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Navigating GIFT City

A Comprehensive Guide to India's First International Financial Services Centre (IFSC)

Focused on FinTech and Fund Management Entities (FMEs)

October 2024

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Welcome to GIFT City,

where the future of global finance
is being shaped.

Foreword

I am thrilled to introduce our guide, "Navigating GIFT City: A Comprehensive Guide to India's First International Financial Services Centre." At Treelife, we are deeply committed to helping businesses navigate the complex worlds of law and finance. Launched in 2007, the Gujarat International Finance Tec-City (GIFT City) serves as a prime example of how these two worlds come together to drive India's emergence as a global financial leader.

With a GDP nearing $3.94 trillion as of April 2024[1] and an impressive growth rate of 7% for FY 2024-25[2], India's economy is rapidly expanding, fueled by a dynamic workforce, a thriving technology sector, and robust global investor interest. This progress makes India an ideal destination for financial innovation and investment.

GIFT City embodies India's ambition to become a global hub for international finance and commerce. As a smart city hosting an International Financial Services Centre (IFSC), GIFT IFSC provides a comprehensive platform for financial activities, including banking, insurance, capital markets, FinTech, and Fund Management Entities (FMEs). Its attractive tax incentives and solid regulatory framework make it a gateway for both inbound and outbound global investments, drawing businesses and investors from around the world.

This guide offers insights into the current legal, tax, and regulatory framework within GIFT IFSC, highlighting the strategic advantages of establishing a presence here, with a focus on the FinTech and Fund Management sectors. Whether you're an investor, financial institution, or corporate entity exploring opportunities, I believe this guide will be a valuable resource in navigating the exciting prospects within GIFT IFSC.

As we delve into the regulatory landscape, we invite you to discover how GIFT City is shaping India's financial future and setting new global standards. We hope this guide provides you with meaningful insights into the opportunities that await in this rapidly evolving financial hub.

For any questions or further information, feel free to reach out to us at gift@treelife.in.

Jitesh Agarwal
Founder
jitesh@treelife.in

[1] https://www.imf.org/external/datamapper/profile/IND
[2] https://pib.gov.in/PressReleasePage.aspx?PRID=2034973

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Acknowledgements

Jitesh Agarwal
Founder
jitesh@treelife.in

Priya Kapasi Shah
Associate Partner
priya.k@treelife.in

Karan Dhingra
Founder's Office
karan.d@treelife.in

Gaurav Shetty
Senior Associate
gaurav.s@treelife.in

About Treelife

Treelife is is one of India's most trusted legal and financial firms providing **VCFO, Transaction Support, Financial Structuring and Compliance Support** to enable **startups, investors, and foreign businesses** with access to a **team of professionals,** including chartered accountants, lawyers, and company secretaries, who have **deep domain expertise.**

Treelife and its affiliates at GIFT IFSC assist companies and investors in evaluating the strategic fit of GIFT IFSC and provide support in setting up their operations, along with back-end services.

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support@treelife.in

+91 99301 56000 | +91 22 6852 5768

www.treelife.in

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I. Introduction to GIFT City

Overview of GIFT City

Situated on the banks of the Sabarmati River, the Gujarat International Finance Tec-City (GIFT City) represents India's bold leap into becoming a leader in the global financial and technology arenas.

Image 1 - Map of GIFT City

Officially announced by the Gujarat Government in 2007,[3] GIFT City presents an unprecedented ecosystem for crucial economic activities with globally benchmarked regulations, taxation, policies and more.

As India's first operational smart city and IFSC, GIFT City spans an impressive 886 acres. It's strategically positioned between Ahmedabad and Gandhinagar, benefitting from unparalleled connectivity: only 20 minutes away from Ahmedabad International Airport and with a planned metro line that further tightens the knit between GIFT City, Ahmedabad, and Gandhinagar.* Envisioned as a Greenfield project, it's not just the size that makes GIFT City stand out, but also its forward-thinking infrastructure. GIFT City is overseen by a Board of Directors comprised of seasoned bureaucrats and industry experts in infrastructure, finance, and technology. This board ensures that the city's vision is realized on schedule while upholding the highest standards of governance and global practices.

Infrastructure Highlights

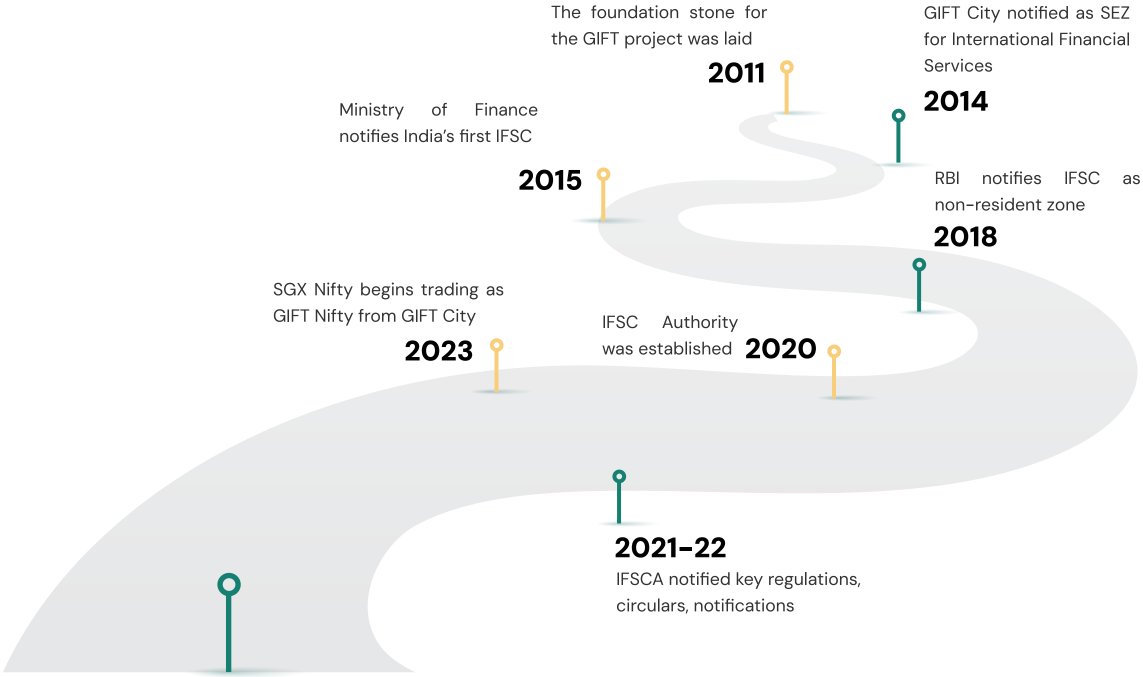
- City Command & Control Center
- India's First District Cooling System
- Utility Tunnel
- Smart Water Infrastructure
- Power Infrastructure
- India's First Automated Waste Management
- Data Centre

What's Trending at GIFT

- The Abu Dhabi Investment Authority has started its operations in GIFT City.
- Government Eases Rules to Enable Direct Listing of Indian Companies at GIFT IFSC
- Gujarat, a dry state allows liquor consumption in GIFT City[4]
- Infosys and Wipro are establishing FinTech hubs in GIFT City's IFSC under the TechFin framework
- RBI allows resident Indians to open foreign currency accounts (FCA) in dollars in a bank account at GIFT IFSC under the LRS[5]

[3] Business Today
[4] https://www.imf.org/external/datamapper/profile/IND
[5] https://pib.gov.in/PressReleasePage.aspx?PRID=2034973

Journey of GIFT City



2024

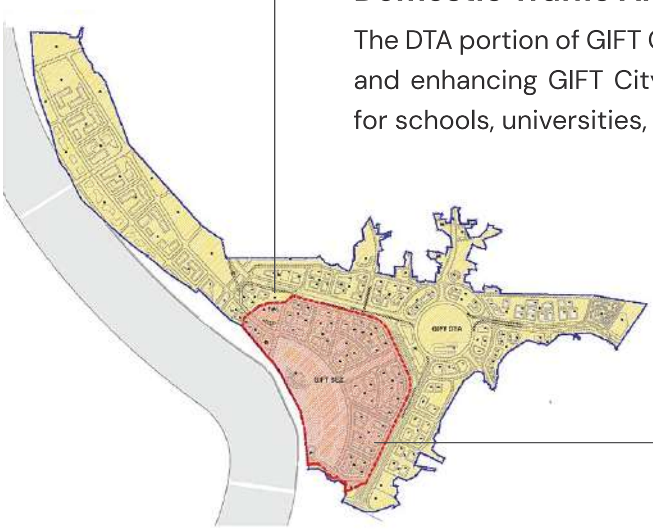
GIFT City is set for major expansion to over 3,300 acres, with a new metro network launching in late 2024 and a 9km Sabarmati Riverfront development. These advancements aim to boost GIFT City's status as a global finance hub, driving India's economic growth and global presence.

SEZ and DTA

Spread across **886 acres**, GIFT City is an integrated development in Gujarat, divided into a Special Economic Zone (SEZ) of 261 acres and a Domestic Tariff Area (DTA) covering 625 acres.

Domestic Traffic Area

The DTA portion of GIFT City is focused on nurturing India-centric businesses and enhancing GIFT City's socio-cultural environment by providing spaces for schools, universities, shops, housing, restaurants, and more.



GIFT SEZ/IFSC

The GIFT SEZ has been set up in accordance with the Special Economic Zones Act, 2005 ("SEZ Act"), Special Economic Zone Rules, 2006 ("SEZ Rules") and the regulations made thereunder and comes under the preview of IFSCA.

Image 2 - Map of GIFT City Area[6]

[6] https://www.nishithdesai.com/fileadmin/user_upload/pdfs/research_Papers/Opportunities_in_GIFT_City_.pdf

International Financial Services Centre

Unified Framework for Global Financial Services

The International Financial Services Centre (IFSC) is a critical element of GIFT City, facilitating a comprehensive range of international banking, insurance, capital market services, and asset management operations. Established to consolidate and enhance India's position as a global financial hub, the IFSC brings back financial services that were traditionally conducted offshore.

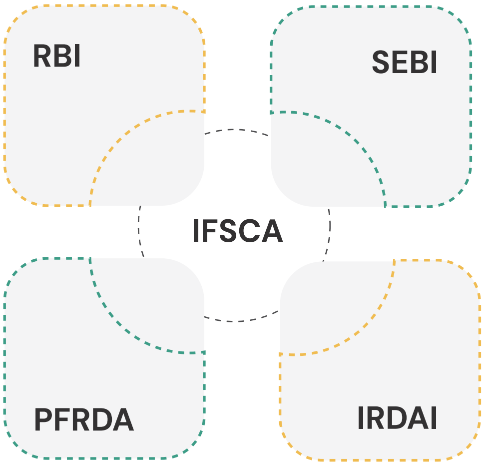


Image 3 - IFSCA Regulatory Composition

Establishment of IFSCA

Governing this initiative is the International Financial Services Centres Authority (IFSCA), which was established on April 27, 2020, under the International Financial Services Centres Authority Act, 2019. As a statutory authority, IFSCA's mandate includes the regulation, supervision and promotion of financial products, financial services, and financial institutions in the IFSC.

The IFSCA serves as a **unified regulator** for GIFT City, amalgamating the powers of India's major financial regulators— the Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Pension Fund Regulatory and Development Authority (PFRDA), and the Insurance Regulatory and Development Authorities of India (IRDAI). This consolidation of authority creates a streamlined and efficient regulatory environment that facilitates ease of doing business, attracting global financial entities to establish operations in GIFT City and contributing to its emergence as a global financial epicenter.

Key benefits for setting up in GIFT IFSC

01. Residential Status

The residential status for units set up in GIFT IFSC is dual in nature i.e. from an income-tax perspective, such units are treated as a “resident” in India while from an exchange control perspective, such units in are treated as a “non-resident”.

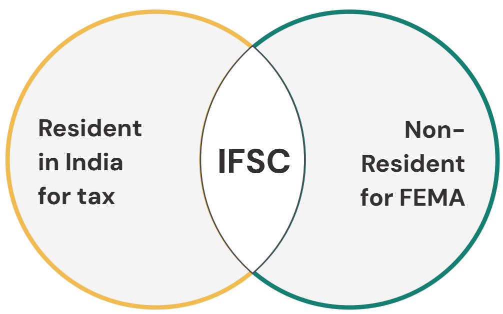


Image 4 - IFSC Dual Residency - Income-tax & FEMA

02. Tax Incentives

100% Tax exemption on business income for 10 out of 15 years	Minimum Alternate Tax* @ 9%	No CTT**/ STT**/ GST**/ Stamp Duty
Tax on dividend paid by units in IFSC to non-residents - 10%++	No Capital Gain Tax on transfer of specified securities listed on IFSC exchanges	No Customs Duty on goods imported in IFSC from outside India

*MAT provisions not applicable for companies opting for concessional tax rate under Sec. 115 BAA of Income Tax Act, 1961
**CTT- Commodity Transaction Tax, STT- Securities Transaction Tax, GST- Goods and Service Tax

03. General Benefits

01
Technological Innovation Hub

A FinTech and digital banking innovation hub with smart city infrastructure and tech zones, attracting global firms and startups.

02
Single Window Clearance (SWIT)

Streamlining bureaucratic processes, GIFT IFSC facilitates a business-friendly environment that accelerates setup and operations.

03
Unified Regulator

The presence of a single regulator simplifies compliance, providing a seamless regulatory experience.

04
World-Class Infrastructure

State-of-the-art infrastructure supports the diverse needs of financial institutions, enabling high-performance business operations.

05
Availability of Talent Pool

A skilled workforce is readily available, ensuring that businesses have access to the best minds in finance and technology.

06
Competitive Tax Regime

Attractive tax policies create a conducive economic climate for growth and investment.

07
State Subsidies

Financial incentives are available, further encouraging businesses to establish their presence in GIFT City.

08
International Arbitration Centre

Global disputes can be resolved efficiently within the IFSC, ensuring that it is a self-contained ecosystem for international finance.

04. Gujarat Incentive Policy for IT/ITeS Sector 2022–2027

About the Incentive

The Gujarat Incentive policy for IT/ITeS sector seeks to promote IT infrastructure advancement in the state by supporting the following services: Call centres, Business process outsourcing, Knowledge process outsourcing, Medical transcripts, IT-enabled banking, Website services, Cyber security, artificial intelligence and blockchain, Revenue accounting and payroll processing

The IT/ ITeS industry includes development, production and services related to IT products, software, services and ITeS. ITeS will include the following among other services.

