

# IFSCA Ecosystem & Regulatory Framework

## Lesson 2

### KEY CONCEPTS

- Unified Regulator ■ GIFT City ■ Environmental, Social, and Governance ■ Foreign Currency Transactions ■ Grievance Redressal Mechanism ■ Market Infrastructure Institutions ■ Sustainable Finance ■ IFSC Exchanges
- Fund Management ■ Global In-House Centres

### Learning Objectives

#### To understand the:

- concept, evolution, and need for International Financial Services Centres (IFSCs) in India.
- chronological journey and establishment of the International Financial Services Centres Authority (IFSCA).
- objectives, structure, and key provisions of the IFSCA Act, 2019.
- powers, functions, and administrative framework of IFSCA.
- key business activities and financial services permitted in IFSCs.
- role of IFSCA in promoting sustainable economic growth.
- powers delegated to IFSCA by SEBI, RBI, IRDAI, and PFRDA.
- major regulations issued by IFSCA across banking, insurance, capital markets, and asset management.
- importance of FinTech, innovation, and regulatory sandbox frameworks in IFSCs.
- role of IFSC exchanges, clearing corporations, and depositories in market infrastructure.
- investor protection framework and grievance redressal mechanisms in IFSCs.
- enforcement powers and penalty mechanisms of IFSCA for ensuring market discipline and integrity.

### Lesson Outline

- Chronological Journey and Establishment of IFSCA
- IFSCA Act, 2019 - Goals and Objectives
- Powers and Functions of Authority
- Key Business activities at IFSCA
- Role of IFSCA in Sustainable Economic Growth
- Powers delegated by SEBI, RBI, IRDAI, and PFRDA
- Key regulations issued by IFSCA for Banking, Insurance, Capital Markets, and Asset Management
- Fintech & Innovations
- IFSC Exchanges, Clearing Corporations, and Depositories
- Role and Functions of MIs
- Investor Protection and Grievance Redressal
- Complaint Resolution Process
- Enforcement Powers and Penalties
- Lesson Round Up
- Glossary
- Test Yourself
- List of Further Readings

## CHRONOLOGICAL JOURNEY AND ESTABLISHMENT OF IFSCA

### 1. Need for a Unified Regulator

Before the establishment of the International Financial Services Centres Authority (IFSCA), financial institutions operating in IFSCs were regulated by multiple domestic regulators such as RBI, SEBI, IRDAI, and PFRDA. This led to regulatory overlaps and operational challenges. To develop a globally competitive financial hub in India, there was a need for a single, unified regulator exclusively for IFSCs.

### 2. Early Global Context and Concept of IFSCs

- International Financial Services Centres (IFSCs) are special jurisdictions set up to cater to cross-border financial services.
- Global examples include London, Singapore, Hong Kong, and Dubai.
- India envisaged its own IFSC to retain offshore financial business and attract international capital.

### 3. Announcement of GIFT City (2007–2008)

- In 2007, the Government of India announced the establishment of Gujarat International Finance Tec-City (GIFT City).
- The objective was to create a world-class financial hub offering international financial services from within India.
- GIFT City was developed as a Special Economic Zone (SEZ) with a designated IFSC area.

### 4. Initial Regulatory Framework (2015 onwards)

- In 2015, the Government formally notified GIFT City as India's first IFSC.
- Financial activities in IFSC were regulated by multiple domestic regulators, each governing its respective sector.
- Though functional, this system lacked uniformity and speed, highlighting the need for regulatory consolidation.

### 5. Proposal for a Unified Authority

- The challenges of multi-regulatory oversight led to policy discussions on creating a single regulator.
- Committees and expert groups recommended a unified regulatory framework to improve ease of doing business and global competitiveness.

### 6. Enactment of the IFSCA Act, 2019

- The International Financial Services Centres Authority Act, 2019 was passed by Parliament.
- The Act provided the legal foundation for setting up a single authority to regulate and develop IFSCs in India.
- It empowered IFSCA to regulate financial products, financial services, and financial institutions in IFSCs.

### 7. Establishment of IFSCA (2020)

- IFSCA was formally established on 27 April 2020.
- It became the sole regulator for all financial activities in IFSCs.
- The headquarters of IFSCA is located at GIFT City, Gandhinagar, Gujarat.

### 8. Transition from Multiple Regulators to IFSCA

- Upon its establishment, regulatory powers relating to IFSCs were transferred from RBI, SEBI, IRDAI, and PFRDA to IFSCA.
- Existing financial institutions in IFSCs came under the supervision of IFSCA.
- This transition ensured consistency, efficiency, and regulatory clarity.

### 9. Initial Focus and Developmental Role

Post-establishment, IFSCA focused on:

- Framing sector-specific regulations for banking, capital markets, insurance, and fund management.
- Encouraging innovation through FinTech and regulatory sandbox frameworks.
- Developing market infrastructure such as exchanges, clearing corporations, and depositories.

### 10. Growth and Consolidation Phase

Over time, IFSCA has:

- Expanded the range of permissible financial activities.
- Introduced frameworks for sustainable finance and fintech.
- Strengthened India's presence in global financial markets.

IFSCA has evolved not just as a regulator, but also as a development authority promoting growth, stability, and competitiveness.

## IFSCA ACT, 2019 - GOALS AND OBJECTIVES

### Establishment of Authority

#### 1. Establishment and incorporation of Authority

- 1) The Central Government, by notification, established an Authority by the name of the International Financial Services Centres Authority.
- 2) The Authority must be a body corporate having perpetual succession and a common seal, and subject to the provisions of this Act, with power to enter into and execute contracts, acquire, hold and dispose of property, both movable and immovable, and shall, by the said name, sue and be sued.
- 3) The head office of the Authority must be at such place as the Central Government may, by notification, decide.
- 4) The Authority can, with the prior approval of the Central Government, establish its offices at other places in India or outside India.

