

# Capital Market Intermediaries

## Lesson 10

### KEY CONCEPTS

- Capital Market Intermediaries ■ Business Activities ■ Capital Adequacy ■ Code of Conduct ■ Internal Controls
- Record-Keeping ■ Grievance Redressal ■ Dispute Resolution ■ Investor Protection

### Learning Objectives

#### To understand:

- the Capital Market Intermediaries (CMIs) and their importance in IFSC capital markets.
- the identification of key business activities carried out by CMIs under the IFSCA (CMI) Regulations, 2025.
- the different categories of intermediaries such as broker-dealers, custodians, investment bankers, advisers, distributors, CRAs, and research entities.
- the eligibility criteria and minimum net-worth requirements for each intermediary category.
- the major obligations, compliance requirements, and conduct standards applicable to CMIs.
- the “fit and proper” criteria for key managerial personnel and controlling shareholders of CMIs.
- the qualifications and roles of the Principal Officer, Compliance Officer, and other key human resources.
- the general obligations including record-keeping, risk management, cybersecurity, grievance redressal, and business continuity planning.
- the IFSCA (Capital Market Intermediaries) Regulations, 2025 and their significance for IFSC’s global capital-market ecosystem.

### Lesson Outline

- Overview of IFSCA (Capital Market Intermediaries) Regulations, 2025
- Key Business Activities
- Capital Market Intermediaries
- Intermediary Categories
- Eligibility & Net Worth Requirements
- Obligations
- Fit and proper requirements
- Appointment of Principal Officer, Compliance Officer and other human resources
- General obligations and responsibilities
- Specific Obligations and Responsibilities
- Lesson Round-up
- Glossary
- Test Yourself
- List of further readings

## OVERVIEW OF IFSCA (CAPITAL MARKET INTERMEDIARIES) REGULATIONS, 2025

The IFSCA (Capital Market Intermediaries) Regulations, 2025 represent a modernized, unified legal- regulatory framework designed to govern the multitude of entities that act as intermediaries in the capital-market ecosystem within India's International Financial Services Centres (IFSC). At its heart, the 2025 Regulations aim to ensure that intermediaries such as broker-dealers, custodians, clearing members, credit-rating agencies, investment advisers, distributors and, newly added, "research entities" operate under robust standards of governance, integrity, and professional competence.

By requiring formal registration with the International Financial Services Centres Authority (IFSCA) and prescribing minimum eligibility criteria for officers (like a "Principal Officer" and "Compliance Officer"), the Regulations raise the bar for operational accountability and oversight. Each intermediary must also meet minimum net-worth or capital adequacy norms relevant to their activity — this ensures that entities are financially sound and capable of handling the responsibilities entrusted to them.

Beyond entry-level requirements, the 2025 Regulations lay down a comprehensive code of conduct, obligations around record-keeping, conflict-of-interest management, investor grievance redressal, business continuity planning, risk management and internal controls, cyber-security frameworks, and regular compliance audits. Such requirements help promote transparency, protect investor interests, and maintain market integrity — especially important in a dynamic, cross-border capital market environment like IFSC.

Importantly, it formally adds "Research Entity" as a class of intermediary and subsumes earlier-circular-based categories such as "Distributors" and "ESG Ratings & Data Products Providers" (ERDPP) into the regulatory framework, while removing the "Account Aggregator" category. This reflects IFSCA's evolving view of the capital-market ecosystem: recognizing that modern markets need not only traditional brokers and custodians, but also analytical, advisory, distribution, and data-services players — all operating under regulatory oversight.

To sum up, the IFSCA (CMI) Regulations, 2025 mark a significant evolution toward a more integrated, transparent, and resilient regulatory architecture in IFSC's capital markets. For students and market participants alike, understanding these Regulations is key to appreciating how modern capital-market ecosystems are structured balancing ease of doing business with investor protection, fostering innovation while safeguarding trust, and ensuring that intermediaries are not just "market enablers" but responsible custodians of market integrity.

## KEY BUSINESS ACTIVITIES

The IFSCA (Capital Market Intermediaries) Regulations, 2025 identify a wide spectrum of business activities that form the backbone of the IFSC capital-market ecosystem. These activities enable smooth trading, settlement, advisory, data services, analysis, and market support in a globally connected financial environment. The key business activities performed by Capital Market Intermediaries include:

### 1. Trading Facilitation & Brokerage Services

Intermediaries such as broker-dealers enable clients (domestic and international) to buy and sell securities on IFSC-based exchanges. They provide trading platforms, execute orders, manage client positions, and ensure adherence to trading and regulatory norms.

### 2. Clearing & Settlement of Trades

Clearing Members ensure that every trade executed in the IFSC is accurately cleared and settled. They manage risk, margins, and guarantee mechanisms to ensure smooth completion of transactions and reduce systemic risks in the market.

**3. Custody & Asset Safekeeping**

Custodians are responsible for the safekeeping of client securities, handling corporate actions, reconciling positions, and ensuring secure settlement and asset servicing for institutional and global investors.

**4. Depository and Securities Servicing**

Depository Participants (DPs) maintain dematerialised securities accounts, enable transfer and settlement of securities, and act as the link between investors and the IFSC's depository system.

**5. Capital Raising & Investment Banking**

Investment Bankers advise companies and issuers on raising funds—through equity, debt, or hybrid instruments—in international markets. They manage IPOs, bond issuances, private placements, mergers & acquisitions, restructurings, and underwriting commitments.

**6. Investment Advisory & Portfolio Planning**

Investment Advisers provide personalised advisory services, including security selection, portfolio construction, asset allocation, wealth management, and financial planning for clients in IFSC and globally.

**7. Distribution of Capital-Market Products**

Distributors act as intermediaries between issuers or product manufacturers and investors, distributing financial products such as funds, bonds, structured products, and other securities in exchange for fees or commissions.

**8. Credit Assessment & Rating Services**

Credit Rating Agencies (CRAs) evaluate and rate financial instruments, issuers, and securities, helping investors assess creditworthiness, risks, and repayment capacity of borrowers or issuers in the IFSC environment.

**9. Debenture Trusteeship**

Debenture Trustees safeguard the interests of debenture-holders, monitor issuer compliance, maintain security cover, and represent investor interests during default or restructuring scenarios.

**10. ESG Ratings & Data Services**

ESG Ratings and Data Products Providers (ERDPPs) deliver ESG-related ratings, assessments, datasets, and analytical tools that help investors evaluate environmental, social, and governance risks and performance of IFSC-listed companies.

**11. Research and Analytical Services**

Research Entities—newly introduced under the 2025 Regulations—prepare research reports, financial analysis, sector studies, valuation models, and investment recommendations to support informed decision-making in the capital markets.

**CAPITAL MARKET INTERMEDIARIES**

Capital market intermediaries in IFSCA are entities registered and regulated by the International Financial Services Centres Authority (IFSCA) to facilitate, support, and enable activities in the international capital markets operating within the IFSC (such as GIFT City).

They act as the bridge between issuers and investors, ensuring smooth functioning of trading, clearing, settlement, custodial services, advisory, and other related activities in the IFSC ecosystem.

In simple terms, they are the service providers that make global capital market transactions possible inside an IFSC.

