



International Financial Services Centres Authority

F.No.110/IFSCA/Banking Regulation/2020-21/3

December 4, 2020

International Financial Services Centres Authority (Deposits) Directions, 2020

In exercise of the powers conferred by Sections 21 and 35A of the Banking Regulation Act, 1949 read with Section 13(1) of the International Financial Services Centres Authority Act, 2019, the International Financial Services Centres Authority (IFSCA) being satisfied that it is necessary and expedient in the public interest so to do, hereby, issues the Directions hereinafter specified.

CHAPTER – I

PRELIMINARY

1. Short Title and Commencement

- (a) These Directions shall be called International Financial Services Centres Authority (Deposits) Directions, 2020.
- (b) These directions shall come into effect on the day it is placed on the website of IFSCA.

2. Applicability

The provisions of these Directions shall apply to Banking Units (BU) licensed to operate in International Financial Services Centres (IFSCs) by IFSCA. These directions shall not be applicable to “Representative offices” permitted to be set up in IFSCs.

3. Definitions

- (a) In these Directions, unless the context otherwise requires, the terms herein shall mean as follows :
 - (i) “Banking Unit” shall have the same meaning as defined in section 2(1)(c) of the International Financial Services Centres Authority (Banking) Regulations, 2020.
 - (ii) “Current Account” means a form of non-interest-bearing demand deposit wherefrom withdrawals are allowed any number of times depending upon the balance in the account or up to a particular agreed amount and shall also be deemed to include other deposit accounts which are neither Savings Deposit nor Term Deposit.

- (iii) "Daily product" means the interest applied on the end of day balance.
- (iv) "Demand deposit" means a deposit received by the BU ,which is withdrawable on demand.
- (v) "Floating rate deposit" means a term deposit whose return is directly linked to an interest rate benchmark.
- (vi) "Individual" means a natural person.
- (vii) "Notice deposit" means term deposit for specific period but withdrawable on giving at least one complete banking days' notice.
- (viii) "Qualified Individual" and "Qualified Resident individual" shall have the same meaning as defined in sections 2(1)(k) and 2(1)(l) of the International Financial Services Centres Authority (Banking) Regulations, 2020.
- (ix) "Savings account" means a form of interest-bearing demand deposit which is subject to the restrictions as to the number of withdrawals as also the amounts of withdrawals permitted by the BU during any specified period.
- (x) "Structured deposit" means a term deposit, repayable at full on maturity, interest payable on which is dependent on the performance of reference assets, indices or other economic values factors such as :
 - (a) an index or combination of indices;
 - (b) a financial instrument or combination of financial instruments;
 - (c) a commodity or combination of commodities or other physical assets.
 - (d) a foreign exchange rate or combination of foreign exchange rates
- (xi) "Term deposit" means an interest-bearing deposit received by the bank for a fixed period

(b) All other expressions unless defined herein shall have the same meaning as have been assigned to them under the Banking Regulation Act, the Reserve Bank of India Act and the International Financial Services Centres Authority (Banking) Regulations, 2020 and any statutory modification or re-enactment thereto or as used in commercial parlance, as the case may be.

CHAPTER – II
PERMISSIBLE DEPOSITS

4. Permissible deposit accounts

- a) BUs shall permit opening of Current account, Savings account and Term Deposit account by a Qualified Individual or a Qualified Resident Individual in any freely convertible foreign currency.
- b) BUs shall permit opening of Current account and Term Deposit account by persons other than a Qualified Individual or a Qualified Resident Individual in any freely convertible foreign currency.
- c) BUs shall permit opening of Current account by persons resident in India, being individuals, for the purpose investment in securities by remitting foreign currency under the Liberalised Remittance Scheme of the Reserve Bank of India.¹

CHAPTER – III
GENERAL GUIDELINES

5. Interest Rate framework

BUs shall pay interest on deposits (other than current account) accepted by them or renewed by them on the terms and conditions specified in these directions:

- (a) There shall be a comprehensive policy on interest rates on deposits duly approved by the Board of Directors or any committee of the Board to which powers have been delegated.²
- (b) The rates shall be uniform across for all customers and there shall be no discrimination in the matter of interest paid on the deposits, between one deposit and another of similar amount, accepted on the same date. This provision shall not apply in the case of Structured Deposits.
- (c) Interest rates payable on deposits shall be strictly as per the schedule of interest rates disclosed in advance. The banks shall maintain the bulk deposit³ interest rate card in their Core banking system to facilitate supervisory review.
- (d) The rates shall not be subject to negotiation between the depositors and the bank.
- (e) The interest rates offered shall be reasonable, consistent, transparent and available for supervisory review/scrutiny as and when required.

¹ Inserted vide circular no. F.No.110/IFSCA/Banking Regulation/2020-21/13 dated February 19,2021

² See para 23 of Annex to circular no.F.No.110/IFSCA/Banking Regulation/2020-21/7 dated December 24, 2020

³ See para 6(a) of Annex to circular no.F.No.110/IFSCA/Banking Regulation/2020-21/7 dated December 24, 2020

- (f) Deposits maturing on non-business working day
- (i) If a term deposit is maturing for payment on a non-business working day, BUs shall pay interest at the originally contracted rate on the original principal deposit amount for the non-business working day, intervening between the date of the maturity of the specified term of the deposit and the date of payment of the proceeds of the deposit on the succeeding working day.
- (ii) In case of reinvestment deposits and recurring deposits, BUs shall pay interest for the intervening non-business working day on the maturity value.
- (g) BUs may grant advances only against term deposits maintained with itself⁴. Interest rate on such advances shall be part of the Interest Rate framework.

