



**GUJARAT INTERNATIONAL  
FINANCE TEC-CITY**

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## **FAQs for IFSC Banking business**

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## **1. Who can apply for the setting up of a Banking Unit (BU) in GIFT IFSC?**

The following two types of entities can set up BUs in GIFT IFSC:

- Indian banks (viz any bank incorporated or established under any Act, and includes a wholly owned subsidiary of a foreign bank incorporated in India, but does not include a co-operative bank;)
- Foreign banks incorporated or established outside India

## **2. Who is the regulator for banking activities in GIFT IFSC?**

The banking activities of BU set up in GIFT IFSC are regulated and supervised by the International Financial Services Centre Authority (IFSCA).

## **3. Can banks apply to the DC and IFSCA simultaneously?**

Yes, banks can apply to DC, KASEZ and IFSCA simultaneously. The approval from DC is subject to the approval from the IFSCA.

## **4. Which regulations are applicable to the banks operating from GIFT IFSC?**

- i. International Financial Services Centres Authority (Banking) Regulations, 2020<sup>1</sup>
- ii. Foreign Exchange Management (IFSC) Regulations, 2015

The International Financial Services Centres Authority (Banking) Regulations, 2020 shall supersede the earlier scheme for setting up of BU by Indian banks and foreign banks issued by RBI on 1 April, 2015. BUs operating in the IFSC prior to the notification of these regulations, shall comply with additional requirements, if any, introduced by these regulations, within a period of three months from the date of notification of these regulations or within such extended time as may be specified IFSCA.

## **5. Are there any recent circulars for IFSC Banking Units post the Regulations?**

The updated Banking regulations on IFSC can be downloaded from the website [International Financial Services Centres Authority \(ifsc.gov.in\)](http://International Financial Services Centres Authority (ifsc.gov.in)) under the heading Legal > Circulars

## **6. What is the licensing criterion for setting up an BU?**

Indian Banks & Foreign banks (as defined under point 1) can apply for license for opening BU at IFSC as a branch of the parent bank. The various modalities of licensing for setting up and BU of Indian/Foreign bank are as under:

- i. Indian Banks and Foreign Banks shall require licence from the IFSCA to set up a Banking Unit in an International Financial Services Centre.

- ii. An application shall be made by the Parent Bank in the form and manner as specified by IFSCA.
- iii. The applicant shall satisfy the following requirements for grant of licence by the IFSCA:
  - a) Parent Bank shall provide a minimum capital of USD 20 million or such other amount as may be specified by IFSCA, or equivalent in any foreign currency to its Banking Unit, for the purposes of starting operations, that shall be maintained on unimpaired basis, at all times;
  - b) Parent Bank shall obtain a No Objection Letter from its home regulator regarding setting up of the Banking Unit in the International Financial Services Centre;
  - c) Parent Bank shall submit an undertaking that it shall provide liquidity to its BU whenever needed for the operations of the BU.
- iv. In case of applications from a Foreign Bank not having presence in India, the IFSCA shall specify a suitable mechanism, in addition to the conditions mentioned in sub regulations iii (b) and iii (c).
- v. After considering an application for setting up a Banking Unit, IFSCA may grant licence to the applicant subject to such conditions as provided under these regulations or such other additional conditions as it may deem fit.
- vi. If IFSCA is of the opinion that licence cannot be granted, it may give thirty days' time to the applicant, setting out the grounds based on which it cannot grant licence, to enable the applicant to make written submissions, if any.
- vii. After considering the submissions under (vi) made by the applicant to IFSCA, if the Authority is not satisfied, it may reject the application and shall communicate the same to the applicant in writing with reasons, not later than thirty days.
- viii. Representative Offices shall be allowed to be set up in IFSC, under a suitable mechanism, subject to such conditions as may be specified by IFSCA.

## **7. What is the capital requirement for setting up an BU?**

The capital requirements applicable for both Indian banks and foreign banks are as follows:

- The parent bank would be required to provide a minimum capital of US\$ 20 Million or such other amount as may be specified by the IFSCA, or equivalent in any foreign currency for its Banking Unit at the IFSC, for the purpose of starting operations, that shall be maintained on an unimpaired basis at all the times.