### Intermediary Categories

Under the IFSCA (Capital Market Intermediaries) Regulations, 2025, intermediaries include a wide range of entities such as:

1. Broker-Dealer
2. Clearing Member
3. Credit Rating Agency
4. Custodian
5. Debenture Trustee
6. Depository Participant
7. Distributor
8. ESG Ratings and Data Products Provider
9. Investment Adviser
10. Investment Banker
11. Research Entity

The role of various intermediaries under IFSCA (CMI) Regulations, 2025 is placed as under :

Intermediary	Role / Business Activities
Broker-Dealers	<ul style="list-style-type: none"> <li>● Facilitate buying and selling of securities for clients.</li> <li>● Provide trading access to IFSC exchanges (i.e., act as intermediaries for clients to trade in securities within IFSC).</li> </ul>
Clearing Member	<ul style="list-style-type: none"> <li>● Handle clearing and settlement of trades.</li> <li>● Manage risk, margins, guarantee mechanisms in trade settlement.</li> </ul>
Credit Rating Agency (CRA)	<ul style="list-style-type: none"> <li>● Rate securities, financial products, issuers (corporate, sovereign) in the IFSC context.</li> </ul>
Custodian	<ul style="list-style-type: none"> <li>● Safeguard client securities.</li> <li>● Manage settlements, corporate actions, reporting.</li> </ul>
Debenture Trustee	<ul style="list-style-type: none"> <li>● Maintain dematerialized securities accounts for clients.</li> <li>● Support settlement of trades, serves as the link between the depository (like a central securities depository) and clients.</li> </ul>
Distributor	<ul style="list-style-type: none"> <li>● Distribute / sell capital market products (e.g., securities, funds) to investors.</li> <li>● Act as intermediary between issuers or service providers and clients, for a commission or fee.</li> </ul>

Intermediary	Role / Business Activities
ESG Ratings & Data Products Provider	<ul style="list-style-type: none"> <li>● Provide ESG-related ratings (e.g., ESG scoring, thematic ESG ratings) and ESG data products.</li> <li>● Data services that help investors assess environmental, social, and governance risks &amp; performance in IFSC securities.</li> </ul>
Investment Adviser	<ul style="list-style-type: none"> <li>● Provide advice on investments (securities, financial products).</li> <li>● Perform research, asset allocation, financial planning for clients.</li> </ul>
Investment Banker	<ul style="list-style-type: none"> <li>● Advise and manage capital raising (equity, debt issuances) for issuers.</li> <li>● Underwrite or arrange issues, IPOs / debt offerings, mergers &amp; acquisitions advisory at IFSC.</li> </ul>
Research Entity	<ul style="list-style-type: none"> <li>● Publish or provide research reports on securities / financial products (e.g., “buy / hold / sell” recommendations, price targets).</li> <li>● Provide analysis, valuation, sector / macro research.</li> </ul>

These intermediaries operate in line with international best practices and are regulated for transparency, investor protection, and global competitiveness.

## Eligibility & Net Worth

### 1. Definition of Net Worth

Under the CMI Regulations, 2025 “net worth” is defined as:

- 1) The aggregate value of the paid-up share capital (or capital contribution) and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.
- 2) However, for certain intermediaries (broker-dealers, clearing members, investment bankers), the ‘net worth’ shall mean the aggregate value of its liquid assets.

Liquid assets include cash & bank balances, fixed deposits, government securities, and other instruments as may be specified by IFSCA.

### 2. Net Worth Requirements by Category

According to Schedule I of the CMI Regulations 2025, the minimum net worth required for different categories of CMIs is:

Category	Net worth
Broker dealer (Trading member)	As specified by recognised stock exchange
Clearing Member	As specified by recognised clearing corporation
Credit Rating Agency	USD 200,000

Category	Net worth
Custodian	As specified by the Authority from time to time
Debenture Trustee	USD 1.5 million
Depository Participant	As specified by depository
Distributor	USD 50,000
ESG Ratings and Data Products Provider	USD 25,000
Investment Adviser	USD 25,000
Investment Banker	USD 100,000
Research Entity	USD 25,000

### 3. Minimum Net Worth and Structural Requirements for Capital Market Intermediaries in the IFSC

- The Regulations allow a CMI to be set up in the IFSC in the form of a company or an LLP or a body corporate.
- When a capital market intermediary is set up in the form of a branch, the minimum net worth requirements specified in these regulations may be maintained at the parent level in the home jurisdiction where the parent entity is incorporated. The minimum net worth maintained at the parent level shall be earmarked for its branch in IFSC.
- The minimum net worth requirements must be separate and in addition to the minimum net worth requirements applicable for other activities outside IFSC or within IFSC under any other regulations or framework.
- When an entity intends to operate as a capital market intermediary in multiple categories covered under these regulations, it shall maintain the highest of the applicable minimum net worth requirements, unless otherwise specified by the IFSCA.

## Obligations

### 1. Registration, net-worth & fit-and-proper requirements

- 1) Every entity must obtain a valid registration from IFSCA to act as a CMI (e.g. broker-dealer, custodian, investment adviser, etc.).
- 2) The entity must meet the prescribed minimum net worth (or liquid net worth, for certain categories).
- 3) The CMI must also satisfy “fit and proper” criteria for key persons (directors, major shareholders, etc.) and appoint key internal officers.

### 2. Appointment of Key Officers — Principal Officer & Compliance Officer

- Each registered CMI must designate a Principal Officer (PO) and a Compliance Officer (CO), both based out of IFSC.
- The PO and CO must meet the minimum qualification and experience requirements laid down under the Regulations.

- If an entity has multiple registrations (i.e. does more than one intermediary activity), normally a PO must be designated for each activity. However, in certain combinations (e.g. broker-dealer + clearing member + depository participant; or credit-rating agency + ESG/data provider), a common PO may be allowed subject to review depending on scale and complexity.
- The same entity may have a common Compliance Officer across multiple registrations (at least at present), subject to review.

### 3. Conduct of Business, Code of Conduct & General Obligations

All CMIs must comply with a set of general and conduct-related obligations. This includes but isn't limited to the following:

- Maintenance of books of account, records and other documents.
- Furnish information to the Authority about any material change in the information or particulars previously furnished along with the application, any change in principal officer, compliance officer or key managerial personnel and reports, returns, statements and particulars, interval and form as may be specified by the Authority.
- Have a grievance-redressal mechanism / dispute-resolution mechanism for clients / investors.
- Maintain business continuity plans, cybersecurity, and IT-systems safeguards (or as per IFSCA's specifications) as part of general obligation towards operational resilience.
- Have and implement proper risk management framework and internal controls.
- Intimate the Authority, and the market infrastructure institution of which it is a member and seek prior approval of the Authority, of any direct or indirect change in control of the intermediary.
- Pay the fees pertaining to annual fees, turnover based fees and any other fees specified by the Authority.
- Furnish Annual Compliance Audit report to the Authority by the 30th of September of each year.

#### Common Code for All CMIs

All Capital Market Intermediaries must:

1. Protect investor interest and offer useful advice.
2. Maintain integrity, fairness, professionalism & due diligence
3. Avoid:
  - Fraudulent, manipulative or deceptive activities
  - False market creation or rumor-based market influence
  - Unfair competition & discrimination among clients
4. Ensure:
  - Confidentiality of client information
  - Effective grievance handling
  - Transparency on conflicts of interest
  - Prompt disclosure to clients & regulator about action/penalties/financial impact

- Fit & proper officials & strong internal controls
- No insider trading or misuse of privileged information
- Reliable operational infrastructure and risk safeguards
- Freedom & authority to the compliance officer
- Senior management accountability for compliance

#### 4. Additional / Category-specific Obligations

Depending on the type of intermediary (broker-dealer, clearing member, custodian, credit rating agency, distributor, ESG-data provider, etc.), there are additional obligations tailored to the nature of services rendered.

##### Examples:

- For intermediaries offering cross-border/global access services (“Global Access Providers” / GAPs), compliance with additional norms, disclosures, client eligibility, transaction-level restrictions, and record-keeping for cross-border transactions.
- For entities holding or rating securities (e.g. custodian, credit-rating agency, ESG-data provider), specific obligations relating to transparency, data integrity, disclosure, independence/conflict-of-interest management, etc.

