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IUKFP

India - UK Financial Partnership

Developing GIFT City

into a Global Services Hub

September 2021

Contents

Foreword

The Finance Minister of India and the Chancellor of the Exchequer launched the India-UK Financial Partnership (IUKFP) in 2014 to deepen financial services links between the two countries. At the 10th India-UK Economic and Financial Dialogue in October 2020, the two Governments strengthened and renewed the mandate of the Partnership as IUKFP 2.0, the leading forum for financial services cooperation between India and the UK.

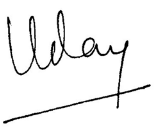
Since its establishment in 2014, the Partnership has created a strong network for discussion and interchange of ideas across the UK and India. From 2014 to 2017, the Partnership played a pivotal role in deepening bilateral relations, supporting policy development and generating commercial opportunities. During its term, IUKFP 1.0 published nine policy papers addressing the development of India’s corporate bond market, pensions, insolvency regulations, infrastructure funding, reinsurance, financial inclusion, stewardship code, green finance and internationalisation of the Indian rupee.

IUKFP 2.0 is supported by distinguished leaders from across the Indian and UK financial and related professional services industries, as well as representatives from both governments and regulators in the UK and India. It is assisted by the joint secretariat provided by Kotak Mahindra Bank in India and TheCityUK in the UK.

With the support of the Ministry of Finance and HM Treasury, IUKFP 2.0 has identified new work-streams with the objective of making recommendations aligned with the policy priorities of the two governments.

To this end, the IUKFP identified development of the Gujarat International Finance Tech City (GIFT City) into a global services hub as a key opportunity for UK-India cooperation. GIFT City is also a priority for the Government of India.

Domain experts and practitioners from the IUKFP’s member organisations in India and the UK worked in sub-groups and made significant contributions to this paper. We are extremely grateful to all the contributors for providing their valuable expertise, insights and time to the work of the Partnership. The IUKFP and the practitioners that contributed to this paper look forward to having further discussions on the recommendations made in this paper with policymakers in India and the UK.



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Executive summary

India – the sixth largest economy in 2021[1], with a growth outlook of 12.5% for FY22 – is a significant contributor to the global financial system and an economic powerhouse. Yet, even as India has taken confident strides on the global pitch, there is a perceived void in its participation in international financial flows.

Gujarat International Financial Tec-City (GIFT City) – set up in 2015 as India's first International Financial Services Centre (IFSC), aims to grow India's financial links with the rest of the world by offering a business and regulatory environment that holds its own against leading IFSCs around the globe. Since then, several Indian banks have established offices in GIFT IFSC, with foreign banks following suit in 2020. The Government of India also granted recognition to the units of the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) as local exchanges at GIFT City with a view to developing its capital market infrastructure in 2016.

Transactional volumes – both at the GIFT IFSC exchanges and banks, have grown over the past few years. In October 2020, the Government of India set up the International Financial Services Centres Authority (IFSCA) as a unified regulator focused on development of financial ecosystem and oversight at GIFT IFSC.

Since its establishment, the IFSCA has been working towards aligning objectives and regulations with its international counterparts. The development of GIFT IFSC is already benefiting from newly codified/modified and supportive policies, but further progress is required to achieve a significant presence on the global financial map. In the 29th edition of the Global Financial Centre Index, published in March 2021, GIFT IFSC was identified as being among the top 15 financial centres that will become more a significant over the next two to three years, scoring particularly well in terms of reputation. It follows that GIFT City would do well to take decisive steps to meet rising expectations and develop into an IFSC.

The UK has established itself as one of the world's leading international financial centres, with London central to this position. The UK government and regulators have worked closely with industry and other key stakeholders to achieve this status, with an approach underpinned by:

- a principles-based regulatory framework
- a strong ecosystem of financial and related professional services
- a vibrant FinTech infrastructure that supports all other economic activity.

This report draws upon the UK model and input from participants across the financial and related professional services ecosystem in both India and the UK to chart GIFT City's journey towards becoming a successful IFSC. Importantly, by working with GIFT City, UK-based firms can strengthen their international networks and deepen trade and investment links between India and the UK.

In developing recommendations to transform GIFT City into an IFSC, four sub-groups comprising practitioners from companies on the IUKFP were formed to review the following aspects: Regulation, Insurance, Exchanges and Clearing, and Infrastructure. Together, the four sub-groups make up the IUKFP GIFT City working group – a cross-section of industry from UK and India; its breadth of representation offering a comprehensive understanding of the drivers and challenges that the GIFT City would face in its development into an IFSC.

It is the view of the group that both business enablers and ecosystem requisites are essential for seeding and sustaining the development at GIFT IFSC. The group has drawn its inferences from a keen study of the UK model, as well as from other IFSCs. It also factors in key tax reforms relating to the GIFT IFSC that were introduced in the 2021 Union Budget of India. Accordingly, the group's recommendations range from key business facilitators to steps required for creating/seeding and sustaining the financial ecosystem at GIFT IFSC. The recommendations are guided by the underlying mandate to enable and empower businesses at GIFT IFSC with strong governance, competitive positioning, scalability and ability to attract the best talent. These enablers would eventually manifest into vibrant businesses and global flows. The group favours holistic recommendations across the ecosystem for maximum impact over business-specific enablers.

The group reiterates that a developed and vibrant IFSC will also have a positive rub-off effect on domestic markets as it enhances global perspectives of India's financial and related professional services ecosystem. It is the group's assessment that the steps suggested would help accelerate the development of GIFT City into a global financial services hub over the next three to five years and beyond.

[1] International Monetary Fund World Economic Outlook (April - 2021), dated Jun 3, 2021 https://statisticstimes.com/economy/projected-world-gdp-ranking.php

About GIFT City

The Government of India established the GIFT City as India’s first IFSC in 2015, with the aim of growing India’s financial links with the rest of the world and offering a business and regulatory environment in line with leading IFSCs around the globe.

Since then, several Indian banks have established offices in GIFT IFSC, with foreign banks following suit in 2020 with a view to fuelling the growth of the financial ecosystem. In 2016, the Government granted recognition to the Bombay Stock Exchange (BSE) and National Stock Exchange (NSE) as local exchanges at GIFT City to develop its capital market infrastructure. Transactional volumes – both at the GIFT IFSC exchanges and banks at IFSC have grown steadily since. In October 2020, development of the GIFT IFSC was given a further boost when the Government of India set up the International Financial Services Centres Authority (IFSCA), a unified regulator focused on development of financial ecosystem and oversight at GIFT IFSC.

Since its establishment, the IFSCA has been working towards aligning mandates and regulations with a view to making GIFT IFSC a significant player in the international financial chain. Incremental changes have been positive but further changes on multiple fronts are required to achieve the goal of a significant global presence. In the 29th edition of the Global Financial Centre Index (GFCI) published in March 2021, GIFT IFSC was identified as among the top 15 financial centres that will become more a significant over the next two to three years. This group infers that the financial centre would do well to take immediate steps to meet rising expectations.

The GFCI report sets out various parameters important to the success of an IFSC. While GIFT City scored very well on reputation, it currently lags behind other successful IFSCs on areas like connectivity, diversity, and speciality – which refers to the breadth and depth of industry sectors such as investment management, banking, insurance and professional services. Disruptive factors like new technologies and the shrinking of geographies offer challenges and opportunities to IFSCs around the world; it is their responses that determine their success.
The group has taken into account these parameters in developing this report and recommendations to accelerate GIFT City’s progress towards becoming an IFSC.

Methodology

In order to develop recommendations to transform GIFT City into a global services hub, this study formed four sub-groups comprising practitioners from companies on the India-UK Financial Partnership (IUKFP):

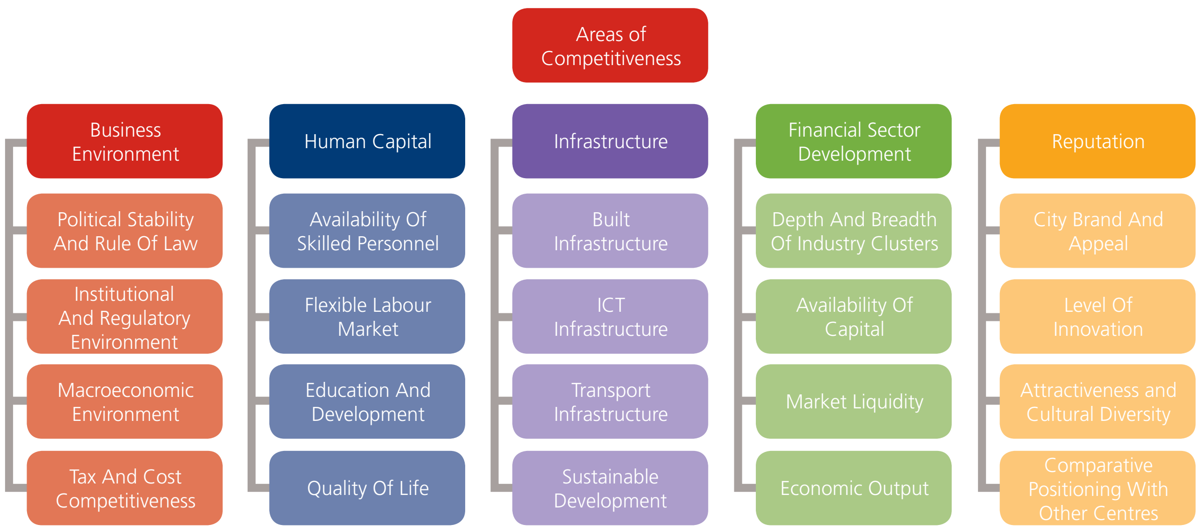
1. **Regulation:** This sub-group focused on regulatory aspects pertaining to banking, broking, collective investment vehicles or funds, non-banking financial companies (NBFCs)/financial companies, taxation, aircraft leasing and other general areas and suggestions to facilitate and enable better global competitiveness, governance, deepening of business and achieving scale.
2. **Infrastructure:** This sub-group focused on the development of ancillary services, ecosystem-related matters and enablers required to grow the attractiveness of GIFT City as an IFSC. The adjoining table lists the soft parameters highlighted in the GFCI Index. All of these parameters play an important role in the overall assessment and perception of quality. GIFT IFSC would need to create an attractive, viable and sustainable ecosystem for the growth of financial services, including physical infrastructure, digital innovation and quality of life to attract a global talent pool and accessibility.
3. **Exchanges and clearing:** This sub-group focused on existing issues and corresponding recommendations for the development of financial infrastructure such as stock exchanges and clearing houses at GIFT City.
4. **Insurance:** This sub-group explored the potential for growing the insurance sector at GIFT City, in order to enhance the breadth of business.

Group composition – the group comprised a cross-section of industry from UK and India; its breadth of representation bringing a comprehensive understanding of the drivers and challenges that GIFT IFSC would face in meeting expectations and scaling up to its potential. This report factors in key tax reforms relating to the GIFT IFSC that were introduced in the 2021 Union Budget of India.

Objectives – the mandate of this group is to provide recommendations that enable and empower businesses at GIFT IFSC in a way that makes them globally competitive, well governed, safe and scalable. The recommendations in this report aim to be tactical as well as structural.

Focus areas – given the evolving landscape for global trade and investment, this paper acknowledges that it does not constitute the final word on its mandate. The paper focusses on (1) specific recommendations for the four areas outlined above; and (2) the rationale behind the proposed changes for assisting and accelerating development of GIFT City into a global financial services hub in the next three to five years and beyond.

Figure 1: GFCI areas of competitiveness



Regulatory landscape and tax provisions

The Government of India and regulatory agencies have responded to changing needs with the introduction of progressive regulatory and policy measures. The establishment of the IFSCA in 2020 as a unified regulator for GIFT City is especially significant in the context of this report. GIFT IFSC has been deemed an offshore entity established to serve as an international financial services hub. The regulatory regime and tax laws for this centre are currently works in progress. This paper highlights several areas and approaches that can promote an attractive, scalable and prudent business environment.

GIFT IFSC has already attracted a considerable number of financial ecosystem firms in sectors such as banking, capital markets, insurance and allied/ancillary services. However, it is still a nascent initiative that has some way to go before it is able to compete with other global financial hubs. There are two key considerations in shaping the regulatory landscape for the IFSC. Regulatory prudence provides for the safeguarding of stakeholder interests – significantly that of customers, thus making it a better place for conducting business. Ease-of-doing-business attracts businesses and customers with lower costs of doing business and enabling overall efficiency and efficacy that makes for a better business experience. GIFT IFSC would find itself well placed vis-a-vis global IFSCs by balancing both and taking an approach closely aligned with its competitors. Close cooperation with other international regulators such as the UK's Financial Conduct Authority (FCA) would help shape the IFSC's ambitions by mitigating any regulatory dissonance between markets. Such alignment is necessary for any global financial services hub.

The IUKFP has focussed on developing recommendations for creating a financial and related professional services ecosystem in GIFT IFSC, including proposed changes to tax requirements and other regulations. This chapter outlines several issues and recommendations based on deliberations of the group with various stakeholders.

A. REGULATORY RECOMMENDATIONS

Key parameters	Key recommendations
REGULATORY APPROACH	
1. REGULATORY PHILOSOPHY – PRINCIPLE-BASED, ACTIVITY-BASED	
Global regulators are moving towards: • Activity-based regulations, away from entity-based regulation. • Principle-based regulation and supervision, away from rule-based regulation and supervision. Broad business areas are grouped into various categories and entities/ business are licensed, regulated and supervised based on their risk profile. Such frameworks permit horizontal and vertical service aggregation and innovation, based on the business models and aspirations of the regulated entity. Regulators are increasingly providing preferred and prudence guidelines, permitting regulated entities to conduct business within the framework.	As a new entity, the IFSCA should emulate best practices from peer regulators. A period of coordinated/collaborative efforts with select peers would give the necessary perspective and experience to the young institution. Currently, prudential regulations for financial units are similar to those pertaining to banking units. In the immediate term, a separate prudential norm corresponding to activities undertaken and risks may be specified; over a period, regulations could be categorised by activities. The group also recommends principle-based supervision, with entities categorised according to proposed risk. For higher risk categories, the status of the parent entity should also be considered. For example, a bank in a home country could be licensed to operate as a bank or an NBFC at GIFT; however, an NBFC (or a company) in the home country could be licensed only for activities pertaining to an NBFC and not as a bank at GIFT. This would ensure a balance between regulatory prudence and operating freedom.
2. PRUDENTIAL REGULATION – LISTING AND DISSEMINATION	
The IFSCA should draw authority from applicable statutes and create an IFSCA Rule Book as a single handbook containing all the rules that apply to entities that it regulates. – Topics in the handbook could include principles of doing business, governance standards, threshold conditions to be met for licensing/ authorisation by the IFSCA, prudential standards, conduct of business obligations, anti-money laundering and countering financing of terrorism, rules on protection of client money and assets, supervisory process including enforcement, licencing conditions and processes etc. – Authorisation/licenses granted can specify the activity licensed and can include the type of investments (shares, bonds, units, options, futures, contract for differences, etc.) that can be dealt with by an entity. – The IFSCA may also specify the types of customers that an entity can deal with (e.g. accredited, professional, wholesale, retail, etc.). In addition, as part of its outreach, the IFSCA may create an entity-specific or pool-based supervision protocol for regulated entities. The current effort to establish direct data linkages with regulated entities is an excellent initiative.	

