

Banking Services and Finance Companies in IFSC

Lesson 6

KEY CONCEPTS

■ IFSC Banking Unit ■ Core and Non-Core Activities ■ International Trade Finance Services (ITFS) Platform ■ Permissible Activities ■ Know Your Customer (KYC) and Anti-Money Laundering (AML) ■ Payment Service Providers ■ Finance Companies in IFSC ■ Global/Regional Corporate Treasury Centre (GRCTC)

Learning Objectives

To understand:

- Concept and significance of Banking Services and Finance Companies in IFSC
- Structure and types of banking units in IFSC (IBU and IBC)
- Process and requirements for setting up banking units and finance companies in IFSC
- Regulatory role of IFSCA and applicable prudential norms
- Permissible banking and financial activities in IFSC
- Importance of KYC, AML, and CFT compliance
- Operational and reporting requirements in IFSC
- Role and regulation of Payment Service Providers (PSPs)
- Core and non-core activities of finance companies
- Framework for ITFS, ship leasing, aircraft leasing, and treasury centres in IFSC

Lesson Outline

- Basic Concepts
- Setting up of a Banking Unit at IFSC
- Regulatory Requirements
- Permissible Activities
- Know Your Customers and Anti-Money Laundering
- Operational Requirements
- Payment Service Provides in the IFSC
- Finance Companies in IFSC
- Permitted Core activities
- Permitted Non-Core activities
- International Trade Finance Services (ITFS) Platform in IFSC
- Ship Leasing as Finance Company
- Aircraft Leasing as Finance Company
- Global/Regional Treasury Centre
- Lesson Round-up
- Glossary
- Test Yourself
- List of Further Readings

REGULATORY FRAMEWORK

- IFSCA (Payment Services) Regulations, 2024
- IFSCA (Finance Company) Regulations, 2021
- IFSCA (Banking) Regulations, 2020
- Guidelines on setting up and operation of International Trade Finance Service Platform, 2024
- IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022
- Framework for Finance Company/Finance Unit undertaking the activity of Global/Regional Corporate Treasury Centres.

BASIC CONCEPTS

Before understanding banking units and finance companies operating in an International Financial Services Centre (IFSC), it is important to become familiar with certain basic concepts and terms that form the foundation of this lesson.

International Financial Services Centre (IFSC)

An International Financial Services Centre (IFSC) is a designated area within India that is treated as a financial jurisdiction outside the domestic economy for the purpose of financial services. IFSCs are set up to provide international financial services such as banking, insurance, capital markets, fund management, and trade finance in foreign currencies.

The objective of an IFSC is to bring global financial business to India and make Indian financial institutions globally competitive.

The Central Government may approve the setting up of an IFSC in a Special Economic Zone and prescribe the requirements for setting up and operation of such centre

International Financial Services Centres Authority (IFSCA)

The International Financial Services Centres Authority (IFSCA) is the unified regulatory authority responsible for regulating and developing financial services in IFSCs. It was established under the IFSCA Act, 2019.

IFSCA regulates banking, capital markets, insurance, finance companies, payment services, and other financial activities in IFSCs. It also frames regulations, grants licenses, supervises entities, and ensures financial stability in line with international best practices.

Banking Units in IFSC

Banks operating in IFSC provide international banking services such as lending, trade finance, treasury operations, and foreign currency transactions. These banks can operate in IFSC in two forms:

- IFSC Banking Unit (IBU): A branch of the parent bank operating in IFSC
- IFSC Banking Company (IBC): A subsidiary company of the parent bank incorporated in IFSC

Both forms are regulated by IFSCA and primarily deal in foreign currency transactions.

Parent Bank means a Foreign Bank or an Indian Bank or both.

Finance Companies in IFSC

A Finance Company in IFSC is a separately incorporated financial institution that undertakes permitted financial activities other than traditional banking. Finance companies do not accept public deposits and are not registered as banking units.

They support international trade, cross-border investments, leasing, treasury operations, and risk management services.

Core and Non-Core Activities

Finance companies in IFSC are allowed to undertake two categories of activities:

- **Core Activities:** These include lending, credit support, securitisation, derivatives, investment activities, trade finance, and treasury services.
- **Non-Core Activities:** These include merchant banking, asset management support services, leasing, distribution of financial products, and other ancillary services, subject to registration and approval.

Foreign Currency Operations

Entities in IFSC primarily conduct business in freely convertible foreign currencies such as USD, EUR, or GBP. Although limited transactions may involve Indian Rupees, settlement generally takes place in foreign currency. This feature distinguishes IFSC operations from domestic financial services.

Know Your Customer (KYC) and Anti-Money Laundering (AML)

KYC and AML are regulatory requirements designed to prevent money laundering, terrorist financing, and other financial crimes.

All banking units, finance companies, and payment service providers in IFSC must follow strict KYC, AML, and Counter-Terrorist Financing (CTF) guidelines issued by the IFSCA to ensure transparency and integrity of the financial system.

Payment Service Providers (PSPs)

Payment Service Providers are entities authorised by the IFSCA to provide payment-related services such as cross-border money transfers, e-money issuance, merchant acquisition, and escrow services in or from IFSC.

PSPs play a crucial role in facilitating secure and efficient international payment systems.

International Trade Finance Services (ITFS) Platform

ITFS platform is a digital platform established in IFSC to facilitate international trade finance. It connects exporters, importers, banks, finance companies, and insurers to enable invoice financing, bill discounting, supply chain finance, and other trade-related financial services in a transparent and efficient manner.

SETTING UP OF A BANKING UNIT AT IFSC

An International Financial Services Centre (IFSC) allows both Indian and foreign banks to provide international financial services from India. To operate here, banks must obtain a licence or permission from the International Financial Services Centres Authority (IFSCA).

Banks can set up a Banking Unit in an IFSC in two possible forms:

1. IFSC Banking Unit (IBU) – operates as a branch of the Parent Bank
2. IFSC Banking Company (IBC) – operates as a subsidiary company of the Parent Bank

A Parent Bank that already has set up an IBU in an IFSC can convert it into an IBC, but only with prior approval from the IFSCA.

1. Application Process

- The Parent Bank must submit an application to the IFSCA in the form and manner specified by the IFSCA.

- The Parent Bank is free to withdraw the application at any time before the licence or permission is granted by the IFSCA.

2. Requirements to Set Up an IFSC Banking Unit (IBU)

To get approval for setting up an IBU (branch), the Parent Bank must satisfy the following conditions:

a) Minimum Capital Requirement

- The Parent Bank must provide a minimum capital of USD 20 million, or a higher amount that may be specified by the IFSCA.
- This capital must be maintained with the Parent Bank, in the manner prescribed by the IFSCA.

b) No Objection Letter from Home Regulator

- The Parent Bank must obtain a No Objection Letter from its home regulator regarding setting up of the Banking Unit in the IFSC as a branch of the Parent Bank.

c) Undertaking

- The Parent Bank must give an undertaking that it will provide liquidity to its IBU whenever needed for the operations of the IBU.

4. Requirements to Set Up an IFSC Banking Company (IBC)

To obtain permission to establish an IBC, the applicant must fulfil the following:

a) Minimum Capital Requirement

- The Parent Bank must provide at least USD 50 million, or a higher amount as may be specified by the IFSCA.

b) No Objection Letter from Home Regulator

- The Parent Bank must obtain a No Objection Letter from its home regulator regarding setting up the banking unit in the IFSC as a subsidiary company of the parent bank.

5. Additional Requirements for Foreign Banks

A foreign bank that does not have its presence in India must fulfil additional conditions that may be specified by the IFSCA.

6. Grant of Licence or Permission by the IFSCA

After reviewing the application:

- The IFSCA may grant a licence or permission subject to the conditions provided in the Banking Regulations, 2020.
- It may also impose additional conditions if considered necessary.

7. If the Licence or permission cannot be granted

If the IFSCA believes it cannot grant the licence:

- It will inform the applicant of the grounds on which it cannot grant a licence or permission and give the applicant 30 days to submit written explanations or clarifications.

8. Rejection of Application

After reviewing the applicant's submissions:

- If the IFSCA is still not satisfied, it may reject the application.
- The Authority must communicate the rejection in writing with reasons, within 30 days.

9. Setting Up Representative or Global Administrative Offices

A Parent Bank may also set up a:

- Representative Office, or
- Global Administrative Office

in the IFSC, subject to the suitable mechanism and conditions specified by the IFSCA.

