

Executive Summary

1. The IFSC can become an important gateway for international investors and businesses to access and participate in the India growth story. This role is currently played by other regional financial centres in Asia, the Middle East, and Europe.
2. Because of its strategic location, the Indian IFSC can further expand to become the offshore financial centre for countries in South Asia and the Mekong delta region.
3. As a greenfield IFSC and with a new regulatory body, there is also an opportunity for the IFSCA to set a new global benchmark by providing an environment that fosters innovation in financial products and services and the development of financial technology solutions on the back of a progressive regulatory framework and a conducive work environment.
4. The terms of reference of the Committee was to create a roadmap for the development of international retail business in the IFSC. The terms of reference also permitted the Committee to make other suggestions. In view of development of the IFSC, the Committee has taken the liberty to make recommendations that may not strictly be related to retail businesses.
5. The IFSC can aim for the following:
 - Become a gateway to India growth story for international investors and business
 - Provide the Indian diaspora and individuals from Asia and Africa with a comprehensive range of financial services from the IFSC
 - Provide International Financial Services to domestic residents under the LRS
6. There is immediate potential to promote international retail business in the IFSC, and if done efficiently, it will meet the three key objectives: a) boosting job creation, b) generating additional revenue for India, and c) attracting funds (especially from the Indian diaspora) for building India's infrastructure.

7. The IFSC with its approach of '**FinServe from IFSC**' would complement the 'Make in

8. *Inherent advantages for the IFSC*

India' vision of the Government of India (GoI).

- 8.1. The inherent advantage of an IFSC is that the greenfield regulator can set new benchmark in defining a robust yet light-touch regulatory framework.
- 8.2. The IFSC can provide access to strong India hinterland opportunities.
- 8.3. The IFSC can tap into the strong Non-resident Indian (NRI) retail investors base and provide access to an efficient English-speaking talent pool.
- 8.4. Companies set up in the IFSC will be able to provide comprehensive, high quality financial services at a globally competitive cost to their customers.
- 8.5. Indian companies can tap into the opportunity of listing their products such as American Depository Receipts (ADRs)/ Global Depository Receipts (GDRs), Masala Bonds etc. in the IFSC exchanges, rather than going overseas, at a relatively low cost.
- 8.6. The IFSC can also become a significant capital-raising platform for neighbouring countries, such as Sri Lanka, Bangladesh, Nepal, Myanmar, etc. and for listing their companies on an international exchange.

9. *Key Success factors for the IFSC*

- 9.1. The IFSCA should aim to benchmark itself with the best-in-class jurisdictions and balance the regulatory touch with ease of doing business. Living, learning and leisure at the IFSC should be comparable to those in developed centres like Dubai and Singapore in order to attract and retain talent which would be a source of competitive advantage.

- 9.2. The IFSCA should perform the dual role of a regulator and of business development.
- 9.3. The IFSCA should act as a “Unified Regulator” in form and spirit – independent of onshore regulators.
- 9.4. It should adopt a new regulatory framework that is light-touch and principle-based. However, the IFSCA should also be mindful that there is no impasse of decision-making while transitioning to the new independent regulatory regime.
- 9.5. It should actively engage with other International regulators and position the IFSC in India as a jurisdiction of repute. Reciprocity agreements with host country regulators of important target countries should be explored to facilitate smooth flow of business with those countries.
- 9.6. It should focus on building the entire eco-system, which is required in the development of a strong IFSC.
- 9.7. The proposition for the IFSCA should be very simple - *Don't compete, complement and create a niche*. The IFSCA should identify unique value propositions to differentiate itself from other offshore jurisdictions.
- 9.8. The IFSCA should focus on capacity building – infrastructure, institutional and talent to be future ready. The aim should be to create a best-in-class institution and build a state-of-art infrastructure that acts as a magnetic force to attract people to the IFSC.
- 9.9. The IFSCA should focus on technology and aim to go completely digital with its regulatory framework and position itself as technology savvy, digitally driven Financial Markets Hub.
- 9.10. The IFSCA should build an aggressive global outreach and engagement program to create awareness, attraction and brand for the IFSC. It should take up marketing initiatives with Indian consulates, embassies, and NRI associations in targeted markets as well as engage in knowledge disseminating programs for targeted audiences to promote the IFSC. This should include sharing of detailed/ granular-

level information with customers to help them invest in various products suitable to them.