#### 5. Purpose / Underlying Principles behind these Obligations

The obligations under CMI Regulations 2025 are designed to ensure that intermediaries operating in the IFSC (such as GIFT City IFSC) do so in a manner that:

- Protects investor interests, by ensuring transparency, segregation of client funds/assets, fair conduct and proper disclosures.
- Maintains integrity and stability of the capital-market infrastructure, via proper net worth, risk management, compliance, and internal controls.
- Aligns with global standards and best practices for financial-market intermediaries (governance, audit, compliance, accountability, etc.).

### Fit and Proper requirements [Regulation 8]

A capital market intermediary must ensure that the entity and its principal officer, directors/ designated partners, key managerial personnel and controlling shareholders are fit and proper persons at all times.

A person shall be deemed to be a fit and proper person if –

- a) such person has a record of fairness and integrity, including but not limited to-
  - financial integrity
  - good reputation and character
  - honesty
- b) such person has not incurred any of the following disqualifications –
  - i. the person has been convicted by a court of law for any offence involving moral turpitude or any economic offence or any offence against securities laws
  - ii. charge sheet has been filed against such person by any Indian enforcement agency in matters concerning economic offences and is pending

- iii. charges have been framed by a court of law or an equivalent institution in matters concerning economic offences
  - iv. a recovery proceeding has been initiated against the person by a financial regulatory authority and is pending
  - v. an order has been passed against the person for malfeasance
  - vi. the person has been declared insolvent and not discharged
  - vii. an order restraining, prohibiting or debarring the person from accessing or dealing in financial product(s) or financial service(s), has been passed by any regulatory authority, in any matter concerning securities laws or financial services market and such order is in force
  - viii. any other order against the person, which has a material bearing on the securities market, has been passed by the IFSCA or any other regulatory authority, and a period of three years from the date of the order has not elapsed. For this provision, the decision to determine materiality shall be that of the IFSCA
  - ix. the person has been found to be of unsound mind by a court of competent jurisdiction and the finding is in force
  - x. the person is financially not sound or has been categorized as a wilful defaulter
  - xi. the person has been declared a fugitive economic offender
  - xii. any other disqualification as may be specified by the IFSCA
- c) Where any person has been declared as not 'fit and proper person' by an order of a regulatory authority, such a person shall not be eligible to apply for any registration, until he satisfies the fit and proper criteria.

### Why Fit & Proper Standard Matters

- It ensures that senior leadership and controlling persons of CMI are honest, competent and financially sound, which helps uphold investor trust and market integrity.
- Prevents conflicts of interest, fraud, misuse of information, and financial instability by disqualifying persons with poor financial/ regulatory history or compromised reputation.
- Helps ensure governance standards, accountability, and operational soundness in IFSC-based intermediaries.

### Appointment of Principal Officer, Compliance Officer and other human resources [Regulation 9]

#### Designation Requirement

A capital market intermediary (CMI) shall designate a principal officer and a separate compliance officer based out of IFSC.

#### Educational Qualifications

The CMI must ensure that both the Principal Officer and the Compliance Officer possess appropriate educational qualification requirements, as detailed below:

- a) A professional qualification, postgraduate degree, or a post-graduate diploma (minimum duration: one year) in finance, law, accountancy, business management, commerce, economics, capital markets, banking, insurance, or actuarial science, obtained from:

- a university or institution recognized by the Central or any State Government in India, or
- a recognized foreign university, institution, or association, or
- a CFA from the CFA Institute or an FRM (Global Association of Risk Professionals), or
- any other relevant qualification as may be prescribed by the Authority.

**Provisos:**

Individuals holding a graduation degree in any discipline from a university or an institution recognised by the Central Government or any State Government or a foreign university shall be considered eligible if they also possess a minimum of ten years of experience in the financial services market.

Individuals with a Bachelor of Law (LL.B.) degree from a university, or an institution recognised by the Central Government or any State Government or a recognised foreign university or institution or association are also eligible for appointment as a compliance officer.

In the case Principal Officer of distributors, investment advisers, or research entities, a graduation degree in any field from a university or an institution recognised by the Central Government or any State Government or a foreign university accompanied by Certified Financial Planner (CFP) certification from the Financial Planning Standards Board shall also be deemed sufficient.

The term professional qualification includes memberships of the Institute of Chartered Accountants of India (ICAI), the Institute of Company Secretaries of India (ICSI), the Institute of Cost Accountants of India (ICMAI), or equivalent professional bodies in foreign jurisdictions.

**Experience Requirements**

The CMI must also ensure that the appointees, i.e. principal officer and compliance officer, meet the following professional experience requirements:

- a) The Principal Officer must possess a minimum of three years' experience in the financial services market. An individual with at least one year of experience specifically in ESG-related functions may be appointed as Principal Officer of an Environmental, Risk Disclosure, and Pricing Platform (ERDPP).
- b) The Compliance Officer must have at least two years of experience in the financial services sector. Additionally, experience in other sectors may be recognised if the individual has at least two years of experience in a compliance-related role within a corporate entity.

**Employee Certification Requirement**

The CMI shall ensure that its workforce undergoes such certification courses from such institutions as may be specified by the Authority.

**Adequacy Manpower**

The CMI must maintain staffing levels that are adequate and proportionate to the nature and volume of its business operations in the IFSC.

**Responsibility of Principal Officer**

The principal officer must be responsible for the overall operations undertaken by the CMI and also ensure that other employees of the CMI comply with the obligations under the IFSCA CMI Regulations, 2025.

Principal Officer Requirement in case of multiple registrations:

Where a CMI holds multiple registrations, a separate Principal Officer shall be designated for each registration.

However, the same individual may act as Principal Officer for:

- Broker Dealer, Clearing Member, and Depository Participant activities
- Credit Rating Agency and ERDPP functions

### Compliance Officer Requirement in case of multiple registrations

A single Compliance Officer may be appointed to oversee regulatory compliance obligations across all business activities of the CMI within the IFSC.

## GENERAL OBLIGATIONS AND RESPONSIBILITIES [CHAPTER III]

### Code of Conduct [Regulation 15]

Every CMI, regardless of its category, must adhere to some of the following foundational principles:

- **Investor-first approach:** CMIs must make all efforts to protect the interests of investors, and render the best possible advice to the clients, having regard to the needs of the clients, the environment and their own professional skills.
- **Integrity, fairness and professionalism:** All business conduct must be ethical, fair and professional. CMIs must discharge their obligations with honesty, promptness and good faith.
- **Due diligence and independent judgment:** CMIs must exercise care, maintain high standards of diligence, and apply independent professional judgment.
- **Prohibition of market misconduct:** CMIs must refrain from manipulative, fraudulent, or deceptive transactions or schemes or spread rumours with a view to distorting market equilibrium or making personal gains.
- **No false markets, no collusion:** CMIs must not create false markets, either alone or in collusion with others (other intermediaries or issuers), in ways that disadvantage investors or undermine market fairness.
- **Client confidentiality:** Sensitive client information must be kept confidential by the CMI about its clients, except where such disclosures are required to be made in compliance with any law for the time being in force.
- **Conflict-of-interest management:** CMIs must avoid conflicts of interest. Where conflicts exist or may appear, they must be adequately disclosed, and mechanisms put in place to manage or resolve them.
- **Fair treatment and non-discrimination:** CMIs must indulge in any unfair competition, which is likely to harm the interests of other capital market intermediaries and investors. It must not discriminate amongst its clients, except on ethical and commercial considerations.
- **Truthful representation and transparency:** CMIs must not make exaggerated or misleading statements (oral or written) about their qualifications, services, or achievements. They must be truthful in all client communications.
- **Suitability of advice / recommendations:** Before recommending any security or financial product, a CMI must ensure that the recommendation is suitable for the client, based on a reasonable assessment of the client's profile.
- **Governance, internal controls & infrastructure:** CMIs must maintain adequate operational and financial capability, internal control procedures, robust risk management, and appropriate infrastructure to safeguard client interests and prevent misconduct.
- **Outsourcing controls:** If any function is outsourced (especially outside IFSC), the CMI must have an internal policy covering outsourcing and ensure compliance with that policy.

