

RESERVE BANK OF INDIA

Foreign Exchange Department

Central Office

NOTIFICATION

Mumbai, the 2nd March 2015

Foreign Exchange Management

(International Financial Services Centre)

Regulations, 2015

RESERVE BANK OF INDIA

Foreign Exchange Department
Central Office

NOTIFICATION

Mumbai, the 2nd March 2015

Foreign Exchange Management (International Financial Services Centre) Regulations, 2015

G.S.R. 218(E)—In exercise of the powers conferred by section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999), the Reserve Bank makes the following regulations relating to financial institutions set up in International Financial Services Centres, namely:-

1. Short title and commencement:-

- i) These regulations may be called the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015.
- ii) They shall come into force from the date of their publication in the Official Gazette.

2. Definitions:-

In these Regulations unless the context requires otherwise , -

- a) ‘Act’ shall mean the Foreign Exchange Management Act, 1999 (42 of 1999);
- b) ‘Financial Institution’ shall include
 - i) a company, or
 - ii) a firm, or
 - iii) an association of persons or a body of individuals, whether incorporated or not, or
 - iv) any artificial juridical person, not falling within any of the preceding categories engaged in rendering financial services or carrying out financial transactions.

Explanation: For the purpose of this sub-regulation, and without any loss of generality of the above, the expression ‘financial institution’ shall include banks, non-banking financial companies, insurance companies, brokerage firms, merchant banks, investment banks, pension funds, mutual funds, trusts, exchanges, clearing houses, and any other entity that may be specified by the Government of India or a Financial Regulatory Authority.

- c) ‘Financial service’ shall mean activities a financial institution is allowed to carry out as specified in the respective Act of the Parliament or by the Government of India or by any Regulatory Authority empowered to regulate the concerned financial institution.

- d) 'Financial transaction' shall mean making any payment to, or for the credit of any person, or receiving any payment for, by order or on behalf of any person, or drawing, issuing or negotiating any bill of exchange or promissory note, or transferring any security or acknowledging any debt.
- e) 'FMC' shall mean the Forward Market Commission established under the Forward Contracts (Regulation) Act, 1952 (74 of 1952).
- f) 'International Financial Services Centre' or 'IFSC' shall have the same meaning given in Section 2 (q) of the Special Economic Zones Act, 2005 (28 of 2005).
- g) 'IRDA' shall mean the Insurance Regulatory and Development Authority established under the Insurance Regulatory and Development Authority Act, 1999 (41 of 1999).
- h) 'PFRDA' shall mean the Pension Fund Regulatory and Development Authority established under the Pension Fund Regulatory and Development Authority Act, 2013 (23 of 2013).
- i) 'Regulatory Authority' shall include Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulatory Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA), Forward Market Commission (FMC) or any other statutory authority empowered to regulate a financial institution under the Indian laws.
- j) 'SEBI' shall mean the Securities and Exchange Board of India established under the Securities and Exchange Board of India Act, 1992 (15 of 1992).
- k) The words and expressions used but not specified in these Regulations shall have the same meanings respectively assigned to them in the Act.

3. Any financial institution or branch of a financial institution set up in the IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority shall be treated as a person resident outside India.

4. A financial institution or branch of a financial institution shall conduct such business in such foreign currency and with such persons, whether resident or otherwise, as the concerned Regulatory Authority may determine.

5. Subject to the provisions of Section 1(3) of the Act, and save as otherwise provided in these Regulations or any other Regulations or directed by the Reserve Bank of India from time to time, nothing contained in any other regulations shall apply to a financial institution or branch of a financial institution set up in an IFSC.

(B.P. Kanungo)
Principal Chief General Manager

Published in the Official Gazette of Government of India – Extraordinary – Part-II, Section 3, Sub-Section (i) dated 23.03.2015- G.S.R.No.218(E)



RESERVE BANK OF INDIA

RBI/2014-15/533

DBR.IBD.BC. 14570/23.13.004/2014-15

April 1, 2015

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir/Madam,

Setting up of IFSC Banking Units (IBUs)

Please refer to the Reserve Bank of India Notification No. FEMA.339/2015-RB dated March 02, 2015 (copy enclosed) under FEMA 1999 on Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). These regulations have been published in the Official Gazette of Government of India on March 23, 2015 vide Notification No. G.S.R. 218 (E) dated March 2, 2015.