#### 2. Composition of Authority

- 1) The Authority must consist of the following Members, to be appointed by the Central Government, namely:
  - a) a chairperson
  - b) one Member each to be nominated by
    - i. the Reserve Bank of India, ex officio

- ii. the Securities and Exchange Board of India, ex officio
  - iii. the Insurance Regulatory and Development Authority of India, ex officio
  - iv. the Pension Fund Regulatory and Development Authority, ex officio
- c) two Members, from amongst the officials of the Ministry dealing with Finance, to be nominated by the Central Government, ex officio
  - d) two other Members to be appointed by the Central Government on the recommendation of a Selection Committee.
- 2) The Chairperson must be a whole-time Member, and other Members referred to in (d) of sub-section (1) may be appointed as whole-time or part-time Members as the Central Government may deem fit.
  - 3) The Members must be persons of ability, integrity and standing who have shown capacity in dealing with matters relating to financial sectors or have special knowledge or experience of law, finance, economics, accountancy, administration or in any other discipline which, in the opinion of the Central Government, shall be useful to the Authority.
  - 4) The Selection Committee referred to in (d) of sub-section (1) consists of such Members and is constituted by the Central Government in such manner as may be prescribed.

### **3. Terms of office and conditions of service of Chairperson and other Members**

- 1) The Chairperson and a Member must hold office for a term of three years from the date on which he enters upon his office and can be eligible for re-appointment. No person must hold office as a chairperson after he has attained the age of sixty-five years or as a whole-time member after he has attained the age of sixty-two years.
- 2) The salaries and allowances payable to, and other terms and conditions of service of, the Members, other than ex officio Members, must be such as may be prescribed.
- 3) A Member can
  - a) resign from his office by giving in writing to the Central Government a notice of not less than three months
  - b) be removed from his office.
- 4) No Member, other than ex officio Member, must, for a period of two years from the date on which they cease to hold office as such, except with the previous approval of the Central Government, accept—
  - a) any employment either under the Central Government or under any State Government
  - b) appointment in any financial institution in the International Financial Services Centres

### **4. Removal of Member from office**

- 1) The Central Government may remove from office a Member, who—
  - a) is, or at any time has been, adjudged as insolvent
  - b) has become physically or mentally incapable of acting as a Member
  - c) has been convicted of an offence which in the opinion of the Central Government involves moral turpitude

- d) has acquired such financial or other interest as is likely to affect prejudicially his functions as a Member
- e) has so abused his position so as to render his continuance in office detrimental to public interest.

No Member can be removed from office under (d) or (e) unless he has been given a reasonable opportunity of being heard in the matter.

#### **5. Meetings of Authority**

- 1) The Authority must meet at such times and places and must observe such rules of procedure in regard to the transaction of business at its meetings (including quorum at such meetings) as may be specified by regulations.
- 2) The Chairperson, if for any reason, he is unable to attend a meeting of the Authority, any other Member chosen by the Members present from amongst themselves at the meeting must preside at the meeting.
- 3) All questions which come up before any meeting of the Authority must be decided by a majority of votes of the Members present and voting, and, in the event of an equality of votes, the Chairperson, or in his absence, the person presiding, must have a casting vote.
- 4) Any Member who has any direct or indirect interest in any matter likely to come up for consideration at a meeting of the Authority must, as soon as possible after the relevant circumstances have come to his knowledge, disclose in writing, the nature of his interest at such meeting and such disclosure must be recorded in the proceedings of the Authority and such Member must not take part in any deliberation or decision of the Authority with respect to that matter.

#### **6. Vacancies, etc., not to invalidate proceedings of Authority**

No act or proceeding of the Authority must be invalid merely by reason of—

- a) any vacancy or defect in the constitution of the Authority
- b) any defect in the appointment of a person as a Member of the Authority.

#### **7. Administrative powers of Chairperson**

The Chairperson must have the powers of general superintendence and direction in respect of all administrative matters of the Authority.

#### **8. Officers and other employees of Authority**

- 1) The Authority can appoint such officers and other employees as it considers necessary for the efficient discharge of its functions under this Act.
- 2) The salaries and allowances payable to, and other terms and conditions of service of, officers and other employees of the Authority appointed under (1) must be such as may be specified by regulations.

## **POWERS AND FUNCTIONS OF AUTHORITY**

### **Powers of Authority in relation to financial products, financial services and financial institutions**












- 1) Notwithstanding anything contained in any other law for the time being in force, all powers exercisable by an appropriate regulator, under the respective Acts must, in the International Financial Services Centres, be exercised by the Authority in so far as it relates to the regulation of the financial products, financial services or financial institutions.

- 2) The Central Government may, by notification, amend the First Schedule by including therein any financial sector regulator and the law administered by it, or omitting therefrom any financial sector regulator or any law specified therein, and on the publication of such notification, such regulator and the law must be deemed to be included in, or omitted from, the First Schedule.
- 3) Every notification issued under (2) must be laid before each House of Parliament.
- 4) For the purposes of (1), the provisions of the respective Acts of the First Schedule relating to—
  - a) the manner of filing an application for recognition or registration or withdrawal of recognition or registration or furnishing of information or reports
  - b) the procedure of inspection, investigation or prosecution of offences, settlement of civil and administrative proceedings, compounding or adjudication of any offence or penalty, or actions to be taken in furtherance of such inspection, investigation, or adjudication or filing of appeals arising therefrom
  - c) the determination or settlement, of any fee or fine or penalty or any other sum of amount or punishment for the contravention of any provisions of respective Acts specified in the First Schedule and recovery of such fine or penalty, must, mutatis mutandis, apply to financial products, financial services and financial institutions under this Act, as they apply to the financial products, financial services and financial institutions under such respective Acts.
- 5) The penalties, fines, fees and settlement amounts must be collected or realised in the foreign currency equivalent of the penalty or fine imposed. The rate of exchange for computing the foreign currency equivalent to Indian rupees must be such as are as notified by the Reserve Bank of India on the date of the order imposing the penalty or fine.
- 6) All sums realised by way of penalties or fines under this Act must be credited to the Consolidated Fund of India in Indian rupees.
- 7) The Authority may, in addition to the above, specify by regulations the manner in which the functions may be performed by the Authority for carrying out the provisions of this section.