- **Regulatory compliance & disclosure obligations:** CMIs must be fit and proper; ensure all key persons are qualified; and must not hide or suppress material facts in documents, reports or information submitted to the regulator.
- **Management responsibility:** Senior management bears primary responsibility for ensuring compliance with the Code and proper conduct at all times.

#### **Maintenance of books of account, records and other documents [Regulation 16]**

A CMI must maintain and preserve the following books of account, records and documents, in electronic retrieval form for a minimum of eight years.

#### **Information to the Authority [Regulation 17]**

A CMI must furnish to the IFSCA any material change in the information or particulars previously furnished along with the application, which has a bearing on the certificate of registration granted to it. It must also intimate to the IFSCA any change in principal officer, compliance officer or key managerial personnel to the IFSCA, within 15 days of such change. It shall furnish such reports, returns, statements and particulars, in such manner, interval and form, as may be specified by the IFSCA.

#### **Redress of grievances [Regulation 18]**

A CMI must take adequate steps for redress of grievances of the investors in accordance with the requirements as may be specified by the IFSCA.

#### **Dispute Resolution [Regulation 19]**

A CMI must take adequate steps to ensure that disputes between a CMI and its clients and/or investors arising out of or in relation to the activities of the CMI in IFSC shall be dealt with in accordance with the dispute resolution mechanism as may be specified by the IFSCA.

#### **Business Continuity Plan [Regulation 20]**

- 1) A CMI must maintain a business continuity plan identifying procedures relating to an emergency or significant business disruption, commensurate with its size, nature and scale of business.
- 2) A CMI must update its business continuity plan in the event of any material change to operations, structure, business, or location.
- 3) A CMI must conduct an annual review of its business continuity plan.

#### **Cyber Security and Cyber Resilience [Regulation 21]**

A CMI must have robust cyber security and cyber resilience framework in accordance with the requirements as may be specified by the IFSCA.

#### **Risk Management and Internal Controls [Regulation 22]**

- 1) A CMI must have a sound risk management system for comprehensively managing risks.
- 2) A CMI must have adequate internal procedures and controls, given the types of business in which it engages (including any activities which have been outsourced) with the aim of protecting the interests of clients and their assets and ensuring proper management of risk.

**Change in control [Regulation 23]**

- 1) When a CMI is operating in the form of branch in an IFSC, it must intimate the IFSCA, and the market infrastructure institution of which it is a member (if applicable), within fifteen days of any direct or indirect change in control of the intermediary.
- 2) When a CMI is incorporated in an IFSC, it must seek prior approval of the IFSCA, in case of any direct or indirect change in control of the intermediary.

**Payment of Fees [Regulation 24]**

A CMI must pay the fees pertaining to annual fees, turnover based fees and any other fees specified by the IFSCA.

**Annual Compliance Audit [Regulation 25]**

- 1) A CMI must have an annual audit conducted in respect of compliance with these regulations by a member of the Institute of Chartered Accountants of India or a member of the **Institute of Company Secretaries of India** or a member of the Institute of Cost Accountants of India or any person authorised to conduct audit in a Foreign Jurisdiction.
- 2) A copy of such compliance audit report for a financial year must be furnished to the IFSCA by the 30th of September of such year. However, a trading member, a clearing member and a depository participant also file a copy of such report to the recognised stock exchange, recognised clearing corporation and depository, as the case may be.
- 3) A CMI must have additional audits and submit such reports as may be specified by the IFSCA from time to time.

**SPECIFIC OBLIGATIONS AND RESPONSIBILITIES [CHAPTER IV]****Broker dealers and Clearing members [Regulation 26]**

- 1) A broker dealer must ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised stock exchange.
- 2) A clearing member must ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised clearing corporation.

**Global Access [Regulation 27]**

A CMI, including a broker dealer, desirous of dealing in securities in Foreign Jurisdictions must comply with the norms and requirements specified by the IFSCA.

**Credit rating agencies [Regulation 28]**

- 1) A registered credit rating agency must enter into a written agreement with each client whose securities or other permitted financial products it proposes to rate, and every such agreement must include the right and liabilities of each party and fee to be charged by such credit rating agency.
- 2) The client must provide all co-operation required for arriving at a true and accurate rating of the securities or other permitted financial products by a registered credit rating agency.
- 3) A registered credit rating agency must inform to the client the rating assigned to the securities or other permitted financial products.

- 4) A registered credit rating agency must continuously monitor the rating of securities or other permitted financial products and carry out periodic reviews of the rating, unless the rating is withdrawn.
- 5) A registered credit rating agency must generally not withdraw a rating so long as the obligations under the security /instrument/ facility rated by it are outstanding. However, a registered credit rating agency can withdraw a rating in the following situations:
  - a) Where the entity whose security/instrument/facility is rated is wound up or merged or amalgamated with another entity
  - b) In case of non-cooperation from the issuers, or non-payment of agreed fee
  - c) At the request of an issuer, except where such request might give rise to avoiding an imminent rating change
  - d) Where such credit rating agency is constrained from providing service due to events beyond its control. Further, the reason for withdrawal of rating must be mentioned in the press release issued by the registered credit rating agency withdrawing such rating.
- 6) A registered credit rating agency must disseminate information regarding change in ratings promptly through press releases and simultaneously to the recognised stock exchanges (if the securities or other permitted financial products are listed on a recognised stock exchange in an IFSC).
- 7) A registered credit rating agency must make public the definitions of the concerned rating, along with the symbol and also state that the ratings do not constitute recommendations to buy, hold or sell any securities or other permitted financial products.
- 8) A registered credit rating agency must make available to the general public, the information relating to the rationale of the ratings, which must cover an analysis of various underlying factors.
- 9) A registered credit rating agency must specify the rating process and file a copy of the same to the IFSCA for record.
- 10) A registered credit rating agency must have professional rating committees, comprising members who are adequately qualified and knowledgeable to assign a rating, and all rating decisions must be taken by the said committee.
- 11) A registered credit rating agency must exercise due diligence to ensure that the rating given by it is fair and appropriate.
- 12) A registered credit rating agency must not rate securities or other permitted financial products issued by it or any of its group entity.
- 13) A registered credit rating agency must have appropriate procedures and systems for preventing trading on the basis of unpublished price sensitive information obtained by them in the course of any professional assignment.

### **Custodians [Regulation 29]**

- 1) A custodian must separate and segregate its custodian activities from all other activities.
- 2) A custodian must have adequate mechanisms for reviewing, monitoring and evaluating its controls, systems, procedures and safeguards.
- 3) A custodian must enter into an agreement with each client detailing various circumstances relating to custody of the securities or other permitted financial products or funds.
- 4) A custodian must have adequate internal controls to prevent any manipulation of records and documents, and to protect the records from theft and natural hazard.