2. Pursuant to the above Notification, Reserve Bank has formulated a scheme for the setting up of IFSC Banking Units (IBUs) by banks in IFSCs. The broad contours of the scheme for Indian banks and foreign banks already having presence in India are detailed in Annex I and Annex II, respectively. You may be aware that Government of India has already announced setting up of an IFSC in Gujarat namely Gujarat International Finance Tec-City (GIFT) in Gandhinagar, Gujarat. The guidelines contained in this circular will be applicable to IBUs set up in GIFT as well as in other IFSCs which may be set up in India.

3. Eligible banks intending to set up IBU may approach this department with an application under Section 23 of the Banking Regulation Act, 1949.

Yours faithfully

(Rajinder Kumar)
Chief General Manager

Scheme for setting up of IFSC Banking Units (IBU) by Indian Banks

The Reserve Bank has issued a notification under FEMA vide Notification No. FEMA.339/2015-RB dated March 02, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). The regulatory and supervisory framework governing IBUs set up in IFSCs by Indian banks is detailed below.

2. The scheme

2.1 Eligibility criteria

Indian banks viz. banks in the public sector and the private sector authorised to deal in foreign exchange will be eligible to set up IBUs. Each of the eligible banks would be permitted to establish only one IBU in each IFSC.

2.2 Licensing

Eligible banks interested in setting up IBUs will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1)(a) of the Banking Regulation Act, 1949 (BR Act). For most regulatory purposes, an IBU will be treated on par with a foreign branch of an Indian bank.

2.3 Capital

With a view to enabling IBUs to start their operations, the parent bank will be required to provide a minimum capital of US\$ 20 million or equivalent in any foreign currency to its IBU. The IBU should maintain the minimum prescribed regulatory capital on an on-going basis as per regulations amended from time to time.

2.4 Reserve requirements

The liabilities of the IBU are exempt from both CRR and SLR requirements of Reserve Bank of India.

2.5 Resources and deployment

The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and deployment of the funds can be with both persons resident in India as well as persons not resident in India. However, the deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.

2.6 Permissible activities of IBUs

The IBUs will be permitted to engage in the form of business mentioned in Section

6(1) of the BR Act as given below, subject to the conditions, if any, of the licence issued to them.

- i) IBUs can undertake transactions with non-resident entities other than individual / retail customers / HNIs.
- ii) All transactions of IBUs shall be in currency other than INR.
- iii) IBUs can deal with the Wholly Owned Subsidiaries / Joint Ventures of Indian companies registered abroad.
- iv) IBUs are allowed to have liabilities including borrowing in foreign currency only with original maturity period greater than one year. They can however raise short term liabilities from banks subject to limits as may be prescribed by the Reserve Bank.
- v) IBUs are not allowed to open any current or savings accounts. They cannot issue bearer instruments or cheques. All payment transactions must be undertaken via bank transfers.
- vi) IBUs are permitted to undertake factoring / forfaiting of export receivables.
- vii) IBUs are permitted to undertake transactions in all types of derivatives and structured products with the prior approval of their Board of Directors. IBUs dealing with such products should have adequate knowledge, understanding, and risk management capability for handling such products.

2.7 Prudential regulations

All prudential norms applicable to overseas branches of Indian banks would apply to IBUs. Specifically, these units would be required to follow the 90 days' payment delinquency norm for income recognition, asset classification and provisioning as applicable to Indian banks. The bank's board may set out appropriate credit risk management policy and exposure limits for their IBUs consistent with the regulatory prescriptions of the RBI.

The IBUs would be required to adopt liquidity and interest rate risk management policies prescribed by the Reserve Bank in respect of overseas branches of Indian banks and function within the overall risk management and ALM framework of the bank subject to monitoring by the board at prescribed intervals.

The bank's board would be required to set comprehensive overnight limits for each currency for these Units, which would be separate from the open position limit of the parent bank.

2.8 Anti-Money Laundering measures

The IBUs will be required to scrupulously follow "Know Your Customer (KYC)", Combating of Financing of Terrorism (CFT) and other anti-money laundering in-

structions issued by the Reserve Bank from time to time. IBUs are prohibited from undertaking cash transactions.