Type	Incentive
Category I - Gross Fixed Capital Investment (GFCI) less than INR 250 Cr. OPEX	**CAPEX Support:** One-time CAPEX support of up to 25 % of the eligible CAPEX expenditure, subject to a maximum ceiling of INR 50 Cr (20 equal quarterly installments)
	OPEX Support: OPEX support of up to 15 % of the annual eligible OPEX expenditure, subject to a maximum ceiling of INR 20 Cr. per year for a period of 5 years (quarterly installments)
Category II (Mega Projects) - GFCI more than or equal to INR 250 Cr. or project generating more than or equal to 2,000 direct IT employment on its payroll	**CAPEX Support:** One-time CAPEX support of up to 25 % of the eligible CAPEX expenditure, subject to a maximum ceiling of INR 200 Cr (20 equal quarterly installments)
	OPEX Support: OPEX support of up to 15 % of the annual eligible OPEX expenditure, subject to a maximum ceiling of INR 40 Cr. per year for a period of 5 years (quarterly installments)
Special Incentives	
Employment Generation Incentive (EGI)	New and unique local jobs created in the state - 50% of 1 month's cost to company upto maximum of: • INR 50,000 for men • INR 60,000 for women
Atmanirbhar Gujarat Rojgar Sahay	Reimbursement on the employer's statutory contribution under Employees' Provident Fund (EPF) made by them for their employees working in Gujarat offices for 5 years (Ceiling 12% per employee) • Female employees – 100% • Male employees – 75%
Interest Assistance	Subsidy at 7 % on term loan or the actual interest paid, whichever is lower with a ceiling of INR 1 Cr. per annum for maximum 5 years
Other Incentives	
Monthly rental support	First two years: 50% of monthly rentals subject to a maximum of INR 10,000 per seat Three to five year: 25% of monthly rentals subject to a maximum of INR 5,000 per seat
Cloud ecosystem-support for Cable Landing Station (CLS)	**CAPEX Support:** One-time CAPEX support of up to 25 per cent of the eligible CAPEX expenditure subject to a maximum ceiling of INR 20 Cr. The disbursement will be done in 20 equal quarterly installments. Only expenditure incurred on civil works for constructing the building of CLS along with network hardware (excluding expenditure towards cable laying and network cables) shall be admissible under GFCI. **OPEX Support:** Power tariff subsidy of INR 1/unit for a period of five years

Who can setup operations in GIFT IFSC?

Banking 01
- Indian banks
- Foreign banks

Insurance 02
- Indian & Foreign Insurer
- Indian & Foreign Reinsurer
- Indian & Foreign Intermediaries

Asset Management 03
- Pension Fund Services
- Alternate Investment Fund
- Investment Advisers
- Wealth Management
- Portfolio Manager
- Custodial Services
- Trust Services
- Fund Management Entities (FMEs)

Capital Markets 04
- Stock/Commodity Exchanges
- Clearing Corporation
- Depository
- Broker
- Registrar/Share Transfer Agent
- Bullion Trading Members and Clearing Members

Payment Services 05
- Account issuance service (including e-money account issuance service)
- E-money issuance service
- Escrow service
- Cross-border money transfer service
- Merchant acquisition

Allied/Support Services 06
- Global In-house centres
- Aircraft Leasing & Financing
- Ship Leasing
- FinTech Hub
- Accounting & Audit Services
- Legal & Consultancy Services
- Educational Institutions
- R&D Services

Note: This is a concised list for easier presentation purposes.

Business Highlights for GIFT IFSC - Jun'24

Financial Institutions

24 Operational Banks

116 FMEs

137 Capital Market Intermediaries

55 FinTech Entities

2 International Stock Exchanges

1 International Bullion Exchange

143 Funds

Investment, Asset Management and Education

132
Alternative Investment Funds

30
Aircraft Leasing Firms

15
Ship Leasing firms

2
Foreign Universities

Business Highlights and Transactions

$90 Bn
Cumulative Banking Transactions (Apr-Jun'24)

$62.45 Bn
Banking Assets

$79 Bn
Cumulative Derivatives Trade (Apr-Jun'24)

$98 Bn
Monthly turnover of IFSC Exchanges

$11.69 Bn
Commitments raised

Recent Growth Indicators

670
Registered Entities

20,000+
Employment

137
Aviation Assets Leased

$58.70 Bn
Cumulative Debt Listings

Source: IFSCA Bulletin as on June 2024

Process for setting up unit in GIFT IFSC

01.

In-person/virtual meeting with IFSCA & GIFT officials to demonstrate the business use case for GIFT IFSC

02.

Identify office space within GIFT SEZ, finalize agreement with developer and obtain Provisional Letter of Allotment (PLOA)

03.

Submit the SEZ application to Administrator (IFSCA) for setting up a unit in GIFT IFSC and a separate IFSCA application for obtaining registration/licence

04.

Administrator (IFSCA) will invite the applicant for a Unit Approval Committee (UAC) hearing to discuss business proposition

05.

If UAC approves, the Administrator (IFSCA) will then issue the 'Letter of Approval' and IFSCA will seperately give in-principal approval

06.

Submit Bond cum LUT to Administrator (IFSCA), obtain Eligibility Certificate from Administrator (IFSCA) and necessary registrations such as RCMC, IEC and GST

07.

Open Foreign Currency and SNRR bank accounts and obtain final IFSCA approval

08.

Kickstart your business operations!

II. Regulatory Framework for Permissible Sectors

Overview

The regulatory framework for permissible sectors in the GIFT IFSC is meticulously designed to foster a clear and conducive environment for a wide array of activities. This section provides a detailed overview of the regulations that govern each sector, ensuring they comply with international standards and facilitate ease of doing business.

While GIFT IFSC houses a diverse range of sectors including banking, insurance, capital markets, asset management, and other financial services, this handbook places a special focus on the detailed regulatory environments and operational guidelines specifically for Fund Management Entities (FMEs) and FinTech.

For the remaining sectors, the regulatory framework is outlined under standardized headings to provide clarity and comprehensive coverage:

1. Introduction
2. Permissible Activities
3. Regulations
4. Key Requirements
5. Recent Developments
6. Treelife Insights

This structured approach is designed to give stakeholders—from investors to operators—clear and actionable information to effectively engage with and benefit from the opportunities available within GIFT IFSC's dynamic ecosystem. Each section after FME and FinTech follows this format, ensuring a uniform perspective across less detailed sectors while providing extensive insights into the more complex areas of FMEs and FinTech.

Opportunities at GIFT IFSC

- FinTech
- Fund Management Entity
- Portfolio Management Scheme
- Family Investment Fund
- Finance Companies
- Banking
- Global In-house Centers
- Capital Market Intermediaries
- Aircraft Leasing
- IFSC Insurance Office & IFSC Insurance Intermediary Office
- International Bullion Exchange
- Ship Leasing
- Ancillary Services
- Book-keeping, Accounting, Taxation and Financial Crime Compliance Services (BATF)
- Payment Service Providers
- Foreign Universities

FinTech

Introduction

The FinTech Entity (FE) Framework, introduced by the IFSCA in April 2022, represents a pivotal advancement towards establishing GIFT IFSC as a premier FinTech hub. This initiative aligns with the vision laid out in the Union Budget 2021 of developing a global financial and IT services center at GIFT City.

The framework encompasses entities offering the following solutions:

FinTech: Solutions that create new business models, applications, processes, or products in financial services, typically targeting consumers (B2C).

TechFin: Innovative technological solutions that support financial products, services, and institutions, generally focusing on business clients (B2B).

Snapshot of India's FinTech Sector[7]

• Indian FinTech Valuation	USD 90 billion (2024)
• Total Funding	USD 30.9 billion (2013 to 2023)
• Total UPI Transaction	FY 2023–24, the total transaction volume was slightly over INR 131 billion and is expected to grow to INR 439 billion by FY 2028–29
• Total Transaction Value in the Digital Payments	INR 2,071 crore in FY 2017-18 to INR 13,462 crore in FY 2022-23 at a CAGR of 45%
• Total Unicorns as on Sept 2024	26

[7] Source – Invest India, Economic Times, Statista, Money Control

Opportunities for FinTech and TechFin in GIFT IFSC

FinTech	TechFin
FinTech solutions resulting in new business models, applications, processes or products in areas/activities linked to financial services regulated by the IFSCA.	Advanced/innovative technological solutions that aid and assist activities in relation to financial products, financial services and financial institutions.
B2C generally	B2B generally
Capital markets & funds management • Crowdfunding • Personal finance • Wealth tech • Robo advisory • Sustainable finance Products • Alternative trading Platforms **Insurance sector** • Insurtech • Innovative technologies for insurance life cycle • Digital innovation for global health insurance cover • Innovation in commercial insurance **Banking sector** • Remittances and payments • Digital lending • Buy now, pay later • Crowd lending • Digital bank (neo bank/challenger bank) • Open banking	**TechFin** • Agri Tech • Accelerators • Climate/Green/Sustainable Tech • Defence Tech • Regulatory Tech • Space Tech • Supervisory Tech • Technology solution supporting Digital banking (example Core Banking etc.) • Technology solution aiding Trade Finance • Solutions/services for BFSI domain leveraging: (i) Artificial Intelligence/Machine Learning (ii) Big Data (iii) Biometrics (iv) Chatbots (v) Cyber security (vi) Digital Identity/KYC/AML/CFT (vii) Distributed Ledger Technology (viii) Fraud detection/prevention (ix) Internet of Things (IoT) (x) Longevity Finance (xi) Metaverse including AR and/or VR (xii) Quantum Tech (xiii) Web 3.0
Examples include Paytm, Zerodha	Examples include Infosys, Finacle and Wipro

*CIRCULAR F.No. 521/IFSCA/FinTech/FE Framework/2022-23 dated April 27, 2022

FinTech (including TechFin) Registration

The framework offers two options for entities seeking to operate as FEs:

01. Direct Authorisation:

This allows certain categories of technology entities to gain direct entry, provided they meet the following criteria:

- It uses technology in its core product or service, business model, distribution model, or methodology or has a deployable solution or working product; and
- It has a revenue-earning track record for at least 1 of the last 3 financial years

02. Sandbox:

This option caters to entities testing and developing innovative FinTech solutions. The sandbox offers various testing environments, also mentioned below (discussed in IFSCA's Sandbox for FinTech Innovation).

I. Requirement for Direct Authorisation

01. Indian Entities:

- FinTech startups registered with the Department for Promotion of Industry and Internal Trade (DPIIT)
- Companies incorporated under the Companies Act, 2013, Limited Liability Partnerships (LLPs) under the Limited Liability Partnership Act, 2008, or branches of existing Indian companies/LLPs established within GIFT IFSC.
- Entities already operating within the ecosystem regulated by domestic financial sector regulators.

02. Foreign Entities:

- Entities from countries/jurisdictions compliant with the FATF.

II. IFSCA's Sandbox for FinTech Innovation

01. Regulatory Sandbox:

Designed for developed FinTech products or solutions, offering a live testing ground along with customers within the IFSC. Eligible entities can apply for a "limited use authorization" and may qualify for grants under the IFSCA FinTech Incentive Scheme 2022.

02. Innovation Sandbox:

Targets FinTech ideas in development/testing. Provides a simulated environment using market data from financial institutions in the IFSC, allowing concept refinement before entering the FRS.

03. Inter-Operable Regulatory Sandbox:

For complex FinTech solutions under multiple regulators. Facilitates testing of hybrid financial products/services, bridging Indian and foreign FinTech companies for streamlined multi-regulatory environments.

04. Overseas Regulatory Referral Mechanism/FinTech Bridge (ORRM):

Encourages collaboration between IFSCA and overseas regulators, allowing FinTech entities to operate in each other's jurisdictions via MoUs or special arrangements. Utilization terms depend on agreements with the relevant overseas regulator.

FinTechs from India or outside India having a ready use case in the IFSC ecosystem can apply for Direct Authorisation.

FinTech Incentive Scheme

The primary aim of the scheme is to create a vibrant FinTech ecosystem in GIFT IFSC, comparable to leading international financial centers. It achieves this by offering financial grants to FEs engaged in developing and testing innovative FinTech solutions.

Sr. No.	Name of Grant	Purpose	Amount (INR Lakhs)
1	FinTech Start-up Grant	Developing a product or service and related go-to-market initiatives to a start-up with a novel FinTech idea or solution	**15**
2	Proof of Concept (POC)	Conducting a POC by an early or mature FE in the domestic market or overseas	**50**
3	Sandbox Grant	Experiment with innovative products or services in a sandbox	**30**
4	Green FinTech Grant	Developing solutions facilitating sustainable finance and sustainability-linked finance, including environmental, social and governance (ESG) investments	**75**
5	Accelerator Grant	Supporting accelerators at an IFSC to eligible accelerator applicants	**10**
6	Listing Support Grant	Supporting domestic FinTech Entities aspiring to go for listing on stock exchanges recognized by the authority	**15**

Use Case for Indian FinTechs looking to explore GIFT IFSC

Indian FinTech and TechFin entities providing services to the BFSI sector have a significant use case in GIFT IFSC. This is particularly beneficial for those looking to expand their service offerings to global BFSI clients and existing players in GIFT IFSC. Additionally, global FinTechs wanting to service Indian markets can setup units in GIFT IFSC for Indian clients. They can also utilise available sandboxes as needed. These use cases are discussed below.

Indian FinTech

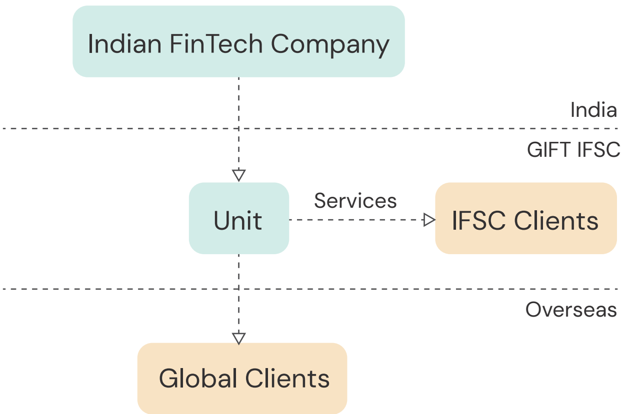


Image 5 - Indian FinTech Usecase Diagram

Global FinTech

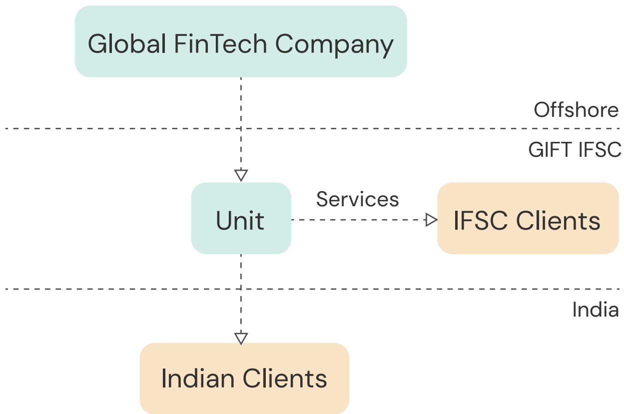


Image 6 - Global FinTech Usecase Diagram

Broad Mechanics of the above Structure

- FinTech entities to set up a unit in GIFT IFSC to service its global clients and other units in IFSC

- Such FinTech entities can move employees to GIFT IFSC and / or hire locally from in and around GIFT City

- Payment for services from clients can be taken by GIFT IFSC unit in foreign exchange directly

Why TechFin or FinTech in the IFSC?