Key parameters	Key recommendations
REGULATORY APPROACH	
3. REGULATORY PHILOSOPHY – PRINCIPLE-BASED, ACTIVITY-BASED	
Global regulators permit various business lines within a single business entity, subject to the levels of commitments being commensurate with the risk capital (initial and ring-fenced). Specifically, the branch of an entity from another jurisdiction is enabled/licensed based on the above framework, without having to divide organisational structures.	At GIFT IFSC, stock exchange brokers are required to separately register subsidiaries at GIFT in order to carry out business there. The working group recommends reviewing the requirement for subsidiaries. Except for very specialised functions such as insurance or collective investment vehicles/funds which need very disparate and specialised risk management and balance sheet structures, the requirement for a subsidiary structure should not be made mandatory. Instead, entities should be able to demonstrate business commitment through allocation of appropriate capital and functional readiness. The above would facilitate ease of doing business and add to the attractiveness of GIFT IFSC as a destination and also add to capital buffers, liquidity and vibrancy. E.g. a broking entity from another jurisdiction (including a subsidiary of an Indian company) may be permitted set up a branch – licensed and registered to undertake such a business at GIFT IFSC – subject to capital maintenance in GIFT jurisdiction and certain basic functional norms being met.
4. REGULATORY GEOGRAPHY – FREELY TRANSACT ACROSS MARKETS	
With technology making geographic boundaries irrelevant, restraining business operations within the geographic purview of regulations is self-limiting in terms of business horizons and data storage. For instance, a broker registered at GIFT IFSC is currently permitted to transact in stock exchanges at GIFT IFSC but not other exchanges. There are also certain regulations that require business data to be physically housed in the same location.	The IFSC by its very definition thrives on interconnectivity across geographies and international finance flows. New cloud-based technologies and solutions also create unrivalled competitive advantages for entities that are able to harness it effectively. In view of these possibilities, regulators should permit registered entities to create business across geographical locations that are optimal from a business/entity perspective, both in terms of functional aspects and data storage. Such benefits may be subject to the entity's full compliance with regulatory protocols applicable in the jurisdictions where it wishes to provide products and services. E.g. 1: Brokers registered at GIFT IFSC should be permitted to undertake broking business at other global exchanges – either directly or through associates in keeping with the norms of the respective global exchanges. E.g. 2: Business units may be permitted to maintain data at the most appropriate location in jurisdictions that have strong data protection laws, subject to commitments to provide access to such data at any point to relevant regulators. Data could be stored centrally at an entity's home country or within a secure feature in a global cloud facility provider. As a measure of prudence, regulators could stipulate geographies where such data storage is not permitted for reasons of vulnerabilities in data protection and security parameters, inadequate legal protection of confidentiality and geo-political instability. The above would increase the attractiveness of GIFT IFSC as a preferred business destination for existing businesses at various locations, looking to consolidate and optimise operations with minimal disruption.

Key parameters	Key recommendations
REGULATORY APPROACH	
5. DOCUMENTATION AND PROCESSES – KNOW YOUR CUSTOMER (KYC) E-ENABLED	
IFSCs by nature transact with customers across geographies. The flow of documents ascertaining the veracity and authentication of KYC norms has until recently been a cumbersome process involving immense amounts of physical documentation. Cross-geographical KYC often requires notarised or consulate stamping. This makes it very cumbersome to on-board customers and is a barrier in gaining customers from other jurisdictions. The existing process though onerous, is nevertheless vulnerable to errors and gaps. In contrast, e-verification is gaining wider acceptance with advances in AI technology with respect to biometrics and facial recognition, broad-based AML databases and cloud services facilitating multiple factor authentication. Regulators are slowly becoming open to digital verification, although much remains to be done. RBI has also taken steps towards the acceptance of e-KYC with certain caveats.	As a new regulator, with no onerous or protracted physical verification systems, the IFSCA is well positioned to directly adopt digital technologies for such processes. Even while such technologies are being customised and adopted, cross jurisdictional client authentication obtained from group entities/affiliates/business partners, existing client authentication may also be considered as appropriate and adequate. Following the 'principle-based regulation' approach, the following is recommended: • Respective entities to be held accountable for ensuring KYC is a duly documented and well-detailed process. • Due diligence performed by a group/affiliate entity may be admissible without diluting the commitment/onus of the registered entity. • e-solutions for personal antecedent verification, biometrics etc. may be permitted. • e-KYC (records in electronic form) with adequate documentation backup. • Banking partner authentication from a local jurisdiction should be admissible as evidence of verification. • Regulators could help evaluate and standardise AI-based (Artificial Intelligence based) tools for periodic antecedent verification. • Database AML checks – as also currently undertaken, would ensure that AML measures remain focussed and effective. • A consultative approach by the regulator will help the industry evolve towards digital verification in a constructive manner. • The stringency of KYC/AML should be similar for all regulated entities that are interdependent in a financial eco-system. Often some entities in the financial ecosystem aggregate differently than others. Unequal emphasis on KYC/AML increases vulnerability and engenders friction between entities. For instance, KYC/AML should be equally stringent for a broking entity as for a bank. • Entities must be made to adopt a risk-based approach in carrying out AML/KYC due diligence. Entities may be permitted to conduct simplified due diligence on a category of customers (e.g. regulated entities from FATF member countries, companies whose shares are listed in recognised exchanges, etc.) and enhanced due diligence on certain customers (e.g., politically exposed persons or politically associated entities, customers from high risk jurisdictions as identified by FATF or from jurisdictions where perception of corruption is high.) The AML requirements could be set out in the IFSCA Rule Book.

Key parameters	Key recommendations
REGULATORY APPROACH	
6. CUSTOMER ACCEPTABILITY THRESHOLDS – PRINCIPLE-BASED REGULATION	
When transacting with customers, especially individuals, various IFSC regulators have stipulated varying thresholds on net worth – most common being US$1m. For GIFT IFSC, qualified individuals with a net worth of more than US$1m are permitted to open deposit accounts and undertake derivatives transaction. The determination process requires certification at a local level. The stipulation for 'certification' often prolongs and complicates the customer's on boarding process. Institutions at GIFT IFSC are effectively at a competitive disadvantage compared to global counterparts in the matter of customer convenience.	Regulatory requirements are broadly similar, however, stipulations can constrain the customer experience. In keeping with the principle-based regulatory regime, respective institutions should provide adequate evidence for the purpose of regulatory oversight, demonstrating that the customer's net worth conforms to the regulations. The guiding principle in such cases must be full compliance with regulatory stipulation without formats that serve as negative differentiators. Banking institutions could resort to local certification if the available evidence is insufficient or not beyond doubt. Without being dogmatic, regulations should mandate that entities in the IFSC take all reasonable steps to ensure that the client satisfies the net worth criteria. For instance, a customer whose financial assets (net of liabilities) are evidenced by way of a bank statement, broker statement, real estate valuation etc. or a bank certificate at say US$10m, need not have the stipulation of local "CA" certification. However, for a customer at the cusp of about US$1.1m, local certification may be undertaken as proof beyond doubt.
7. REPORTING STANDARDS – ALIGNED ORGANISATIONALLY, EASE OF DOING BUSINESS	
IFSC entities, whether branch or subsidiary, are part of larger, often cross-border, networked institutions. Regulatory supervision largely depends on the compilation of various financial parameters across regulated entities. A multi-geography entity usually prefers to follow a single accounting standard across its network. Requiring regulated entities to present an accounting outcome that is different from its basic framework entails incremental costs and time overruns. In the case of GIFT IFSC, such inefficiencies decrease global competitiveness. Regulators in some progressive jurisdictions have followed the principle of standardising key aspects of reporting – without insisting on a specific accounting standard. For instance, DIFC-based banks submit financial data to the regulator based on the Indian GAAP (current prevailing accounting norms) and not the IFRS. For Indian banks that have set up at global IFSCs and are now looking to shift all their offshore activity to GIFT City, changes in accounting standards would require banks to incur additional costs and resources for reconciliation purposes and also mean that the reporting at IFSC and at Head Office not aligned.	This paper recommends the accounting standards that each entity adopts in GIFT City should be as per its respective organisational set up. As part of the framework, a regulated entity should declare the standard it has adopted and be made aware that it could be subjected to auditing by a competent entity as required by the regulator from time to time. For instance, Indian banks in GIFT IFSC should be permitted to report financials currently as per Indian GAAP (as per IndAS, as and when banks adopt it as per the RBI stipulated timeline); foreign banking institutions using US GAAP or IFRS may do so as per their norms. Usually, accounting norms impact revenue recognition/provisioning. Key elements of a balance sheet and exposures could be standardised so that they are dependent on accounting standards in order to facilitate homogenous regulatory supervision. This will ensure that there is no disincentive for institutions setting up at GIFT IFSC in terms of increased compliance costs.

Key parameters	Key recommendations
REGULATORY APPROACH	
8. BUSINESS ORIGINATION – FACILITATING BUSINESS GROWTH, AID ISFC ECOSYSTEM GROWTH	
Trans-border financial transactions are usually subject to local and global scrutiny. Jurisdictional regulations often require that trans-border business be conducted by referral, out-sourcing or client outreach. While the latter is a passive option, the first two active options could encounter complexities of transfer pricing in the case of affiliated parties or taxation, particularly in the case of internal partners. Notably, from a customer perspective, the global client is agnostic to such complexities and is only concerned with cost effective solutions. Hence, any plan for the development of GIFT IFSC would need to have a framework that minimises such complexities. E.g. With no agreed principle, various organisations such as brokerage entities or merchant banks based elsewhere follow different norms when referring clients or issuances to their respective GIFT IFSC branches or entities. This then leads to the failure to produce a sustainable or scalable model.	Technology has enabled the unbundling and re-bundling of value to clients to be fast as well as seamless in financial services. In this context, the ability of institutions to forge partnerships – internal or external, would determine the pace of development at GIFT IFSC. Regulatory forbearance, especially from a taxation perspective, would help GIFT IFSC entities gain customer share. A framework for such partnerships will help ease associated complexities. Tax waivers on such income in India/withholding tax would be an enabler. This could produce the following outcomes: • The GIFT IFSC entity could actively engage the services of a licensed deposit broker from another jurisdiction to garner deposits and build liabilities at GIFT IFSC. Such practices are permitted and practiced in the US. • The GIFT IFSC entity could actively engage the services of its branches in India to canvass and garner LRS deposits. Such deposits, when sent to other jurisdictions, add to vibrancy of those geographies. With some regulatory forbearance, the same could help enhance financial stability and vibrancy at GIFT IFSC. • The brokerage entity, subject to a threshold and framework, be permitted to formally bill the GIFT IFSC. If this is spared a withholding tax, it could help achieve sustainable and scalable businesses. • Regulated entities may disclose the salient features of such arrangement to the IFSCA.

Key parameters	Key recommendations

REGULATORY APPROACH

9. INVESTMENT THROUGH LIBERALISED REMITTANCE SCHEME (LRS) MECHANISM: FACILITATE ECOSYSTEM GROWTH

Key parameters

Current laws permit resident Indians to remit up to US$250,000 under the LRS in a year. As per RBI data (Source: RBI Bulletin, May 17, 2021), more than US$3bn annually or about US$500m monthly is remitted by resident Indians.

	2019–2020	Jan 2021
Σ LRS outward	US$18.76bn	US$1.25bn
Of which:		
For Deposits	US$0.62bn	US$0.41bn
For Investments	US$0.43bn	US$0.03bn
For Gifts	US$1.91bn	US$0.13bn
For Others	US$0.27bn	US$0.01bn

The above remittances are usually centred in overseas financial centres, i.e. other IFSCs, thus contributing to the stability and vibrancy of flows in other locations.

Current Indian regulations pose restrictions on amounts and purposes of outward remittances, especially for reasons of investing in financial services in offshore jurisdictions.

The RBI has recently issued a circular[2] permitting resident individuals to make remittances under LRS to GIFT IFSCs for investment in the IFSC in securities other than those issued by entities/companies resident (outside India) in India, subject to certain conditions.

Key recommendations

Funds remitted outwards from India to other financial centres contribute to the vibrancy and financial stability of such IFSCs. Efforts should be made to attract the same investment pool to GIFT IFSC towards seeding, creating and sustaining financial flows and vibrancy of this financial centre.

This paper recommends taking a broad perspective on remittances towards creating a stable investment pool at GIFT IFSC. It is a given that national benefits do accrue from TDS on LRS and restrictions on remittance etc. However, even greater benefits could potentially accrue from strong and vibrant flows at GIFT IFSC on the back of the following recommendations:

- Easing current regulations around soliciting remittances under the LRS to GIFT IFSC, especially if the same has been stipulated for a term deposit with a bank in GIFT IFSC.
- Current regulations permit remittances under LRS to GIFT IFSC provided the same are invested in securities. Any amounts not invested are to be remitted back to India within 15 days. No such obligations are ordained for LRS remittances to other financial centres. It is recommended that such obligations be removed for GIFT IFSC.
- Resident Indians may be permitted to create term deposits at GIFT IFSC of longer tenors, for future use (e.g. education, family maintenance etc.), creating a stable pool of funds at GIFT IFSC.
- To the extent that funds are remitted to GIFT IFSC for the creation of deposits or investments [OTC or exchange – including margins], TDS requirement should be waived.
- Raising the limit for outward remittances to GIFT IFSC by another US$250,000. To the extent that deposits are placed with banks in GIFT IFSC, residents should be permitted to borrow from banks in India with such deposits as collateral.
- Resident individuals should be permitted to remit margins or margin calls under LRS to trade in derivatives listed on IFSC stock exchanges.
- Furthermore, such outbound investments in the IFSC units by residents should be permitted under the automatic route and not require prior RBI approval.

