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NAVIGATING GIFT CITY, THE NEW GLOBAL FINANCIAL HUB

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INTRODUCTION

In a move to make India a hub for global capital flow, Gujarat International Finance Tech-City ("**GIFT City**") was established by the Government of India in April 2015 near Gandhinagar, Gujarat, pursuant to the Special Economic Zones Act, 2005 ("**SEZ Act**"), Special Economic Zones Rules, 2006 and the regulations made thereunder. The GIFT City is divided into two parts: (i) a domestic tariff area ("**GIFT DTA**") which is governed as per domestic laws, and (ii) a multi-service special economic zone ("**GIFT SEZ**") which consists of a globally benchmarked International Financial Service Centre ("**GIFT IFSC**") along with IT & ITeS and other export services, which are essentially offshore financial centres that cater to customers outside their own jurisdiction. GIFT City has been developed as a greenfield smart city project, with a futuristic vision, encompassing integrated and cutting-edge infrastructure. It supports a gamut of financial services, inter alia, banking, insurance, asset management, and other financial market activities. It allows businesses, not carried out from or established in India, to set up units in GIFT City, and further provides a platform for qualified Indian professionals to pursue global opportunities by residing and working in India instead of migrating to foreign countries.

The growth momentum of GIFT City over the past two years has been significant, bringing in over 550 registered entities spanning across the entire spectrum of financial services, encompassing banks, capital markets, insurance, fintech, aircraft leasing, and bullion exchange.[1] The financial year 2022-23 has been a pivotal period for GIFT City's evolution into a formidable international financial gateway. Notably, over 550 entities, including financial heavyweights such as Morgan Stanley, MUFG Bank, BNP Paribas, JP Morgan, and Deutsche Bank, are registered at the GIFT IFSC. Presently, the GIFT City hosts approximately 20,000 employees, with over 5,000 situated at GIFT IFSC.[2]

1. Accessible at https://timesofindia.indiatimes.com/city/ahmedabad/gift-ifsc-from-financial-services-hub-to-new-horizons/articleshow/94300794.cms (Last accessed on December 13, 2023).
2. Accessible at https://economictimes.indiatimes.com/news/economy/finance/jpmorgan-deutsche-and-mufgs-entry-to-give-gift-city-a-big-boost/articleshow/92663771.cms (Last accessed on December 13, 2023).

GIFT DTA

The GIFT DTA has been envisioned to propagate the domestic market and allow it to benefit from the growth of the GIFT SEZ. The GIFT DTA has been formidably developed with seamless infrastructure to ensure the overall progress of the GIFT City, as a whole. While units in the GIFT DTA are treated as any other Indian entity, we understand that discussions are underway to provide special tax incentives to such units. Companies operating within the GIFT DTA can cater to the domestic market and carry out domestic (rupee-denominated) transactions while simultaneously having access to the GIFT IFSC and can also avail the following benefits:

i. **Proximity to the GIFT IFSC:** GIFT DTA units have the unique advantage of setting up operations close to the bustling GIFT SEZ and GIFT IFSC financial ecosystem. The quantity of funds, investment opportunities and wealth of service providers, accelerates trade and commerce which spills over to the GIFT DTA due to their close proximity and similarly advanced infrastructure.

ii. **Benefits under Gujarat IT/ITeS Policy (2022-27):** The Government of Gujarat has declared the IT Policy 2022-27, which provides impetus to the growth of IT/ITes units by incentivising the major operational expenditure heads. This includes (i) reimbursement on the employer's statutory contribution under Employees' Provident Fund; (ii) one-time support for every new and unique job created in the state of Gujarat; (iii) interest subsidy at 7 per cent on term loan or the actual interest paid, whichever is lower with a ceiling of INR 1 Crore per annum; and (iv) reimbursement of entire amount of electricity duty paid to the Government of Gujarat for a five year period.[3]

3. Accessible at https://www.giftsez.com/documents/pagecontent/FAQs-on-Gujarat%20IT-ITeS-Policy%202022-27.pdf (Last accessed on December 13, 2023).

