

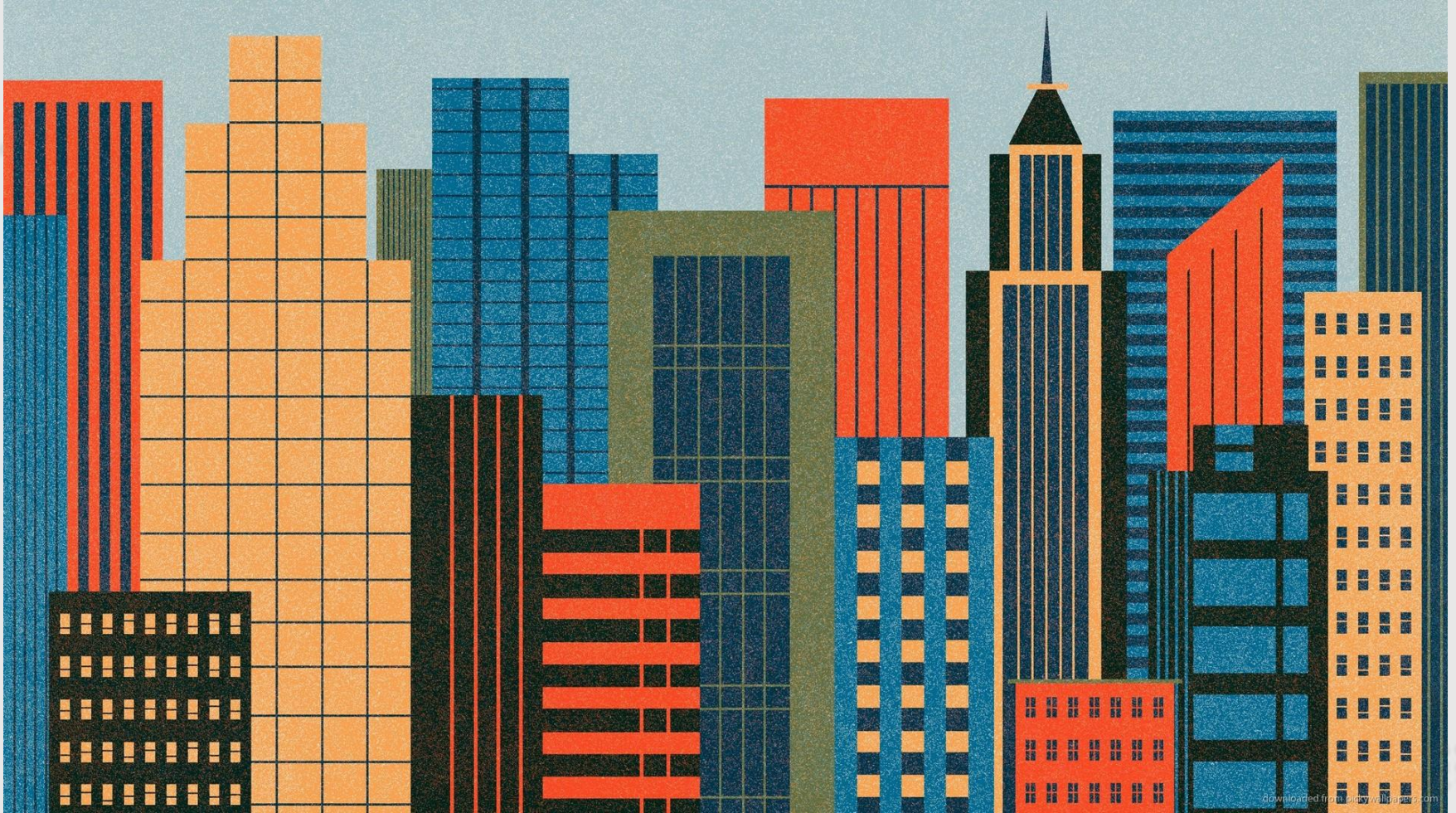


International Finance Centre

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What is an IFC ?