REGULATORY REQUIREMENTS

Banks operating in the IFSC must follow a specific set of prudential and regulatory norms designed to ensure financial stability, sound risk management, and alignment with international best practices. These norms are issued by the IFSCA and apply to all Banking Units, whether they operate as International Banking Units (IBUs) or International Branches of Indian Banks (IBCs).

Prudential Regulatory Requirements

General Prudential Requirements

1. Compliance with IFSCA Guidelines:

All Banking Units must follow the prudential norms and guidelines issued by the IFSCA from time to time.

2. Applicability to Both IBUs and IBCs:

Whether a Banking Unit is structured as an IBU or as an IBC, it is required to comply with all relevant IFSCA norms and guidelines.

3. Compliance with Home Regulations (For IBUs):

An IBU must also comply with the regulations and instructions issued by the home regulator of its Parent Bank unless the IFSCA specifies otherwise.

Liquidity Requirements

Liquidity requirements ensure that a bank maintains sufficient liquid assets to meet its short-term and long-term obligations. IFSCA mandates the following key liquidity ratios:

1. Liquidity Coverage Ratio

1. A Banking Unit must maintain the Liquidity Coverage Ratio as specified by the IFSCA.
2. For IBUs, the Parent Bank may maintain the Liquidity Coverage Ratio on their behalf, but only with prior approval from the IFSCA.
3. The Liquidity Coverage Ratio ensures that the bank can withstand a short-term liquidity stress scenario.

2. Net Stable Funding Ratio

- The Net Stable Funding Ratio must be maintained by a Banking Unit from the time the IFSCA makes it applicable.
- Similar to the Liquidity Coverage Ratio, the Net Stable Funding Ratio for an IBU may be maintained by its Parent Bank with prior approval from the IFSCA.
- The Net Stable Funding Ratio ensures stable long-term funding for a bank's assets and off-balance sheet activities.

Leverage Ratio

Banking Units must adhere to the norms and guidelines relating to leverage ratio as may be specified by the IFSCA, from time to time.

The leverage ratio acts as a non-risk-based safeguard, preventing banks from taking on excessive debt relative to their capital.

Exposure Ceiling

Banking Units must adhere to the norms and guidelines relating to exposure ceiling as may be specified by the IFSCA, from time to time. Exposure ceilings prevent excessive concentration of credit to a single borrower or group, thereby reducing systemic risk.

Reserve Requirements

Reserve requirements differ for IBUs and IBCs due to their regulatory structures and types of liabilities.

1. Exemption for Certain IBU Liabilities:

For IBUs, liabilities other than deposits taken from individuals (resident inside or outside India) are exempt from the Cash Reserve Ratio (CRR) or other requirement as may be specified by the IFSCA.

2. Reserve Ratios for Deposits from Individuals:

Deposits collected by an IBU from individuals, whether resident or non-resident, may be subject to reserve ratios as may be specified by the IFSCA.

3. Reserve Requirements for IBCs:

An IBC must maintain reserves as required under:

- The Banking Regulation Act, 1949, and
- The Reserve Bank of India Act, 1934.

These reserves are similar to those maintained by domestic Indian banks.

Lender of Last Resort

Banking Units in the IFSC do not have access to Lender of Last Resort support.

This means that institutions such as the Reserve Bank of India (RBI) or any other central bank will not provide emergency liquidity assistance to these units.

Banks must therefore maintain strong internal liquidity and risk management frameworks to handle the stress situations.

PERMISSIBLE ACTIVITIES

Banking Units operating in an IFSC can undertake a wide range of activities. These activities are guided by the rules and permissions issued by the IFSCA. The scope of permissible activities covers the types of currencies in which business can be conducted, the nature of accounts that may be opened, and the overall functions a Banking Unit is allowed to perform.

Currency for conducting Business

A Banking Unit may conduct business in foreign currencies and with persons, whether resident or otherwise, as may be specified by the IFSCA. Although the focus is on foreign currency operations, a Banking Unit may also conduct business in Indian Rupees (INR) with eligible persons, provided that the actual settlement of these transactions takes place in the specified foreign currency.

This framework ensures international orientation while allowing operational flexibility.

Foreign Currency Accounts

Banking Units may maintain various foreign currency accounts for different categories of customers. The following rules apply:

1. Accounts opening

Banking Units may open foreign currency accounts for:

- Individuals and
- Corporate or institutional entities

subject to the conditions laid down by the IFSCA.

2. Accounts under LRS

Residents in India may also open and maintain accounts in the specified foreign currencies with a Banking Unit for undertaking transactions connected with or arising from any permissible current or capital account transaction or a combination of both as specified in the Liberalised Remittance Scheme (LRS) of the Reserve Bank.

Transactions through Foreign Currency Accounts

Several specific rules govern how transactions can be carried out through foreign currency accounts in the IFSC:

1. No Cash Transactions

Cash transactions in foreign currency accounts are not permitted.

All operations must take place through non-cash modes such as transfers, remittances, or digital instruments.

2. Types of Accounts Allowed

Foreign currency accounts may be opened in different forms:

- **For Individual Customers:**
 - Current Account
 - Savings Account
 - Term Deposit
- **For All Other Customers (e.g., corporates, institutions):**
 - Current Account
 - Term Deposit

These must adhere to the conditions that may be specified by the IFSCA.

Permitted Activities of Banking Units

1. Broad Scope of Activities

A Banking Unit may engage in any activity that is **not expressly prohibited** by:

- The IFSCA, or
- The Home Regulator of the Parent Bank (in the case of an IBU),

as long as it complies with the terms and conditions or guidelines, design, execution, and risk management issued by the IFSCA.

This allows Banking Units to participate in a wide range of global banking, financial, and capital market activities within a regulated framework.

2. Referral Services

To avoid ambiguity, the regulations explicitly state that Referral Services are a permitted activity.

This means that a Banking Unit may refer customers to other financial service providers and earn fees or commissions for such referrals, subject to regulatory compliance.

KNOW YOUR CUSTOMER (KYC) AND ANTI-MONEY LAUNDERING (AML)

Know Your Customer (KYC) and Anti-Money Laundering (AML) Requirements for Banking Units

Banking Units operating in an IFSC must maintain strong safeguards to prevent financial crime. To achieve this, every Banking Unit is required to comply with the Anti-Money Laundering (AML), Counter-Terrorist Financing (CFT), and Know Your Customer (KYC) guidelines issued by the IFSCA.

These guidelines ensure that Banking Units:

- Verify the identity of their customers before establishing a business relationship or carrying out transactions.
- Monitor customer transactions to detect suspicious patterns or unusual behavior.
- Report suspicious activities to the appropriate authorities, as required under the regulatory framework.
- Assess and manage risks related to money laundering, terrorist financing, and other unlawful financial activities.
- Maintain proper records of customer identities, transactions, and risk assessments.

The purpose of these requirements is to protect the integrity of the financial system, promote transparency, and ensure that Banking Units do not become channels for illegal or harmful financial activities.

OPERATIONAL REQUIREMENTS

Banking Units in the IFSC must comply with several operational standards designed to ensure transparency, proper record-keeping, and smooth functioning. These requirements relate to reporting, maintenance of accounts, and the management of records.

Reporting Requirements

1. Submission of Information to the IFSCA

Every Banking Unit must provide the IFSCA with information related to its operations. The nature, format, and frequency of this reporting will be specified by the IFSCA.

This ensures effective regulatory oversight and enables timely monitoring of the Banking Unit's activities.

2. Reporting Currency

Unless the IFSCA specifies otherwise, reports submitted by a Banking Unit must be prepared in US Dollars (USD).

Using a common reporting currency helps standardize financial information and simplifies regulatory review.

Maintenance of Books of Accounts, Records, and Documents

A Banking Unit must keep its books of accounts, records, and documents in the specified foreign currencies it has declared at the time of making an application.

This ensures consistency between the Banking Unit's operational framework and its record-keeping practices.

Maintenance of Accounts

1. INR Account for Administrative and Statutory Purposes

Although Banking Units primarily operate in specified foreign currencies, they are permitted to maintain an INR account to meet:

- Administrative expenses,
- Statutory payments, and
- Any other purpose as may be specified by the IFSCA.

This allows Banking Units to handle local obligations efficiently while maintaining their foreign-currency focus.

2. Separate Nostro Accounts

Banking Units must maintain their own nostro accounts with correspondent banks. These accounts must be distinct from the nostro accounts maintained by other branches of the same Parent Bank in India.