SETTING UP UNITS IN THE GIFT CITY SEZ – AN OVERVIEW

All the financial institutions that are recognized and/or regulated by the Reserve Bank of India ("**RBI**"), Securities Exchange Board of India ("**SEBI**"), Insurance Regulatory Development Authority of India ("**IRDAI**"), 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 are permitted to set-up their office in the GIFT IFSC. As per Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 ("**FEMA IFSC Regulations**"), a financial institution includes (i) a company, (ii) a firm, (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.[4]

Non-GIFT IFSC units such as information technology companies can also operate from the GIFT City SEZ. Such non-GIFT IFSC units will require prior approval from the Development Commissioner, Kandla Special Economic Zone ("**KASEZ**") and can start operating in the GIFT SEZ post obtaining such approval. However, regulated financial services entities, i.e., banks, insurance companies and capital market intermediaries intending to set up units within the GIFT IFSC are required to obtain approval from the International Financial Services Centres Authority ("**IFSCA**"), in addition to the prior approval required from the KASEZ Development Commissioner.

4. Regulation 2(b) of the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015.

GIFT IFSC REGULATORY FRAMEWORK

In order to develop and regulate the financial products, financial services and financial institutions located in the GIFT IFSC in India, the central government enacted the International Financial Services Centres Authority Act, 2019 ("**IFSCA Act**"). Pursuant to the powers bestowed by the IFSCA Act, the IFSCA functions as a unified regulator and is empowered to exercise the powers with respect to the services, products and institutions in the GIFT IFSC, that would otherwise fall under the purview of RBI, SEBI, IRDAI and PFRDA. Further, it is also provided that all powers exercisable by the respective financial sector regulator (viz. RBI, SEBI, PFRDA, and IRDAI) under the respective acts and regulations shall be solely exercised by the IFSCA in the GIFT IFSC in so far as the regulation of financial products, financial services and financial institutions that are permitted in the GIFT IFSC are concerned.

Foreign Exchange Management Act, 1999: Once a financial institution is set up in the GIFT IFSC, it attains the status of a person resident outside India, and any transaction of such person with another non-resident will not attract any restrictions under the Foreign Exchange Management Act, 1999 ("**FEMA**").[5] A financial institution that is set-up in the GIFT IFSC *shall conduct its business in foreign currency* and all ordinary course business transactions in India by such financial institution will be regarded as transactions with a person resident outside India. Given that a unit in the GIFT IFSC will be treated as a non-resident for FEMA purposes, any investment made by a person resident outside India in a unit in GIFT IFSC will not attract FEMA provisions.

A unit in GIFT IFSC is classified as a person resident outside India for the purposes of FEMA and accordingly any investment made by such unit in a domestic entity shall be treated as FDI and have to, amongst other things, be in compliance with (i) pricing guidelines and reporting requirements under the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 ("**NDI Rules**") in case of equity investments; (ii) parameters such as minimum maturity, permitted and non-permitted end-uses, maximum all-in-cost ceiling under the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 and the RBI Master Direction No. 5 titled 'External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorized Dealers and Persons other than Authorized Dealers' in case of debt raised from recognized non-resident entities (collectively the "**ECB Framework**"); and (iii) the parameters on types of securities, remittance of debt investment, remittance of proceeds etc. under the Foreign Exchange Management (Debt Instruments) Regulations, 2019 ("**FEMA Debt Regulations**") in case of debt investments by Foreign Portfolio Investors.

RBI has permitted resident individuals to make remittances under the Liberalized Remittance Scheme ("**LRS**") to make investments in units in GIFT IFSC in the form of securities, other than those issued by entities/ companies resident in India. Such remittances will be subject to conditions specified in the LRS, as applicable.

