

# Gujarat International Finance Tec-City

International Financial Services Centre



# What is GIFT-IFSC

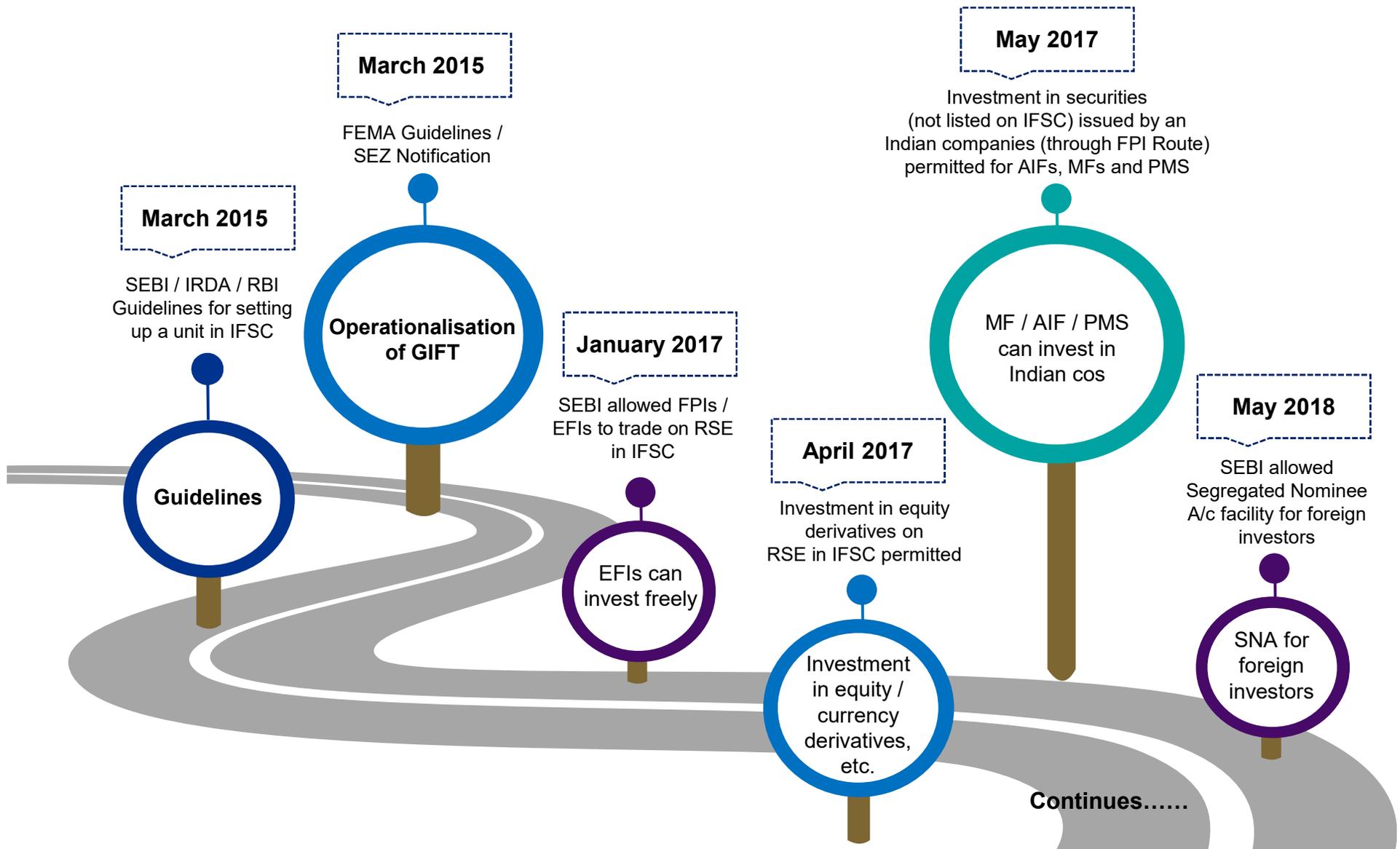


## GIFT-IFSC

- GIFT, being an SEZ, is conceptualized as a global Financial and IT Services hub, a first of its kind in India, designed to be at or above par with globally benchmarked financial centres such as Dubai International Financial Center, Shinjuku, Tokyo, Lujiazui, Shanghai, La Defense, Paris, London Dockyards etc.
- GIFT aspires to cater to India's large financial services potential by offering global firms a world-class infrastructure and facilities.
- SEBI, IRDA and RBI regulate respective financial service activity in IFSC. Finance Minister while presenting Finance Bill, 2018 in his speech mentioned that unified authority would be set-up for regulating all financial services in IFSC
- NSE and BSE have already operationalised their exchange
- Network of 40+ active trading members (source: [www.indiainx.com](http://www.indiainx.com))



# IFSC (GIFT) So Far.....



# IFSC - At a Glance



## Who can set-up

- Only entity based in India or outside India can act as a SB / clearing member by forming a separate company in IFSC