2.9 Regulation and Supervision

The IBUs will be regulated and supervised by the Reserve Bank of India.

2.10 Reporting requirements

The IBUs will be required to furnish information relating to their operations as prescribed by the Reserve Bank from time to time. These may take the form of offsite reporting, audited financial statements for IBUs, etc.

2.11 Ring fencing the activities of IFSC Banking Units

The IBUs would operate and maintain balance sheet only in foreign currency and will not be allowed to deal in Indian Rupees except for having a Special Rupee account out of convertible fund to defray their administrative and statutory expenses. Such operations/transactions of these units in INR would be through the Authorised Dealers (distinct from IBU) which would be subject to the extant Foreign Exchange regulations. IBUs are not allowed to participate in the domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.

The IBUs will be required to maintain separate nostro accounts with correspondent banks which would be distinct from nostro accounts maintained by other branches of the same bank.

2.12 Priority sector lending

The loans and advances of IBUs would not be reckoned as part of the Net Bank Credit of the parent bank for computing priority sector lending obligations.

2.13 Deposit insurance

Deposits of IBUs will not be covered by deposit insurance.

2.14 Lender of Last Resort (LOLR)

No liquidity support or LOLR support will be available to IBUs from the Reserve Bank of India.

Scheme for setting up of IFSC Banking Units (IBU) by foreign banks already having a presence in India

The Reserve Bank has issued a notification under FEMA vide Notification No. FEMA.339/2015/RB dated March 02, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). The regulatory and supervisory framework governing the IFSC Banking Units (IBU) set up by foreign banks is detailed below.

2. The scheme

2.1 Eligibility criteria

Only foreign banks already having presence in India will be eligible to set up IBUs. This shall not be treated as a normal branch expansion plan in India and therefore, specific permission from the home country regulator for setting up of an IBU will be required. Each of the eligible banks will be permitted to establish only one IBU in each IFSC.

2.2 Licensing

The banks will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1) (a) of the Banking Regulation Act, 1949 (BR Act). The applications of foreign banks will be considered on the basis of extant guidelines for setting up branches in India subject to the additional requirement of the home country regulator/s confirmation in writing of their regulatory comfort for the bank's presence in the IFSC, having regard among other things, to the provisions of paragraphs 2.3 and 2.14 below.

2.3 Capital

With a view to enabling IBUs to start their operations, the parent bank would be required to provide a minimum capital of US\$ 20 million or equivalent in any currency, other than INR, to the IBU. The IBUs should maintain the minimum prescribed regulatory capital on an on-going basis as per regulations amended from time to time. The parent bank will be required to provide a Letter of Comfort for extending financial assistance, as and when required, in the form of capital / liquidity support to IBU.

2.4 Reserve requirements

The liabilities of the IBU are exempt from both CRR and SLR requirements of Reserve Bank of India.

2.5 Resources and deployment

The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and deployment of the funds can be with both persons resident in India as well as persons not resident in India. However, the deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.

2.6 Permissible activities of IBUs

The IBUs will be permitted to engage in the form of business mentioned in Section 6(1) of the BR Act as given below, subject to the conditions, if any, of the licence issued to them.

- i) IBUs can undertake transactions with non-resident entities other than individual / retail customers / HNIs.
- ii) All transactions of IBUs shall be in currency other than INR.
- iii) IBUs can deal with the Wholly Owned Subsidiaries / Joint Ventures of Indian companies registered abroad.
- iv) IBUs are allowed to have liabilities including borrowing in foreign currency only with original maturity period greater than one year. They can however raise short term liabilities from banks subject to limits as may be prescribed by the Reserve Bank.
- v) IBUs are not allowed to open any current or savings accounts. They cannot issue bearer instruments or cheques. All payment transactions must be undertaken via bank transfers.
- vi) IBUs are permitted to undertake factoring/forfeiting of export receivables.
- vii) IBUs are permitted to undertake transactions in all types of derivatives and structured products with the prior approval of their Board of Directors. IBU dealing with such products should have adequate knowledge, understanding, and risk management capability for handling such products.

