

# **INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY**

## **6<sup>th</sup> Meeting of the Authority held on 15<sup>th</sup> March, 2021**

### **Gist of Agenda Item: Draft International Financial Services Centres Authority (Finance Company) Regulations, 2021**

Draft International Financial Services Centres Authority (Finance Company) Regulations, 2021 have been circulated for the consideration and approval of the Authority at the sixth Authority meeting scheduled on 15<sup>th</sup> March 2021.

#### **1. Objective**

1.1 This memorandum seeks approval of the Authority to notify the International Financial Services Centres Authority (Finance Company) Regulations, 2021 (“FC Regulations”).

#### **2. Purpose of Regulation**

2.1 Currently, there is no regulation under IFSCA Act for setting up of entities in IFSCs which are similar in operations of Non- Banking Financial Companies (NBFCs), which are regulated by the Reserve Bank of India. This regulation intends to enable such a regulatory framework and envisages to nomenclate these entities as “Finance Company/Finance Unit”.

#### **3. Approach towards framing the Regulation**

3.1 Considering the importance that the non-bank intermediaries play in the financial ecosystem, there arises the need to enable similar institutions to be set up in the IFSCs for the development of a IFSC as a financial centre. With this intent the International Financial Services Centres Authority (“Authority”) had issued a consultation paper on the proposed draft regulations for Finance Companies on January 28, 2021.

3.2 Comments were received from 7 stakeholders.

3.3 The comments received were examined in detail and suitable modifications in the Regulations were carried out.

#### **4. Proposed Finance Company Regulations**

4.1 The salient features of the FC Regulations are as follows:

#### **4.1.1 Definition of Finance Company/Finance Unit.**

4.1.1.1. A Finance company (FC), defined in terms of IFSCA Act, is an entity separately incorporated to deal in one or more of the permissible activities specified under the FC Regulations provided:

- (i) It does not accept public deposit from resident and non-resident, as defined in these regulations; and
- (ii) It is not registered with the Authority as a Banking Unit;

4.1.1.2 The FC regulations envisages that an entity which is carrying out a regulated financial service in the home jurisdiction can also come and set up in the IFSCs in the form of a branch and will be termed to be a “Finance Unit (FU)”.

#### **4.1.2 Permissible Activities**

The permissible activities to be carried out by the FC/FU are trifurcated into “specialised activities”, “core activities” and “non-core activities”. “Specialised activities” include factoring and forfaiting of receivables and credit enhancement. “Core activities” include the activities wherein there is an outlay of funds and are not regulated under a separate regulatory framework. “Non-core activities” are those activities which do not envisage outlay of funds, are majorly fee-based activities and/or are regulated under a separate regulatory framework.

#### **4.1.3 Registration Requirement**

4.1.3.1 The applicant entity shall have a minimum Owned Fund in the range of USD 0.2 mn to USD 5 mn, depending upon the nature of activity proposed to be undertaken by it.

4.1.3.2 An applicant entity if intending to undertake only non-core activities, can be set up either in the form of a company, limited liability partnership or trust.

4.1.3.3 An applicant entity and/or its promoters shall be from a FATF compliant jurisdiction

4.1.3.4 If the Authority is satisfied that the applicant may be given more time to comply with certain conditions for grant of registration, it may, consider grant of provisional registration giving additional time to the applicant for compliance.

#### **4.1.4 Prudential Regulations**

4.1.4.1 The FC/FU intending to undertake either core or specialised activities shall be subject to prudential regulations like minimum capital ratio, liquidity coverage ratio, exposure ceiling and any other prudential regulation as specified by the Authority from time to time.

#### **4.1.5 Other requirements**

4.1.5.1 The FC/FU shall be allowed to raise and deploy funds from residents and non-residents, except accepting public deposits; provided, it is in adherence to the Foreign Exchange Management Act, 1999 for its dealing with residents.

4.1.5.2 The FC/FU shall conduct its operations in any freely convertible currency; however, maintenance of books of accounts and reporting has to be done in USD. This is with the intent of maintaining uniformity and comparability.

4.1.5.3 The FC/FU shall be subject to Corporate Governance and Disclosure Requirements to be specified by the Authority.

4.1.5.4 In case of merger / takeover / acquisition / change in management which results in change in control of at least twenty *per cent.* of total share capital, or of business decisions under an agreement, shall be subject to prior approval and such other requirements as may be specified by the Authority from time to time.

### **5 Proposal**

5.1 1.1. Approval of the Authority is sought for notifying the draft International Financial Services Centres Authority (Finance Company) Regulations, 2021 in the Official Gazette, after carrying out changes, if any, of drafting and consequential nature. The Authority is further requested to authorize the Chairperson to make such necessary, consequential and incidental steps to operationalize the Finance Company Regulations.