

GIFT IFSC- Poised for a Brighter Future



Ramesh NGS
Non-Executive Chairman
Stock Holding IFSC Gift City



Vinay E. Purohit
Managing Director & CEO
Stock Holding IFSC Gift City

GIFT City, which is a special economic zone, is India's first IFSC. GIFT (Gujarat International Finance Tec-City) was set up in 2015 as India's first IFSC to provide global investors and non-resident Indian (NRI) investors and market participants global products with world class infrastructure and technology with ease of access and simplified regulations. The Government of India's vision is that the GIFT IFSC has the potential to become a centre of international finance as well as a centre for high end data processing catering to global investors and market participants.

An International Financial Services Centre (IFSC) caters to global investors and market participants and offers them offshore

exchanges of choice enabling the flow of finance, financial products and services, across borders. It provides a regulatory framework fairly comparable to other International Financial Centres (IFC) like Singapore, New York, Dubai and London". These IFCs also contribute to GDP growth, employment creation, new products for borrowers and investors and overall growth of investment interest.

The IFSC was set-up as a deemed foreign jurisdiction 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. An attractive supportive regulatory, tax, and business regime is being pursued to help the offshore activities at GIFT IFSC to compete more effectively with other international offshore centres.

Regulatory Authority at IFSC

However, when an investor considered an IFC from "ease of operations", Dubai International Financial Centre and the Singapore Financial Centre were preferred IFCs as they offered a single independent regulatory authority to address the comprehensive requirements of legal, regulatory and taxation. In contrast, the GIFT IFSC had multiple regulators i.e to regulate entities in banking, capital markets and the insurance space, respectively.

Recognising early that a single Authority is required to further the concept of an IFSC, the Indian Government in December 2019 established a single unified regulator - the International Financial Services Centres Authority (IFSCA) to be headquartered in Gandhinagar. This Authority is vested with and subsumes all the powers, as a single entity, that Reserve Bank of India (RBI), Securities Exchange Board of India (SEBI), Insurance Development Authority of India (IRDA) hitherto were exercising. This Authority will regulate all financial services in International Financial Services Centres (IFSCs) setting the stage for providing impetus and taking the GIFT IFSC to the next level.

GIFT IFSC Ecosystem and Business growth

The GIFT IFSC has two international exchanges and two Clearing Corporations. Even as the exchanges have tied-up with certain International Central Securities Depositories like Euroclear, the depositories in India also have their presence at GIFT IFSC. The exchanges trade and settle in USD currency and offer upto 22 hours of trading, enabling international investors to trade from anywhere across the world through multiple time zones

The exchanges currently offer all asset classes on a single platform – derivatives for equities, commodities, currencies, and fixed income securities. The exchanges have seen the daily turnover grow steadily to the current day average range of around USD 3.5 to 4 billion. The India International Exchange (IFSC) Limited ("India INX") at GIFT IFSC through its subsidiary/other tie-ups also offers stockbrokers at IFSC access to multiple international exchanges like CME, LME, ICE Futures U.S, ICE Futures Europe, EUREX and Moscow Exchange.

In terms of other participants, IFSC has 13 banks offering their banking services with business volumes of over USD 28 billion and over 100 registered stock brokers. The regulator has also permitted other capital market intermediaries like depository participants, merchant bankers, debenture trustees, registrars to issue, investment advisers, portfolio managers, alternative investment funds (AIF), central record keeping agencies (CRAs), etc to provide financial services in IFSC.

AIF's set up at GIFT IFSC are considered as offshore entities and have been permitted to invest globally, in India and within IFSC.

As regards insurance opportunities, the IFSC has over 19 entities including insurance intermediaries carrying out non-life and reinsurance business from GIFT IFSC with aggregate sum assured exceeding USD 30 billion.

The over 50 entities being IT & ITes service providers who offer legal, consultancy and IT services complete the eco-system at GIFT IFSC.

It is also proposed to set up an International Bullion Exchange. It is expected the Bullion Exchange would help India becoming a price setter of Gold globally and will provide transparency and price discovery of Gold.

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, commodity derivatives for precious metals, base metals and energy and global currency derivatives. Besides, the exchanges facilitate issuers in raising debt funds, which get listed and are held/ settled through the international central securities depositories (CSDs).

Investors at GIFT IFSC

Even as the SEBI IFSC Guidelines permits various investors including resident Indians, basis the current approvals from both SEBI and Reserve Bank of India, the eligible investors at GIFT IFSC are:

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.

