFs investing outside India o Derivatives of foreign companies; o Foreign REITs and InvITs; o Foreign denominated currency equity shares of companies; The broad principle should be that LRS money should be allowed to be invested in shares and securities listed on any IFSC exchange.
Allow block/ bulk deals on the IFSC exchanges (Negotiated Large Trades)	At present, investors are permitted to execute block/bulk deals on the Indian/ global exchanges. However, the same has not been permitted in the IFSC exchanges. **Recommendation:** Allow block/ bulk deals (Negotiated Large Trade deals) at the IFSC exchanges across all products listed on the exchanges.
Develop a framework for allowing foreign or	Prominent stock exchanges such as LSE, NASDAQ, SGX etc. allow foreign issuers to list equity or GDR on their exchanges.

Indian issuers to raise equity in the IFSC	In order to facilitate listing by issuers, the IFSCA should develop a regulatory framework, which is comparable to international standards. **Recommendation:** The IFSCA should develop a regulatory framework to facilitate listing by foreign and Indian issuers in the IFSCA which is comparable to international standards.
Remove regulatory /taxation bottlenecks for the issuance of ADRs/ GDRs by Indian Companies in the IFSC	While the SEBI regulations permit listing of ADRs/ GDRs on the IFSC exchange, there are certain bottlenecks in other legislations which need to be addressed. Some of the key issues are highlighted below. 1. Companies Act, 2013 While the Companies (Issue of Global Depository Receipts) Rules, 2014 permit issue of GDRs of Indian companies in any permissible jurisdiction including the IFSC, the primary sections of Companies Act, 2013 does not permit such issue of GDRs of Indian companies in the IFSC. 2. FEMA The SEBI regulations allow issuance of DRs with debt securities as underlying instrument. However, Foreign Exchange Management (Debt Instruments) Regulations, 2019 does not permit issue or transfer of ADRs/ GDRs of Indian companies with debt securities as underlying instrument. 3. Income-tax Act, 1961

	The definition of GDRs in the ITA does not include GDRs issued or transferred on the IFSC exchange. Hence, the tax exemption benefit available on transfer of GDRs listed overseas is currently not extended to transfer of GDRs on the IFSC exchange. **Recommendation:** The IFSCA should reach out to the relevant regulators/ Government bodies to address the above-mentioned bottlenecks to enable Indian companies' issue ADRs/ GDRs in the IFSC.
Increase range of products that can be offered on the IFSC market	Once investors start trading in a market, it is natural for them to look for other available products in that market. That in turn adds to the depth and liquidity of the market. The IFSCA should encourage and promote listing of unique products in the exchanges. The illustrative list of products includes: • Convertible debt and Asset Backed Securities; • Units of AIF; • Units of MFs and ETFs; • Masala Bonds

6.7.2. Intermediaries

Allow foreign brokers in the IFSC through Branch structure	Any SEBI-registered intermediary (except trading member or clearing member) or its international associates in collaboration with such SEBI-registered intermediary can provide financial services relating to securities market, in the IFSC, without forming a separate company, subject to the prior approval of the Board. However, it is mandatory to set up a company to act as a trading member of a stock exchange and/or a clearing member of a clearing corporation in the IFSC.

	Foreign broking firms have expressed reservations about setting up a separate legal entity in the IFSC to offer broking services. For a separate legal entity to be set up overseas, the business unit needs to go through multiple internal and external approvals including internal legal, regulatory, treasury, risk management, compliance, tax, etc. as well as the home country regulatory approval. A branch model is comparatively quicker to set up and operationalize. As a result of the same, none of the major foreign broking entities have yet taken the first step to commence operations in the IFSC. **Recommendation:** It is therefore recommended to allow foreign broking firms to set up branches at the IFSC to participate in trading and clearing services in the stock exchanges. The said branch should be subjected to meet the minimum net worth and other requirements
Allow wholly owned subsidiaries of Banks to operate as Trading / Clearing Members without setting up a separate company.	As per the RBI's Master Direction on Financial Services provided by Banks, a subsidiary of a bank is not allowed to set up another subsidiary or promote a new company which is not a subsidiary thereof or undertake any new business without prior approval of the RBI. As mentioned above, a SEBI-registered trading member or clearing member in the mainland have to mandatorily set up a company to operate as a Trading/ Clearing member **Recommendation:** It is recommended that either Banks may be permitted to set up a step-down subsidiary of their existing wholly owned broking subsidiaries or such wholly owned subsidiaries of

	banks be allowed become trading and clearing members of the IFSC stock exchanges by setting up a branch at the IFSC.
Omnibus Structure	An Omnibus account as defined by IOSCO is "An account containing the collective position of more than one investor" while Bank for International Settlement (BIS) defines it as "An account structure where securities or collateral belonging to some or all customers of a particular participant is commingled and held in a single account segregated from that of the participant." The omnibus framework is an offering where the client registration with the exchange / regulator is not mandatory. A detailed note on the Omnibus structure is provided in ***Annexure 5*** below. Omnibus accounts are very common in almost all major financial hubs and FATF compliant jurisdictions. These accounts hold funds of a group of individuals. The transactions appearing in the account appear in the name of the associated broker. The details of the individual investor are usually private. This can be contrasted vis a vis India which is a segregated ID market and every investor needs to hold its security and funds in a separate identified account. Globally, Omnibus accounts are considered to provide a more efficient way for transactions to take place whenever market conditions so demand. Further, due to efficiencies, the overall fees and costs are also much lower compared to maintaining the segregated account. The IFSC aims to compete with other global IFCs and it is important for it to offer a regime which is equal or better than that prevailing in advanced jurisdictions for participation.

	Investors also access the P-note route from a convenience standpoint to seamlessly invest across markets. Investors are able to invest through prime brokers/ intermediaries without the need for obtaining country specific registrations. These prime brokers/ intermediaries also offer a variety of services including leverage, netting benefits across markets etc. However, permitting the Omnibus structure may address some of the above needs of the investors. **Recommendation:** Permit Omnibus structures in the IFSC with appropriate safeguards. The IFSCA may, after due examination, consider permitting issue of P-notes by entities set up/ established in the IFSC in future.
Allow global trading from the IFSC	The current IFSC regime permits intermediaries to only access the IFSC exchanges. For direct global access, they are required to go through IFSC Exchange SPV which adds an additional layer in accessing the global markets. Today, offshore funds from prominent jurisdictions such as Singapore and Hong Kong are allowed to trade on any global market, which has resulted in creating an asset management hub in such jurisdictions. By replicating the same model, the IFSCA can provide direct access to the global markets and thereby create a similar hub from the IFSC for intermediaries/ institutions across Asia-Pac. In order to access global markets, Indian Intermediaries generally create SPVs in various prominent jurisdictions such as Dubai, London, Singapore etc. to access global markets. With the cost advantage of the IFSC, it would be possible to

	bring back such intermediaries to the IFSC. This in turn would also increase participation in the IFSC exchanges. **Recommendation:** The IFSCA should provide direct global access to institutions/ intermediaries based in the IFSC to access global markets.

6.7.3. Depositories

Foreign depository status to branches set up by Indian / Foreign depositories in the IFSC.	At present, Indian depositories i.e. CDSL and NSDL have a branch license for their IFSC operations. As per the IFSC regulations earlier issued by the RBI, all institutions in the IFSC are termed as person resident outside India. All Indian bank and Indian insurance entities operating in IFSC are provided the status of foreign branches by the RBI and IRDA. However, same position for branch of depositories was not extended by the SEBI. For the purpose of issue of ADRs/ GDRs overseas, Indian companies need to appoint a foreign depository. It is necessary to provide the status of foreign depository to branches of various depositories set up in the IFSC. This will also enable setting up of the necessary settlement infrastructure in the IFSC. **Recommendation:** The IFSCA, being a unified regulator, should address the issue of recognising branches of depositories licensed in the IFSC as a 'foreign depository'.

6.7.4. Asset and Wealth Managers

Allow LRS funds to be managed through the IFSC	A resident individual, under the LRS scheme, can freely remit up to US$ 250,000 every financial year for making investment in an offshore fund, which in turn, can invest in offshore

	markets. This provides resident individuals access to various avenues in offshore jurisdictions. As per the IFSC guidelines, a person resident in India having a net worth of at least US$ 1 m during the preceding financial year is permitted to invest in an AIF or MF in the IFSC, to the extent allowed in the LRS scheme and subject to the guidelines of the RBI. However, the RBI does not specifically permit resident individuals to utilise LRS remittances for investment in the IFSC. Permitting resident individuals to invest in the IFSC will create a level playing field for such funds set up in the IFSC in comparison to offshore jurisdictions. It will also assist Indian fund managers in the IFSC to handle a big pool of LRS money, thereby, bringing fund management income and other ancillary support services income back to India. **Recommendation:** The IFSCA should address the issue of allowing Indian resident's access to the IFSC under the LRS scheme.
New Comprehensive Regulations/ Guidelines for Asset and Wealth Managers	As mentioned earlier in the Chapter, the IFSCA has assumed power of four financial service regulators i.e. the RBI, SEBI, IRDA and PFRDA recently. It is an opportunity for the IFSCA to detach itself from the Indian regulatory framework and start with a clean slate. The IFSCA should look at developing its own set of regulations for Asset and Wealth managers. The IFSCA should adopt globally accepted, best-in-class regulations rather than adapting, tweaking and modifying existing regulations from the mainland. While doing so, it should avoid micromanaging businesses through regulations and grant the flexibility to the board/ management of the entities operating out of the IFSC.