[2] RBI/2020-21/99 February 16, 2021 A.P. (DIR Series) Circular No. 11

Key parameters	Key recommendations
REGULATORY APPROACH	
10. HOME FOR INDIAN START-UPS – REGULATION HOMOGENISED FOR IFSC DEVELOPMENT	
From Indian unicorn Ola to tech giant Infosys, the UK has always been an attractive investment destination for Indian investors and companies. This has continued to strengthen over time. In recent years, Singapore has grown as a start-up hub, successfully attracting Indian start-ups: several well-known Indian start-ups (including Flipkart, InMobi, and Medialink) have incorporated in Singapore, while a large cohort of new start-ups are following suit. Some of the underlying reasons include: • Ease of seeking foreign capital required to incubate and grow a start-up venture in Singapore. • VC/PE funding for such start-ups find flexibility to structure capital as per business needs and friendly tax laws (no dividend distribution tax or capital gains tax) in Singapore. • Singapore promotes a relatively light-touch, compliance-based regulatory framework as compared to India's more complex and onerous regulatory regime. The tax systems are also similarly aligned to the overall approach of the respective regimes. • Singapore-incorporated Indian start-ups also find support from the government's sovereign wealth fund, GIC, which provides capital to start-ups. As it develops into an IFSC, the UK and Singapore's experiences for attracting investment provide useful reference points for GIFT City. Annex provides a case study on Singapore, listing some the reasons that start-ups cite for setting up in Singapore and the relevance for GIFT IFSC as it pursues its ambitions to become a start-up hub.	India is among the world's largest consumer markets with a large young work force and attractive talent pool. India's numerous successful start-ups testify to the country's potential an attractive business destination. The working group recommends that a specialised cross-functional team explore this further to provide deeper insights on light-touch regulations required to invigorate the start-up culture. GIFT IFSC is at a nascent stage of its journey and could adopt regulatory and tax regime requisites that facilitate start-ups. The Government of India, through various schemes and mechanisms, has been trying to support start-up efforts in India. A similar effort at GIFT IFSC – directly or through other channels, could provide the right encouragement for start-ups to choose to domicile at GIFT IFSC. Such efforts will also attract global VCs and PE players, which tend to follow the value pools.
11. SUPPORTING FINANCIAL ECOSYSTEM – PERMIT LOANS TO FINANCIAL ECOSYSTEM TO AID IFSC GROWTH	
In the IFSC ecosystem, global liquidity pool aggregators like funds, alternative investment funds (AIFs) etc. are important constituents. Regulations should recognise the borrowing/leverage requirements of such entities. Most funds, while having garnered commitments from investors, invest the funds as per available opportunities and fund mandates and subsequently call in the investor commitments. This modus operandi requires such funds to be able to borrow from lending institutions in the ecosystem. Globally, banks, usually the lending institutions, are permitted to lend subject to credit norms of the institutions. However, current Indian laws do not permit lending for such a purpose, thereby constraining growth of the wider ecosystem.	Given the strong intent on developing GIFT IFSC, the group recommends that regulations should align with the principles of risk management and prudence, away from the present prescriptive approach. With a view to reaching a level playing field with respect to activities at other IFSCs and subject to the risk frameworks of respective entities, regulations should permit institutions to lend to funds: • for the purpose of correcting short-term funds mismatch • to enable the leverage required for yield enhancements.

Key parameters	Key recommendations
REGULATORY APPROACH	
12. FUNDS – CENTRE OF THE ECOSYSTEM, NEED SET UP AND ADJUSTMENT TIME	
Investment pools are the single largest source of global financial flows. Global IFSCs have had the advantage of time to gather vintage and developed paraphernalia, and GIFT IFSC is a late entrant. Attracting flows requires global funds to set up shop at GIFT IFSC, which is a process rather than a phenomenon. Creating an attractive brand takes time and friendly regulations.	India's strengths as a financial centre has taken time and talent to build. IFSCs also need time and progressive policies to reach competitive levels. Most financial centres require a fund house to have a physical presence, manned by fund managers on location. In the case of GIFT IFSC, the group recommends that regulations permit global fund-houses a trial period of two to five years before mandating that fund managers be physically housed in GIFT IFSC. Regulations could outline and permit the sequence for putting in place operating licenses and offices, capital relocation, operational set up and fund manager relocation. A customer-friendly roadmap for operating in GIFT IFSC that allows for milestone commitments would be more attractive than pre-conditions requiring onsite presence. This would give businesses time to adjust to the jurisdiction environment and adapt its into organisational strategy. In a world that is fast shrinking distances, benefits of an efficient centre with a good talent pool could create an inevitable pull.
13. SETTING UP AND ACTIVATION OF ARBITRATION CENTRES	
An IFSC operating within the jurisdiction of a legal system, whether local or domestic, is often perceived to create more hurdles than it resolves. Laws governing financial contracts emanating from an IFSC need wide acceptance and acknowledgment. A participative and collaborative approach on building the legal foundation in partnership with other leading and significant jurisdictions would help create the curtain of trust required for incubating and propagating the right financial activity. With increasing participation by international and domestic parties in GIFT City, an international dispute resolution mechanism is essential to make GIFT a global financial hub. Considering this and to provide a neutral and independent dispute resolution platform to parties, GIFT has signed an MOU with the Singapore International Arbitration Centre (SIAC).	• GIFT IFSC has already embarked on a desired path with SIAC partnership. A chain of such partnerships with some notable jurisdictions will help markets evolve the right legal framework at GIFT IFSC. • Civil laws could remain the domain of local legal infrastructure, however, any resolution on financial and contractual matters must be reinforced through the network of such arbitration courts. The government may stipulate information sharing and appeal rights in conjunction with the local regulator or specially empowered courts. • The group would like to underscore the need for GIFT IFSC to be perceived as an international centre when it comes to the laws governing financial contracts. The IUKFP would be happy to work with the IFSCA to further develop a roadmap and regulations for setting up an international arbitration centre at the IFSC.

Key parameters	Key recommendations
REGULATORY APPROACH	
14. ACTIVITY UPSTREAMING – NEED TO ALIGN WITH NORMS IN GLOBAL FINANCIAL CHAINS	
India is beginning to make its presence felt in international financial transactional chains. Some practices/norms in its domestic financial markets have been shaped by compulsions emanating from stage of economy, such as local priorities of development and the need to strengthen local institutions. Some activities common in international markets, have not developed or have been discouraged due to historical reasons. The following are some examples of these: • Funds buy back their units for upstreaming cash and enhancing value. • Financial institutions frequently buy back their issuances as a way of managing risks and valuations. The IFRS, like the IndAS, permits the marking to market of liability issuances. • International markets lay emphasis on disclosures, while Indian markets emphasise listing. Disclosures are not synonymous with listing. • Setting up and winding up of entities are strategically used to segregate portfolios under a license umbrella or enhance values and valuations. As per current local regulations, these are either restricted under the Companies Act or, where permitted, face arduous processes and tax implications.	As GIFT IFSC develops and begins integrating with global financial flows, regulations must develop means to assimilate and facilitate some commonly used financial practices that are currently barred in local markets – possibly with certain caveats. The group would like to make the following recommendations; further study by a team of legal experts on this area should also be conducted. • A fund should be permitted to buy back units subject to commitments and disclosures in its issuance memorandum or under the review of an arbitration court. • Financial institutions should be permitted to buy back their issuances (debt or equity) from institutional or qualified investors at prevailing market prices, based on mutual consent, without triggering an open offer requirement. Regulations for safeguarding adequate disclosures and minority protection could evolve over a period of time. • Regulated entities should be permitted to freely transact in issues that have filed disclosure documents with any exchange – whether listed or not. As a measure of 'catching up', exchanges at GIFT IFSC could on their own accord recognise disclosure documents filed by branches of regulated entities at GIFT IFSC. • Regulated entities could set up and wind up subject to full compliance with disclosure standards and other provisions like maintenance of a stipulated amount of capital etc.

Key parameters	Key recommendations
REGULATORY APPROACH	
15. REFERENCES TO FEMA, PREVIOUS REGULATORY REGIMES – PROGRESSIVE IMAGE OF GIFT IFSC	
As the IFSCA has taken charge, pending a fresh review and redraft of regulations, guidelines refer to prevailing regulations from RBI, SEBI etc. As a matter of non-disruptive shift of regulators, this remains a step in the right direction, with global expectations of progressive regulation by the IFSCA.	A principle-based approach recommended by this paper would require uniquely structured regulations that reflect the spirit of current regulations within a progressive framework. Designed for a competitive IFSC, such regulations may, in a phased manner, replace preceding regulatory agencies and provisions (e.g. SEBI, RBI, FEMA). GIFT IFSC's image as a progressive and growing financial centre can benefit from several measures. The GIFT IFSC is deemed an offshore jurisdiction with currently narrow and restricted INR transactions. Regulations designed to protect INR value like those mandated by FEMA are not aligned with the IFSC environment that is global in nature and definition. Hence, the group recommends that application of any provision of FEMA – or references of the same, be kept outside the ambit of GIFT IFSC. • The IFSCA would need to review current guidelines and remove references to RBI, SEBI etc. to reinforce the perceptions of progressive policy at GIFT IFSC. • Indian residents, at least, should be permitted to transact with entities at GIFT IFSC in the manner permitted for any other global financial entity. • While there has been a significant increase in volumes in the INR NDDC segment, the non-INR derivatives market volumes have been muted owing to limited participation from non-residents, who would prefer to deal with their existing banks. To increase participation in this segment, we would require a larger user base to be able to access this market through Banking Units in IFSC. This would assist in harmonising the guidelines issued by both the regulatory bodies (RBI and the IFSCA) and enable Banking units operating in GIFT City to enhance their product offerings at the GIFT city branch with the ability to offer non-INR derivatives to a larger client base.
16. HARMONISE REGULATIONS – OVERSEAS DIRECT INVESTMENT (ODI) RULES	
At this early stage of GIFT IFSC, its entrants are mainly Indian entities. Consequently, capital infusion for entities setting up at GIFT IFSC is essentially in the form of ODIs. There are basically three routes under the FEMA-ODI Regulations through which ODI can be done: • ODI Regulations 6: Allows a non-financial entity to invest in non-financial entity overseas. A non-financial entity investing in financial company is not permissible under current regulations. • ODI Regulations 7: Allows a financial entity to invest in financial as well as non-financial entities overseas, subject to certain conditions. • ODI Regulations 9: Further, if an Indian entity does not satisfy the eligibility norms under Regulations 6 or 7, it may then apply to the Reserve Bank for approval under Regulation 9.	In order to promote investments into GIFT IFSC, local regulations need to be appropriately amended. The regulators could consider bringing remittances from the domestic market to GIFT IFSC – for setting up of Finance/Non-Finance entities, under the Automatic Route for ease of doing business, subject to licensing approval from the IFSCA. A diversified set of entities will not only promote GIFT as a strong centre, but also create an appropriate competitive environment required for a business ecosystem. A strong financial centre within India will also have spin-off benefits for the domestic economy in general.

Key parameters	Key recommendations
REGULATORY APPROACH	
17. HARMONISE REGULATIONS – LISTING RULES	
Indian regulations pertaining to capital market e.g. listing rules etc., are designed for the scale, stage and context of local markets. Imposing the same model on international financial flows for an IFSC is not an appropriate growth strategy. E.g. 1: Current regulations in India permit listing on the stock exchanges subject to conditions of rating, profit track record etc. International markets permit rating without such considerations. For example: • Unrated masala bonds are listed in London/Singapore exchange. • Start-ups without any commercial track record are permitted to be listed on exchanges. E.g. 3: Current regulations restrict the amounts that can be invested in unlisted issuances.	This paper recommends a milestone-based plan and action for the harmonisation of regulations to facilitate growth of business, beginning with the following areas: • Current regulations should be modified to permit listing on the stock exchanges with appropriate disclosure standards, notwithstanding conditionalities of rating, profit track record etc. • The international financial system places more focus on the issue of disclosure rather than on listing status. Overseas exchanges also permit the filing of disclosures for an issuance plan, where individual issuances within the plan may not necessarily be listed. Current regulations should be modified to permit investments in issuances based on principles of disclosure and not on listing status. This group believes a more extensive exploration is warranted to compare current capital market related regulations with those of international markets.
FUNDS	
18. MANAGER/SPONSOR IN THE IFSC	
Category I or Category II AIF set up in the IFSC would also need to have their manager/sponsor be based in GIFT City. From the perspective of foreign-exchange regulations, these AIFs are foreign owned or controlled and, therefore, any investment to be done by these AIFs in India would need to comply with foreign direct investment (FDI) guidelines.	This paper recommends changing the foreign-exchange regulations to classify fund managers established in the IFSC as Indian owned/controlled if they meet the requisite criteria of being majority held and controlled by Indian residents. The recent amendment to put sponsor commitment under the automatic route is a welcome move.
19. RELAXATION OF FOREIGN PORTFOLIO INVESTMENT (FPI) NORMS APPLICABLE TO CATEGORY III AIFS	
Currently, Category III AIFs investing in India through the FPI route are subject to the following restrictions which are currently applicable to other FPIs: • Aggregate contribution by non-resident Indians (NRIs)/overseas citizen of India (OCI)/Indian resident (RI) shall be below 50% of the total contribution in the corpus of the said FPI. • Investments in India by such Category III AIFs in the IFSC through the FPI route are subject to diversification/concentration norms as applicable to FPIs. • Such FPIs are not allowed to carry out intra-day trading (e.g. is not possible to trade without taking physical delivery of securities). This creates additional hurdles to such AIFs seeking investment through the FPI route in India.	It is recommended that these restrictions be relaxed for Category III AIFs which are set up in the IFSC and seeking FPI registration for investing into India under the FPI route.

Key parameters	Key recommendations
FUNDS	
20. MUTUAL FUNDS/COLLECTIVE INVESTMENT SCHEMES (CIS)	
Formulation of enabling guidelines for setting up a mutual fund/ collective investment fund (CIF)/CIS in the IFSC would help to develop the overall ecosystem.	This paper recommends formulating such guidelines through a consultative process with the fund industry operating guidelines for setting up a mutual fund, CIS, CIF and exchange traded funds (ETFs) in the IFSC. The funds may be given regulatory and operating ease, including flexibility in terms of investments into all securities globally. A liberal tax regime could be applied to investors in such mutual funds, CIS, CIF, CIVs and ETFs in IFSC.
21. SETTING UP INVESTMENT HOLDING COMPANIES	
Setting up investment holding companies will attract talent and help in the growth of the overall ecosystem.	This paper recommends allowing multinational companies to set up global investment holding companies in the IFSC.