01. **Unified Regulatory Framework:** IFSCA oversees various financial services sectors, ensuring streamlined regulation.

02. **Digital Payment Leadership:** As a global leader in digital payments, India provides enhanced opportunities for the payment ecosystem within the IFSC.

03. **Tax Incentives:** FinTechs can benefit from significant tax advantages such as 100% tax exemption for 10 out of 15 years, no GST on services to non-resident clients.

04. **State Incentives:** Gujarat's Information Technology/Information Technology-enabled Services (IT/ITeS) Policy offers additional state-level incentives.

05. **Cost Efficiency:** Lower costs for manpower and administrative functions.

06. **Skilled Workforce:** Access to a highly skilled talent pool.

Recent Developments - FinTech at GIFT IFSC

Particulars	As on Mar 31, 2024	As on June 30, 2024
Number of FEs Registered	52	55

Treelife Insights 💡

IFSCA has kept startup-friendly criteria for FinTechs that emphasize revenue over profit. By requiring a revenue-earning track record for at least one of the last three financial years, instead of focusing on profit, GIFT IFSC acknowledges the reality that many startups are often loss-making in their initial years. This revenue-based approach encourages more FinTech startups who are in their initial setup phase to establish their presence within the GIFT IFSC ecosystem.

Fund Management Entity

Introduction

Fund Management Entities (FMEs) are entities registered with the IFSCA to undertake investment activities in IFSC, akin to investment managers set up in India regulated by SEBI for managing Alternative Investment Funds (AIFs) and other fund vehicles.

Unlike domestic regulations, where the fund seeks registration with SEBI, the IFSCA regulates and prioritizes oversight of the FME itself. This approach, in line with global standards, fosters greater flexibility and agility for fund managers, allowing them to adapt to market conditions and investor needs more readily.

An FME registered with IFSCA may play the dual role of an investment manager and sponsor for undertaking the business of fund management in the IFSC. As the IFSCA regulates the FME and not the fund, once the FME obtains IFSCA registration, it can launch multiple funds simply by filing an intimation and payment of fees.

The IFSC framework establishes different categories of FMEs, each with its own set of permissible activities, investment options and requirements. These categories cater to a diverse range of investment strategies and investor profiles.

Understanding Categories

Fund Management Entity
(seeks registration with IFSCA)

- AIFs (Venture Capital / Restricted Schemes)
- Family Investment Funds (FIFs)
- Portfolio Management Schemes
- Special Situation Funds, ESG Funds, Private/ Public Investment Trusts (REITs and
- Retail Schemes (Mutual Funds), and Exchange Traded Funds

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FME Classification

As per the International Financial Services Centres Authority (Fund Management) Regulations, 2022 (FME Regulations), FMEs are classified into three types based on the activities they plan to carry out in GIFT IFSC:

Authorised FME | 02. Registered FME (Non-Retail) | 03. Registered FME (Retail)

In the table below, we have outlined key considerations based on the type of FME registration:

FME Category	Authorised FME	Registered FME (Non-Retail)	Registered FME (Retail)
Type of scheme and activities	• Venture Capital Schemes (including Angel Schemes) • Family Investment Funds	• Restricted Schemes [Alternative Investment Funds (AIFs)] • Portfolio management Services • Activities that can be carried out by Authorised FME	• Mutual Funds • Exchange Traded Funds • Activities permitted to Registered FME (Non-Retail) and Authorised FME
Net Worth	$ 75,000	$ 500,000	$ 1,000,000
IFSCA Application Fee	$ 2,500	$ 2,500	$ 2,500
IFSCA Registration Fee	Family Investment Fund $ 15,000 Other Authorised FME $ 5,000	$ 7,500	$ 10,000
IFSCA Annual Fee	$ 2,000	$ 2,000	$ 2,000

FMEs are required to appoint a Prinicipal officer and Key managerial personnels (KMPs) who are based out of GIFT IFSC and shall be responsible for the activities carried out by the FME. Any changes in KMPs requires prior approval of IFSCA. Further, it is also prescribed in the regulations that any proposal on the portfolio composition is to be initiated by a person who is based out of the FMEs office in IFSC. We have outlined below the minimum personnel requirements along with eligibility criteria for each FME category:

KMPs	Principal Officer	Compliance and Risk Manager	Fund Manager
Authorised FME	✓	✕	✕
Registered FME (Non-Retail)	✓	✓	✕
Registered FME (Retail)	✓	✓	✓
Responsibility	Overall activities including compliance & fund management	Compliance with IFSCA regulations and ensure suitable risk management policies and practices at the FME	Fund management
Qualification (any one)	• Professional qualification or post-graduate degree or post graduate diploma (minimum two years in duration) in Finance, Law, Accountancy, Business management, Commerce, Economics, Capital market, Banking, Insurance • Actuarial science from a university or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association; • Certification from any organization or institution or association or stock exchange which is recognised/ accredited by IFSCA or a regulator in India or Foreign Jurisdiction		
Experience	At least five years in related activities in the securities market or financial products including in a portfolio manager, broker dealer, investment advisor, wealth manager, research analyst or fund management.		

AIFs

FMEs in GIFT IFSC, unlike their Indian counterparts (i.e., Investment Managers and Sponsors), can launch multiple AIFs (Restricted or Venture Capital Schemes) under a single license. In contrast to the Indian mainland, where each AIF is individually required to obtain registration, the process in IFSCA is quicker and more straightforward, as the license is granted at the FME level rather than at the Fund or Scheme level.

01. Restricted Schemes

Restricted Schemes are essentially your typical Category I, Category II, and Category III AIFs. Their characteristics are broadly derived from the SEBI AIF regulations, with a few key tweaks that make them more flexible, such as no concentration norms, permission to borrow and allowing such AIFs to invest upto 20% of corpus in physical assets like real estate, art, bullion, and other assets.

Particulars	CAT I	CAT II	CAT III
Categorisation	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 impact funds, infrastructure funds, special situation 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
Entity structure	Trust / Company / Limited liability partnership		
Open or Close ended Fund	Close ended Fund		Can be open or close ended Fund
Tenure per scheme (Fund life)	Minimum 3 years. Extension of term is possible subject to conditions		Not applicable
Borrowings	Permitted subject to investor consent		
Co-investment	Permitted to co-invest through segregated portfolio by issuing a separate class of units		
Continuing interest of manager or sponsor	Lower of: • 2.5% of corpus • $ 750,000		Lower of: • 5% of corpus • $ 1,500,000
Appointment of Custodian	Mandatory to appoint if corpus of the AIF exceeds $ 70 million		Mandatory to appoint irrespective of size of corpus
Max no. of investors	1,000		
Fees	$ 7,500	$ 15,000	$22,500
Minimum corpus requirement for each scheme of the AIF	$ 5,000,000		
Minimum investment by investor	• Accredited investors - No minimum investment • Other investors - Minimum investment of $ 150,000 (40,000 for employees/ directors/ designated partners of FME)		

02. Venture Capital Schemes

FMEs looking to launch Venture Capital Schemes (VCS) and Angel Funds can obtain registration as an Authorised FME with a significantly lower net worth requirement of $75,000, compared to the $500,000 required for Registered FMEs. Since VCS and Angel Funds are subsets of Category I AIFs, the conditions governing these funds are derived from the regulations applicable to Category I AIFs with some amended conditions specifically prescribed for such funds. Below, we provide detailed information on VCS and Angel Funds, including common regulations applicable to Category I AIFs, which have been discussed earlier.

Particulars	Schemes other than Angel Fund	Angel Fund
Categorisation	FMEs that invests primarily in unlisted securities of start-ups, emerging or early-stage venture capital undertakings mainly involved in new products, new services, technology or intellectual property right based activities or a new business model or other schemes which invest in such entities and shall also include an angel fund. Schemes shall be filed as "Venture capital fund" under Category I Alternative Investment Fund	
Key Investment conditions	At least 80 % of AUM to be invested in investee companies incorporated for less than 10 years or other venture capital schemes	Investments in early-stage venture capital undertakings and other regulated angel schemes or angel funds set up in IFSC, India or foreign jurisdiction.
Investor consent	Not required	Required prior to each investment
Form	Trust/Company/Limited liability partnership	
Open or Close ended Fund	Close ended Fund	
Tenure per scheme	Minimum 3 years. Extension of term is possible subject to conditions	
Minimum corpus requirement for each scheme	$ 5,000,000	$ 1,000,000
Maximum corpus requirement for each scheme	$ 200,000,000	
Minimum investment by investor	$ 250,000*	$ 40,000
Borrowings	Permitted subject to investor consent	Not permitted to undertake leverage
Co-investment	Permitted to co-invest through segregated portfolio by issuing a separate class of units	
Continuing interest of manager or sponsor	Lower of: • 2.5% of corpus • $ 750,000	Lower of: • 5% of corpus • $ 1,500,000
Appointment of Custodian	Mandatory to appoint if corpus of the AIF exceeds $ 70 million	
Max no. of investors	50	200
Maximum investment in an early-stage venture capital undertaking	-	$ 1,500,000
Filing Fees for launching Scheme	$ 7,500	$ 3,000#

*Investors who are employees or directors of the AIF or employees or directors of the FME, Minimum investment shall be $ 60,000

#Fee for filing intimation regarding each investment - $ 500 (akin to filing of term sheet for Angel Fund investments in Mainland)

AIF Taxation & Other Considerations

This section highlights the tax incentives and general investment considerations for funds in GIFT IFSC. It covers key tax exemptions, regulatory exemptions granted for NRI-sourced funds and conditions for classification as accredited investors.

01. Additional Tax Incentives for Funds in GIFT IFSC

Funds and fund management entities set up in the GIFT IFSC enjoy several tax exemptions aimed at fostering a competitive and attractive investment environment. Key incentives include:

01. Non-Resident investors are exempt from obtaining PAN and filing return of income in India
02. Income accruing or arising or received by Non-Resident Indians from offshore investment not taxable in India
03. Category I AIF (including Venture Capital Scheme and Angel Fund) and Category II AIF are accorded pass through status for Indian income-tax purposes
04. Special tax regime for Category III AIFs*:
    - Income earned from the transfer of securities (excluding shares of Indian resident companies), derivatives, debt securities, and offshore securities by Category III AIFs attributable to non-resident investors is tax-exempt.
    - Income from securities issued by a non-resident, provided the non-resident does not have a permanent establishment in India, and such income does not otherwise accrue in India, is tax-exempt.
    - Income from a securitisation trust, under the category of 'profits and gains of business or profession,' is tax-exempt if it is attributable to units held by a non-resident or the investment division of an offshore banking unit.
    - Income from the transfer of specified securities listed on a RSE recognized stock exchange in an IFSC, where the consideration is received in convertible foreign exchange, is tax-exempt. Specified securities include Bonds or global depository receipts, Rupee-denominated bonds of an Indian company, Derivatives and other notified securities such as foreign currency-denominated bonds, units of mutual funds, business trusts, and AIFs.
05. Safe harbour provisions under Section 9A for offshore funds managed by an onshore fund manager in an IFSC are relaxed for operations commencing before March 31, 2024.

Other Tax Incentives in an IFSC

01. Income accruing to a unit holder from a specified fund, or from the transfer of units in such a fund, is exempt from tax.
02. To encourage the migration of offshore funds to an IFSC, tax exemptions are available for offshore funds and their unit holders/shareholders on the transfer of capital assets of the fund or its wholly-owned special purpose vehicle, provided the relocation occurs before March 31, 2025.

*Having only non-resident investors

02. General considerations

Who can invest?

- a person resident outside India;
- a non-resident Indian;
- institutional investor resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted;
- person resident in India to the extent allowed in the Liberalized Remittance Scheme of Reserve Bank of India.

Where can a GIFT AIF invest?

- Securities which are listed in IFSC;
- Securities issued by companies incorporated in IFSC;
- Securities issued by companies belonging to foreign jurisdiction (including India)

AIFs are permitted to invest in India through:

- Foreign Portfolio Investment (FPI);
- Foreign Venture Capital Investor (FVCI); or
- Foreign Direct Investment (FDI) route in accordance with applicable FDI policy/ guidelines issued by Government of India and RBI.