<table>
<tr><td></td><td>Some of the impediments arising due to replication of the SEBI regulations to the IFSC units are highlighted below. Special care should be taken by the IFSCA to address these points while drafting its regulations.

1. AIF regulations
• AIFs in the IFSC should not be subject to leverage limits and investments diversification limits;
• AIFs in the IFSC should be allowed to have segregated portfolios;
• AIFs in the IFSC should be allowed to have one investor in addition to the co-investment by the sponsor/manager (single master-feeder structure);
• Minimum/ Low investment limit applicable to non-resident investors in AIFs in the IFSC;
• Lower filing fees for AIF registrations in the IFSC

2. PM and IA regulations
• Allow PMs registered in the IFSC to invest in global securities without any restrictions;
• Allow IAs to provide advisory and distribution services from the same entity;
• No restriction on fees charged by IAs from its clients;
• No cap on investments made by PM entity in foreign jurisdictions or the IFSC;
• No restriction on trading of derivatives for foreign clients

3. MFs regulations
Fund management should be at the discretion of the Portfolio Manager. Care should be taken to avoid issuing regulations which result in micromanagement of Funds.</td></tr>
<tr><td>Preferential treatment for the IFSC entities investing into India</td><td>As a greenfield regulatory jurisdiction, the IFSC will need support from the mainland regulators to emerge as a jurisdiction of choice. In order to facilitate that the IFSCA</td></tr>
</table>

	should negotiate certain concessions with the SEBI/ RBI for entities set up in the IFSC which invest into India. Some of the concessions that may be sought are as under: • Relax single/ aggregate NRI investment limits for units registered in the IFSC investing into India; • Provide deemed FPI/ FVCI registration status to units registered with the IFSCA; • Permit Intra-day trading; • Relaxation of debt diversification rules for FPIs; • IOCC status for the funds managed by the branch/sub of Indian fund managers.
Relax single/ aggregate NRI investment limits for IFSC Funds investing into India	Currently, the SEBI norms restrict NRI holdings in an FPI. Single NRI cannot hold more than 25% and all NRIs put together cannot hold more than 50% in an FPI. This policy is applicable to Funds investing into India from overseas or from the IFSC. Placing such restriction on NRI investments restricts the overall capital-raising capabilities of a Fund investing into India. Most of the NRIs prefer to invest into a dollar version of the Fund. Relaxing NRI investment limits will bring much larger pool of NRI capital through professionally managed structures in the IFSC. **Recommendations:** Relax single/ aggregate NRI investment limits for the IFSC Funds investing into India.
Separate safe harbour regime for Fund Managers setup in the IFSC	Many of the IFCs like London, Singapore, HK etc. have safe harbour regime which basically provides that the Fund will not be subject to tax in that country merely because the Fund Manager is located there.

	Indian tax laws also provide for a safe harbour regime, but the regime has numerous conditions which are very onerous for the Fund and the Fund Manager to fulfil. The primary objective of the IFSCA is to attract global fund managers to be set up in the IFSC. If intention of the IFSC is to be truly international, it should enable a regime which helps the Fund Managers to operate from the IFSC. **Recommendations:** There should a separate safe harbour regime for IFSC Fund Managers which should be comparable to international jurisdiction. The conditions should be simple and practical to implement.
Provide Substance and Outsourcing guidelines for Fund Managers in the IFSC	The new guidelines to be provided by the IFSCA for Asset and Wealth Managers should be based on international best practices. For instance, the Singapore regulations for Fund Management Licensing and Registration are quite comprehensive in terms of specifying staffing requirement as well. The IFSC should benchmark itself with these progressive regulations which will give clarity to Fund Managers on the amount of substance required in the IFSC. At the same time, it should ensure that cost of operations in the IFSC do not escalate. **Recommendation:** Adopt best-in-class practices to provide clarity on substance requirement in the IFSC without losing the low-cost advantage it offers.
Allowing Hybrid structures for managing funds	The Undertakings for Collective Investments in Transferable Securities (UCITS) structure transformed the investment fund industry in Europe; Similarly, Singapore has enacted the VCC

	legislation. Mauritius also has announced introduction of the VCC regime in its 2020 budget. A VCC attempts to combine the best features of a Trust and a Company. It is incorporated in the legal form of Company, thus availing advantages of a corporate form such as limited liability, control through Board of Directors and not external Trustees, perpetual succession, segregation of assets and liabilities across sub-funds, etc. and allows open-ended and close-ended funds within an umbrella, entry and exit at NAV like a Trust without the need for redemption or capital reduction which is required for a corporate structure. **Recommendation:** The IFSCA could explore permitting VCC structure. We understand that a separate committee has been set up to look at feasibility of VCC structure in the IFSC. That committee may examine global VCC structures and suggest appropriate model/ framework that may significantly enhance the competitiveness of the IFSC in India.
Passporting of IFSC Funds	Currently, funds are set up, distributed and administered within each relevant jurisdiction, with no marketability across borders. Australia, Japan, South Korea and New Zealand signed the ARFP's MoC on 28 April 2016. Thailand also signed the MoC when it came into formal effect on 30 June 2016. The ARFP is a multi-lateral agreement that aims to facilitate cross border distribution of managed fund products across the Asian region, effectively allowing collective investment products offered in one Passport economy to be sold to investors in another participating jurisdiction, thereby

	standardizing regulatory requirements across participating countries. **Recommendation:** The IFSCA should aim to showcase that its regulatory regime is at par with global standards and also seek to participate in these MoCs. The IFSCA should also work out an enabling framework in consultation with the MoF and MCA for re-domiciling / migration of funds from other offshore centres.

6.7.5. Other suggestions

Ease of business - Obviate the need for tax compliances wherever possible	As mentioned in the section - Key success factors, the principle 'Withholding tax is the final tax' should be adopted. In cases where the participant is not liable to any tax in India or all the taxes due from them are already collected by way of withholding taxes, they should be exempted from other compliances such as the obtaining a PAN and filing a tax return in India.
Develop a payment system for USD and other FCY settlements in the IFSC	As mentioned in the recommendations relating to the Banking sector, the banks in the IFSC are required to execute the foreign exchange transactions through their Nostro accounts maintained with banks present in a global centre of corresponding currency e.g. with banks in New York for USD clearing. That bank has to be a member of the US Fedwire system for the USD settlements. Fedwire refers to a real-time gross settlement system of central bank money used by Federal Reserve Banks (the Fed) to electronically settle final USD payments among member institutions.

	Since the USD transactions has to be routed through the Nostro banks, they are not settled real-time at the IFSC and settled with a delay as per the time taken for the nostro leg to conclude. This process takes about T+1 day for settlement. It is thus, necessary to develop a payment system for USD and other FCY settlements, on a real-time basis within the IFSC. **Recommendation:** Payment system should be automated and work 24*7 to support capital market business across all time zones.

6.8. Development Heatmap

In order to effectively identify and monitor the progress of creating regulatory framework for the entire eco-system, we recommend development heatmap which will visually display the growth of Financial Market eco-system. It is imperative to note that the success of the IFSC is hinged on the development of all the aspects in the ecosystem. The jigsaw puzzle of IFSC will only be complete when all the pieces have been assembled.

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Based on our current understanding of the regulations and the feedback received from Market participants, the Committee has prepared an illustrative development heatmap for the IFSCA to implement.

<table>
<tr><th>Players/ Regulations</th><th>Stock Exchanges</th><th>Stock brokers and Depositories</th><th>AIFs</th><th>MFs</th><th>Investors</th></tr>
<tr><td>Setup related</td><td>1</td><td>1</td><td>2
Re-domiciliation framework not in place</td><td rowspan="2">4
No operating framework</td><td>3
LRS and clarity on NRI investments</td></tr>
<tr><td>Portfolio Diversity</td><td colspan="2">3
Limited Investment products</td><td>1</td><td>3
Limited Investment products</td></tr>
<tr><td>Ease of KYC</td><td colspan="5">3
Cumbersome onboarding process for NRI and foreign individuals, multiple documents and authentication required, and frequent renewals</td></tr>
<tr><td>Ease of compliance requirement</td><td colspan="2">3
Yearly renewal and regulatory approval</td><td>3
Multiple reporting requirement</td><td>4
No operating framework</td><td>2
Clarity on reporting requirement</td></tr>
<tr><td>Dispute resolution</td><td colspan="5">3
Simplified redressal mechanism required</td></tr>
<tr><td>Tax regime</td><td>2
Clarity on trades from Disaster Recovery site</td><td>1</td><td>2
Clarity on dividend tax and attribution mechanism</td><td>4
No operating framework</td><td>2
Requirement for PAN and filing of return of income</td></tr>
<tr><td>Framework for Data Protection</td><td colspan="5">3
Data protection framework to be aligned with international best practices</td></tr>
<tr><td>Support services</td><td colspan="5">3
Clarity on entities that can provide support services from the IFSC</td></tr>
<tr><td>Social Infrastructure (last)</td><td colspan="5">3
Living, Learning and Leisure facilities needs to be enhanced</td></tr>
</table>

Legend:

1- Implemented   2- Almost there   3- Needs improvement   4- Not in place

The goal of the IFSCA should be to convert all blocks to **Green** preferably around the same time.