Banking Sector: The International Financial Services Centers Authority (Banking) Regulations, 2020 ("**IFSCA Banking Regulations**") clarified that Indian banks (viz. any bank incorporated or established under any act including a wholly owned subsidiary of a foreign bank incorporated in India, but excluding a co-operative bank), and foreign banks incorporated or established outside India are permitted to set up their IFSC Banking Unit ("**IBU**") in the GIFT IFSC. The IFSCA Banking Regulations provide various regulatory flexibilities for IBUs, by allowing the maintenance of prudential ratios, such as minimum capital, liquidity coverage ratio and net stable funding ratios, only at the parent entity level. Given the regulatory flexibility, IBUs have the capacity to introduce innovative products such as non-deliverable forwards, aircraft leasing and financing, investing in India as Foreign Portfolio Investors ("**FPI**"), and participating in operations on the International Bullion Exchange ("**IBE**"), which otherwise cannot be done directly in India. In order to further enhance the opportunities in the banking sector in GIFT City, the union budget for the financial year 2023-2024 has permitted acquisition financing through IBUs of foreign banks, wherein offshore derivative instruments will be acknowledged as valid contracts. India Exim Finserve IFSC Private Limited, a subsidiary of EXIM Bank has been established in the GIFT IFSC, aiming to enhance trade refinancing and export competitiveness of Micro Small and Medium Enterprises ("**MSMEs**") due to the competitive credit terms available to their buyers, without associated risks and cash flow difficulties.[6]

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5. Regulation 3 of the Foreign Exchange Management (International Financial Services Centre) Regulations, 2015.
6. Accessible at https://economictimes.indiatimes.com/industry/banking/finance/exim-bank-launches-factoring-subsidiary-in-gift-city/articleshow/102543018.cms (Last accessed on December 13, 2023).

Capital Markets Sector: The IFSCA (Capital Market Intermediaries) Regulations, 2021 ("**IFSCA Capital Market Regulations**") came into effect on October 18, 2021, thereby effectively superseding the SEBI Guidelines. The IFSCA Capital Market Regulations provide for regulatory requirements in respect of registration, obligations and responsibilities, inspection and enforcement of various types of capital market intermediaries. The GIFT IFSC hosts two globally recognized stock exchanges, namely the India International Exchange (IFSC) Limited, and NSE IFSC Limited. These stock exchanges are overseen by the IFSCA and provide investors with extended trading hours across various financial market products, including index and single stock derivatives, commodity derivatives, currency derivatives, and debt securities. The IFSCA Capital Market Regulations align the practices of capital markets within the GIFT IFSC with global standards observed in well-established overseas capital market jurisdictions. Additionally, under the IFSCA Capital Market Regulations, registered capital market intermediaries can engage in cross-border business in both Indian and foreign capital markets. Given the advantageous tax incentives and the supportive ecosystem within the GIFT IFSC, there are significant opportunities for various capital market intermediaries to capitalize on, by establishing their operations within the GIFT IFSC.[7]

Funds: The International Financial Services Centres Authority (Fund Management) Regulations, 2022 ("**IFSCA Fund Regulations**") provide for a comprehensive framework governing a host of fund management activities in the GIFT IFSC, ranging from various types of private investment funds, special situations funds, mutual funds, hedge funds, portfolio management services, exchange traded funds, family offices, real investment trusts ("**REITs**") and infrastructure investment trusts ("**InvITs**").

The IFSC Fund Regulations provide for a unified registration for multiple fund activities by regulating the fund manager instead of regulating the funds. Depending on the type of fund management activities proposed to be undertaken in the GIFT IFSC, an entity must obtain prior authorization from the IFSCA to act as a Fund Management Entity ("**FME**"). In order to fulfil substance requirements in the GIFT IFSC, the personnel exercising influence or control over the management of the investment portfolio and who initiate the proposal on the portfolio composition shall be based in office of the FME in the GIFT IFSC, and all decision-making shall flow from the GIFT IFSC. The IFSCA Fund Regulations provide for the following registrations on a risk-based approach: (i) Authorized FMEs which invest through venture capital schemes[8]; (ii) Registered FMEs (Non-Retail) which invest through restricted schemes, and can also undertake portfolio management services and act as the investment manager for private placement of investment trusts; and (iii) Registered FME (Retail) which may, in addition to being able to launch retail schemes, exchange traded funds (ETFs) and public investment trusts, also undertake all activities as permitted for Authorized FMEs and Registered FMEs (Non-retail). On the other hand, venture capital schemes are considered Category I Alternative Investment Funds ("**AIFs**") whereas restricted schemes are divided into three categories, similar to Category I / II / III AIFs under the Securities (Alternative Investment Funds) Regulations, 2012 ("**SEBI AIF Regulations**"), depending on the type of investments sought to be made. Procedurally, it is pertinent to note that the generally expected time period as regards an AIF to obtain registration from SEBI under the SEBI AIF Regulations may be considerably more than the time period for obtaining registration by an FME from the IFSCA, given the salient features of single window clearance and a unified regulatory framework i.e. IFSCA being the sole regulatory authority involved.