9.11. The speed of go-to-market initiatives are important for the success of any business. The IFSCA should therefore adopt a 'use and file' approach to encourage firms to innovate, improvise and launch insurance products faster.

9.12. The IFSCA should support and encourage the formation of industry associations as a platform for engagement and market feedback. This will create an environment of trust and partnership.

9.13. Ideally for most investors in the IFSC markets, 'withholding tax should be the final tax' without any need for them to file income-tax returns. For capital gains tax purposes, there should be a system for withholding taxes on net capital gains.

10. *Banking Sector - Recommendations*

10.1. **Retail participation:**

- Permit retail participation including LRS investments by resident Indians and enable IFSC Banking Units (IBUs) to provide banking products and solutions to retail/ individual clients.
- Permit clients to open interest-bearing retail accounts such as savings, current and term deposits in the 'currency of their choice'.
- Wealth management capabilities should be enabled in the IBU by allowing investments in various markets across different geographies.
- Resident individuals and resident Family office entities should be allowed to access the LRS route for remittance purposes.

10.2. **Corporate business:**

- Permit IBUs to offer foreign currency (FCY) clearing services from the IFSC. For this purpose, a central clearing mechanism should be set-up in the IFSC.

- Permit IBUs to provide INR External Commercial Borrowings (ECBs) to Indian borrowers.
- Permit IBUs to obtain Foreign Portfolio Investor (FPI) license and invest in rupee-denominated Government Securities (G-Secs), corporate bonds and other permissible rupee-denominated securities.
- Permit IBUs to extend financing to Indian exporters for pre-shipment (in addition to post shipment) in FCY.
- Permit IBUs to open current account (including Escrow account) for all entities who wish to do so.

10.3. **Liquidity Ratios:**

Remove the requirement to maintain liquidity ratios [Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR)].

10.4. **Foreign Banks not having presence in India:**

Foreign Banks not having presence in India (or having only a representative office in India) should be permitted to setup an IBU in the IFSC.

11. *Insurance Sector - Recommendations*

11.1. **Life Insurance:**

- Permit NRIs/ Persons of Indian Origin (PIOs) to buy Insurance policies for themselves as well as their family members who are based in India and abroad from companies set up in the IFSC and allow them to pay premium in the currency of their choice (including Indian Rupees).
- Permit NRIs/ PIOs to buy portable insurance policies that offer them flexibility to pay premium in INR or in FCY, based on their choice, after they return to India.

- The focus should be on life products such as unit linked products, pension or annuity products etc.

11.2. **Health insurance:**

- Permit residents to buy overseas health insurance for themselves and their dependents (in India and overseas) from insurance companies or intermediaries in the IFSC for medical treatment anywhere in the world.
- Allow insurance companies to offer health insurance products to NRIs/ PIOs including covering their family members who are based in India.
- Allow Indian insurance companies to offer Mediclaim policies out of the IFSC for treatment in India, especially to residents of African countries who look at India as a popular destination for medical tourism.
- Allow life insurers to provide health indemnity policies separately or as riders to life products.

11.3. **Non-life insurance:**

- Permit insurance companies in the IFSC to offer personal accident cover, baggage loss, documents loss cover and travel health insurance anywhere in the world for NRIs/ PIOs and to any other non-resident.
- Permit insurance companies to issue homeowner policies from the IFSC for covering property owned by NRIs/ PIOs in India and abroad.
- Expand the insurance offerings to the nationals of other countries, especially frontier markets such as Bangladesh, Sri Lanka, and Mauritius, and African countries such as Kenya, Nigeria, Ghana and Morocco.
- Permit insurance companies to offer surety bonds, issue trade credit insurance and Protection and Indemnity insurance out of the IFSC.
- Encourage insurers to offer coverage for the global properties of Indian Companies and others.

- The IFSC can emerge as an Aviation Insurance Hub covering aviation companies across the world.
- The IFSC insurers can target Marine Cargo insurance taken abroad in respect of Imports and Exports.

11.4. **Reinsurance:**

- The IFSC has the potential to emerge as a Reinsurance Hub for Asia and Africa.
- Reduce Net Owned Funds (NOF) requirement to INR 5 bn to promote mid-sized foreign reinsurers to set up base in the IFSC.
- The IFSC Insurance Offices (IIOs) should be given an equal preference similar to the Foreign Reinsurance Branches (FRB) for participation in reinsurance placements of Indian insurers.