**Debenture trustees [Regulation 30]**

- 1) A registered debenture trustee must enter into an agreement with the issuer before the opening of the subscription list for issue of debentures.
- 2) A person must not be appointed as a debenture trustee, in cases where the debenture trustee is an associate of the issuer or is likely to have conflict of interest in any manner.
- 3) A registered debenture trustee must ensure that:
  - a) It accepts the trust deed which must contain details on standard information pertaining to the debt issue and details specific to the particular debt issue and must not contain covenants prejudicial to the interest of the debenture holders.
  - b) The trust deed is consistent with the terms of the proposed issue of debenture.
  - c) It calls for periodical reports/ performance report from the issuer company within seven days of the relevant board meeting or within forty five days of the respective quarter, whichever is earlier.
  - d) It calls for reports on the utilisation of funds raised by the issue of debentures.
  - e) It communicates to the debenture holder defaults, if any, in respect of the payment of interest or redemption of debentures and actions taken thereunder.
  - f) It appoints a nominee director on the board of the issuer in the event of two consecutive defaults in payment of interest or default in creation of security or default in redemption of debentures and the issuer must be obliged to provide all requisite support in this regard, if legally permissible.
  - g) In case of breach of terms of the issue of debentures or covenants of the trust deed, it must take reasonable steps to remedy such breach and inform the debenture holders immediately of any such breach.
  - h) The issuer satisfies the conditions, if any, regarding creation of security for the debentures, debenture redemption reserve and recovery expense fund.
    - i) The assets of the issuer and of the guarantors are sufficient to discharge the interest and principal amount at all times, and such assets are free from any other encumbrances except those which are specifically agreed to by the debenture holders.
    - j) It must perform all acts necessary for the enforcement of the security and for protection of the interest of the debenture holders.
    - k) It must call for reports on the utilisation of funds raised by the issue of debentures.
    - l) It takes steps to convene a meeting of debenture holders as and when required.
  - m) The debentures have been converted or redeemed in accordance with the terms of the issue of debentures.
  - n) It takes possession of the trust property in accordance with the terms of the trust deed.
  - o) The debentures have been credited in the demat accounts of the debenture holders.
  - p) Debenture holders have been paid the interest due on the debentures and the monies due to them on the date of redemption of the debenture.
  - q) It informs the IFSCA immediately of any breach of trust deed or provision of any applicable laws.
  - r) It obtains reports from the lead bank regarding the progress of the project.

- s) It may inspect books of account, record, registers of the issuer and trust property to the extent necessary for discharging its obligations.
- 4) Before creating a charge on the security for the debentures, the debenture trustee must exercise independent due diligence to ensure that such security is free from any encumbrance or that it has obtained the necessary consent from other charge-holders if the security has an existing charge, in the manner as may be specified by the IFSCA from time to time.
- 5) No debenture trustee must relinquish its assignment as debenture trustee in respect of the debenture issue of any issuer, unless and until another debenture trustee is appointed in its place by the issuer.

### Depository Participants [Regulation 31]

- 1) A depository participant must ensure compliance with the applicable laws, including bye-laws, rules and regulations specified by the recognised depository.
- 2) A depository participant must ensure that separate accounts are opened in the name of each of the beneficial owners, and the securities of each beneficial owner must be segregated and must not be mixed up with the securities of other beneficial owners or with the participant's own securities.
- 3) A depository participant must have adequate mechanisms for the purpose of reviewing, monitoring and evaluating its internal accounting controls and systems.
- 4) Where the records are maintained in electronic form, a depository participant must ensure that the integrity of the data processing system is maintained at all times.
- 5) A depository participant must reconcile its records with the depository, on a daily basis.

### Distributors [Regulation 32]

- 1) A registered distributor can undertake the following activities:
  - a) Distribution of capital market products and/or services to any client in IFSC or Foreign Jurisdiction: The capital market products and/or services offered by any regulated financial entity set up in India, IFSC, jurisdictions which are identified in the notification published in the Gazette of India vide no. G.S.R. 882(E) dated November 28, 2019, as must be revised from time to time, or any other jurisdiction as may be specified by the IFSCA, must be distributed to any client in IFSC or foreign jurisdictions.
  - b) Distribution of capital market products and/or services to sophisticated investors in IFSC or Foreign Jurisdictions: The capital market products and/or services offered by any issuer or service provider, respectively, which is set up in India, IFSC or any foreign jurisdiction must be distributed to sophisticated investors in IFSC or foreign jurisdictions.
  - c) Distribution of capital market products and/or services to any client in India: The capital market products and/or services offered by any regulated financial entity set up in IFSC, jurisdictions which are identified in the notification published in the Gazette of India vide no. G.S.R. 882(E) dated November 28, 2019, as can be revised from time to time, or any other jurisdiction as may be specified by the IFSCA, may be distributed to any client in India.
  - d) Distribution of capital market products and/or services to sophisticated investors in India: The capital market products and/or services offered by any issuer or service provider, respectively, which is set up in IFSC or any foreign jurisdiction, may be distributed to sophisticated investors in India.
  - e) Any other activities as must be specified by the IFSCA.

- 2) For distribution of capital market products and/or services offered by a regulated financial entity to all types of clients, the registered distributor must ensure that such products or services have been authorised, vetted or approved for offering to all types of investors, by the relevant regulatory or supervisory authority of such regulated financial entity. Here, “regulated financial entity” means an issuer or a service provider set up in India, an IFSC or any Foreign Jurisdiction, which is registered, authorised, licensed or regulated by any regulatory or supervisory authority of its home jurisdiction for carrying out activities related to asset management, funds management, investment advisory, portfolio management or any other similar activity, by whatever name called.
- 3) A registered distributor while undertaking various permissible activities must ensure compliance with all applicable laws as prevalent in the jurisdictions of issuers, service providers and clients.
- 4) A registered distributor must comply with the requirements specified by the IFSCA.

### ESG Ratings and Data Products Providers (ERDPP) [Regulation 33]

- 1) An ERDPP can undertake services relating to ESG Ratings and ESG Data Products in an IFSC or a Foreign Jurisdiction.
- 2) An ERDPP must not provide any other service without the prior approval of the IFSCA.
- 3) An ERDPP must adhere to the following “Code of Conduct”, on a “comply” or “explain” basis.

#### a) Principle on Good Governance

ERDPP must ensure appropriate governance arrangements are in place that enable it to promote and uphold the principles and overall objectives of the Code of Conduct.

#### b) Principle on Securing Quality (Systems and Controls)

ERDPP must adopt and implement written policies and procedures designed to help ensure the issuance of high quality ESG Ratings and Data Products.

#### c) Principles on managing Conflicts of Interest

- i. ERDPP must adopt and implement written policies and procedures designed to help ensure that its decisions are independent, free from political or economic interference, and appropriately address actual or potential conflicts of interest that may arise from, among other things, ERDPP’s organisational structure, business or financial activities, or the financial interests of the ERDPP, its officers and employees.
- ii. ERDPP must also identify, avoid or appropriately manage, mitigate and disclose actual or potential conflicts of interest that may compromise the independence and integrity of the ERDPP’s operations.

#### d) Principle on Transparency

ERDPP must make adequate levels of public disclosure and transparency a priority for its ESG Ratings and Data Products, including its methodologies and processes to enable the users of the product to understand what the product is and how it is produced, including any potential conflicts of interest, while maintaining a balance with respect to proprietary or confidential information, data and methodologies.

#### e) Principle on Confidentiality (Systems and Controls)

ERDPP must adopt and implement written policies and procedures designed to address and protect all non-public information received from or communicated to it by any entity, or its agents, related to their ESG Ratings and ESG Data Products, in a manner appropriate in the circumstances.

