Opportunities await

Vinay Purohit of StockHolding Securities IFSC discusses the newly introduced IFSC markets in India and the opportunities it offers to investors and intermediaries

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An International Financial Services Centre (IFSC) caters to customers outside the jurisdiction of the domestic economy enabling the flow of finance, financial products and services across borders. Among over 100 global financial centres; London, New York and Singapore rank among the top while emerging IFSCs like Shanghai and Dubai have aspirations to play a global role too.

As per 2015 estimates, in the absence of an IFSC, India was losing about $50 billion annually—and this will grow to $120 billion by 2025. In 2015, the IFSC was set-up for bringing to India, the financial services transactions that are currently carried outside India by financial institutions both international and domestic (through its branches/subsidiaries outside India) while offering the same ecosystem as the offshore location. This is being carried through regulatory, tax, and business policies to help the offshore activities in IFSC, India to compete more effectively with other international offshore centres.

Today India offers investors an Onshore market (a vibrant and one of the most efficient domestic markets globally with two leading exchanges—National Stock Exchange and Bombay Stock Exchange) which caters to domestic and international investors alike and an offshore market at IFSC, Gift City (with two international exchanges), which caters to foreign investors while offering them infrastructure including taxation and regulations at par with global financial markets.

Enablers at IFSC: taxation and regulatory

The benefits of the Double Tax Avoidance Agreements (tax treaties) between India and the investors home jurisdiction is applicable, for investors at IFSC, the amended section 47 of the Income Tax Act exempts from taxation, gains arising to a non-resident from the transfer of foreign currency bonds, GDRs, rupee-denominated bonds of Indian companies and derivatives (which includes futures and options) where the consideration for the transaction is paid or payable in foreign currency.

Further, no tax liability accrues in nature of income tax, capital gains tax, securities transaction tax, dividend distribution tax or the newly introduced Goods and Service Tax (GST) is applicable.

In line with international practices of having a single regulator at IFSC, a unified regulator—with a representative from Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Insurance Regulatory Authority of India (IRDA)—for IFSCs has been announced and necessary legislations have been initiated to put it in place soon.

The unified regulator will enable effective and efficient decision making while aiding ease of doing business and enhancing the global competitiveness at IFSC.

To facilitate overseas dispute resolution on Indian shores, the Singapore International Arbitration Centre (SIAC) has opened a representative office at IFSC, Gujarat International Finance Tec-City (Gift City) The SIAC office will provide a neutral and independent dispute resolution platform for entities, thereby enabling them to undertake large international financial transactions from GIFT IFSC.

Progress and recent developments

The IFSC at Gift City, Gandhinagar, Gujarat, India was ranked at 77 among the 100 global financial centres in the year 2018. The ranking is based on various evaluation parameters for measuring the attractiveness of financial centres and helps understand the growth and competitiveness of financial centres.

The Indian capital market regulator SEBI has over the last few months announced two important measures including permit the global players to invest at IFSC, Gift City through the Segregated Nominee Account Structure (SNAS) and enabling framework for more capital market players like alternative investment funds (AIFs) in the IFSC and easing access for AIFs to invest in the offshore markets (including IFSC at Gift City) and the onshore markets in India while enabling the fund and its investors to avail the expertise of the domestic fund managers from India.

About IFSC, Gift City

The IFSC at Gift City has two international stock exchanges including the India International Exchange, a 100 percent subsidiary of the Bombay Stock Exchange and NSE IFSC, a 100 percent subsidiary of National Stock Exchange. Both the exchanges have their own Clearing Corporations. The IFSC has over 80 SEBI approved broking members (over 40 offering trade execution services), seven clearing members (offering trade clearing, margin and collateral maintenance and related services), over 12 banks, insurance and reinsurance companies and insurer brokers. The exchanges currently trade derivatives for 22 hours a day with two daily settlements. Also, the exchanges eliminate currency risk for the investor as all trades are quoted and settled in USD currency. Acceptance of eligible foreign securities as collateral for margin purpose will enable the investor to optimise on his investible funds and investment strategies.

Regulators at IFSC

IFSC currently has three regulators, SEBI, RBI and IRDA. Towards evolution of the IFSC, it is proposed setting up of the single unified regulator will contribute to better regulation and supervision of the financial entities with ease of access and offering a world-class legal framework for IFSCs to expeditiously deal with dispute resolution and other issues.

Investors at IFSC, Gift City

The IFSC permits two broad categories of investors:

Foreign portfolio investors (FPI): FPI are investors meeting the eligibility criteria as per the SEBI (Foreign Portfolio Investors) Regulations 2015 and are registered as FPI with SEBI, FPI undertake investments in India across listed equity, debt, derivatives, mutual funds etc as per the regulations. Based on risk profiling of the investor, an FPI is categorised in three categories.

Category I being low risk and includes government and government related entities such as central banks, governmental agencies, sovereign wealth funds and international or multilateral organisations or agencies; Category II will be moderate risk and include regulated and broad-based persons like banks, asset management companies, investment managers/advisors, portfolio managers, or university and pension funds, endowments, and broad-based funds where investment manager is regulated and Category III funds comprising all others FPIs not eligible under Category I and II such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices and are categorised as high risk.

Category I and II FPIs are permitted to invest at IFSC, Gift City, without undergoing any additional documentation and/or prior approval process. These investors shall be required to ensure clear segregation of funds and securities while keeping their custodian informed of all their investments at IFSC.