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. EFIs shall abide by all the applicable Indian laws including rules/regulations/circulars/ guidelines in IFSC from time to time.

Non-resident Indian (NRI): An NRI is permitted to undertake investments on the Rupee Dollar derivatives segment in accordance with approved limits.

An innovative structure - Segregated Nominee Account Structure (SNAS)

Segregated Nominee Account Structure (SNAS) is a regulator approved innovative structure permitted that 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 structure is similar to the pooled nominee account structures prevailing in markets like South Korea, Singapore, Hong Kong etc.

Taxation at IFSC

The GIFT IFSC offers tax benefits which are at par with the other global IFCs. While offering cost competitiveness at transaction level in terms of complete exemption of capital market trades from stamp duty, securities transaction tax, goods and services tax, the IFSC jurisdiction exempts investors from the requirements of obtaining a tax registration number (Permanent Account Number).

In the domestic markets, India offers investors the benefit of the Double Tax Avoidance Agreements (tax treaties) between India and the investor's home jurisdiction.

At IFSC – the offshore jurisdiction, from a taxation perspective, an investor is exempt from paying any taxes – be it gains arising to a non-resident from the transfer of foreign currency bonds, Units of a Mutual Funds / AIFs / Business Trust and Foreign Currency denominated Equity shares listed and traded on IFSC based stock exchanges, or derivatives; provided the consideration for the transaction is paid or payable in foreign currency. Thus, no tax liability accrues to a foreign investor in nature of, capital gains tax, securities transaction tax, commodity transaction tax, or the newly introduced Goods and Service Tax (GST) is applicable.

Where a non-resident, being an Eligible Foreign Investor (EFI) invests as per SEBI circular he shall be deemed as a Foreign Institutional Investor (FII) for the purposes of transactions in securities on the stock exchanges in the IFSC where the consideration is paid in a foreign currency.

For investors in debt securities, a lower withholding tax of 4% is applicable for interest payment on debt securities listed on IFSC stock exchanges.

GIFT IFSC entities enjoy a 100% tax exemption for 10 consecutive years out of 15 years. Minimum Alternative Tax (MAT) @ 9% of the book profit will apply to entities not opting for the new tax regime.

StockHolding – Presence and Offering at GIFT IFSC

The StockHolding group has a good presence at the GIFT IFSC in the capital market and IT & ITes segments.

It's wholly owned subsidiary i.e **StockHolding Securities IFSC Limited** (SSIL) is a SEBI regulated entity and

registered with both exchanges offers broking/trade execution services, clearing and settlement of trades with real time risk monitoring facility extended to clients. Besides, SSIL is the first entity to be registered with both the exchanges as a "PROVIDER" to offer eligible investors access to the IFSC markets under the Segregated Nominee Account Structure (SNAS).

The custodian division of Stock Holding Corporation of India Limited has requisite SEBI approvals to offer custodian and depository and related services at GIFT IFSC.

The StockHolding Document Management Solutions Limited, another wholly owned subsidiary of StockHolding is setting up their presence at GIFT IFSC to offer IT & ITes and related services.

GIFT IFSC- Bright future

The International Financial Services Centres Authority (IFSCA) with its headquarters at Gandhinagar will provide the necessary impetus for the expeditious growth of business at IFSC while offering ease of business for investors 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.

It will also usher in an early introduction of other products including Depository Receipts, global securities, cash markets while opening the markets for larger segment of investors. In addition, the NSE IFSC - SGX connect too would enable global investors at GIFT IFSC while creating a single pool of liquidity of the Nifty contract in GIFT IFSC.

The recent introduction of Rupee currency derivatives enabling trading of USD- INR currency contracts at GIFT IFSC exchanges and also allowing the Banks at Gift City to participate in Non-deliverable futures (NDF) would aid Gift to connect better with global players while offering banks, investors, importers and corporates extended hours to hedge exposures.

The budget 2020-21 announcement of setting up International Bullion Exchange in GIFT IFSC is making progress as the steering committee of the World Gold Council has held their meeting at Gift City to plan the way forward. This will enable a better price discover for Gold while enhancing India's global position and creating more employment.

Similar announcements for reduced withholding tax on debt listed at IFSC exchanges aim at promoting GIFT IFSC as a hub for debt listing.

Thus, things can only get better and brighter for the future of GIFT IFSC and in true sense, ache din aane wale hain.. good days are to come.

For more details on GIFT IFSC and opportunities, please write to us at gift@stockholding.com