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- ❑ An *IFC* provides individuals, institutions of various types (including most importantly productive commercial corporations) and governments (sovereign and sub-sovereign) **with a wide range of financial products and services** through an array of appropriate institutions and markets that are regulated in consonance with recognized international best practices
- ❑ These **financial products and services** typically include:
 - Banking
 - Insurance
 - Asset management
 - Private wealth management
 - Corporate treasury management
 - Well structured and fully developed capital market (with its array of institutional appurtenances in terms of brokers, dealers, exchanges and regulators) for debt, equities, commodities as well as risk management through derivatives

Pre-requisites for developing an IFC



Pre-requisites for developing an IFC

- ❖ A well-developed, sophisticated, **open financial system**:
 - **Equity market** that can support equity issuance by issuers not just from IFC country but elsewhere too;
 - **Bond market** with a traded yield curve in the currency of the ifc that enables global corporate and sovereign bond issuance;
 - **Currency trading market**;
 - **Derivatives markets** that permit laying of a variety of risks i.e., including credit, interest rate, maturity and duration, currency, and political risk;
 - Globally open and **independent banking markets**; and
 - **Insurance and reinsurance markets** open to global players with all the necessary products and services available.
- ❖ Internationalisation of **financial service firms** participating in an IFC
- ❖ High level **human capital** specialised in finance and adequate paraprofessional labour force in accounting, book-keeping, compliance

Pre-requisites for developing an IFC

- ❖ World-class **telecommunications infrastructure** with connectivity around the clock, and around the world
 - ❖ State-of-the-art **IT systems** capable of managing IT infrastructure of global financial firms, trading platforms and regulators
 - ❖ Responsive **financial regime governance** (i.e. embracing legislation, policies, rules, regulations, regulatory agencies etc.)
 - ❖ 'Hinterland advantage' of **growing national / regional economy**
- ❑ Empirical factors identified for failure of IFCs:
- Unsophisticated and tightly regulated domestic market
 - Segmentation of financial markets and financial institutions
 - Low tax efficiency
 - Lack of globally spoken language such as English

Types of IFC



Types of IFC

- ❑ **Global financial centres:** These are centres that genuinely serve **clients from all over the world** in the provision of the widest possible array of IFS. They offer a complete range of markets, products and services to clients worldwide, along with advanced settlement and payments systems. All have deep and liquid national financial markets. Their sources and users of funds are global and diverse. Their legal/regulatory frameworks are robust enough to safeguard the integrity of all principal-agent relationships and supervisory functions
- ❑ **Regional financial centres:** They serve their **regional economies** rather than their national economies. RFCs differ from GFCs in that they have reasonably developed financial markets and infrastructure; but they are not as sophisticated, wide or deep as GFCs. They intermediate funds in and out of their region, but they have relatively small domestic economies (compared with their regions) and are not as globally competitive as GFCs

Types of IFC

- ❑ **International non-global and non-regional financial centres:**
These are centres that provide a wide range of ifs but cater mainly to the **needs of their national economies** rather than their regions or the world
- ❑ **Offshore financial centres:** OFCs are smaller, and provide more limited specialist services in the areas of tax, transfer pricing, wealth management and private banking. They are almost entirely tax driven and are primarily tax havens. They have limited resources to support financial intermediation
- ❖ Example of procuring IFS from IFC: Primary issue of security of a foreign MNC in domestic currency of country of IFC open for trading and consequent hedging by global investors.