### Functions of Authority

- 1) It is the duty of the Authority to develop and regulate the financial products, financial services and financial institutions in the International Financial Services Centres, by such measures as it deems fit.
- 2) The powers and functions of the Authority shall include—
  - a) regulating the financial products, financial services and financial institutions in an International Financial Services Centre which have been permitted, before the commencement of this Act, by any regulator for any International Financial Services Centre;
  - b) regulating such other financial products, financial services or financial institutions in the International Financial Services Centres as may be notified by the Central Government from time to time;
  - c) recommending to the Central Government such other financial products, financial services and financial institutions which may be permitted in an International Financial Services Centre by the Central Government;
  - d) perform such other functions as may be prescribed.

**KEY BUSINESS ACTIVITIES AT IFSCA**

	Banking
	Fund Management
	Global In House Centre
	Capital Market
	Insurance
	Metals and Commodities
	BATF Service Providers
	Aircraft Leasing
	Fintech
	Foreign University
	Ship Leasing

IFSC: Business Segments		
<p><b>Banking</b></p> <ul style="list-style-type: none"> <li>● Indian Banks</li> <li>● Foreign Banks</li> <li>● Global Administrative Office</li> <li>● Rep. Offices</li> </ul>	<p><b>Capital Market</b></p> <ul style="list-style-type: none"> <li>● Stock Exchanges</li> <li>● Clearing Corporation</li> <li>● International Depository</li> <li>● Broker Dealers</li> <li>● Investment Bankers</li> <li>● Custodians</li> <li>● Depository Participants</li> <li>● Clearing Members</li> </ul>	<p><b>Asset Management</b></p> <ul style="list-style-type: none"> <li>● Fund Management Entities</li> <li>● Alternative Investment Funds</li> <li>● Investment Advisers</li> <li>● Portfolio Managers</li> <li>● Distributors</li> </ul>
<p><b>Insurance</b></p> <ul style="list-style-type: none"> <li>● Indian &amp; Foreign Insurer</li> <li>● Indian &amp; Foreign Reinsurer</li> <li>● Insurance Intermediaries</li> <li>● Insurance Web-Aggregators</li> </ul>	<p><b>Niche Institutions</b></p> <ul style="list-style-type: none"> <li>● International Bullion Exchange</li> <li>● Finance Companies</li> <li>● Global Treasury Centre</li> <li>● ITFS Platform</li> <li>● Aircraft Leasing &amp; Financing</li> <li>● Ship Leasing &amp; Financing</li> </ul>	<p><b>Emerging Businesses</b></p> <ul style="list-style-type: none"> <li>● Foreign Universities</li> <li>● TechFin Firms</li> <li>● Global in-House Centres</li> <li>● Ancillary Service Providers</li> <li>● Payment Service Providers</li> <li>● BATF Service Provider</li> </ul>

## ROLE OF IFSCA IN SUSTAINABLE ECONOMIC GROWTH

### 1. Understanding Sustainable Economic Growth

Sustainable economic growth refers to growth that:

- Is long-term and stable
- Encourages efficient use of resources
- Balances economic development with social and environmental considerations
- Strengthens the resilience of the financial system

IFSCA supports this form of growth by creating a globally competitive financial ecosystem while ensuring sound regulation and responsible practices.

### 2. Unified and Efficient Regulatory Framework

One of the most important contributions of IFSCA is the establishment of a single-window regulatory system for IFSCs. Unlike the domestic financial system, where multiple regulators operate, IFSCA brings banking, capital markets, insurance, pension, and fintech under one authority.

This unified framework:

- Reduces regulatory complexity and compliance costs
- Improves ease of doing business
- Enhances investor confidence
- Encourages long-term investments

A stable and predictable regulatory environment is essential for sustainable economic growth, as it promotes continuity and trust in the financial system.

### 3. Promoting Global Capital Flows into India

IFSCA enables India to attract global capital by allowing international financial activities to be conducted from IFSCs. These include offshore banking, fund management, insurance and reinsurance, and capital market activities.

By channeling foreign capital into productive sectors, IFSCA:

- Supports infrastructure development
- Encourages investment in priority sectors
- Reduces dependence on external financial centres

This strengthens India's economic base and supports long-term growth.

### 4. Development of Deep and Efficient Financial Markets

IFSCA supports the development of advanced financial markets such as:

- International exchanges for securities and derivatives
- Bullion markets like the India International Bullion Exchange (IIBX)
- Clearing corporations and depositories

Efficient financial markets ensure better price discovery, risk management, and liquidity. These features help businesses manage financial risks effectively, leading to stable and sustainable economic expansion.

## 5. Encouraging Innovation and FinTech Development

IFSCA actively promotes financial innovation through:

- FinTech regulatory frameworks
- Regulatory sandboxes
- Support for new-age technologies such as artificial intelligence, and digital finance

Innovation improves financial inclusion, efficiency, and transparency. By supporting responsible innovation, IFSCA ensures that technological progress contributes positively to economic growth without compromising stability.

## 6. Supporting Sustainable Finance and Green Initiatives

IFSCA encourages sustainable finance by facilitating:

- Green bonds and sustainable debt instruments
- ESG (Environmental, Social, and Governance)-linked financial products
- Responsible investment practices.

Such initiatives help channel funds toward environmentally and socially responsible projects, aligning financial growth with broader development goals and climate commitments.

## 7. Strengthening Risk Management and Financial Stability

IFSCA places strong emphasis on prudential norms, governance standards, and risk management practices. By ensuring that financial institutions operating in IFSCs are well-capitalized and well-governed, IFSCA:

- Reduces systemic risks
- Prevents financial crises
- Maintains confidence in the financial ecosystem

Financial stability is a cornerstone of sustainable economic growth.

## 8. Employment Generation and Skill Development

The growth of IFSCs under IFSCA's guidance leads to:

- Creation of highly skilled employment in finance, law, technology, and support services
- Development of specialized talent in international finance
- Knowledge transfer from global institutions to the domestic economy.

This contributes to human capital development, which is essential for long-term economic sustainability.

