



## CIRCULAR

F. No. 388/IFSCA/ ITFS Platform/2021-22

July 9, 2021

**Subject: Framework for setting up of International Trade Financing Services Platform ('ITFS') for providing Trade Finance Services at International Financial Services Centres ('IFSCs').**

In exercise of the powers conferred by sub-clause (xii) of clause (e) of sub-section (1) of Section 3 of the International Financial Services Centres Authority Act, 2019 (hereinafter referred to as 'IFSCA Act'), the Authority is empowered to make arrangements for carrying on financial services for the financial products permitted under the IFSCA Act. Credit Arrangements, which is a financial product, would inherently include Trade Financing Services. In order to facilitate International Trade Financing Services i.e. financing of International Trade flow, an institutional mechanism is required in the form of a dedicated electronic platform.

2. There are two important players in an International Trade Transaction viz. Exporters/Sellers (herein after referred as "Exporters") and Importers/Buyers (herein after referred as "Importers"). Exporters and Importers face constraints in obtaining adequate finance, particularly in terms of their ability to convert their trade receivables into liquid funds or to obtain short term funding for their payments for import of goods / services. In order to enable Exporters and Importers to avail various types of trade finance facilities at competitive terms, the International Financial Services Centres Authority (hereinafter referred to as 'IFSCA'), hereby provides the following framework for establishing ITFS in IFSCs as under:



**A. Applicability:**

This framework shall apply to the entities seeking permission to set up ITFS under this framework.

**B. Definitions:**

For the purpose of this framework,

- (i) “Trade Financing Unit” refers to an invoice or a bill or any other standard trade document on the ITFS. Trade Financing Unit may be created either by the Exporter or Importer.
- (ii) “Financiers” shall mean a Banking Unit or a Finance Company/ Finance Unit, which is licenced/regulated/ registered by IFSCA or with any other financial sector regulator, in India or abroad, and is permitted to conduct Trade Finance Services.
- (iii) “International Trade Finance Service” or “ITFS” refers to an electronic platform for facilitating the trade finance requirements of Exporters and Importers, through multiple Financiers.
- (iv) “Reverse Trade Financing” refers to the process of initiating the creation of Trade Financing Unit by the Importer on ITFS.
- (v) “Standard Trade Documents” or “STD” refers to any document as agreed by the parties to the ITFS and includes any or all the following documents namely:
  - a) Air Waybill;
  - b) Bill of Lading;
  - c) Certificate of Origin;
  - d) Combined Transport Document;
  - e) Draft (or Bill of Exchange);



- f) Insurance Policy (or Certificate);
- g) Packing List/Specification;
- h) Inspection Certificate; and
- i) Invoice

**C. Permissible Activities:**

The parties to the ITFS shall be permitted to undertake or participate in International Trade Finance related activities which, *inter-alia*, includes Export Invoice Trade Financing, Reverse Trade Financing, Bill discounting under Letter of Credit, Supply Chain Finance for Exporters, Export Credit (Packing Credit), Insurance / Credit Guarantee, Factoring system and any other trade product.

**D. Application Process:**

An applicant desirous of setting up ITFS in an IFSC and fulfils the requirements as specified under this framework shall apply to IFSCA in the application form available in the Download section of the IFSCA website. The Authority, upon satisfaction, would, in the first instance, grant an *in-principal* approval to operate in the regulatory sandbox environment for such period as it may deem fit, before making it fully operational.

**E. Criteria for Setting up ITFS in an IFSC:**

An entity desirous of setting up and operating the ITFS in an IFSC shall fulfil the following criteria. If such entity is a Bank or a Finance Company, it shall incorporate a separate company in IFSC to be set up as ITFS.

**(a) Financial Criteria:**

- (i) The parent entity or the promoters/promoter groups of the company applying to set up a company as ITFS in an IFSC should have a minimum net worth of USD 1 million.



- (ii) The company proposed to be set up as ITFS shall have minimum paid up equity capital of USD 0.2 million or equivalent in any other freely convertible currency.
  
- (iii) The overall financial strength of the promoters/entity seeking to set up ITFS would be an important criterion of assessment and approval.

**(b) Due Diligence of Promoters**

- (i) The Parent or the promoters/promoter groups of such company should be domiciled and regulated or registered in jurisdiction not identified in the public statement of Financial Action Task Force as 'High Risk Jurisdictions' subject to a 'Call for Action'; or from any jurisdiction/ country specified by the Government of India by an order, or by way of agreement or treaty with other sovereign governments.
- (ii) IFSCA may, seek feedback about the applicant's credentials from any regulator or statutory body, as deemed appropriate.

