



## Consultation Paper

### A. Objective

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1. The objective of this consultation paper is to seek comments/views from the public on the concept of Remote Broker-Dealer in IFSC, proposed to be permitted under the IFSCA (Capital Market Intermediaries) Regulations, 2021.

### B. Background

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2. The International Financial Services Centres Authority (IFSCA) was established on April 27, 2020 under the International Financial Services Centres Authority Act, 2019.
3. Section 13 of the IFSCA Act, 2019 came into force w.e.f. October 01, 2020. Thereafter, IFSCA became the unified regulator for development and regulation of financial products, financial services and financial institutions in the International Financial Services Centres (IFSC) in India. Prior to October 01, 2020, the domestic financial regulators, namely, RBI, SEBI, PFRDA and IRDAI regulated the respective verticals in IFSC.
4. SEBI had issued SEBI (IFSC) Guidelines in March 2015 for the capital market ecosystem in IFSC. The SEBI (IFSC) Guidelines were subsequently repealed by the various circulars and regulations issued by IFSCA. As on date, the following regulations have been notified by IFSCA for the capital market activities in IFSC:
  - i) The IFSCA (Market Infrastructure Institutions) Regulations, 2021
  - ii) The IFSCA (Issuance and Listing of Securities) Regulations, 2021
  - iii) The IFSCA (Capital Market Intermediaries) Regulations, 2021
  - iv) The IFSCA (Fund Management) Regulations, 2022

### C. Erstwhile SEBI Guidelines for Broker-Dealers

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5. Broker-Dealers play an important role by providing intermediation facility between the end investor and the Stock Exchange. As per clause 8 of the erstwhile



SEBI (IFSC) Guidelines read with SEBI circular no. SEBI/HO/CIR/P/2017/85 dated July 27, 2017, Broker-Dealers desirous of operating in IFSC were required to form a separate company to provide their broking services.

#### **D. Status of Broker-Dealers as on September 30, 2020 in IFSC**

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6. As on September 30, 2020, 48 Broker-Dealers were registered with a monthly turnover of approximately USD 22 Billion on both the stock exchanges (India INX and NSE IX) in IFSC. All the Broker-Dealers in IFSC were the subsidiaries of their parent Indian entities, which were registered with SEBI as stock brokers. There were no foreign Broker-Dealers registered or operational in IFSC.

#### **E. Policy measures undertaken by IFSCA for Broker-Dealers**

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##### Market Access through Authorized Persons in foreign jurisdictions

7. With a view to expand the depth and reach of the market for exchange traded securities in IFSC, IFSCA, vide its circular dated October 14, 2020 permitted its registered Broker-Dealers to provide market access to investors through Authorized Persons based in foreign jurisdictions.

##### Branch mode of operations for foreign Broker-Dealers in IFSC

8. To enhance the participation of Broker-Dealers from foreign jurisdictions, IFSCA, vide its circular dated December 11, 2020, permitted eligible foreign entities to set up a branch office in IFSC and operate as Broker-Dealer/Clearing Member subject to the conditions as under:
  - i. The entity is not a resident of a country identified in the public statement of the Financial Action Task Force (FATF) as –
    - a) a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or



- b) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the FATF to address the deficiencies.
- ii. The entity is a Broker-Dealer regulated by a securities market regulator in its home jurisdiction.
- iii. The entity has adequately ring fenced the operational, technological and financial aspects of its branch in IFSC from its overseas operations.

#### Branch mode for regulated Indian intermediaries in IFSC

- 9. In the IFSCA (Capital Market Intermediaries (Regulations), 2021, various intermediaries registered and regulated in India, were permitted to operate in IFSC under the branch structure.

#### Market Access through Authorized Persons in India

- 10. IFSCA registered Broker-Dealers were permitted to provide market access to investors through Authorized Persons based in India, vide circular dated April 29, 2022. This facility was enabled with a view to permit resident Indian investors to access exchange traded securities in IFSC, through the Liberalized Remittance Scheme (LRS) route.

#### Introduction of Sponsored Access in IFSC

- 11. Sponsored Access is a form of Direct Market Access (DMA) in which the Broker-Dealer permits its client to transmit orders directly to the Exchange trading system without routing it through the Broker-Dealer's trading system. Such an arrangement may facilitate ultra-low/low latency trading and assist in preserving the confidentiality of sophisticated, proprietary trading strategies of the clients.
- 12. In order to enhance market participation and broaden the investor base in IFSC, IFSCA, vide its circular dated June 21, 2023, permitted the Broker-Dealers to offer the Sponsored Access facility to its clients.



## **F. Status of Broker-Dealers as on November 20, 2023 in IFSC**

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13. As on November 20, 2023, 72 Broker-Dealers, a vast majority being subsidiaries of Indian stock brokers, were registered with IFSCA. These Broker-Dealers have contributed to a turnover of approximately USD 64 Billion for the month of October 2023 on the Stock Exchanges in IFSC.