## 9. Enhancing India's Global Financial Position

By developing IFSCs as global financial hubs, IFSCA helps position India as a competitive player in international finance. This reduces capital flight to offshore jurisdictions and strengthens India's role in global financial governance. A stronger global presence supports resilient and inclusive economic growth.

IFSCA plays a vital role in promoting sustainable economic growth by combining effective regulation with developmental objectives. Through a unified regulatory framework, promotion of global capital flows, support for innovation, emphasis on financial stability, and encouragement of sustainable finance, IFSCA contributes to a balanced and resilient economic system.

## POWERS DELEGATED BY SEBI, RBI, IRDAI, AND PFRDA

Prior to IFSCA, financial activities in IFSCs were regulated by multiple domestic regulators—SEBI, RBI, IRDAI, and PFRDA—depending on the nature of the activity.

With the enactment of the IFSCA Act, 2019, the powers of these regulators relating to IFSCs were delegated and transferred to IFSCA, making it a unified regulator. This delegation ensures regulatory consistency, efficiency, and ease of doing business.

### 1. Delegation of Powers from Reserve Bank of India (RBI)

RBI is the primary regulator of banking, foreign exchange, and payment systems in India. Its powers relating to IFSCs have been delegated to IFSCA.

Key powers delegated from RBI include:

- Regulation and supervision of banking units in IFSCs
- Authorization and oversight of offshore banking units
- Regulation of foreign currency transactions in IFSCs
- Supervision of treasury operations and lending activities
- Regulation of payment systems operating within IFSCs

Through this delegation, IFSCA performs RBI-like functions for banking and currency-related activities within IFSCs.

### 2. Delegation of Powers from Securities and Exchange Board of India (SEBI)

SEBI regulates capital markets, securities trading, and market intermediaries in India. Its powers concerning IFSCs have been transferred to IFSCA.

Key powers delegated from SEBI include:

- Regulation of stock exchanges and international exchanges in IFSCs
- Oversight of clearing corporations and depositories
- Regulation of capital market intermediaries such as brokers, fund managers, and investment advisers
- Supervision of funds, alternative investment funds (AIFs), and portfolio managers in IFSCs
- Regulation of derivatives, debt instruments, and other securities

This enables IFSCA to independently regulate and develop international capital markets in IFSCs.

### 3. Delegation of Powers from Insurance Regulatory and Development Authority of India (IRDAI)

IRDAI regulates insurance and reinsurance businesses in India. For IFSCs, these regulatory powers are exercised by IFSCA.

Key powers delegated from IRDAI include:

- Regulation of insurance and reinsurance companies in IFSCs
- Approval and supervision of insurance intermediaries
- Oversight of cross-border insurance products
- Regulation of capital, solvency, and governance norms for insurers in IFSCs

This delegation supports the development of India as a global hub for insurance and reinsurance services.

#### 4. Delegation of Powers from Pension Fund Regulatory and Development Authority (PFRDA)

PFRDA regulates pension schemes and retirement funds in India. Its IFSC-related powers are now vested in IFSCA.

Key powers delegated from PFRDA include:

- Regulation of pension funds and retirement products in IFSCs
- Supervision of pension fund managers and intermediaries
- Approval of international pension and retirement schemes
- Regulation of operational and governance standards

This allows IFSCs to offer global pension and retirement solutions under a single regulator.

#### 5. Significance of Delegated Powers

The delegation of powers from SEBI, RBI, IRDAI, and PFRDA to IFSCA has several advantages:

- Single-window regulation for all financial services in IFSCs
- Reduction in regulatory overlaps and delays
- Greater clarity and certainty for market participants
- Faster decision-making and approvals
- Enhanced global competitiveness of Indian IFSC

### KEY REGULATIONS ISSUED BY IFSCA FOR BANKING, INSURANCE, CAPITAL MARKETS, AND ASSET MANAGEMENT

#### Key regulations issued by IFSCA for Banking

- IFSCA (Banking) Regulations, 2020

#### Key regulations issued by IFSCA for Insurance

##### 1. IFSC Insurance Office (IIO)

- IFSCA (Registration of Insurance Business) Regulations, 2021
- IFSCA (Re-insurance) Regulations, 2023

##### 2. IFSC Insurance Intermediary Office (IIIO)

- IFSCA (Insurance Intermediary) Regulations, 2021

#### Key regulations issued by IFSCA for Capital Markets

- IFSCA (Capital Market Intermediaries) Regulations, 2025
- IFSCA (Market Infrastructure Institutions) Regulations, 2021

#### Key regulations issued by IFSCA for Asset Management

- IFSCA (Fund Management) Regulations, 2025

## FINTECH & INNOVATIONS

FinTech (Financial Technology) refers to the use of technology to deliver financial products and services in a faster, more efficient, and innovative manner. In the context of International Financial Services Centres (IFSCs), FinTech plays a critical role in enhancing competitiveness, efficiency, and global integration.

The IFSCA actively promotes FinTech and innovation to position IFSCs, especially GIFT IFSC, as global hubs for next-generation financial services.

### 1. Importance of FinTech in IFSCs

FinTech and innovation are central to the development of IFSCs because they:

- Improve efficiency and reduce transaction costs
- Enable cross-border financial services
- Promote financial inclusion and transparency
- Enhance risk management and compliance
- Support sustainable and digital economic growth

IFSCA adopts a balanced approach, encouraging innovation while ensuring financial stability and consumer protection.

### 2. Regulatory Approach of IFSCA towards FinTech

IFSCA follows a principles-based and facilitative regulatory approach. Instead of rigid rules, it provides flexibility to test innovative solutions.

Key features of IFSCA's regulatory approach include:

- Technology-neutral regulations
- Risk-based supervision
- Proportionate compliance requirements
- Emphasis on governance and data security

This approach allows innovation to flourish without compromising systemic safety.

### 3. IFSCA Regulatory Sandbox

One of the most important initiatives for promoting FinTech is the IFSCA Regulatory Sandbox.