03. Inbound investment by GIFT IFSC AIFs

Key Parameters	**FPI**	**FVCI**	**FDI**
License	Fund has to obtain FPI license under SEBI (FPI) Regulations 2019	Fund has to obtain FVCI license under SEBI (FVCI) Regulations 2000	No license/registration required
Investment type	• Listed / to be listed shares < 10% • Government securities and treasury bills • Units of mutual funds, REITs, InvITs and CAT III AIFs • Listed and unlisted NCDs	• Invest at least 2/3rd in equity or equity linked instruments of venture capital undertakings • Remaining one-third in debt or debt instruments of a venture capital undertaking in which the FVCI already has equity investment	• Unlisted company • Listed company in India for 10% or more
SEBI Application fees	-	$ 2,100	NA
Registration fees	• Category I FPI – $ 2,500 • Category II FPI – $ 250 (To be paid for every block of 3 years)	$ 8,500	NA

04. 100% NRI/OCI/RI Investors now permitted in FPIs based in GIFT IFSC

SEBI and IFSCA have now permitted 100% participation of NRIs, OCIs, and RIs individuals for certain funds setup as SEBI registered FPIs based in IFSC in India by using 1 of the following 2 alternatives:

Option 1	Option 2
Disclose PAN (or other KYC documents in the absence of PAN) along with economic interests of all NRI / OCI / RI individual constituents to the DDP	Don't disclose PAN / KYC and economic interest but the following conditions to be met: • FPI corpus to be a blind pool i.e. no segregated portfolios and all investors to have pari-passu and pro-rata rights • FPI to have minimum of 20 investors with each investor contributing not more than 25% • Maximum of 20% of the corpus of FPI may be invested in the listed equity shares of an Indian entity • Investors should not influence investment decisions i.e. Investment Manager to FPI must be completely independent • Investment Manager must be an AMC of a SEBI-registered Mutual Fund sponsored by a RBI regulated bank or its IFSC subsidiary/branch

05. Accredited Investors

Category	Eligibility Criteria*	
• Individuals /Sole Proprietorships / OPC • Any other legal form comprising of only a natural person • HUFs / similar such family structures for single family (refer note for joint investors)	(i) Annual gross income in the preceding FY of not less than USD 200,000, with a reasonable expectation of reaching similar income level in the current FY	(ii) Net assets not less than USD 1 Million, out of which at least USD 500,000 comprise of financial assets (based on financial position on a date not older than 6 months)
Partnership firms	(i) All partners independently meet the applicable eligibility criteria of AI	(ii) Net worth not less than USD 5 Million and the partner(s) responsible for making investment decisions for the partnership firm meet the applicable eligibility criteria of AI
Trusts	(i) All the beneficiaries of the trust independently meet the applicable eligibility criteria of AI	(ii) Net worth not less than USD 5 Million and the person(s) responsible for making investment decisions for the trust meet the applicable eligibility criteria of AI
Body corporates (including LLP)	(i) Net worth not less than USD 5 Million	(ii) All the constituents of the body corporate independently meet the applicable eligibility criteria of AI

Note: In case of investments held jointly by more than one individual, the following conditions shall apply for eligibility as AI: (i) Where the joint holders are parent(s) & child(ren), at least one person should independently fulfill the eligibility criteria for AI. (ii) Where the joint holders are spouses, their combined income/net worth should meet the eligibility criteria for AI
*Satisfy any one eligibility criteria

06. Deemed Accredited Investors

- Government and related investors including Central Banks, Sovereign Wealth Funds, and entities owned by government investors.
- Multilateral, supranational agencies, or similar international organizations.
- University, pension, and provident funds set up in IFSC, India, or abroad.
- University endowments existing for over 5 years.
- Regulated venture capital, restricted, retail schemes, ETFs, and investment trusts in IFSC, plus similar schemes abroad with no single investor holding over 33% interest.
- Family investment funds and similar regulated vehicles in IFSC, India, or foreign jurisdictions.
- Corporates or entities licensed or recognized by Authority, acting for themselves or accredited investor clients, authorized to perform financial activities as permitted by Authority or similar foreign regulators.

Number of Fund Management Entities (FMEs) and Funds

Particulars	As on Mar 31, 2024	As on Jun 30, 2024
FMEs	114	116
Funds	120	143

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With over 116 FMEs who have launched ~143 funds, IFSC's fund ecosystem is showing great potential. This is primarily attributed to the regulatory framework, which regulates the FME rather than individual funds/activities in line with global practices and the favorable tax framework. More than 50% of the funds set up are Category III Funds which have been accorded a special tax framework. The Budget 2024 has also extended this tax framework to Mutual Funds and ETFs which is expected to give a much needed boost to this sector.

An FME in GIFT IFSC is akin to an Investment Manager in Mainland India. Unlike SEBI, where the AIF is regulated, IFSCA regulates the FME in accordance with global fund structures. An FME can launch multiple schemes without needing registration each time, unlike SEBI, which requires scheme-wise registration.

FMEs may also open up new possibilities by obtaining investment adviser and distributor licenses under the IFSCA CMI Regulations alongside their FME licenses, creating additional business opportunities and avenues for growth.

FME Sample Usecases

The following two common use cases are being seen in funds being setup in GIFT IFSC:

01. Master Feeder Structure

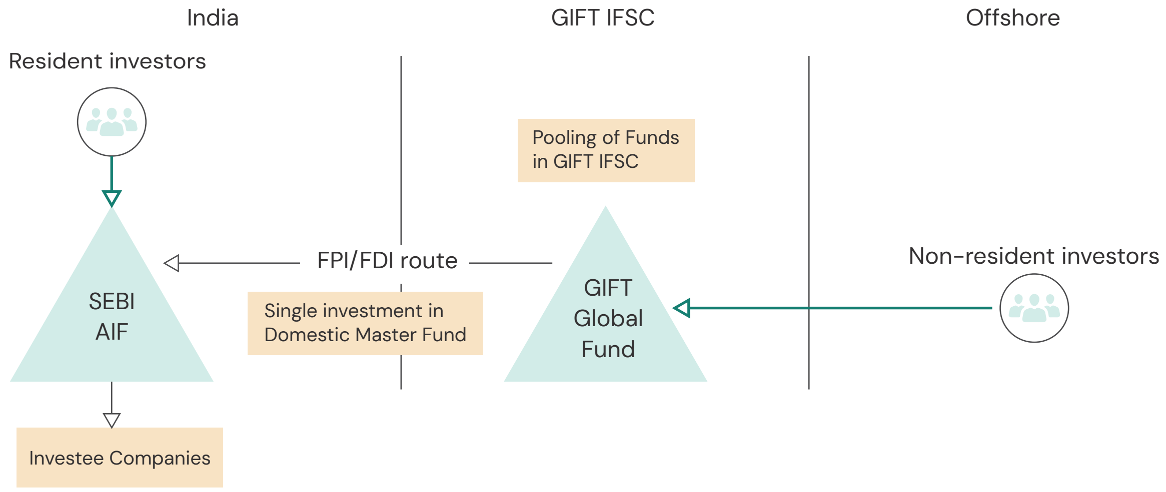

Image 7 - Master Feeder Structure

Key Mechanics

- The Master Feeder structure is a popular investment structure in GIFT IFSC, designed to pool capital from offshore investors into a dedicated Feeder Fund in GIFT IFSC
- All the capital collected by the Feeder Fund is invested into a Master Fund (AIF) based in India which then makes investments

02. Global Access Fund structure

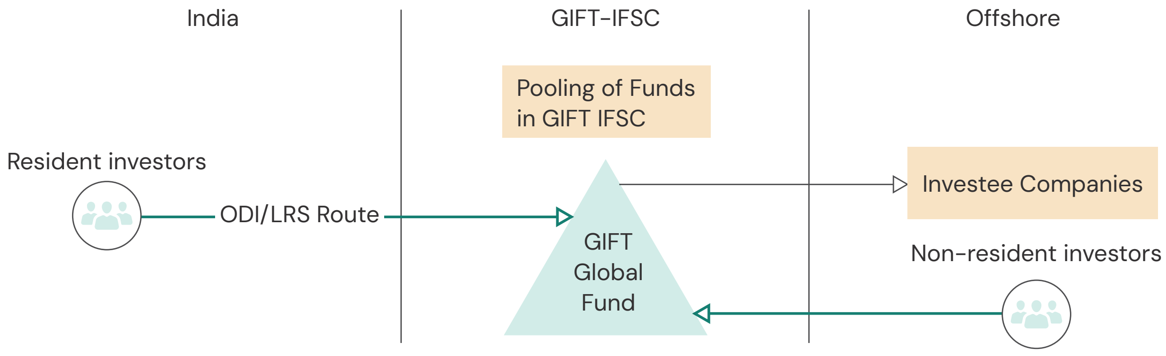

Image 8 - Global Access Fund Structure

Key Mechanics

- Global Access Fund structure is another popular investment structure in GIFT IFSC, designed to pool capital from resident & non-resident investors into a dedicated Fund in GIFT IFSC for investing in global markets
- Indian investors to invest into the GIFT IFSC fund via the LRS route

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Investments by Fund Management Schemes at GIFT IFSC as on June, 2024

		In USD Mn				
Particulars	**No. of Schemes Registered**	**Total Commitments raised**	**Total Funds raised**	**Investments into India**	**Investments made in Foreign Jurisdiction**	**Total Investments made**
				(A)	**(B)**	**(A+B)***
Venture Capital Schemes (including Angel Schemes)	11	188.01	29.39	29.39	7.73	21.75
Category I and II AIFs	49	7,734.54	3,098.13	2,747.82	143.92	2,891.74
Category III AIFs	83	3,771.36	2,191.58	1,515.13	76.33	1,591.46
Total	143	11,693.91	5,319.11	4,276.97	227.98	4,504.95

*Excluding the exposure towards derivatives contracts. In the case of fund of fund, cash maintained, and expenses incurred by the master fund are also excluded

Portfolio Management Services

Introduction

Portfolio Management Services (PMS) in the GIFT IFSC have emerged as a key investment avenue within India's first and only international financial services center. PMS at GIFT IFSC allows asset management companies to offer tailored investment strategies to high net worth individuals and institutional investors. These services leverage the unique regulatory and tax advantages offered by GIFT City, such as operational flexibility, ease of currency management, and favorable tax conditions under the IFSC framework.

The framework encourages the management of diversified investment portfolios that can include equities, fixed incomes, and other securities, accessible in multiple currencies, which is particularly advantageous for managing cross-border investments. This setup not only simplifies the process for foreign investments into India but also facilitates Indian investments in global markets. The focus on offering bespoke investment solutions in a regulated environment makes GIFT IFSC an attractive destination for both domestic and international investors seeking customized investment management services.

Key Requirements

Parameters	Conditions
Who can undertake PMS activity	Registered FME (Non-Retail) and (Retail)
Team requirement	1 Principal Officer & 1 Compliance and Risk Manager
Net worth requirement	USD 500,000 for Non-Retail | USD 1,000,000 for Retail
Written agreement	A FME shall enter into a written agreement with the portfolio management client that clearly defines the inter se relationship and other prescribed aspects
Minimum ticket size	USD 150,000 (not applicable to Accredited Investors)
Fees	Fixed fee or a return based fee or a combination of both
Borrowings	FME cannot borrow funds / securities on behalf of client
Custodian	Required to be appointed in respect of securities managed or administered by it (not applicable for those providing only advisory services)
Furnishing report to clients	Periodically required to furnish a report to the clients in terms of its agreement with the client, containing details: • composition and value of portfolio • transactions undertaken • beneficial interest • expenses • details of risk relating to securities recommended etc.

Others

Family Investment Funds

IFSCA has tailored a framework specifically for Family Investment Funds (FIFs) within the GIFT-IFSC. This framework allows FIFs to function strictly as investment vehicles, not covering broader family needs such as succession planning.

The regulatory approach to FIFs in GIFT IFSC is notably streamlined. FIFs are allowed to operate as self-managed pooling vehicles, which means they do not require a separate fund manager entity. This significantly reduces the administrative overhead and the associated costs and compliances. Additionally, FIFs have the flexibility to be established as trusts, which offers benefits like tax efficiency and reduced regulatory compliance compared to other structures like companies or LLPs.

The operational scope of FIFs is designed to be exclusive to a single family. The definition of 'single family' has been broadened to include various entities controlled by the family, which can substantially facilitate fundraising efforts. However, this structure encounters certain limitations under current foreign exchange regulations, particularly regarding trusts that need to remit funds overseas.

Investment-wise, FIFs are permitted a wide range of asset classes, including securities, debt, derivatives, and even physical assets like real estate and art. However, their primary role should be for overseas portfolio investments.

Other activities

IFSCA also permits FMEs to launch:

- Private / Public placement of Investment Trust [Real estate investment trusts (REITs) and infrastructure investment trusts (InvITs)]
- Special Situation Funds
- Environmental, Social And Governance (ESG) Funds
- Retail Schemes (Mutual Funds)
- Exchange Traded Funds

Finance Companies

Introduction

The IFSCA notified the IFSCA (Finance Company) Regulations, 2021 (FC Regulations) on 25 March 2021 to provide a competitive regulatory environment for non-banking financial institutions, complementing the role of banking in providing finance and innovative products and services from GIFT IFSC.

These regulations are designed to facilitate the establishment of global financial services companies in GIFT IFSC, enabling them to set up holding companies, conduct investment and lending activities, manage global treasury operations, and offer a variety of financial services from this strategic financial hub.

Permissible Activities

IFSC Finance Companies' may engage in a spectrum of activities authorized by the IFSCA, categorized into core and non-core activities,without accepting deposits from the public and not registered as a banking unit with the IFSCA.

Core Activities	Non-core Activites
Lending	Merchant Banking
Factoring	Ship & Aircraft Leasing
Investments	Registrar and Share Transfer Agent, Trusteeship, Investment Advisory, Portfolio Management Services
Derivatives Trading	International Trade Financing Services Platform
Global/Regional Corporate Treasury Centers	Distribution of Financial Products
	Trading and clearing members or professional clearing member of exchanges and clearing corporations set up in IFSCs
	Asset Management support services

Key requirements

- An entity can operate as a Finance Company (FC) or a Finance Unit (FU) in the IFSC only after obtaining certificate of registration from the IFSCA for carrying out the activities specified in the FC Regulations (specified above).
- An FC in GIFT IFSC can be established as a subsidiary, joint venture, or newly-incorporated company, and for non-core activities, it can also be set up as an LLP or trust.
- An FU can be set up as a branch for core activities if the applicant is a regulated financial services entity in its home jurisdiction.

Minimum Owned Funds (Net Worth)

Sr. No.	Activity	Minimum Owned Fund Requirement (in USD or equivalent amount in any other freely convertible currency)
1.	Undertaking one or more of the non-core activities only — without any core activity(ies).	• Higher of USD 0.2 million or any such amount as may be required to seek specific registration for a proposed non-core activity under the respective Framework/ Regulation for that particular activity; or • Any higher amount as may be specified by the Authority.
2.	Undertaking one or more core activities with or without non-core activities, except Global/Regional Corporate Treasury Centres.	• Higher of USD 3 million, minimum regulatory capital for core activities as specified by the Authority; or any such amount as may be required for a non-core activity(ies) under the respective • Framework/Regulation for that particular activity; or Any higher amount as may be specified by the authority.
3.	Undertaking activities of Global/Regional Corporate Treasury Centres.	• Higher of USD 0.2 million or any such amount as may be required under the relevant regulatory framework specified by the Authority

Key Prudential Norms

FC / FU to maintain:

Capital Ratio (CR) - 8% of its regulatory capital to its risk-weighted assets

Liquidity Coverage Ratio (LCR) on a stand - alone basis, at all times (FU may maintain at parent entity level, with specific approval of IFSCA)

Exposure Ceiling (EC) - Total exposures to a single counterparty or group of connected counterparties shall not exceed 25% of the available eligible capital base without the approval of the IFSCA

Finance Companies/Finance Units during Apr-Jun 2024

Types of Finance Company	Aircraft Lease	Ship Lease	FC (Core)	FC (Non-Core)	Total
Provisional Registration Granted*	2	2	2	0	6
Final CoR Granted*	6	3	0	0	9
Registration till Jun 30, 2024**	**30**	**15**	**9**	**5**	**59**

*Data is based on records from April 2024 to June 2024
**Including provisional registration

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An Expert Committee has been setup by the the IFSCA to position GIFT IFSC as a Global Commodity Trading Hub in May 2024[8] to develop strategies for such position of GIFT IFSC including enabling Merchanting Trades/Transactions through GIFT IFSC entities. This will facilitate business integration of IFSC financial ecosystem with global trade flows, capitalize on integration opportunities with major commodity hubs and attract global investment flows into IFSC.