**f) Principles on Engagement (Systems and Controls)**

- i. ERDPP must regularly consider whether its information gathering processes with entities covered by its products lead to efficient information procurement for both the providers and these entities. Where potential improvements to information gathering processes are identified, the ERDPP must consider what measures can be taken to implement them.
  - ii. Where feasible and appropriate, the ERDPP must respond to and address issues flagged by entities covered by its ESG Ratings and Data Products and by users while maintaining the independence and integrity of these products.
- 4) An ERDPP must disclose compliance of the “Code of Conduct” provided above on a “comply” or “explain” basis on its website.
- 5) An ERDPP providing ESG Ratings must have guidelines/ criteria/ methodology on the rating process and the same must be disclosed on its website.
- 6) An ERDPP must disclose all ESG Ratings provided by it on its website.
- 7) An ERDPP must segregate its activities relating to ESG Ratings and ESG Data Products from its other activities to ensure that there is no conflict of interest between these activities.

**Investment advisers [Regulation 34]**

- 1) An investment adviser must disclose to a prospective client, all material information about itself including its business, disciplinary history, the terms and conditions on which it offers advisory services, affiliations with other intermediaries and such other information so as to enable the client to take an informed decision on whether or not to avail its advisory services.
- 2) An investment adviser must make the following disclosures to its clients:
  - a) its holding or position, if any, in the financial products or securities which are subject matter of advice
  - b) any potential or actual conflict of interest arising from any connection to or association with any issuer of products/securities
  - c) all material facts relating to the key features of the products or securities, particularly performance track record
  - d) warnings, disclaimers in documents and advertising materials relating to an investment product which it is recommending to the client
- 3) An investment adviser must act in a fiduciary capacity towards its clients and must disclose all conflicts of interest as and when they arise.
- 4) An investment adviser must not receive any consideration by way of remuneration or compensation or in any other form from any person other than the client being advised, in respect of the underlying products or securities for which advice is provided.
- 5) An investment adviser must maintain an arm’s-length relationship between its activities as an investment adviser and its other activities.
- 6) An investment adviser must not enter into transactions on its own account which is contrary to the advice given to its clients for a period of 15 days from the day of such advice. During the period of 15 days, if the investment adviser is of the opinion that the situation has changed, then it may enter into such a transaction on its own account after giving such revised assessment to the client at least 24 hours in advance of entering into such transaction.

- 7) An investment adviser must not act on its own account, knowingly to sell securities or investment products to or purchase securities or investment products from a client.
- 8) An investment adviser must ensure that, for the purposes of risk profiling:
  - a) it obtains such information from the client as is necessary for the purpose of giving investment advice
  - b) it has a process for assessing the risk a client is willing and able to take
  - c) risk profile of the client is communicated to the client after completion of risk assessment
  - d) the information provided by clients and their risk assessment is updated periodically
- 9) An investment adviser must ensure that all investments on which investment advice is provided is suitable to the risk profile of the client and is consistent with the client's investment objectives and financial position.
- 10) An investment adviser must have client level segregation for investment advisory and distribution services.
- 11) An investment adviser must maintain an arm's length relationship between its activities as investment adviser and distributor by providing advisory services through a separately identifiable department or division, including separate manpower for conduct of these activities.
- 12) An investment adviser can provide implementation services to its advisory clients in securities market. The investment adviser shall ensure the following:
  - a) the potential conflicts of interest, if any, are adequately disclosed to its clients
  - b) the fee charged, if any, for the implementation services is pursuant to an agreement with its clients and disclosed in a transparent manner
- 13) The client must not be under any obligation to avail implementation services offered by the investment adviser.

### Investment Bankers [Regulation 35]

- 1) An investment banker must enter into an agreement with the issuer of securities specifying the roles and responsibilities of the investment banker in the issue.
- 2) Where there is more than one lead investment banker to the issue, the responsibilities of each of such lead investment banker must be clearly demarcated.
- 3) An investment banker must not undertake any activity, except for marketing of the issue or offer, if the investment banker is a promoter or an associate of the issuer of securities or of any person making an offer to sell or purchase securities in terms of any regulations made by the IFSCA.
- 4) No investment banker or any of its principal officer, directors, partner or manager must either on their respective accounts or through their associates or relatives enter into any transaction in securities of issuer on the basis of unpublished price sensitive information obtained by them in the course of any professional assignment.
- 5) An investment banker must submit to the IFSCA complete particulars of any transaction for acquisition of securities of any body corporate whose issue is being managed by that investment banker within fifteen days from the date of entering into such transaction.

- 6) An investment banker can act as an underwriter of an issue in an IFSC, subject to the following conditions:
  - a) An investment banker acting as an underwriter, must enter into an agreement with the issuer of securities, on whose behalf it is acting as an underwriter, which must have the understanding in relation to amount of underwriting obligations and commission, allocation of duties and responsibilities, timelines and other relevant details.
  - b) At any point of time, the total underwriting obligations under all the agreements must not exceed twenty times the net worth of the investment banker.

### Research Entities [Regulation 36]

- 1) A research entity must have written internal policies and control procedures governing the dealing and trading by any employee for:
  - a) addressing actual or potential conflict of interest arising from such dealings or trading of securities of subject company
  - b) promoting objective and reliable research that reflects unbiased view of research analyst
  - c) preventing the use of research report or research analysis to manipulate the financial market
- 2) A research entity must ensure that the procedures or controls designed to manage actual or potential conflicts of interest are based on the nature, scale and complexity of the business.
- 3) The internal policy must ensure that the conflicts of interest are identified and adequately addressed so that the quality of the research report is not compromised.
- 4) A research entity must have in place appropriate mechanisms to ensure independence of its research activities from its other business activities.
- 5) A research entity must establish, implement and enforce policies and procedures for personal trading by its analysts and their associates.
- 6) Personal trading activities of the individuals employed as research analyst by research entity must be monitored, recorded and wherever necessary, must be subject to a formal approval process.
- 7) The policy must ensure that an analyst does not trade for himself in a manner that is contrary to his outstanding research recommendations, except in special circumstances, where the analyst must be required to obtain prior written approval for each trade.
- 8) A research entity must ensure that the remuneration of analysts is structured in a way to avoid any bias in his research analyses and recommendations.
- 9) A research entity must ensure that there are robust and effective barriers between the entity and other business dealings of the entity or its group entity to ensure independence and objectivity of the research reports.
- 10) A research entity must not provide any promise or assurance of favourable review in its research report to a company or industry or sector or group of companies or business group as consideration to commence or influence a business relationship or for the receipt of compensation or other benefits.
- 11) A research entity must ensure that the information provided in the report is complete, concise and specific such that investors can understand the actual or potential conflicts of interest and their likely impact on the quality of the research report published.
- 12) A research entity must disclose any material interest in the report that may create a potential conflict

of interest and thereby affect the ability of the entity to maintain independence and objectivity. The research entity must disclose in the report if the research entity or the research analyst or his associate or his relative has:

- a) any material financial interest in the subject company and the nature of such financial interest
  - b) beneficial ownership of one or more per cent of the securities of the subject company
  - c) any material business relationship with the subject company over the past 12 months that may result in conflict of interest
  - d) any other material conflict of interest relating to the subject company
- 13) A research entity must take steps to ensure that facts in its research reports are based on reliable information and must define the terms used in making recommendations, and these terms must be consistently used.
- 14) A research entity must have adequate documentary basis, supported by research, for preparing a research report.
- 15) Where a research entity employs a rating system, it must clearly define the meaning of each such rating including the time horizon and benchmarks on which a rating is based.

#### LESSON ROUNDUP

- Capital market intermediaries act as linking institutions between investors and the capital market, facilitating trading, investment, advisory, and settlement activities.
- The 2025 Regulations bring uniformity and clarity by placing all intermediaries under a common regulatory structure.
- Registration ensures that only competent, financially sound, and trustworthy entities are allowed to operate in the capital market.
- The fit and proper criteria ensure that intermediaries maintain integrity, professional competence, and ethical behavior.
- Clearly defined roles and permitted activities help prevent conflicts of interest and misuse of investor funds.
- Strong governance and internal controls reduce operational risks and market manipulation.
- Capital adequacy requirements ensure that intermediaries can absorb losses and protect investor interests.
- Mandatory disclosures and record-keeping promote transparency and accountability in market operations.
- Regulatory supervision and inspections act as preventive tools against misconduct and systemic risk.
- Penalties and enforcement provisions create discipline and deterrence, encouraging compliance with regulations.
- Overall, the regulations strengthen investor confidence, ensure orderly market functioning, and support long-term capital market development.