This separation ensures clear segregation of transactions and eliminates operational and regulatory overlap between the Banking Unit and other domestic branches.

PAYMENT SERVICE PROVIDERS (PSPs) IN THE IFSC

Requirement of Authorisation for Commencing or Carrying on Payment Services

Any person or entity that wishes to provide Payment Services within the International Financial Services Centre (IFSC), or to offer such services from the IFSC to clients outside it, must first obtain a Certificate of Authorisation under the IFSCA (Payment Services) Regulations, 2024.

This requirement ensures that only eligible, fit-and-proper, and appropriately supervised entities operate as Payment Service Providers (PSPs) in the IFSC. It also promotes safety, trust, and stability in the payments ecosystem by ensuring that PSPs:

- Meet minimum capital and operational standards,
- Comply with technology, security, and risk-management norms,
- Adhere to KYC, AML, and CFT guidelines, and
- Are subject to ongoing regulatory oversight.

Application for Authorisation to Provide Payment Services

Any person desirous of providing Payment Services in or from IFSC shall submit an application to the IFSCA for grant of authorisation as a Payment Service Provider, in the format and in the manner as may be specified by the IFSCA.

Certain persons are exempt from the requirement of obtaining authorisation. They are listed below-

- An IFSC Banking Company (IBC) or an IFSC Banking Unit (IBU) licensed or permitted under the Banking Regulation Act, 1949.

- A person licensed to carry on the business of issuing credit cards in IFSC.
- Any other person or class of persons, as may be specified by the Authority.

These exempted entities may provide Payment Services without going through the formal authorisation process.

Application Fee

The application must be accompanied by a non-refundable application fee, the amount of which will be specified by the IFSCA.

This fee is required for processing and evaluating the application.

Scope of Permitted Payment Services

Once authorised, a Payment Service Provider may offer one or more Payment Services listed below-

- account issuance service (including e-money account issuance service)
- e-money issuance service
- escrow service
- cross border money transfer service
- merchant acquisition service

This means an authorised PSP is not restricted to a single service; they may operate across multiple payment categories, depending on their authorisation and capabilities.

Designation as a Significant Payment Service Provider

In addition to being authorised to provide one or more Payment Services, a PSP may be classified as a Significant Payment Service Provider if it meets the following conditions-

- a) The Regular Payment Service Provider carries on a business of providing one or more of the payment services (other than e-money account issuance service).

The monthly average, over a calendar year, of the total value of all payment transactions that are accepted, processed, executed exceeds

- \$2 million (or its equivalent in a Specified Foreign Currency), for any one of the payment services (other than e-money account issuance service)
- \$4 million (or its equivalent in a Specified Foreign Currency), for two or more of the payment services (other than e-money account issuance service)

- b) if the Regular Payment Service Provider intends to carry or carries on a business of providing an e-money account issuance service and the average daily value, over a calendar year, of all e-money that is stored in any payment account issued by the Regular Payment Service Provider exceeds \$3 million (or its equivalent in a specified foreign currency).

- c) if the applicant or the Regular Payment Service Provider carries on a business of providing an e-money issuance service and the average daily value, over a calendar year, of the total value in one day of all e-money that is intended to be issued or issued by the Regular Payment Service Provider exceeds \$3 million (or its equivalent in a Specified Foreign Currency).

This designation typically applies to PSPs that:

- Have substantial scale of operations, or

- Provide services that are systemically important, or
- Meet specific criteria defined by the IFSCA.

Being designated as a Significant PSP may subject the entity to enhanced regulatory and supervisory requirements, reflecting its importance in the IFSC payment ecosystem.

Legal form

An Applicant making an application for authorisation must be incorporated as a Company with its registered office in IFSC.

Minimum Net worth requirement

To ensure financial stability and resilience, every Payment Service Provider (PSP) operating in or from the IFSC must maintain an adequate financial base. The IFSCA sets minimum net worth standards that PSPs must comply with at all times. These requirements help promote confidence, reduce systemic risk, and ensure that PSPs can continue operations even during periods of financial stress.

1. Ongoing Compliance with Minimum Net Worth

A PSP must continuously maintain the minimum net worth given below:

- A Regular Payment Service Provider shall have a minimum net-worth of USD 100,000 (or equivalent in a Specified Foreign Currency) on the date of commencement of operations. A Regular Payment Service Provider shall achieve a minimum net-worth of USD 200,000 (or equivalent in a Specified Foreign Currency) by the end of the third financial year (i.e., March 31) from the year of commencement of operations.
- A Significant Payment Service Provider shall achieve a minimum net-worth of USD 250,000 (or equivalent in a Specified Foreign Currency) within ninety days of the date of being so designated by the Authority. A Significant Payment Service Provider shall achieve a minimum net-worth of USD 500,000 (or equivalent in a Specified Foreign Currency) by the end of the third financial year (i.e., March 31) from the year of designation as a Significant Payment Service Provider.

This is not a one-time requirement; PSPs must meet the standard on an ongoing and sustained basis.

2. Review and Revision of Net Worth Requirements

The Authority may periodically review the minimum net worth levels to ensure they remain effective and relevant.

Based on such review, the IFSCA may revise the minimum net worth requirement to better align with the changing financial landscape.

3. Timeframe for Meeting Additional Net Worth Requirements

If the IFSCA prescribes a higher net worth requirement following its review, the PSP must comply with the revised threshold within 180 days from the date on which the IFSCA communicates the new requirement.

This transition period allows PSPs to adjust their capital position without disrupting their operations.

4. Framework for Prompt Corrective Action

The IFSCA may introduce a prompt corrective action framework that applies when a PSP's net worth falls below the required level.

5. Stress Testing Requirements

To assess resilience against adverse conditions, the Authority may require PSPs to conduct stress tests on their net worth. These stress tests help evaluate whether a PSP can withstand economic scenarios.

Grant of authorisation

- i) The IFSCA, on being satisfied that the Applicant has complied with the conditions and is eligible to act as a Payment Service Provider, grants a Certificate of Authorisation to the Applicant subject to such conditions as the IFSCA may deem fit.
- ii) The Certificate of Authorisation granted will be valid unless revoked by the IFSCA or surrendered by the Payment Service Provider.
- iii) Every application for authorisation shall be processed by the IFSCA as soon as possible, and an endeavour shall be made to dispose of such application within six months from the date of filing such application.
- iv) The IFSCA, if it so desires, either at the time of grant of authorisation or at any other time thereafter, require a Payment Service Provider to maintain a security deposit of such amount and in such form as may be specified by the IFSCA.
- v) A Payment Service Provider shall identify an IFSC Banking Unit or an IFSC Banking Company as its Nodal Bank and intimate the same to the IFSCA along with a concurrence of the said bank to act as the Nodal Bank.
- vi) The Payment Service Provider, at any time after the grant of authorisation, must inform the IFSCA of any material change in the information or particulars previously furnished.
- vii) The IFSCA may modify one or more conditions for commencing or carrying on Payment Services.

Commencement of operations

- i) The Payment Service Provider must commence its operations within six months from the date of issuance of the Certificate of Authorisation.
- ii) The Payment Service Provider may submit an application for extension of time, if instructed to do so by way of a resolution passed by its board of directors, for commencing operations at least two months before the latest date of commencement.
- iii) The application must include complete details of the reasons behind the request for extension, duration of extension sought, steps being undertaken to overcome the delay and any other information which, in the opinion of the Payment Service Provider, is relevant to the request for extension.
- iv) On receipt of the application, if the IFSCA is satisfied that Payment Service Provider cannot commence its operation within stipulated time period, it may extend the time period by such further period, as it thinks fit, but not exceeding three months. Any extension of the time period will not be granted more than once.

Duties of the Payment Service Provider

a) Duty to protect Applicable Funds

- (1) The Payment Service Provider must safeguard Applicable Funds, including but not limited to compliance with the directions.
- (2) The Payment Service Provider must at all times keep Applicable Funds segregated from any other types of funds that it holds.