[8]https://www.ifsca.gov.in/Document/Legal/press-release-expert-committee-on-positioning-gift-ifsc-as-global-commodity-trading-hub-22-may22052024041554.pdf

Banking Sector

Introduction

The banking sector is essential for the growth of IFSCs, helping them become competitive global hubs. By offering diverse financial services, embracing technological advancements, and fostering global connectivity, banks significantly enhance the success and appeal of these centres.

At GIFT IFSC, under the IFSCA (Banking) Regulations, 2020, both Indian and foreign banks can establish an IFSC Banking Units (IBU). These IBUs enable the provision of world-class international banking services within India and are treated equivalently to foreign branches.

For banks, the favorable regulatory environment in GIFT IFSC offers significant opportunities to expand existing operations and develop new business lines. By establishing IBUs in IFSCs, Indian banks can offer comprehensive international banking services, such as trade finance, corporate lending, and foreign exchange management. This development not only enhances India's financial landscape but also aligns it with global standards.

Permissible Activities

The IFSCA Banking Handbook[9] provides an indicative list of permissible activities which can be broadly classified as follows:

- **Commercial banking** – Acceptance of deposits, inter bank borrowing and lending, retail and corporate lending, etc
- **Private banking** – Structured deposits, distributors of financial products, investment advisory services, etc.
- **Capital market division** – Issuing over-the-counter (OTC) derivative contracts, entering into non-deliverable forward contracts, acting as a trading and clearing member of stock exchanges, etc
- **Other services** – foreign exchange prime broker, underwriting the subscription of funds, custodian of securities, etc

Additional Tax Benefits for IBUs

- IBUs in an IFSC enjoy additional tax incentives that further enhance the attractiveness of conducting international banking operations from these centers.
- Non-residents are exempt from tax on income earned from the transfer of non-deliverable forward contracts, offshore derivative instruments, or over-the-counter derivatives entered into with an IBU in an IFSC, provided specific conditions are met.
- Any income distributed to a non-resident on ODIs entered into with an IBU in an IFSC, subject to the fulfillment of prescribed conditions, is tax-exempt.
- Income earned by the investment division of an IBU, acting as the offshore banking unit of a non-resident, is exempt from tax on the transfer of bonds, global depository receipts (GDRs), rupee-denominated bonds of an Indian company, derivatives, and other specified securities, subject to certain conditions.

[9]https://ifsca.gov.in/Viewer?Path=Document%2FLegal%2Fthe-ifsca-banking-handbook-cob-directions-v6-005042024051513.pdf&Title=The%20IFSCA%20Banking%20Handbook%20COB%20Directions%20v6.0&Date=05%2F04%2F2024

Eligibility and Key Requirements

- Any Indian or foreign bank (whether having any presence in India or not) can set up an IBU in the IFSC in the form of a branch.
- The parent bank must obtain a 'no-objection' certificate from the home country regulator and submit undertakings to the IFSCA.
- Minimum capital of USD 20 million to be maintained at the parent bank level.
- The banking company is required to comply with the prudential directions and instructions issued by the home regulator and ensure that the IBU has access to the parent bank's liquid assets and financial resources, which are adequate in relation to the nature, size and complexity of the business of the IBU.
- IBUs are required to follow Know Your Customer (KYC) norms, combating the financing of terrorism and other anti-money laundering requirements, including reporting requirements issued by the Reserve Bank from time to time unless otherwise specified by the IFSCA.

Prudential Relaxations

- Unlike domestic banks, IBUs are exempt from maintaining the Statutory Liquidity Ratio (SLR) and Cash Reserve Ratio (CRR) mandated by the RBI.
- IBUs are required to maintain Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) at the branch level, although with IFSCA's permission, these can be maintained at the parent bank level.
- Leverage ratio (LR) for IBUs may be maintained at the parent bank level and subject to the regulations specified by the respective home regulator applicable to the parent bank unless otherwise specified by the IFSCA.
- IBUs are required to maintain a retail deposit reserve ratio (RDRR) on a daily basis at 3% of the deposits raised from individuals outstanding as of the end of the previous working day.

Number of IBUs[10]

Particulars	As on Mar 31, 2024	As on June 30, 2024
No. of IBUs	23	24

*Total Registered IBUs

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IBUs in GIFT IFSC have significantly eased the process for Indian corporates to access foreign currency loans by consolidating operations under a single-window clearance system. As a result, GIFT IFSC has witnessed a substantial uptick in business, with loan exposures skyrocketing to $52 billion by January 2024, highlighting its pivotal role in facilitating smoother and more accessible foreign currency borrowing for Indian corporates.

All Indian and foreign banks have currently established their IBUs as branches, despite the option to set them up as subsidiaries. Primary reason for this preference is that the profit distributed by an IBU branch to its head office is freely repatriable (i.e. not taxable, as income to self).

Recently RBI has permitted resident indians to open a Foreign Currency Account (FCA) under the LRS route for undertaking current or capital account transactions in any other foreign jurisdiction. This move will aligns GIFT IFSC with other global financial centres, allowing resident investors to access a wider range of overseas investments.

[10] IFSCA Bulletin Jan-Mar 2024

Global In-house Centres

Introduction

Traditionally, Global In-house Centres (GICs) are established in low-cost jurisdictions to provide back-office support for their holding companies. These centres handle tasks such as customer onboarding, transaction processing, risk management, and data analysis. The IFSCA introduced the IFSCA (Global In-house Centres) Regulations, 2020 (GIC Regulations), offering a robust framework for GIC operations within GIFT IFSC.

Key Requirements

- GIC can be set up as a company, an LLP, a branch or any other form of entity.
- GIC can provide services only to non-resident entities.
- New employees need to be hired in the GIC. Relocation of employees from an existing entity in India permissible with respect to supervisory personnel only, which may be allowed with prior approval of IFSCA up to 20% of the strength in such category.
- GIC's support services must be exclusively for its parent financial services group, which must be located in an FATF compliant jurisdiction.
- GIC's support services must be directly linked to the execution of financial services related to financial products.

Permissible Activities

An entity belonging to a financial services group can set up a GIC in IFSC to provide support services exclusively to its affiliates, including the following:

- Banks, Non-banking financial companies
- Financial intermediaries
- Investment banks
- Insurance companies
- Reinsurance companies
- Actuaries
- Brokerage firms & Funds
- Stock exchanges
- Clearing houses
- Depositories & Custodians
- Other financial services

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Global MNCs with operations in multiple jurisdictions can set up GICs in GIFT IFSC to be a one-stop support shop for all their group companies, considering the benefits of low setup and operational costs and cheaper labor costs compared to other IFSCs.

GIFT IFSC offers access to a large talent pool from numerous reputable universities and educational institutions, including branches of two foreign universities in GIFT IFSC itself. Additionally, the walk-to-work concept, tax benefits, ongoing development of social infrastructure, and low infrastructure costs for large floor parcels contribute to its attractiveness as a location for GICs.

Capital Market Intermediaries

Introduction

IFSCA introduced the IFSCA (Capital Market Intermediaries) Regulations, 2021 (CMI Regulations) to streamline the registration process for Capital Market Intermediaries (CMIs) operating in the GIFT IFSC ecosystem.

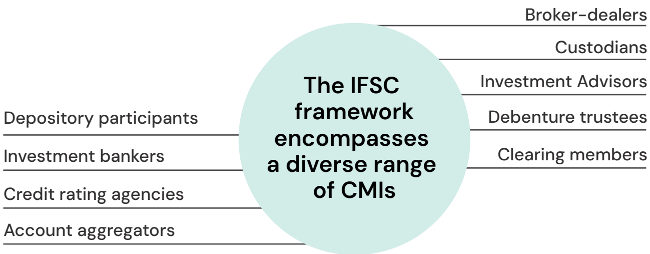

Image 9 - Capital Market Intermediaries

Furthermore, the IFSC boasts two internationally recognized stock exchanges (RSEs): **India International Exchange (IFSC) Limited (India INX) and NSE IFSC Ltd.** The IFSCA regulates these RSEs, which offer extended trading hours for a variety of financial instruments, including index and single stock derivatives, commodity derivatives, currency derivatives, and debt securities.

Previously, NIFTY derivative contracts were traded on the Singapore Exchange (SGX) and were known as SGX NIFTY, popular among offshore investors. Since July 2023, SGX NIFTY contracts are traded on NSE IFSC exchanges on the NSE IFSC-SGX Connect.

While specified non-residents and participants in IFSC can participate in all products available on IFSC stock exchanges. Individuals resident in India are only currently permitted to invest to the extent of the LRS limit of USD 250,000 in a financial year.

Further, STT, CTT and stamp duty are not levied for transactions carried out on the IFSC exchanges.

Key requirements

Applicants seeking registration as a broker-dealer, clearing member, or depository participant need to submit an application with the RSE / clearing corporation / recognized depository along with the application to the IFSCA.

Such intermediaries must be present in the GIFT IFSC through a branch[11] or the formation of a company, limited liability partnership, or other forms as may be permitted by IFSCA.

Regulations for Key CMIs

01. Broker-dealers

Definition

"Broker dealer" means a person having trading rights in any RSE and includes a trading member.

Net Worth Requirements:

Minimum net worth requirement for Indian broker-dealers (including those operating within the IFSC) is determined by the specific RSE based on the type of membership.

Foreign broker-dealers must meet the minimum net worth requirement set by the RSE, subject to a minimum of USD 135,000 mandated by the IFSCA.

02. Investment Bankers

Definition

"Investment banker" means a person who is engaged in the business of issue management either by making arrangements regarding selling, buying or subscribing to securities or acting as manager, consultant, adviser or rendering corporate advisory service in relation to such issue management.

Net Worth Requirements:

- Indian Entity (including IFSC): USD 0.75 million
- Foreign Entity: USD 1.5 million

Investment bankers can act as underwriters for security issuances within the IFSC, subject to specific conditions set by the IFSCA.

[11] Only if intermediary is already registered or regulated in India or a foreign jurisdiction for conducting similar activites

However, they are prohibited from undertaking any activities beyond marketing the issue or offer if they have any association with the issuer or entities involved in selling or purchasing the securities.

03. Investment Adviser

Definition

"Investment adviser" means a person, who for consideration, is engaged in the business of providing investment advice to clients or other persons or group of persons.

Key Regulatory Requirements

- Investment advisors must disclose all material information to prospective clients, including its business, disciplinary history, service terms and conditions, affiliations with other intermediaries, and any other details to enable clients to make informed decisions. They are also required to act in a fiduciary capacity, disclosing any conflicts of interest that may arise.
- Investment advisors must maintain an arm's-length relationship between its activities as an investment adviser and other activities.

Net Worth Requirements:

- Indian Entity (including IFSC): USD 0.5 million
- Foreign Entity: USD 1 million

04. Clearing Members

Definition

"Clearing member" is an entity holding clearing and settlement rights with any recognized clearing corporation.

Net Worth Requirements

For Indian clearing members (including IFSC incorporated) as determined by the specific recognized clearing corporation.

Foreign clearing members must meet the minimum net worth requirement set by the recognized clearing corporation, with additional minimums mandated by the IFSCA:

- USD 1.35 million for a clearing member
- USD 0.675 million for a self-clearing member (clear and settle the trades executed on his own account as well as on account of his clients)

05. Depository Participants

Definition

"depository participant" is defined as a participant of a recognized depository within the IFSC.

Net Worth Requirements

As determined by the specific recognized depository they are associated with.

06. Custodian

Definition

A "custodian" is an entity engaged in providing custodial services. These services include:

- Maintaining accounts for financial products held by clients
- Collecting benefits or rights accruing to the client on those products
- Keeping clients informed about issuer actions impacting their benefits or rights
- Maintaining and reconciling records of custodial services
- Participating in activities related to issuing depository receipts within the IFSC

Net Worth Requirements

- Indian Entity (including IFSC): USD 7 million
- Foreign Entity: As specified by the IFSCA

07. Debenture Trustee

Definition

A "debenture trustee" is defined as a trustee appointed for a specific debenture issuance.

Key regulatory requirements

- They cannot be affiliated with the issuer of the debentures or have any conflicts of interest beyond their compensation.
- They cannot relinquish their duties until a successor trustee is appointed.

Net Worth Requirements

- Indian Entity (including IFSC): USD 1.5 million
- Foreign Entity: USD 3 million

08. Credit Rating Agency

Definition

A "credit rating agency" is defined as an entity engaged in the rating of securities or financial products or such other products as may be introduced by IFSCA.

Net Worth Requirements

- Indian Entity (including IFSC): USD 3 million
- Foreign Entity: USD 6 million

09. Account Aggregator

Account aggregators function as data consolidators within the IFSC. As defined by the CMI Regulations, an account aggregator is an entity that retrieves a customer's financial asset information from various institutions, organizes it, and presents it to the customer or a designated party upon the customer's instructions.

Net Worth Requirements

- Indian Entity (including IFSC): USD 0.5 million
- Foreign Entity: USD 1 million

Capital Market Intermediaries as on June 30, 2024

Type of Entity	No. of entities
Broker-Dealer	80
Clearing Member	22
Custodian	5
Depository Participants	10
Investment Banker	3
Investment Advisers	4
Debenture Trustee	4
Distributors of Capital Market Products & Services	9

Treelife Insights 💡

Direct listing on RSEs

The Government of India introduced rules and amendments to enable the direct listing of equity shares of Indian public companies on RSEs. This amendment has opened up new avenues for non-resident investors to invest in shares of Indian companies on IFSC stock exchanges using foreign currency.