### GLOSSARY

**Capital Market:** A financial market where long-term securities such as shares, bonds, and debentures are issued and traded.

**Capital Market Intermediary:** An entity or individual that facilitates transactions between investors and issuers in the capital market, such as brokers, dealers, investment advisers, and portfolio managers.

**Fit and Proper Criteria:** Standards relating to integrity, competence, financial soundness, and reputation that an intermediary must satisfy to be eligible for registration.

**Investor Protection:** Regulatory measures designed to safeguard the interests, rights, and funds of investors in the capital market.

**Code of Conduct:** A set of ethical and professional standards that capital market intermediaries must follow while dealing with investors and the market.

**Capital Adequacy:** The minimum level of capital that an intermediary is required to maintain to absorb losses and ensure financial stability.

**Internal Controls:** Policies and procedures implemented by intermediaries to manage risks, ensure compliance, and prevent fraud or errors.

**Disclosure:** The act of providing complete, accurate, and timely information to investors and the regulator.

**Record-Keeping:** Maintenance of proper books, documents, and data relating to transactions and activities of intermediaries.

**Inspection:** Examination of records and operations of intermediaries by the regulator to assess compliance with regulations.

**Supervision:** Ongoing monitoring of intermediaries by the regulator to ensure continuous compliance.

**Enforcement:** Actions taken by the regulator, including penalties or restrictions, to address violations of regulations.

**Penalty:** A monetary or non-monetary punishment imposed for non-compliance with regulatory requirements.

**Grievance Redressal:** A mechanism for addressing and resolving complaints raised by investors against intermediaries.

### TEST YOURSELF

*(These are meant for recapitulation only. Answer to these questions are not to be submitted for evaluation.)*

#### A. Very Short Answer Questions

1. What is meant by a capital market intermediary?
2. Why is registration mandatory for capital market intermediaries?
3. What is the purpose of the “fit and proper” criteria?
4. State one key objective of the Capital Market Intermediaries Regulations, 2025.
5. What role do capital market intermediaries play in investor protection?





## WARNING

### ***Regulation 27 of the Company Secretaries Regulations, 1982***

*In the event of any misconduct by a registered student or a candidate enrolled for any examination conducted by the Institute, the Council or any Committee formed by the Council in this regard, may suo-moto or on receipt of a complaint, if it is satisfied that, the misconduct is proved after such investigation as it may deem necessary and after giving such student or candidate an opportunity of being heard, suspend or debar him from appearing in any one or more examinations, cancel his examination result, or registration as a student, or debar him from re-registration as a student, or take such action as may be deemed fit.*

*It may be noted that according to regulation 2(ja) of the Company Secretaries Regulations, 1982, 'misconduct' in relation to a registered student or a candidate enrolled for any examination conducted by the Institute means behaviour in disorderly manner in relation to the Institute or in or around an examination centre or premises, or breach of any provision of the Act, rule, regulation, notification, condition, guideline, direction, advisory, circular of the Institute, or adoption of malpractices with regard to postal or oral tuition or resorting to or attempting to resort to unfair means in connection with writing of any examination conducted by the Institute, or tampering with the Institute's record or database, writing or sharing information about the Institute on public forums, social networking or any print or electronic media which is defamatory or any other act which may harm, damage, hamper or challenge the secrecy, decorum or sanctity of examination or training or any policy of the Institute.*

# PROFESSIONAL PROGRAMME

## IFSCA – REGULATIONS, LISTING AND COMPLIANCES

### ELECTIVE 1 • PAPER 4.6

*(This test paper is for practice and self-study only and not to be sent to the Institute)*

Time allowed: 3 hours

Maximum Mark: 100

#### **Answer all Questions**

#### **Question No. 1**

AlphaGlobal Capital Ltd., a multinational financial services firm, plans to establish operations in GIFT City IFSC. The company intends to register for multiple activities under the IFSCA Capital Market Intermediaries Regulations, 2025, including:

- Broker-Dealer (to provide trading access to IFSC exchanges)
- Investment Banking (to manage IPOs and debt offerings)
- Investment Advisory (to offer portfolio planning and wealth management)
- Research Entity (to publish research reports and recommendations)

The firm also plans to distribute capital market products to clients in IFSC and foreign jurisdictions. AlphaGlobal has a strong global presence but faces following issues in meeting regulatory requirements for IFSC operations.

#### **1. Registration & Net Worth Compliance:**

AlphaGlobal needs clarity on minimum net worth requirements for multiple registrations and whether it can maintain net worth at the parent level.

#### **2. Appointment of Key Officers:**

The firm must appoint a **Principal Officer** and **Compliance Officer** for IFSC operations. It is not sure about qualification and experience requirements.

#### **3. Fit and Proper Criteria:**

One of the proposed directors was previously penalized by a foreign regulator for non-disclosure in a securities transaction.

#### **4. Conflict of Interest:**

The investment advisory division also plans to distribute products, raising concerns about conflict of interest.

#### **5. Operational Obligations:**

AlphaGlobal must implement cybersecurity, risk management, grievance redressal, and business continuity plans.

#### **6. Research Independence:**

The research team is under pressure from the investment banking division to issue favorable reports for issuers managed by AlphaGlobal.

In view of the above scenario, advise the company on the following:

- (a) What steps must AlphaGlobal take to obtain registration for all proposed activities under the CMI Regulations, 2025?
- (b) How should AlphaGlobal comply with net worth requirements for multiple categories?
- (c) What qualifications and experience are required for the Principal Officer and Compliance Officer?
- (d) What are the consequences of non-compliance with these obligations under IFSCA Regulations?

*(5 marks each)*

### Question No. 2

- (a) ABC Bank, headquartered in London, wants to establish an offshore banking unit in India to cater to global clients and participate in foreign currency lending and derivative transactions. The bank is evaluating GIFT City as its preferred location.

In view of the above, what steps must ABC Bank follow to set up an IFSC Banking Unit in GIFT City? How does the currency of operation differ from a Domestic Tariff Area (DTA) unit?

*(5 marks)*

- (b) FinEdge Technologies, a FinTech startup specializing in cross-border digital payments, plans to leverage GIFT IFSC's regulatory sandbox for innovation.

Answer the following in view of the above statement:

- i. What initiatives by IFSCA support FinTech innovation in GIFT IFSC?
- ii. List two financial activities permitted for FinTech firms in IFSC.
- iii. What exemptions under Companies Act, 2013 will apply to FinEdge Technologies if incorporated in IFSC?

*(5+2+3 = 10 marks)*

### Question No. 3

FinServe Global LLP, a multinational professional services firm, plans to establish operations in GIFT City IFSC. The firm intends to provide Book-keeping, Accounting, Taxation, and Financial Crime Compliance (BATF) services, along with TechFin solutions such as AI-driven compliance tools and cybersecurity services. Additionally, it wants to act as an Ancillary Service Provider for its group entities and explore opportunities to become a KYC Registration Agency (KRA) in the future. The management faces the challenges such as Understanding registration requirements for BATF and TechFin services; Meeting eligibility criteria, including legal form and net worth; Appointing qualified Principal Officer (PO) and Compliance Officer (CO); Ensuring compliance with fit and proper criteria for promoters and key personnel; Implementing ring-fencing of operations to avoid regulatory breaches; Preparing for reporting obligations and AML/CFT compliance; and Managing business continuity and cybersecurity frameworks. In view of the challenges mentioned above, the following issues are identified:

#### 1. Legal Form & Registration:

Should FinServe Global LLP incorporate as a company or LLP in IFSC? What is the step-by-step process for registration under BATF and TAS Regulations?