Unlike AIFs, FMEs in the GIFT IFSC can borrow money or engage in leveraging activities without any limit, subject to certain conditions. Domestic Category I and II AIFs are not allowed to invest more than 25% in one investee company and Category III AIFs are not allowed to invest more than 10% in one investee company. Such conditions are not applicable to FMEs in GIFT IFSC leading to an FME being eligible to be used akin to an SPV as well to make a single investment if the commercials of a deal demand so. Further, certain amendments have also been made to the regulatory and taxation framework to facilitate the relocation of offshore funds to GIFT City. For instance, the requirement of continuing interest by the manager or sponsor has been made voluntary in case of relocation of offshore funds to the GIFT IFSC, while tax neutrality has been provided to such relocation.

7. Accessible at https://www.business-standard.com/article/economy-policy/fsdc-discusses-ways-to-ease-inter-regulatory-issues-at-ifsc-gift-city-122091600393_1.html (Last accessed on December 13, 2023).

The cost of setting up a fund in GIFT IFSC is lower, in comparison to a jurisdiction such as Mauritius or Singapore. Further, an option of co-investment may be offered to investors as a share class under the same scheme by ensuring that terms are not better than those offered to the pooled investors. It is pertinent to note that such provisions for co-investment are not available in jurisdictions such as Mauritius and Singapore.

Insurance Sector: In order to clarify the process of registration and operations of insurer and reinsurer in an IFSC under the regulatory purview of the IFSCA Act, the IFSCA issued the IFSCA (Registration of Insurance Business) Regulations, 2021 ("**IFSCA Insurance Business Regulations**"), thereby superseding the IRDAI (Registration and Operations of International Financial Service Centre Insurance Offices ("**IFSC Insurance Offices**") Guidelines, 2017. The IFSCA Insurance Business Regulations apply to (i) Indian insurer or re-insurer, (ii) a foreign insurer or re-insurer, (iii) branch office of a foreign insurer, (iv) a public company or a wholly owned subsidiary of an insurer or reinsurer, insurance cooperative society, and (v) body corporate incorporated under the law of any country outside India, not being of the nature of a private company.[9]

Consequently, in 2022, IFSCA notified the IFSCA (Investment by IFSC Insurance Office) Regulations, 2022, which put in place the regulatory framework and processes related to investment in the financial assets and infrastructure assets by an IFSC Insurance Office ("**IIOs**") in the GIFT IFSC. Under the IFSCA Insurance Business Regulations, foreign insurers and reinsurers can set up branch offices or subsidiaries as IIOs to undertake insurance or reinsurance business from the GIFT IFSC.[10] Indian insurance and reinsurance companies, including foreign reinsurance branches (FRBs), registered with IRDAI, can also set up branch offices to undertake insurance or reinsurance business from the GIFT IFSC. In doing so, no onshore assigned capital will be required for foreign insurers or foreign reinsurers setting up IIOs as branches. The assigned capital of $1.5 million can be maintained in home jurisdictions. Further, there's no onshore solvency requirement for IIO in the GIFT IFSC. The assigned capital solvency margin will have to be maintained in the home jurisdiction. Provided that IIOs are aimed to target body corporates and high-net-worth individuals, IIOs enjoy more flexibility in market access, investment norms regulations, and product structures compared to their Indian counterparts.[11]

9. Regulation 3(b) of the IFSCA (Registration of Insurance Business) Regulations, 2021.
10. Regulation 5(1) of the IFSCA (Investment by IFSC Insurance Office) Regulations, 2022.
11. Accessible at https://bfsi.economictimes.indiatimes.com/news/financial-services/gift-city-regulator-eases-reinsurance-biz-norms-to-lure-foreign-indian-companies/87265273 (Last accessed on December 13, 2023).