Macroeconomic Implication of IFC



Macroeconomic Implication of IFC

- ❑ **Fiscal deficit reduction:** Global markets are deterred from participating in IFCs whose home economies are fiscally incontinent because of a chronic inability to align public expenditure with public revenue. This impliedly initiates efforts towards reduction of fiscal deficits in the home country of IFC
- ❑ **Financing public debt differently:** With the growth of bond markets led by IFCs, institutions and nations move away from traditional modes of raising debt from domestic and banking system towards newer and evolving modes
- ❑ **Implications on monetary policy:** IFCs inevitably lead towards opening up of markets and related measures for currency convertible over time
- ❑ **Role in global financial crisis?** Financial deregulation has been widely blamed for global financial crisis that took place in 2008

IFC: SEZ model



IFC: SEZ model

❑ Arguments for SEZ model:

- Not feasible for various levels of government to implement policy changes in short span of time

❑ Arguments against SEZ model:

- Development concentration in new privately governed urban areas
- Enclaves owned and run by India's major corporations – that are self-governing, autonomous and exempt from normal rules thereby creating arbitrage opportunities
- Fragmented, incoherent and sub-optimal development of infrastructure in nation
- Opportunities for malfeasance through property development
- Net loss to the exchequer on account of incentives
- SEZ would still need liberal financial sector policy formulation and regulation thereby removing the urgency of financial sector reforms at economy level

Need for IFC in India



Need for IFC in India

- ❑ **Growth and globalisation** : Proliferation of current and capital account flows necessitate purchases of IFS. Examples:
 - When FDI/FPI enters or exits India, fees are paid to various ifs providers (e.g. commercial and investment banks, securities brokerages, exchanges, insurance companies, asset managers, etc.)
 - Expansion of Indian MNCs overseas has led to ifs demand for fund-raising, corporate treasury management and global tax management
 - Stock of assets outside the country controlled by Indian households and firms is rising rapidly. These assets require ifs for wealth, asset and global tax management
- ❑ Failure to respond on the supply-side will simply oblige Indian customers to do increasing IFS business abroad. That will fuel the growth of Singapore, Dubai, London and other IFCs while depriving India of capturing opportunities for high value-added IFS exports

GIFT



Direct Tax Incentives – GIFT IFSC

- ❑ Amendment to Section 10(38) to **exempt LTCG on income arising from transaction (equity shares / units of equity oriented fund / business trust)** undertaken in foreign currency on a recognised stock exchange located in an IFSC even when STT is not paid in respect of such transactions
- ❑ Amendment to Section 115JB to **reduce MAT from 18.5 % to 9%** for IFSC unit deriving income solely in convertible foreign exchange
- ❑ Amendment to Section 115-O to **eliminate DDT** in respect of dividends declared, distributed or paid by IFSC unit deriving income solely in convertible foreign exchange. No concurrent tax in the hands of recipient too.
- ❑ Amendment to Section 113A of the Finance (No.2) Act, 2004 and Section 132A in Chapter VII of the Finance Act, 2013 to **waive off STT and CTT** respectively where the consideration for such transaction is paid or payable in foreign currency

Indirect Tax Incentives - GIFT IFSC

Incentives	Conditions	Remarks
Customs duty	Exemption from customs duty for all goods imported into the SEZ used for authorized operations	Any removal of goods from SEZ into DTA would attract Customs duty
Central excise duty	Exemption from duty of excise on domestic procurement to carry authorized operations	Removal of goods into DTA liable to customs duty
Drawback	Drawback and such other benefits on goods brought	Goods supplied to SEZ regarded as export for customs purpose
Deemed export	Supply of goods or services by an EOU unit or STPI unit regarded as export	FTP regards supplies to SEZ as export of goods or services

Indirect Tax Incentives – GIFT IFSC

Incentives	Conditions	Remarks
Service Tax	Exemption from service tax on services procured by the SEZ unit used for authorized operations	Entails compliances as prescribed under the relevant notification
CST	Exemption from CST on inter-state procurement of goods used for authorized operations	Entails compliance of issuing Form I by the SEZ unit to the supplier of goods
Electricity duty/ Stamp duty/ Registration fees	Exemptions/ reimbursements under the Gujarat State Industrial and IT policy	New IT policy introduced in February 2016

Opportunities in GIFT IFSC

Offshore Banking

- ☐ Corporate Banking
- ☐ Servicing JV/WOS of Indian cos. registered abroad
- ☐ Factoring / Forfaiting of Export Receivables

Ancillary Services

- ☐ Legal, Accounting & Audit
- ☐ Research and analytics etc.
- ☐ Compliance, Recruitment, Risk Management etc.

