THE FUTURE IS NOW:
INDIA INX ACCELERATING INDIA’S IFSC MISSION
The role of International Financial Service Centres (IFSCs) have evolved globally since the 2007 crisis. Leading financial centres in Asia have rapidly narrowed gaps with those at US and Europe on the basis of sustained demand from rapidly growing Asian economies.

When Government looked forward in 2007 through Percy Mistry Committee report, it recommended setting up of IFC in India with the objective of not just catering to India’s growing needs but also catering to an increasingly integrated and converging global financial market.

The time has come now with India, announcing to set up its first IFSC at Gujarat. To enable and accelerate this change, BSE will launch India’s first International Exchange and International Clearing Corporation at IFSC that will set standards for the financial market infrastructure.

As regulators and policy makers define the ground rules that makes the ecosystem opportune for an IFSC, it is for executives to seize and be part of the transformation.
The IFSC Vision – India as International Financial Hub

India’s first IFSC is being set up to serve many strategic and economic missions viz. -

• Better macroeconomic (fiscal and monetary) management
  - For example, with more than 50% of the Indian currency market being offshore, the influence of onshore markets on pricing the Indian currency is limited. This in turn impacts monetary policy transmission and inflation targeting in the economy. This also holds true for products of national interest like precious metals, energy, etc.

• Widen strategic choices for Public/Corporate Debt Financing
  - For example issuing of INR denominated bonds like Masala bonds, Green bonds, can be done through IFSC which would accelerate the emergence of the Indian IFSC and the Indian currency at the world stage

• An integrated and converged financial market across segments to enable economies of scale and scope

The 2007 Percy Mistry report listed 7 key factors that is essential for an International Financial Centre to maintain competitive edge vis-à-vis global peers –

• Extensive network of stakeholders and participating firms
• Skilled professional on financial services and allied industry
• State-of-the-art telecommunication infrastructure and seamless connectivity
• State-of-the-art IT systems that is continuously evolving to cater to market forces
• An open financial system – fully integrated across segments, deep and liquid market, extensive participation and absence of protectionist barriers
• Financial governance that embraces global best practices
• A hinterland advantage i.e. captive demand from rapid national/regional growth
India offers structural advantages of highly skilled workforce and state-of-the-art telecom and IT infrastructure. Further, re-routing India’s current demand for services that are catered by offshore IFCs offers a matured demand side.

High level estimates of the extant demand catered globally translates to -

- USD 48 billion in charges for IFC services by 2015 and USD 120 billion by 2025
- Approximately only 49% of INR currency market by Outstanding Interest which accounts for USD 1.7 trillion in turnover p.a. is traded in India
- More than 97% of exchange traded gold is done offshore while India consumes approximately 25% of global physical gold p.a.
- Significant number of Indian products currently are traded in International Exchanges. DGCX offers India Gold Quanto, India Silver Quanto, Indian Rupee Quanto, Indian Rupee Mini, SENSEX, Dubai India Crude Oil Futures, Single Stock Futures (SSF). Similarly SGX offers SGX Nifty 50 Index, SGX Nifty Bank Index, SGX Nifty IT Index, SGX Nifty Midcap 50 Index, SGX INR/USD FX. Indian products offered in CME include - E-mini NIFTY 50 Index, Indian Rupee/USD

To facilitate the IFSC mission, SEBI, RBI, IRDA, Ministry of Corporate Affairs and Ministry of Finance have redesigned legal, fiscal and regulatory initiatives with the intent to increase ease of doing business for IFSC participants.
Recent reports suggest that brand India has strengthened based on various criteria related to ease of doing business and as an investment destination.

Global IFSCs – success enabled through reinforcing ecosystem

IFSCs globally have evolved since the 2007 crisis with leading Asian IFSCs rapidly narrowing the gap with those in US and Europe. Relatively free flow of capital, expanding cross-border presence of corporates and emerging economies establishing themselves as the new growth centres have all contributed to this shift of balance.

A comparative ranking of the leading Global Financial Centres indicate that business environment, developed and diversified financial sector, state of the art public infrastructure and high quality skilled workforce are the key differentiators.