## **8. Who are permitted to open foreign currency accounts with BU?**

The following persons are permitted to open, hold and maintain foreign currency accounts with a Banking Unit:

### **(a) Qualified Individuals (QI)**

- QI and QRI means a non-resident individual having net worth more than USD 1 million in the preceding financial year and a resident individual having net worth more than USD 1 million in the preceding financial year, respectively.

Guideline on determination of net worth of QI and QRI can be found at International Financial Services Centres Authority website (ifsc.gov.in) under the name IFSC (Banking) Regulation, 2020- Guideline on determination of net worth of 'Qualified individual' and 'Qualified Resident individual'

- Qualified Resident Individuals (QRI) are permitted to open, hold and maintain accounts in a freely convertible foreign currency, with a Banking Unit, for undertaking permissible current or capital account transaction or a combination of both as specified in the Liberalized Remittance Scheme of the Reserve Bank of India.

(b) Persons resident outside India who are corporate or institutional entities, in the manner as may be specified by IFSCA;

(c) Persons resident in India, who are corporate or institutional entities, subject to such requirements as may be specified by IFSCA;

#### **9. What are the transactions permitted through foreign currency accounts?**

(a) Cash transactions in Foreign Currency (FCY) are not permitted

(b) An account in a freely convertible FCY can be opened, held and maintained with a BU in following form

- i. Qualified Individual or a Qualified Resident Individual can open Current account, Savings account and Term Deposit account
- ii. Persons other than a Qualified Individual or a Qualified Resident Individual can open a Current account and Term Deposit account.

#### **10. What are the activities permitted for BUs?**

BUs shall conduct such business in freely convertible foreign currencies and with such persons, whether resident or otherwise, as may be specified by the IFSCA. The BU may conduct business denominated in INR subject to permission from IFSCA and subject to settlement of financial transaction in freely convertible foreign currency.

Currently, activities permitted for BUs of both Indian banks and foreign banks are as under:

- i. Open foreign currency accounts of persons residents in India and persons resident outside India.
- ii. Accept deposits from QIs, QRIs and other entities.
- iii. Lend in the form of loans, trade finances and acceptances, commitments and guarantees, carry out credit enhancement, credit insurance, and sale and purchase of portfolios
- iv. Undertake inter-bank borrowings and lending
- v. Undertake investments, including subscribing, acquiring, holding, underwriting or transferring securities or such other instruments, as may be specified by the Authority, as principal or agent.
- vi. Extend Post-Shipments Export Credit in foreign currency
- vii. Undertake equipment leasing, including aircraft leasing;

- viii. Factoring/ forfeiting of export receivables
- ix. Operate as a Foreign Portfolio Investor
- x. Function as a trading member for trading in interest rate or currency derivatives or as a professional clearing member for clearing and settlements in any derivative segment.

#### 11. What are the resources and deployments of funds?

- i. BUs may borrow in FCY from parent, domestic branches of Indian banks, overseas branches of Indian banks and a person resident outside India (including other BUs). Borrowings from persons resident in India shall be subject to the provisions of FEMA, 1999.
- ii. Deposits can be accepted from person resident in India and person resident outside India as per the provisions of IFSCA (Deposit) Directions, 2020 (point 9). Acceptance of funds from persons resident in India is subject to the provisions of FEMA, 1999.
- iii. Funds can be deployed with persons resident in India as well as persons resident outside India.
- iv. Indian Rupees (INR) denominated loans, in any form, can also be deployed to persons resident in India and persons resident outside India The deployment of funds to persons resident in India is subject to the provisions of FEMA, 1999.

#### 12. What are the reserve requirements for the BU?

BUs are not required to maintain SLR and CRR. BUs are required to maintain a Retail Deposit Reserve Ratio (RDRR) on daily basis at 3% of the deposits raised from Qualified Individuals and Qualified Resident Individuals and outstanding as on the end of the previous working day. The RDRR may be maintained in any freely convertible foreign currency and in the form of balance the Nostro account of the BU or as holdings of sovereign debt securities (including T-bills) rated investment grade or above by at least two rating agencies of international standing.