Proprietary Broker dealers

Broker dealers engaged in prop trading looking to access global markets can look at GIFT IFSC through India INX Global Access IFSC Limited which provides a centralised platform to route orders to multiple international exchanges

Foreign entities not having physical presence in India can now trade directly on the RSE on a proprietary basis without a Broker-Dealer by registering as Remote Trading Participant (RTP)

Applicants can explore setting up an FME to provide investment advice and seize additional business opportunities, such as offering PMS services, managing funds, and family offices. Setup costs are only slightly higher, making it a viable option for expanding business horizons.

Aircraft Leasing

Introduction

In recent years, India has emerged as a major player in the global aircraft market. The aircraft financing and leasing industry has evolved significantly worldwide, paralleling the unprecedented growth seen in India's aviation sector over the past decade.

To facilitate this vision, the IFSCA designated 'aircraft lease' as an eligible financial product under the IFSCA Act, 2019, covering various types of leases. Several tax incentives were announced to promote aircraft leasing in IFSCs. In February 2021, the IFSCA provided a framework for aircraft operating leases from an IFSC in India. On May 18, 2022, the IFSCA issued a detailed regulatory framework for aircraft leasing under the FC Regulations, enabling aircraft leasing activities in GIFT City.

Eligibility Criteria for the Lessor

- An Applicant interested in setting up aircraft leasing operations in an IFSC can do so by forming a company, a limited liability partnership (LLP), a trust, or another entity type as specified by the IFSCA.

- They must meet the eligibility criteria outlined in the FC Regulations.

- Entities in an IFSC intending to engage in aircraft leasing through their wholly-owned subsidiaries (WOS) established in an IFSC will also be recognized as lessor under this framework and may apply for registration accordingly.

Key Requirements

- To engage in aircraft leasing transactions, entities must register as a 'finance company' or 'finance unit' under the FC Regulations.
- These regulations classify operating lease transactions as 'permitted non-core activities' and finance lease transactions as 'permitted core activities,' encompassing hybrid transactions that combine elements of both operating and finance leases.
- Entities eligible to act as lessors in the IFSC must be engaged in the business of providing aircraft, helicopters, engines, or parts thereof, and/or aircraft ground support equipment under operating leases, financial leases, and/or hybrid leases. Additionally, they must adhere to any other related activities specified by the IFSCA from time to time.
- The provisions of the Aircraft Act, 1934, and allied regulations will continue to be applicable to the entity set up in the IFSC

Key Tax benefits

- Tax holiday for any 10 consecutive years out of the first 15 years
- Unabsorbed depreciation can be carried forward to the subsequent years for setting off against future profits, without any time limit
- No capital gains on sale of aircraft during tax holiday period
- No capital gains on sale of shares of the special purpose vehicle in the hands of the nonresident or another unit in the IFSC
- No tax withholding on lease payments (including supplemental lease) from India to an IFSC unit during the tax holiday period
- Specific exemptions for customs duty on import and leasing of aircraft by units in IFSC
- No stamp duty leviable on certain transactions for 10 years commencing from August 2020

Permissible Activities & Capital Requirement

Under the Operating Lease

Lessors in an IFSC are permitted to engage in a variety of activities under an operating lease, including:

- Operating lease for an aircraft lease arrangement;
- Operating lease for aircraft ground support equipment;
- Operating lease for an aviation training simulation device;
- Asset management support services for assets owned or leased out by the entity or by any of the Group Entities set up in IFSCs in India;
- Sale and lease back, purchase and novation, transfer, assignment and such other similar transactions in relation to permitted activities specified in (i) to (iii) above;
- Any other related activity with the prior approval of the IFSCA.

Minimum Capital Requirement

USD 200,000 or equivalent in freely convertible currency is to be maintained at all the times by an entity

Under the Finance Lease

Under a finance lease, lessors are allowed to perform various activities, including:

- Financial lease or a hybrid of financial and operating lease for an aircraft lease arrangement, which includes sale and leaseback, purchase, novation, transfer, assignment, and other related transactions.
- Financial lease or any hybrid of financial and operating lease for aircraft ground support equipment.
- Financial lease or any hybrid of financial and operating lease for an aviation training simulation device. Sale and lease back, purchase and novation, transfer, assignment and such other similar transactions in relation to permitted activities specified in (i) to (iii) above.

Aircraft Leasing Entities registrations till June 2024*	30*

*Including provisional registration

Minimum Capital Requirement

USD 3 million or equivalent in freely convertible currency is to be maintained at all the times by an entity

IFSC Insurance Office & IFSC Insurance Intermediary Office

Introduction

Business opportunities for the insurance sector in GIFT IFSC are extensive. These include global life insurance policies for resident and non-resident Indians. Additionally, GIFT IFSC can offer general insurance for industries at competitive prices due to tax incentives. Cross-border reinsurance also presents a significant opportunity in GIFT IFSC. In October 2021, the IFSCA issued the IFSCA (Registration of Insurance Business) Regulations, 2021 for registration and streamlining the Insurance landscape in GIFT IFSC. Insurance ecosystm in GIFT IFSC is segregated based on the business activities carried out by the respective players which are as under:

- Insurance
- Insurance Intermediaries
- Reinsurance

Insurance
Permissible Activities

Registered IFSC Insurance Office (IIOs) are permitted to engage in various lines of insurance business, including life, general, health or reinsurance, per their registration in their home country subject to following conditions:

- IIOs registered as "place of business of an Indian Insurer or branch office of foreign Insurer or reinsurer" are limited to transacting only such class of business as permitted by their home country regulatory authority.
- IIOs registered as direct Insurers may transact direct insurance business with individuals or entities within the IFSC (including any other SEZs) and also from outside India, but not from the rest of India, excluding SEZs)
- However, IIOs registered as reinsurers are permitted to accept reinsurance business from cedants based in the IFSC and from outside India, as well as from the rest of India

Companies, whether Indian or foreign, that want to set up an IIO within an IFSC need to get a license from the IFSCA.
An IIO is a financial institution registered by the IFSCA to conduct insurance or reinsurance business according to the relevant regulatory framework.

Eligible entities for registration include:

- Insurers registered with the IRDAI
- Foreign Insurers or Foreign Reinsurers
- Society of Lloyd's on behalf of Members of Lloyd's
- Branch Offices of foreign insurers or Lloyd's India registered by the IRDAI
- Public companies or wholly-owned subsidiaries of insurers or reinsurers registered under the Companies Act, 2013
- Insurance co-operative societies registered under the Co-operative Societies Act, 1912, or other applicable laws
- Bodies corporate incorporated under foreign laws, not being private companies
- Managing General Agents with a valid agreement with a Foreign Insurer or Foreign Reinsurer

Entities can establish their presence in an IFSC either as an incorporated entity or an unincorporated entity (branch office).

Insurance intermediaries

An IFSC Insurance Intermediary Office (IIIO) is a financial institution approved by the IFSCA to handle insurance-related services.

Permissible Activities

An application for a certificate of registration to act as an insurance intermediary can be made for any of the following categories:

Insurance Distributors

01. Composite Broker
02. Direct Broker
03. Corporate Agent
04. Reinsurance Broker

Insurance Claim Service Providers

01. Surveyor and Loss Assessor
02. Third-party Administrator (TPA)

Key Regulatory Requirements

Who Can Apply:

- Intermediary or insurance intermediary registered with the IRDAI
- Foreign insurance intermediary registered with home country regulatory or supervisory authority
- Indian company incorporated under the Companies Act, 2013, firm, or co-operative society
- Body corporate incorporated under the laws of any country outside India

Modes of Establishing Presence:

- Incorporated form
- Unincorporated form (i.e., branch form)

Eligibility Conditions

For Unincorporated Form:

01. Indian Intermediaries

- Must hold a valid certificate of registration from IRDAI.
- Must have experience in the insurance intermediary category.
- Must obtain a "no-objection certificate" from IRDAI.

02. International Intermediaries

- Must hold a valid certificate of registration from their home country's regulatory authority.
- Must have experience in the insurance intermediary category.
- Must be from a FATF-compliant jurisdiction and registered in a regulatory environment with a Double Taxation Avoidance Agreement with India.
- Must obtain a "no-objection certificate" from the home country's regulatory authority.

03. Indian or Foreign Companies:

- Must meet the minimum prescribed paid-up equity capital or net worth as specified in the IIIO Regulations.
- Must be from a FATF-compliant country and registered under a national regulatory environment with a Double Taxation Avoidance Agreement with India.

Minimum Capital Requirements for IIIO

If set up in an incorporated form:

- Direct Insurance Broker: USD 100,000
- Reinsurance Broker: USD 550,000
- Composite Insurance Broker: USD 675,000
- Third Party Administrator: USD 550,000

If set up in an unincorporated/branch form:

- Direct Insurance Broker: USD 10,000
- Reinsurance Broker: USD 55,000
- Composite Insurance Broker: USD 67,500
- Third Party Administrator: USD 55,000

This framework ensures that insurance intermediaries operating within the IFSC adhere to stringent regulatory standards while being enabled to conduct a wide array of insurance-related activities globally.

Reinsurance

Reinsurance transactions by an IIO can cover various insurance segments, enabling a comprehensive scope of business. These segments include:

01 Fire (excluding Oil & Energy)

02 Marine Hull & Cargo

03 Engineering

04 Aviation

05 Motor

06 Health (including Personal Accident & Travel), excluding life insurance policies

07 Crop

08 Trade Credit

09 Oil & Energy

10 Liability

11 Miscellaneous

12 Life (including health policies issued by life insurers)

Other segments contributing significantly to the gross written premium of the Miscellaneous segment, or any other segment specified by the regulatory authority.

Reinsurance Strategy & Program

Each IIO is required to develop a Re-insurance Strategy and Re-insurance Programme (RSRP), which is an integral part of its overall underwriting strategy and risk management philosophy. The RSRP includes:

01. **Policies and Procedures:** Guidelines for selecting and monitoring re-insurance arrangements, including the responsibilities and controls involved.
02. **Documentation of Risk:** Clear documentation of risk concentration levels and cession or retrocession limits according to the IIO's risk appetite.
03. **Management Responsibilities:** The senior management must develop and maintain the RSRP, ensuring adequate resources to meet business obligations, formulating operational policies, and managing all potential risks, including credit, liquidity, and legal risks arising from reinsurance contracts.
04. **Reporting and Evaluation:** Robust internal control systems and effective reporting mechanisms to meet the requirements specified by the Board of Directors or the parent entity.

The Board or the parent entity of the IIO approves the RSRP annually, and it must be submitted to the authority as directed.

Reinsurance Contract & Risk Transfer

Reinsurance contracts must:

- Meet risk transfer requirements for the specified accounting year.
- Protect the ceding insurer or retrocessionaire from negative financial impacts related to the ceded insurance business.

Retention and Placement Policies

01. **Retention Policy:** Each IIO must have a segment-wise retention policy approved by its Board, aiming to maximize retention commensurate with its financial strength and ensuring that reinsurance arrangements are not merely fronting.

02. Placement of Reinsurance Business: Before engaging in reinsurance (cession or retrocession) with foreign insurers or re-insurers, an IIO must ensure:

- The foreign entity and its key stakeholders are not from jurisdictions identified by the FATF as having strategic deficiencies in Anti-Money Laundering (AML) or Combating the Financing of Terrorism (CFT).
- The foreign insurer or re-insurer is authorized by its home country to transact reinsurance business and has been active in this field for the past three years.
- The home country of the foreign insurer or re-insurer has a Double Taxation Avoidance Agreement (DTAA) with India.

This comprehensive framework ensures that IFSC-based reinsurance activities are conducted under stringent regulatory oversight, facilitating global and diverse reinsurance transactions while maintaining robust risk management standards.

	FY 2023-24		Apr-June 2024 (Unaudited)	
Particulars	Number of Offices*	Written/Transacted Premium (USD Mn)	Number of Offices*	Written/Transacted Premium (USD Mn)
IIOs	12	149	13	28
IIIOs	23	276	23	55

*Number of Offices are as at the end of the particular period

Treelife Insight

The revision in order of preference for IIOs, moving them to second alongside Foreign Reinsurance Branches, has positioned GIFT IFSC as a competitive reinsurance hub.

International Bullion Exchange

Introduction

The IFSCA issued the IFSCA (Bullion Exchange) Regulations, 2020 on 4 December 2020 providing a comprehensive framework for recognizing bullion exchanges, their clearing corporations, depositories, and vaults. Operating guidelines for the Bullion Exchange, Bullion Clearing Corporation, Bullion Depository, and Vault Manager were issued by the IFSCA in August 2021.

The India International Bullion Exchange (IIBX) IFSC Limited was established as an international bullion exchange in the IFSC and has been recognized by the IFSCA as a Bullion Exchange and Bullion Clearing Corporation.

Since its establishment, the International Bullion Exchange has seen significant trading activity. As of June 30, 2024, the traded volume for gold was 9,768 kg with a traded value of USD 732.10 million. For silver, the traded volume was 195,300 kg, amounting to a traded value of USD 185.64 million. These figures highlight the substantial trading activities and the exchange's growing importance in the global bullion market.[12]

What is Bullion?

Bullion refers to precious metals such as gold, silver, or any other precious metals in the form of bars or unallocated bullion. The definition includes specifications regarding good delivery, quality, quantity, and other aspects relevant to bullion trading.

Financial Services and Products

The IFSCA has classified the following as financial services related to bullion trading:

01. **Trading in Bullion Depository Receipts:** These receipts represent the ownership of bullion and can be traded, ensuring the physical bullion remains in vaults while ownership changes

02. **Bullion Financing, Bullion Vaulting and Clearing and Settlement Services:** This includes providing loans based on bullion as collateral, facilitating liquidity for market participants.

The IFSCA has defined financial products related to bullion trading as follows:

01. **Bullion Spot Delivery Contract:** This contract mandates the actual delivery of bullion and payment either on the same day or the next day. The specifics include:
    - Actual delivery of bullion and payment on the same day or the next day, with the actual period for delivery or remittance excluded from the computation if the parties do not reside in the same town or locality.
    - Transfer of bullion by the depository from one beneficial owner's account to another's, facilitated by a licensed depository.

02. **Bullion Depository Receipt (BDR):** These receipts are listed on the International Bullion Exchange within the IFSC, representing ownership of physical bullion stored in vaults. They facilitate trading without the need for physical movement of the bullion.