- Any intermediary registered with SEBI or its international associates in collaboration with such SEBI registered intermediary can provide any financial services (except SB/ clearing member) in IFSC without forming a separate company
- Permissible services – SB, PMS, AIF, MF, etc.

## Who can trade / invest

- Eligible entities in IFSC e.g. SB, PMS, AIF, MF;
- FPIs,
- EFIs (non-individuals),



## What can you trade / invest in

- Securities listed on SE in IFSC e.g. currency/equity/commodity derivatives, foreign securities, etc.
- Securities issued by a companies incorporated in IFSC
- Securities issued by a companies incorporated in India (Only AIF, MF and PMS can invest through FPI route)



## Why should you come

- The clear Tax Advantages;
- International Dispute Resolution Mechanism, etc.



The above has been discussed in detail in subsequent slides

# Permissible services in an IFSC



## Infrastructure Companies in Securities Market

- Clearing Corporation
- Depository
- Stock Exchange



## Intermediaries

- Banker to an Issue
- Credit Rating Agency
- Custodian of Securities
- Depository Participant
- Investment Adviser
- Merchant Banker
- Portfolio Manager
- Registrar to an Issue
- Share Transfer Agent
- Stock Broker
- Trustee of trust deed
- Underwriter or
- Any other intermediary, as may be specified by SEBI