2.7 Prudential regulations

An IBU shall adopt prudential norms as prescribed by Reserve Bank of India. The bank's board may set out appropriate credit risk management policy and exposure limits for their IBUs consistent with the regulatory prescriptions of the Reserve Bank of India.

The IBUs will be required to adopt liquidity and interest rate risk management policies prescribed by the Reserve Bank and function within the overall risk management and ALM framework of the bank subject to monitoring by the board at prescribed intervals.

The bank's board would be required to set comprehensive overnight limits for each

currency for these Units, which would be separate from the open position limit of the other branch/es of the foreign bank having a presence in India.

2.8 Anti-Money Laundering measures

The IBUs will be required to scrupulously follow "Know Your Customer (KYC)", Combating of Financing of Terrorism (CFT) and other anti-money laundering instructions issued by RBI from time to time, including the reporting thereof, as prescribed by the Reserve Bank / other agencies in India. IBUs are prohibited from undertaking cash transactions.

2.9 Regulation and supervision

The IBUs of foreign banks will be regulated and supervised by the Reserve Bank of India.

2.10 Reporting requirements

The IBUs will be required to furnish information relating to their operations as prescribed from time to time by the Reserve Bank. These may take the form of offsite reporting, audited financial statements for the IBU, etc.

2.11 Ring fencing the activities of IFSC Banking Units

The IBUs would operate and maintain balance sheet only in foreign currency and would not be allowed to deal in Indian Rupees except for having a Special Rupee account out of convertible fund to defray their administrative and statutory expenses. Such operations/transactions of these units in INR would be through the Authorised Dealers (distinct from IBU) which would be subject to the extant Foreign Exchange regulations. IBUs are not allowed to participate in the domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.

The IBUs will be required to maintain separate nostro accounts with correspondent banks which would be distinct from nostro accounts maintained by other branches of that foreign bank in India.

2.12 Priority sector lending

The loans and advances of IBUs will not be reckoned as part of the Net Bank Credit for computing priority sector lending obligations of the foreign bank in India.

2.13 Deposit insurance

Deposits of IBUs will not be eligible for deposit insurance in India.

2.14 Lender of Last Resort (LOLR)

No liquidity support or LOLR support will be available to IBUs from the Reserve Bank of India.

Additional Circulars
By
Reserve Bank of India
(RBI)

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5. Frequently asked Questions for IFSC (RBI)



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RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2015-16/282

DBR.IBD.BC. 8536/23.13.004/2015-16

January 07, 2016

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir/Madam,

Setting up of IFSC Banking Units (IBUs) – Permissible activities

Please refer to our [circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 01, 2015](#) setting out RBI directions relating to financial institutions set up in the International Financial Services Centres (IFSC). Based on the feedback and requests received from various stakeholders, certain provisions of the directions have been reviewed and are modified as follows:

2. In terms of paragraph No.2.6 (v) of Annex I and II of the aforesaid directions, the IBUs are not allowed to open any current or savings accounts. It has now been decided that the IBUs can open foreign currency current accounts of units operating in IFSCs and of non-resident institutional investors to facilitate their investment transactions. It is again clarified that the IBUs cannot raise liabilities from retail customers including high net worth individuals (HNIs). Also, no cheque facility will be available for holders of current accounts in the IBUs. All transactions through these accounts must be undertaken via bank transfers.

3. In terms of paragraph No. 2.6 (iv) of Annex I and II of the above mentioned directions, the IBUs can raise short-term liabilities from banks subject to a limit prescribed by RBI. On a review, it has been decided that RBI will not prescribe any limit for raising short-term liabilities from banks. However, the IBUs must maintain LCR as applicable to Indian banks on a stand alone basis and strictly follow the liquidity risk management guidelines

issued by RBI to banks. Further, NSFR will also be applicable to the IBUs as and when it is applied to Indian banks.

4. With a view to providing greater flexibility to the IBUs in their business transactions, it has been decided that exposure ceiling for IBUs shall be 5 percent of the parent bank's Tier-I capital in case of a single borrower and 10 percent of parent bank's Tier-1 capital in the case of a borrower group.