7.1. Introduction

As in daily life, conflicts, grievance and disputes are inevitable in a commercial contract. It all depends on how parties choose to manage it and what resolution frameworks are available within their reach. Dispute resolution is a topic which merits a separate paper by itself. But, given the importance of it, the Committee has chosen to deal with this topic, though summarily.

Conflicts can be simple disagreement between parties over a situation. But if left unresolved, they become a grievance. Unresolved grievances take deep-roots and turn into disputes requiring third party intervention making the resolution process expensive, time-consuming and often resulting in an outcome that is 'lose-lose'. Litigation in India is long, treacherous and unpredictable with the lifetime of the litigation often longer than the litigants as courts are starved for budgets, manpower and infrastructure.

India is currently ranked 163rd in contract enforcement globally according to the World Bank Doing Business rankings, and 69th in rule of law index rankings globally as per the World Justice Project. In contrast, Singapore holds the 1st and 12th ranks respectively, while UAE holds the 9th and 30th ranks respectively.

As the IFSCA aims to be a jurisdiction of international repute, it would be necessary for it to focus on a suitable, structured, prompt and effective dispute resolution mechanism, which is independent, **time-bound, digitally accessible and cost effective** for participants. **Fast-track** hearings and **finality of proceedings** should be its cornerstone.

The Committee suggests an approach wherein one of the terms of participating in any activity at the IFSC would be to require all participants to follow the redressal system within the IFSC. As a condition for recognition from the IFSCA, every entity operating from the IFSC would require having an internal redressal procedure as a first line of redressal for persons dissatisfied with the service provided to them. Given that retail services may result in a large number of complaints, the attempt should be to provide a quick and efficient redressal system - the entity would have to disclose on its website the redressal procedure available to those who have grievance about the services received. Such redressal information should be available for inspection by the IFSCA.

For disputes between two service providers or between a service provider and the client, there should be a system of mediation and arbitration as well.

For disputes with respect to the IFSCA, there should be a complaint redressal system within the IFSCA. It should also disclose on its website the redressal procedure it will follow in respect of grievance against the IFSCA itself.

The various redressal system suggested herein include Customer Grievance Redressal Cell within the service provider, an Office of Ombudsman at the IFSCA, a Complaint Redressal system at the IFSCA, Mediation, Arbitration and an ICC.

The key principle that should be adopted is that **an ounce of mediation is worth a pound of arbitration and a ton of litigation.** [36]

7.2. Resolution mechanism

Keeping the above in view, the Committee suggests various alternate dispute resolution mechanism that the IFSCA may consider for adoption.

7.2.1. Customer grievance redressal cell

The first line of resolution should be within the commercial enterprise. Once the conflict is visible, institutions must have mechanisms, procedures and policies to deal with it in a simple and expeditious manner. Early identification and intervention by senior management within an organisation will often lead to quick resolution of the problem.

It is therefore suggested that an in-house complaint/grievance redressal cell should be part and parcel of the operations of every commercial enterprise within the IFSC. Entities must set up an online portal where customers may post their complaints, and which may be addressed by inhouse professionals.

[36] Joseph Grynbaum, Principal, Mediation Resolution Int'l, LLC

There should be an escalation matrix within the organisation for unresolved complaints which can include a Nodal Officer.

The IFSCA should seek a periodic report on the complaints received, resolved and outstanding. This will give it an early warning signal on emerging problems which may require the IFSCA's attention.

7.2.2. Third-party mediation

In case the parties are not satisfied with the resolution offered by the internal grievance cell, they may opt for a third-party mediator in an attempt to reach an amicable settlement. Mediation is a non-binding process. The aim of the mediation is to bring about an acceptable reconciliation between the parties rather than adjudicate the matter and pronounce judgement. While parties are free to select a mutually acceptable mediator, the IFSCA can have a list of empanelled independent mediators on its website for parties to choose from.

7.2.3. Office of Ombudsman - IFSCA

The institution of Ombudsman is popular across countries for redressal of public grievances. Banking and Insurance sectors in India have already instituted several ombudsmen offices.

The Banking Ombudsman Scheme was notified by the RBI in 1995. As on date, Scheduled Commercial Banks, Scheduled Primary Urban Co-operative Banks, Regional Rural Banks, Small Finance Banks and Payment Banks are covered under the Scheme. It is administered by the RBI through 22 Offices of Banking Ombudsman covering all states and union territories.

A similar institution of Ombudsman was set up in the Insurance sector for individual policyholders to have their complaints settled out of the courts system in a cost-effective, efficient and impartial way. There are at present around 17 Insurance Ombudsman in different locations and any person who has a grievance against an insurer, may himself or through his legal heirs, nominee or assignee, make a complaint in writing to the Insurance Ombudsman.

Given the experience of the Office of Ombudsman for the Banking and Insurance sector, it is suggested that the IFSCA should setup an Office of Ombudsman for the IFSC jurisdiction.

The Ombudsman should attempt to promote settlement of the complaint by agreement between the parties through conciliation or mediation. As in the case of the Banking Ombudsman, the hallmark of the scheme should be that Ombudsman must not be bound by any rules of evidence and may follow such procedure as it may consider just and proper. Where the terms of settlement offered are acceptable to parties in dispute, the Ombudsman would be required to pass an order as per the terms of settlement which should then be binding on the parties. Where a complaint is not settled by agreement within a stipulated period, the Ombudsman may also pass an Award or reject the complaint.

In the event of an unresolved dispute, parties end up approaching the Civil courts in India to adjudicate upon the dispute. To avoid that, the Committee recommends setting up of an ICC for dispute resolution in the IFSC. The same has been detailed in the later part of the Chapter sub-titled as 'International Commercial Court'.

The Ombudsman should not charge any fee for filing and resolving customers' complaints. This will help the IFSCA in building confidence amongst various participants and make the redressal system – accessible and amenable to all.

There should be a separate budget earmarked for the Office of Ombudsman.

7.2.4. Arbitration

One of the better forms of settlement of commercial disputes is through Arbitration.
Arbitration is a binding process that replaces a full trial process with single or multiple people to serve as arbitrators to try a dispute and pass a binding award.

Some lessons could be drawn from international best practices. Similar to Singapore International Arbitration Centre (SIAC), there should be no restrictions for foreign lawyers or counsels to act as arbitrators or appear in arbitration matters in the IFSC.

At present, the SEBI has recognised International Arbitration mechanism in GIFT IFSC under its IFSC guidelines. GIFT IFSC has tied up with SIAC and SIAC has opened office in the IFSC. Entities in the GIFT IFSC are allowed to choose SIAC arbitration for dispute resolution. Under the arrangement, case management is handled by the SIAC in Singapore, however, the GIFT IFSC is the venue of hearing and thereby parties are not required to go to Singapore for hearing. The award passed by SIAC under this arrangement is considered as a foreign award and can be challenged in India only on limited grounds.

While the above option is available, parties should be free to choose the Arbitration rules that they wish to apply and also the seat of such arbitration.

The IFSCA should also maintain a Panel of Arbitrators who are experienced, qualified and well-known arbitrators across the globe and make available an Arbitration centre within the IFSC. Over a period of period, the comparative cost advantage of engaging the IFSC arbitration centre may entice parties to approach it for their resolution of their disputes.

Currently, appeal against the Arbitration award lies to Civil courts of competent pecuniary jurisdiction. Similarly, execution of the award also lies with the Civil courts.

A mechanism to contain the whole process within the boundaries of the IFSC without recourse to Civil courts in India should be worked out. In this regard, the Committee recommends setting up of an ICC in the IFSC. The same has been detailed below.

7.2.5. Complaints Redressal mechanism - IFSCA

In case a party wishes to file a complaint against any department of the IFSCA, they should be able to do so. There may be certain instances where a party is aggrieved by an order passed by the IFSCA. Such person should be allowed to prefer an appeal to an Appellate Tribunal.

Hence, the Committee recommends setting up an Appellate Tribunal for the IFSC jurisdiction which is on similar lines to the Securities Appellate Tribunal in India. Further, any person aggrieved by any decision or order of such Appellate Tribunal may file an appeal to the ICC.

7.2.6. International Commercial Court

With an aim to create a best-in-class judicial institution and to claim that it is a jurisdiction of international repute for judicial law, it would be imperative for the IFSCA to create an ICC which deals with disputes for the IFSC jurisdiction. As it gains experience, it can later expand to deal with disputes arising in other jurisdictions as well.

There are two leading ICCs - Singapore International Commercial Court (SICC) and the DIFC Court (DIFCC). Both have various commonalities as well as differences. While the SICC is a division of the Singapore High Court, the DIFCC is a separate institution parallel to the ordinary courts in Dubai.