TAX INCENTIVES

The GIFT City is proposed and projected to be a tax-neutral enclave for businesses. To understand the tax considerations in the report of the expert committee constituted by the IFSCA titled "Onshoring the Indian Innovation to GIFT IFSC", our tax team had put together a detailed article on the same, which can be accessed at the following link. A brief summary of the tax incentives provided in the GIFT City is provided below:

Direct Tax Incentives:

i. Units in the GIFT IFSC can avail 100% deduction from its gross total income arising from business for which such unit has been established for any 10 consecutive years out of a period of 15 years ("**Tax Holiday**").[12] Units may seek to avail of the Tax Holiday once the business starts generating substantial income, which may realistically be achievable only around 5 years from the commencement of business. Further, domestic companies are permitted to avail the concessional corporate tax rate provided certain deductions/benefits are not taken. However, units in the GIFT IFSC may opt for a concessional corporate tax of 25.17% rate even after claiming the Tax Holiday.[13] Further, a reduced minimum alternate tax of 9% is applicable as against 15% applicable to units outside of the GIFT IFSC.[14]

ii. No additional income tax is chargeable in respect of any income distributed on or after September 1, 2019, by a specified mutual fund, out of its income derived from transactions made on a registered stock exchange ("**RSE**") located in the GIFT IFSC, and where the consideration for such transaction is paid in convertible foreign exchange.[15]

iii. Interest on long-term bond or rupee-denominated bond, which is listed only on an RSE located in the GIFT IFSC (i) if issued on or after April 1, 2020, but before July 1, 2023, shall be subject to tax at the rate of 4% and (ii) if issued on or after July 1, 2023, shall be subject to tax at the rate of 9%, as against the normal tax rate of 10%.[16]

iv. Any transfer of global depository receipts, rupee-denominated bonds of an Indian company, derivatives, foreign currency-denominated bond, unit of a mutual fund, unit of a business trust, foreign currency-denominated equity shares of a company, unit of an AIF (collectively, "**Specified Securities**") or other specified securities made by non-residents on an RSE in the GIFT IFSC and where the consideration for such transaction is paid or payable in foreign currency, is exempted from capital gains tax.[17]

v. A unit located in the GIFT IFSC, being a company and deriving its income solely in convertible foreign exchange, is exempted from paying dividend distribution tax at the time of distributing dividends. Further, a transaction undertaken on recognised stock exchange in the GIFT IFSC shall be exempt from securities transaction tax, commodity transaction tax and stamp duty.

Indirect Tax Benefits

i. Supply of goods or services from DTA to a unit located in the SEZ is regarded as zero-rated supply (irrespective of the currency in which payment is being made), and consequently exempt from goods and service tax ("**GST**"). Further, import of services into the SEZ is not liable to GST;

ii. Import of goods to the GIFT City for use in authorized operations of entities operating in the SEZ is exempt from customs duty. However, any movement of goods from the SEZ into the DTA would attract customs duty;

iii. Procurement of goods from domestic sellers to carry out authorized operations of entities operating in the SEZ is exempt from central excise duty. However, the movement of goods into DTA shall be liable to customs duty.

iv. Inter-state procurement of goods used for authorised operations by units in the GIFT IFSC is exempt from central sales tax.

12. Section 80-LA(1-A) of the Income Tax Act, 1961.
13. Section 115A(4) of the Income Tax Act, 1961.
14. Section 115JB of the Income Tax Act, 1961.
15. Section 115R of the Income Tax Act, 1961.
16. Section 194LC of the Income tax Act, 1961.
17. Section 47(vii-ab) of the Income Tax Act, 1961.