Offshore Asset Management

- ☐ Fund accounting
- ☐ Investment services
- ☐ Custodial services
- ☐ Trust services etc.

Offshore Insurance

- ☐ General / Life insurance
- ☐ Co-Insurance
- ☐ Reinsurance
- ☐ Captive insurance etc.

Capital Markets

- ☐ Exchanges
- ☐ Brokerage services
- ☐ Permissible Securities: Equity shares of cos. incorporated outside India, Depository Receipts, Debt Securities, Currency and Interest rate derivatives, Index based Derivatives

GIFT IFSC - Banking

	Opportunities	Benefits
Foreign currency transactions	Enable opening of foreign currency current accounts for offshore / foreign currency transactions by institutional clients	Ability to transact in foreign currency in the offshore markets from the IFSC
Deployment of funds to Indian Residents	Provide ECBs to the Indian entities seeking foreign currency funds as permitted under the FEMA regulations	Ability to meet the foreign currency requirements of the corporates in India, foreign subsidiaries of Indian corporates (subject to FEMA provisions) as well as foreign companies
Deployment of funds to non residents (other than individual/ retail customers/ HNIs)	<p>The IBUs will be able to meet the foreign currency requirements of WOS/JVs of Indian corporates abroad and Foreign Corporates.</p> <p>The IBUs will be allowed to provide:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Foreign currency loans <input type="checkbox"/> Project finance, loan syndication <input type="checkbox"/> Trade finance – import/export finance, buyers credit Buying & Selling of various currency, Providing trade loans to correspondent banks 	

GIFT IFSC - Banking

	Opportunities	Benefits
Raising funds from Non Residents	<p>IBUs will be able to source (or borrow) funds in foreign currency in order to meet the requirements of both Indian residents (as per FEMA) and non residents.</p> <p>The long term borrowings (> 1 year) will be mostly through:</p> <ul style="list-style-type: none"> <input type="checkbox"/> Borrowings from foreign banks & other IBUs <input type="checkbox"/> Debt issuance in IFSC & international bond markets <input type="checkbox"/> Bulk deposits from foreign corporates/ WOS of Indian corporates registered abroad <input type="checkbox"/> Current account balance from institutional clients <input type="checkbox"/> Market borrowings such as inter-bank borrowings, debt issuance etc. <input type="checkbox"/> The IBUs will also be allowed to raise short term liabilities (< 1 year) from foreign banks and IBUs <input type="checkbox"/> Ability to source funds from non residents looking to invest in the subcontinent 	Ability to source funds from non residents looking to invest in the subcontinent

GIFT IFSC - Banking

❑ Other points to be noted:

- Indian banks: Only those authorized to deal in forex are allowed to open IBU
- Foreign banks: Only those having existing presence in India are allowed to open IBU
- Only one IBU per bank
- Liabilities of IBU are exempt from SLR and CRR
- Such IBUs would be regulated and supervised by RBI

GIFT IFSC - Stock/Commodity Exchanges

Opportunities	Benefits
<ul style="list-style-type: none"> ❑ Opportunity for exchanges to set up operations and offer services for a wide range of securities such as equities, commodities, equity derivatives, debt, currency & index based derivatives, etc ❑ Provide a platform for Indian companies to raise foreign currency capital ❑ Provide a wide range of securities to Indian investors looking to invest in the exchanges that set up in the IFSC ❑ Provide a wide range of securities to foreign investors looking to invest in the exchanges that get set up in the IFSC ❑ Subsidiary expansion mode 	<ul style="list-style-type: none"> ❑ Lower minimum net worth requirement of INR 25 cr. initially (which should enhance to INR 100 cr. over a 3 year period) compared to INR 100 cr. which is required to set up an exchange in India ❑ No condition of crediting 25% of its profits every year to the Investor Protection Fund ❑ Provide opportunity for corporates to raise capital including Indian corporates ❑ Attract investors from around the globe and also Indian investors (as per LRS)