Key features of the sandbox include:

- Allows FinTech entities to test innovative products, services, or business models in a controlled environment
- Provides temporary regulatory relaxations
- Reduces time and cost of market entry
- Enables real-world testing with limited customers

The sandbox encourages experimentation while helping regulators understand emerging technologies.

### 4. Key Areas of FinTech Innovation in IFSCs

IFSCA permits and encourages innovation across multiple domains, including:

- Digital Banking and Neo-banks

- Blockchain and Distributed Ledger Technology (DLT)
- Artificial Intelligence and Machine Learning for risk assessment and fraud detection
- RegTech and SupTech solutions for compliance and supervision
- Cross-border payments and remittances
- WealthTech and InsurTech solutions
- Tokenization of assets and digital securities

These innovations strengthen the IFSC ecosystem and improve service delivery.

### **5. FinTech Entities in IFSC**

IFSCA allows various FinTech entities to operate from IFSCs, such as:

- FinTech service providers
- Technology companies offering financial solutions
- Ancillary service providers supporting financial institutions
- Global In-House Centres (GICs) for FinTech and technology operations

Such entities benefit from global exposure and a supportive regulatory environment.

### **6. Incentives and Support Framework**

To promote innovation, IFSCA provides:

- FinTech-specific regulatory frameworks
- Access to sandbox and innovation testing facilities
- Facilitation for global market access
- Supportive ecosystem involving regulators, exchanges, and financial institutions

These measures reduce entry barriers and encourage long-term innovation-led growth.

### **7. Role of FinTech in Sustainable Growth**

FinTech and innovation contribute to sustainable economic growth by:

- Enhancing transparency and efficiency
- Reducing operational risks and costs
- Supporting green finance and digital ESG reporting
- Enabling inclusive and scalable financial solutions

IFSCA ensures that innovation aligns with responsible and sustainable development objectives.

### **8. Challenges and Safeguards**

While promoting innovation, IFSCA also addresses challenges such as:

- Cybersecurity and data privacy risks
- Consumer protection concerns
- Operational and systemic risks

Appropriate safeguards, governance norms, and supervisory mechanisms are put in place to mitigate these risks.

FinTech and innovation form a cornerstone of the IFSC ecosystem. Through a supportive regulatory framework, sandbox mechanisms, and emphasis on responsible innovation, IFSCA fosters a dynamic and future-ready financial environment. By balancing innovation with regulation, IFSCA ensures that technological advancement contributes meaningfully to efficiency, stability, and sustainable growth in IFSCs.

## IFSC EXCHANGES, CLEARING CORPORATIONS, AND DEPOSITORIES

International Financial Services Centres (IFSCs) are designed to provide a world-class financial market infrastructure comparable with leading global financial hubs. A strong and efficient market infrastructure is essential for smooth trading, settlement, and safekeeping of securities and financial instruments. In an IFSC, this infrastructure is provided through exchanges, clearing corporations, and depositories, all of which are regulated by the International Financial Services Centres Authority (IFSCA).

Market Infrastructure Institutions (MIIs) in the IFSCs are the core entities like stock exchanges, clearing corporations, and depositories that provide the backbone for listing, trading, clearing, and settlement of securities in the IFSC, regulated by the IFSCA Regulations to ensure a robust, transparent, and globally compliant financial ecosystem. These regulations, established by the International Financial Services Centres Authority (IFSCA), simplify the framework, promote ease of business, and enhance governance for MIIs in the IFSC.

IFSCA unified the rules for MIIs, replacing fragmented regulations. MIIs are governed by the IFSCA (Market Infrastructure Institutions) Regulations, 2021. These Regulations were thoroughly revised in 2025. IFSCA also brought in the new Bullion market Regulations for IIBX in 2025.

### Key MIIs in IFSC:

**Stock Exchanges:** Platforms for trading financial instruments.

**Clearing Corporations:** Facilitate clearing and settlement of trades.

**Depositories:** Hold securities in electronic form.

The following are the MIIs in the IFSC:

1. India International Exchange (India INX)
2. NSE International Exchange (NSE IX)
3. NSE International Clearing Corporation (NSE ICC)
4. India INX Clearing Corporation (India ICC)
5. India International Depository IFSC (IIDI)

There is also a Bullion Exchange in the IFSC called the India International Bullion Exchange (IIBX)

### Products on MIIs in the IFSC:

1. Bonds
2. Derivatives - SGX Nifty Derivatives
3. Import of Gold and Silver
4. Equity (commencing soon)

While there are brokers, vault managers, depository participants and other intermediaries registered in the IFSC, it is also significant to note that there are unique intermediaries like Remote Trading Participants (RTPs).

MIIs in the IFSC are the essential building blocks for a sophisticated and well-regulated capital market, fostering international financial activities.

## Role and Functions of MIIs

### 1. IFSC Exchanges

IFSC exchanges are organized platforms that facilitate trading in a wide range of financial instruments for international participants.

Key features of IFSC exchanges:

- Provide electronic platforms for trading in securities and financial instruments.
- Enable access to global investors, foreign institutions, and non-resident participants.
- Operate in foreign currency (mainly USD), reducing exchange rate risk for international investors.
- Function under a regulatory framework aligned with best global practices.

Instruments traded on IFSC exchanges include:

- Equity shares and equity derivatives
- Debt securities (bonds and notes)
- Currency and interest rate derivatives
- Commodity and bullion derivatives
- Depository receipts and other permitted instruments

IFSC exchanges help in price discovery, liquidity creation, and efficient capital raising, making India competitive with other global financial centres.

### 2. Clearing Corporations in IFSC

Clearing corporations play a crucial role in ensuring the safety and stability of financial markets.

Role and functions of clearing corporations:

- Act as an intermediary between buyers and sellers in a trade.
- Guarantee settlement of trades, thereby reducing counterparty risk.
- Perform clearing, settlement, and risk management functions.
- Monitor margins, exposures, and defaults to maintain market integrity.

Once a trade is executed on an IFSC exchange, the clearing corporation steps in to:

- Confirm the trade
- Calculate settlement obligations
- Ensure timely payment and delivery of securities or funds

By acting as a central counterparty (CCP), clearing corporations enhance confidence among market participants and ensure smooth functioning of the IFSC markets.