5. All other terms and conditions contained in the aforementioned directions remain unchanged.

Yours faithfully,

(Rajinder Kumar)
Chief General Manager



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RESERVE BANK OF INDIA
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RBI/2016-17/118

DBR.IBD.BC.32/23.13.004/2016-17

November 10, 2016

Chairman/Managing Director and CEOs

All Scheduled Commercial Banks (excluding Regional Rural Banks)

Dear Sir/Madam,

Setting up of IFSC Banking Units (IBUs) – Permissible activities

Please refer to our [circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 01, 2015](#) setting out RBI directions relating to IFSC Banking Units (IBUs). We have received a few suggestions and queries during the last few months reflecting practical issues faced by banks in implementing these regulations. These issues have been examined and the directions stand modified as follows:

2. The existing paragraph 2.5 of Annex I and II of the aforesaid circular dated April 1, 2015 shall be amended to read as follows:

“2.5.1 The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and overseas branches of Indian banks.

2.5.2 The deployment of funds can be with both persons resident in India as well as persons not resident in India. However, deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.”

3. The existing paragraph 2.6 (i) of Annex I and II of the aforesaid circular dated April 1, 2015 shall be amended to read as follows.

“IBUs can undertake transactions with resident (for deployment of funds) and non-resident (for both raising of resources and deployment of funds) entities other than individuals including HNIs / retail customers as indicated in paragraph 2.5.1 and 2.5.2 above.

4. The existing paragraph 2.6 (vii) of Annex I and II of the aforesaid circular dated April 1, 2015 shall be amended to read as follows:

“With the prior approval of their board of directors, the IBUs may undertake derivative transactions including structured products that the banks operating in India have been allowed to undertake as per the extant RBI directions. However, IBUs shall obtain RBI’s prior approval for offering other derivatives or structured products. Before seeking RBI’s approval, banks shall ensure that the IBUs have necessary expertise to price, value and compute the capital charge and manage the risks associated with the products / transactions intended to be offered and should also obtain their Board’s approval for undertaking such transactions”.

5. A new paragraph No.2.6 (viii) shall be added to the Annex I and II of the aforesaid circular dated April 1, 2015, which reads as under:

“IBUs are allowed to open foreign currency escrow account of Indian resident entities to temporarily hold subscriptions to the GDR/ADR issues until issuance of the Receipts. After GDRs/ADRs are issued, the funds should immediately be transferred to the client’s account outside the IBU and cannot be retained by the bank in any form including in long term deposits”.

6. A new paragraph No.2.6 (ix) shall be added to the Annex I and II of the aforesaid circular dated April 1, 2015, which reads as under:

“IBUs are allowed to act as underwriter / arranger of Indian Rupee (INR) denominated overseas bonds issued by Indian entities in overseas market in terms of extant RBI instructions contained in FED CO [AP Dir Circular No 17 dated September 29, 2015](#). However, in cases where part of the issuance underwritten by an IBU devolves on it, efforts must be made to sell the underwritten holdings and after 6 months of the issue date these holdings must not exceed 5% of the issue size.”

7. All other terms and conditions contained in the aforementioned circular remain unchanged.

8. An updated copy of the RBI circular on IBU dated [April 01, 2015](#) incorporating the amendments made on [January 07, 2016](#) and November 10, 2016 is available in RBI's website.

Yours faithfully,

(Rajinder Kumar)
Chief General Manager



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RBI/2016-17/273
DBR.IBD.BC.59/23.13.004/2016-17

April 10, 2017

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir/Madam,

Setting up of IFSC Banking Units (IBUs) – Permissible activities

Please refer to [RBI circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 01, 2015](#), as modified from time to time, setting out RBI directions relating to IFSC Banking Units (IBUs). We have received a few suggestions and queries from the stakeholders regarding operations of the IBUs and financial institutions in IFSCs. These issues have been examined and the directions stand further modified as follows:

2. The existing paragraph No.2.6 (vii) of Annex I and II of the aforesaid [circular dated April 1, 2015](#) is amended to read as follows:

“With the prior approval of their board of directors, IBUs may undertake derivative transactions including structured products that the banks operating in India have been allowed to undertake as per the extant RBI directions. However, IBUs shall obtain RBI’s prior approval for offering any other derivative products. Before seeking RBI’s approval, banks shall ensure that their IBUs have necessary expertise to price, value and compute the capital charge and manage the risks associated with the products / transactions intended to be offered and should also obtain their Board’s approval for undertaking such transactions.”

