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Frequently Asked Questions (FAQs) for International Financial Services Centre

Reserve Bank of India (RBI) and Securities Exchange Board of India (SEBI) have provided guidelines for International Financial Services Centre in India and also provided clarifications through various circulars over a period of time.

In order to address the queries of IFSC Units and various other participants / investors, GIFT IFSC had compiled various FAQs and submitted to Reserve Bank of India through Dept. of Economic Affairs, Govt. of India.

Reserve Bank of India vide their letter dated February 07, 2019 have provided their response to the FAQs and have suggested that the FAQs may be hosted on the website of the GIFT City for the guidance of the entities in IFSC.

The FAQs along with response are **Annexed** herewith.



Frequently Asked Questions (FAQs) for International Financial Services Centre (IFSC)

These FAQs are for information and general guidance purposes. For clarifications or interpretations, if any, you are requested to be guided by the relevant circulars and notifications issued by the Reserve Bank viz., DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015 as amended and updated from time to time.

1. Are banks permitted to operate in an IFSC?

Indian banks (public sector and private sector banks authorised to deal in foreign exchange) and foreign banks already having presence in India are permitted to set up an IFSC Banking Unit (IBU).

2. Do eligible banks require prior permission of RBI for opening an IBU?

Eligible banks interested in setting up IBUs will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1)(a) of the Banking Regulation Act, 1949 (BR Act).

3. What is the minimum capital requirement for IBUs?

For Indian banks

The parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level.

For foreign banks

The parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level as per regulations in the home country and the IBU shall submit a certificate to this effect obtained from the parent on a half-yearly basis to RBI (International Banking Division, DBR, CO, RBI). Further, the parent bank will be required to provide a 'Letter of Comfort' for extending financial assistance, as and when required, in the form of capital / liquidity support to IBU.



4. What are the permissible activities of an IBU?

Permissible activities of an IBU are mentioned in para 2.6 of the RBI circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

5. Who can open accounts with IBUs?

IBUs can open foreign currency current accounts of units operating in IFSCs and of non-resident institutional investors for the purpose of trading as well as investment activities.

6. Can an IBU accept deposits from non-banks?

Yes, IBUs can accept fixed deposits from non-banks but such deposits cannot be repaid pre-maturely within the first year. However, fixed deposits accepted as collateral from non-banks for availing credit facilities from IBUs or deposited as margin in favour of an exchange, can be adjusted prematurely in the event of default in repayment of the loan or meeting a margin call.

7. What is the status of financial institutions or a branch of a financial institution set-up in IFSC?/ Can only regulated entities be set-up at IFSC?

A financial institution or branch of a financial institution set-up in the IFSC and permitted/recognised as such by the Government of India or a regulatory authority will be treated as a 'Person resident outside India' as per the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 dated March 2, 2015.

For this purpose:

- 'Financial Institution' shall have the same meaning as defined under clause 2(b) of the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 dated March 2, 2015.
- 'Regulatory Authority' shall include Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulatory Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA), Forward Market Commission (FMC) or any other statutory authority empowered to regulate a financial institution under the Indian laws.



8. Can a 'Person resident in India' invest in a financial institution set-up in the IFSC?

Yes, a 'Person resident in India' can make direct investments in a Joint Venture (JV) / Wholly Owned Subsidiary (WOS) set-up in an IFSC to act as a financial institution as per the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015. Such investment shall be in accordance with Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004 notified vide Notification No. FEMA.120/RB-2004 dated July 7, 2004, as amended from time to time. However resident Indians are not permitted to use LRS remittances for investment in IFSC.

9. Can a financial institution in IFSC open and maintain a Special Non-Resident Rupee Account (SNRR)?

Financial institutions in IFSC being persons resident outside India shall be eligible to open and maintain a Special Non-resident Rupee account (SNRR) with a bank in India (outside IFSC) in accordance with FEM (Deposits) Regulations, 2016 dated April 1, 2016. Such accounts can be used for administrative expenses in INR outside IFSC.

10. What are the Know Your Client (KYC) norms applicable to account holders of an IBU? Are there any relaxations where details are provided for certain account holders?

Entities in IBU shall be guided by RBI Master Direction on Know Your Customer (KYC) dated February 25, 2016 as amended from time to time.

11. For the purpose of KYC of the account holder, can an IBU rely on customer due diligence done by a third party as provided in para 14 of the Master Direction - KYC Directions, 2016 issued by RBI? If yes, is there any prescribed list of third parties which IBUs can rely upon?

Yes, for the purpose of KYC of the account holder, an IBU can rely on customer due diligence done by a third party as provided in para 14 of the Master Direction - KYC Directions, 2016 issued by RBI.



12. With whom a financial institution or branch of a financial institution is allowed to deal with?

A financial institution or branch of a financial institution shall conduct such business in such foreign currency and with such persons, whether resident or otherwise, as the concerned Regulatory Authority may determine as per Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 dated March 2, 2015.

13. Do foreign investors need to open a bank account in IFSC? How can funds be transferred to and from IFSC?

A bank account in IFSC will be treated as a bank account outside India. IBUs can open foreign currency current accounts of units operating in IFSCs and of non-resident institutional investors to facilitate their investment transactions. FPIs, investing under FEMA (Transfer or issue of security by a person resident outside India) Regulations, 2017 (Notification No. FEMA 20(R)) and holding foreign currency account in India can transfer funds from the said account to any bank account in IFSC. Similarly, trading/ clearing members or other entities in IFSC can remit funds from their bank accounts in IFSC to bank accounts of foreign investors outside India or in India. Persons who are not eligible to open accounts but allowed to transact in IFSC have to transfer funds from their bank account outside IFSC to the bank account of the beneficiary. However, individuals are not allowed to open accounts in IFSC.

14. Whether deposits provided as margin in favour of an exchange may also be treated as deposits provided as margin in favour of clearing corporation.

Yes, deposits provided as margin in favour of an exchange may also be treated as deposits provided as margin in favour of clearing corporation subject to adherence to guidelines stated in circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

15. Whether margins accepted in the form of fixed deposits by clearing/trading members from their clients are permitted to be liquidated prematurely in the event of default.

Yes, margins accepted in the form of fixed deposits by clearing/trading members from their clients are permitted to be liquidated prematurely in the event of default subject to



adherence to guidelines stated in circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

16. Whether investment of the Core Settlements Guarantee Fund and the minimum capital of the Clearing Corporations if accepted as fixed deposits by IBUs can also be adjusted prematurely in the event of default.

Yes, investment of the Core Settlements Guarantee Fund and the minimum capital of the Clearing Corporations if accepted as fixed deposits by IBUs can also be adjusted prematurely in the event of default subject to adherence to guidelines stated in circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

