

INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY

21st Authority Meeting held on 27.09.2024

Gist of Agenda item: Draft International Financial Services Centres Authority (Payment and Settlement Systems) Regulation, 2024

A. Introduction

In exercise of the powers conferred by the IFSCA (Board for Regulation and Supervision of Payment and Settlement Systems) Regulations, 2024, the draft regulations for setting up of payment and settlement systems in IFSC, placed at **Annexure 1**, were placed for approval before the Board for Regulation and Supervision of Payment and Settlement Systems (BPSS) at its first meeting held on September 6, 2024,. The BPSS approved the draft regulations and recommended placing of the same before the Authority for approval and subsequent notification in the official gazette. The regulations have been for exercising the powers conferred on IFSCA under the section 34 B read with sub-section (1) and clauses (b) to (f) of sub-section (2) of section 38 of the Payments and Settlement Systems Act, 2007 (51 of 2007).

B. The Regulations, inter alia, proposes to:

1. Lay down the procedure for applying to the Authority to set up a Payment System in IFSC.
2. Specify the factors that would be considered by the Authority while taking a decision on granting such authorisation.
3. Procedure for seeking exemption from authorisation and how such application would be processed.
4. Specify the form and manner in which the information or returns required by the Authority shall be furnished.
5. Specify the need for system provider to comply, on an ongoing basis and to the extent applicable, with the Principles for Financial Market Infrastructure (PFMI) issued by Committee on Payments and Market Infrastructure (CPMI) and International Organisation of Securities Commissions (IOSCO) and such other such norms as may be specified by the Authority from time to time.

C. Purpose/Justification

1. The development of payment and settlement systems is essential and an integral part of the development of a financial centre. The establishment of payment systems contributes to providing financial institutions in IFSC access to easier, faster and more economical solutions to make and receive payments globally.

2. The Regulations lay down the framework for authorisation and regulation of payment systems in IFSC to enable prospective system providers (payment system operators) to seek authorisation to operate a payment system in IFSC.
3. The Payment and Settlement Systems Act, 2007 requires the following entities to be authorised as payment system under the Act:
 - a) Real time or deferred large value systems (e.g. the proposed Foreign Currency Settlement System)
 - b) Trade Repository (for receiving and disseminating data on trades in OTC derivatives in IFSC)
 - c) Issuers of Legal Entity Identifier (LEI)
 - d) Card Payment Networks (like Visa, Mastercard etc.)
 - e) TREDS platforms
4. The regulations also aim to subject such systems and their operators to certain minimum internationally accepted standards to ensure safety, integrity and security of the payment systems.
5. In addition to the draft regulations the draft application form under sub-regulation 2 of regulation 4 of the draft regulations to be submitted prospective payment system operators is also placed as **Annexure 2** for information. The application form consists of two schedules. Schedule I is the general form which is to be filled by each entity seeking registration with IFSCA and is incorporated in the Single Window IT System (SWITS) which was launched by the Honourable Prime Minister on September 16, 2024. Schedule II requires payment system operators to provide additional information required to assess the compatibility of the proposed payment system with the requirements of subsection 1 of section 7 of the Payment and Settlement Systems Act, 2007 and regulation 8 of the draft regulations.

D. Consultations with Stakeholders

1. The consultation paper on the draft International Financial Services Centres Authority (Payment and Settlement Systems) Regulations, 2024 was placed on the Authority's website on June 7, 2024 to seek comments and suggestions from public and stakeholders.
2. Comments/suggestions received were presented to the BPSS and post approval of BPSS the draft regulations are placed for consideration of the Authority. Comments/suggestions were received from 3 entities viz.; Clearing Corporation of India Limited, Global Legal Entity Identifier Foundation and VISA. Of the 12 comments received from these entities, 3 were accepted either partially or

completely and draft regulations modified suitably. Remaining 9 were not considered for the following reasons:

- a) Certain suggestions were adequately covered under the PSS Act, 2007.
- b) Internal mechanisms would be used to address the suggestions received.
- c) Changes in the application form to be issued through separate circular.
- d) Suggestions are not aligned to the provisions of the IFSCA Act, 2019.
- e) Reference to Core Principles for Systemically Important Payment Systems (CP-SIPS) was removed as the principles of financial market infrastructures (PFMI) applies to the operation of systemically important payment systems as well. PFMI has been made applicable to all payment systems in IFSC as per Regulation 7 of the draft regulations.

The detailed analysis of the comments is placed at **Annexure 3**, for information.

E. Decision sought from Authority

The draft International Financial Services Centres Authority (Payment and Settlement Systems) Regulations, 2024 are placed for the approval of the Authority at **Annexure 1**. On approval, , the draft regulations shall be sent for notification in the Official Gazette in exercise of powers under section 28(1) of IFSCA Act, 2019.