GIFT IFSC - Depositories

Opportunities	Benefits
<ul style="list-style-type: none"> ❑ Opportunity for depositories to set up operations and offer services for a wide range of securities such as equities, equity derivatives, debt, currency & index based derivatives, etc ❑ Provide Depository services to Indian exchanges ❑ Provide Depository services to Foreign exchanges ❑ Provide Depository services to Indian and foreign companies that get listed on the exchanges in the IFSC ❑ Subsidiary expansion mode 	<ul style="list-style-type: none"> ❑ Lower minimum net worth requirement of INR 25 cr. initially (which should enhance to INR 100 cr. over a 3 year period) compared to INR 100 cr. which is required to set up a depository in India ❑ No condition of crediting 25% of its profits every year to the Investor Protection Fund

GIFT IFSC - Clearing Corporations

Opportunities	Benefits
<ul style="list-style-type: none"> ❑ Opportunity for clearing corporations to set up operations and offer services for a wide range of securities such as equities, equity derivatives, debt, currency & index based derivatives, etc ❑ Provide clearing services to Indian exchanges that set up in the IFSC ❑ Provide clearing services to Foreign exchanges that set up in the IFSC ❑ Provide clearing services to the Indian and foreign companies that get listed on the exchanges in the IFSC ❑ Subsidiary expansion mode 	<ul style="list-style-type: none"> ❑ Lower minimum net worth requirement of INR 50 cr. initially (which should enhance to INR 300 cr. over a 3 year period) compared to INR 100 cr. which is required to set up a clearing corporation in India

GIFT IFSC - Insurance

❑ Eligibility criteria for the IFSC Insurance Office (IIO):

- Indian Insurers
- Indian Reinsurers
- Foreign Insurers
- Foreign Reinsurers
- Brokers

❑ Permitted Activities:

▪ Reinsurance Business

- Accept reinsurance business of all classes of business within the SEZ and from outside the country
- Accept reinsurance business from the insurers operating in the DTA in accordance with the IRDA regulations on reinsurance

▪ Direct Insurance Business

- IIO may underwrite specified direct insurance business of foreign jurisdictions

GIFT IFSC - Insurance

	Opportunities
Direct Insurance	<ul style="list-style-type: none"> ▪ Allowed to undertake direct insurance business (which includes life, general and health insurance) of the companies in the IFSC as well as the individuals working in the IFSC ▪ Allowed to undertake offshore direct insurance business (which includes life, general and health insurance) of the companies/individuals present in any offshore location including global subsidiaries of Indian conglomerates ▪ Tap the trade business (import and export of goods) from India and in the global market
Reinsurance	<ul style="list-style-type: none"> ▪ Allowed to undertake reinsurance business of the companies in the IFSC ▪ Allowed to undertake offshore reinsurance business of the companies present in any offshore location ▪ Allowed to undertake reinsurance business in India subject to the IRDA regulations on reinsurance prescribed under section 2CA of the Insurance Act, 1938
Brokers	<ul style="list-style-type: none"> ▪ Allowed to place insurance / reinsurance business in the IFSC ▪ Allowed to place offshore insurance / reinsurance business of the companies present at any offshore location

GIFT IFSC - Intermediaries

Intermediaries as defined in the IFSC guidelines issued by SEBI

Stock Broker	Investment adviser
Sub-Broker	Portfolio manager
Merchant Banker	Depository participant
Banker to an issue	Custodian of securities
Trustee of trust deed	Foreign portfolio investor
Registrars to an issue	Credit rating agency
Share transfer agent	Underwriter

GIFT IFSC - Intermediaries

❑ Intermediaries can provide Financial Services to the following category of clients:

- A person resident outside India
- A non-resident Indian
- A financial institution resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted
- Person resident in India who is eligible under FEMA, to invest funds offshore, to the extent allowed under the Liberalized Remittance Scheme of Reserve Bank of India, subject to a minimum investment as specified by the Board from time to time*