3. A new paragraph No.2.6 (x) is added to the Annex I and II of the aforesaid [circular dated April 1, 2015](#), which reads as under:

“The fixed deposits accepted from non-banks by the IBUs cannot be repaid prematurely within the first year. However, fixed deposits accepted as collateral from non-banks for availing credit facilities from IBUs or deposited as margin in favour of an exchange, can be adjusted prematurely in the event of default in repayment of the loan or meeting a margin call.”

4. New paragraphs No.2.6 (xi) and (xii) are added to the Annex I and II of the aforesaid [circular dated April 1, 2015](#), which read as under:

“(xi) An IBU can be a **Trading Member** of an exchange in the IFSC for trading in interest rate and currency derivatives segments that the banks operating in India have been allowed to undertake as per the extant RBI directions.

(xii) An IBU can become a **Professional Clearing Member (PCM)** of the exchange in the IFSC for clearing and settlements in any derivatives segments. This shall be subject to the following conditions:

- a) The parent bank of the IBU (“the bank”) shall fulfil the prudential requirements as set out in Para 21 of the [Master Direction/DBR.FSD.No.101/ 24.01.041/2015-16 dated May 26, 2016](#).
- b) The IBU shall, with the approval of the bank’s Board, put in place effective risk control measures, prudential limits on risk exposure in respect of each of its trading clients, taking into account their net worth, business turnover, etc.
- c) The IBU may, as a PCM of derivatives segments, guarantee trades executed by its clients as trading members of the exchanges subject to the condition that the total exposure which the bank would take on its registered clients should be determined by the Board in relation to the net worth of the bank and monitored regularly. However, the IBU should not guarantee any transaction other than what is required in its role as a PCM.
- d) The IBU shall ensure strict compliance with various margin requirements as may be prescribed by the bank’s Board as also the extant RBI guidelines regarding guarantees issued on behalf of commodity brokers.
- e) The IBU shall comply with all the conditions, if any, stipulated by other regulatory bodies that may be relevant for their role as a PCM.”

5. A new paragraph No.2.6 (xiii) is added to the Annex I and II of the aforesaid [circular dated April 1, 2015](#), which reads as under:

“IBUs are allowed to extend facility of bank guarantees and short term loans to IFSC stock broking/commodity broking entities, subject to the terms and conditions contained in paragraph 2.3.1.2 of the Master Circular on Statutory Restrictions on Loans and Advances dated July 1, 2015.”

6. The following text is added at the end of paragraph 2.11 of Annex I and II of the aforesaid [circular dated April 1, 2015](#):

“As per [FEMA Notification No.339/2015-RB dated March 02, 2015](#), a financial institution or a branch of a financial institution set up in the IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority shall be treated as a person resident outside India. Further, under [FEMA Notification No.5\(R\)/2016-RB \(schedule-4\) dated April 01, 2016](#), any person resident outside India, having business interest in India, may maintain Special Non-Resident Rupee Account(s) (SNRRA) with an Authorised Dealer in the domestic sector for meeting their administrative expenses in INR. Accordingly, any financial institution (as defined under [FEMA Notification No.339/2015-RB dated March 02, 2015](#)) or a branch of a financial institution including an IBU operating in an IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority, can maintain SNRRA with a bank (Authorised Dealer) in the domestic sector for meeting its administrative expenses in INR. These accounts must be funded only by foreign currency remittances through a channel appropriate for international remittances which would be subject to the extant FEMA regulations. The financial institution can make payments, permissible under FEMA regulations, from its SNRRA, in its capacity as a customer, by suitably instructing the domestic bank with whom the SNRRA is maintained.

Yours faithfully,

(Rajinder Kumar)
Chief General Manager



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RESERVE BANK OF INDIA
www.rbi.org.in

RBI/2017-18/177

DBR.IBD.BC. 105/23.13.004/2017-18

May 17, 2018

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir/Madam

Setting up of IFSC Banking Units (IBUs) – Permissible activities

Please refer to [RBI circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 01, 2015](#), as modified from time to time, setting out RBI directions relating to IFSC Banking Units (IBUs).

