

## Our Views

### International Financial Services Centre at Gift city – it's a marathon but, with firm initial steps!

Since the launch of international Financial Services Centre (IFSC) in GIFT City, Gujarat, in 2015, several initiatives at policy, regulatory and operational level have helped India's IFSC dream take shape and gain attention from far and wide. IFSC indeed has the potential to become an investment gateway for India as apart from providing a global financial platform, it provides an easy access to the fast-growing Indian economy to the global investors.

The establishment of IFSC Authority (IFSCA) in April 2020 has also come at a very opportune time when global investors are consciously moving out of certain jurisdictions and are actively looking for other investment destinations. Financial markets globally are looking for Indian avenues to invest in. Therefore, creation of a vibrant financial services ecosystem to attract foreign investment is essential.

The recent changes in tax regulations such as waiver of several taxes like GST, dividend distribution tax and capital gains tax for entities operating in the IFSC, have rendered our tax and supportive regulatory framework comparable to any global financial center. With the changes in the IFSC regulations further envisaged by the IFSCA, in line with our prime minister's vision "in 10 years from now, Gift city should become the price setter for at least a few of the largest traded instruments in the world, whether in commodities, currencies, equities, interest rates or any other financial instrument." The latest Global Financial Centers Index, London dated September 2020 already places IFSC at GIFT City right at the top amongst 15 centers globally, which are likely to gain greater significance in next 24 months.

On December 8, 2020, FICCI hosted a round table discussion with Mr. Injeti Srinivas, Chairman, IFSCA which was moderated by me.

Globally, there are 3 different structure of IFCs:

- Full-service Finance Centre such as Tokyo and New York. These centers have their own large domestic economy along with a good regulatory and legal backup.
- Offshore financial centers like Mauritius which do not have a robust domestic economy but have international access and acceptance.
- A Hybrid structure like Singapore, which has both local and global business.

India has decided to adopt the third approach of a hybrid structure. Though we are a late entrant in the IFSC space it has arrived when there are more opportunities in the financial world and when India has a lot of potential that can be leveraged. We should focus on tapping into our domestic economy and the Indian diaspora which is present all over the world. Indian diaspora also has commendable financial talent which can be useful for the growth of IFSC. Furthermore, it would be important to encourage domestic players to commence their global operations at IFSC.

Initial regulatory framework for IFSC was framed in 2016 and the new IFSCA regime has inherited it. The IFSCA is now implementing its own regulatory framework such as relevant banking regulations which are not entirely dependent on the local regulators. IFSCA's is building the new framework basis four principles of eliminate, replace, modify and adopt – using the domestic regulatory framework as a base, remove regulations which don't apply to IFSC, replace the irrelevant regulations, modify wherever required and finally adopt the ones (such as anti-money laundering and FATF) which can be directly adopted. On completion of this exercise by the IFSCA, one can expect a new set of pragmatic regulations. I believe this is indeed a practical way of approaching the regulatory framework.

IFSCA has already initiated some progressive steps like:

- A window of Liberalised Remittance Scheme (LRS) where Resident Indian can invest upto USD 250,000 per annum in certain permitted foreign currency instruments. IFSCA is focused on making regulation for master funds to tap this money;
- Liberalized ECB guidelines;
- A transitional regulatory framework;
- Building an International Bullion Exchange

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Another important area of the focus for IFSCA is creation of a Fintech Hub. With large number of Indians outside India working in Fintechs, India can be positioned as a Fintech HUB. It will be important for IFSCA to work on building the ecosystem for aircraft leasing, which is today a blank space for India.

In my view, IFSC should also focus on ease of investment products such as Equity, Depository Receipts, ETFs, Mutual Funds, REITs, Invits and AIFs. Secondly, primary markets issuances and products for the primary markets could also be promoted. Thirdly, access to international markets through IFSC may be considered for domestic entities, FIIs, foreign banks and markets stakeholders like capital markets players, banks, NBFCs and mutual funds.

I believe that IFSC is already on a very good footing, and with a reinvigorated regulator and regulatory framework, it will go a long way in positioning India as an international financial center, globally. Of course, it will be a marathon, but with firm initial steps!

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