CHAPTER – IV INTEREST RATES ON DEPOSITS

6. Interest rate on Current Account

No interest shall be paid on deposits held in current accounts.

provided that balances lying in current account standing in the name of a deceased individual depositor concern shall attract interest from the date of death of the depositor till the date of repayment to the claimant/s at the rate of interest applicable to savings deposit as on the date of payment.

7. Interest Rate on Saving accounts

- (a) BUs may determine the interest on Savings accounts, subject to the conditions laid down in para 5 of these directions
- (b) Interest on savings accounts shall be calculated on a daily product basis
- (c) Interest on savings deposit shall be credited at quarterly or shorter intervals as decided by the BU.
- (d) Interest on savings bank accounts, including those frozen by the enforcement authorities, shall be credited on regular basis irrespective of the operational status of the account.

⁴ See para 13 of Annex to circular no. F.No.110/IFSCA/Banking Regulation/2020-21/7 dated December 24, 2020

8. Interest Rates on Term Deposit accounts (other than Structured deposits)

- (a) Subject to the conditions laid down in para 5 of these Directions, interest rates on Term deposit accounts (other than structured deposits) shall vary only on account of one or more of the following factors:

(i) Tenor of Deposits:

BU's may determine the maturity/tenor of the deposit subject to the condition that minimum tenor of the deposit offered shall be seven days.

(ii) Size of Deposits

BU's may offer differential interest rates based on the size of deposits.

(iii) Non-availability of premature withdrawal option

BU's shall have the freedom to offer term deposits without premature withdrawal option.

provided that all term deposits accepted from individuals shall have premature withdrawal facility.

- (b) Interest on premature withdrawal, Interest on overdue deposits and Penalty on premature withdrawal of Term deposits

BU's shall frame their own policies regarding interest on premature withdrawal of Term Deposits, interest on overdue Term deposits and penalty on premature withdrawal of Term deposits.

9. Floating rate deposits

Interest rate on Floating rate deposits shall be linked to a directly observable and transparent market determined external benchmark.

**CHAPTER – V
STRUCTURED DEPOSITS**

- 10. Prior to offering structured deposits, the BU's shall :**

- (a) Analyse and evaluate the depositor's needs and design the features of the deposit to meet such needs.
- (b) Identify and assess the type, class or features of depositors that they intend to focus for offering structured deposits.
- (c) Ensure that appropriate internal controls are in place regarding the development of

the structured deposits, including, where appropriate, that the compliance or legal department has sufficient influence over the development process.

- (d) Appropriately inform the employees/distributors to ensure that structured deposits are offered only to the class of depositors identified in (a) above.
- (e) Promote the product in a way most likely to be understood by target depositors.
- (f) Assess the understanding of the Depositor about the products that are proposed to be offered to him.

11. The factors to be considered by BUs for arriving at the decision at 10(a) and 10(b) should include :

- (a) Depositor's objectives for using structured deposits.
- (b) Depositor's tolerance for loss of income.
- (c) Relevant timeframe for the depositor (including consideration of the costs to the depositor on premature withdrawal of the deposit)
- (d) The financial knowledge, experience and education of the target depositor

12. BUs shall put in place an internal product approval process to address specific (or common) challenges for product formation (taking into account the control of the product design, the interests of the target market and the management of conflicts of interest)

13. Before accepting structured deposits from individuals, the BU shall provide the client with a short-form or summary disclosure document about such deposit which should, at minimum, contain the following information :

- (a) A short description of the functioning of the deposit.
- (b) Tenor of the deposit.
- (c) Potential downside risk.
- (d) Applicable guarantees, if any, built in the product and limitations thereof.
- (e) Scenario analysis of returns on the deposit under three scenarios: the worst, the break-even and the best cases.
- (f) A qualitative description of the most important risk/s
- (g) Comparison with a standard term deposit of like tenor and amount.
- (h) Fees and costs involved (at launch of the product, but also during the duration of the product and at early redemption or termination)
- (i) Circumstances under which the depositor may seek premature withdrawal of the deposit and associated costs

14. Before offering every new structured deposit product to their clients, BUs shall submit to the

Authority a certificate, signed by the official heading the BU, to the effect that all terms and conditions laid down by IFSCA for offering structured deposits have been satisfied.

15. BUs shall offer every new structured deposit product to their clients after complying with the provisions of paras 10 to 14.

CHAPTER – VI PROHIBITIONS

16. BUs shall not:

- (a) Pay any remuneration or fees or commission or brokerage or incentives on deposits in any form or manner to any individual, firm, company, association, institution or any other person except commission paid to Direct Selling agents/Direct Marketing Agents as part of the outsourcing arrangements.
- (b) Offer prize/lottery/free trips (in India and/or abroad), etc. or any other initiative having element of chance for mobilising deposits.
- (c) Resort to unethical practices of raising of resources through agents/third parties to meet the credit needs of the existing/prospective borrowers or to grant loans to the intermediaries based on the consideration of deposit mobilisation.
- (d) Issue any advertisement/literature soliciting deposits from public highlighting only the compounded yield on term deposits without indicating the actual rate of simple interest offered by the bank for the particular period. Simple interest per annum for the period of deposit should be invariably indicated.
- (e) Use the past performance of structured deposits for the purpose of offering them to the Depositors.
- (f) Accept interest-free deposit other than in current account or pay compensation indirectly.
- (g) Accept deposits from/at the instance of private financiers or unincorporated bodies under any arrangement which provides for either issue of deposit receipt/s favouring client/s of private financiers or giving of an authority by power of attorney, nomination or otherwise, for such clients receiving such deposits on maturity.

CHAPTER – VII REPORTING

17. BUs shall submit a monthly statement to IFSCA with details of the Structured deposits accepted by them in the format to be provided. Separate statements shall be submitted for structured deposit in each currency.

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