

CHAPTER - 7

INTERNATIONAL FINANCIAL SERVICES CENTERS AUTHORITY (IFSCA)

IFSC is a jurisdiction with high concentration of financial institutions such as Banks, Stock Market, & related entities, Insurance firms, fund managers, they provide specialized financial services to non-residents and residents.

In an environment that promotes financial innovations and facilitates cross border transaction.

* Importance of IFSC's

- A) They have extensively contributed to the growth of international financial transactions.
- B) centre's have played a role in accelerating the pace of financial globalization
- C) centre's played an invaluable role in accelerating the socio-economic growth of host countries.

* Fiscal benefits and Tax Exemptions for gift-IFSC

| Taxes and Duties | Benefits for Units of IFSC | Benefits for Investors |
|------------------|--|--|
| Income Tax | (a) 100% tax exemption for 10 consecutive years out of 15 years. | (a) Int. income paid to non-residents on- (i) Money lent to IFSC units not taxable. |

(b) Units has flexibility to select any 10 years out of 15 years.

(c) MAT IAMT @ 9% applies to company setup under IFSC.

(d) Dividend income by company in IFSC will taxable in hands of the shareholders.

ii) Long term Bonds & Rupee Denominated bonds listed on IFSC taxable at rate 4%.

(b) Transfer Gains are not chargeable to tax; for the securities listed on IFSC.

Following taxes are NIL states -

- 1 STT → Securities Transaction Tax
- 2 CTT → Commodity Transaction Tax
- 3 DDT → Dividend Distribution Tax
- 4 LTGG & STGG.

| | For Units in IFSC | For Investors |
|------------------------------|--|---|
| Goods and Services Tax (GST) | <p>(a) No GST on services</p> <p>i) received by units</p> <p>ii) provided to SEZ/IFSC & offshore clients</p> <p>(b) GST applied on services provided to DTA.</p> | No GST on transactions carried out in IFSC exchange |

Other taxes duties

state subsidies

Exemption from STT, CTT, stamp duty in IFSC exchange.

* Necessity of IFSC for domestic economy -

(IMP)★ Onshoring the offshore international financial services -

As one of the largest and fastest growing economy, India could no longer act as a passive role in the international financial services ecosystem. India had been heavily dependent on overseas financial centres for the purchase of international financial services.

Thus, GIFT-IFSC was set up to transform the India, to become self-sufficient as well as exporter of International financial services.

• India's economic growth trajectory -

IFSC has the potential to act as a growth catalyst for domestic Indian economy. The services offered in IFSC's attracts huge amounts of global capital inflow, such can be channelized for the social-economical development of India.

Development of IFSC was an important step in India's economic growth trajectory.

* International Financial Services Centres Authority

1. IFSCA has established as a unified financial regulator by the Government under IFSCA Act 2019
2. Authority is mandated to develop and regulate Financial Institutions, Financial Services and Financial Products in IFSC.
3. To develop and regulate IFSC's, IFSCA has vested with powers of - RBI, SEBI, IRDAI & PFRDA.

* Functions of the Authority -

- (a) IFSCA Act empowers the Authority to develop & regulate the financial product, financial services and financial institutions in an IFSC.

The role of authority is to regulate Bullion exchange, foreign Universities and Institutions, Aircraft leasing, Ancillary services provider etc.

- (b) Empowers the authority to regulate those financial product, services and financial institutions in an IFSC, which are -

- (i) Permitted to operate in IFSC, before the commencement of IFSCA Act.
- (ii) Notified by CG from time to time

- (c) IFSCA to recommend the CG to notify other financial product, services & financial institutions

* Financial Products -

Section 3(1)(d) of IFSCA Act defines, Financial Product as-

- (i) Securities
- (ii) Contract of Insurance.
- (iii) Deposits
- (iv) Credit arrangements
- (v) Foreign currency contract other than contracts that are settled immediately
- (vi) Any other product or instrument notified by CG.