- b) **Duty to comply with International Financial Services Centres Authority (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022 (AML, CTF & KYC Guidelines)**
- (1) The Payment Service Provider ensures compliance with AML, CTF & KYC Guidelines and other provisions of Prevention of Money Laundering Act, 2002 and the Rules made thereunder including any statutory modification(s) or re-enactment thereof for the time being in force.
 - (2) The Payment Service Provider using agents for providing its services shall:
 - a) maintain an up-to-date list of such agents
 - b) include such agents in their AML/CTF programmes and monitor them for compliance with these programmes.
 - (3) A Payment Service Provider will be responsible and accountable for the transactions/actions undertaken by their authorised agents.
 - (4) A Payment Service Provider must maintain a log of all the transactions undertaken for at least ten years. This data must be made available for scrutiny to the IFSCA or any other agency/ agencies as may be directed by the IFSCA.

c) Duty to comply with laws

The Payment Service Provider must comply with all applicable laws in India as well all applicable laws of any jurisdiction/s outside India where it provides services or where the Payment Service Users are based.

d) Duty of co-operation with the Authority

- (1) A Payment Service Provider must deal with the IFSCA in an open and co-operative manner. A Payment Service Provider must keep the IFSCA duly informed of any significant event(s) relating to the Payment Service Provider.
- (2) Any proposed major change, such as change in product features/process, structure or operation of the payment services, etc., must be communicated to the IFSCA with complete details.
- (3) A Payment Service Provider must obtain prior approval of the IFSCA before entering into any transaction of merger, consolidation, re-organisation, scheme of arrangement or compromise with its shareholders or effect any scheme of amalgamation or reconstruction.
- (4) The IFSCA, for the purpose of carrying out its functions, conducts or gets conducted audits and inspections of a Payment Service Provider and a Third-Party Service Provider, and it shall be the duty of the Payment Service Provider and a Third-Party Service Provider to assist the IFSCA to carry out such audit or inspection, as the case may be.

e) Duty towards Payment Service Users

- (1) A Payment Service Provider must ensure that due regard is given to protecting the interests of Payment Service Users and the relevant information is communicated to them in a clear and fair manner that minimises the possibility of them getting misled.
- (2) A Payment Service Provider must comply with the disclosure requirements.

f) Duty to secure the information technology systems and other infrastructure

- (1) A Payment Service Provider must secure its information technology systems and other infrastructure used for providing Payment Services from unauthorised access and manipulation.

- (2) A Payment Service Provider must prepare and maintain a written document outlining the security policies and procedures put in place to fulfil the duty.
- (3) The IFSCA, if it feels necessary to do so, issues directions to the Payment Service Providers about the procedures to be followed for securing the information technology systems and other infrastructure used for providing Payment Services.
- (4) The IFSCA, if it feels necessary to do so, directs a Payment Service Provider to submit certificate (s) issued by independent professionals confirming the compliance and with the directions.

Redressal of grievances and dispute resolution

- (1) A Payment Service Provider must depute adequate staff at its permanent place of business or registered office in IFSC to address any queries, complaints or grievances from a Payment Service User that uses one or more of the payment services provided by the Payment Service Provider and shall do so within a period of thirty days from receipt of a complaint or a grievance.
- (2) Payments Service Users will be provided with one or more channels web-based or paper-based complaint forms, IVR, mobile application, call centre, SMS, through branches or offices, etc., for raising queries and for lodging complaints and grievances.
- (3) Disputes between a Payment Service User and a Payment Service Provider, which could not be resolved by the internal grievance redressal mechanism, must be resolved by harnessing online conciliation and/or online arbitration in the manner as specified by the IFSCA.
- (4) A Payment Service Provider must maintain records regarding queries, complaints and grievances received by it and redressal of such complaints and grievances.

Action in case of default

The IFSCA may initiate appropriate enforcement action in case a Payment Service Provider contravenes any of the provisions of these regulations, directions, or orders made thereunder.

FINANCE COMPANIES IN IFSC

Finance Company means a financial institution as defined as a separately incorporated to deal in one or more of the permissible activities the Finance Company Regulations, 2021 provided:

- (i) It does not accept public deposit from resident and non-resident, as defined in the Finance Company Regulations, 2021
- (ii) It is not registered with the IFSCA as a Banking Unit

PERMITTED CORE ACTIVITIES

Finance Companies operating in the IFSC are permitted by the IFSCA to undertake a range of core financial activities.

These activities are designed to support international trade, cross-border investment, and risk management, and global financial operations, while ensuring compliance with globally accepted regulatory standards.

The permitted core activities are explained below:

a) Lending and Credit-Related Activities

Finance Companies in IFSC are allowed to lend and provide credit support in various forms, including:

- Loans

- Commitments and Guarantees
- Credit Enhancement
- Securitisation
- Financial Leasing
- Sale and Purchase of Portfolios

These activities help improve liquidity, credit availability, and financial efficiency in international markets.

b) Factoring and Forfeiting of Receivables

Finance Companies in IFSC may engage in:

- **Factoring:**

Purchasing short-term trade receivables from exporters or suppliers, thereby providing immediate working capital.

- **Forfeiting:**

Financing medium- to long-term receivables arising from international trade, usually without recourse to the exporter.

Both services reduce credit risk and cash-flow constraints, especially for exporters involved in cross-border trade.

c) Investment Activities

Finance Companies are permitted to undertake investments, including:

- Subscribing to securities
- Acquiring and holding securities and other instruments
- Transferring securities and other permitted financial instruments

Such investments may be made for strategic purposes, treasury management, or returns, subject to limits and conditions prescribed by IFSCA.

d) Buying and Selling of Derivatives

Finance Companies in IFSC are allowed to buy and sell derivative instruments, such as:

- Interest rate derivatives
- Foreign exchange derivatives
- Credit derivatives
- Commodity derivatives (where permitted)

These instruments are used primarily for hedging risks, managing exposures, and optimizing financial performance in international markets.

e) Global / Regional Corporate Treasury Centres

Finance Companies may operate as Global or Regional Corporate Treasury Centres, providing centralized treasury services for multinational groups.

The IFSC provides a tax-efficient and globally regulated environment for locating such treasury operations.

f) Other Core Activities Permitted by IFSCA

IFSCA may permit additional core activities from time to time, based on:

- Market developments
- Financial innovation
- Policy objectives

This provision ensures that the regulatory framework remains flexible, adaptive, and future-ready, allowing finance companies to adopt new financial products and services as approved by the Authority.

PERMITTED NON-CORE ACTIVITIES

1. Subject to specific registration requirements, wherever applicable, permitted non-core activities for a Finance Company or a Finance Unit, as the case may be, shall include the following activities:
 - a) Merchant Banking
 - b) Authorised person
 - c) Registrar and Share Transfer Agent
 - d) Trusteeship Services
 - e) Investment Advisory Services
 - f) Portfolio Management Services
 - g) Operating lease of any products, including aircraft lease, ship lease or any other equipment as may be specified by the Authority from time to time
 - h) International Trade Financing Services Platform
 - i) Distribution of financial products (including mutual fund units and insurance products)
 - j) Function as trading and clearing members or professional clearing member of exchanges and clearing corporations set up in IFSCs
 - k) Asset Management support services permitted under the Framework for Enabling Ancillary Services as specified by the Authority
 - l) Undertaking to act as facilitators of permissible activities as and when permitted by the Authority
 - m) Any other activity without involving a customer interface, as may be permitted with the prior approval of the Authority, that is classified as a non-core activity by the Authority, under these regulations
 - n) any other activity, as may be permitted and classified as a non-core activity by the Authority, under these regulations
2. A Finance Company or a Finance Unit registered for carrying out one or more non-core activities only, may be permitted to undertake investment activities for the purpose of liquidity and balance sheet management as part of its normal business operations and such investment activity shall not be treated as a core activity for the purpose of Finance Company Regulations, 2021.
3. A Finance Company or a Finance Unit intending to undertake either a single or a combination of non-core activities shall fulfil the following conditions:
 - a) It carries out each such activity through a separately identifiable department (SID)

- b) It ensures a firewall between various non-core activities so that no conflict-of-interest situation arises
- c) It formulates Board-approved grievance redressal and customer compensation policy to deal with such complaints

A Finance Company or a Finance Unit intending to undertake any of the non-core activities subject to the provisions of the respective framework as specified by the IFSCA for that particular activity.

4. The Finance Company or a Finance Unit undertake transactions in financial products and financial services as part of permissible activities with both residents and non-residents. Any dealing with residents shall be subject to the provisions of Foreign Exchange Management Act, 1999.
5. Every Finance Company or a Finance Unit carrying out non-core activities may also undertake derivative transactions only for the purpose of hedging their underlying exposures.
6. A Finance Company or a Finance Unit do not undertake or fund any speculative transaction.
7. The source of funds for the Finance Company or a Finance Unit must be from residents and non-residents. Any dealings with residents shall be subject to the provisions of the Foreign Exchange Management Act, 1999.