B. TAX RECOMMENDATIONS

Key parameters	Key recommendations
DIRECT TAX	
1. CONSOLIDATE IFSC-RELATED PROVISIONS UNDER THE INCOME TAX ACT	
Current provisions relating to income earned by units/investors in the IFSC are addressed in various parts of the Income Tax Act of 1961. A separate chapter within the Income Tax Act consolidating all the relevant provisions, rules, circulars and notifications in one place will help for ease of reference. Separate Income Tax Circle within IFSC to deal with the disputes within GIFT IFSC.	• The provisions and laws governing IFSC units under the Income Tax Act, 1961 and Income Tax Rules, 1962 should be consolidated under a single chapter in the Income Tax Act. • The various circulars and notifications issued over a period of time should be incorporated in the consolidated chapter. • A separate IT Circle within IFSC to cater to only tax requirements and resolutions for units within IFSC. This will eliminate the fear of tax disputes within the onshore India IT circle.
2. TAX EXEMPTIONS	
While there is a tax holiday provided to a unit in the IFSC under section 80LA, this applies only for 10 years. As the intent is not to tax income which does not accrue or arise in India, offshore income earned by these units should be kept out of the tax net while computing the taxable income of the unit in the IFSC. GIFT City will need to compete with other more tax-friendly jurisdictions such as Hong Kong (with only a territorial system of taxation – where offshore income is exempt), or Singapore (where offshore income is taxed only if brought into Singapore) or Dubai (where most business activities do not attract any income tax). It is also important to give assurance to foreign investors that the concessions granted will not be rescinded for a long time.	• Income earned by IFSC units from services rendered outside India should be completely exempt from income tax – in short, adopt a territorial system of taxation. • Commit that any concessions granted will not be taken away for at least 25 years. • Restore the earlier dividend taxation mechanism, e.g. no tax at the company level (earlier Dividend Distribution Tax (DDT) was not applicable on companies in the IFSC) and exempt dividend in the hands of shareholders, as per earlier regime. • Any payment to an IFSC unit should not be subject to withholding of tax, where such unit in the IFSC is claiming a tax holiday. This can be made subject to a declaration furnished by the unit undertaking to fulfil the conditions necessary to avail of the tax holiday.
3. RELIEF FROM GENERAL ANTI AVOIDANCE RULES (GAAR) PROVISIONS	
Certainty should be given to taxpayers, units or investors in the IFSC from invocation of GAAR provisions.	• GAAR provisions should not apply in respect of tax benefits/ concessions claimed by an IFSC unit/investors with respect to tax concessions provided for their IFSC investments or any IFSC-related tax benefits.
4. EXEMPTION FROM CAPITAL GAINS IN THE HANDS OF SHAREHOLDER ON SALE OF SHARES OF IFSC UNITS	
Exemption from capital gains in the hands of shareholder on sale of shares of IFSC units would incentivise investment into these units.	• Capital gains tax exemption should be provided for the sale of shares of IFSC units by non-resident shareholders.

Key parameters	Key recommendations
FUNDS	
5. PRESCRIBE SUBSTANCE REQUIREMENTS FOR FUND MANAGERS/AIFS IN THE IFSC	
To leverage the tax benefits offered by the IFSCA, it must be demonstrated that all investment and key management decisions are being made from the fund manager's office in GIFT City. Currently, most investments related to expertise and available talent pools are concentrated in certain parts of India. It is therefore a challenge to have a significant base of senior investment professionals and investment committees of a fund based in the IFSC. It will be crucial to encourage offshore fund managers to consider moving to GIFT City.	• Prescribe some objective criteria to meet the substance test. For example, a domestic fund which is setting up an AIF in the IFSC could leverage the expertise of the local management team with support staff based in GIFT. Likewise, a global fund setting up in the IFSC could be allowed to have a light-touch office in the IFSC with the expertise of top management being leveraged across offshore and GIFT City. • GAAR should not apply to funds and fund managers if they satisfy the objective criteria. • A special tax regime may be carved out for such funds. The current tax regime only allows exemption for funds with non-resident investors.
6. RETURN OF INCOME (ROI) BY NON-RESIDENT INVESTORS OF CATEGORY III AIFS	
Currently, there are express provisions exempting non-resident investors of Category I and II AIFs from seeking a permanent account number (PAN) and filing the ROI in India subject to fulfilment of certain specified conditions. Recently, the Central Board of Direct Taxes (CBDT) also exempted non-resident investors of Category III AIFs in the IFSC from seeking a PAN, if they fulfil certain similar conditions. However, a similar exemption, as expressly provided to non-resident investors of Category I and II AIFs from filing the ROI (as mentioned above), is not provided for non-resident investors of Category III AIFs in the IFSC.	• It may also be clarified that non-resident investors of Category III AIFs are also exempt from the requirement of filing returns on income in India.
TAXATION PROVISIONS FOR STOCK EXCHANGES	
7. TAX CLARITY ON TRANSACTIONS EXECUTED BY STOCK EXCHANGES FROM DISASTER RECOVERY SITE	
SEBI regulations require stock exchanges to conduct compulsory live trading for at least two consecutive days every six months from a disaster recovery site located in a different seismic zone. There is a possibility that trades executed at the disaster recovery site situated outside a special economic zone (SEZ) would not be considered as deemed to have SEZ status, and this would then carry tax implications.	Amending the definition of IFSC in the Income Tax Act, 1961 to include offices at disaster recovery site of recognised stock exchanges/ clearing corporations located in the IFSC, is recommended. This will provide clarity to trades executed at the disaster recovery site situated outside the SEZ.
8. EXEMPTION FROM FILING RETURN OF INCOME BY ELIGIBLE FOREIGN INVESTORS (EFI)	
Recently, there has been a relaxation for EFIs so they need not obtain tax registration in India where they would be investing exclusively on the IFSC stock exchanges. However, they are still required to file returns on income in India. The need to file India compliances for an EFI may lead to rigour and genuine hardships for EFIs. This approach may be required for the domestic market; however, an IFSC regime needs to be more investor-friendly in terms of compliance requirements.	• EFIs, which exclusively invest in the IFSC exchanges, should be exempt from filing of returns on income in India.

Key parameters	Key recommendations
TAXATION PROVISIONS – INSURANCE	
9. SPECIAL TAX REGIME FOR TAXATION OF REINSURANCE BUSINESS	
The Income Tax Act currently provides for different modes of computation of profits of life insurance business and other than life insurance business but does not stipulate a distinct mechanism for computing business profits of reinsurance business. The Act has carved out distinct provisions for the computation of profits of an insurer under Section 44 of the Act read with First Schedule of the Act. Considering the unique nature of the global reinsurance business, in the absence of specific provisions for the taxation of reinsurance, there are likely to be ambiguities in the allocation of expenses to the FRBs by their Head Offices.	Introduce a special tax regime for taxation of reinsurance business to streamline its taxability and remove any ambiguities and possibilities of litigations. Tax computation rules for income of FRBs may be notified by way of a circular. For insurance business in the IFSC, a special (simplified) tax regime can be provided.
AIRCRAFT LEASING	
10. WITHHOLDING TAX (WHT) EXEMPTION ON AIRCRAFT LEASE RENTALS IN THE HANDS OF AN IFSC UNIT	
WHT exemption on aircraft lease rentals in the hands of an IFSC unit would ease cash-flow issues for the unit concerned.	• WHT exemption should be provided on lease rentals payable by Indian airline companies to an IFSC unit engaged in aircraft leasing.

Infrastructure

The Covid-19 pandemic has brought about substantial disruption, with lockdowns of varying degrees continuing to impact normal workflows and project lifecycles. Virtual working models have dampened internal innovation and collaboration, while recent efforts to reshape operations for a post-pandemic scenario have left many organisations strapped for resources. However, work-from-home and various other ways of working during a pandemic has given rise to a significant opportunity to reimagine the office, work life and the infrastructure around it. As an emerging global financial hub, GIFT IFSC is well placed to leverage the lessons from this crisis to reimagine the future of international financial services and how it can be conducted.

This section of the report makes a range of recommendations straddling these fundamental challenges for GIFT IFSC infrastructure that would put it at par with other global financial hubs. Many of the suggestions require collaboration with strategic partners such as the UK, to help in the adoption and execution of best practices and international standards.

GIFT City should focus on the following four key priorities when considering infrastructure:

1. Productivity improvement and technology enablement: GIFT IFSC should proactively support financial services firms to rapidly accelerate their digital transformation and cloud enablement roadmaps, leveraging expertise from the IUKFP.

2. Create vibrant ecosystems and partnerships: With business models and market dynamics continuing to evolve, aspiring global financial hubs like GIFT IFSC should facilitate the engagement of financial services firms with non-traditional partners and academia to create new value propositions.

3. Embed social responsibility and purpose: As markets and economies look towards post-Covid-19 recovery, there are growing calls to focus on environmental, social and governance (ESG) considerations. GIFT IFSC should be at the forefront of this trend in its infrastructure development and could leverage UK expertise through the IUKFP to develop into an ESG Hub for India.

4. Improve risk management and agility: GIFT IFSC should build resilient, adaptive and responsive infrastructure to cope with sudden shocks and unexpected risks in the future.

GIFT IFSC will need to ensure that its infrastructure ecosystem is on a par with the best. The UK and the IUKFP can play an integral role in sharing best practices in technology, cyber security, risk management and access to global talent to ensure a robust and vibrant infrastructure within GIFT City.

SUMMARY AND KEY RECOMMENDATIONS

I. KEY CRITICAL PARAMETERS FOR GIFT CITY TO CONSIDER UNDER INFRASTRUCTURE

Parameter	Key recommendations
1. EMBRACE DIGITAL INNOVATIONS	
FinTech and start-ups are at the cutting edge of innovations in world of financial services. To make its indelible mark, GIFT IFSC needs to invest and develop: • A key hub for FinTech innovations and global tech firms and start-ups which are radically transforming delivery of financial services. • Innovative incubators for these technologies. • High-quality technological and digital infrastructure to stay abreast of technological changes and innovation. Digital/video KYC: Be agile and adopt more sophisticated systems in place for digital signatories and validation of financial transactions require agility of innovative technologies such as artificial intelligence (AI). The RBI has also introduced video KYC systems, albeit in limited use cases for resident Indians.	• Working towards secure technological infrastructure: leverage the UK-India FinTech Dialogue[3] to enhance collaboration with GIFT IFSC, including attracting UK FinTechs to incubate in GIFT IFSC, pilot innovative technologies and risk management solutions, which can subsequently be rolled out to the Indian and global markets. • With the help of India-UK Tech Partnership[4], GIFT IFSC to realise the potential of AI-ML and other cutting edge technologies, as well as the benefits of interactive data systems with a focus on GIFT IFSC's digital framework. It can also support promising Indian FinTechs incubated in GIFT IFSC to set up in the UK. • Incorporate the City of London Corporation and FCA's Digital Sandbox learnings with GIFT IFSC: The City of London Corporation and the FCA have collaborated on a Digital Sandbox[5] to create a digital testing environment and to support financial services innovation. The virtual ecosystem addresses challenges in tech development such as access to data and industry collaboration and is innovative in the tools and features it provides. IFSCA may explore implementation of the Digital Sandbox model in GIFT IFSC. • It is reasonable to assume that financial entities at the GIFT IFSC are constrained by the state of technology of the parent entities – especially Indian banks. For GIFT IFSC to emerge as a leading centre for financial services, adoption of technology be facilitated through ease of access (usually in the form of plug and play) to the building blocks for such technology and an environment of regulatory enablers. • Regulations should foster growth of such an ecosystem – a 'Garage' of such building blocks are available for firms to adopt and complete globally on product and operational efficiency. • GIFT IFSC could fill a niche by assuming a tech leader position. By becoming the crucible of innovation, GIFT IFSC could spur changes in technology of the parent entities.

[3] GOV.UK, '2030 Roadmap for India-UK future relations', (May 2021), available at: https://www.gov.uk/government/publications/india-uk-virtual-summit-may-2021-roadmap-2030-for-a-comprehensive-strategic-partnership/2030-roadmap-for-india-uk-future-relations#:~:text=Our%202030%20vision%20is%20for,Indo%2DPacific%20and%20India%2DUK

[4] Inc42, 'The UK Will Be A Co-Star In India's Tech Blockbuster', (September 2020), available at: https://inc42.com/resources/the-uk-will-be-a-co-star-in-indias-tech-blockbuster/

[5] Digital Sandbox, (August 2021), available at: https://www.digitalsandboxpilot.co.uk/

Parameter	Key recommendations
2. PHYSICAL/CORE INFRASTRUCTURE	
Ensuring a high quality of physical infrastructure for GIFT City and its adjoining locations plays a key role in positioning GIFT City as a successful of IFSC. In addition to basic infrastructure (ranging from electricity, water to telecommunications), an effective transportation system and lifestyle infrastructure (international quality green commercial buildings, residential housing, green spaces and leisure facilities) would add to the attractiveness of GIFT City.	While the GIFT IFSC has a good plan in terms of developing an integrated township with state-of-the-art facilities, most of these are still in the implementation stage. Fast-tracking these plans would require heavy investments. In this context, forging global partnerships with global investors (e.g. Blackstone, ADIA etc.) would help the plans to materialise quickly. Collaborating with global financial centres like London would also facilitate the process. The IUKFP could help facilitate engagement with UK certification bodies that provide health and safety norms, such that international accreditation can be acquired. For instance, the British Standards Institute provides standards that could support GIFT City buildings to adopt international certifications in a post-pandemic world.
A. QUALITY OF LIFE	
Hiring and retaining talented professionals is easier if the location can offer a blend of opportunities and lifestyle; a place where successful professionals would aspire to live. Some attributes to consider include: • High-quality healthcare and hospitals with global standards and amenities. • Good-quality homes. • Good culture, entertainment, and sporting offerings in the vicinity. • Excellent restaurants. • Good schools of an international standard. • Clean environment – low levels of pollution and noise.	Mumbai, Bangalore, Hyderabad and Pune are a few examples of Indian cities that have gained acceptance in the global business circles. In addition to collaborating with these cities, GIFT City could also draw upon the India – UK partnership to explore including urban innovation including bioclimatic Building Information Modelling (BIM), design and e-mobility. Providing opportunities to local businesses to open restaurants as well as boarding and lodging facilities would enhance the IFSC's attractiveness.
B. ACCESSIBILITY	
Reasonably successful financial centres have a web of strong local and global connectivity, facilitating ease of reaching/travel and a host of lodging options. This entails enhancing international air connectivity to Ahmedabad, supported by rapid transfer links from the airport to GIFT City, and ensuring there are world-class hotels and accommodation for international visitors.	While Ahmedabad is home to some good hotels, development of global connectivity is still a work-in-progress. Increased air connectivity with major Indian business centres and global hubs such as London and other UK cities should be fast-tracked. Ahmedabad could be developed into a major inter-connecting hub.

Parameter	Key recommendations
C. GLOBAL TALENT POOL	
One of the greatest assets to any IFSC is its accessibility to a specialised financial services talent pool. As different markets around the world find themselves at varying stages of the pandemic, sophisticated IFSCs have stayed with highly focussed pools of experts adapting to increasingly complex environments and attending to the changing needs of their global clients. In terms of priority – GIFT IFSC must have priority access to a global talent pool of financial services skills such as IT, legal, accountancy and actuarial professionals.	While vibrant industry ecosystem draws talent pool, ability to train and develop adds to any gaps. To develop an ecosystem in GIFT IFSC, this paper recommends that reputed global educational institutes be invited and permitted to set up offshore campuses. India is home to a young and able work force. Ability to training and provide qualified and employable work force for various functions – finance, accounting, legal, HR etc. would create the pull for global businesses in favour of GIFT IFSC. This would not only help nurture the right talent pool for financial services entities operating from GIFT IFSC, it would also help fuel the aspiration to be a digital and innovation talent hub. In collaboration with India-UK partnership, GIFT IFSC could explore setting up of branch campus of leading UK universities like the LBS, Oxford etc. • **Exchange programmes: engaging with UK universities and research institutions** The UK is seeking to deepen exchange partnerships[6] with India, in line with its International Education Strategy. The UK and India will also pursue more transnational collaborations thanks to India's new National Education Policy. GIFT City can take the lead and establish a financial services exchange programme with leading UK universities and education institutions to ensure a steady flow of talent. • **Secondments with leading UK-based financial firms:** GIFT City can also explore sending professionals to the UK for secondment programmes with leading international financial services institutions for better exposure and experience. In particular, IFSCA could promote second-ments by identifying opportunities under the new UK-India Migration and Mobility Partnership[7] – Young Professionals Scheme.
3. DATA LAWS	
Since the IFSC has been set up with the objective to attract international participants, the data protection laws applicable to the IFSC should also embrace international standards. At the same time, laws governing data for IFSC units should be flexible to permit global data interchange extending to allowing storage of data offshore as against data localisation.	The formulations of data laws could draw on the UK's experience and institutional learnings on data privacy data standards – while being flexible on the location of data storage. • Carve-out exceptions in data protection laws for IFSC jurisdiction with appropriate safeguards to provide ring-fencing and transparency to enable cross-border flows of data.