2. In terms of para 2.3 of the circular, the parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to start their IBU operations and the IBU should maintain the minimum prescribed regulatory capital on an on-going basis as per regulations amended from time to time.

3. In this regard, we have received suggestions from the stakeholders to consider minimum prescribed regulatory capital at the parent level rather than at the IBU level. The issue has been examined and the directions stand modified as follows:

4. *The existing paragraph No.2.3 of [Annex I](#) of the aforesaid circular dated April 1, 2015 is amended to read as follows:*

With a view to enabling IBUs to start their operations, the parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level.

5. *The existing paragraph No.2.3 of [Annex II](#) of the aforesaid circular dated April 1, 2015 is amended to read as follows:*

With a view to enabling IBUs to start their operations, the parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level as per regulations in the home country and the IBU shall submit a certificate to this effect obtained from the parent on a half-yearly basis to RBI (International Banking Division, DBR, CO, RBI). The parent bank will be required to provide a Letter of Comfort for extending financial assistance, as and when required, in the form of capital / liquidity support to IBU.

6. All other terms and conditions contained in the aforementioned circular remain unchanged.

7. An updated copy of the [RBI circular on IBU dated April 01, 2015](#) incorporating the amendments made on [January 07, 2016](#), [November 10, 2016](#), [April 10, 2017](#) and May 17, 2018 is available on RBI's website.

Yours faithfully

(Prakash Baliarsingh)
Chief General Manager

March 01, 2019

Frequently Asked Questions (FAQs) for International Financial Services Centre

Reserve Bank of India (RBI) and Securities Exchange Board of India (SEBI) have provided guidelines for International Financial Services Centre in India and also provided clarifications through various circulars over a period of time.

In order to address the queries of IFSC Units and various other participants / investors, GIFT IFSC had compiled various FAQs and submitted to Reserve Bank of India through Dept. of Economic Affairs, Govt. of India.

Reserve Bank of India vide their letter dated February 07, 2019 have provided their response to the FAQs and have suggested that the FAQs may be hosted on the website of the GIFT City for the guidance of the entities in IFSC.

The FAQs along with response are **Annexed** herewith.



Frequently Asked Questions (FAQs) for International Financial Services Centre (IFSC)

These FAQs are for information and general guidance purposes. For clarifications or interpretations, if any, you are requested to be guided by the relevant circulars and notifications issued by the Reserve Bank viz., DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015 as amended and updated from time to time.

1. Are banks permitted to operate in an IFSC?

Indian banks (public sector and private sector banks authorised to deal in foreign exchange) and foreign banks already having presence in India are permitted to set up an IFSC Banking Unit (IBU).

2. Do eligible banks require prior permission of RBI for opening an IBU?

Eligible banks interested in setting up IBUs will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1)(a) of the Banking Regulation Act, 1949 (BR Act).

3. What is the minimum capital requirement for IBUs?

For Indian banks

The parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level.

For foreign banks

The parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU which should be maintained at all times. However, the minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an on-going basis at the parent level as per regulations in the home country and the IBU shall submit a certificate to this effect obtained from the parent on a half-yearly basis to RBI (International Banking Division, DBR, CO, RBI). Further, the parent bank will be required to provide a 'Letter of Comfort' for extending financial assistance, as and when required, in the form of capital / liquidity support to IBU.



4. What are the permissible activities of an IBU?

Permissible activities of an IBU are mentioned in para 2.6 of the RBI circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

5. Who can open accounts with IBUs?

IBUs can open foreign currency current accounts of units operating in IFSCs and of non-resident institutional investors for the purpose of trading as well as investment activities.

6. Can an IBU accept deposits from non-banks?

Yes, IBUs can accept fixed deposits from non-banks but such deposits cannot be repaid pre-maturely within the first year. However, fixed deposits accepted as collateral from non-banks for availing credit facilities from IBUs or deposited as margin in favour of an exchange, can be adjusted prematurely in the event of default in repayment of the loan or meeting a margin call.

7. What is the status of financial institutions or a branch of a financial institution set-up in IFSC?/ Can only regulated entities be set-up at IFSC?

