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20 November 2020

Approval of IFSCA (Banking) Regulations, 2020 by IFSCA

IFSCA approves the IFSCA, (Banking) Regulations

Background:

The development of International Financial Services Centre (IFSC) in India as a credible international financial services centre, is picking up steam. In April 2020, the International Financial Services Centres Authority (IFSCA), the regulator for IFSC, was set up to provide an efficient and facilitative regulatory system comparable with the best jurisdictions in the world, to develop IFSC in India as a preferred global hub for international financial services.

One of the major focus areas for IFSC is to provide international banking services in India, which constitutes and is expected to drive and facilitate the other constituent operations in the IFSC. Several Indian banks and a few foreign banks have set up international banking units (IBUs) in Gujarat International Finance Tec-City (GIFT) – IFSC, which is India's first IFSC.

The Ministry of Finance has issued a press release intimating that the IFSCA in its meeting on 11 November 2020 has approved the International Financial Services Centres (IFSC) Authority (Banking) Regulations, 2020 (Regulations). This is expected to pave the way for putting in place the rules for the various aspects of banking operations that would be permissible in IFSC.

The Regulations will be notified by the Government of India in due course. The salient aspects of the Regulations as provided in the press release are listed below.

Key Highlights:

Following are the salient features of the Regulations:

- Laying down the requirements for setting up IBUs
- Permitting following persons (having net worth not less than US\$ 1Million) to open foreign currency accounts in any freely convertible currency at IBUs
 - resident outside India
 - resident in India to undertake any permissible current account or capital account transactions or any combination thereof under the Liberalised Remittance Scheme (LRS) of the Reserve Bank of India.
- Laying down the permissible activities of IBUs including credit enhancement, credit insurance, and sale, purchase of portfolios, engage in factoring and forfaiting of export receivables and undertake equipment leasing, including aircraft leasing

- Permitting the IFSCA to determine business that an IBU may be permitted to conduct in INR with persons resident in India and persons resident outside India, subject to settlement of the financial transaction in relation to such business in freely convertible foreign currency.

Conclusion:

While the fine print in the regulations need to be examined, the Regulations should lay down the major principles of banking operations at IFSCs and may be an important step to reaching the desired potential of IFSC and be on par with global financial centres. Further, permitting resident individuals having a net worth of not less than US\$ 1 million to invest in IFSC under the RBI's LRS scheme, is likely to give a shot in the arm to banking and asset management industries.

Source: Press release dated 11 November 2020 by the Ministry of Finance <https://pib.gov.in/PressReleasePage.aspx?PRID=1672049>



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