*For investment advisory or portfolio management services, the person resident in India having a minimum net worth of USD 1 million during the preceding financial year will only be applicable (as per the LRS)

GIFT IFSC - Intermediaries

❑ Permissible Securities:

- Equity shares of a company incorporated outside India
- Commodities
- Debt Securities issued by eligible issuers
- Currency and interest rate derivatives
- Index based derivatives
- Depository Receipts
- Other such securities specified by SEBI

GIFT IFSC - Intermediaries

	Opportunities	Benefits
Members of International Exchanges	<p>Opportunity to become members and facilitate trading in the exchanges that will set up in the IFSC:</p> <ul style="list-style-type: none"> ▪ Subsidiaries of NSE / BSE ▪ Any other international exchanges that will setup in the IFSC 	Access to international exchanges, wide range of securities and a global pool of investors
Platform for Indian investors' global exposure	Opportunity to provide a platform for Indian investors to invest in global securities listed on the international exchanges that will be set up in the IFSC	Ability to tap on Indian residents (as permitted under LRS) who wish to have an international exposure of securities such as equity shares, debt etc. (other than derivatives)
Platform for foreign investor	Opportunity to provide a platform for foreign investors to invest in global securities listed on the international exchanges that will be set up in the IFSC	For Indian residents, the same broker will be able to facilitate trades in the IFSC as permitted under the LRS

GIFT IFSC - Intermediaries

	Opportunities	Benefits
Offshore trading desk	Opportunity to trade from the IFSC in Global capital markets such as (NYSE, LSE etc.) which many brokers are currently doing from other financial centres such as Singapore, Hong Kong, etc.	<p>Opportunity to provide a wide range of equity, debt, and derivative products</p> <p>Access to global commodities and trading opportunities</p>
Diverse products & services	<p>Apart from the trading of securities, the brokers would be able to offer:</p> <ul style="list-style-type: none"> ▪ Margin trading products ▪ Sales & Distribution of Mutual Funds, IPOs, Insurance products ▪ Investment Advisory / Portfolio Management Sales & Distribution of Mutual Funds, IPOs, Insurance products 	
Commodity Trading	Opportunity to trade in international commodities in the commodity exchanges setup in the IFSC as well as other international exchanges such as LME, CME etc.	

GIFT IFSC - Intermediaries

	Opportunities	Benefits
Asset Management	<ul style="list-style-type: none"> ▪ Setting up an offshore fund in the IFSC that sources funds from offshore investors and invests these funds in offshore markets ▪ Setting up an offshore fund in the IFSC that sources funds from Indian investors (subject to LRS) and invests these funds in offshore markets ▪ Investment in a wide range of securities such as equity, debt, commodities, ETFs etc (some of which are not permitted under the current regulations) 	<p>Access to customers from the global markets as well as the ability to deploy funds in the offshore markets</p> <p>Tap non-resident customers (such as NRIs) who want to have a global exposure</p>
Wealth Management /Portfolio Management Services	<ul style="list-style-type: none"> ▪ Wealth Management / Portfolio Management Services for non-India centric portfolios of non resident investors ▪ Wealth Management / Portfolio Management Services for Indian residents investing abroad as permitted under the LRS 	

GIFT SEZ

□ Opportunities for IT/ITeS Companies in GIFT SEZ Area

- Setting up R&D facilities of various IT companies
- Setting up units in the field of BPO, KPO
- Setting up operations of E-Commerce companies
- Setting up Vertical IT/ITeS Parks
- Web / Digital Content Development / ERP / Software and Application Development

GIFT SEZ

Other activities permissible under SEZ Act to be carried out by SEZ Units

Trading	Research and development services
Computer software services, including information enabled services such as back-office operations	Professional services
Call centres	Content development or animation
Data processing	Engineering and design
Graphic information system services	Insurance claim processing
Human resources services	Legal data bases
Payroll	Remote maintenance
Educational services	Financial services
Tourism and travel related services	Entertainment services
Medical Transcriptions	

GIFT - Latest developments

RULE AMENDED ON JAN 3

New Year GIFT for MNC Law and Audit Firms

Govt allows foreign cos in these areas to set up offices, advise clients from SEZs

Sachin Dave & Vishal Dutta

Mumbai | Ahmedabad: Foreign law and accountancy firms now have a chance to operate in India on their own. On January 3, the ministry of commerce and industry amended a rule allowing such foreign firms to set up offices and advise clients from SEZs.