GIFT IFSC – OPPORTUNITIES AND CHALLENGES

GIFT City, with its unique regulatory framework, stands out as an enticing destination for foreign players seeking to diversify their portfolios and explore new horizons in financial services and its allied markets. GIFT City provides a host of opportunities to investors by providing access to a very streamlined and business-friendly regulatory regime. Investors may set up entities in the GIFT IFSC while bearing in mind the fact that GIFT IFSC entities cannot transact in Indian Rupee.

Opportunities:

i. **Strategic Location, Connectivity, and Infrastructure:** GIFT City is nestled in a strategic location by connecting Ahmedabad and Gandhinagar, the business and political capitals of Gujarat, which is known for its pro-business environment and investor-friendly policies, making it an attractive destination for entrepreneurs and corporations. GIFT City's robust infrastructure and modern amenities contribute to its allure as a prominent financial and technological hub.[18]

ii. **Single Window Clearance:** In order to further boost the regulatory process in the GIFT IFSC, the central government is also considering setting up a single-window IT system for registration and approval from IFSCA, SEZ authorities, GSTN, RBI, SEBI and IRDAI. Once in effect, this will eliminate the need for participants to seek separate no-objection certificates (NOCs) from the onshore regulators in India for setting up a presence in GIFT IFSC as required under the current regime. This will ensure a faster resolution of inter-regulatory issues (*if any*), thereby significantly accelerating the time taken to launch operations in GIFT IFSC under the current regime.[19]

iii. **International Dispute Resolution:** GIFT City has partnered with the Singapore International Arbitration Centre ("**SIAC**"), thereby allowing the units set up in GIFT City to choose SIAC arbitration for dispute resolution. Given that the venue of the hearing is in GIFT City, it would reduce the need to travel to Singapore. Additionally, the Union Budget 2022 provided for an International Arbitration Centre ("**IAC**") to be set up in GIFT City.

iv. **Ministry of Corporate Affairs ("MCA") Relaxations:** The MCA, on January 4, 2017, issued two notifications granting certain exemptions and modifications to certain provisions under the Companies Act 2013 to companies licensed to operate in an IFSC.[20] These include relaxations like delayed application of the provisions relating to corporate social responsibility; exemptions from constituting an audit committee nomination and remuneration committee, and stakeholders' relationship committee; and relaxation in the timelines for submitting forms and returns prescribed under the Companies Act 2013.

v. **Regulatory Sandbox:** A regulatory sandbox has been set up in the GIFT City[21], that may be accessed and used by entities working in the capital market, banking, insurance and financial services space, including startups registered and recognised under the Startup India platform by the Department for Promotion of Industry and Internal Trade. The regulatory sandbox provides a space to freely test and develop financial services and financial products.

vi. **Niche Sectors introduced in the GIFT City:** While GIFT City proves to be an ideal hub for setting up units in the general regulated sectors like insurance, banking, fund management etc., with the advent of certain novel and niche sectors of investments, IFSCA has been constantly updating and formulating the regulatory framework. One such niche sector is global in-house centres ("**GIC**")[22], which are service delivery operations typically in low-cost jurisdictions that serve as offshore back-end processing centres for the parent company. Further, in order to facilitate the set-up of ship-leasing businesses in the GIFT IFSC, the IFSCA has provided a framework to permit operating ship leasing as well as finance ship leasing.[23] Further, the IFSCA has also introduced a framework whereby global ancillary service providers such as consultancy firms and law firms will be able to set up their units in the GIFT City.[24]

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18. Accessible at https://www.giftsez.com/unique-infrastructure.aspx (Last accessed on December 13, 2023).
19. Talks on for IFSCA to be single window authority at Gift, available at https://timesofindia.indiatimes.com/city/ahmedabad/talks-on-for-ifsca-to-be-single-window-authority-at-gift/articleshow/101742578.cms (Last accessed on December 13, 2023).
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24. Accessible at https://timesofindia.indiatimes.com/city/ahmedabad/framework-declared-companies-line-up-at-gift-city/articleshow/80967573.cms (Last accessed on December 13, 2023).

vii. Listing on IFSC stock exchanges: IFSCA has rolled out the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021 describing eligibility criteria for listing of a start-up on the GIFT IFSC stock exchanges subject to fulfilling certain conditions, such as:

a. issuer should have an operating revenue of at least USD 20 million in the preceding financial year;

b. issuer has an average pre-tax profit, of at least USD 1 million during the preceding 3 financial years.[25]

The above-mentioned criteria is much more flexible than those laid down by other global stock exchanges such as the New York Stock Exchange, London Stock Exchange and Singapore Exchange which require more onerous criteria relating to revenue, profits and market capitalisation to be fulfilled for listing.