### 3. Depositories in IFSC

Depositories provide the system for holding securities in electronic (dematerialized) form and enabling their transfer.

Key functions of IFSC depositories:

- Hold securities safely in dematerialized form.
- Facilitate transfer of ownership through electronic book entries.
- Eliminate risks associated with physical certificates, such as loss or forgery.
- Support settlement of trades executed on IFSC exchanges.

Participants in the depository system include:

- Depository Participants (DPs)
- Custodians
- Clearing members
- Investors (domestic and international)

Depositories ensure speedy settlement, transparency, and investor protection, which are essential for attracting global investors to IFSC markets.

#### **4. Regulatory Oversight by IFSCA**

IFSCA is the sole regulator for exchanges, clearing corporations, and depositories in IFSCs.

IFSCA's regulatory responsibilities include:

- Granting recognition and approval to market infrastructure institutions.
- Framing regulations governing operations, governance, and risk management.
- Ensuring compliance with international standards and best practices.
- Protecting investor interests and maintaining market integrity.

A unified regulatory framework under IFSCA reduces regulatory overlap and provides clarity and efficiency to market participants.

#### **5. Importance of Market Infrastructure in IFSC**

The presence of well-regulated exchanges, clearing corporations, and depositories in IFSCs:

- Strengthens India's position as a global financial hub.
- Attracts foreign investment and international listings.
- Enhances ease of doing business in cross-border financial markets.
- Promotes transparency, efficiency, and stability in financial transactions.

### **INVESTOR PROTECTION AND GRIEVANCE REDRESSAL**

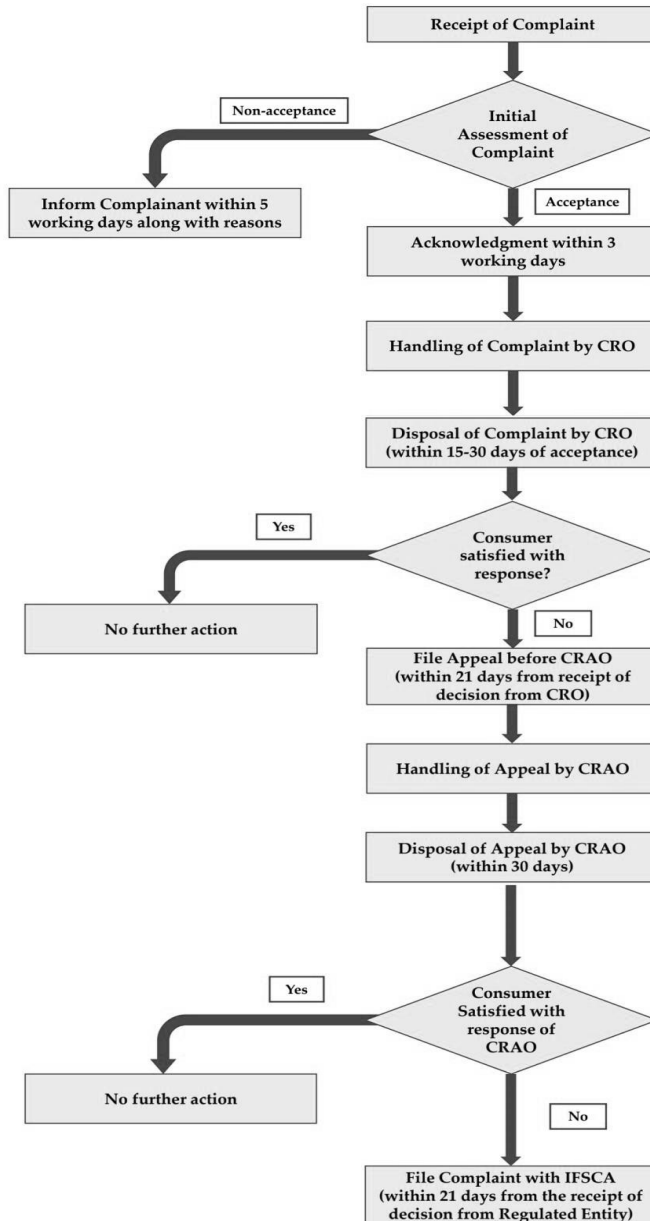
Investor protection and an effective grievance redressal mechanism are essential for building trust and confidence in any financial system. In IFSCs, where global investors participate in cross-border financial activities, strong safeguards become even more important.

IFSCA has been established with the objective to develop and regulate the financial services market in the IFSCs in India and for matters connected therewith or incidental thereto, as mentioned in the preamble of the IFSCA Act, 2019. One of the key regulatory functions of the IFSCA is to safeguard the interests of financial consumers. Ensuring consumer protection is crucial for maintaining trust and confidence in the financial markets within the

IFSC. IFSCA recognises that robust consumer protection framework enhances long-term market integrity by holding financial service providers accountable, promoting responsible business practices, and contributing to the overall stability of the financial markets in the IFSC.

IFSCA has issued a circular on “Complaint Handling and Grievance Redressal by Regulated Entities in the IFSC” dated December 02, 2024, detailing the process for handling consumer complaints in IFSCs. Pursuant to Circular dated January 13, 2025, the said mechanism shall be effective with respect to April 01, 2025. The following have been specified by IFSCA in this regard:

**Complaint Resolution Process**



If the complaint is against a trading member/ a clearing member/ a depository participant/ a bullion trading member/ a bullion clearing member, the complainant shall first approach the relevant MII for redress of the complaint within 21 days, before approaching IFSCA.

The IFSCA places investor protection at the core of its regulatory framework, ensuring fairness, transparency, and accountability in IFSCs.

### 1. Importance of Investor Protection in IFSCs

Investor protection is critical because it:

- Builds confidence among domestic and international investors
- Encourages long-term participation in financial markets
- Reduces the risk of fraud and unfair practices
- Enhances the credibility of IFSCs as global financial hubs

IFSCA ensures that investor interests are safeguarded while maintaining a business-friendly environment.