#### 13. Which are the ratios required to be maintained by BUs in IFSC?

- i. **Liquidity Coverage Ratio (LCR)** -BUs shall maintain Liquidity Coverage Ratio (LCR) on stand-alone basis as per the following timeline :

Till March 31,2021	90 per cent
April 1,2021 onwards	100 per cent

- ii. **Net stable funding ratio (NSFR)** shall not be applicable for the operations of BUs for the present.

- iii. LCR and NSFR can be maintained at the Parent Bank level subject to the permission of IFSCA
- iv. The BUs may approach the Authority for seeking permission to maintain the LCR and/or NSFR at the parent bank level. The submission by the BU in this regard shall clearly provide the justification behind such request, including the proposed strategy of the BU to manage liquidity risk if such permission is given by the Authority.
- v. **Leverage ratio (LR)** for BUs may be maintained by the parent bank and at the level specified by the home regulator and subject to the regulations applicable to the parent bank. BUs shall submit a quarterly certificate to this effect to the Authority signed by an authorised official of its parent bank.
- vi. BUs are required to maintain a **Retail Deposit Reserve Ratio (RDRR)** as mentioned under point 12.

#### **14. Is Lender of Last resort support available to BUs?**

No, Lender of Last Resort support shall not be available to BUs

#### **15. What are the prudential norms guiding the BUs?**

The prudential norms applicable to BUs of both Indian banks and foreign banks are as follows:

- i. Banking Units shall adhere to the norms and guidelines as may be specified by the IFSCA.
- ii. BUs are required maintain the liquidity ratios like LCR, NSFR and Leverage ratio as specified from time to time by IFSCA ( point 1)
- iii. A BU is subject to an exposure ceiling of five percent of the Parent Bank's Tier 1 capital in case of a single borrower, and ten percent of Parent Bank's Tier 1 capital in the case of a borrower group
- iv. IFSCA has, for the present, adopted the guidelines issued by the Reserve Bank of India (RBI) with respect to other prudential norms. A list of such circulars adopted by IFSCA is to be found in the Annex to the circular on IFSC (Banking) Regulation, 2020 – Directions for implementation dated December 4, 2020 (last updated on December 24, 2020) available on the website of IFSCA.

#### **16. Are BU operations ringfenced from the Indian operations of banks?**

Unlike operations of banks in India which is regulated by RBI, the operations of BUs

(including BUs of Indian banks) is regulated by IFSCA. The power to issue license to open a BU (both for Indian banks and foreign banks) also rests with IFSCA. Other ways in which the operations of the BUs are distinct from that of an Indian operations of a bank are:

- i. The BUs would maintain balance sheet only in United States dollars (USD) and would not be allowed to deal in INR, except for having a special rupee account for meeting administrative and statutory expenses.
- ii. BUs shall ensure that accounts pertaining to its transactions are kept distinct from that of its parent bank.
- iii. BUs shall maintain capital base of USD 20 million on an unimpaired basis at all times
- iv. BUs shall comply with the prudential norms specified by the authority
- v. BUs are required to maintain separate Nostro accounts with Correspondent Banks distinct from those of other branches of the Parent Bank in India.
- vi. BUs shall provide adequate resources, including infrastructure and manpower, on an ongoing basis, commensurate with the size and nature of their operations being conducted at IFSCA.

**17. Are the deposits of the BU covered by deposit insurance in India?**

No, the deposits of BUs are not covered by deposit insurance in India.

**18. Who has the power to specify procedures and issue clarifications related to banking and investment activities in IFSC?**

The IFSCA has the power to specify norms, procedures, processes, manners or provide relaxations, by way of guidelines or circulars.

**19. Which are the concerned departments in IFSCA for IFSC-banking business related queries?**

Banking Department of IFSCA.

**Ps: Feel free to contact in case of further query.**

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