Global IFSCs – Comparative Ranking of the Top 5 IFSCs

<table>
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<tr>
<th>Differentiating factors</th>
<th>Ranking</th>
<th>What these Global Financial Centres do better</th>
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<tbody>
<tr>
<td></td>
<td>High</td>
<td>London currently tops all the centers but the business environment is challenged with BREXIT.</td>
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<td>London and New York both have been financial hubs for various finance entities, Asia is the next growing sector with China currently dominating.</td>
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<td>Advanced public infrastructure for office, transport &amp; IT are key differentiator. Information Technology covering data flow and security are of priority.</td>
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<td>High standards of living along with flexible labor market and practices key to attract skill.</td>
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<td>Stable economic environment and persistent financial sector reforms are key to investor attraction.</td>
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London | New York | Singapore | Hong Kong | Tokyo
GIFT IFSC – designed to compete with the best, globally

IFSC, set up at GIFT City, Gujarat will cater to customers as a free trade zone and would deal with flows of finance, financial products and services across borders. A broad array of intermediaries can participate in IFSC and offer their services.

Intermediaries allowed to set up at IFSC to render financial services on securities market

GIFT IFSC addresses all the Critical Success Factors envisaged and beyond

Favourable legal and regulatory framework for Banking Sector

- IBU Branches at IFSC treated on par with a foreign branch of an Indian Bank
- IBU’s liabilities exempt from CRR and SLR
- Funds raised only from non-resident entities though deployment may also be with residents of India
- Issuance of ECB without RBI approval
- IBUs can transact in derivatives and structured products with prior approval of their Board of Directors
- IBUs can deal with wholly owned subsidiaries/Joint Ventures of Indian companies registered abroad
- IBUs are permitted to undertake factoring/forfaiting of export receivables
**Tax Incentives**
- Security Transaction Tax (STT) waived off
- Commodity Transaction Tax (CTT) waived off
- Dividend Distribution Tax (DDT) abolished
- Long Term Capital Gain (LTCG) waived off
- VAT, Stamp duty exempted by Govt. of Gujarat for entities with registered office at GIFT
- Exemption from Service Tax on services procured by SEZ unit for authorized operations
- Income tax holidays –
  - 100% of eligible profits or gains – first 5 years
  - 50% of eligible profits or gains – next 5 years
  - 50% of the profits ploughed back – subsequent 5 years
- Minimum Alternate Tax (MAT) reduced from 18.5% to 9% at IFSC

**Favourable legal and regulatory framework for Capital Markets**
- Applicable jurisdictions – Indian Securities Act and any country whose securities market regulator is a signatory to IOSCO’s MMOU
- Trading allowed in all segments with a single market structure to achieve synergies
  - Equity shares of company incorporated outside India
  - Depository Receipts
  - Debt Securities
  - Currency and interest rate derivatives
  - Index based derivatives
  - Commodity derivatives
- Liberalised Listing and Trading for issue of capital – companies, domestic or of foreign jurisdiction may list and trade their securities
- Any Alternative Investment Fund or Mutual Fund operating in IFSC is permitted to invest in –
  - Securities which are listed in IFSC
  - Securities issued by companies incorporated in IFSC
  - Securities issued by companies belonging to foreign jurisdiction
- Portfolio managers operating in IFSC can invest in
  - Securities which are listed in IFSC
  - Securities issued by companies incorporated in IFSC
  - Securities issued by companies belonging to foreign jurisdiction

**State-of-the-art Infrastructure**
- District Cooling System, potable quality water at all taps, advanced transport infrastructure – transit nodes, traveillators, multi-level city parking, etc.
- High speed fault tolerant optical fibre, Intelligent Building Management System, Central Command and Control for security and disaster management
- Eco friendly – zero discharge zone
- Certified TIER IV Green Data Centre already operational
- 99.9999% power reliability
India International Exchange - Value Proposition

On Jan 2015, BSE announced its plan to set up India’s first International Exchange. BSE plans to offer a marketplace with a competitive edge.

India International Exchange - Value Proposition

- Diversified product portfolio across all major asset class
- Competitive Price
- Deep and liquid market
- Transparency and round the clock market access
- State of the art exchange trading platform (Eurex T7)
- Strong and independent financial safeguards
All of these will be complemented with a well-diversified portfolio of financial services and products to compete internationally.