Setting up of a finance company

Registration Requirement

1. An entity must commence business as a Finance Company or Finance Unit. IFSCs only, after obtaining a certificate of registration from the IFSCA for carrying out the activities specified in the Schedule to these regulations.

A certificate of registration under these regulations shall be required to be obtained by an entity intending to carry out such permissible activities that are not covered under the framework or regulations under which it was previously granted registration or authorisation.

Explanation: An entity that has obtained a certificate of registration or authorisation for a specific activity under another framework or regulations, issued or notified by the IFSCA, does not require seeking a fresh registration for carrying out the same activity, if it is a permissible activity.

2. A Finance Company can be set up either as a subsidiary or a joint venture, or as a newly incorporated company under the Companies Act, 2013, or in any other form as may be specified by the IFSCA from time to time.

If the parent of a Finance Company is carrying out a regulated financial activity in its home jurisdiction, it obtains a No-objection Certificate from its home country regulator for setting up a Finance Company in the IFSCs, wherever applicable.

3. A Finance Unit can be set up if the applicant is an incorporated entity in its home jurisdiction.

Provided that a Finance Unit can be set up for undertaking core activities as specified in these regulations only if the applicant, being an incorporated entity in its home jurisdiction, is engaged in the business of financial services and is regulated by a financial sector regulator in its home jurisdiction and has obtained a No-Objection Certificate from the home regulator for setting up a Finance Unit in the IFSCs, wherever applicable.

The conditions under the above proviso shall not apply to an incorporated entity that desires to set up a Global/Regional Corporate Treasury Centre as a Finance Unit in the IFSCs for undertaking treasury activities or treasury services in accordance with the relevant regulatory framework specified by the IFSCA.

4. An application for grant of registration as a Finance Company or a Finance Unit made by the applicant in the form and manner as specified by the IFSCA.

An applicant intending to undertake either one or more non-core activities may be considered for registration as a 'finance company' for the purposes of these regulations, even if incorporated in the form of a Limited Liability Partnership or a Trust.

5. A Finance Company or a Finance Unit seeking registration must comply with following conditions:
 - (i) The applicant seeking registration as a 'Finance Company' must have and maintain minimum owned fund, depending on the category of activity(ies) or a combination of activities and must maintain the higher of the minimum capital or owned funds or net worth prescribed for each activity or category of activities or under any of the relevant regulatory framework issued by the IFSCA.
 - (ii) In case the applicant, being an incorporated entity in its home jurisdiction, is seeking to set up and register a 'Finance Unit', it must provide and maintain minimum owned fund on unimpaired basis at all times, depending on the category of activity(ies) or a combination of activities and must maintain the higher of the minimum capital or owned funds or net worth prescribed for each activity or category of activities or under any of the relevant regulatory framework issued by the IFSCA.
6. The applicant entity and/or its promoters must be from a FATF-compliant jurisdiction and comply with international standards set by the Financial Action Task Force to combat money laundering and terrorist financing.
7. After considering the application, if the Authority is satisfied that the terms and conditions, it may grant a certificate of registration to the applicant, in such form and subject to such conditions as may be specified:

Provided that on a request received from an applicant, if the Authority is satisfied that the applicant may be given more time to comply with certain conditions for the grant of registration, it may, for the reasons to be recorded in writing, consider the grant of provisional registration giving additional time to the applicant, subject to such conditions, as it may deem necessary:

The provisional registration can be withdrawn by the IFSCA if the IFSCA is satisfied that the applicant is unable to comply with any of the conditions under which the provisional registration was granted.

8. After considering the application for registration, if the IFSCA believes that registration cannot be granted, it shall communicate the deficiencies to the applicant, giving it thirty days' time to rectify them.
9. If the applicant fails to rectify such deficiencies to the satisfaction of the IFSCA within the specified time, the IFSCA may refuse to grant a certificate of registration and shall communicate the same to the applicant, giving reasons for such refusal.

No such refusal must be made by the IFSCA without giving the applicant an opportunity to make written submissions on the grounds on which the registration is proposed to be refused.

Prudential regulatory requirements

1. Applicable prudential regulations

The prudential regulations applicable to a Finance Company or a Finance Unit must be such as may be specified by the IFSCA.

2. Capital Ratio (CR)

A Finance Company or a Finance Unit must maintain a minimum capital ratio at eight per cent of its regulatory capital to its risk-weighted assets, or at such percentage as may be specified by the IFSCA.

3. Liquidity Coverage Ratio (LCR)

A Finance Company or a Finance Unit must maintain LCR on stand-alone basis, at all times, as may be determined by the IFSCA.

In the case of a Finance Unit, the LCR may be allowed to be maintained by the parent entity, with specific approval of the IFSCA.

4. Exposure Ceiling (EC)

The sum of all the exposures of a Finance Company or a Finance Unit to a single counterparty or group of connected counterparties must not exceed twenty-five per cent of its available eligible capital base without the approval of the IFSCA.

Know Your Customer and Anti-Money Laundering

Every Finance Company and Finance Unit must follow the Know Your Customer norms, combating of financing of terrorism and other anti-money laundering requirements, including reporting requirements, as specified for a Banking Unit in IFSCs.

Corporate Governance and Disclosure Requirements

- (1) Every Finance Company and Finance Unit must adhere to the guidelines on corporate governance and disclosure requirements to be specified by the IFSCA.
- (2) Any mergers, acquisitions, takeovers or change in management of a Finance Company, which results in its change in control of at least twenty per cent of total share capital, or of business decisions under an agreement, subject to prior approval and such other requirements as may be specified by the IFSCA.

Mergers, acquisitions, takeovers or change in management in the parent of a Finance Unit must be in compliance with its registration requirements and shall be intimated to the IFSCA within a period of 15 days from the date of such event.

Reporting Requirements

- (1) Every Finance Company and Finance Unit must furnish information relating to its operations to the IFSCA, in such manner, interval and form, as may be specified by the IFSCA.
- (2) Every financial reporting by a Finance Company and a Finance Unit to the IFSCA must be in US dollars, unless otherwise specified by the IFSCA.

Action in Case of Default

If a Finance Company or a Finance Unit, as the case may be, fails to fulfil any of the conditions subject to which the registration under Regulation 3 has been granted, the Authority may take any action as it may deem fit, including suspension, withdrawal or cancellation of registration, after giving an opportunity to the entity, of making its submissions.

INTERNATIONAL TRADE FINANCE SERVICES (ITFS) PLATFORM IN IFSC

To strengthen trade finance and bring innovative solutions to global exporters and importers, the IFSCA has introduced a special digital framework in the IFSC. This framework is called the International Trade Finance Services (ITFS) platform and governed as per the Guidelines on setting up and operation of International Trade Finance Service Platform, 2024.

What is ITFS?

The ITFS is an electronic (digital) platform established in the IFSC, designed to facilitate trade finance transactions in a transparent and efficient way. It connects exporters, importers, banks, finance companies, insurers, payment service providers, and other eligible participants on one platform.

Permissible Activities

The ITFS must act as a facilitator for transactions relating to Factoring, Reverse Factoring, Bill discounting under Letter of Credit, Supply Chain Financing, Pre-shipment Credit, Forfeiting any other activity as permitted by the Authority. The ITFS may also permit secondary market transactions of the products specified above.

ITFS operator intending to undertake any activity permitted to be undertaken by financial institutions in IFSC other than those mentioned above must obtain permission from the Authority prior to applying to undertake such activity.