[6] UK Government, 'Turing Scheme', (August 2021), available at: https://www.turing-scheme.org.uk/
MSN, 'Explained: What is the UK's Turing Scheme, and how will it affect Indian universities?', (March 2021), available at: https://www.msn.com/en-in/news/in-depth/explained-what-is-the-uk-s-turing-scheme-and-how-will-it-affect-indian-universities/ar-BB1ezBfK
Chevening, 'Chevening Scholarships', (August 2021), available at: https://www.chevening.org/scholarships/

[7] GOV.UK, 'UK-India agree partnership to boost work visas for Indian nationals', (May 2021), available at: https://www.gov.uk/government/news/uk-india-agree-partnership-to-boost-work-visas-for-indian-nationals

Parameter	Key recommendations
4. ARBITRATION	
Litigation in India is often prolonged and perceived as unpredictable, in contrast to the preferred global model involving a principle-based framework with quick resolution. Indian regulations, which are still evolving in the context of the changing social and economic fabric of the country, are prescriptive and designed for an emerging market economy with heavy controls – and are therefore less suitable global financial services chains. Enabling GIFT IFSC to attract global financial flows will require a light touch legal framework and enabling legal mechanism for international transactions to reassure counterparties. Currently, SEBI recognises the International Arbitration mechanism in GIFT IFSC under its IFSC guidelines. GIFT IFSC has tied up with Singapore International Arbitration Centre (SIAC) and SIAC has opened an office in the IFSC. Entities in the GIFT IFSC are permitted to choose SIAC arbitration for dispute resolution. Under this arrangement, while case management is handled by the SIAC in Singapore, the GIFT IFSC is the venue of hearing and parties are not required to go to Singapore. However, the jurisdiction of Indian courts to intervene remains open-ended.	• Best in class practices and standardised agreements such as International Swaps and Derivatives Association (ISDA) Master agreements (including the credit support annex (CSA)) should be mandated for participants in the IFSC to minimise disputes. • A significant portion of the current global derivatives contracts are subject to London laws. While post-Brexit standards are still developing, ISDA documentation still carry similar clauses. The GIFT IFSC could – through the India UK partnership, collaborate with London Court of International Arbitration (LCIA) to have a branch at GIFT IFSC and join global practices. • While SIAC arbitration is available as an option, parties should be free to choose the arbitration rules that they wish to apply. Increased choices of such arbitration would facilitate larger flow of global finances. • The IFSCA should also maintain a Panel of Arbitrators and attorneys who are experienced, qualified and well-known international arbitrators and make available an arbitration centre within the IFSC. Prominent judges from the UK can be included in such a panel. • A mechanism to contain the whole process within the confines of the IFSC without recourse to civil courts in India, with suitable enabling legislation, may be considered.
5. FOREIGN LAW FIRMS	
Entry of foreign players into India would allow the exchange of knowledge, expertise and skills between Indian and international firms. This will facilitate enrichment and transfer of resources at a mutual level. Allowing foreign law firms to establish in India on a reciprocal basis would provide Indian lawyers the opportunity to practice abroad. The result would be a wider net of opportunity to provide services to leading companies, locally as well as globally.	IFSC being a deemed foreign territory, IFSCA and UK may explore the possibility of foreign law firms setting up office in GIFT IFSC to facilitate investments from overseas institutions.
6. FINTECH BRIDGE	
Promote greater collaboration and cooperation between IFSCA and the FCA for facilitating opportunities for FinTech firms and start-ups in each other's jurisdiction.	The IFSCA and the FCA may explore the establishment of a FinTech Bridge between the two jurisdictions. The bridge would support soft landing of FinTech firms and start-ups through a regulatory referral system. The IFSCA may also explore joining the FCA's global sandbox programme – Global Financial Innovation Network (GFIN[8]) as an observer or member.

[8] The FCA, 'Global Financial Innovation Network (GFIN)', (January 2019), available at: https://www.fca.org.uk/firms/innovation/global-financial-innovation-network

II. CREATING A HUB FOR GLOBAL IN-HOUSE CENTRES (GIC) IN GIFT CITY

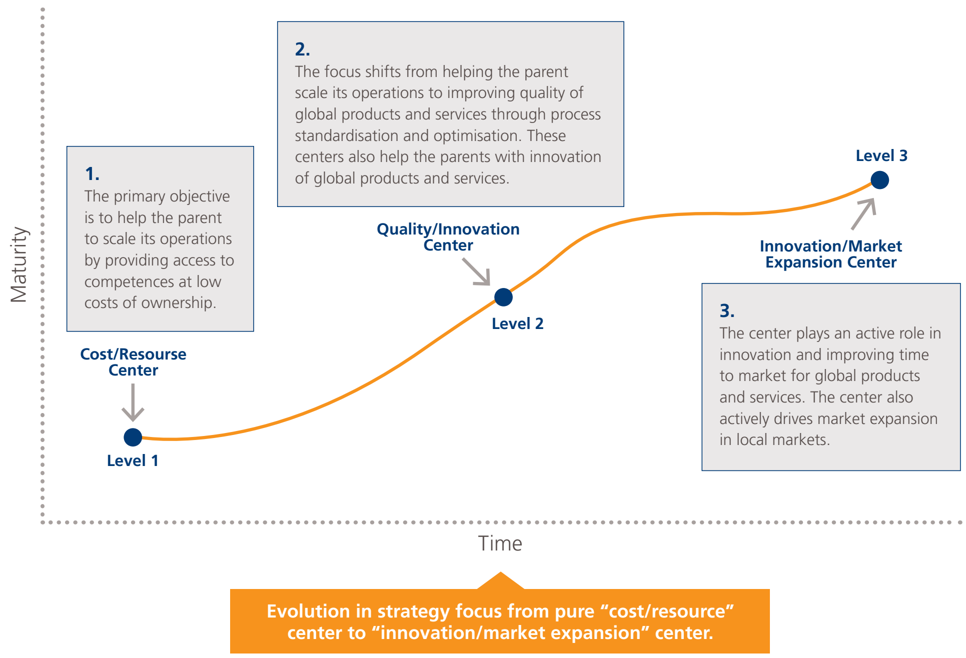
With revenue projected[9] to reach US$350bn[10] by 2025 for India alone, GICs are in many ways the future of global business. Their evolution over the past two decades shows that multinational companies (MNCs) have come to rely heavily on GICs, particularly in India, and not just for outsourced business functions with an eye on cost savings. Indian GICs are also expected to gain from the Covid-19 pandemic as companies discover new areas of work that can be performed remotely.

Many of the GICs in India are from the banking, financial services and insurance (BFSI) sector, which has seen significant digital transformation. Some of the top global banks have established GICs in India and these have now become a core of their global technology innovation teams. JPMorgan has one of the largest GICs in India with over 50,000 employees, followed by Goldman Sachs and Deutsche Bank among others. The retail segment has the second-highest concentration of GICs in India with the likes of Amazon, PepsiCo, Walmart Labs and Tesco relying significantly on them[11].

According to the Maturity Index Model of GICs, cost centres, quality centres, and innovation centres are characterised by different strategies, capabilities and performance. Cost centres are entirely focused on reducing the costs of ownership of offshored business functions. They provide access to competences not available in-house, thus enabling the GICs' scaling of operations.

The aim of GICs is to reach the top level of the value chain and be an equal strategic and innovation partner of the parent organisation. The maturity index model helps GICs understand where they stand with respect to their peers and their parent organisation's business objectives. It is important to identify the factors and roadblocks that will influence GICs' transformation.

Figure 2: The Maturity Model



Source: US Energy Information Administration (http://www.eia.gov/)

[9] India Brand Equity Forum, 'IT & BPM Industry in India', (August 2021), available at: https://www.ibef.org/industry/information-technology-india.aspx

[10] Stanton Chase, 'The Evolution Of Global In-House Centers', (July 2020), available at: https://www.stantonchase.com/the-evolution-of-global-in-house-centers/

[11] Mint, 'Slew of new-age GICs to be set up in 2021', (December 2020), available at: https://www.livemint.com/news/india/multiple-new-age-gics-are-expected-to-foray-into-india-in-2021-11609316807235.html

In October 2020, the Government of India categorised GICs as financial services at the GIFT IFSC. This allowed MNCs to set up subsidiary firms at the GIFT IFSC to serve their global operations. The entities will enjoy a tax holiday of 10 years, which companies can choose from within a block of 15 years. The IFSCA is expected to publish detailed regulations on GICs soon.

The success of GICs at GIFT City will hinge on the following factors:

1. **Pandemic:** Any macroeconomic downturn such as the Covid-19 pandemic encourages companies to contract business or rationalise staff, including by offshoring, a trend that was also seen during the 2008-09 global financial crisis. The pandemic could provide opportunities to GIFT City but may also do it a disservice should MNCs reconsider whether to shift offshore activities from India to other centres. GIFT City will therefore have to develop measures to address the fallout of the pandemic and ensure its continuing attractiveness as a hub for GICs in India.

2. **Various GIC models:** There are three kinds of GICs:
   - Cost centre
   - Quality centre
   - Innovation centre

   GIFT City must decide on the type of GICs it wants to attract and develop an infrastructure and talent pool accordingly.

3. **Collaborations and partnerships:** The requirements and parameters of the different types of GICs will vary. GIFT City will therefore need to develop ecosystems by collaborating with start-ups, universities and incubators.

4. **Talent pool:** GIFT City should ensure a steady supply of talent. This shift is likely to be gradual as companies will have to find the relevant talent. During the initial stages of development, enabling the sharing of talent between onshore and GIFT City units of the same entity should be considered as a way of attracting GICs. This business-friendly approach would have a positive impact on interested players.

5. **Level playing field for onshore/offshore rules:** IFSCA (Global In-House Centres) Regulations, 2020 for GICs in the IFSC, state that an applicant desiring to register as a GIC in GIFT must meet the following conditions: GIC shall cater only to its financial service group wherein the entities served must be located in Financial Action Task Force (FATF) -compliant jurisdictions. Onshore India, this restriction of only serving FATF jurisdictions does not apply.

   GICs that are permitted to operate within GIFT IFSC should follow the normal practice as adopted in India as they are not regulated entities.

6. **Data:** The Government of India's Committee of Experts' White Paper on a data protection framework for India[12] briefly discusses the impact of data localisation and restriction of cross-border data flows on the growth of GICs in India. The proposed data protection legislation imposes localisation restrictions on certain types of data (including data processed in India), although the central government continues to have powers to grant exemptions including for processing of personal data of data principals not within the territory of India. This issue is of potential concern to MNCs looking to set up in GIFT City. However, a GIC set up in the GIFT IFSC, which will be focused on non-resident entities only, may not give rise to any data-related sovereign concerns. In any case, these entities are also likely to be subject to data protection laws (if any) of their parent jurisdiction, when set up as a branch in the GIFT IFSC. Specific data localisation-related exemptions are to be considered for GICs, in terms of processing and/or transfer of data, irrespective of the nature of data (sensitive personal data, critical data) being handled by such entities.

7. **Dispute resolution and enforcement:** A major concern for international investors is the efficiency and efficacy of dispute resolution, particularly in areas such as intellectual property protection and commercial contracts. GIFT City should ideally have specialist tribunals/courts for these areas with domain knowledge experts and a fast-track process.

[12] Ministry of Electronics and Information Technology, 'White paper on data protection in India', (December 2017), available at: https://www.meity.gov.in/writereaddata/files/white_paper_on_data_protection_in_india_171127_final_v2.pdf

Cyber readiness and resilience: GIFT City and UK pilot

Global financial services are going through an unparalleled digital transformation. Financial services firms are increasingly becoming technology driven. According to an industry study, the threat of direct and indirect cyberattacks on global businesses is significant, with up to US$5.2trn in economic impact being at risk over the next five years[13]. At this time of transformation, managing cyber risk is a challenge, a lapse could easily undermine trust and compromise data.

The Bank of England (BoE), the Prudential Regulation Authority, and the FCA, were among the first financial authorities to advance the concept of operational resilience[14].

Both India and the UK share a common vision and principles for cyberspace. These include commitment to a free, open, peaceful and secure cyberspace; recognition of the importance of cooperation for combating cyber threats, promotion of cyber security, and a commitment to the multi-stakeholder approach to internet governance.

Given the evolution of the digital economy following the pandemic and increased usage of WFH models, a robust cyber-security environment is necessary. For organisations including GICs operating in GIFT City, a safe and secure digital environment is imperative.

- GIFT City should carry out a pilot as part of the India-UK Cyber Security Partnership to create secure digital ecosystems at an IFSC level.
- This pilot could include cyber security training, including sharing best practices on data protection, evolving critical doctrines and concepts, and working out hardware and software solutions to challenges from emerging technologies in the field of encryption and communications – to offer a safe and secure digital environment within GIFT City.
- Following the pilot, the learnings will support cyber readiness and resilience across the financial industry, enabling effective cyber security oversight in India.

[13] Accenture, 'Cybercrime Could Cost Companies US$5.2 Trillion Over Next Five Years', (January 2019), available at: https://newsroom.accenture.com/news/cybercrime-could-cost-companies-us-5-2-trillion-over-next-five-years-according-to-new-research-from-accenture.htm

[14] Enterprise GRC, 'National Cyber Security Strategy 2016-2021', (August 2021), available at: https://www.enterprisegrc.com/resourcesmain/compliance-laws-and-codes-of-federal-reg/gdpr-european-union-data-protection-directive/292-national-cyber-security-strategy-2016-2021-gov-uk

Stock exchange and clearing houses

1.1. Current clearings and exchanges landscape in GIFT IFSC

Capital market

- Two international exchanges and clearing corporations and nearly 45 broking firms have set up operations at the GIFT IFSC.
- GIFT IFSC exchanges have connected with other global exchanges.
- The average daily trading volume has crossed US$12bn at GIFT IFSC exchanges and debt listing of around US$38bn.
- Key products include index futures and options, commodity derivatives, Indian stock futures and foreign stock futures.

1.2. Capital markets in India

The capital market and asset and wealth management industry in the Asia Pacific region is expected to be the centre for global asset under management (AUM) growth in the coming years.