11.5. **Investments:**

- Exempt insurance companies in the IFSC from the investment restriction provisions provided by the Insurance Regulatory and Development Authority (IRDA).
- Draft separate investment regulations, offering more flexibility to invest both in India and abroad to get better returns, keeping in view the safety of the investments.

11.6. **Other suggestions**

- Allow subsidiaries to be set up in the IFSC with appropriate prescribed capital and NOF requirement.
- Allow Indian investors to set up direct insurance and reinsurance companies in the IFSC with lower capital requirements to promote insurance abroad.

- Reduce the capital requirement for foreign direct insurers to bring it at par with Indian insurance entities.
- No separate solvency requirement for IIOs should be prescribed for a branch of the insurance company.
- Increase the retrocession limit beyond the current 90% to such limit as the Board of the insurance company may deem fit.
- Encourage foreign reinsurance brokers to set up a base in the IFSC to promote a vibrant insurance market.

12. *Asset management and Capital Markets - Recommendations*

12.1. **IFSC exchanges:**

- Permit resident individuals to invest in companies listed on the IFSC exchanges via the LRS route.
- Allow block/ bulk deals on the IFSC exchanges.
- Develop a framework for allowing foreign or Indian issuers to raise equity or debt in the IFSC.
- Remove regulatory/ taxation bottlenecks for the issuance of ADRs/ GDRs by Indian companies in the IFSC.
- Increase the range of products that can be offered on the IFSC market.

12.2. **Intermediaries:**

- Allow foreign brokers to setup branch structure in the IFSC.
- Allow wholly owned subsidiaries of banks to operate as Trading/ Clearing Members without setting up a separate company.

- Permit Omnibus Structures in the IFSC with appropriate safeguards.
- Provide direct access to institutions/ intermediaries based in the IFSC to participate in markets outside India.

12.3. **Depositories:**

- Provide 'Foreign' depository status to branches set up by Indian/ Foreign depositories in the IFSC.

12.4. **Asset and Wealth Managers**

- Permit resident individuals to invest in Alternative Investment Funds (AIFs) or Mutual Funds (MFs) in the IFSC via the LRS route.
- Issue/ develop own set of comprehensive Regulations/ Guidelines for AIFs, MFs and Investment Advisers (IAs) and Portfolio Managers (PMs) rather than adapting, tweaking and modifying existing regulations from the mainland.
- Seek preferential treatment for the IFSC entities investing into India.
- Relax single (25%)/ aggregate (50%) NRI investment limits for the IFSC Funds investing into India.
- Implement a separate safe harbour regime which is simple and practical for IFSC Fund Managers and which is comparable to other international jurisdictions.
- Provide clarity on the substance and outsourcing requirement for Asset and Wealth Managers in the IFSC.
- Allow hybrid structures such as a Variable Capital Company (VCC) for managing funds in the IFSC.
- The IFSCA should aim to showcase that its regulatory regime is at par with global standards and also enter into a Memorandum of Cooperation (MoC) of Asian Region Fund Passporting.

12.5. Other suggestions

- Promote ease of doing business in the IFSC by obviating the need for tax compliances wherever possible and to implement the principle of 'withholding tax is final tax'.
 - Develop a payment system for USD and other FCY settlements in the IFSC.
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13. *Dispute Resolution*

13.1. Conflicts, grievance and disputes are inevitable in a commercial contract. As the IFSCA aims to be a jurisdiction of international repute, it would be necessary for it to focus on implementing a dispute resolution mechanism, that is independent, time-bound, digitally accessible and cost effective for participants. Fast-track hearings and finality of proceedings should be its cornerstone.

13.2. The various redressal systems suggested herein include Customer Grievance Redressal Cell within the service provider, an Office of Ombudsman at the IFSCA, a Complaint Redressal system at the IFSCA, Mediation, Arbitration and an International Commercial Court (ICC).

13.3. Online Dispute Resolution should be the preferred method for the resolution of disputes, particularly small and medium-value cases.

14. *Support Services in the IFSC*

14.1. It is recommended that the IFSCA explicitly lists the support services that fall within the definition of 'financial service' under the IFSC Act, 2019 on its website. For those support services that do not currently fall within the definition of the term 'financial

service', it may request the Central Government to notify those services as 'financial service'.

14.2. All IFSC units are entitled to a ten-year tax holiday period; therefore, this suggestion should be enabled with appropriate safeguards.

14.3. Increase in support services entities in the IFSC will not only lead to job creation but also lead to development of the entire ecosystem around the IFSC.