DIFCC is probably more akin to the court being considered for the IFSC, since DIFCC was designed to cater to the DIFC. Initially, DIFCC focused on dealing with matters that arose within the DIFC. In light of its success and far reaching reputation for swift and efficient justice, DIFCC's jurisdiction was extended in 2011 to include consent jurisdictions – in any civil or commercial case both parties can select the DIFCC's jurisdiction, either in their original contracts/agreements or post-dispute. In contrast, the SICC was always envisaged as a forum for settlement of international commercial disputes. SICC's jurisdiction does not have a significant domestic component. SICC was designed to provide a neutral and well-regarded transnational dispute resolution centre in Asia. SICC leverages on Singapore's strength in commercial dispute resolution, both litigation and arbitration.

The ICC in the IFSC should probably be more akin to the DIFCC than the SICC. The following paragraphs provide a preliminary design and suggest a suitable model for the ICC in the IFSC.

- **Preliminary design of the ICC**

The ICC should be a separate judicial institution such as the DIFCC in Dubai and should not be a division of the existing High Court or the civil courts in the State of Gujarat. This aspect may require deeper analysis. This arrangement would permit adequate flexibility for innovation in dispute resolution by bringing in international best practices to develop the ICC as per global standards, instead of merely replicating the institutional design of the existing Indian civil courts. However, the ICC should not have any criminal jurisdiction, which should remain vested with the current courts as is the case in Dubai and Singapore.

The ICC shall have two levels – the ICC (First Instance) and the ICC (Appellate Division).

The ICC (First Instance) shall have exclusive jurisdiction to hear and determine:

a) Civil or commercial claims and actions to which the IFSCA or any other body of the IFSC is a party;
b) Civil or commercial claims and actions arising out of or relating to a contract or promised contract, whether partly or wholly concluded, finalised or performed within the IFSC or will be performed within the IFSC pursuant to express or implied terms stipulated in the contract;
c) Civil or commercial claims and actions arising out of or relating to any incident or transaction which has been wholly or partly performed within the IFSC and is related to the activities of the IFSC;
d) Appeals against decisions or procedures made by the Authority or any other body of the IFSC when the IFSC Act or rules or regulations under it permit such appeal.
e) Any claim or action over which the Court has jurisdiction in accordance with the IFSC Act or rules or regulations under it.
f) Civil or commercial claims or actions where parties agree in writing to file such claim or action with it whether before or after the dispute arises, provided that such agreement is made pursuant to specific, clear and express provisions;
g) Civil or commercial claims or actions falling within its jurisdiction if the parties agree in writing to submit to the jurisdiction of another court over the claim or action, but such court dismisses the claim or action for lack of jurisdiction;

The ICC (Appellate Division) shall have exclusive authority to hear and determine:

a) Appeals filed against judgments and decisions of the ICC (First Instance);
b) Request of interpretation by the Chief Justice of the ICC (Appeals) has been made under any provision of the IFSC Act upon an application submitted to him from the IFSC Authority or a financial institution (such interpretation shall have the same authority as the interpreted legislation)

Judgments rendered by the ICC (Appellate Division) shall be final and conclusive and not be subject to further appeal.

There may also be merit in considering a Small Claims Court for the IFSC with pecuniary jurisdiction up to say INR 2 m, where proceedings could be completed at reasonable costs, giving parties the option for complete paper-based hearing (without any oral hearing) and without engaging any professional lawyers.

- **International judges and foreign lawyers**

The SICC and the DIFCC both have international judges. SICC uses international law judges to market itself as a destination for transnational disputes. On the other hand, DIFCC uses international judges from UK, Malaysia, Australia etc. to market itself as common law court operating within a purpose-built English language common law jurisdiction, in an otherwise French-heritage Arabic language civil law system.

The SICC and DIFCC both regulate but provide right of audience to foreign lawyers. Both have introduced codes of conduct that will help to ensure a certain standard of ethical practice by lawyers who are registered with the respective courts.

The Committee recommends that to make the ICC attractive dispute resolution jurisdiction, it would be important to have international judges and to allow audience to foreign lawyers, subject to regulation.

7.3. Online dispute resolution

The pandemic-struck business world is constantly adopting innovative ways of working digitally. Online Dispute Resolution is the way to go for the resolution of disputes, particularly small and medium-value cases. Digital technology can be put to use for alternate dispute resolution such as negotiation, mediation, and arbitration. Courts in India have already, seamlessly, adopted the practice of virtual hearings.

For ease of doing business, the IFSCA should also offer digital platform which is paper-less, and which is accessible from any part of the world. This will facilitate quick and cost-effective redressal of grievances.

As in DIFCC, the ICC should also explore how "smart" contracts between businesses can be signed and sealed using blockchain technology, enabling more efficient cross-border dispute resolution and an accurate way of tracking commercial activity and related legal processes.

7.4. Way forward for IFSCA

The Committee would like to reiterate the importance of quick, transparent and digitally accessible mechanism in the IFSC, which should be paper less should have simple and easy procedures and should be accessible to litigants from any part of the world.

The Committee appreciates that some of its recommendations in this Chapter would require deeper analysis before these can be implemented.

8.1. Introduction

For the IFSC to flourish, there is a need for development of the entire ecosystem including ancillary service activities. As in a jigsaw puzzle, the IFSC ecosystem will be complete only when all the pieces have been assembled. Support services are an important piece of the jigsaw puzzle that need consideration. A look at other offshore centres reveal that their success may not have been possible without the supporting players.

Since the IFSC is envisaged as a digital driven centre for financial services, it is important to create a facilitating environment for fintech companies.

The DIFC has grown into an impressive cluster of banks, fund managers, and law and accounting firms, with over 2,500 registered companies—820 of them financial and 25,000 professionals.[37]

The Dublin IFSC which employs over 38,000 people and contributes over € 1 bn in corporate taxes and € 1 bn in payroll taxes on average salary per person of € 60,100 as on 2020[38], emphasizes on the "sophisticated support network, including shared services centres, software development, and legal and accountancy companies" around the IFSC that support the banking, insurance and other traded financial services located there.

In Singapore, there are 588 licensed financial advisers, 109 licensed corporate finance advisers, 58 licensed Trust company and 17 licensed Collective Investment Scheme trustees registered as on date with the MAS.[39] The MAS has created a Fintech Regulatory Sandbox Regime to experiment with innovative financial services and products within a well-defined space and duration. It is driven by their Chief Technology Officer.

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[37] https://www.economist.com/finance-and-economics/2020/08/22/can-dubai-enter-the-premier-league-of-financial-centres - The Economist, 22 August 2020
[38] https://www.ifsc.ie/page.aspx?idpage=6
[39] https://eservices.mas.gov.sg/fid/institution

There are 40 law firms operating in Cayman Islands, named by the Banker magazine as the world's Top Specialised Financial Centre in 2017 which support hedge funds operating out of Cayman. There are 147 active trust licenses, as at 30 September 2020 which comprised of 58 Trust licenses, 59 Restricted Trust licenses and 30 Nominee (Trust) licenses. Additionally, 145 Private Trust Companies Registered with the Fiduciary Services Division of Cayman Island Monetary Authority[40].

The Island of Jersey in 2019 employed 13,000 people in financial services (including banking and support services), with financial services contributing 39.5% of Gross Value Added with £ 1.97 bn in revenue.[41]

As on date, there are 99 trust service license, 130 corporate services license and 8 management or administration services license issued by Isle of Man Financial Services Authority[42].

In British Virgin Islands in 2014, international financial services (including related support services) employed 2,200 people or one in every ten workers, with a further 3,000 jobs indirectly supported by it.[43] Further, its per capita income of US$ 32,000 suggests there is an opportunity for lower-cost locations such as the GIFT IFSC to provide similar services more competitively.

8.2. Business opportunities

As financial activities in the IFSC gain momentum, the need of the supporting players will only grow. These players will not only service the IFSC units but also service global players. This will help in creating local employment in the IFSC and add to its vibrancy.

An illustrative list of critical support services, in no order of preference, that may be encouraged at the IFSC is as under:

1. Law firms

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[40] https://www.cima.ky/trusts-statistics
[41] https://www.gov.je/statistics
[42] https://www.iomfsa.im/statistics/
[43] https://bviglobalimpact.com/economy

2. Audit, tax advisory and accounting firms
3. Fund Accounting and management companies
4. Trusteeship services and estate planners
5. Secretarial and compliance services
6. Fund administrators
7. Research analytics
8. Actuarial services
9. Fintech and InsureTech services

Legal services are required not only for disputes or settlements but also for drafting regular contracts to complex deal related documentations. Audit and accounting firms increase the reliability and user confidence in the financial statements. Trust Companies act as a custodian for trusts, estates, custodial arrangements, asset management, stock transfer, and beneficial ownership registration.

For asset management industry, there is a need of high-skilled finance professionals including fund managers and support service providers, such as custodians, fund accountants, fund administrators, risk managers, research analyst and tax advisors.