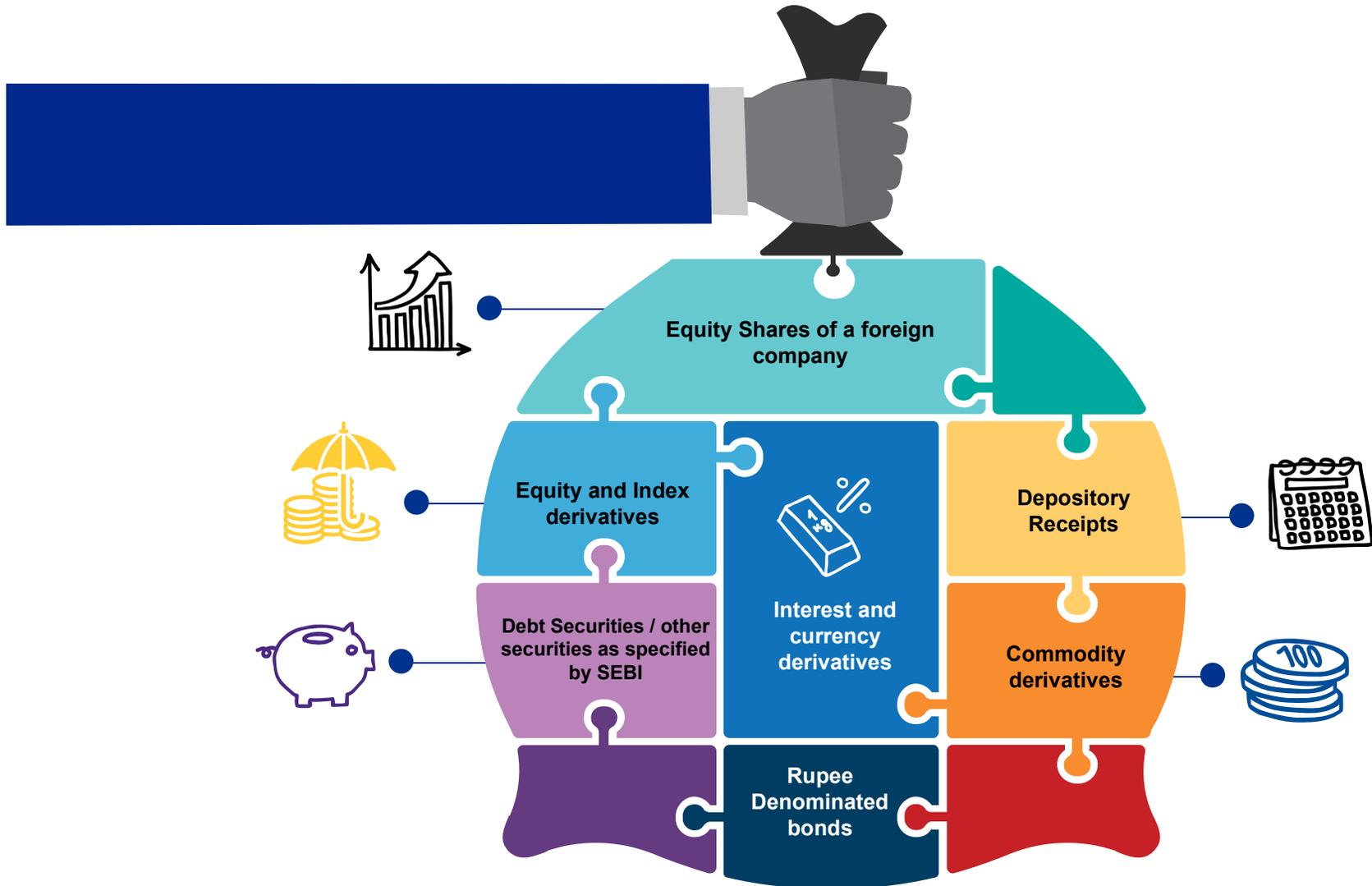


## Funds

- Alternative Investment Fund
- Mutual Fund

FPIs and EFls can invest in securities listed on SE in an IFSC

# Securities traded on SE in IFSC



# Stock Broking



## Permissible Clients

- Person not resident in India (non-individuals);
- Indian Financial Institutions eligible under FEMA to invest funds offshore, to the extent of outward investment permitted;
- A PRI eligible under FEMA to invest funds offshore, to the extent allowed under LRS of RBI (Current limit of USD 2.50 lacs per FY)
- FPIs and
- EFIs (non-individuals)

## Tax Incentives for Brokers (Units in IFSC)

- 100% tax holiday for first 5 years
- 50% tax holiday for next 5 years
- MAT@ 9% (plus surcharge and cess)
- No DDT
- No CTT, STT and Stamp Duty (even also for proprietary trading)



## Broad process of set-up

- SB to set-up a company in IFSC
- Prescribed net-worth requirements, minimum capital, etc. to be met (**Refer Annexure**)



## Tax Incentives for investors

- No CTT, STT and Stamp Duty
- No DDT
- No capital gains tax on sale of derivatives, DRs, Bonds, RDBs by a non-resident
- No GST on transactions entered in IFSC

# Permissible securities and clients – PMS/AIF/MF



## Permissible Securities

- Securities which are listed in IFSC;
- Securities issued by companies incorporated in IFSC; and
- Securities issued by companies incorporated in India (through FPI route)(\*) or companies belonging to foreign jurisdiction

(\*)Operational guidelines are expected soon

## Permissible Clients for PMS / Investors for AIF/MF

- A person not resident in India;
- A non-resident Indian
- A financial institution resident in India eligible under FEMA to invest in funds offshore, to the extent of outward investment permitted
- PRI having a net-worth of at-least USD One million during the preceding FY who is eligible under FEMA to invest funds offshore, to the extent allowed under LRS of RBI (Current limit of USD 2.5 lacs per FY)

- While operating guidelines for AIF in IFSC yet to be announced, considering investment restrictions in AIF regulations, it appears that AIF category III may be relevant in IFSC
- FPI guidelines only to be seen from the perspective of investment restrictions or otherwise?
- Whether Trust form of presence is permissible for AIF?