IFSCA has also indicated that the framework for direct listing of domestic companies including start-ups on the GIFT IFSC exchanges will be operationalised by the end of this year.

Challenges

i. **Administrative Challenges:** Entities willing to set up units in the GIFT IFSC face certain administrative challenges in the setting up process such as requiring physical presence in order to set up entities and physically executing documents required in connection with the setting up units in the GIFT IFSC.

ii. **Currency:** Except for administrative and statutory expenses, the units set up in the GIFT IFSC are only permitted to transact in a currency other than Indian Rupees. This adds a layer of complexity for the units set up in the GIFT IFSC to transact with Indian entities in terms of the choice and nature of currency to use while undertaking general business transactions.

iii. **LRS Limit:** LRS limits for the purpose of investment are clubbed along with other permissible activities like gift/donation, medical treatment abroad, studies abroad etc. The LRS limit for the purpose of investment in the GIFT IFSC should ideally not be clubbed with other activities i.e., instead of keeping the LRS limit for investment purposes at par with the other general activities, it should be grouped under a different head with a higher investment limit than the current USD 250,000 per financial year in order to attract investments from Indian residents into the GIFT IFSC.

iv. **Overseas Investment Restrictions on Indian AIFs and Mutual Funds:** As per the FEMA Overseas Investment Rules, 2022, alternative investment funds ("**AIFs**") and mutual funds regulated by SEBI may make investments overseas as per the terms and conditions laid down by RBI and SEBI. Furthermore, the aggregate limits for the AIFs and mutual funds shall be decided by the RBI, being $1.5 billion[26] and $7 billion respectively[27]. However, these limits have not been enhanced since their exhaustion in 2022. As units in the GIFT IFSC are considered "persons resident outside India" as per FEMA, investments by AIFs and mutual funds in GIFT IFSC will not be permitted without prior approval of the SEBI. This may pose challenges to startups set up in GIFT IFSC to raise capital from AIFs and also for Indian residents looking to participate in public offerings by entities made through exchanges based in GIFT IFSC.

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25. Regulation 10 of the International Financial Services Centres Authority (Issuance and Listing of Securities) Regulations, 2021.
26. SEBI Circular (SEBI/HO/IMD/DF6/CIR/P/2021/565) dated May 21, 2021.
27. SEBI Circular (SEBI/HO/IMD/IMD-II/DOF3/P/CIR/2021/571) dated June 03, 2021.

CONCLUSION

The GIFT City is ranked number 1 in a recent report published by the Global Financial Centres Index 28 – London, as one of the 15 financial centres that are likely to become more significant in the next few years. Such ranking is a testament to the immense potential that GIFT City possesses for its growth and opportunities for investors, in the near future.

It is pertinent to note that the Government of India has been, and continues to actively devise and implement measures to turn GIFT City into a global business hub. Given this hands-on approach by the government, GIFT City has immense potential in terms of incentives and opportunities that it presents currently to investors and can offer going forward. The Government of India, by providing special incentives and offering exemptions to the entities in GIFT City, has made the regulatory and business environment at GIFT City at par with the leading international financial centres.

IFSCA is constantly evolving, by engaging in dialogues and inviting suggestions from industry practitioners such as lawyers and tax advisors. Basis the feedback received, a consistent effort to mould and tweak the current framework is also underway, with an aim to make it easier for entities and investors alike in terms of benefits and opportunities. This, coupled with a dynamic approach to introduce niche sectors to holistically expand the reach and capabilities of GIFT City makes it a unique and all-inclusive initiative from the Government of India.

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