As insurance and re-insurance activities begin to gain traction and as the IFSC adds new and innovative products, it will require experts such as actuaries to determine, assess and plan for the financial impact of the risk.

Providing access to financial services and products at affordable rates to the society has been a key agenda of successive governments in India. Innovative products launched by the FinTech companies help in accelerating the pace of change at a remarkable rate.

These service providers are trusted business advisors to their clients and their word-of-mouth publicity will be invaluable for growth of the IFSC.

8.3. Recommendation

The IFSC Act defines services which are included within the term ‘financial service’. Some of the above services may already qualify as ‘financial service’.

For sake of clarity, it is recommended that the IFSCA lists the support services that fall within the definition of ‘financial service’ under the IFSC Act on its website. For those support services which do not currently fall within the definition of the term ‘financial service’, it may request the Central Government to notify them as ‘financial service’.

All IFSC units are entitled to a ten-year tax holiday period; therefore, this suggestion should be enabled with appropriate safeguards.

To illustrate, all such players may qualify for a tax holiday only to the extent of support services provided in relation to a financial product to the following entities:

- Units setup in the IFSC; or
- Financial service entities set up in the SEZ; or
- Non-resident entities for non-India related financial services

As mentioned earlier, increase of support services entities in the IFSC will not only lead to job creation but also develop the entire ecosystem around the IFSC. Its ripple effect will lead to enhanced economic activity which will go towards compensating for any loss in the revenue due to the tax holiday.

Certain enabling regulatory initiatives by the IFSCA can include allowing of shared offices for companies or for fund managers and funds (as these funds do not in practice have offices of their own but are run by fund managers), and shared services such as legal, secretarial, accounting, and administration which can be provided by fund administrators or corporate administrators.

This may be a real booster to the IFSC as an entire ecosystem making it a **true International Financial Centre.**

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Organisation	Name	Designation
PwC India	Mr. Tushar Sachade	Partner, Deals, Tax and Regulatory
	Mr. Suresh Swamy	Partner, Financial Services, Tax and Regulatory
	Mr. Vandit Shah	Manager, Financial Services, Tax and Regulatory
	Ms. Nivitha N	Assistant Manager, Financial Services, Tax and Regulatory
GIFT SEZ Limited	Mr. Sandip Shah	Head – IFSC Department
	Mr. Pratik Shah	Lead- IFSC Business
	Mr. Rishi Kale	Lead – IFSC Insurance (upto 30 Sept 2020)
	Mr. Megh Shah	Manager - IFSC & Strategy

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Organisation	**Name of the stakeholder**	**Designation**
Banking sector		
ICICI Bank Limited	Mr. Sandeep Bakshi	Managing Director and CEO
	Mr. Sriram H. Iyer	Head – International Banking, Global Remittances and NRI Banking
	Mr. Rajesh Iyer	Head - Wealth and Private Banking and LAS
	Ms. Ranju Sigtia	Head of IFIG (International Financial Institution Group)
	Mr. Sanjay Jha	Branch Head - IFSC Banking Unit
Federal Bank	Ms. Shalini Warrier	Executive Director
	Mr. Bejoy Padamadan	Head - IFSC Banking Unit
State Bank of India	Mr. Chalasani Venkat Nageswar	Deputy Managing Director
Standard Chartered Bank	Mr. Nitin Chengappa	Head – NRI Services
Insurance sector		
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PwC India	Mr. Joydeep Roy	Partner, Insurance sector

ICICI Lombard General Insurance Company Limited	Mr. Yash Parashari	Vice President- Wholesale Product Team & strategic Projects Group
SBI Life Insurance Company Limited	Mr. Abhijit Gulanikar	President - Business Strategy
GIC Re	Mr. Deepak Prasad	General Manager
J. B. Boda Insurance Brokers	Mr. Atul Boda	Managing Director
Life Insurance Corporation of India (LIC)	Ms. Padmavati	Executive Director
Max Bupa Health Insurance Company Limited	Mr. Krishnan Ramchandran	Managing Director
Asset Management and Capital Markets sector		
Winvesta India Technologies	Mr. Swastik Nigam	Founder and CEO
Julius Baer	Mr. Ashish Gumashta	Managing Director and CEO
	Mr. Vikram Agarwal	Managing Director Senior Advisor COO, CRO
Bombay Stock Exchange Ltd.	Mr. Ashishkumar Chauhan	Managing Director and CEO
India INX	Mr. V. Bala	Managing Director and CEO
Kotak Mahindra (UK) Ltd.	Mr. Ashish Vaisnav	Head - Wealth Business
CDSL	Mr. Nehal Vora	CEO
Templeton Asset Management	Mr. Manraj S. Sekhon	Chief Investment Officer, Emerging Markets Equity, Co-CEO

Aditya Birla Sun Life AMC Limited	Mr. Utsav Shah	Deputy Chief Manager – Investments & Products | International Business | AIF | PMS
	Mr. Vikas Gautam	Non-executive Director
Bank of Singapore	Mr. Pankaj Nagraj	Managing Director
National Stock Exchange Ltd.	Mr. Nagendra Kumar	Head – Business Development
Deutsche Bank AG	Ms. Aparna Salunke	Head - Depositary Receipts, India
NSDL	Mr. Prashant Vagal	Senior Vice President
	Mr. Anik Mehta	Senior Manager – Products and Business Development
Bank of America	Mr. Arbind Maheshwari	Head of India Equities - Sales Trading
Dispute Resolution/ Regulations		
Shardul Amarchand Mangaldas & Co Advocates & Solicitors	Mr. Shardul Shroff	Executive Chairman
	Ms. Pallavi Shroff	Managing Partner
	Mr. Anuj Berry	Partner
KBP Consulting	Mr. Prasanna Seshachellam	Principal Consultant and CEO (Ex. DIFC Regulator)
-	Mr. J Ranganayakulu	Ex. Executive Director, SEBI
Support services		
Basiz Fund	Mr. Seshadrinathan	Managing Director
International Tax & Investment Consultants (ITIC)	Mr. Mukesh Patel	Chairman
	Mr. Jigar Patel	Executive Director

Annexure 1: Media article

Prime Minister Modi's new regime for businesses looks to lighten compliance burden

Synopsis
The Department for Promotion for Industry and Internal Trade (DPIIT) is working on the agenda with the NITI Aayog after the Prime Minister said the framework needs to be drawn up urgently.

NEW DELHI: **Prime Minister Narenda Modi** has identified anonymous or 'faceless' inspections, an extended validity period for **licences** or **automatic renewals**, and lower fees among others as key elements of a new regime for business that involves lightening the **compliance burden**.

The Department for Promotion for Industry and Internal Trade (DPIIT) is working on the agenda with the **NITI Aayog** after the Prime Minister said the framework needs to be drawn up urgently.

The DPIIT has written to states and various ministries and departments to identify processes and permissions, especially ones that require periodic compliances and renewals. The exercise will also cover departments and agencies that provide various services to citizens.

The PM has said permissions and licences should not require frequent renewals as this imposes a cost on businesses, especially small and medium enterprises, according to a person with knowledge of the matter.

"The idea is very clear... Compliance burden needs to come down," a senior government official said.

Sectors such as hotels, restaurants, leather and cement have broad compliance requirements and need frequent renewal of various permissions and licences. These add to the cost of doing business and erode competitiveness.

The exercise is aimed at identifying regulations that impose such onerous compliances and what can be done to simplify them.

The Prime Minister's directive is that even if renewals are needed, the validity period should be increased and the process move to online from offline, the official told ET. Work has begun to assess whether inspections can be done anonymously. The government recently rolled out faceless assessment for income tax and has also launched a pilot for customs.

"All departments that directly give services to citizens have been asked to identify the compliances required, remove the redundant ones and simplify the necessary requirements," said another official.

Annexure 2: Top 15 insurance markets with 2019 rankings

A report of Top 15 insurance markets by total direct premium volume showing 2019 rankings is provided.

2019 rankings	Country	Global market share			Total premium volume (US$ bn)		
		1980	2019	2030F	1980	2019	2030F
1	US	46%	39%	36%	229	2,460	3,660
2	China	0.0%	10%	18%	–	617	1,777
3	Japan	15%	7.3%	6.1%	75	459	621
4	UK	6.9%	5.8%	4.0%	35	366	404
5	France	5.1%	4.2%	3.2%	26	262	325
6	Germany	8.0%	3.9%	3.2%	40	244	320
7	South Korea	0.3%	2.8%	2.5%	2	175	258
8	Italy	1.7%	2.7%	2.4%	8	168	247
9	Canada	2.6%	2.1%	2.0%	13	133	205
10	Taiwan	0.1%	1.9%	2.0%	1	118	205
11	India	0.4%	1.7%	2.3%	2	106	234
12	Netherlands	2.1%	1.3%	1.1%	10	84	110
13	Ireland	0.2%	1.2%	1.1%	1	75	114
14	Brazil	0.4%	1.2%	0.9%	2	74	91
15	Hong Kong	0.0%	1.1%	1.2%	–	72	126

Source: Swiss Re Institute, Sigma No 4 /2020

Annexure 3: Key regulatory framework for Asset Management players prevailing as on date

- **AIFs and MFs in the IFSC**

An AIF can be established or incorporated in the IFSC in the form of a trust or a company or an limited liability partnership (LLP) or a body corporate and can seek registration under the provisions of the SEBI (AIF) Regulations, 2012 under the categories mentioned under the regulations.