Principles of operation

- The ITFS operator must have well documented rules and regulations including, but not limited to, on-boarding of participants, suspension and cessation of membership, roles and responsibilities of participants and operator, liability framework for ITFS and users in case of breach of rules and regulations, restrictions or other requirements that may apply for using the ITFS, processing and execution of orders, risk management and control.
- The ITFS operator must ensure that financiers seeking to be on-boarded as participants under also satisfy the following criteria :
 - the financier has either gross loans and advances made in the current or previous financial year or Assets Under Management (AUM) of the entity as on the date of onboarding shall be a minimum of USD 5 million;

AUM refers to the total market value of all financial assets owned by the financier or managed by it on behalf of its clients.
 - the financier should have at least USD 5 million of capital
 - The financier should have proven capability (either on its own or through outsourcing arrangements) for credit/ debt recovery;
 - The financier shall be an incorporated entity carrying out the business of factoring]
 - The financier including any shareholders holding more than 10% of its share capital shall be from a jurisdiction which has not been identified in the public statement of Financial Action Task Force (FATF) as “High Risk Jurisdiction – subject to call for action.
- The ITFS operator must comply with the applicable provisions of the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022, dated October 18, 2022

- The ITFS operator must facilitate transparent and competitive bidding by the financiers on the electronic platform
- The ITFS operator must ensure that the electronic platform displays details of bids placed for a TFU to other bidders without revealing the name of the entities who has placed such bids
- The ITFS operator must provide an option on its electronic platform that allows the participants to opt out of invoice-wise (i.e. TFUs) bidding and choose onetime bidding option for the whole turnover
- The ITFS operator must not assume any credit risk on the transactions carried out on its platform
- Defaults due to non-payment, if any, by the participant/s on an ITFS shall be handled by the financier/s directly with the defaulting participant
- Legal proceedings initiated by the financier/s or the participant/s shall be outside the purview of the ITFS.
- ITFS operator may connect the ITFS with any other electronic platform/market infrastructure, within and outside IFSC, with the prior approval from the Authority
- ITFS operator must put in place a Complaint Handling and Grievance Redressal mechanism in compliance with the circular on “Complaint Handling and Grievance Redressal by Regulated Entities in the IFSC”.
- The ITFS operator must comply with all applicable laws in India as well all applicable laws of any jurisdiction/s outside India where it provides services.

Technology

- The ITFS operator must have and maintain robust technology infrastructure with a high degree of reliability, availability, scalability and security in respect of its systems, data and network, appropriate to support its operations and manage the associated risks.
- The ITFS operator must have in place a suitable Business Continuity Plan (BCP) including contingency and disaster recovery arrangements that are appropriate to the nature, scale, and complexity of its business to ensure continuity and availability of its operation.
- An ITFS operator must get an IT/IS Audit of the ITFS platform done :
 - every year within 30 days from close of financial year, and;
 - prior to major technical changes/updates being made to the ITFS platform.
- The audit at (3) may be undertaken by :
 - a CERT-In empanelled auditor,
 - an auditor possessing the following certifications:
 - a. Certified Information System Auditor (CISA) or
 - b. Certified Information Security Manager (CISM) or
 - c. GIAC Systems and Network Auditor (GSNA) or
 - d. Certified Information Systems Security Professional (CISSP)
- All data related to transactions generated on ITFS shall be maintained in easily retrievable form.

Clearing and Settlement

An ITFS operator intending to provide clearing and /or settlement of funds shall, prior to offering such a service, seek authorisation from IFSCA as a payment system operator under the International Financial Services Centres Authority (Payment and Settlement Systems) Regulations, 2024.

Risk Management

An ITFS operator must put in place a comprehensive risk management framework covering all aspects of its operations. An ITFS operator must ensure that risks associated with the activities of the ITFS platform are identified properly and managed prudently.

Corporate Governance

Every ITFS operator must have a Board approved corporate governance policy in line with the Circular on Guidelines on Corporate Governance and Disclosure Requirements of a Finance Company dated August 9, 2021. The policy must comprehensively and clearly document its governance arrangements i.e., the framework under which its Board and senior management shall function.

SHIP LEASING AS FINANCE COMPANY

The 'ship lease' includes operating lease, and hybrid of operating and financial lease, of a ship or ocean vessel, engines of ship or ocean vessel, or any other part thereof, as a financial product.

As per International Financial Services Centres Authority (Finance Company) Regulations, 2021 an operating lease transactions for ship lease is classified as a 'permitted non-core activity' and as per Finance Company Regulations, a financial lease transaction for ship lease including a hybrid of financial lease and operating lease transaction for ship lease is classified as a 'permitted core activity'.

The IFSCA in order to facilitate the Ship Leasing business in IFSCs in India specifies the following Framework for entities to get registered under the Finance Company Regulations for undertaking ship lease transactions:

Some important terms related to Ship leasing

1. **Financial lease:** For a ship lease arrangement, finance lease means the activity of leasing such that it transfers substantially all the risks and rewards incidental to the ownership of the asset involved.
2. **Lessor:** An entity registered with IFSCA as a Finance Company or Finance Unit in accordance with the Framework for Ship Leasing, and engaged in the business of providing ships or ocean vessel, engines of ship or ocean vessels, or any other part thereof under an operating lease, financial lease and/or a hybrid of financial and operating lease, and/or; any other related activity as may be specified by the IFSCA from time to time.
3. **Ocean vessel:** It includes every description of watercraft used or capable of being used in the marine environment, such as ship, boat, sailing vessel, fishing vessel, submersible, semi-submersible, hydrofoils, non-displacement crafts, amphibious crafts, wing-in-ground crafts, pleasure crafts, barges, lighters, Mobile Offshore Drilling units, Mobile offshore Units, or of any other description and shall include inland water vessels and coasting vessels, but does not include fishing or sailing watercraft.
4. **Operating lease:** For a ship lease arrangement operating lease means the activity of leasing such that it does not transfer substantially all the risks and rewards incidental to the ownership of the asset involved.
5. **Single Window IT Systems (SWITs):** It is an online platform designed to facilitate the processing of applications submitted by the applicant for obtaining Certificate of Registration under the Finance Company Regulations.

- 6. Ship:** It includes any watercraft, used or capable of being used in navigation by its own propulsion, in, above, or under the water but does not include fishing or sailing watercraft.

Eligibility of Applicant

An applicant desirous of undertaking permissible activities in IFSCs as a lessor shall meet the eligibility criteria and other requirements as specified under the Finance Company Regulations, including the following:

The applicant shall set up operations in an IFSC in the form of a Company or a Limited Liability Partnership (LLP) or a Trust or a Branch or in any other form as may be specified by the IFSCA from time to time.

In case the applicant is a company, the 'promoter', as defined in the Companies Act, 2013, of the applicant shall be located in a Financial Action Task Force compliant jurisdiction. In case the applicant is a LLP or a Trust, the partners or the trustees, as the case may be, shall also comply with this requirement.

This means that the branch set up in IFSC may also be of a wholly owned subsidiary (including a subsidiary incorporated outside IFSC) of the IFSC registered entity, for the purpose.

All entities set up in IFSC for carrying out permitted activities as envisaged in the Framework must comply with all requirements, exceptions, regulations and conditions imposed by any applicable statute including the Merchant Shipping Act, 1958 ("Shipping Act"), and shall also include circulars and notifications issued by competent authorities established under the Shipping Act or other applicable statutes, by the Ministry of Shipping or Director General of Shipping.

Registration of lessor

An applicant desirous of undertaking permissible activities as a lessor shall submit an application to the IFSCA through SWITs portal, along with the application fees.

An applicant must not undertake any activity as a lessor unless it has obtained a Certificate of Registration from the IFSCA under Finance Company Regulations means an applicant desirous of undertaking 'Asset Management Support Services related to ship lease' for an asset.

An entity registered or authorised with IFSCA, which is not undertaking Ship leasing and is desirous of undertaking permissible activities, must apply separately for registration under this framework.

For this purpose, an entity registered with IFSCA for undertaking an operating lease for a ship must also seek permission if it is desirous of undertaking permissible activities.

Ship Operating Lease

Permissible Activities under operating lease:

A lessor in IFSCs is permitted to undertake all or any of the following activities:

- (i) Operating lease
- (ii) Voyage Charters, Contract of Affreightments, employment in shipping pools and all other legal commercial transactions for employment of ships. A lessor may undertake these activities only if such a lessor has an absolute or leasehold right over the ship/ocean vessel.
- (iii) Asset Management Support Services for assets owned or leased out by the lessor or by any of its Group Entities set up in IFSCs in India.

Here, the term 'Group Entities' means an arrangement involving two or more entities related to each other through any of the relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in

terms of AS 27), Associate (defined in terms of AS 23), a related party (defined in terms of AS 18), Common brand name and investment in equity shares (of 20% and above).

Sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in relation to ship lease any other related activity, with the prior approval of the IFSCA.

A transaction here is classified as a lease if it is in accordance with the Indian Accounting Standards (Ind AS 116) on Leases.

Capital Requirement

A minimum owned fund of USD 200,000 or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity.

“Owned fund” for a lessor means the paid-up capital and free reserves balance in share premium account and capital reserves representing surplus arising out of the sale proceeds of the asset, excluding reserves created by revaluation of assets, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure. In addition, the IFSCA may specify maintenance of additional capital as a risk management measure, based on the nature and scale of the business of the lessor.