#### 2. Fit and Proper Criteria:

One of the proposed directors was previously penalized for non-compliance with tax laws in a foreign jurisdiction. Does this affect eligibility?

**3. Operational Compliance:**

What reporting requirements must FinServe meet? How should it implement AML/CFT measures and cybersecurity protocols?

**4. Future Expansion as KRA:**

What additional conditions and net worth requirements apply if FinServe decides to register as a KYC Registration Agency?

Answer the following questions in light of the above case:

1. Outline the registration process for FinServe Global LLP to become a BATF Service Provider and TechFin Service Provider in IFSC.
2. Analyze the impact of the director's past penalty on the firm's compliance with fit and proper criteria.
3. List the reporting and disclosure obligations under BATF and TAS Regulations.
4. What are the net worth and governance requirements for becoming a KYC Registration Agency?

*(5 marks each)*

**Question No. 4**

- (a) Robin Ltd., incorporated in India, plans to list its equity shares on a recognised stock exchange in GIFT IFSC through an Initial Public Offer (IPO). The company has an operating revenue of USD 18 million and a pre-tax profit of USD 1.2 million in the last financial year. Its projected post-issue market capitalization is USD 30 million.

Based on IFSCA Listing Regulations, analyze whether ABC Ltd. is eligible to make an IPO in GIFT IFSC. What additional conditions must it comply with before proceeding?

*(5 marks)*

- (b) XYZ SPAC Ltd. intends to raise USD 60 million through an IPO in GIFT IFSC. The sponsors have subscribed USD 8 million prior to the IPO and hold 18% of the post-issue capital. The SPAC has identified a target business combination before filing the offer document.

In view of the above, evaluate whether XYZ SPAC Ltd. meets the eligibility criteria for listing under IFSCA regulations. What regulatory issues arise in this case?

*(5 marks)*

- (c) GreenFuture Ltd. proposes to issue ESG-labelled debt securities in IFSC to finance renewable energy projects. The company claims alignment with ICMA principles but does not appoint an independent external reviewer. It also fails to disclose the process for project selection in its offer document. Identify the compliance gaps in GreenFuture Ltd.'s approach. What steps should the company take to meet IFSCA's requirements for ESG-labelled debt securities?

*(5 marks)*

**Question No. 4A**

- (i) FinEdge Technologies Pvt. Ltd., an Indian start-up registered with DPIIT, has developed an AI-driven cross-border payment solution that integrates blockchain for secure transactions and offers real-time FX conversion. The company intends to test its solution in GIFT City's International Financial Services Centre (IFSC) and later scale globally. The founders are exploring the IFSCA regulatory framework for FinTech entities and related incentives.

- (a) What legal structure must FinEdge adopt to operate as a FinTech Entity in IFSC?
- (b) Can FinEdge seek exemptions from KYC and AML requirements during sandbox testing? Justify your answer.

(5 marks each)

- (ii) EcoFinance Ltd. markets its debt securities as “green bonds” but allocates 40% of the proceeds to upgrade fossil fuel-based power plants without disclosure. Investors later alleged greenwashing.

Analyze the regulatory implications of this case under IFSCA’s circular on mitigating greenwashing risk. What principles were violated, and what preventive measures should issuers adopt?

(5 marks)

### Question No. 5

- (a) GlobalProtect Ltd., a foreign insurer incorporated in Singapore, wants to set up a branch in GIFT IFSC. It has a strong credit rating for the last three years and meets solvency requirements in its home country. However, it has not obtained a No Objection Certificate (NOC) from the regulator of its home country yet.

Analyze whether GlobalProtect Ltd. can proceed with registration as an IFSC Insurance Office (IIO). What specific eligibility conditions under IFSCA regulations must it fulfill before approval?

(5 marks)

- (b) SecureLife India Ltd., an Indian insurer registered with IRDAI, plans to open an IFSC Insurance Office IIO in GIFT IFSC. It proposes to maintain assigned capital of INR 12 crore in its Indian bank account and conduct business in Indian Rupees.

Evaluate whether SecureLife India Ltd.’s plan complies with IFSCA requirements. What changes must it make regarding assigned capital and currency operations?

(5 marks)

- (c) ReSecure Ltd., a foreign reinsurer operating through an IIO in IFSC, maintains solvency margin in its home country but pledges the assets backing the margin for another loan. It also delays quarterly solvency reporting to IFSCA.

Analyze the violations in this case. What are the solvency margin and reporting obligations under IFSCA regulations?

(5 marks)

### Question No. 6

- (a) GlobalInsure Ltd., an IIO, fails to implement Anti-Money Laundering (AML) procedures and does not maintain books of accounts in the prescribed format. It also delays reporting operational data to IFSCA.

Discuss the compliance risks and regulatory consequences. What operational and reporting requirements must an IIO adhere to?

(5 marks)

- (b) SteelPro Ltd., a major steel manufacturer, plans to issue Transition Bonds under IFSCA’s framework to fund decarbonization projects. However, its transition plan lacks measurable emission-reduction targets and does not reference any international taxonomy or technology roadmap.

Discuss why SteelPro Ltd.'s bond issuance may fail to attract investors under the IFSCA Transition Bond Framework. Suggest corrective measures to align with the framework's four core pillars.

(5 marks)

- (c) Zenith Capital Pvt. Ltd., an investment firm, wants to set up operations in GIFT City IFSC. Initially, it plans to launch a Restricted Scheme for accredited investors with a minimum investment of USD 150,000. Later, it intends to introduce Retail Schemes for the general public. The firm also wants to ensure compliance with IFSCA regulations regarding net worth, disclosures, and risk management.
- Under which category (Restricted Scheme or Retail Scheme) of Fund Management Entity (FME) should Zenith Capital register to launch?
  - What is the minimum net worth requirement for Registered FME (Non-Retail) and Registered FME (Retail)?
  - State two key disclosure requirements in the placement memorandum for Restricted Schemes.

(1+2+2=5 marks)

### Question No. 6A

Universal Bank Ltd., a leading international bank headquartered in London, plans to expand its operations in India by setting up a unit in the International Financial Services Centre (IFSC) at GIFT City. The bank aims to offer foreign currency lending, trade finance, and treasury services to global clients. Additionally, it intends to provide cross-border payment services and explore opportunities in aircraft leasing and treasury management for its multinational clients.

The management team is evaluating the following options and requirements:

- Whether to establish an IFSC Banking Unit (IBU) or an IFSC Banking Company (IBC).
- The minimum capital requirement for each option.
- The regulatory approvals and documents needed from its home regulator.
- Compliance with KYC, AML, and CFT guidelines.
- The possibility of offering Payment Services without separate authorisation.
- Exploring aircraft leasing as a permitted activity under IFSC regulations.
- Setting up a Global/Regional Corporate Treasury Centre (GRCTC) for its group entities.

In view of the above scenario, answer the following questions

- Advise Universal Bank Ltd. on whether it should choose an IBU or an IBC, considering regulatory requirements and capital commitments.
- What are the minimum capital requirements for setting up an IBU and an IBC in IFSC?
- List the key regulatory approvals and undertakings Universal Bank must obtain before commencing operations.
- Explain the importance of KYC and AML compliance for Universal Bank's IFSC operations.
- Can Universal Bank provide payment services without obtaining a separate authorisation? Justify your answer with reference to IFSCA regulations.

(3 marks each)