Categories of the AIFs

Parameters	**Category I AIF**	**Category II AIF**	**Category III AIF**
Categorisation as per SEBI (AIF) Regulations, 2012	Funds which invests in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable Includes - venture capital funds, SME Funds, social venture funds, infrastructure funds	Residual category i.e. other than Category I AIF and Category III AIF Examples: PE Funds, debt funds or funds which have not been granted any specific incentives or benefits	Funds which employ diverse or complex trading strategies and leverage including through investment in listed or unlisted securities / derivatives Examples: Hedge funds, funds which trade with a view to make short term gains, open ended funds and which have no specific incentives or concessions
Open or Close ended Fund	Close ended Fund	Close ended Fund	Can be open or close ended Fund

Continuing interest of Sponsor/ Manager	Lower of: – 2.5 percent of corpus; – US$ 750,000	Lower of: – 2.5 percent of corpus; –US$ 750,000	Lower of: – 5 percent of corpus; – US$ 1,500,000
Minimum corpus requirement for each scheme of the AIF	US$ 3,000,000	Same as Category I	Same as Category I
Minimum investment by an investor in AIF:	• For employees or directors of the AIF or its Manager – US$ 40,000 • For other investors - US$ 150,000	Same as Category I	Same as Category I

Investment conditions and restrictions for AIF in the IFSC

Parameters	**Category I AIF**	**Category II AIF**	**Category III AIF**
Investment into one investee company	Not more than 25% of investible funds	Not more than 25% of investible funds	Not more than 10% of the investible funds
Investment in other AIF	Investment in Category I AIF permissible within the same sub-category	Investment in Category I and II AIF permissible	Investment in Category I and II AIF permissible
Investments in foreign markets	Permissible without any restrictions	Permissible without any restrictions	Permissible without any restrictions

In order to make an investment in an AIF or a MF operating in the IFSC, the investor can be a person resident outside India, NRI or a resident institutional investor eligible to invest funds offshore under exchange control regulations, to the extent of outward investment permitted; and person resident in India (having minimum net worth of US$ 1 m during preceding financial year) eligible to invest funds offshore under exchange control regulations, to the extent allowed under the LRS.

While the IFSC guidelines have permitted resident individual to invest in the IFSC under LRS route, however, the RBI does not specifically permit resident individuals to utilise LRS remittances for investment in the IFSC.

An AMC of a MF in the IFSC is required to have a net worth of minimum US$ 2 m which has to be increased to US$ 10 m within 3 years of commencement of business in the IFSC.

An AIF or a MF in the IFSC is permitted to invest in securities listed in the IFSC, securities issued by companies incorporated in the IFSC and securities issued by companies incorporated in India or foreign jurisdiction.

Further, the SEBI had clarified that AIFs incorporated in the IFSC shall be permitted to make investments as per the provisions of the SEBI (AIF) Regulations, 2012 and hence, the AIF in the IFSC shall be allowed to invest in the following:

- REITs
- InvITs
- Derivatives
- Complex or Structured products
- Goods received in delivery against physical settlement of commodity derivatives
- Limited Liability Partnership
- Special Purpose Vehicles

- **Investment Advisers in the IFSC**

Any entity, being a company or LLP or other similar structure recognised under laws of its parent jurisdiction, can set up an IA in the IFSC in the form of company or LLP. The formation of separate company or LLP not required in case applicant is already a company or LLP in the IFSC.

IA is required to have a minimum net worth of US$ 0.7 m in the IFSC. In case an IA in the IFSC is unable to satisfy this requirement, net worth of its parent can be considered. IA / parent entity is required to maintain net worth separately and independently for each activity undertaken, as required under other relevant regulations.

a) <u>Eligible clients</u>

An IA in the IFSC is permitted to provide investment advisory services to a person resident outside India, NRI, resident financial institution eligible to invest funds offshore under exchange control regulations, to the extent of outward investment permitted; and person resident in India (having minimum net worth of US$ 1 m during preceding financial year) eligible to invest funds offshore under exchange control regulations, to the extent allowed under the LRS.

Further, there are certain recent amendments made by the SEBI for IA regime which shall equally be applicable for an IA in the IFSC. We have highlighted those amendments below:

- **Client level segregation of advisory and distribution activities -** An IA in the IFSC shall have client level segregation at group level for investment advisory and distribution services. The same client cannot be offered both advisory and distribution services to the person or its family within the group of the IA. IA shall maintain an arm's length relationship between its activities as IA and distributor by providing advisory services through a separately identifiable department or division.

- **Fees charged by an IA:** An IA can charge fees from its clients either through assets under advice (AUA) mode or fixed fee mode and the fees will be capped at 2.5% of AUA or INR 125,000 per annum under these modes respectively, across all the services offered by IA. IA shall charge fees under any of the mode on annual basis. Further, IA may charge such fees in advance, not exceeding fees for 2 quarters.

- **PMs in IFSC**

An entity can be setup as a branch or Company or LLP in the IFSC, with allocation of exclusive manpower to be allocated and ring-fencing domestic operations, legally, financially, operationally and technologically.

The net worth requirement for PM entity in the IFSC is US$ 750,000. In case of Branch, the Parent company has to fulfil the net worth requirement. In case of subsidiary, either subsidiary or parent may fulfil the net worth requirement. Net worth requirement has to be fulfilled separately for each activity undertaken under relevant regulations.

A PM in the IFSC is permitted to provide portfolio management services to a person resident outside India, NRI, resident financial institution eligible to invest funds offshore under exchange control regulations, to the extent of outward investment permitted and person resident in India (having minimum net worth of US$ 1 m during preceding financial year) eligible to invest funds offshore under exchange control regulations, to the extent allowed under the LRS.

A Non-resident principal officer and employee having decision making authority is required to have certification from an organisation recognised by Financial Market Regulator in foreign jurisdiction. Certification from NISM is mandatory in case the afore-mentioned person deals in the Indian securities market.

The minimum investment has to be of US$ 70,000. All funds of the clients are required to be maintained in a separate account in IBU.

Further, the SEBI has recently introduced the SEBI (PM) Regulations, 2020, which shall apply to the PM entity setup in the IFSC. There are certain Investment restriction conditions and advisory related restrictions that applicable to the PM are highlighted below:

- Discretionary PM is permitted to invest funds of his clients in listed Indian securities; or units of MFs (including through direct plans) or money market instruments.

- Non-discretionary PM or PM providing advisory services can invest or provide investment advice for investments up to 25% of the AUM of such clients in unlisted securities.
- PM shall not invest client’s fund based on the advice of any other entity.
- PM shall not invest clients' fund in portfolios managed by another PM.

Dealing in speculative transaction on behalf of clients is not permitted except for transactions in derivatives.

Annexure 4: Key regulatory framework for Capital Market players prevailing as on date

- **Stock/ Commodity Exchanges**

Any Indian recognised stock exchange or any stock exchange of a foreign jurisdiction may form a subsidiary to provide the services of stock exchange in the IFSC. Stock exchanges require a minimum net worth equivalent of INR 250 m which has to be enhanced to a minimum equivalent of INR 1 bn over the period of three years from the date of approval.

The stock exchanges in the IFSC can trade up to 23 hours and 30 minutes in a day for all product categories. Settlement has to be done at least twice a day.

A wide range of securities are currently Permissible for trading. These include all categories of exchange-traded products, equity shares of a company incorporated outside India, Depository receipts, Debt securities issued by eligible issuers, Currency and interest rate derivatives, Index-based derivatives, Commodity derivatives (only non-agri commodity derivatives), Single Stock derivatives, Masala bonds and such other securities as may be specified by the SEBI.

- **Depositories**

Any regulated depository of a foreign jurisdiction has to form a subsidiary to provide depository services in the IFSC. However, any Indian registered depository may set up a branch in the IFSC for providing depository services. Prior approval is however required from the SEBI for setting up an IFSC Depository Services. Operations in the IFSC are required to be ring fence its domestic operations, financially, operationally and technologically. Similar to stock exchanges, depositories also require a minimum net worth of INR 250 m is required which has to be enhanced to a minimum equivalent of INR 1 bn over a period of three years from the date of approval.

- **Clearing corporation**

Any Indian recognised stock exchange or clearing corporation or any recognised stock exchange or clearing corporation of a foreign jurisdiction can form a subsidiary to provide the services of clearing corporation in the IFSC. Every applicant seeking recognition as a clearing corporation is required to have a minimum net worth equivalent of INR 500 m in the form of liquid assets.

Every recognised clearing corporation, on commencement of operations, shall have at all times, in the form of liquid assets, a minimum net worth equivalent of INR 500 m or capital as determined in accordance with the aforementioned SEBI circular dated April 10, 2019 as amended from time to time.