Eligible foreign investor (EFI): EFI is a foreign investor not registered as FPI with SEBI in India. An EFI would be meeting the eligibility norms applicable for FPIs under the SEBI (FPI) Regulations and a trading member of the recognised stock exchange in IFSC may carry out the due diligence on its own or it may rely upon the due diligence carried out by a bank, which is permitted by RBI to operate in IFSC, during the account opening process of an EFI. EFIs shall abide by all the applicable Indian laws including rules/regulations/circulars/guidelines in IFSC issued by the government of India/RBI/SEBI or any other authority of law, from time to time.

Investment avenues at IFSC

The exchanges offer multiple segments on a single platform which in turn bring operational and cost efficiencies for the investor.

The products offered by the two international exchanges at IFSC, Gift City currently include equity index futures and options, Indian equity single stock futures and options, global single stock futures, commodity derivatives for precious metals, base metals and energy and global currency derivatives.

Besides, the India International Exchange facilitates issuers in raising debt funds, which get listed and are settled through the international central securities depositories (CSDs).

Investor registration process at IFSC, Gift City

The registration process is a simple three-step process and involves:

1. Investor registered as FPI submits requisite forms/documents to the trading member, along with a certified copy of SEBI FPI Registration Certificate. In the case of EFI, EFI submits documents with requisite supporting the trading member for know-your-customer (KYC) registration, tax registration and client registration

2. Trading member verifies documents and registers the client with a unique client code. For EFI, the trading member also completes the KYC process

3. FPI EFI remits funds in USD to the trading members bank account and commences trading

An investor may choose to appoint multiple trading members for execution of their trades. However, irrespective of the number of trading members so appointed, all their trades are cleared through a single clearing member at all times. In line with the prevailing offerings at global financial centres, SEBI has under the SNAS permitted a much simpler on-boarding process for investors.

SNAS

The SNAS framework eases entry for overseas investors by facilitating direct registration process through an eligible offshore service provider who applies global KYC and anti-money laundering (AML) norms while on-boarding investors.

The SNAS structure requires the end client to avail of the IFSC access services through an entity in any international jurisdiction who is registered in IFSC as a segregated nominee account provider. A provider maintains all details of his end client and ensures appropriate due diligence of end-clients as per global standards, including KYC and AML compliance and then helps on-board the client at IFSC.

The SNAS structure facilitates the eligible foreign investors placing their orders on the stock exchanges in IFSC to be routed through eligible segregated nominee account providers while complying with applicable client level regulatory requirements.

The end-client needs to submit his legal entity identifier code to the provider. The stock exchange/clearing corporation will assign a unique client code to each of the end clients which will be used for all orders placed by him.

The offshore service provider retains client confidentiality from the market intermediaries at IFSC. However, the provider needs to submit at all times any details that may be asked for by regulator and exchange.

Opportunities and requirements for a SNAP

SEBI has currently permitted the following entities having a minimum net worth of $5 million to become a SNAP: SEBI registered brokers at IFSC; FPI's (Category I & II); and trading/clearing members of International Stock Exchange/CCP that are regulated by a member of the Financial Action Task Force.

An end client can trade through multiple brokers but all his trades will get cleared through only one clearing member. All positions are monitored at the end client levels with the margins being applied at the end client level while the gross margins would be collected from the provider.

The provider collects margins from his end clients.

However, a provider having requisite agreements with his end client can also offer them margin funding facilities.

Even as the SNAS offers client confidentiality in the markets; the stock exchanges, brokers and providers will be required to furnish information relating to the client trades on stock exchanges in the IFSC that are originated by/through providers—including the KYC details of their end-clients as and when required by the regulator.

India onshore vs India offshore (IFSC, Gift City)

The introduction of SNAS in the IFSC while meeting global offering, further eases the on-boarding process for the end client. It also presents business opportunities to all eligible capital market players across the globe who can act as providers.

This augurs well for the steadily increasing investor interest and trade volumes and will go a long way in meeting the Indian Prime Minister's vision of Gift City becoming the price setter for at least a few of the largest traded instruments in the world, whether in commodities, currencies, equities, interest rates or any other financial instrument.

Sr. No	Differentiations	India Onshore	India Offshore(IFSC, Gift City)
1	Access: on-boarding process and related	Short process	A further simplified and short process
2	Bank Account	Mandatory for FPI	Not required
3	Custodian	Mandatory for FPI	Not required
4	Exchange trading timings and holidays	9.00 am to 3.30 pm (Open for 6.30 hours) 15 exchange holidays in 2019 as per exchanges list	4.30 am to 2.30 am (next day) (Open for 22 hours) Four trading holidays in 2019 as per exchanges list
5	Tax applicability in India	Yes	Nil tax for investor (no income tax/ capital gains tax/ securities transaction tax)
6	Market segments	Multiple segments cash, derivatives – equity; commodity; currency, debt	Single-segment with all derivatives available on one platform equity (including Index, single stock Indian and foreign equity); commodity; currency
7	Market currency for trading and settlement	INR	USD
8	Currency risk	Yes	No
9	Limits on position	Yes	Yes
10	Collaterals	Cash, eligible Indian securities	Cash, eligible foreign security
11	Listing and trading in debt - foreign currency bonds	No	Yes
12	All inclusive transaction cost (including intermediaries cost)	High	Less
13	Outward remittance	A process needing one to two working days after trade settlements	A shortened process which can be carried out within hours after trade settlements
14	Segregated nominee account structure	Not permitted	Permitted and available to all eligible investors
15	Settlements	One settlement daily	Two settlements daily

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