Key requirements

01. **Entities eligible to become members of the Bullion Exchange:**
    - IBUs;
    - Subsidiaries/ Branches of entities dealing with financial products set up in IFSC;
    - Banks authorized by RBI and Nominated Agencies authorized by Directorate General of Foreign Trade (DGFT) to deal in bullion

[12] IFSCA Bulletin Jan-Mar 2024

02. Eligibility criteria for a member setting up operation in IFSC

- either through subsidiary or branch or any other mode as permitted by the IFSCA
- Shall be from FATF compliant jurisdiction;
- Trading members shall have at least 1 employee having experience of minimum 3 years and sound knowledge in precious metals industry

03. Bullion Clearing Corporation

- A licensed bank or a registered broker with the IFSCA permitted to act as clearing member subject to meeting the eligibility criteria of the
- Bullion Clearing Corporation
- The Clearing Member should have a physical presence at GIFT-IFSC
- Clearing Member may be a Trading-and-Clearing Member, Professional Clearing Member, Self-Clearing Member
- Minimum net worth of USD 10 million

04. Vault Manager

- Minimum net worth of USD 7 million which shall be maintained at all times
- Furnish a refundable security deposit of USD 75,000 with the Bullion Depository prior to making application to the IFSCA
- Before accepting physical bullion from a depositor, ensure that it meets the technical specifications specified by the bullion exchange

Recent developments

- India-UAE TRQ holders can import gold through Gift City based International Bullion Exchange and obtain physical delivery from IFSCA approved vaults in SEZs[13]
- RBI allows Indian bank branches in GIFT-IFSC to trade on international bullion exchange[14]
- The IFSCA established a committee on May 22, 2024 to position the GIFT International Financial Services Centre (GIFT IFSC) in Gujarat as a global commodity trading hub

[13] HinduBusiness, [14] ZeeBusiness

Ship Leasing

Introduction

Following the successful implementation of the Framework for Aircraft Lease, the IFSCA evaluated the potential of ship leasing within the 'Atma Nirbhar Bharat' initiative. Based on the SAFAL report's recommendations, the IFSCA specified 'ship lease' to include operating leases and hybrids of operating and financial leases of ships, ocean vessels, ship engines, or any parts thereof as financial products under the IFSCA Act.

The activity of ship leasing is one of the permitted activities under the FC Regulations. To operationalize this activity, the IFSCA issued the 'Framework for Ship Lease' on 16 August 2022, covering guidelines for operating leases and financial leases (including hybrids) of ships and ocean vessels.

Permissible Activities

- **A ship lessor in the IFSC is permitted to undertake all or any of the following activities**
  - lease (including financial lease or hybrid of financial or operating, i.e. a bareboat charter cum demise, bareboat charter or a time charter) for a ship lease arrangement (includes ship or an ocean vessel) including sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in relation to a ship lease
  - voyage charters, contract of affreightments, employment in shipping pools and all other legal commercial transactions for employment of ships
  - asset management support services for assets owned or leased out by the entity or by any of its group entities set up in the IFSC in India
  - any other related activity with the prior approval of the IFSCA
  - third-party asset management services and ship broking services can be performed by registering separately under the IFSCA's Ancillary Services Framework

Definitions

- **Ocean Vessel**

  Any watercraft used or capable of being used in the marine environment, including ships, boats, sailing vessels, fishing vessels, submersibles, semi-submersibles hydrofoils, non-displacement crafts, amphibious crafts, wing-in-ground crafts, pleasure crafts, barges, lighters, mobile offshore drilling units, mobile off shore units, or any other description, or anhy part thereof, and shall include inland water vessels and coasting vessels, but does not includes fishing or sailing watercraft.

- **Ship**

  Any watercraft used or capable of being used in navigation by its own propulsion, in, above, or under water, excluding fishing or sailing watercraft.

Key requirements

- The entity can be set up as a company. Additionally, branch, LLP or trust forms are also permitted for an operating lease.
- Entities intending to undertake ship leasing activities in an IFSC must be registered as finance companies/units under the FC Regulations.
- Framework under Merchant Shipping Act, 1958 ("Shipping Act") continues to apply to entities set up in GIFT IFSC
- Entities undertaking ship leasing activities in an IFSC must maintain a minimum owned fund to ensure financial stability and credibility. The
    - **Operating Lease:** A minimum owned fund of USD 200,000 or its equivalent in freely convertible foreign currency is to be maintained at all times by the entity.
    - **Finance Lease:** A minimum owned fund of USD 3 million or its equivalent in freely convertible foreign currencyis to be maintained at all times by the entity.

Entities to meet prudential norms under FC regulations. Exemption from prudential regulatory requirements apply to entities engaged only in operating lease transactions.

Type of Finance Company	Ship Lease
Provisional Registration Granted*	2
Final CoR Granted*	3
Registration till Jun 2024**	15

*Data is based on records from April 2024 to June 2024
**Including provisional registration

Key tax benefits

- Tax holiday for any 10 consecutive years out of the first 15 years
- No tax withholding on the payment of interest or royalty on account of lease payments to non-residents by a unit in the IFSC.
- No capital gains on sale of ship during the tax holiday period, tonnage tax may be opted for post the tax holiday period.
- No tax withholding on lease payments (including supplemental lease) from India to an IFSC unit during the tax holiday period.
- Specific exemptions for customs duty on import or lease of a ship or ocean vessel by GIFT IFSC unit
- No stamp duty is leviable on certain transactions for 5 years commencing from December 2021.

Treelife Insight

Vessels owned by IFSC entities receive preferential treatment in chartering tenders, providing a significant competitive advantage over foreign counterparts due to the revision in the Right of First Refusal (ROFR).[15] This advantage supported by the 10 year tax holiday and capital gains exemption on the transfer of ships previously leased by IFSC entities greatly enhance the attractiveness of IFSC for maritime leasing operations.

[15] Under this policy, when PSUs in India float tenders for shipping contracts, Indian shipping lines have the right to match the lowest bid made by a foreign competitor

Ancillary Services Framework

Introduction

IFSCA introduced a framework for ancillary services in February 2021. This framework applies to all ancillary service providers engaged in permissible services within an IFSC.

The ancillary services framework within the IFSC GIFT City plays a pivotal role in fostering the development of a comprehensive and robust international finance centre. By enabling global ancillary service providers—including professional services, consultancy firms, audit firms, administrators, and trustee services—to establish their units in GIFT City, the framework significantly enhances the financial ecosystem. This strategic integration of diverse service providers ensures a well-rounded support system for financial entities operating within the IFSC.

Permissible Activities

Under the ancillary services framework, the service providers may engage in any one or more of the following activities

- Legal, Compliance, and Secretarial Services
- Auditing
- Professional and Management Consulting Services
- Administration, Asset Management Support, and Trusteeship Services
- Any additional services as approved by the IFSCA from time to time.

Key Requirements

Eligibility Criteria for Ancillary Service Providers

The following entities are eligible to act as ancillary service providers

- Any existing or newly incorporated entity set up in the IFSC or
- Any Indian or Foreign Incorporated entity by establishing a branch or a subsidiary.

Eligible Recipients

The recipients eligible to receive ancillary services under this framework include:

- Entities set up in IFSC
- Financial services entities from foreign jurisdictions for various activities in the IFSCs in India or other related activities overseas;.
- Indian entities who propose to open, set up or carry out operations in IFSCs or foreign jurisdiction, provided consideration is received in freely convertible foreign currency.

Activity-wise break up of Ancillary Services Entities, including in-proposal approval

Core Activity	No. of Authorized Entities	
	As on Mar 31, 2024	As on Jun 30, 2024
Legal, Compliance and Secretarial	12	13
Professional & Management Consulting Services	21	22
Auditing, Accounting, Bookkeeping & Taxation Services	11	11
Administration, Asset Management Support Services & Trusteeship Services	24	26
Total	**68**	**72**

Book-keeping, Accounting, Taxation & Financial Crime Compliance Services (BATF)

Introduction

India has become a leading jurisdiction for global outsourcing in IT, accounting, finance, and communication services, driven by a skilled workforce shortage and competitive cost structures. The Government of India has identified "accounting and finance services" as one of the 12 Champion sectors for export promotion, with GIFT-IFSC positioned as a global hub for these services.

These regulations apply to entities operating within IFSCs, including non-residents, promoting a well-regulated and compliant financial environment.

Permissible Activities

01. Book-keeping Services

- Classifying and recording financial transactions, including payroll ledgers, in books of account and other related documents (excluding payroll and taxation services).

02. Accounting Services

- Reviewing annual and interim financial statements or other accounting information without attestation or assurance.
- Compiling financial statements from client-provided information without attestation or assurance.
- Preparing financial statements and compiling income statements, balance sheets, or other financial information.
- Analyzing financial statements and providing related accounting support services, excluding auditing.

03. Taxation Services

- Providing tax consultation, tax preparation, and tax planning services.
- Advising and guiding on tax matters and preparing and filing various tax returns (covering all forms of direct or indirect taxes, cesses, duties, or levies).

04. Financial Crime Compliance Services

- Ensuring compliance with AML and CFT measures.
- Adhering to FATF recommendations and related activities.

Setting Up a BATF Service Provider

Application for Registration

- BATF Service Providers must register as a Company or LLP

Service Recipient

- Service Recipient should be a non-resident and does not reside in a high-risk jurisdiction identified by FATF
- No sector restriction prescribed

Safeguarding Conditions

- Businesses in IFSC cannot be established by splitting up, reconstructing, or reorganizing that is already in existence in India
- The BATF Service Provider must not offer BATF Services by transferring or receiving existing contracts or work arrangements from their Group Entities in India.
- Scenarios defining "transferring or receiving of existing contracts or work arrangements" include:
    - When an existing contract or work arrangement between any Group Entity of the BATF Service Provider in India and its non-resident client is shifted to the BATF Service Provider during the contract's duration.
    - When an existing contract or work arrangement between any Group Entity of the BATF Service Provider in India and its non-resident client is prematurely terminated, followed by a new contract or work arrangement between the BATF Service Provider and the same service recipient, directly or indirectly.

Workforce Requirement

- Employee transfers/relocations from Indian group entities should not exceed 20% of the total number of BATF Service Provider employees in IFSC.

Asset Requirement

- There should not be any transfer of assets from any of the Group Entities in India to the BATF Service Provider.

Key Managerial Personnel

Principal Officer: The BATF Service Provider must designate a Principal Officer responsible for overall activities in the IFSC, based out of IFSC, with the following qualifications:

- Professional qualifications (CA, CS, CMA, CPA, CFA, or equivalent) or a postgraduate degree in finance, accountancy, business management, commerce, economics, taxation, or law from a recognized institution; and
- At least 5 years of relevant experience.
- If providing Financial Crime Compliance Services, relevant qualifications in financial crime compliance.

Compliance Officer: The BATF Service Provider must designate a Compliance Officer responsible for compliance with policies, procedures, records maintenance, and regulatory requirements, reporting to the Board or head of the organization, based out of IFSC, with the following qualifications:

- Same professional qualifications as the Principal Officer; and
- At least 3 years of relevant experience.

Other requirements:

- **Minimum office space criteria:** The BATF Service Provider must ensure a minimum office space in the IFSC, calculated at 60 sq. ft. carpet area per employee.

- **Currency of Operations:**
  - Operations must be conducted in any specified foreign currency.
  - INR accounts are permitted for administrative and statutory expenses.
  - Balance sheets must be maintained in any Specified Foreign Currency.

- **Reporting Requirements:**
  - Information related to operations must be submitted to the authority in specified intervals and formats.
  - Financial reporting to the authority should be in US dollars, unless specified otherwise.
  - A compliance certificate from an independent third-party professional (CA, CS, or CMA) is required annually.

GIFT City's expansion into these financial services marks a significant milestone for the outsourcing industry, opening up new opportunities for growth and innovation in a globally competitive environment.

Treelife Insight

The new BATF Rregulations, which remove limitations on Ancillary Service Providers from servicing non-BFSI clients, represent a game changer for GIFT IFSC. This regulatory update has made GIFT IFSC one of the most sought-after locations for setting up global accounting and related services.

Payment Service Providers

Introduction

IFSCA came out with the IFSCA (Payment Services) Regulations, 2024 (PSP Regulations) to establish a detailed framework for entities seeking authorization to operate as Payment Service Providers (PSPs) within the IFSC. These regulations, notified on January 30, 2024, aim to streamline the process for providing various payment services, ensuring that entities adhere to the specified terms and conditions.

By enabling these services within the IFSC, the regulations facilitate efficient financial transactions for individuals, businesses, and other entities, both domestically and internationally. This framework also supports Indian FinTech companies in their global expansion efforts, allowing them to use the IFSC as a base for extending their services worldwide. Additionally, the regulations encourage the "reverse-flipping" of Indian FinTechs with foreign holding companies, enabling them to consolidate their payment services operations within the IFSC.

The regulations are comprehensive and are benchmarked against international standards in payment services regulation, including those in Singapore, the United Kingdom, and the European Union.

Permissible Activities

01. Account Issuance Service

Services related to issuing and operating a payment account for users. This includes:

- **Issuing a Payment Account:** Creating a payment account for a user.
- **Operating a Payment Account:** Facilitating the placement or withdrawal of money from a payment account, excluding cross-border money transfer services.

02. E-Money Issuance Service

Issuing e-money to users for enabling payment transactions. E-Money means Electronically stored monetary value that:

- Is denominated in any specified foreign currency.
  Is prepaid to facilitate payment transactions through a payment account.
- Is accepted by entities other than its issuer.
  Represents a claim on the issuer.

03. Escrow Service

Holding money in an escrow account for parties completing a transaction, under an agreement. The account is maintained with an IBU or an IFSC Banking Company IBC.

04. Cross-Border Money Transfer Service

Facilitating money transfers between individuals/entities in IFSC and those outside IFSC. This includes:

- **Transmitting Money from IFSC:** Accepting money in IFSC for transmission to a person outside IFSC.
- **Receiving Money in IFSC:** Receiving money from outside IFSC for transmission within or outside IFSC.

05. Merchant Acquisition Service

Processing payment transactions for merchants under an agreement, which results in transferring money to the merchant. This service involves:

- Accepting and processing payment transactions.
- Transferring money to the merchant as per the transaction agreement, regardless of whether the payment service provider handles the money directly.

Eligibility

An applicant seeking authorization as PSP must be incorporated as a company with its registered office located in the IFSC.

Types of PSP

Regular Payment Service Provider

- Authorized to provide one or more payment services as outlined in the regulations.
- Does not meet the higher thresholds for Significant Payment Service Providers.

Significant Payment Service Provider

A Regular Payment Service Provider may be designated as a Significant Payment Service Provider if it meets the following thresholds and conditions:

Criteria	Threshold
Payment Services (excluding e-money account issuance service)	Monthly average total value of all payment transactions exceeds: • $2 million (or its equivalent in a specified foreign currency) for any one payment service, or • $4 million (or its equivalent in a specified foreign currency) for two or more payment services.
E-Money Account Issuance Service	Average daily value of all e-money stored exceeds $3 million (or its equivalent in a specified foreign currency).
E-Money Issuance Service	Average daily value of total e-money issued in one day exceeds $3 million (or its equivalent in a specified foreign currency).