# Investment by FPIs / EFIs in IFSC



## Foreign Portfolio Investors:

- FPIs can invest in IFSC without undergoing any additional documentation /prior-approval / registration
- Brokers to rely on the due diligence process already carried out by a SEBI registered intermediary during the course of registration and account opening process in India
- FPIs which are operating in India and in IFSC also, have to maintain clear segregation of funds and securities.

## Eligible Foreign Investors:

- EFIs (who are not registered as an FPI) can invest in IFSC – subject to due-diligence at the time of entry
- EFI's broker may carry out the due diligence on its own or it may rely upon the due diligence carried out by the bank in IFSC

## Tax Advantage

- Capital gains\* tax exemption on sale of derivatives / bonds / RDBs / GDRs on RSE
- No STT / CTT / Stamp Duty – Hence, lower securities transaction cost
- Double Taxation Avoidance Agreement benefit shall continue to apply

\*For other than FPIs – capitals gains or business income will have to be evaluated

\*Capital gains on sale of equity shares on stock exchanges are taxable as per the provisions of the Income-tax Act from 1 April 2018

## Permissible investment

Following Securities which are listed on IFSC Stock Exchange

- Equity Shares of Company incorporated Outside India
- Depository Receipts
- Debt securities issued by eligible issuers
- Currency and Interest rate derivatives
- Index based Derivatives
- Derivatives on equity shares of a company incorporated in India
- Commodity Derivatives (EFIs are not allowed to invest in commodity derivatives)

# Segregated Nominee Account



## Segregated Nominee Account

In order to facilitate ease of trade and market access for foreign investors SEBI vide its Circular dated 24 May 2018 has permitted foreign investors to trade on IFSC-SE through SNA.

## Entities eligible to provide SNAs

- Entities eligible ('Providers') to register with the SEs/ Clearing Corporation to offer SNA services to foreign investors ('end-clients')
  - SEBI-registered brokers in IFSC;
  - SEBI registered Foreign Portfolio Investors ('FPIs') – Category I and II; and
  - Trading / Clearing members of international stock exchanges / clearing corporations that are regulated by a member of Financial Action Task Force ('FATF')

## Other features

- SEs to lay down eligibility criteria / norms (e.g. net-worth, other conditions, etc.) for eligibility and registration of Providers
- Providers to ensure appropriate due-diligence of end-clients as per global standards including KYC / AML before on-boarding end-clients
- SEs in IFSC to ensure that KYC details, compliances under PMLA are adhered to by Providers for the end clients

# AIF - IFSC Salient Features



An AIF - IFSC treated as 'deemed foreign territory' for FEMA purposes but treated as a domestic territory for Income-tax purposes



## Permissible AIF in IFSC

- Category I AIF
- Category II AIF
- Category III AIF

(All Categories including Angel Funds)



## Eligible Investors

- Person Resident Outside India
- Non-Resident Indian
- Eligible Institutional Investor resident in India
- Person resident in India having a net worth of at least USD 1 million subject to LRS



## Permissible Investments

### Securities:

- listed in IFSC
- issued by companies in IFSC
- issued by companies incorporated in or outside India
- Units of other AIFs in IFSC and in India

Eligible Routes – FDI / FPI / FVCI



## Key Tax Incentives for units in IFSC

- Profit linked incentive with no sunset clause
- Dividend Distribution Tax not applicable
- MAT / AMT applicable at the rate of 9%
- No GST on management fees paid to Fund Manager

Other requirements (such as corpus, continuing Interest of Manager/ Sponsor etc)



# Open points from Regulatory perspective



Open Clarity to be sought from regulators for effective implementation

## RBI

Insertion of enabling provision under FEMA Outbound Regulation for investment in AIF-IFSC by Indian institutional investors

Insertion of enabling provision in LRS for investment in AIF-IFSC by resident individuals

Manager of existing AIF required to follow conditions in FEMA Outbound Regulations for setting up a Branch/Company in AIF-IFSC?