Due to the Covid-19 pandemic, Indian markets saw a sharp fall in March 2020 and subsequently a gradual recovery leading to all-time highs. Following the outcome of the US presidential elections in 2020 and positive news from ongoing vaccination programmes, flows to emerging markets (EM) have increased exponentially in November 2020, with equity inflows into Asian markets rising to a record high. India saw US$17.7bn in foreign inflows in the 12 months to November 2020, including US$8.3bn in the same month. This presents major opportunities for the GIFT IFSC.

Currently, Singapore, Hong Kong and Dubai are the main regional asset management hubs with Tokyo, Shanghai and Shenzhen also playing an important role. Efficiency and robust reputation are the key drivers behind the existing regional hubs. International retail investors (including NRIs) are also well served from these centres with access to global and India-specific investment opportunities. GIFT IFSC will have to fire on all cylinders to compete against these global leaders.

There has to be a strong value proposition for retail investors (with special emphasis on NRIs) and the institutions which service them to move away from well-established hubs to a new hub like the GIFT IFSC. In light of the above, recommendations for development of stock exchanges and clearing houses are discussed in subsequent paragraphs.

1.3. Recommendations for development of stock exchanges and clearing houses

Parameter	Key recommendations
GENERAL	
1. INTER-REGULATORY TASK FORCE	
IFSC units with India connections face several regulatory challenges while setting up a unit in the IFSC. They are required to comply with various regulations laid down by various governing bodies. For instance, such units require RBI/SEBI approval for making outbound investments, apart from having to comply with other regulations laid down specifically for IFSC units. Such challenges need to be attended to promptly and divergent views of different regulators should be avoided.	• This paper recommends forming a combined task-force with members from all the regulators – SEBI, RBI, IRDAI, PFRDA and IFSCA – to iron out the issues raised by IFSC units, industry participants as well as market intermediaries. The taskforce should include representatives from other relevant bodies including the Ministry of Finance.
2. MERGE SEZ APPROVALS UNDER IFSCA AND ISSUE FRESH SEZ OPERATIONAL RULES FOR IFSC UNITS	
A single approval mechanism will lead to faster and time bound approvals, avoid duplication of formalities and procedures and promote ease of doing business. The need for dual approval compounds the perception of the IFSC having a complex regulatory environment. Current SEZ rules are designed for manufacturing set ups. Rules relating to net foreign exchange, value addition, outsourcing etc. are either irrelevant or need appropriate modification for the financial services sector. While SEZ laws were tailored for exports of goods and services from India, the concept of an IFSC is to onshore the offshore.	• A single-window clearance mechanism is a must. The IFSCA should grant all approvals to IFSC units. The current procedure of seeking approvals of the development commissioner (DC) for setting up an IFSC unit should be scrapped. Also, the IFSC units should be exempt from obtaining SEZ related licenses (such as Import Export code, RCMC license etc.) • Issue a fresh set of SEZ rules that apply to an IFSC unit. Simplify SEZ rules and forms which apply to manufacturing entities and not to Financial Services entities. • Also, there should be no separate reporting requirement under the SEZ rules for such IFSC units.
STOCK EXCHANGES	
1. BENCHMARK THE GIFT IFSC REGULATIONS WITH THE UK WITH RESPECT TO STOCK EXCHANGES AND COMMODITY EXCHANGES	
Benchmarking the regulations in GIFT IFSC with regulations applicable to other established stock exchanges would help Indian exchanges to replicate best-in-class standards from across the globe. For instance, India is a developing economy with several companies committing to long-term sustainability. Sustainability is also a key agenda for the London Metal Exchange and the London Stock Exchange Group. Therefore, Indian and UK exchanges can work jointly to raise ESG disclosure and management standards and to enable ESG information in investment decision-making. E.g. While Indian mutual funds are allowed to participate in the Indian commodity markets, they are not permitted to trade overseas exchange-traded derivatives (ETDs). Permitting overseas ETDs for Indian mutual funds could be explored with the help of UK exchanges and a robust framework around the same can be developed.	• Benchmarking GIFT IFSC regulations with UK exchanges would enable IFSCA to identify various and unique products that exchanges in India and UK can jointly promote and offer to their investors.

<table>
<tr><th>Parameter</th><th>Key recommendations</th></tr>
<tr><td colspan="2">STOCK EXCHANGES</td></tr>
<tr><td colspan="2">2. SUSTAINABLE FINANCE (INCLUDING GREEN FINANCE)</td></tr>
<tr><td>For India to meet its Sustainable Development Goal (SDG) targets and honour its commitments under the Paris Agreement, it needs to significantly augment the flow of overseas capital, particularly sustainable (including green) capital. In this regard, GIFT IFSC can become a preferred destination for channelling sustainable finance into India.</td><td>To support the development of a Sustainable Finance Hub in GIFT IFSC, the following opportunities may be explored:
1. Cross listing of green bonds with London Stock Exchange (LSE)
2. Collaboration with LSE on co-development of a transition bond platform at GIFT IFSC</td></tr>
<tr><td colspan="2">3. CREATE AN ‘ACCREDITED INVESTOR’ REGIME</td></tr>
<tr><td>SEBI has recently produced a consultation paper to introduce the concept of the ‘accredited investor’ regime in the Indian securities market. A similar model can be replicated for the GIFT IFSC jurisdiction.
Professional and sophisticated investors can seek accreditation. These sets of investors understand the complexities of financial products, can take informed decisions and also have the capacity to absorb risk through various risk management strategies.
Light-touch regulation would attract such investors across the globe to invest in GIFT IFSC stock exchanges.</td><td>• A new ‘accredited investor’ regime should be created for investment in IFSC exchanges. Such investors may be given access to complex financial products on the GIFT IFSC exchanges.</td></tr>
<tr><td colspan="2">4. GLOBAL EXCHANGE ACCESS TO MEMBERS FROM THE IFSC</td></tr>
<tr><td>Any entity set up in GIFT IFSC would expect unhindered access to various exchanges across the globe as a standard practice.
Without such access, these entities would be forced to maintain different entities in different jurisdictions, thereby increasing the cost of operations and making access to multiple venues impossible.</td><td>• Allow entities set up in the GIFT IFSC to not only trade at exchanges based in GIFT, but also trade in various other international exchanges in a proprietary capacity without involving any client funds. This is a globally accepted practice.</td></tr>
<tr><td colspan="2">5. ALLOW OMNIBUS STRUCTURE/FRAMEWORK</td></tr>
<tr><td>Omnibus accounts are common in almost all major financial hubs and FATF-compliant jurisdictions. These accounts hold funds for a group of individuals.
The transactions appearing in the account appear in the name of the associated broker. The details of the individual investor are usually private. India, by contrast, is a segregated ID market and all investors need to hold their securities and funds in a separate identified account.
The GIFT IFSC aims to compete with other global IFCs and it is important for it to offer a regime which is equal to or better than that prevailing in advanced jurisdictions for participation.</td><td>• Permit omnibus structures in the GIFT IFSC with appropriate safeguards. This can relieve global players from maintaining a segregated book/ID for India trading.
• Conduct a review of data privacy requirements in GIFT versus global best practice and outline clearly any differences between GIFT regulations and those of India.</td></tr>
</table>

Parameter	Key recommendations
STOCK EXCHANGES	
6. LIQUIDITY ENHANCEMENT SCHEME (LES) ON CURRENCY CONTRACTS ON INDIAN RUPEES	
Market makers have played a large role in building liquidity in various global exchanges, and they are considered to be one of the important players in infusing liquidity. Market making will provide necessary depth for participants to execute larger orders with minimum impact cost for these products. Further, the presence of a market maker will give confidence to new participants who would like to migrate from existing liquid exchanges.	• Introduce market making on GIFT IFSC stock exchanges for all products including currency futures, with clarity on applicability to foreign firms.
7. ALLOW BLOCK/BULK DEALS (NEGOTIATED LARGE TRADE DEALS)	
At present, investors are permitted to execute block/bulk deals on Indian/global exchanges. However, the same has not been permitted in the GIFT IFSC stock exchanges.	• Allow block/bulk deals (Negotiated Large Trade deals) at the GIFT IFSC exchanges across all products listed on the exchanges.
8. IBUS SHOULD BE ALLOWED TO ACCESS DERIVATIVES AND COMMODITIES MARKET IN THE IFSC	
Currently, it is mandatory for SEBI-registered Trading Members (TM) and Clearing Members (CM) from the domestic market, who intend to operate in the GIFT IFSC as a TM/CM/intermediary, to incorporate a separate company. IFSC Banking Units (IBUs) are only allowed to act as TM/CM in interest and currency derivatives markets in IFSC stock exchanges. Since many large banks also have a broking arm and deal in securities on stock exchanges, such IBUs should be permitted to access the derivatives and commodities market in the GIFT IFSC with appropriate ringfencing.	• Allow IBUs to be a TM/CM of derivatives market (index and single stock) and commodities market subject to appropriate ringfencing and conditions.
9. PERMIT NEWER PRODUCTS ON GIFT IFSC STOCK EXCHANGES	
Currently, largely trading-only products are available across equity, currency and commodities apart from bonds. With an aim to offer product diversity which is on par with other international financial centres, it is critical that the listing and trading of various newer products on the GIFT IFSC stock exchanges are permitted.	Encourage and promote listing of unique products in the GIFT IFSC exchanges. The illustrative list of products includes: • Units of mutual funds • Convertible debt and asset-backed securities • Units of AIFs • All types of ETFs • Masala bonds.

Parameter	Key recommendations
STOCK EXCHANGES	
10. DIRECT LISTING IN THE GIFT IFSC	
The Government of India has been taking several initiatives to promote SMEs and start-ups in India. SMEs and start-ups are key drivers of the Indian economy and contribute significantly towards employment generation in India. The pandemic has created challenges for smaller companies, particularly the SMEs and the start-ups. Foreign capital can act as an important enabler for economic growth and development for these entities. Recently, primary listing of certain class of Indian securities has been allowed in permissible foreign jurisdictions. Hence, Indian entities can now list their securities on overseas stock exchanges.	• From an investment perspective, the GIFT IFSC is deemed a foreign jurisdiction. Therefore, it may be prudent to retain the primary listing of such Indian securities in the IFSC exchanges, followed by a secondary listing in overseas stock exchanges.
11. DUAL LISTING THROUGH MUTUAL RECOGNITION STATUS BETWEEN THE UK AND GIFT/ONSHORE INDIA REGULATORS	
To promote cooperation and trading of products between UK exchanges and IFSC exchanges, securities listed on the London Stock Exchange should be allowed to be traded on IFSC exchanges and vice versa. This is also in line with the UK Listings review response, which called for a prospectus equivalence regime.	• Allow dual listing of products on London exchanges and GIFT IFSC exchanges. • To promote dual listings, call on HM Treasury to tackle barriers to the settlement of international securities. Also consider mutual recognition of listing documents across the financial centres.
12. STOCK CONNECT	
A connect framework between GIFT IFSC stock exchanges and other international exchanges may be permitted for investors in the GIFT IFSC. Such a framework would broaden the international and domestic participant base and further strengthen the capital market ecosystem in GIFT City. Regulatory guidelines play a key role in making such programs a success. Accordingly, the IFSCA should assume an inter-governmental role to promote connect programmes for GIFT City.	• Consider establishing a stock connect framework and promoting connect programmes permitting two-way participation for offshore exchange members to trade with GIFT IFSC participants and vice versa. A connect framework involving London exchanges (such as the LSE and LME) would encourage investor activity between the IFSC and the UK.
NDF (Non-Deliverable Forwards)	• GIFT IFSC Exchanges and the London Stock Exchange may explore the possibility of creating a connect for trading in INR-related derivate products including NDFs.
13. MARKET MANIPULATION SAFEGUARDS	
Currently, participants in the GIFT IFSC stock exchanges are proprietary brokers with only few large players. The market trading standards would benefit from the participation of institutional players. One of the key aspects that international institutional players need is robust standards to prevent and control any unhealthy speculation and market manipulation. Changes are required to give confidence to market participants.	• The IFSCA should have a robust framework, in line with global best practices, to curb unhealthy speculation and market manipulation. • It should employ state-of-the-art online and real-time surveillance systems, with strong enforcement resourcing.

Parameter	Key recommendations
CLEARING HOUSES	
1. DEVELOP A NON-INR PAYMENT SYSTEM AT THE GIFT IFSC	
At the GIFT IFSC, transactions are carried out by various entities such as banks, insurance companies, depositories, stock exchanges, clearing corporations, brokers, mutual funds, alternative investment funds, portfolio managers, investment advisers in a currency other than the INR (for example the US dollar). Transactions carried out in US dollars are either within the GIFT IFSC units or between the GIFT IFSC unit and an entity outside India. These funds transfers are carried out by banks in the GIFT IFSC. In a foreign-currency transaction, banks are required to execute transactions through their Nostro banks. The Nostro banks are located outside the IFSC (outside India) at various international locations. They would require real-time payment systems to transfer funds for their various capital market transactions undertaken at the IFSC.	• Develop a payment system for US dollar and other foreign-currency settlements, on a real-time basis within the GIFT IFSC. Payment system should be automated and work 24/7 to support capital market business across all time zones. • Provide settlement accounts to the participants in the payment system for the settlement of US dollar transfers, within the banking system at the GIFT IFSC and for extending credit to such participants for US dollar settlement purposes as the case may be.
2. CENTRALISED MARGINING FOR DERIVATIVES	
Centralised margining will help enable higher flows and operational efficiency.	• Allow centralised margining for derivative transactions at GIFT IFSC stock exchanges.
3. ROBUST SETTLEMENT GUARANTEE FUND GUIDELINES	
Prominent exchanges such as the LSE and SGX have robust Settlement Guarantee Fund guidelines, with prudential standards and regulatory oversight. Such guidelines provide comfort to investors on residual default risk. Clear and transparent guidelines on Settlement Guarantee Fund which are benchmarked to international standards are required to encourage investor participation.	• It is recommended that Robust Settlement Guarantee Fund guidelines and loss mitigation mechanism to be put in place, in line with global models and with prudential standards and regulatory oversight, to give comfort to international counterparties on risk assessment of Central Counter parties.
4. COLLATERAL MANAGEMENT GUIDELINES	
The IFSCA should adopt global standards in collateral management. CPMI IOSCO Principles for Financial Market Infrastructures (PFMI) provide guidance regarding segregation of client collateral. The IFSCA could consider adopting the same for capital markets in the GIFT IFSC. International investors have their positions and collateral spread across various markets. Cross-border netting-off of positions and collateral management with counterparties should be explored.	• The IFSCA should set up a framework to ensure that Clearing Corporation should have segregation of portfolio in such a manner that it effectively protects a TM/CM's customers' positions and related collateral from the default or insolvency of that TM/CM. • Collateral management guidelines in line with international markets, for both OTC and stock exchange transactions, permitting cross border netting with counterparties should be put in place in the GIFT IFSC.