The move will initially benefit Gujarat International Finance Tec-City (GIFT).

Current regulations so far do not permit multinational law firms to operate in the country. Indian law and accountancy firms were also not allowed to operate from any of the SEZs. That rule has now been amended which would benefit financial centres.

The notification, dated January 6 but issued on January 3, by the department of commerce allows foreign law and accountancy firms to be established in SEZs. The earlier version of the rule, prior to the amendment, had excluded legal services and accounting.

"This will be the big enabler for the legal and accounting firms to expand their services in multi-services SEZ with IFSC (International Finance Service Centre) and thereby export their services to various global players," said Nitin Potdar, partner, J Sa-

Entry Gate

CURRENT REGULATIONS do not permit MNC law & accountancy firms to operate in India

INDIAN LAW and accountancy firms were also not allowed to operate from SEZs

RULES HAVE now been amended that would benefit financial centres, beginning with GIFT

THE AMENDMENT does not permit foreign law firms to advise Indian clients on local businesses and regulations

MNCs CAN provide advice in arbitrations fought in GIFT, global M&As & international taxation work

gar, a law firm. As of now, only GIFT is a multi-services SEZ with an IFSC in India.

"Until now, no foreign law firm could operate in India and not even Indian firms were allowed to provide their services in any of the SEZs. The new amendment allows not only Indian law or accountancy firms to set up a base in GIFT, but even multinationals can directly advise upon international disputes or arbitration by setting up a base there," Dipesh Shah, head, IFSC at GIFT, told ET.

While many foreign professional services firms such as Deloitte, PwC, KPMG and EY are present in India, they cannot directly operate as auditors and require an Indian affiliate. This amendment does away with that requirement at least in the case of GIFT.

'Catalyst for Eco Activities' >>> 13

OPENING BELL

PM Expects GIFT to be Price Setter in Some Key Instruments

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Gandhinagar: Prime Minister Narendra Modi today inaugurated India's first international stock exchange in Gujarat International Finance Tec-City (GIFT City), near Gandhinagar, Gujarat.

Modi said GIFT city would become a price setter in some of the world's largest traded instruments in the next 10 years. The PM said the country faced criticism that it is no longer a price setter even in its own instruments and the market depended on foreign institutional investors.

"There has been criticism for long that a lot of trading, even in Indian financial instruments, is currently taking place abroad. It is said that India has stopped becoming the price setter for even some Indian financial instruments. Gift city will be able to mitigate many of these criticisms," Modi said.

The PM said GIFT city was envisaged by him as a finance zone when he was the chief minister of Gujarat in 2007. "In those days, as now, wherever I went, I would meet some of the top financial brains of those countries. Whether in New York, London, Singapore, Hong Kong or Abu Dhabi, I would find many of them to be of Indian origin. I was im-

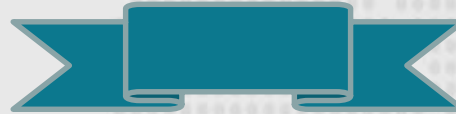
pressed by their understanding of the financial world, and also their contributions to their adopted countries. I used to think, 'How can we bring this talent back and at the same time, provide leadership to the entire financial world?'" Modi said.

India is in an excellent time-zone between the West and the East. It can provide financial services through the day and night to the entire world. The exchange, I am told, will work 22 hours a day, starting when the Japanese markets start, and closing when US markets close."

The trading on the exchange will start from January 16.



Thank you



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Contact Information

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