India International Exchange is not just accelerating India’s IFSC mission with a comprehensive market infrastructure but is also planning to reshape trading and operations practices of market participants.
### Frequently Asked Questions (FAQs)

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<tr>
<th>QUESTIONS</th>
<th>ANSWERS</th>
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<tbody>
<tr>
<td>Whether it is required to form a new company for setting up IFSC Unit for capital market intermediaries?</td>
<td>Yes, as per SEBI (IFSC) Guidelines, 2015 any entity intends to carry out activities as an intermediaries in IFSC needs to form a company mandatorily</td>
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<td>Is it allowed to form a LLP in IFSC?</td>
<td>No, LLPs are not allowed as of now for carrying out operations as an Intermediary in IFSC</td>
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<td>Is it mandatory that the company in IFSC should be a wholly owned subsidiary of any Indian party?</td>
<td>Yes, since IFSC is deemed to be a foreign territory and entities approved as IFSC unit are treated as Not resident in India. Therefore RBI ODI (Overseas Direct Investment) Rules are applicable. According to that, Indian parties are allowed under Automatic route to make investment in IFSC entities and that shall be treated as ODI. Further, Indian parties are also allowed to invest in Joint Ventures (JVs) abroad</td>
</tr>
<tr>
<td>What is the limit of ODI (Overseas Direct Investment) for any Indian party?</td>
<td>Upto 400% of its net worth (As per the last audited balance sheet) subject to maximum financial commitment of USD 1 billion (Under Automatic Route) Any excess investment will require RBI approval</td>
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| Who all are allowed to form a Wholly Owned subsidiary/Joint Ventures (WOS/JV) in IFSC? | As per RBI norms, following parties are allowed under automatic route to incorporate a WOS/JV in IFSC:  
1. A company Incorporated in India 
2. A body created under an Act of Parliament 
3. A Partnership firm registered under the Indian Partnership Act, 1932 
It should be noted that Individuals are not allowed to invest under the Automatic Route |
| In what manner Indian party can undertake direct investment in IFSC Unit? | 1. By way of contribution to equity shares of the JV/WOS abroad 
2. As loans to its the JV/WOS abroad 
3. 100% of the amount of corporate guarantee issued on behalf of its overseas JV/WOS and; 
4. 50% of the amount performance guarantee issued on behalf of its overseas JV/WOS 
However Indian party/entity may extend Loan/guarantee only to an overseas JV/WOS in which it has equity participation |
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<td>If Individuals are not allowed to invest under Automatic route in IFSC, then how they can invest?</td>
<td>Individual person resident in India are allowed to invest upto USD 2,50,000 per financial year under Liberalized Remittance scheme (LRS) outside India or in IFSC and are allowed to set up Wholly owned subsidiary/Joint Ventures abroad subject to terms and conditions stipulated by RBI</td>
</tr>
<tr>
<td>Is it mandatory to conduct all business transactions in Foreign currency only from IFSC Unit?</td>
<td>Yes, it is mandatory to conduct all business transactions in Foreign currency only as per RBI and SEBI norms for IFSC. However, all administrative and other expenses can be incurred in Indian Currency</td>
</tr>
</tbody>
</table>
| What is the basic minimum requirement to obtain SEZ/IFSC Unit approval from SEZ Development Commissioner? | As per SEZ Rules, a unit needs to achieve positive Net foreign exchange earning for a period of 5 years and that 5 years start from the date of start of commercial transactions by a unit. NFE is calculated as below:  
A-B= >0  
A= Total exports earnings in foreign currency  
B= Total Foreign exchange outgo towards Import of Plant and machinery, services, technical know how, Foreign travel etc |
| Can SEZ/IFSC Unit exit from scheme and remit funds back to India? | Yes, SEZ/IFSC Units apply for exit from SEZ/IFSC Scheme and remit the funds back to India, however they will be have to follow rules and regulations mentioned in SEZ Act and Rules as well as under RBI/SEBI norms for winding up of WOS/JVs abroad. From SEZ perspective: Units has following options:  
1. Sale of shares to some other entrepreneur- Who should apply for SEZ/IFSC approval again  
2. Opting for exit in case of liquidation  
3. Takeover by other company, or court approved merger and amalgamation  
From RBI Perspective: Units can disinvest WOS/JVs by way of sale or shares or liquidation or merger subject to RBI norms and other conditions of Write off Investment or No write off investment |
REFERENCES

- The Global Financial Centres Index 20, China Development Institute, September 2016

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