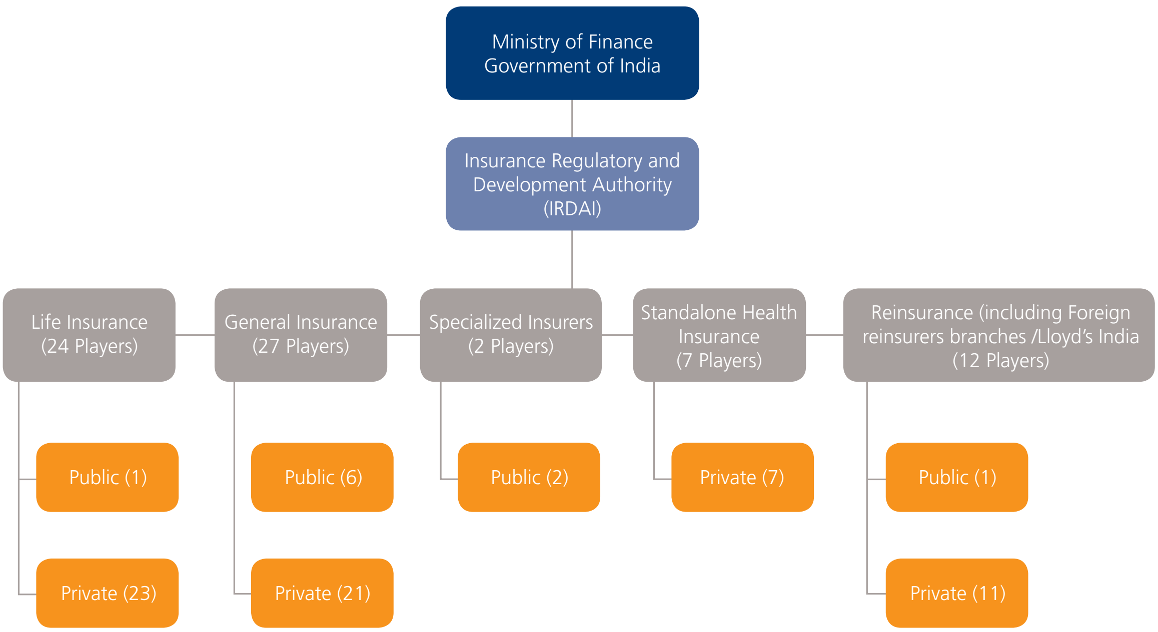
Insurance

The development of the insurance sector is an important benchmark in the maturity of an IFSC. The UK's insurance industry is the largest in Europe and the fourth largest in the world. Four of the top eight life and reinsurance companies in Europe reside in the UK. In Asia, Singapore is the leading insurance market place with Hong Kong and Japan closely following.

Insurance is a key growth sector for the Indian economy. There are major market opportunities for insurers in India, which has a US$16.5trn protection gap and a low penetration rate of 2.8%. The private sector customer base is expected to triple, from 42 million at present to more than 120 million by 2030. As the lifespan of the population increases, there will be greater demand for health, savings and retirement solutions. For the Indian economy to grow, increased penetration and deepening of the insurance sector is crucial, as insurers not only provide protection against risks but also, the investments they make, particularly in infrastructure, help the Government to execute longer-term infrastructure projects. In order for the IFSC in GIFT City to be a success, a major contribution will have to come from the insurance sector. The presence of large reinsurance companies will help in deepening the Indian insurance market while the ability of Indian insurers to underwrite foreign currency risk will create new insurable risks for existing Indian insurers.

A brief overview of the current insurance landscape in India is as below[15]:

Figure 3:



[15] Source- IBEF March 2021 insurance report

RECOMMENDATIONS:

<table>
<tr><th>Parameters</th><th>Key recommendations</th></tr>
<tr><td colspan="2">REINSURANCE</td></tr>
<tr><td colspan="2">1. PARTICIPATION IN REINSURANCE PLACEMENTS</td></tr>
<tr><td>Reinsurance contracts/business emanating from India are subject to IRDAI regulations on reinsurance.

Any Indian insurer will attempt to secure the best possible reinsurance coverage required to protect the interest of the policyholders/itself and (retro) cedes at a reasonable cost. Any cedant is also free to obtain the best terms for its reinsurance protection against domestic risks, subject to certain conditions.

Indian Insurance companies can procure services relating to reinsurance from entities operating within the SEZ/IFSC on the same terms and conditions as they are allowed in general to procure services from insurers outside India.

As per regulation 5(2)(A) of the IRDA Reinsurance Regulations, any cedant is required to comply with the following order of preference for its reinsurance placements:
• Indian reinsurers transacting reinsurance business (other than emanating from obligatory cession) during the immediate past three continuous financial years.
• Other Indian reinsurers and FRBs[16] (FRBs have been moved up with other Indian reinsurers).
• IFSC Insurance Office (IIO) meeting the required credit rating[17], which provided the best and lead terms with capacity of not less than 10%.
• Cross-border reinsurer (CBR) meeting the required credit rating[18], which provided the best and lead terms with capacity of not less than 10%.
• Other IIOs.
• Indian Insurers (only facultative) and CBRs.

As can be observed from above, the IIOs comes low in terms of preference to be offered. It can be given preference only after the Foreign Reinsurance Branches (FRBs) having an office in India has been considered, subject to certain conditions.

As on March 2020, FRBs have a net written premium of INR 7,600.84 crores[19]. FRBs, in relation to underwriting premiums in India, have a market share of approximately 19%.[20] Where the placement preference for FRBs is above IIOs, it would be difficult for IIOs to sustain in such market.</td><td>• At the outset, it is recommended that the order of preference for reinsurance placements should be removed entirely.
• As an alternative, all onshore reinsurers (GIC Re, FRBs and IFSC reinsurers) IIOs should be given equal preference for participation in reinsurance placements.

UK and other countries do not have any such order of placement for its reinsurance placements.</td></tr>
</table>

[16] 'FRB', means a branch of a Foreign Company engaged in reinsurance business, who has been granted certificate of registration by the Authority under the Insurance Regulatory and Development Authority of India (Registration and Operations of Branch Offices of Foreign reinsurers other than Lloyd's) Regulations, 2015 or under the Insurance Regulatory and Development Authority of India (Lloyd's India) Regulations, 2016.

[17] As defined in regulation 5(1)(B)(a) of IRDAI (reinsurance) Regulations 2018.

[18] As defined in regulation 5(1)(B)(b) of IRDAI (reinsurance) Regulations 2018

[19] Source – IRDA Handbook 2019-20

[20] Source – Atlas Magazine

A brief summary of the Premium accepted by reinsurance is as below[21]:

Figure 4: Premium Schedule of Reinsurers

TABLE I.34: Premium Schedule of Reinsurers

Reinsurer	Premium on Reinsurance Accepted		Premium on Reinsurance Ceded		Net Written Premium	
	2018-19	2019-20	2018-19	2019-20	2018-19	2019-20
PGIC Re	**44238.00 (5.83)**	**51030.13 (15.35)**	**5242.02 (25.94)**	**4374.72 (-16.55)**	**38995.97 (3.61)**	**46655.41 (19.64)**
FRBs including Lloyd's	10417.58 (67.60)	12682.15 (21.74)	3354.05 (49.66)	5081.25 (51.50)	7063.48 (77.72)	7600.84 (7.61)
Total	**54655.57 (13.83)**	**63712.28 (16.57)**	**8596.07 (34.25)**	**9455.97 (10.00)**	**46059.45 (10.69)**	**54256.25 (17.80)**

Note: Figures in bracket are growth in per cent over previous year

Table I.41: Premium Accepted by Reinsurers (FY 2019-20)

S.No.	Reinsurer	Indian Business	Foreign Business	Total
1	GIC Re	36,233.84 (74.22)	14,796.29 (99.35)	51,030.13 (80.09)
	Branches of Foreign Reinsurers			
2	Allianz Global	225.23	24.57	249.80
3	AXA France Vie	1559.48	-	1559.48
4	Gen Re	393.85	-	393.85
5	Hannover Re	1246.87	1.43	1248.30
6	Munich Re	3761.46	61.30	3822.75
7	RGA Life	453.36	-	453.56
8	SCOR SE	1550.55	-	1550.55
9	Swiss Re	2906.97	1.93	2908.90
10	XL SE	472.24	7.37	479.61
11	Lloyd's	15.58	-	15.58
	Branches of Foreign Reinsurers	**12,585.59 (25.78)**	**96.59 (0.65)**	**12,682.18 (19.91)**
	Grand Total	**48,819.43 (100)**	**14,892.88 (100)**	**63,712.31 (100)**

[21] Source – IRDA Annual report 2019-20

List of IIOs as on 31 March 2021 is as below:

SrNo.	Name of IFSC insurance office in GIFT City, Ahmedabad, Gujarat	Certificate of Registration (CoR) No.	Date of CoR
1	New India Assurance Co. Ltd.	SEZ/GIFT/IIO/001	6-Sep-16
2	General Insurance Corporation of India	SEZ/GIFT/IIO/002	30-Jan-17
3	Export Credit and Guarantee Corporation Ltd.	SEZ/GIFT/IIO/003	24-Jul-17
4	ICICI Lombard General Insurance	IFSCA/ILO/001	20-Jan-21

Parameters	Key recommendations
REINSURANCE	
2. MARKET ACCESS AND ELIGIBILITY CRITERIA	
As per IRDAI (Registration and Operations of International Financial Service Centre Insurance Offices (IIO)) Guidelines, 2017, only foreign insurers/reinsurers from countries with which India has a Double Taxation Avoidance Agreement (DTAA) would be allowed to operate in the GIFT IFSC. India currently has a DTAA with 95 countries and a TIEA with 21 countries. In other countries including the UK, there are no such restrictions on market access.	To enhance access to the GIFT IFSC for foreign insurers/reinsurers, the condition of being from a country with which India has signed a DTAA should be relaxed to include countries with which India has signed a Tax Information Exchange Agreement (TIEA). At present, there are 21 TIEAs (listed as under) which India has signed with the countries[22] where there are no DTAAs in place. • We recommend facilitating access to other international markets by entering into a Memoranda of Understanding with the regulators in other jurisdictions to facilitate passporting of insurance products from India, especially from the IIOs.

[22] Countries where there are no DTAAs in place – Argentina, Bahamas, Bahrain, Belize, Bermuda, British Virgin Islands, Brunei Darussalam, Cayman Islands, Gibraltar, Guernsey, Isle of Man, Jersey, Liberia, Macao Sar, Maldives, Marshall Islands, Liechtenstein, Monaco, Saint Kitts and Nevis, San Mario and Seychelles. Out of these, Bermuda is among the leading countries in reinsurance business for India. Further, Argentina, the British Virgin Islands and the Cayman Islands are some other jurisdictions with potential reinsurance business opportunities for India.

Parameters	Key recommendations
GENERAL INSURANCE	
1. CREDIT INSURANCE FOR BANKING UNITS IN GIFT IFSC	
Credit insurance, a key risk management tool used by banks across the world, is not available to Indian banks. As per the IFSCA (Banking) Regulations, 2020, Banking Units operating in the GIFT IFSC can access such credit insurance. However, given the current IRDAI regulations, insurance companies are not allowed to • issue Trade Credit Policy to banks in India • issue surety to banks in India • enter into risk participation agreements with banks in India. The new framework shall facilitate general insurance companies to offer trade credit insurance covers to suppliers as well as licensed banks and other financial institutions to help businesses manage country risk. Trade credit insurance protects businesses against the risk of non-payment for goods and services by buyers. It usually covers a portfolio of buyers and indemnifies an agreed percentage of an invoice or invoices that remain unpaid as a result of protracted default, insolvency/bankruptcy. The IRDAI has stated that the proposed guidelines set out a regulatory framework to promote the sustainable and healthy development of trade credit insurance. The proposal is also aimed at enabling general insurance companies to offer trade credit insurance with customised cover to improve business for the SMEs and MSMEs, considering the evolving insurance risk needs of these sectors. It further said that the "scope of cover under trade credit insurance policy shall be the credit risk that has a direct link with an underlying trade transaction – the delivery of goods or services". The draft guidelines provide that a trade credit insurance for banks/financial institutions shall cover the loss on account of non-receipt of payment from a buyer, due to commercial or political risks, against the bills/invoices purchased or discounted. However, a trade credit insurance policy shall not cover: • reverse factoring • government buyers as defined • financial guarantee in any form • any other risk cover that may be specified by the Authority from time to time. Further, it also provides that a Trade Credit Policy may be issued for covering trade related transactions other than loan default of seller. A trade credit insurance policy shall not cover any receivable arising from transactions made other than trade credit transaction.	Activate portfolio/risk management tools at the GIFT IFSC considering both Indian banks and foreign banks are planning to shift their offshore business to the GIFT IFSC, especially businesses with Indian touchpoints. • IIOs in the GIFT IFSC and non-admitted (foreign) insurers should be permitted to issue Trade Credit Policy and Surety bonds (e.g. bid bonds, performance guarantee bonds, advance payment bonds, etc.) to banking units in the GIFT IFSC. • IIOs and non-admitted (foreign) insurers should also be permitted to execute risk participation agreements with banking units in the GIFT IFSC. • The IRDAI has issued draft guidelines for trade credit insurance to obtain public comments by 28 April 2021. We urge that the final guidelines be issued expeditiously. • Premium/commission payments in case of policy/risk participation should be exempted from withholding tax.

Parameters	Key recommendations
GENERAL INSURANCE	
2. REQUIREMENT OF FILE AND USE TO BE REPLACED WITH USE AND FILE	
As per the File and Use guidelines, the insurer needs to justify the rates, terms and conditions of the insurance policy to be offered while filing the product with the IRDAI. The insurer is not permitted to offer any product for sale until the IRDAI confirms in writing that it has no further queries in respect of that product. An insurer who wishes to introduce a new product, shall file an application for such product with the IRDAI and use the product for sale in the market, subject to requirements. Speed of go-to-market initiatives are important for success of any business and insurance firms are no exception to it. The need for prior approval of IRDAI constrains the insurance companies' ability to go-to-market with their products quickly and compete with international players. Within 30 days of the receipt of an application from an insurer, the IRDAI may seek additional information with regard to the product, and the insurer cannot commence selling the product in respect of which additional information has been sought by IRDAI, until the IRDAI confirms in writing having noted such information. If no such information is sought by IRDAI, the insurer can commence selling the product in the market, as set out in the application after the expiry of the said 30-day period. This leads to significant delays in the issuance of new products in a competitive market. IIOs are aimed at targeting international markets/clients. Markets such as the UK and Singapore are 'free markets' and bringing products marketed in such markets under IRDAI supervision may impose restrictions, which albeit relevant for the domestic market, may not be pertinent to overseas markets. This may also lower the competitiveness of products offered by the IIOs.	Globally, insurance products are generally available easily and approved on a real time basis/ immediate basis. These are not subject to protracted and cumbersome procedures of filings and approvals. These products are therefore very competitive compared to the products of Indian insurers. Accordingly, in order to make the IIOs competitive, they should be able to issue a product without any approval from IRDAI, in line with international market practice. If this is to be done in a phased manner, at least the same should be on a Use and File basis. Where the above is not feasible, a quicker approval (Use and File) would be a better approach both for corporate and retail products. Further, filing may be required for the main product line and should not limit the variations that may be required in foreign markets.