Investment Conditions of FDI/ FPI/ FVCI applicable to AIF-IFSC?

## SEBI

AIF- IFSC to obtain FPI/ FVCI license?

AIF- IFSC eligible to invest in LLP directly?

Eligibility conditions applicable to Manager – Substance test applied to Branch in IFSC?

Overseas Investment Advisor of AIF-ISFC – regulated by SEBI?

Indian Investment Advisor of AIF- IFSC - exempt from registration for providing services exclusively to clients based outside India?

# Other Salient Features



## Corpus Requirements & Investments

- AIF to have a minimum corpus of \$3 mn
- Minimum investment from each investor to be \$0.15 mn
- Investors who are employees/directors of the AIF or employees/directors of Manager limit reduced to \$0.04 mn

## Continuing Interest of Manager/ Sponsor

- Category I and II AIF – 2.5% of the corpus or \$ 0.75 mn, whichever is lower
- Category III AIF – 5% of the corpus or \$1.5 mn, whichever is lower

## Other Requirements

- A manager/sponsor of existing AIF may act as manager/ sponsor of AIF IFSC by setting up a branch/ incorporating a company/LLP in the IFSC

Custodian requirement:

- Category I and Category II – If the corpus exceeds \$ 70 mn
- Category III – Mandatory



# Stock Broking - SE in IFSC (GIFT)



| Particulars                                   | Trading Member                 | Trading cum Self Clearing Member | Trading Cum Clearing Member    |
|---|--------------------------------|----------------------------------|--------------------------------|
| <b>Net worth Requirement</b>                  | US\$ 1,50,000<br>(1 Crore INR) | US\$ 7,50,000 (5 Crores INR)     | US\$ 15,00,000 (10 Crores INR) |
| <b>Base Minimum Capital *</b>                 | US \$15,000 – US \$75,000      |                                  |                                |
| <b>Application processing charge</b>          | US \$500                       | US \$500                         | US \$500                       |
| <b>Annual Fees -</b>                          | US \$3000                      | US \$3000                        | US \$3000                      |
| <b>Interest Free Deposit<br/>(Refundable)</b> | US \$10000 /<br>US\$ 15000     | US \$10000 /<br>US\$ 15000       | US \$10000 /<br>US\$ 15000     |
| <b>SEBI Registration Fees</b>                 | INR 50000                      | INR 50000                        | INR 50000                      |

\*Rates vary as per SEBI norms depending on proprietary, clientele, algo facilities. Min 10 lakhs, maximum 50 lakhs in Indian Rupees

In addition to the above, separate fees / deposits are payable with the clearing corporation

The above rates / fees / charges / deposits are indicative and subject to change / confirmation from the respective SEs

Source :<http://www.indiainx.com>

# Key Advantages in GIFT-IFSC



## GIFT-IFSC - Key Advantages

- No currency risk for non-residents - Transactions in IFSC permissible only in foreign currency
- IFSC is treated as territory 'outside India' for FEMA purposes and domestic territory for Income-tax purposes
- 100% tax holiday for first 5 years
- 50% tax holiday for next 5 years
- MAT@ 9% (plus surcharge and cess)
- No DDT
- No CTT, STT
- No stamp duty
- No capital gains tax on sale of derivatives, DRs, Bonds, RDBs by a non-resident