A financial institution or branch of a financial institution set-up in the IFSC and permitted/recognised as such by the Government of India or a regulatory authority will be treated as a 'Person resident outside India' as per the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 dated March 2, 2015.

For this purpose:

- 'Financial Institution' shall have the same meaning as defined under clause 2(b) of the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 dated March 2, 2015.
- 'Regulatory Authority' shall include Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Regulatory Development Authority (IRDA), Pension Fund Regulatory and Development Authority (PFRDA), Forward Market Commission (FMC) or any other statutory authority empowered to regulate a financial institution under the Indian laws.



8. Can a 'Person resident in India' invest in a financial institution set-up in the IFSC?

Yes, a 'Person resident in India' can make direct investments in a Joint Venture (JV) / Wholly Owned Subsidiary (WOS) set-up in an IFSC to act as a financial institution as per the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015. Such investment shall be in accordance with Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004 notified vide Notification No. FEMA.120/RB-2004 dated July 7, 2004, as amended from time to time. However resident Indians are not permitted to use LRS remittances for investment in IFSC.

9. Can a financial institution in IFSC open and maintain a Special Non-Resident Rupee Account (SNRR)?

Financial institutions in IFSC being persons resident outside India shall be eligible to open and maintain a Special Non-resident Rupee account (SNRR) with a bank in India (outside IFSC) in accordance with FEM (Deposits) Regulations, 2016 dated April 1, 2016. Such accounts can be used for administrative expenses in INR outside IFSC.

10. What are the Know Your Client (KYC) norms applicable to account holders of an IBU? Are there any relaxations where details are provided for certain account holders?

Entities in IBU shall be guided by RBI Master Direction on Know Your Customer (KYC) dated February 25, 2016 as amended from time to time.

11. For the purpose of KYC of the account holder, can an IBU rely on customer due diligence done by a third party as provided in para 14 of the Master Direction - KYC Directions, 2016 issued by RBI? If yes, is there any prescribed list of third parties which IBUs can rely upon?

Yes, for the purpose of KYC of the account holder, an IBU can rely on customer due diligence done by a third party as provided in para 14 of the Master Direction - KYC Directions, 2016 issued by RBI.



12. With whom a financial institution or branch of a financial institution is allowed to deal with?

A financial institution or branch of a financial institution shall conduct such business in such foreign currency and with such persons, whether resident or otherwise, as the concerned Regulatory Authority may determine as per Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 dated March 2, 2015.

13. Do foreign investors need to open a bank account in IFSC? How can funds be transferred to and from IFSC?

A bank account in IFSC will be treated as a bank account outside India. IBUs can open foreign currency current accounts of units operating in IFSCs and of non-resident institutional investors to facilitate their investment transactions. FPIs, investing under FEMA (Transfer or issue of security by a person resident outside India) Regulations, 2017 (Notification No. FEMA 20(R)) and holding foreign currency account in India can transfer funds from the said account to any bank account in IFSC. Similarly, trading/ clearing members or other entities in IFSC can remit funds from their bank accounts in IFSC to bank accounts of foreign investors outside India or in India. Persons who are not eligible to open accounts but allowed to transact in IFSC have to transfer funds from their bank account outside IFSC to the bank account of the beneficiary. However, individuals are not allowed to open accounts in IFSC.

14. Whether deposits provided as margin in favour of an exchange may also be treated as deposits provided as margin in favour of clearing corporation.

Yes, deposits provided as margin in favour of an exchange may also be treated as deposits provided as margin in favour of clearing corporation subject to adherence to guidelines stated in circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

15. Whether margins accepted in the form of fixed deposits by clearing/trading members from their clients are permitted to be liquidated prematurely in the event of default.

Yes, margins accepted in the form of fixed deposits by clearing/trading members from their clients are permitted to be liquidated prematurely in the event of default subject to



adherence to guidelines stated in circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

16. Whether investment of the Core Settlements Guarantee Fund and the minimum capital of the Clearing Corporations if accepted as fixed deposits by IBUs can also be adjusted prematurely in the event of default.

Yes, investment of the Core Settlements Guarantee Fund and the minimum capital of the Clearing Corporations if accepted as fixed deposits by IBUs can also be adjusted prematurely in the event of default subject to adherence to guidelines stated in circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 1, 2015.

