International Financial Services Centres

Part of: GS-III- Economy (PT-MAINS-PERSONALITY TEST)

The central government has established International Financial Services Centres Authority to regulate all financial services in International Financial Services Centres (IFSCs) with headquarters in Gandhinagar (Gujarat).

Important Points

- **Functions:**
  - The authority will regulate financial products such as securities, deposits or contracts of insurance, financial services, and financial institutions which have been previously approved by any appropriate regulator such as Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI) etc., in an IFSC.
  - It will also regulate any other financial products, financial services, or financial institutions in an IFSC, which may be notified by the central government.
  - It may also recommend to the central government any other financial products, financial services, or financial institutions, which may be permitted in an IFSC.

- **Members:** The International Financial Services Centres Authority will consist of nine members, appointed by the central government. They will include chairperson of the authority, a member each from the RBI, SEBI, the Insurance Regulatory and Development Authority of India (IRDAI), and the Pension Fund Regulatory and Development Authority (PFRDA); and two members from the Ministry of Finance. In addition, two other members will be appointed on the recommendation of a Selection Committee.

- **Term:** All members of the IFSC Authority will have a term of three years, subject to reappointment.

- **Possible Benefits:**
  - **Unification under one authority:** The banking, capital markets and insurance sectors in IFSC which are regulated by multiple regulators - the RBI, SEBI, and IRDAI will be unified under the IFSC authority.
  - The single window regulatory institution would accelerate the development of India’s first IFSC at GIFT City, Gandhinagar.
  - **Both national and international institutions** dealing with international financial services would utilise the IFSC platform for inbound and outbound investments with improved ease of doing business, thereby making GIFT IFSC a global financial hub.

International Financial Services Centre:

- An IFSC enables bringing back the financial services and transactions that are currently carried out in offshore financial centres by Indian corporate entities and overseas branches/subsidiaries of Financial Institutions (such as banks, insurance companies, etc.) to India.
  - It offers a business and regulatory environment that is comparable to other
leading international financial centres in the world like London and Singapore.

- IFSCs are intended to provide Indian corporates with easier access to global financial markets, and to complement and promote further development of financial markets in India.
- The first IFSC in India has been set up at the Gujarat International Finance Tec-City (GIFT City) in Gandhinagar.

Past news

The Union Cabinet has approved International Financial Services Centres Authority Bill, 2019 to establish a unified authority for regulating all financial services in International Financial Services Centres in India.

International Financial Service Centre (IFSC)

- An IFSC caters to customers outside the jurisdiction of the domestic economy. Such centres deal with finance, financial products and services across borders.
- An expert panel headed by former World Bank economist Percy Mistry submitted a report on making Mumbai an international financial centre in 2007. However, the global financial crisis in 2008 made countries including India cautious about rapidly opening up their financial sectors.
- In India, IFSC has been defined in SEZ Act, 2005 (PT). As per the act:
  - The Central Government may approve the setting up of an International Financial Services Centre in a Special Economic Zone and may prescribe the requirements for setting up and operation of such centre.
  - The Central Government shall approve only one International Financial Services Centre in a Special Economic Zone.
- Since India has many restrictions on the financial sector, such as partial capital account convertibility, high SLR (statutory liquidity ratio) requirements and foreign investment restrictions, an SEZ can serve as a testing ground for financial sector reforms before they are rolled out in the entire nation.

Special Economic Zone (SEZ)

- In India, the Special Economic Zones (SEZs) Policy was announced in April 2000.
- The Special Economic Zones Act, 2005, was passed by Parliament in May, 2005 and came into effect in 2006.
- SEZs addresses the issue of multiplicity of controls and clearances, have world-class infrastructure, and a stable fiscal regime.
- SEZs focus on economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, with the minimum possible regulations.
- GIFT (Gujarat International Finance Tec-City), located in Gandhinagar is India’s first International Financial Services Centre.

Background

- Currently, the banking, capital markets and insurance sectors in IFSC are regulated by multiple RBI, SEBI and IRDAI.
- The dynamic nature of business in the IFSCs necessitates a high degree of inter-regulatory coordination, which requires regular clarifications and frequent amendments in the existing regulations governing financial IFSCs.
The development of financial services and products in IFSCs would require focussed and dedicated regulatory interventions. Hence, a need for a unified financial regulator for IFSCs in India to provide world-class environment to financial market participants.

Further, this would also be essential from an ease of doing business perspective. The unified regulator would also provide the much needed impetus to further development of IFSC in India in-sync with global best practices.

Salient Features of the Authority

- **Composition:** The Authority shall consist of a Chairperson, one Member each to be nominated by the Reserve Bank of India (RBI), the Securities Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA), two members to be dominated by the Central Government and two other whole-time or part-time members.

- **Functions:** The Authority shall regulate all such financial services, financial products and financial institutions in an IFSC. It may also recommend to the Central Government such other financial products, financial services and financial institutions which may be permitted in the IFSCs.

- **Powers:** All powers exercisable by the respective financial sector regulatory (viz. RBI, SEBI, IRDAI, etc.) under the respective Acts shall be solely exercised by the Authority in the IFSCs in so far as the regulation of financial products, financial services and FIs that are permitted in the IFSC are concerned.

- **Processes and procedures:** The processes and procedures to be followed by the Authority shall be in accordance with the provisions of the respective Acts of Parliament of India applicable to such financial products, financial services or institutions, as the case may be.

- **Grants by the Central Govt.:** The Central Govt. may, after due appropriation made by Parliament on the estimates for the financial year in which the Authority is established, make to the Authority grants of such sums of money as the Central Government may think fit for the purposes of the Authority.

- **Transactions in foreign currency:** The transactions of financial services in the IFSCs shall be in foreign currency as specified by the Authority in consultation with the Central Govt.