**(c) Technological Criteria**

The ITFS should have sound technological support for its operations. As such, the ITFS shall, at the minimum, fulfil the following technological requirements:

- (i) It shall provide electronic platform to all the participants;
  
- (ii) It shall disseminate the information about bills/ invoices, discounting and quotes in real time basis, supported by a robust MIS (Management Information System) to the relevant parties;
  
- (iii) It shall have a suitable Business Continuity Plan (BCP) including a disaster recovery site;
  
- (iv) It shall submit to IFSCA the technical audit report /feasibility study report conducted on the platform before starting operations; and



- (v) It shall have an online surveillance capability which monitors positions, prices and volumes in real time and is able to check any manipulation of the system.

**F. Participants and Eligibility Criteria of the Participants in the ITFS:**

- (i) Exporters, Importers, Financiers and Insurance/Credit Guarantee Institutions and other eligible entities will be the direct participants in the ITFS.
- (ii) The entities, their promoters/promoter groups should be domiciled and regulated or registered in jurisdiction not identified in the public statement of Financial Action Task Force as ‘High Risk Jurisdictions’ subject to a ‘Call for Action’ or from any jurisdiction/ country specified by the Government of India by an order or by way of agreement or treaty with other sovereign governments.
- (iii) Separate Master Agreements shall be executed amongst the participants i.e., between Financiers and ITFS, between ITFS and Exporters and between ITFS and Importers on or before entering into any transactions on ITFS.

**G. On-boarding, Know Your Customer & Anti Money Laundering:**

- (i) On-boarding of all participants on the ITFS will be mandatory and these participants will be required to submit all KYC related documents, as specified, to the ITFS along with resolutions / documents specific to authorised personnel. Such authorised personnel would be provided with user credential for (multi-level) authorisations for ITFS. Indemnity in favour of ITFS, if required, may also be given if it is made part of the standardised on-boarding process.
- (ii) KYC and other relevant documents shall be made available to the Financiers by the Importer/Exporter.



(iii) All receipts for exports and all payments for imports by companies shall be routed by Exporters and Importers through the banks from who they have availed their working capital financing, for facilitating reporting to their respective regulators as required under the relevant legal framework.

#### **H. Currency for Conduct of Business:**

The operations on ITFS shall be conducted only in a freely convertible foreign currency.

#### **I. Agreements between Stakeholders:**

There shall be a one-time agreement drawn up amongst the participants in the ITFS, viz:

- (1) Master agreement between the Financier and the ITFS, stating the terms and conditions of dealings between both the entities.
- (2) Master agreement between the Importers and the ITFS, stating the terms and conditions of dealings between both the entities. This agreement should clearly capture the following aspects:
  - (i) The Importer's obligation to pay on the due date once the Trade Financing Unit is accepted online.
  - (ii) Mechanism and conditions of Recourse to Exporters, if applicable.
  - (iii) Indian resident Importers should also give a declaration/undertaking that they are in compliance with the applicable provisions of the FEMA and / or the relevant DGFT requirements in respect to transactions underlying Trade Financing Unit.



- (3) The Master agreement between the Exporter and the ITFS should also have a declaration / undertaking by the Exporter that, in respect of goods / services underlying the Trade Financing Unit that there are no pledges, encumbrances or any other third-party claims against the receivables which are to be assigned to the Financier.
- (i) Mechanism and conditions of Recourse to Exporters, if applicable.
- (ii) Indian resident Exporters should also give a declaration/undertaking that they are in compliance with the applicable provisions of the FEMA and / or the relevant DGFT requirements in respect to transactions underlying Trade Financing Unit.
- (4) In case of financing based on invoices, an assignment agreement shall be executed between the Exporter and the Financier. Alternatively, the agreement shall have a clause that any financing transaction on ITFS between the Exporter and the Financier, will tantamount to an assignment of receivables in favour of the Financier.
- (5) The ITFS shall keep custody of all the Master Agreements.
- (6) Other procedural aspects of ITFS functioning and operations may be incorporated either in the Master Agreement, if so, necessitated by the participants, or in the procedural guidelines to be framed by the ITFS, where applicable. Such procedural guidelines, even if incorporated in the Master Agreements, shall adhere to the regulatory norms issued from time to time. The Master Agreement shall clearly indicate that any legal proceedings that may be initiated by one participant against another, shall be outside the purview of ITFS.