## **G. Proposal for enhancing foreign participation on the Stock Exchanges in IFSC**

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14. Regulation 5 (1) of the IFSCA (Capital Market Intermediaries) Regulations, 2021 states that

*A capital market intermediary seeking registration with the Authority shall be **required to be present in an IFSC** by establishing a branch or forming a company or limited liability partnership or body corporate or partnership firm or proprietorship firm or any other form as may be permitted by the Authority:*

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15. IFSCA has received various proposals from the Stock Exchanges to introduce new products, widen the investor base and deepen the liquidity on the Stock Exchanges. One such proposal pertains to permitting Broker-Dealers to operate remotely from foreign jurisdictions i.e. permit Broker-Dealers to transact on the Stock Exchanges without having a physical presence in IFSC. IFSCA, after due deliberations, has decided to consider this proposal of the Stock Exchange. This would require amendment to Regulation 5 (1) of the IFSCA (Capital Market Intermediaries) Regulations, 2021.

16. It is proposed to create a sub-category of Broker-Dealers called Remote Broker-Dealer (RBD). The RBD would be required to obtain a certificate of registration from IFSCA. An entity desirous of registering and operating as a RBD in IFSC shall be subject to the following requirements:



- i. The entity is a resident of a country whose securities market regulator is a signatory to the International Organization of Securities Commission's Multilateral Memorandum of Understanding (IOSCO-MMoU) or a signatory to the bilateral Memorandum of Understanding (MoU) with IFSCA
- ii. The entity is a member of any of the following stock exchanges, for a minimum period of one year :

<b>Jurisdiction</b>	<b>Exchanges</b>
United States of America	New York Stock Exchange (NYSE), National Association of Securities Dealers Automated Quotations (NASDAQ) and Chicago Mercantile Exchange (CME)
Japan	Tokyo Stock Exchange
South Korea	Korea Exchange
United Kingdom excluding British Overseas Territories	London Stock Exchange
France	Euronext, Paris
Germany	Frankfurt Stock Exchange
Canada	Toronto Stock Exchange
Singapore	Singapore Exchange
Taiwan	Taiwan Stock Exchange
Israel	Tel Aviv Stock Exchange

- iv. The entity shall be a body corporate and regulated as a Broker-Dealer by the securities market regulator in its home jurisdiction (country where it has been incorporated)
- v. The entity is not a resident of a country identified in the public statement of the FATF as –
  - a. a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply;

or

  - b. a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the FATF to address the deficiencies.



- iii. The entities incorporated in India and registered with SEBI as stock brokers shall not be permitted to register as RBD in IFSC.
- iv. The RBD shall be permitted to trade only on a proprietary basis and shall not be permitted to onboard clients.
- v. The RBD shall be permitted to transact only in cash-settled derivative products.
- vi. The RBD shall not be permitted to register/operate as a Clearing Member and will be required to enter into an agreement with a IFSCA registered Clearing Member for clearing and settling its transactions executed on the Stock Exchanges in IFSC.
- vii. The RBD shall appoint a representative in IFSC who shall be responsible for all of its activities on the Stock Exchanges in IFSC.
- viii. The Stock Exchanges shall have the operational flexibility to specify the Net Worth criteria, Base Minimum Capital requirements, Application Fee and Annual Fee for a 'RBD' subject to base minimum requirements as specified by IFSCA (if any).
- ix. The RBD shall comply with the conditions as may be specified by IFSCA and the Stock Exchanges from time to time.
- x. All other terms and conditions for a Broker-Dealer, as specified in the IFSCA (Capital Market Intermediaries) Regulations, 2021 shall continue to apply.

## **H. Public Comments**

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17. In light of the above, public comments are invited on the proposal at 'G' above.

18. Additionally, comments of the public are also sought on the following queries:

- i. Should a RBD be permitted to onboard clients? If yes, what should be the likely eligibility criteria/ risk profile of such clients?



- ii. Should the RBD be permitted to transact in equity/ bonds or hybrid securities like REITs/InvITs listed on the Stock Exchange?
- iii. Should IFSCA explicitly define the requirements for a RBD in terms of net worth, country of origin, base minimum capital, etc or should the Stock Exchanges be given the operational flexibility to decide these parameters? Please provide your comments with rationale.
- iv. Any other issues that IFSCA should address while enabling RBD facility.

19. The comments/suggestions may please be provided in the format as under:

Name of the person/organization		
S. No.	Comments/Suggestions	Rationale

20. The comments may be sent by email to Mr. Praveen Kamat, General Manager at [praveen.kamat@ifsc.gov.in](mailto:praveen.kamat@ifsc.gov.in) with a copy to Mr. Shubham Goyal, Assistant General Manager at [goyal.shubham@ifsc.gov.in](mailto:goyal.shubham@ifsc.gov.in) , latest by December 13, 2023, with the subject line “Comments on consultation paper on Remote Broker-Dealers in IFSC.”

21. Alternately, the comments may also be sent by post to the following address:

**Mr. Praveen Kamat**  
General Manager  
Division of Market Infrastructure Institutions & Technology  
Capital Markets Department  
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