# Key Regulatory proposals - Budget 2019



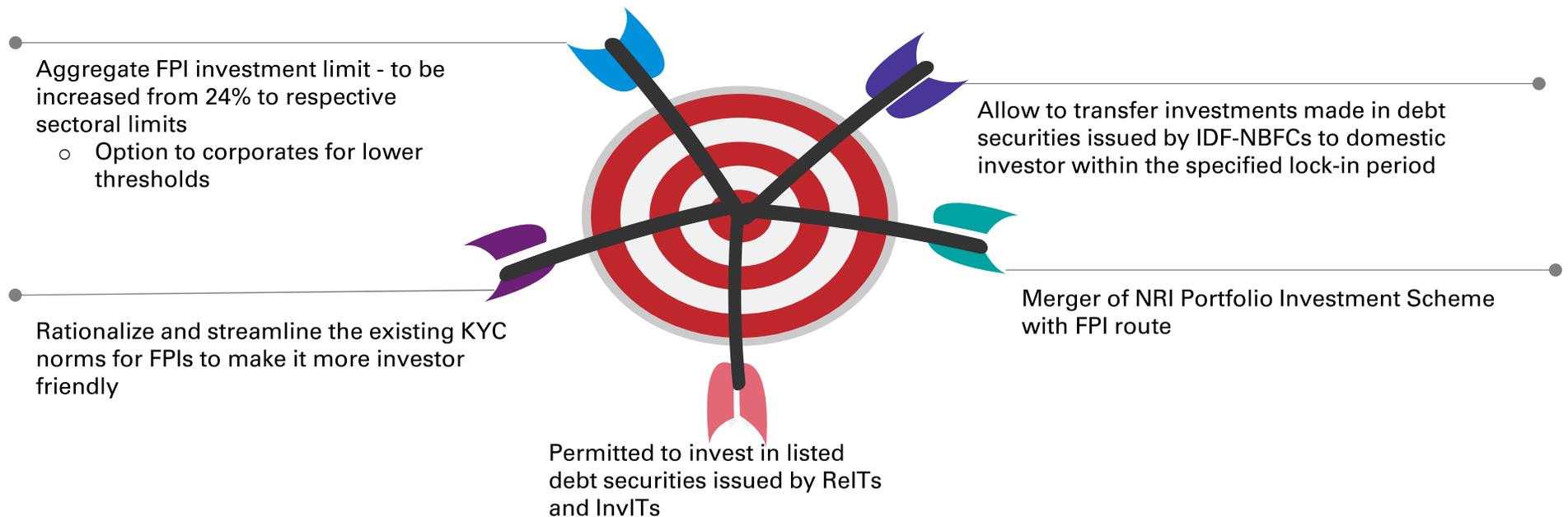
# Promoter holding for listed companies

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- Proposed to SEBI to increase the minimum public shareholding for the listed companies from 25% to 35%
- Specified mechanism under the existent regulations for reinstating public shareholding to prescribed threshold of 25% - Annexure 1
  - Whether similar mechanisms to be prescribed by SEBI for proposed 35% increase?