Further, every recognised clearing corporation shall enhance, over a period of three years from commencement of operations, its net worth, to be maintained in the form of liquid assets, to a minimum equivalent of INR 1 bn or capital as determined in accordance with the aforementioned SEBI circular dated April 10, 2019 as amended from time to time.

Clearing corporations can invest their own funds as well as funds lying in Core Settlement Guarantee Fund in Fixed Deposits/ G-Secs and Liquid schemes of Debt MFs.

Clearing corporations in the IFSC are also permitted to invest their own funds in AAA rated Foreign Sovereign Securities. However, the investment in such AAA rated Foreign Sovereign Securities should not exceed a limit of ten per cent of the total investible resources, excluding funds lying in Core Settlement Guarantee Fund of the Clearing Corporation.

- **Intermediaries**

Any SEBI registered intermediary (except trading member or clearing member) or its international associates in collaboration with such SEBI registered intermediary can provide financial services relating to securities market, in the IFSC, without forming a separate company, subject to the prior approval of the SEBI. However, if such financial services are offered exclusively to institutional investors, prior permission of the SEBI is not required.

Further, in case, such financial services are offered exclusively to institutional investors by non-SEBI registered intermediary, prior approval of the SEBI is not required, if such intermediary is recognised entity in a foreign jurisdiction.

Any entity based in India or in a foreign jurisdiction may form a company in the IFSC to act as a Trading Member of a stock exchange and/or clearing member of a clearing corporation in the IFSC.

- **Issuers**

Companies of foreign jurisdiction, intending to raise capital, in a currency other than Indian Rupee, in an IFSC are required to comply with the Companies Act, 2013 and relevant provisions of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 as if the securities are being issued under Chapter X and XA of the said regulations, as may be applicable. Domestic companies are permitted to raise capital, in a currency other than Indian Rupee, in the IFSC.

- **Issue of Debt Securities**

In order to be eligible to issue debt securities, the issuer is required to meet eligibility criteria as prescribed, inter alia, being eligible to issue debt securities as per its constitution, not have been debarred by any regulatory authority in its home jurisdiction or any other jurisdiction, where it is operating or has raised any capital and the issuer or its directors should not be convicted of any economic offence in its home jurisdiction or any other jurisdiction where it is operating or has raised any capital. The minimum subscription amount in case of private placement per investor should not be less than US$ 100,000 or equivalent. An issuer desirous of issuing debt securities is required to make an application for listing of such debt securities to one or more stock exchanges set up in the IFSC.

- **Investors in IFSC**

As per the SEBI guidelines, eligible categories of investors on the IFSC exchanges includes a person not resident in India, NRI, financial institution resident in India eligible to invest funds offshore, to the extent permitted and a person resident in India eligible to invest funds offshore, to the extent allowed under LRS of the RBI.

The SEBI registered FPIs are permitted to operate in the IFSC without undergoing any additional documentation and/or prior approval process.

FPIs, who presently operate in Indian securities market and propose to operate in the IFSC also, are required to ensure clear segregation of funds and securities. Custodians are required to monitor the compliance with aforesaid requirement for their respective FPI clients. Such FPIs are required to inform their respective custodians about their participation in the IFSC.

FPIs and Eligible Foreign Investors are permitted to participate in commodity derivatives contracts traded in stock exchanges in the IFSC subject to conditions that their participation should be limited to the derivatives contracts in non-agricultural commodities only and Contracts would be cash settled on the settlement price determined on overseas exchanges. All the transactions shall be denominated in foreign currency only.

- **Segregated Nominee Account Structure in the IFSC**

In order to facilitate ease of market access for foreign investors in the IFSC, SEBI has permitted foreign investors to trade on stock exchanges located in the IFSC through Segregated Nominee Account Providers (Providers). Eligible Providers include SEBI-registered brokers in the IFSC, SEBI-registered FPIs (Categories I and II) as provided under the SEBI FPI Regulations, 2014 and Trading/Clearing members of international stock exchanges /clearing corporations that are regulated by a member of FATF. Eligible entities have to be registered with a stock exchange/clearing corporation in the IFSC for providing Segregated Nominee Account Structure to their end clients. An end-client can open Segregated Nominee Account with only one 'Provider'.

Legal Entity Identifier (LEI) code may be used to ensure that the end-client does not open Segregated Nominee Account with more than one 'Provider' and trades of an end-client are cleared and settled only through one clearing member. Each end-client have to be assigned a Unique Client Code (UCC), which shall be unique across all end-clients of all 'Providers', by Stock exchange/clearing corporation in the IFSC. UCC is used at the time of order entry by the 'Providers' for their end-clients. Margins need to be computed at the end-client level of the Provider. It needs to be grossed up at and collected from the Provider. Margin reporting is at the level of the Provider.

Margin needs to be paid by the end client to the Provider. However, the margins may be funded by the Provider based on an agreement between the Provider and the end client. Stock exchanges need to ensure that commercial terms and documentation/agreements entered into between the Provider and end client contain the clause with respect to margin funding arrangement.

Annexure 5: Framework for Omnibus Account

An omnibus account as defined by **IOSCO** is "An account containing the collective position of more than one investor" while **BIS** defines it as "An account structure where securities or collateral belonging to some or all customers of a particular participant is commingled and held in a single account segregated from that of the participant."

The Omnibus account structure is a prevalent practice for account / position maintenance in most of the leading global exchanges. Below are the some of the leading exchanges who are already having this structure:

Continent	**Exchanges with Omnibus Framework**
Asia	• Indonesia Commodity Exchange • Australian Securities Exchange • Japan Exchange Group • China Financial Future Exchange • Hong Kong Stock Exchange • Singapore Stock Exchange • Bursa Malaysia • Thailand Futures Exchange • Korea Exchange etc.
Europe & Middle East	• Euronext • London Metal Exchange • Athens Stock Exchange • Dubai Gold & Commodities Exchange • Intercontinental Exchange Futures • Bursa Istanbul • Moscow Exchange etc.
USA	• Nasdaq • Montreal Exchange • Chicago Mercantile Exchange • New York Stock Exchange etc.

The Omnibus framework is an offering where the client registration with the exchange / regulator is not mandatory. In the omnibus framework adopted in the global markets, though the client registration is mandated in Korea, it is not the case with other leading jurisdictions. The omnibus framework entrusts more onus on the provider to adhere to the regulatory guidelines. The omnibus account provider is required to ensure that adequate disclosures are made to the regulator on a need basis.

The reasons for preference of an omnibus account over a direct account are purely for operational efficiency and cost savings to the end client. The omnibus account provider (Trading / Clearing member) can offer its international client's access to multiple global markets with only one set of documents. This simplified boarding process will result in savings in time and cost thereby resulting in better operational efficiency. It enables consolidated processing of trading orders and settlements through a single account which is a basic need of the Global Fund Houses / Future Commission Merchants.

It is pertinent to note that omnibus structure does not dilute KYC and AML norms. The intermediary is expected to follow all the established norms as prescribed in the jurisdiction in which they are operating. Regulator has the power to seek any information that the Regulator would require for performing the supervisory role effectively. The information is not obtained upfront. As may be seen from the table above, all major international jurisdictions which are FATF compliant and that have stringent KYC requirements permit omnibus structure.

Global clients trading through these omnibus accounts in the various markets look for markets that are compatible with the structure so that they do not have to go through additional process / paperwork. If a particular market is not compatible, they may choose not to access the market at all. Therefore, it is imperative that the IFSC offers Omnibus Structure to attract liquidity. This in turn meet the objective of the IFSC to bring back the liquidity that has migrated to offshore exchanges.

Once it is allowed, the foreign retail investors or small and medium-sized institutions will be able to invest in the IFSC based exchanges easily through global brokerage companies. It will help in catering to the needs of global participants and bring the IFSC at par with major international jurisdictions. It will reduce transaction costs of global asset management companies and offer convenience to foreign investors trading at the IFSC based exchanges through global securities firms.

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Appendix: Brief profiles of Committee members

1. Mr. Pradip Shah

Pradip Shah runs IndAsia, a corporate finance and investment advisory company. He is a gold-medallist Chartered Accountant, Management Accountant and MBA from Harvard, who helped establish Housing Development Finance Corporation, the first retail housing finance company in India; CRISIL, the first and largest credit rating agency in India; the Indocean Fund, a pioneer private equity fund, in partnership with affiliates of Soros Fund Management and Chase Capital Partners; the AMP-IndAsia India Fund, in joint venture with AMP of Australia; and Grow-Trees.com, a social enterprise. He provided technical assistance and training to rating agencies in Malaysia and Israel. He was appointed by the Government of Gujarat on the Economic Revival Committee post COVID-19, was a member of the Justice Easwar Committee appointed by the Government of India for simplifying the ITA, has been appointed as Member, Banks Board Bureau, has served on several expert committees of state and central governments, was a director on the Regional Board of the RBI, and serves on advisory boards and as chairman or director of some companies in India and on the governing boards of some non-profit organizations and chambers of commerce.

2. Mr. Siddhartha Sengupta

A career banker with SBI spanning 36 years in key leadership roles in India and overseas, with hands on exposure in the areas of Corporate Credit, SME Credit, Retail Branch Banking, Trade Finance, International Banking business, managing key client relationships globally and banking regulatory compliance in multiple jurisdictions.