## **J. Settlement Process:**

Timely settlement of funds between the member Financiers and the Exporters (when the Trade Financing Unit is financed) and the subsequent settlement of funds between the member Importers and the respective Financier on due date is very critical to the ITFS. To ensure a smooth process of such settlements, the ITFS would be required to:

- (i) In respect of all Trade Financing Units financed on a given day, the ITFS shall generate the payment obligations of all Financiers on T+2 basis and send the file for settlement in any of the existing payment system as agreed among the participants.
- (ii) The ITFS shall generate the settlement files and send the same to existing payment systems for actual payment. This would ensure the inter-bank settlement (between the bankers representing member Exporters, Importers, and the Financiers). The defaults, if any, by the Importers will be handled by the Importer's bank and will not be the responsibility of the ITFS. This settlement process provides for payments to relevant recipients on due date, facilitating the smooth operations on the ITFS. It would, however, not entail a guaranteed settlement by the ITFS.
- (iii) The ITFS shall put in place a separate recourse mechanism to handle settlement failures in respective payment systems.

## **K. Process Flow**

The objective of the ITFS is to facilitate various types of Trade Finance requirements. To enable this, the ITFS shall put in place a suitable process whereby an invoice or a bill or any other Standard Trade Document is converted into "Trade Financing Unit" as indicated in the **Annexure-I**. Standard Trade Documents as specified in these guidelines will be uploaded on platform.





**L. Maintenance of Books of Accounts, Records and Documents:**

- (i) The KYC related documents for on- boarding of Exporters and Importers along with requisite resolutions / documents specific to authorised personnel of the Exporter/ Importer and all Standard Trade Documents evidencing export of goods / services or, in case of reverse trade financing, import of goods / services hosted by Exporter or Importer, shall be uploaded in Central Registry by ITFS as applicable.
- (ii) The ITFS shall maintain its records and documents, as specified by IFSCA. Further, all the books of accounts shall be maintained in such foreign currency, as may be declared at the time of making the application.

**M. Submission of Report/ Information:**

- (i) The ITFS shall furnish the following reports/information to the IFSCA within 30 days from the date of finalisation of its annual financial statement:
  - a) Annual Performance Report;
  - b) Confirmation of compliance with the applicable regulations, circulars, guidelines and directions issued by the IFSCA, from time to time;
  - c) Details of material regulatory action, if any, against the persons(s) controlling the ITFS.
- (ii) The ITFS shall submit all the financial information to the IFSCA in USD, unless otherwise specified by the IFSCA.
- (iii) The IFSCA, from time to time, may call for any other information, documents or records as it may deem necessary, from the ITFS.



**N. Compliance with Other Requirements:**

- (i) The ITFS and the participants shall, in addition to the requirements specified under this framework, comply with all other applicable statutory, regulatory and reporting obligations, standards, policies, directions and guidelines, issued by any other competent authorities.
- (ii) Indian resident Exporter/Importer should also give declaration/undertaking that they are they are in compliance with the applicable provisions of the FEMA / relevant DGFT guidelines / IFSCA requirements, in respect of transactions underlying Trade Financing Unit.

**O. Credit Risk:**

The ITFS shall not assume any credit risk on the transactions carried out on its platform.

**P. Action in Case of Default:**

(i) Any failure by the ITFS to comply with any of the conditions of this framework and/or other directions and guidelines issued by IFSCA, shall attract appropriate action, as deemed fit by IFSCA.

(ii) No such action shall be taken without giving a reasonable opportunity to ITFS to make written submissions.

**Q. Fees:**

The Applicant/ITFS shall pay such fees and other charges as specified by IFSCA, from time to time.



**R. Power to Remove Difficulties, Specify Procedures and Issue Clarifications:**

If any difficulty arises in giving effect to this framework and matters incidental thereto, or in order to facilitate and regulate the ITFS, the IFSCA may specify additional norms, procedures, processes, manners, besides giving necessary relaxations to comply with this framework.

1. This Circular is issued in exercise of powers conferred by section 12 of the IFSCA Act to develop and regulate the financial products, financial services and financial institutions in the IFSCs.
2. A copy of this Circular is available on the website of the IFSCA at [www.ifsc.gov.in/circular](http://www.ifsc.gov.in/circular).