Ship Financial Lease

Permissible Activities under financial lease and a hybrid of operating and financial lease:

A lessor in IFSCs shall be permitted to undertake all or any of the following activities:

- i. Financial lease
- ii. Hybrid of financial and operating lease
- iii. Permitted Activities
- iv. any other related activity with the prior approval of the IFSCA.

A transaction shall be classified as a lease if it is in accordance with the Indian Accounting Standards (Ind AS 116) on Leases.

Capital Requirement

A minimum owned fund of USD 3 million or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity. Additionally, the IFSCA may specify maintenance of additional capital, as a risk management measure, based on the nature and scale of business of the entity.

Action in Case of Default

If a lessor fails to fulfil the conditions subject to which the registration is granted, the IFSCA may take any action as it may deem fit, after giving an opportunity of making submissions.

AIRCRAFT LEASING AS A FINANCE COMPANY

As per the International Financial Services Centres Authority (Finance Company) Regulations, 2021, an operating lease transaction for aircraft lease is classified as a ‘permitted non-core activity’ and a financial lease transaction for aircraft lease is classified as a ‘permitted core activity’, which includes a hybrid of financial lease and operating lease transaction for aircraft lease.

The IFSCA, in order to facilitate the setting up of the Aircraft Leasing business in the IFSCs and in exercise of the powers conferred by the IFSCA Act, 2019, hereby specifies the following framework for entities to get registered

under the Finance Company Regulations as a 'Finance Company' or a 'Finance Unit' for undertaking aircraft lease transactions.

Some important terms related to Ship leasing

"Lessor" means an entity registered with IFSCA as a Finance Company or a Finance Unit in accordance with Finance Company Regulations and engaged in the business of providing aircraft or helicopter and engines of aircraft or helicopter or any other part thereof and/or aircraft ground support equipment and/or aviation training simulation device under an operating lease, financial lease and/or a hybrid of financial and operating lease or any other related activity as may be specified by the IFSCA from time to time.

Eligibility and Registration Requirement

An applicant desirous of undertaking permissible activities in IFSCs as a Lessor must meet the eligibility criteria and other requirements as specified under the Finance Company Regulations including the following:

- a) The applicant shall set-up operations in IFSC in the form of a Company or a Limited Liability Partnership (LLP) or a Trust or in any other form as may be specified by the IFSCA from time to time.
- b) In case the applicant is a company, the 'promoter', as defined in the Companies Act, 2013, of the applicant shall be located in a Financial Action Task Force compliant jurisdiction. In case the applicant is an LLP or a Trust, the partners or the trustees, as the case may be, shall also comply with this requirement.

An entity in IFSC, intending to undertake aircraft lease only through its wholly owned subsidiary(ies) setup in IFSC for the purpose, will also be deemed to be a Lessor and it can make application for registration accordingly.

Application for Registration

An applicant desirous of undertaking permissible activities as a Lessor must submit an application to the IFSCA in the Single Window IT System (SWITS) portal, along with the application fees.

An applicant shall not undertake permissible activities as a Lessor unless it has obtained a Certificate of Registration from the IFSCA under the Finance Company Regulations. An applicant desirous of undertaking 'Asset Management Support Services' for an asset must obtain a separate authorisation for enabling ancillary services at IFSC.

Aircraft Operating Lease

A Lessor shall be permitted to undertake all or any of the following activities:

- Operating lease for an aircraft lease arrangement
- Operating lease for an aircraft ground support equipment
- Operating lease for an aviation training simulation device
- Asset Management Support Services for assets owned or leased out by the entity or by any of its Group Entities set up in IFSCs in India

Here, "Group Entities" mean an arrangement involving two or more entities related to each other through any of the following relationships, viz. Subsidiary – parent (defined in terms of AS 21), Joint venture (defined in terms of AS 27), Associate (defined in terms of AS 23), a related party (defined in terms of AS 18), Common brand name and investment in equity shares (of 20% and above).

- Sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in

relation to permitted activities subject to such restriction, and any other related activity with the prior approval of the IFSCA.

Capital Requirement:

A minimum owned fund of USD 200,000 or its equivalent in freely convertible foreign currency, is to be maintained at all times by the entity.

Here, the “Owned fund” for a Lessor means the paid-up capital and free reserves balance in the share premium account and capital reserves representing surplus arising out of the sale proceeds of asset, excluding reserves created by revaluation of the asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure. Additionally, the IFSCA may specify maintenance of additional capital, as a risk management measure, based on the nature and the scale of business of the Lessor.

Aircraft Financial Lease

Permissible Activities under financial lease:

A Lessor shall be permitted to undertake all or any of the following activities:

- Financial lease or a hybrid of financial and operating lease for an aircraft lease arrangement
- Financial lease or any hybrid of financial and operating lease for an aircraft ground support equipment
- Financial lease or any hybrid of financial and operating lease for an aviation training simulation device
- Sale and lease back, purchase, novation, transfer, assignment, and such other similar transactions in relation to permitted activities
- Permitted activities
- Any other related activity with the prior approval of the IFSCA

Capital Requirement for Lessors undertaking financial lease:

- i) A minimum owned fund of USD 3 million or its equivalent in freely convertible foreign currency is to be maintained at all times by the entity.
- ii) Additionally, the IFSCA may specify maintenance of additional capital, as a risk management measure, based on the nature and scale of business of the entity.

Action in Case of Default

If a Lessor fails to fulfil the conditions subject to which the registration is granted, the IFSCA may take any action as it may deem fit, after giving an opportunity of making submissions, if any.

GLOBAL/REGIONAL CORPORATE TREASURY CENTRE (GRCTC)

Registration for undertaking the activity of GRCTC

1. Conditions for Grant of Registration

- i) An entity desirous to commence the activity of GRCTC (hereinafter referred to as “the applicant”) shall apply to the Authority for obtaining a registration as a Finance Company/Finance Unit under sub-regulation (4) of regulation 3 of the FC Regulations.
- ii) The Applicant shall, at the time of submitting the application, meet the following conditions, namely:

- the Applicant possesses or undertakes to set up the necessary infrastructure in IFSC, including adequate office space, equipment, and communication facilities to undertake the permissible activities
- the Applicant undertakes to employ at least five qualified personnel, based in IFSC, to undertake the permissible activities, including the Head of Treasury and the Compliance Officer, before commencement of operations
- the Applicant demonstrates the ability to meet the owned fund requirements to the satisfaction of the IFSCA
- the Parent of the Applicant is from a jurisdiction which has not been identified in the public statement of the Financial Action Task Force (FATF) as “High Risk Jurisdiction – subject to call for action”
- the Applicant and its Key Managerial Personnel and persons exercising control over it collectively referred to as “Relevant Persons” satisfy the ‘fit and proper’ requirements
- the Applicant has not, during one year prior to the date of submission of the application, been refused authorisation or registration by the IFSCA

2. Application for Registration

The Applicant must submit the application for registration through the SWIT portal.

The Applicant, along with the application, must provide a list of its Service Recipients for which it proposes to undertake permissible activities. The list shall contain the names of service recipients as on the date of application. Other service recipients may be added to the list from time to time.

3. Legal Form

The Applicant shall be required to be set-up in IFSC either in the form of a company or a branch of a company incorporated in India or outside India.

4. Owned Fund requirements

A Finance Company/Finance Unit undertaking the activity of GRCTC shall have and maintain a minimum owned fund of USD 0.2 million at all times. In case of a Finance Unit undertaking the activity of GRCTC, the required owned fund may be maintained at the parent level.

5. Grant of Registration

- The IFSCA may, on being satisfied that the Applicant has complied with the conditions required for obtaining Certificate of Registration and upon receipt of specified registration fees, grant Certificate of Registration to the Applicant.
- The Certificate of Registration shall be valid unless suspended, withdrawn or cancelled by the IFSCA or surrendered by the Finance Company/Finance Unit.
- The Applicant shall conduct business in IFSC only after the receipt of the Certificate of Registration under the FC Regulations and ensure that it continues to hold a valid and subsisting Letter of Approval (“LoA”) under the Special Economic Zones Act, 2005 (Act No. 28 of 2005) during the time it is conducting business in IFSC.

6. Refusal or withdrawal of Registration

- If the IFSCA is of the opinion that the registration cannot be granted due to certain deficiencies, it must communicate the same to the Applicant, advising it to rectify such deficiencies within thirty days from the date of such communication.

- If the Applicant fails to rectify such deficiencies within the specified time, the IFSCA may refuse to grant the Certificate of Registration and communicate the same to the Applicant.
- The application filed can be withdrawn by the Applicant at any time before the grant of registration by making a communication to this effect to the IFSCA.