Leadership experience include five years of board level experience in India and abroad. Last assignment in SBI was as Deputy Managing Director in charge of International Banking Group of SBI from 1 December 2014 to 31 January 2019, responsible for SBI's international strategy and overseeing a balance sheet of US$ 55 bn spread across 35 countries. Responsibilities included chairing the boards of five overseas subsidiaries of SBI in advanced regulatory jurisdictions including the USA, Canada and UK in addition to driving strategic business development and risk management in multiple jurisdictions overseas.

Superannuated from SBI on 31 January 2019.

Leadership Style: Delivering value through collaborative management, core team building and mentoring.

Current engagements:

i) Independent Director on the Board of Federal Bank Ltd.

ii) Independent Director on the Board of Standard Chartered Investments & Loans (India) Ltd., a NBFC and a wholly owned subsidiary of Standard Chartered PLC UK

iii) Independent Director on the Board of IIFL Trustee (trustee for IIFL Asset Management Company)
iv) Independent Director on the Board of Tarachand Logistic Solutions Ltd., engaged in logistics and leasing of heavy construction equipments
v) Independent Director on the Board of Centrum Financial Services Ltd., a NBFC engaged in financing supply chain and MSMEs
vi) Special invitee to the HR Committee of the Board of Central Bank of India
vii) Honorary Senior Advisor for International Banking to IFSCA Gandhinagar

Leadership Training:

- Strategic Leadership for Transformation conducted by Duke University
- Leading Business Into The Future at London Business School

Education:

- PGDM from XLRI Jamshedpur (specialization in Finance and Marketing)
- BSc Honours in Chemistry

3. Mr. Shyamal Mukherjee

Shyamal Mukherjee took over as the Chairman of PwC India on 1 January 2017. In this role, Shyamal leads a diverse team of industry experts who are focused on helping Governments and businesses in India solve their biggest problems and adapt to an ever changing world.

Shyamal joined the firm over three decades ago and became a partner in 1993. During his tenure at PwC India, he has held several leadership roles within the firm, including having led the firm’s Tax & Regulatory practice before being elected Chairman.

Shyamal is committed to making PwC India the most innovative, technology-enabled professional services provider of our times – best demonstrated by the multiple transformational engagements that the PwC teams today lead in the Indian subcontinent - solving complex business and societal problems using technology as an enabler. It is under this leadership that PwC India today is successfully partnering with Governments and its agencies, businesses and communities to create a sustainable future for their stakeholders.

For Shyamal, PwC’s greatest strength is its quality workforce and this is reflected in him being at the forefront of efforts that are nurturing the collaborative and inclusive work environment and making it future ready. He also passionately champions the cause of living the organisational values and is at the helm of initiatives that are building the future leaders of PwC who will model these very values for the millennial workforce. His vision to make PwC a workplace of choice for premium talent is the foundation of several industry leading people policies.

Shyamal strongly endorses the need for businesses to be responsible corporate citizens. He takes keen interest in social causes and the work done by the PwC Foundation towards supporting social entrepreneurship, empowering the girl child, educating underprivileged children and supporting disaster response and rehabilitation.

An avid reader, Shyamal has bachelor's degrees in Commerce and Law from the University of Delhi. He is also a fellow member of the Institute of Chartered Accountants of India.

4. Mr. Prakash Subramanian

Prakash Subramanian is currently Head – Strategy, Process & Governance, Head Subsidiaries and CVO for Standard Chartered Bank India. He has over 30 years of banking experience having joined ANZ Grindlays Bank in 1989 as a Management Trainee in the Capital Markets division. Prakash has a Masters Degree in Management and a Bachelors Degree in Mechanical Engineering.

In 1992 he moved to TAIB Bank, Bahrain to set up the India Investment desk for the Bank and was also responsible for their proprietary equity and debt business. He set up the first Middle East based FII in India and also a fund for the Bank out of Luxembourg to route Middle East investments into India through the FII route.

In 1996 he moved back to ANZ Grindlays Bank, India to run the Debt Capital Markets Sales business. Post the merger of SCB and ANZ Grindlays, he ran the Institutional Sales business for South Asia and from 2006 to 2011 was MD & Regional Head Capital Markets for South Asia. He has been responsible for leading some of the large Capital Market transactions in India.

From 2011 till recent 2017, he was Managing Director & Head Financial Markets and a Member of the Country Management Group at Standard Chartered Bank, Indonesia. He was also responsible for the ASEAN Financial Markets Governance.

Since 2017, Prakash has been based in India in the CEO office driving Strategy, Process & Governance. He is a Member of the SCB India Country Management Group. As Head of Subsidiaries he represents SCB on the Board of their subsidiaries in India as well as on the Board of CDSL Ventures and NGL Fine Chem.

5. Mr. Dipesh Shah

Mr. Dipesh Shah, Ex. - HEAD (IFSC) Gujarat International Financial Tec-City (GIFT). Mr. Shah has over 20 years of professional experience in International Business, Project Development, Corporate Affairs, Corporate Law & Policy matters.

His most prominent achievement includes setting up and operationalizing India's 1st Smart City and IFSC.

During his 12 year tenure, GIFT City made substantial progress in getting recognition as India's model Smart City, starting India's first Multi Services SEZ and only approved IFSC. He brought in the regulatory and business changes in the GIFT IFSC to bring in Banks (now transacting more than US$ 28 bn), International Exchanges, inaugurated by Hon'ble Prime Minister of India (now daily turnover > US$ 4 bn) and Insurance & re-insurance companies for undertaking offshore transactions. He has developed various business structures for Financial Services & related businesses in the SEZ.

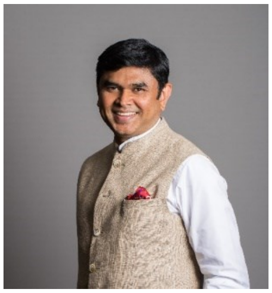
Dipesh has worked extensively with MoF, MCA, RBI, SEBI, IRDA to operationalise the IFSC. Some of the major policy level work done by him in IFSC includes changes in Company Law for entities opening company in GIFT IFSC, competitive tax regime comparable to other International Financial Centres. He facilitated setting up of SIAC in GIFT IFSC for effective dispute resolution for the financial centre.

He has negotiated and tied up various International Co-operations for the IFSC covering various jurisdiction namely Singapore, Dubai, Abu Dhabi, Mauritius, New York and London.

Mr. Shah is a Bachelor of Commerce and is Chartered Secretary from Institute of Company Secretaries of India (ICSI) & Institute of Chartered Secretaries & Administrators, UK and has Post Graduate Diploma in Business Management (PGDM – MBA) from Nirma University, India with specialization in International Business & Finance. He is currently pursuing his Doctoral Program (PHD) in IFSC.

Mr. Dipesh Shah has recently joined National Stock Exchange's International Exchange at GIFT City as a Head of International Business and Strategy.

6. Mr. Nitin Jaiswal



Nitin Jaiswal is Asia Pacific Head of Government and Regulatory affairs at Bloomberg LP. Based in Singapore, Mr. Jaiswal work with senior stakeholders from government, regulators, capital markets, corporates to affect positive change by enhancing market transparency and help advance capital market development in Asia, a region that is shaping global markets.

Mr. Jaiswal has held various senior leadership roles with Bloomberg in Asia since joining the company in 1997.

With its rich history and culture, Mr. Jaiswal feel passionate about Asian Philosophy and feel when blended with western thoughts can play an important role in building next generation of thought leadership in Asia.

7. <u>Mr. G. Srinivasan</u>

Shri G. Srinivasan, Director joined the National Insurance Academy, Pune with effect from 11th December 2018.

Shri G. Srinivasan has 39 years of experience in General Insurance Industry both in India and abroad. A well-known name in the Indian financial sector, he is the longest serving CMD of Public Sector Insurance Companies. His last appointment was that of Chairman-cum-Managing Director of the largest Indian Insurer, The New India Assurance Co. Ltd. Prior to joining The New India Assurance Company Ltd. in 2012, he was the Chairman-Cum-Managing Director of The United India Insurance Company Limited. Earlier he had served as MD of The New India Assurance Co. (Trinidad & Tobago) Ltd., Port of Spain.

In each of his assignments he has taken these organisations to new heights. He has been conferred with number of national and international awards for his extraordinary achievements.

He has held Chairmanship of:
- General Insurance Council
- General Insurance Public Sector Association (GIPSA)
- Governing Body of Insurance Council
- Governing Board of National Insurance Academy
- India International Pte. Ltd., Singapore
- New India Assurance Co. (T&T) Ltd., Trinidad & Tobago

He has been on the Board of several companies, to name a few:
- GIC Re, Mumbai

- GIC Housing Finance Limited, Mumbai
- Prestige Assurance Plc. Lagos, Nigeria
- Agriculture Insurance Co. of India Ltd., New Delhi

He was also the President of Insurance Institute of India, Mumbai.

He is a Commerce Graduate from Madras University, and an Associate of Institute of Cost and Management Accountants of India, and a Fellow of Insurance Institute of India.