### 2. Regulatory Framework for Investor Protection

IFSCA has framed comprehensive regulations to protect investors, drawing from global best practices.

Key elements include:

- Disclosure norms for issuers and intermediaries
- Fit and proper criteria for market participants
- Corporate governance standards
- Risk management and compliance requirements
- Code of conduct for financial institutions and intermediaries

These measures promote transparency and ethical conduct.

### 3. Investor Education and Awareness

IFSCA recognizes that informed investors are better protected.

Key initiatives include:

- Promoting awareness about financial products and risks
- Ensuring availability of clear and understandable information
- Encouraging responsible selling and advisory practices

Investor education supports informed decision-making and reduces disputes.

### 4. Grievance Redressal Mechanism in IFSCs

IFSCA has established a structured and time-bound grievance redressal system.

Key features include:

- Investors can file complaints against regulated entities in IFSCs
- Complaints relate to issues such as mis-selling, non-disclosure, delays, or unfair practices
- Regulated entities are required to address grievances within prescribed timelines
- IFSCA monitors the resolution process to ensure fairness and efficiency

This mechanism ensures accountability of financial institutions.

### 5. Role of Regulated Entities

Financial institutions and intermediaries operating in IFSCs are required to:

- Establish internal grievance redressal mechanisms

- Appoint dedicated grievance officers
- Maintain records of complaints and resolutions
- Report grievance data to IFSCA

This creates a first level of protection for investors.

## 6. Supervisory and Enforcement Powers of IFSCA

IFSCA has strong supervisory and enforcement powers to protect investors.

These include:

- Conducting inspections and audits
- Issuing directions and corrective measures
- Imposing penalties for non-compliance
- Suspending or canceling registrations in serious cases

Such powers act as deterrents against misconduct.

## 7. Dispute Resolution and Legal Recourse

In addition to grievance redressal:

- Investors may have access to arbitration and dispute resolution mechanisms
- Legal remedies are available under applicable laws and regulations
- IFSCA ensures alignment with international dispute resolution practices

These options strengthen investor confidence in IFSCs.

## 8. Alignment with Global Best Practices

IFSCA's investor protection framework is aligned with:

- International standards of market conduct
- Best practices followed by global financial centres
- Principles of transparency, fairness, and accountability

This alignment enhances the global acceptability of IFSC markets.

Investor protection and grievance redressal are foundational pillars of the IFSC regulatory framework. Through robust regulations, transparent disclosure norms, efficient grievance mechanisms, and strong enforcement powers, IFSCA ensures that investor interests are well protected. A credible and responsive investor protection system not only safeguards investors but also contributes to the sustainable growth and global reputation of IFSCs.

## ENFORCEMENT POWERS AND PENALTIES

The International Financial Services Centres Authority (IFSCA) has strong enforcement powers under the IFSCA Act, 2019, allowing it to investigate, inspect, and take action against non-compliant entities in IFSCs, including issuing directions, warnings, monetary penalties, suspending registrations, and initiating prosecution for violations of relevant acts, ensuring market integrity and investor protection. These powers extend across banking, capital markets, insurance, and other financial services, enabling enforcement actions like license cancellation for serious breaches.

## Key Enforcement Powers

**Investigations & Inspections:** Conducting thorough reviews of regulated entities.

**Issuing Directions:** Issuing mandatory enforcement-related instructions.

**Issuing Warnings/ Advisory/ Deficiency Letters:** Providing formal cautions for non-compliance.

**Adjudications:** Monetary Penalties: Imposing financial fines.

**Enquiry powers:** Suspension/Cancellation of Registration: Revoking an entity's license to operate.

**Prosecution:** Initiating legal proceedings against offenders.

### 1. Legal Basis of Enforcement Powers

The enforcement powers of IFSCA are derived from:

- The International Financial Services Centres Authority Act, 2019, and
- Regulations, circulars, and directions issued by IFSCA.

Under the Act, IFSCA functions as both a regulatory and supervisory authority with the power to take corrective and punitive actions against regulated entities.

### 2. Scope of Enforcement Powers

IFSCA's enforcement powers extend to all financial institutions, intermediaries, and market participants operating in IFSCs, including banking units, capital market intermediaries, insurance entities, pension funds, and FinTech firms.

### 3. Supervisory and Investigative Powers

IFSCA is empowered to:

- Conduct inspections, audits, and examinations of regulated entities
- Call for information, records, and documents
- Carry out investigations into suspected violations
- Appoint officers or agencies to examine compliance issues

These powers help in early detection and prevention of regulatory breaches.

### 4. Corrective and Remedial Measures

Before imposing penalties, IFSCA may adopt corrective measures to ensure compliance.

Such measures include:

- Issuing directions or advisories
- Requiring corrective action plans
- Restricting certain activities temporarily
- Issuing warnings or compliance notices

This approach supports proportionate and fair regulation.

### 5. Penalties and Punitive Actions

In cases of serious or repeated non-compliance, IFSCA may impose penalties.

Key penalties include:

- Monetary penalties and fines
- Suspension or cancellation of registration or license
- Restriction on business operations
- Disqualification of key managerial personnel
- Debarment from accessing IFSC markets

Penalties act as deterrents and promote market discipline.

## 6. Adjudication Process

IFSCA follows a structured and transparent adjudication process:

- Issue of show-cause notices to the concerned entity
- Opportunity to be heard, ensuring principles of natural justice
- Reasoned orders based on facts and regulations
- Communication of decisions to concerned parties

This ensures fairness and accountability in enforcement actions.

## 7. Appeal Mechanism

Entities aggrieved by IFSCA's orders have the right to:

- File appeals before the Appellate Tribunal
- Seek further judicial remedies as provided under law

The availability of an appeal mechanism strengthens confidence in the regulatory process.

## 8. Deterrence and Market Integrity

Strong enforcement powers help:

- Prevent fraud, misrepresentation, and unfair practices
- Ensure compliance with prudential and governance norms
- Protect investor interests
- Maintain trust in IFSC markets

This contributes to the overall stability and credibility of IFSCs.