Sd/-

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Encl.: As stated above



### *Annexure-I*

#### **Illustrative Outline of Process flow under ITFS**

- (i) Exporter receives purchase order from Foreign Importer (or) Importer resident in India sends a Purchase Order to Exporter outside India.
- (ii) Exporter delivers the goods or renders the services along with an invoice. There may or may not be an accepted bill of exchange depending on the trade practice between the Exporter from India and Importer outside India.
- (iii) On the basis of either an invoice or a bill of exchange, the Exporter creates a 'Trade Financing Unit' on ITFS. In case of Reverse Trade Financing, this process of creation of Trade Financing Unit could be initiated by the Importer.
- (iv) Standard Trade Documents evidencing export of goods / services or in case of Reverse Trade Financing import of goods / services will be hosted by the Exporter or Importer as the case may be on the ITFS in accordance with the standard list or checklist of acceptable documents indicated by the ITFS.
- (v) Subsequently, the Importer/ Exporter also logs on to ITFS and flags this Trade Financing Unit as 'accepted' before financing.
- (vi) The ITFS will standardise the time window available for Financiers to 'accept' the Trade Financing Units, which may vary based on the underlying document – an invoice or a bill of exchange.
- (vii) The ITFS may have either a single module or separate modules for transactions with invoices and transactions with Bills of Exchange, if so required. In either case, all transactions routed through ITFS will, in effect, deal with Trade Financing Units irrespective of whether they represent an invoice or a bill or exchange.
- (viii) The standard format / features of the 'Trade Financing Unit' will be decided by the ITFS – it could be the entire bill/invoice amount or an amount after adjustment of tax / interest etc. as per existing market practice and as adopted as part of the ITFS procedure. However, each Trade Financing Unit will represent a confirmed obligation of the Importer and will carry the following relevant details – details of the Exporter or Importer, issue date (could be the date of acceptance), due date, tenor (due date – issue



date), balance tenor (due date– current date), amount due, unique identification number generated by the ITFS, account details of Exporters or Importers for Financier’s reference (for credit at the time of financing), the underlying commodity (or service if enabled).

- (ix) The ITFS shall be able to facilitate filtering of Trade Financing Units (by Financiers or respective Exporters or Importers) on any of the above parameters. In view of the expected high volumes to be processed under ITFS, this would provide the necessary flexibility of operations to the stakeholders.
- (x) The Importer’s bank and account details form an integral feature of the Trade Financing Unit. The creation of a Trade Financing Unit on ITFS shall result in automatic generation of a notice / advice to the Importer’s bank informing them of such units.
- (xi) The Trade Financing Units will be available for financing by any of the Financiers registered on the system. The all-in cost quoted by the Financier will be available on the ITFS. This price can only be viewed by the Exporters and not available for other Financiers.
- (xii) There will be a time-window provided for Financiers to quote their bids against Trade Financing Units. Financiers will be free to determine the time-validity of their bid price. Once accepted by the Exporters, there will be no option for Financiers to revise their bids quoted online.
- (xiii) The Exporters shall be free to accept any of the bids and the Financier will receive the necessary intimation. Financiers will finance the balance tenor on the Trade Financing Unit.
- (xiv) Once a bid is accepted, the Trade Financing Unit will get tagged as “financed” and the funds will be credited to the Exporter’s or Importer’s account by the Financier on T+2 basis (T being the date of bid acceptance). The actual settlement of such funds will be as outlined under the Settlement section.
- (xv) Once an accepted Trade Financing Unit has been financed by a Financier, notice would be sent to Exporter’s as well as Importer’s banks. The Importer’s bank would use this information to ensure availability of funds and also handle the direct debit from the Importer’s account on the due date in favour of the Financier (based on the settlement obligations generated by the ITFS). If agreed by members, the ITFS may also provide



the option to members, whereby the Financiers would take direct exposure against the Importers, rather than through their bankers.

- (xvi) On the due date, the Financier will have to receive funds from the Importer. The ITFS will send due notifications to the Importer and their banks advising them of payments due. The actual settlement of such funds will be as outlined under the Settlement section.
- (xvii) Non-payment by the Importer on the due date to their banker will tantamount to a default by the Importer (and be reported as such as per regulatory procedures prescribed from time to time) and enable the banker to proceed against the Importer. Any action initiated in this regard, will be strictly on non- recourse basis and will be outside the purview of the ITFS.
- (xviii) In order to meet the requirements of various stakeholders, the ITFS shall ensure to provide various types of MIS reports including intimation of total receivables position - financed and unfinanced (to Exporters); intimation of outstanding position - financed and unfinanced with details of beneficiaries and beneficiary accounts to be credited (for Importers); total financed position for Financiers; etc. Similarly, data on unfinanced Trade Financing Units in the market should also be made available by the ITFS. The system should also generate due date reminders to relevant parties, notifications to be issued to bankers when a Trade Financing Unit is financed.