7. Cancellation of Registration

- If the IFSCA is satisfied that a Finance Company/Finance Unit undertaking the activity of GRCTC has failed to comply with any of the conditions of the Certificate of Registration, it may suspend, withdraw or cancel the registration granted to such Finance Company/Finance Unit.
- The order for suspension, withdrawal or cancellation of the Certificate of Registration shall be issued only after giving such Finance Company/Finance Unit a reasonable opportunity of filing its written reply on the grounds of the proposed action.

8. Service Recipient

- A Finance Company/Finance Unit undertaking the activity of GRCTC may undertake permissible activities for its Group Entities and/or for the Group Entities of its Parent and/or for the branch(es) of such Parent or Group Entities collectively referred to as “Service Recipients”, where such Parent and/or Group Entities may either be a person resident in India or a person resident outside India within the meaning of Foreign Exchange Management Act, 1999.
- A Finance Company/Finance Unit undertaking the activity of GRCTC must maintain an updated list of its Service Recipients and provide such list to the IFSCA, when called for.
- The Service Recipients must be registered under any law with any competent or statutory body in their home jurisdiction. Means a Finance Company/Finance Unit undertaking the activity of GRCTC and undertaking permissible activities with Service Recipients, who are person resident in India, must comply with the provisions of the Foreign Exchange Management Act, 1999, as applicable.

9. Permissible activities

- i) A Finance Company/Finance Unit, which has been granted Certificate of Registration to undertake the activities of GRCTC, may undertake the activities as specified below:
 - Raising capital by issuance of equity shares
 - Borrowing including in the form of inter-company deposits
 - Credit arrangements
 - Transacting or investing in financial instruments issued in IFSC or outside IFSC
 - Undertaking derivative transactions (Over the counter (OTC) and Exchange traded)
 - Foreign exchange transactions in such currencies as specified by the IFSCA
 - Factoring and Forfaiting
 - Acting as a Re-invoicing centre
 - Liquidity management
 - Maintaining relationships with financial counterparties
 - Management of obligations of its service recipients towards insurance and pension related commitments

- Advisory service related to activities and relating to:
 - financial management including financial risk management
 - funding and capital market activities
- Acting as a holding company

10. Commencement of operations

- i) A Finance Company/Finance Unit, which has been granted the Certificate of Registration for undertaking the activity of GRCTC, shall commence its operations within six months from the date of grant of Certificate of Registration.
- ii) A Finance Company/Finance Unit undertaking the activity of GRCTC may submit an application for extension of time for commencing operations, at least two months prior to the last date of commencement, along with the resolution in this regard passed by the Board of Directors of the Finance Company or the Board of Directors of the parent of the Finance Unit.
- iii) Any application, including complete details of the reasons for such request, duration of extension sought, measures undertaken to prevent the delay, and any other information which, in the opinion of the Finance Company/Finance Unit, is relevant for requesting such extension.
- iv) On receipt of the application, if the IFSCA is satisfied that the Finance Company/Finance Unit cannot commence its operation within the stipulated time period, it may extend the time period by such further period as it deems fit, but not exceeding three months.

Governance Requirements

Corporate Governance

- i) A Finance Company/Finance Unit undertaking the activity of GRCTC must have a Board-approved corporate governance policy, which shall comprehensively and clearly document its governance arrangements, i.e., the framework under which its Board and senior management shall function.
- ii) A Finance Company/Finance Unit undertaking the activity of GRCTC must have a Board-approved risk management policy, which shall inter alia include the procedures and systems to identify, measure, monitor and manage the range of risks that the GRCTC is exposed to.
- iii) A Finance Company/Finance Unit undertaking the activity of GRCTC must have a Board-approved policy for undertaking permissible activities, which shall include the following aspects:
 - Approval process for undertaking permissible activities, including delegation of powers
 - Financial limits for undertaking permissible activities
 - Procedure for oversight/audit of permissible activities
 - Any other relevant control mechanisms based on the nature of the activity undertaken
- iv) The above policies must be reviewed by the Board of the Finance Company/Finance Unit periodically.
- v) Any mergers, acquisitions, takeovers or change in management of the Finance Company undertaking the activity of a GRCTC, which results in its change in control of at least twenty per-cent of total share capital, or of the authority to take business decisions under an agreement, shall be subject to prior approval of the IFSCA and such other requirements as may be specified by the IFSCA. Mergers, acquisitions, takeovers or change in management in the parent of a Finance Unit must be in compliance to the conditions for grant of registration and must be intimated to the IFSCA within a period of 15 days from the date of such event.

LESSON ROUNDUP

- IFSCs enable India to offer global banking and financial services within a regulated international framework.
- IFSCA is the single regulatory authority governing all banking, finance, payment, and trade finance activities in IFSC.
- Banking operations in IFSC are carried out through IBUs and IBCs, primarily dealing in foreign currency transactions.
- Strict prudential, liquidity, and governance norms ensure financial stability and risk control.
- KYC, AML, and CFT compliance is central to maintaining transparency and preventing financial crimes.
- Payment Service Providers (PSPs) play a key role in facilitating cross-border payments under IFSCA oversight.
- Finance companies in IFSC support international trade, investment, leasing, and treasury functions without accepting public deposits.
- Activities of finance companies are clearly divided into core and non-core activities to ensure regulatory clarity.
- The ITFS platform strengthens international trade by enabling digital, efficient, and transparent trade finance.
- Specialized frameworks for ship leasing, aircraft leasing, and treasury centres position IFSC as a global financial hub.

GLOSSARY

- **Aircraft Leasing:** Leasing of aircraft, engines, or related equipment under operating or financial lease arrangements.
- **Anti-Money Laundering (AML):** Regulations to prevent money laundering and terrorist financing.
- **Banking Unit:** A bank operating in IFSC as an IBU or IBC.
- **Capital Adequacy Ratio:** Measure of capital strength based on risk-weighted assets.
- **Core Activities:** Main financial activities of finance companies, such as lending, trade finance, and derivatives.
- **Exposure Ceiling:** Maximum permissible exposure to a single borrower or group.
- **Finance Company:** A non-deposit-taking financial institution operating in IFSC.
- **Foreign Currency Account:** Account maintained in a specified foreign currency for international transactions.
- **Global/Regional Corporate Treasury Centre (GRCTC):** Entity managing treasury and financial risks of group companies.
- **IFSC Banking Company (IBC):** Subsidiary bank incorporated in IFSC.
- **IFSC Banking Unit (IBU):** Branch of a parent bank operating in IFSC.
- **International Financial Services Centre (IFSC):** Designated area in India for international financial services.

- **International Financial Services Centres Authority (IFSCA):** Unified regulator for IFSC operations.
- **International Trade Finance Services (ITFS) Platform:** Digital platform for trade finance transactions in IFSC.
- **Know Your Customer (KYC):** Process of verifying customer identity.
- **Liquidity Coverage Ratio (LCR):** Requirement to maintain liquid assets for short-term obligations.
- **Net Stable Funding Ratio:** Requirement to maintain stable long-term funding.
- **Non-Core Activities:** Ancillary financial services.
- **Payment Service Provider (PSP):** Entity authorised to provide payment and settlement services.
- **Ship Leasing:** Leasing of ships or ocean vessels under operating or financial lease.
- **Trade Finance:** Financial services supporting export and import transactions.

TEST YOURSELF

A. Very Short Answer Questions

1. What is an International Financial Services Centre (IFSC)?
2. Name the regulatory authority governing IFSCs in India.
3. Mention any two objectives of setting up IFSCs in India.
4. What is meant by foreign currency operations in IFSC?
5. Define KYC.
6. What is the role of AML guidelines in IFSC?
7. Who are Payment Service Providers (PSPs)?
8. What is the ITFS platform?

B. Short Answer Questions

1. Explain the role and functions of the International Financial Services Centres Authority (IFSCA).
2. Distinguish between an IFSC Banking Unit (IBU) and an IFSC Banking Company (IBC).
3. What are the capital requirements for setting up an IBU and an IBC?
4. Explain the importance of KYC and AML compliance in IFSC.
5. Describe the permissible activities of banking units in IFSC.
6. What are core activities of finance companies in IFSC?
7. Explain the role of Payment Service Providers in IFSC.
8. What is International Trade Finance Services (ITFS)? Explain its objectives.
9. What are non-core activities permitted for finance companies?
10. Explain the significance of foreign currency accounts in IFSC.