## 9. Development-Oriented Enforcement

IFSCA adopts a balanced approach to enforcement:

- Encourages voluntary compliance
- Supports regulated entities through guidance and clarification
- Uses penalties as a last resort in serious violations

This approach ensures that enforcement supports growth without being excessively restrictive.

Enforcement powers and penalties form a critical pillar of the IFSC regulatory framework. Through strong supervisory authority, proportionate penalties, and a transparent adjudication process, IFSCA ensures compliance, protects investors, and preserves market integrity. Effective enforcement not only deters misconduct but also supports the long-term, sustainable development of IFSCs as trusted global financial centres.

### LESSON ROUNDUP

- International Financial Services Centres (IFSCs) are special jurisdictions set up to cater to cross-border financial services. India envisaged its own IFSC to retain offshore financial business and attract international capital.
- IFSCA was formally established on 27 April 2020. It became the sole regulator for all financial activities in IFSCs. The headquarters of IFSCA is located at GIFT City, Gandhinagar, Gujarat.
- With the enactment of the IFSCA Act, 2019, the powers of these regulators relating to IFSCs were delegated and transferred to IFSCA, making it a unified regulator. This delegation ensures regulatory consistency, efficiency, and ease of doing business.
- It is the duty of the Authority to develop and regulate the financial products, financial services and financial institutions in the International Financial Services Centres.
- Key business activities in IFSCs include banking, capital markets, insurance, asset management, fintech, leasing, bullion markets etc.
- IFSCA supports sustainable economic growth by creating a globally competitive financial ecosystem while ensuring sound regulation and responsible practices.
- IFSCA actively promotes financial innovation through FinTech regulatory frameworks, Regulatory sandboxes, and support for new-age technologies such as artificial intelligence, and digital finance.
- IFSCA places strong emphasis on prudential norms, governance standards, and risk management practices.
- FinTech (Financial Technology) refers to the use of technology to deliver financial products and services in a faster, more efficient, and innovative manner.
- FinTech and innovation form a cornerstone of the IFSC ecosystem. Through a supportive regulatory framework, sandbox mechanisms, and emphasis on responsible innovation, IFSCA fosters a dynamic and future-ready financial environment.
- Market Infrastructure Institutions (MIIs) in the IFSCs are the core entities like stock exchanges, clearing corporations, and depositories that provide the backbone for listing, trading, clearing, and settlement of securities in the IFSC.
- The IFSCA places investor protection at the core of its regulatory framework, ensuring fairness, transparency, and accountability in IFSCs.

### GLOSSARY

**Appellate Tribunal:** A judicial body where appeals against orders passed by IFSCA can be filed.

**Corporate Governance:** A system of rules, practices, and processes by which a financial institution is directed and controlled.

**Disclosure Norms:** Regulatory requirements mandating transparent and timely disclosure of relevant information to investors.

**Enforcement Powers:** Legal authority granted to IFSCA to take corrective and punitive actions against regulatory violations.

**Environmental, Social, and Governance (ESG):** Criteria used to evaluate sustainability and ethical impact of investments.

**Financial Technology (FinTech):** Use of technology to deliver financial services in innovative and efficient ways.

**Foreign Currency Transactions:** Financial transactions conducted in currencies other than the Indian Rupee.

**GIFT City:** Gujarat International Finance Tec-City, India's first operational IFSC.

**Grievance Redressal Mechanism:** A system for addressing and resolving investor complaints against regulated entities.

**International Financial Services Centre (IFSC):** A designated jurisdiction within India that provides financial services to non-residents and international markets.

**International Financial Services Centres Authority (IFSCA):** The unified regulator responsible for regulating and developing financial services in IFSCs.

**Market Infrastructure Institutions (MIIs):** Institutions such as exchanges, clearing corporations, and depositories that support financial markets.

**Offshore Banking Unit (OBU):** A banking unit in an IFSC that undertakes international banking activities.

**Payment Systems:** Mechanisms that enable transfer of funds between parties.

**Prudential Norms:** Regulatory standards related to capital adequacy, risk management, and financial stability.

**Regulatory Sandbox:** A controlled environment allowing testing of innovative financial products under regulatory supervision.

**Securities:** Financial instruments such as shares, bonds, and derivatives that can be traded in markets.

**Single-Window Regulation:** A regulatory system where one authority oversees multiple financial sectors.

**Sustainable Finance:** Financial activities that support long-term economic growth while considering environmental and social factors.

**Unified Regulator:** A single authority regulating multiple segments of the financial sector.

### 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. Name India's first IFSC.
2. When was the IFSCA established?
3. Which Act governs the functioning of IFSCA?
4. Where is the headquarters of IFSCA located?
5. Name any two regulators whose powers were delegated to IFSCA.
6. What is meant by single-window regulation in IFSCs?
7. What is a regulatory sandbox?

**B. Short Answer Questions**

1. Why was there a need for a unified regulator for IFSCs in India?
2. Briefly outline the objectives of the IFSCA Act, 2019?
3. State the key functions of IFSCA?
4. List the major business activities permitted in IFSCs?
5. Explain the role of IFSCA in promoting FinTech and innovation?
6. How does IFSCA ensure investor protection in IFSCs?
7. Mention the enforcement powers available with IFSCA.
8. What is the importance of sustainable finance in IFSCs?

**C. Long Answer Questions**

1. Discuss the chronological journey leading to the establishment of IFSCA?
2. Examine the role of IFSCA in promoting sustainable economic growth?
3. Explain the delegation of powers from RBI, SEBI, IRDAI, and PFRDA to IFSCA?
4. Describe the role of FinTech and innovation in the IFSC ecosystem?
5. Explain the structure and importance of IFSC exchanges, clearing corporations, and depositories?
6. Discuss the investor protection and grievance redressal mechanism in IFSCs?
7. Examine the enforcement powers and penalty framework of IFSCA?

**LIST OF FURTHER READING**

- The International Financial Services Centres Authority Act, 2019 (No. 50 Of 2019)
- [www.ifsc.gov.in](http://www.ifsc.gov.in)

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