Net worth

Type of Provider	Initial Net Worth Requirement	Net Worth Requirement by 3rd Financial Year
Regular Payment Service Provider	USD 100,000 (or equivalent in a specified foreign currency)	USD 200,000 (or equivalent in a specified foreign currency)
Significant Payment Service Provider	USD 250,000 (or equivalent in a specified foreign currency)	USD 500,000 (or equivalent in a specified foreign currency)

Other Regulatory Requirements

01. Safeguarding of Funds

PSPs offering cross-border money transfer services, merchant acquisition services, and any other payment services specified by the IFSCA must comply with the regulations for safeguarding money received from Payment Service Users.

02. Mandatory Disclosure Requirements

PSPs must ensure that the interests of Payment Service Users are protected and that relevant information is communicated clearly and fairly to minimize the possibility of misunderstandings or being misled.

Recent developments

IFSCA, in June 2023, has published a consultation paper seeking comments for setting up a Payment Systems in IFSC[16]. It is in line with the Payment and Settlements Act, 2007 governing payment systems in mainland India.

Treelife Insight 💡

The process of setting up a PSP in the IFSC differs significantly from establishing a unit in GIFT IFSC. The IFSCA mandates a unique approach where the applicant company, typically the parent company, undergoes a product demonstration process. Only upon IFSCA's satisfaction with the demonstration does the company proceed to incorporate a new entity and obtain necessary registrations. This differs from standard regulations where incorporation precedes application. This streamlined approach reduces operational costs and time delays associated with regulatory compliance. It enables entities to secure in-principle approval before committing to full regulatory requirements, thereby avoiding unnecessary burdens if the product does not align with IFSCA criteria and frameworks.

A PSP cannot apply to be designated as a Significant PSP. The designation is granted by the IFSCA once the PSP achieves the specified business volumes.

[16] https://ifsca.gov.in/Viewer?Path=Document%2FReportandPublication%2Fdraft-ifsca-payment-services-regulations-2023-for-public-consulation-web-1-13062023113322.pdf&Title=Consultation%20paper%20on%20proposed%20IFSCA%28Payment%20Services%29%20Regulations%2C%2020XX&Date=13%2F06%2F2023

Foreign Universities

Introduction

The IFSCA notified International Branch Campus Regulations vide IFSC (Setting up and operation of international branch campuses and offshore education centres) Regulations, 2022, on 11 October 2022. The regulations are designed to facilitate the establishment of International Branch Campuses (IBCs) or Offshore Education Centers (OECs) by foreign universities and other foreign educational institutions within an IFSC. These provisions enable these institutions to offer a range of courses and programmes, promoting educational growth and international collaboration in the IFSC environment. The regulations aim to attract world-class institutions to establish campuses within the country.

Key Regulatory Requirements

- **Permissible Institutions:** Foreign universities ranked within the Top 500 in global overall ranking and/or subject ranking in the latest QS World Universities ranking, and reputed foreign educational institutions in their home jurisdiction, are permitted to establish campuses in GIFT City.
- **Permissible Subject Areas:** Courses including research programmes in Financial Management, FinTech, Science, Technology, Engineering, and Mathematics are permitted in the GIFT IFSC.
- **Foreign universities at GIFT City** are required to offer courses or programmes identical to those offered by the parent entity in its home jurisdiction, with the same degree, diploma, or certificate being conferred, thus enjoying "the same recognition and status as if they were conducted by the parent entity in its home jurisdiction."
- Foreign universities are granted GIFT IFSC registration for five years, renewable for an additional five years.
- The IFSCA defines a Foreign Educational Institution as an "Educational institution outside India, which is not a university and is duly authorised to offer courses including research programs within and outside its home jurisdiction."

Key Benefits of Setting Up Foreign Universities in GIFT IFSC

- Can set-up International Branch Campus (IBC) and award their own degrees
- IBC will have 100% foreign ownership
- Can repatriate profits
- Regulatory Ease: Only bound by home jurisdiction norms and IFSCA regulations (free from domestic India regulations)
- Academic autonomy: Curriculum, Pedagogy and Couse Structuring
- Administrative autonomy for student recruitment
- Opportunity to service huge demand from India and South Asia
- Charge tuition fee in any freely convertible foreign currency Euro / USD / GBP
- Employment Opportunities for students

Academic Infrastructure Service Providers

To facilitate ease of setting up and doing business, circular dated December 14, 2023 has been issued to outline conditions for universities to access infrastructure and support services from Academic Infrastructure Service Providers (AISPs). AISPs are defined as entities providing a range of services to IBCs/OECs by foreign universities or foreign educational institutions in the GIFT IFSC, including built-up campus facilities, research and development spaces, libraries, laboratories, incubation centers, teaching classrooms, and related services. Additionally, IBCs/OECs have the flexibility to obtain additional support services such as campus facility management, student onboarding, admissions and welfare services, recruitment and management of non-academic staff, branding and marketing, payroll services, and other ancillary services, subject to necessary approvals.

Eligibility criteria for AISPs

- The AISP must be incorporated as a separate company in GIFT SEZ.
- A minimum net worth of USD 1 million or its equivalent is required for the AISP to provide services, and this must be maintained continuously.
- The AISP, or any of its group companies, should have at least three years of experience providing similar services to recognized educational institutions, either in India or internationally.

Recent developments

Deakin University, one of Australia's renowned universities, has established its international branch campus in GIFT IFSC and has also welcomed its inaugural batch of students in July 2024.[17] Deakin University offers its flagship programs - Master of Business Analytics and the Master of Cyber Security, at the international branch campus in GIFT City.

The University of Wollongong (UOW) Australia has also revealed its presence at GIFT IFSC, Gandhinagar, solidifying its position as a pioneering foreign university establishing an IBC in India. It has opened applications for students wishing to study at its GIFT City campus in February 2024.[18]

[17] https://theprint.in/ani-press-releases/a-historic-milestone-deakin-university-welcomes-indias-inaugural-cohort-to-gift-city-campus/2168728/
[18] https://www.uow.edu.au/media/2024/applications-to-study-at-uow-india-now-open.php

III. Tax Regime

Tax regime

Direct Tax incentives and exemptions

I. **100% tax exemption:** Section 80LA of the Income Tax Act, 1961 (IT Act) provides that any unit which has been approved and setup in the IFSC can avail 100% deduction from its gross total income arising from business for any 10 consecutive years out of a period of 15 years, beginning with the year in which the permission for the operation of the GIFT IFSC unit was obtained.
Income arising from the transfer of assets being aircraft or a ship which was leased by an IFSC unit that commenced operation on or before March 31, 2025 is also exempt under Section 80LA of the IT Act.

II. **Reduced corporate tax rate:** As per Section 115BAA of the IT Act, domestic companies may opt for concessional corporate tax rate of 25.17% (inclusive of surcharge and cess) provided certain specified deductions / benefits are not taken. However, a specific exemption has been provided that units in the GIFT IFSC opting for lower tax rate would be eligible to claim deduction under Section 80LA of the IT Act. Mat provisions prescribed under section 115JB of the IT Act does not apply to companies which opt for this concessional regime.

III. **Reduced rates for MAT and alternate minimum tax (AMT):** For Companies who have not exercised their option under section 115BAA and other units in GIFT-IFSC which derive income solely in convertible foreign exchange MAT and AMT as prescribed under section 115JB and section 115JC of the IT Act shall be applicable at reduced rate as follows:
- MAT 9%, instead of 15%, and
- AMT 9% instead of 18%.

IV. **Beneficial rate for dividend income:** Section 115A of the IT Act provides for a reduced tax rate of 10% (plus applicable surcharge and cess) on dividend income received by a non-resident from a unit located in GIFT IFSC.

V. **Exemption for interest income:** Interest income received by a non-resident by a unit located in GIFT-IFSC is exempt under Section 10(15)(ix) of the IT Act.

VI. **Withholding tax exemption:** The Central Board of Taxes (CBDT) has issued a notification exempting Tax Deducted at Source (TDS) compliances for specified payments made to certain IFSC units under section 197A(1F) read with section 80LA of the IT Act with effect from 1 April 2024.

As per the CBDT notification, no tax will be required to be deducted at source while making specified payments to the specified units in IFSC, which are eligible and have claimed the benefit under section 80LA of the Act. Key payment specified in the notification are as follows:

- Technical fee/Professional fee paid to FinTechs,
- FMEs and International Trade Finance Service
- Investment advisory fee paid to Investment Advisor
- Distribution fee and Commission fee paid to Distributors
- Dividend payments to Broker Dealers
- Commission income on factoring and forfaiting services paid to Finance Companies / Units
- Insurance commission paid to IIIO

These exemptions can only be availed if the payee furnishes information in the prescrribed format as specifeide in the notification to the payer.

VII. If the IFSC entity is established as a company and distributes dividends to its parent company, the Indian company can claim a deduction under Section 80M when it distributes those dividends to its shareholders.

Indirect Tax Incentives

I. **GST** is exempt on supply of goods or services to a unit in IFSC and supplies between GIFT IFSC entities;

II. **Customs Duty:** Exemption from customs duty for all goods imported in the SEZ used for authorized operations.

III. **Central Excise Duty:** Exemption from duty of excise on domestic procurement to carry out authorized operations.

IV. **Deemed Export:** Supply of goods or services by an Export Oriented Unit ("EOU") or Software Technology Parks of India (STPI) unit regarded as export. Foreign Trade Policy (FTP) regards supplies to SEZ as export of goods or services;

V. **Central Sales Tax (CST):** Exemption from CST on inter-state procurement of goods used for authorized operations.

VI. **Drawback:** Drawback and such other benefits on goods brought into the SEZ. Goods supplied to SEZ regarded as export for customs purpose;

VII. **Electricity Duty / Registration Fees:** Exemptions /reimbursements under the Gujarat State Policy.

VIII. **Stamp duty:** The Government of Gujarat has exempted stamp duty in respect of the instruments of transaction in RSE and depositories established in GIFT IFSC and also, for documents executed by or in favour of GIFT IFSC entities

IX. Exemption from **Securities transaction tax, Commodity Transaction Tax, stamp duty** in respect of transactions carried out on IFSC exchanges

Recent developments

Sunset clause for tax exemptions by various businesses to commence their operations in GIFT IFSC extended from March 31, 2024 to March 31 2025 in Budget 2024:

- Investment division of an IBU as a specified fund
- Income on royalty or interest for a nonresident paid by an aircraft or ship leasing unit in IFSC
- Deduction for income from the transfer of aircraft or ship leased by an IFSC unit

Conclusion

GIFT City is more than just a financial hub—it is a strategic initiative that sets new standards for innovation, efficiency, and growth.

This report aims to serve as a practical guide for those considering establishing operations in GIFT IFSC. It highlights the ecosystem's robust regulatory frameworks, like the FinTech Entity Framework, the Banking Framework, and incentive programs that support innovation and growth, more particularly in the FinTech and Fund Management sectors.

As India's economy moves toward its projected GDP of $5 trillion by 2030,[19] GIFT City and its IFSC will play a crucial role in driving both domestic and international financial activity. With an average GDP growth rate of 6-7% annually, GIFT IFSC is poised to become a key gateway for global investments into India, while also facilitating outward investments into international markets. Especially, the FinTech and Fund Management sectors are expected to see exponential growth, with the global FinTech market projected to generate $1.5 trillion in revenue by 2030.[20] The expected arrival of TechFin centers in the coming years is anticipated to create 50,000 jobs in the next five years,[21] reinforcing India's position as a global economic leader.

GIFT City is positioned to be a central hub contributing significantly to India's status as a top destination for global capital and a powerhouse of opportunities. What is noteworthy is that the ecosystem within GIFT IFSC offers a conducive environment for businesses to experiment, innovate, and expand their global footprint. As GIFT City continues to attract international players and foster financial innovation, it will play a vital role in propelling India into the top ranks of global financial centers, contributing to national economic growth and global investment flows.

Whether you are an investor, financial institution, or corporate entity, the process for establishing operations is straightforward, with dedicated support from the IFSCA and GIFT authorities. We hope this guide has provided valuable insights into the vast opportunities available within GIFT IFSC. Our goal was to create a guide that not only raises awareness but also offers clear and pragmatic insights for anyone exploring GIFT IFSC as a growth opportunity, both in India and globally.

For personalized guidance or to explore specific opportunities, please reach out to our team at gift@treelife.in. We're here to help you assess how GIFT IFSC can be a strategic fit for your business and ensure your successful integration into this pioneering financial hub.

[19] Hindu.com
[20] Times of India
[21] https://www.bcg.com/publications/2024/global-fintech-prudence-profits-and-growth

Abbreviations

Sr. no.	Abbreviation	Keyword
1	AIF	Alternative Investment Fund
2	AMC	Asset Management Company
3	AMT	Alternate Minimum Tax
4	AR	Augmented Reality
5	CBDT	Central Board of Direct Taxes
6	CTT	Commodities Transaction Tax
7	DTA	Domestic Tariff Area
8	DTAA	Double Taxation Avoidance Agreement
9	FATF	Financial Action Task Force
10	FME	Fund Management Entity
11	GDP	Gross Domestic Product
12	GIFT	Gujarat International Finance Tec-City
13	GST	Goods and Services Tax
14	IBC	International Branch Campus
15	IBUs	International Business Units
16	IEC	Importer Exporter Code
17	IFSC	International Financial Services Centre
18	IFSCA	International Financial Services Centres Authority
19	IIIO	IFSC Insurance Intermediary Office
20	IIO	IFSC Insurance Office
21	IPO	Initial Public Offering
22	IRDAI	Insurance Regulatory and Development Authority of India
23	MAT	Minimum Alternate Tax
24	OEC	Offshore Education Centres
25	PFRDA	Pension Fund Regulatory and Development Authority
26	RBI	Reserve Bank of India
27	RCMC	Registration Cum Membership Certificate
28	SEBI	Securities and Exchange Board of India
29	SEZ	Special Economic Zone
30	SNRR	Special Non-Resident Rupee Account
31	SPVs	Special Purpose Vehicles
32	STT	Securities Transaction tax
33	VR	Virtual Reality

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support@treelife.in

+91 99301 56000 | +91 22 6852 5768

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support@treelife.in +91 99301 56000 | +91 22 6852 5768 www.treelife.in