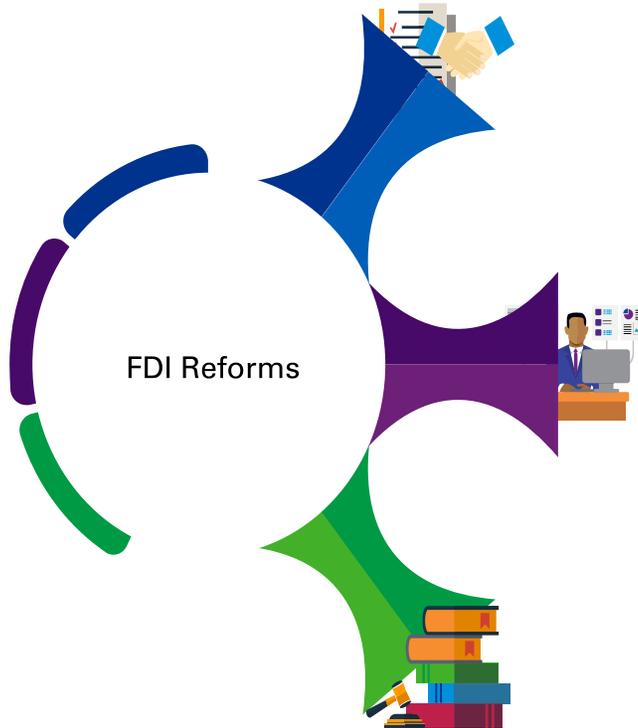
# Key FPI Proposals

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# Proposed FDI Relaxations



The Government to examine proposals to relax FDI in aviation, media (animation, AVGC) and insurance sectors in consultation with stakeholder

Allow 100% FDI in insurance intermediaries – Existing cap of 49%

Local sourcing norms to be eased in SBRT - Existing requirement of 30% local sourcing

# Key Banking and Financial sector proposals

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- Capital infusion of INR 70,000 crore a boost for PSU banks, which will also leave money for growth capital
- Government's commitment to financially sound NBFCs indicated by their willingness to provide first loss cover up to 10 per cent on portfolio sold to PSBs
- No DRR for NBFCs even on funds raised by public issue
- Proposal to allow NBFCs to directly participate on TReDS
- HFCs to be re-governed by RBI
- RBI to have more powers to govern NBFCs

# Annexure 1 - Manner of achieving minimum public shareholding

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Issuance of shares to public through prospectus

Offer for sale of shares held by promoters to public through prospectus

Sale of shares held by promoters through the secondary market in terms of Circular reference No. CIR/MRD/DP/18/2012 dated July 18, 2012

Institutional Placement Programme (IPP) in terms of Chapter VIIIA of the SEBI (ICDR) Regulations, 2009

Rights Issue to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares

Bonus Issues to public shareholders, with promoter/promoter group shareholders forgoing their entitlement to equity shares, that may arise from such issue

Sale of shares held by promoters/promoter group up to 2% of the total paid-up equity share capital of the listed entity in the open market

Allotment of eligible securities under Qualified Institutions Placement in terms of Chapter VIII of SEBI (ICDR) Regs, 2009

Any other method as may be approved by the board on a case to case basis

# Glossary



|      |  |
|------|--|
| AIF  | Alternative Investment Funds                   |
| AML  | Anti-Money Laundering                          |
| BSE  | Bombay Stock Exchange                          |
| CTT  | Commodity Transaction Tax                      |
| DDT  | Dividend Distribution Tax                      |
| DRs  | Depository Receipts                            |
| EFI  | Eligible Foreign Investors                     |
| FPI  | Foreign Portfolio investors                    |
| FEMA | Foreign Exchange Management Act                |
| FY   | Financial Year                                 |
| GAAR | Generally Anti Avoidance Rule                  |
| GDR  | Global Depository Receipts                     |
| GIFT | Gujarat International Finance Tec-City         |
| IFSC | International Financial Services Centre        |
| IT   | Information Technology                         |
| IRDA | Insurance Regulatory and Development Authority |
| KYC  | Know Your Customer                             |
| LRS  | Liberalized Remittance Scheme                  |

|      |  |
|------|--|
| MAT  | Minimum Alternative Tax                |
| MF   | Mutual Funds                           |
| NSE  | National Stock Exchange                |
| NOC  | No Objection Certificate               |
| PMS  | Portfolio Management Services          |
| PROI | Person not Resident in India           |
| PRI  | Person Resident in India               |
| RSE  | Recognized Stock Exchange              |
| RDB  | Rupee Denominated Bonds                |
| PMLA | Prevention of Money Laundering Act     |
| ROC  | Registrar of Company                   |
| RBI  | Reserve Bank of India                  |
| SEZ  | Special Economic Zone                  |
| STT  | Securities Transaction tax             |
| SEBI | Securities and Exchange Board of India |
| SB   | Stock Broker                           |
| SE   | Stock Exchange                         |
| SNA  | Segregated Nominee Account             |



Thank You