* New Financial Products notified by CG -

- > Aircraft lease including operating and financial lease and hybrid of operating & financial lease of aircraft or helicopter and their engines.
- > Bullion spot delivery contract
- > Bullion depository receipts
- > Operating lease and hybrid lease of ships and other equipments

* Financial Services -

IFSCA Act defines "financial services" as -

- (i) Buying, selling or subscribing to a financial product or agree to do.

- (ii) Acceptance of deposit
- (iii) Safeguarding and administering assets belonging to others
- (iv) Effecting contract of insurance
- (v) Establishing or operating investment scheme
- (vi) Maintaining the records of ownership.
- (vii) Underwriting the subscription of financial product.
- (viii) Exercising any right associated.

* New Financial Services notified by the GI-

- (i) Global - in House centres (GIC), as a financial service to provide services.
- (ii) Trading in bullion depository receipts
- (iii) Courses offered by foreign universities or foreign institutions in IFSC.

* Listing and Trading of Securities in IFSC-

(a) The IFSCA enables the following types of listing -

- (i) an IPO of specified securities by unlisted issuer
- (ii) FPO of specified securities by listed issuer
- (iii) Specified securities of start-ups or SME
- (iv) Secondary listing
- (v) IPO of securities by SPAC

(b) Entities eligible for listing on RSE in IFSC -
Company incorporated in IFSC or in India or

in Foreign jurisdiction.

(c) Listing of debt securities on RSE in IFSC -

- (i) any supranational, multilateral or statutory organisation/ institution/ agency
- (ii) any municipality or statutory body, Trust or Agency established by Govt or SGT, ~~or~~ for the purpose of raising fund for development of SMART city
- ### (iii) Securities are irrevocably guaranteed.

* Listing through IPO -

Listing on RSE in IFSC

- Eligibility :
 - i Average pre-tax profit of previous three financial year - 1 million USD.
 - ii operating revenue - 20 million USD in previous year.
- Issue size -
Not be less than 15 million USD.
- Minimum subscription -
Minimum no. of subscribers 200 &
75% of offer size
- Locked up for 180 days, ~~from~~ from allotment.
(pre-issue)

* Listing of start-ups & SME companies

- i Less than 10 years from incorporation
- ii T.O should not exceed 20 million USD in any year
- iii Working towards innovation, development or improvement.

- (a) Direct listing - start ups and SME's are permitted to list without IPO.
- (b) offer size not be less than 2 million
- (c) Minimum subscribers 50 and 75%.

* Listing of SPAC (Special Purpose Acquisition Company)

- i offer size less than 50 million USD
- ii sponsor shall hold at least 20% of post-issue capital.
- iii Minimum app. size in IPO shall USD 2,50,000
- iv 75% of offer size subscription.
- v Maintenance of escrow a/c, utilize the investment in 3 years, ~~min~~ extend upto 1 year.

* Listing of Debt security -

- i Issued by issuer incorporated in IFSC or in India or in foreign jurisdiction.
- ii Masala bond.

SEBI (IFSC) Guide lines -

- A Eligibility and share holding limit for stock exchange & clearing cooperation for operating in IFSC.

Any RSE or any stock exchange or clearing corporation shall form their subsidiary in IFSC to provide services.

At least 51% of paid-up equity shall be held by such stock exchange or clearing corporation.

Remaining share capital ~~can~~ shall be held by

- i any other stock exchange
- ii Depository
- iii Banking co. / Insurance co.
- iv Commodity derivatives exchange
- v Public financial institutions
- vi clearing corporation.

Any of them shall not hold more than 15% of shares individually.

* Limit for foreign depositories desirous of operating in IFSC. —

Regulated depository shall establish its subsidiary in IFSC to provide its services, where at least 51% of paid up share capital shall be held by such depository.

Permissible securities —

- 1 Equity share of company incorporated outside
- 2 Depository receipts
- 3 Index based derivatives
- 4 Commodity derivatives

These securities shall be in any currency other than Indian currency.