Parameters	Key recommendations
GENERAL INSURANCE	
3. AVIATION DIRECT INSURANCE	
The size of the global aircraft leasing industry was estimated to be US$290.1bn in 2019.[23] From owning just 25% of the total commercial fleet in 2000, aircraft lessors have grown to owning about 48.9% of the total fleet in 2020.[24] More than 60% of these aircraft are owned or managed out of Ireland. The benefits of leasing in terms of freed-up capital, operational flexibility and improved cashflows are reasons for its popularity among airlines. Sustained low interest rates and government interventions have also helped in making aircraft operating leases an attractive investment class and led to the entry of new players in the market in the last decade, notably from Hong Kong and China. The Indian aviation market has grown at an annual rate of 10.2% from 2008–09 to 2018–19. Domestic travel has outpaced international travel, with the two growing at 13.5% and 8.2% respectively in the same period. For Indian airlines, the number of weekly flights has increased by 400% between 2008 and 2018. Low-cost carriers (LCCs) dominate the Indian market, accounting for 65% of all domestic seats and 52% of total capacity (including international travel) in 2018. Indian LCCs have grown at an annual rate of 21% in terms of number of flights flown between 2008 and 2018. The number of airports served by LCCs during the period increased from 28 to 46. Increased service levels and improved efficiencies have resulted in a 70% fall in domestic airfares between 2005 and 2018 (after adjusting for inflation). The GIFT IFSC has great potential to emerge as an aviation insurance hub with insurers providing aviation insurance cover to aviation companies all over the world. In February 2021, regulations for Aircraft Leasing industry in India were issued. Also, significant tax incentives specific for aircraft leasing business have been introduced such as tax holiday for lessors, exemption on lease rentals to foreign lessors by units in the GIFT IFSC. With the introduction of Final Guidelines for Aircraft Leasing and Financing and given the presence of domestic general insurance companies like GIC Re, New India Assurance among others, aviation direct insurance is poised to be an opportunity area for IIOs.	It is recommended that an enabling framework for the insurance of leased aircraft should be put in place to ensure that the IFSC emerges as an Aircraft Leasing Centre.

[23] Aircraft Leasing Market Share, Size, Trends, and Industry Analysis Report by Polaris Market Research
[24] Ascend by Cirium

<table>
<tr><th>Parameters</th><th>Key recommendations</th></tr>
<tr><td colspan="2">LIFE INSURANCE</td></tr>
<tr><td colspan="2">1. PERMITTING NON-RESIDENT INDIANS/ PERSONS OF INDIAN ORIGIN (NRIS/ PIOS) TO PURCHASE INSURANCE COVER FOR THEIR INDIAN DEPENDANTS FROM GIFT IFSC UNIT OF THE INSURANCE COMPANY (LIFE INSURANCE)</td></tr>
<tr><td>First and second-generation overseas Indians have significant attachment and cultural affinity towards the country and this comforts them when subscribing to products issued by Indian companies.

At present, term assurance, endowment type products, unit-linked products, annuities and pension products are products that likely interest them. Current GST exemption will also make these products attractive. IIOs do not have permission to underwrite direct insurance business in domestic tariff area of India (e.g. non-IFSC and non-SEZ area).</td><td>• Permit NRIs/PIOs to buy insurance policies for themselves as well as their family members who are based in India and abroad from companies set up in the GIFT IFSC and allow them to pay premiums in the currency of their choice (including INR).
• NRIs should also be permitted to buy portable insurance policies while they are outside India. IIOs should be permitted to issue policies that give policyholders the option to convert the policies into INR policies upon the NRIs return to India.
• NRIs who have migrated back to India should be permitted to continue servicing the policy taken from the IIO by remitting premiums under the LRS route.
• Focused insurance policies for NRIs/PIOs: The IIOs should specifically focus on meeting the insurance needs of NRIs and PIOs during their residence in India as well as outside India.</td></tr>
<tr><td colspan="2">GENERAL RECOMMENDATIONS FOR DEVELOPMENT OF INSURANCE ACTIVITY IN THE GIFT IFSC</td></tr>
<tr><td colspan="2">1. FOREIGN INSURANCE BROKING ENTITIES</td></tr>
<tr><td>Foreign Insurance Broking Entities</td><td>It is suggested that IFSCA issue operational guidelines for Foreign Insurance Broking Entities to facilitate their set up in GIFT IFSC.</td></tr>
<tr><td colspan="2">2. INVESTMENTS</td></tr>
<tr><td>At present, any insurer can invest its controlled fund[25] only within the exhaustive list of investments listed in the guidelines issued by the IRDAI. This list does not include investment in private limited companies. Further, assigned capital is always required to be held in the form of government securities or held in deposits with scheduled commercial banks and maintained by the IIO during the subsistence and validity of its registration.

The IRDAI permitted Debt ETFs with underlying Debt Securities of Central public Sector Enterprises (CPSEs) (Debt ETFs), as an eligible class of investment, and as a part of "mutual fund" exposure.

The IRDAI also permits insurers to invest in debt securities issued by listed Infrastructure Investment Trusts (InvITs) and Real Estate Investment Trusts (REITs).</td><td>• It is acknowledged that some of the aforementioned restrictions cannot be relaxed for insurers and reinsurers operating in the domestic tariff area of India. However, so far as IIO is concerned, the permissible investments should be widened to include investments in India.
• Overseas investments by IIOs should also be permitted for investment as well as hedging purposes with appropriate safeguards.
• Insurance companies should be permitted to invest in private companies up to a specified limit.
• Assigned capital is required to be held in the form of government securities or held in deposits with scheduled banks in India and are to be maintained by the IIO at all times during the subsistence and validity of its registration. Since the IIO is for exchange control purposes regarded as a person resident outside India, it is suggested that the assigned capital for the IIO be kept as earmarked funds represented by assets in India (other than high risk/illiquid assets) rather than being maintained necessarily in the form of government securities/deposits with scheduled banks in India.
Where the same is not feasible a Letter of Credit or a Bank Guarantee may be made an acceptable form for assigned capital.</td></tr>
</table>

[25] As defined under section 27A of the Insurance Act, 1938.

Parameters	Key recommendations
GENERAL RECOMMENDATIONS FOR DEVELOPMENT OF INSURANCE ACTIVITY IN THE GIFT IFSC	
3. SOLVENCY OF IIO	
The IIO is required to prepare and submit a separate statement of assets, liabilities and solvency margin requirements in the manner as may be specified in the IRDAI (Assets, Liabilities and Solvency Margin of General Insurance Business) Regulations, 2016 and IRDAI (Assets, Liabilities and Solvency Margin of Life Insurance Business) Regulations, 2016. Currently, the solvency of the IIO is measured independent of its parent.	The IFSCA may allow an ILO to set up by relying on capital position of parent insurers and their subsidiaries for solvency purposes. Such dispensation should be considered at least for a few initial years of operations since an insurance company, particularly in the present uncertain times, is likely to have a long gestation period. Also, where required a letter of comfort/guarantee may be issued by the parent, confirming that the parent will remain obligated to meet the liabilities of the GIFT IFSC branch.

Conclusion

As India's first IFSC, GIFT City has the potential to transform the country's participation in international financial flows and further strengthen India's standing as a global economic powerhouse.

This paper outlines some of the building blocks that can be considered by policymakers and regulators in accelerating the development of the GIFT IFSC. Drawing on the UK's experience as a leading international financial centre and the expertise of IUKFP practitioners, the paper sets out recommendations that range from key business facilitators to the steps required for creating and sustaining the financial ecosystem at GIFT City. It makes the case for a regulatory approach underpinned by a principles-based regulatory framework and a vibrant infrastructure that supports and drives economic activity, while also addressing specific areas of potential reform, including for insurance and exchanges and clearing.

A vibrant GIFT IFSC would support the development of India's wider financial and related professional services ecosystem and help to drive broader economic growth, and position it well within the global marketplace alongside key partners such as the UK. By working with GIFT City, UK-based firms will strengthen their international networks and linkages with India. The IUKFP looks forward to supporting further India-UK strategic collaboration on this front and the promotion of greater links between GIFT City and the UK financial services ecosystem.

IUKFP Working Group members

Name	Designation, Organisation
Sriram H Iyer	Head – International Banking Group, ICICI (Group Co-lead)
Prakash Subramanian	MD & Head – Strategy, Governance & Subsidiaries, Standard Chartered Bank (Group Co-lead)
V S Rangan	Executive Director, HDFC
Nithin Johnson	Head of Strategy and CEO's Office, HDFC Life
Suresh Swamy	Partner, Price Waterhouse Chartered Accountants LLP
Hitesh Gajaria	Senior Partner, KPMG India
Sameer Gupta	Partner, EY
Bahram Vakil	Founder & Senior Partner, AZB Partners
Siddharth Bachhawat	Head of Treasury, Barclays Bank PLC India
Ranjan Bhattacharya	MD, Head of Strategy and Chief of Staff, HSBC India
Sunil Srivastava	Chief General Manager (International Banking), Bank of Baroda
Cyril Shroff	Managing Partner, Cyril Amarchand Mangaldas
Anita Nandi Ray	Chief Representative, City of London-India
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Sushil Jacob	Partner, Mainstream Corporate and India Group, Linklaters
Savi Hebbur	Partner, Mainstream Corporate and India Group, Linklaters
Arvind Singh	COO/Senior Country Business Manager, India, J.P. Morgan
Kevin Nutt	Head of Sales, London Metal Exchange
Yang Liu	Senior Vice President, London Metal Exchange

Annex: Case study

Competitive advantages of Singapore's start-up ecosystem[26]

The UK has always been an attractive investment destination for Indian investors and companies. This has continued to strengthen over time and Indian companies continue to make a big impact in the UK. In recent years, however, Singapore has grown as a start-up hub, successfully attracting start-ups from across the world. As the India-UK partnership evolves and looks to maximise the potential of the digital economy – a key focus of the 2030 Roadmap – the efforts of both sides to develop and shore up their start-up ecosystems will enable stronger India-UK links to proliferate. Singapore's policies in this area provide a useful guide and reference point for developing GIFT City's start-up ecosystem – not just for retaining Indian start-ups but also to attract UK start-ups to expand to India.

Key drivers of Singapore's start-up ecosystem

The key drivers for Singapore's attraction as a business location for Indian companies include the following:

1. The corporate tax rate for domestic companies in India is 25-30%, compared with less than 17% in Singapore.
2. In India, dividend distribution (paid from a company's post-tax profits) is taxed. But in Singapore dividends to shareholders are not taxed.
3. India imposes a capital gains tax of 10-20% which discourages entrepreneurship and risk-taking. The capital gains tax rate in Singapore is 0%.
4. The value added tax (also called GST) ranges from 5% to 28% in India. In Singapore, it is fixed at 7% and many goods and services are exempted.
5. No significant tax or other advantages are easily available to start-ups in India, whereas Singapore offers various schemes and grants which start-ups can easily access.
6. India is ranked 63rd in the World Bank's Ease of Doing Business Report 2020. Singapore is ranked second.
7. The World Economic Forum's Global Competitiveness Report 2019 ranked Singapore 1st in the world, while the UK was ranked 8th and India was ranked # 68th.
8. Singapore has an extensive network of tax treaties with other countries (including a tax treaty with India) that helps Singapore companies doing international business to avoid double taxation of their income.

[26] Source / Referral: https://www.corporateservices.com/singapore/uses-of-singapore-company-for-indians/#:~:text=In%20India%2C%20dividend%20distribution%20(paid,rate%20in%20Singapore%20is%200%25.

Launching a start-up in India

Some of the most well-known Indian start-ups (including Flipkart, InMobi and Medialink) have incorporated in Singapore; a large cohort of new Indian tech start-ups is following the same path. There are good reasons for this strategy as seen from Flipkart's move to Singapore.

Case study: Flipkart's move to Singapore

Flipkart's Singapore move was conceived when it was seeking foreign investment for its growth. Since foreign direct investment (FDI) was not permitted in multi-brand retail in India, Flipkart's founders decided to move their backend operations to a new entity, Flipkart Singapore, and incorporate its Indian companies (Flipkart India, ekart and WS retail) as subsidiaries of the new Singapore company. Flipkart Singapore was then able to receive foreign investment which was in turn extended to its Indian subsidiaries. Such restrictions on FDI in India are one example of the many barriers and obstacles that Indian companies face as they pursue growth. Other barriers include foreign-exchange restrictions, rules on the import of machinery and prohibition on the export of certain products, which hamper the productivity of Indian companies and leads to a waste of resources.

Other Indian start-ups (especially those in the fields of IT, gaming, social media and mobile technology) that are seeking foreign investments have adopted a similar structure and have relocated to Singapore. The Singapore FDI route is now so well-developed that most experienced venture capital firms and private equity groups will only make investments in an Indian start-up through a Singapore-based structure. This structure enables these firms to legally avoid paying India's capital gains taxes in case of an exit and reduces taxes on profits in case those are paid as dividends.

- On the capital gains front, the US-based VC firm Sequoia's experience with Druva is a case in point. Sequoia planned to invest in Druva. To move the firm from India, Druva restructured itself into a new Singaporean firm which mirrored the original Indian company's ownership structure. Sequoia's portion of the equity was then assigned to Mauritian firms rather than Sequoia's Indian investment vehicle, thereby avoiding Indian capital gains tax.
- To avoid taxes on dividends, Indian subsidiaries have often resorted to using a loan-dividend scheme. If the Indian subsidiary simply declares a dividend, it would be subject to a 15% withholding tax in India. By setting up a loan to the foreign shareholders or to the parent company, the subsidiary can avoid subjecting the loan amount to taxes. In the long run, the loan is either cancelled (and the parent company never pays it back) or adjusted through a future tax-neutral transaction between the parent and the subsidiary.

TheCityUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK, across Europe and internationally that drive competitiveness, support job creation and ensure long-term economic growth. The industry contributes over 10% of the UK's total economic output and employs more than 2.3 million people, with two thirds of these jobs outside London. It is the largest tax payer, the biggest exporting industry and generates a trade surplus exceeding that of all other net exporting industries combined. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and protect and manage risk.

kotak

Kotak Mahindra Group, established in 1985 by Uday Kotak, is one of India's leading financial services conglomerates. In February 2003, Kotak Mahindra Finance Ltd. (KMFL), the Group's flagship company, received a banking license from the Reserve Bank of India (RBI). With this, KMFL became the first non-banking finance company in India to be converted into a bank – Kotak Mahindra Bank Limited (KMBL). From 2003 onwards, Kotak Bank has built a network of 1600+ branches and 2519+ ATMs across India. Kotak Bank provides the full suite of banking services to its customers encompassing Treasury, Corporate Banking and Retail Banking. Every year we are adding strong footprints through physical branches and digital innovations to make banking easy and convenient for our growing base of 23 Million+ active customers.

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