

1. Who can apply for the setting up of an IFSC Banking Unit (IBU) in GIFT IFSC?

The following two types of entities can set up IBUs in GIFT IFSC:

- Indian banks (viz. banks in the public sector and the private sector authorised to deal in foreign exchange)
- Foreign banks already having banking presence in India

2. Who is the regulator for banking activities in GIFT IFSC?

The banking activities of IBU set up in GIFT IFSC are regulated and supervised by the RBI.

3. Can banks apply to the DC and RBI simultaneously?

Yes, banks can apply to DC, KASEZ and RBI (regulator) simultaneously. The approval from DC is subject to the approval from Regulator, i.e. RBI.

4. Which regulations are applicable to the banks operating from GIFT IFSC?

The regulations applicable to the banks operating from GIFT IFSC:

- Foreign Exchange Management (IFSC) Regulations, 2015²
- Scheme for setting up of IBU by Indian banks and foreign banks issued by RBI on 1 April 2015³.

5. Are there any recent circulars for IFSC Banking Units from RBI post the Regulations?

The updated regulations on IFSC can be downloaded from <http://www.giftgujarat.in/download.aspx> under the heading "IFSC Regulations & Guidelines."

6. What is the licensing criterion for setting up an IBU?

Indian Banks

- IBU will be treated on par with a foreign branch of an Indian bank
- Permission from RBI will be required for opening an IBU.
- Banks can establish only one IBU in the IFSC.

Foreign Banks

- IBUs will not be treated as normal branch expansion in India.
- Home Country Regulator's written confirmation of their regulatory comfort for bank's presence in IFSC.
- Permission from RBI will be required for opening an IBU.
- Parent's Letter of Comfort for extending financial assistance, as and when required, in the form of capital/ liquidity support to IBU.
- Banks can establish only one IBU per IFSC.

7. What is the capital requirement for setting up an IBU?

The capital requirements applicable for both Indian banks and foreign banks are as follows:

- The parent bank would be required to provide a minimum capital of US\$ 20 Million or equivalent in any foreign currency.
- The IBUs should maintain the minimum prescribed regulatory capital, including for the exposures of IBU, on an on-going basis at the parent level.

8. What are the activities permitted for IBUs?

Based on the RBI guidelines, the following activities are permitted for the IBUs of both Indian banks and foreign banks:

- Buyer's Credit and External Commercial Borrowings to Indian borrowers
- Lending to offshore JV/ WOS of Indian groups
- Factoring/ forfaiting of export receivables
- Accept term deposits from non-banks

² G.S.R 218(E) dated 2 March 2015

³ RBI/ 2014-15/ 533 DOR.IBD.BC.14570/ 23.13.004/ 2014-15

- Derivative transactions including structured products. Issue other derivative products after taking prior approval from the banks' board and RBI.
- Non-deliverable forwards involving Indian Rupee
- Participate in exchange-traded currency derivatives on INR (with settlement in foreign currency) listed on IFSC exchanges, after taking prior approval from the bank's board
- Trading member in interest rate and currency derivatives segments of IFSC exchanges
- Act as a Professional clearing member in the clearing and settlements for any derivatives segments in the IFSC exchange, subject to conditions
- Extend Bank Guarantee/ Short-term loans to IFSC stock broking/ commodity broking entities
- Maintaining foreign currency escrow accounts of Indian resident entities to temporarily hold ADR/ GDR issue subscriptions
- Act as underwriter/ arranger of rupee-denominated bonds subject to conditions
- Foreign currency current accounts of IFSC units, non-resident institutional investors and corporate borrowers [subject to Foreign Exchange Management Act, 1999 (FEMA)]

9. What are the resources and deployments of funds?

- Funds can be raised from person not resident in India (other than individuals) including foreign banks and overseas branches of Indian banks.
- Funds can be deployed with persons resident in India as well as persons not resident in India (other than individuals). The deployment to persons resident in India is subject to FEMA.

10. What are the reserve requirements for the IBU?

The liabilities of the IBU are exempt from both Cash Reserve Ratio (CRR) and Statutory Liquidity Ratio (SLR) requirements of the RBI. The same would be applicable for both Indian banks and foreign banks.

11. Is Liquidity Coverage Ratio (LCR) required to be maintained by IBUs in IFSC?

Yes, IBUs are required to maintain LCR as applicable to Indian banks on a stand-alone basis.

12. What are the prudential norms guiding the IBUs?

The prudential norms applicable to IBUs of both Indian banks and foreign banks are as follows:

- Indian banks' IBUs shall follow all prudential norms as applicable to overseas branches of Indian banks. Specifically, IBUs are required to follow 90 days payment delinquency norm for income recognition, asset classification and provisioning, as applicable for Indian banks. A foreign bank's IBU shall follow prudential norms as prescribed by RBI.
- The IBU's board may set out appropriate credit risk management policy and exposure limits as prescribed by the RBI.
- The IBUs will be required to adopt liquidity and interest rate risk management policies prescribed by the RBI in respect of overseas branches of Indian banks and function within the overall risk management and ALM framework of the bank subject to monitoring by the IBU's Board at prescribed intervals.
- The bank's board must set overnight limits for each currency for the IBUs.
- The IBUs will be required to follow Know Your Customer, Combating of Financing of Terrorism) and other Anti-Money Laundering instructions issued by the RBI.

13. Are IBU operations ringfenced from the Indian operations of banks?

Yes, the IBU operations are ringfenced from the Indian operations of banks. The following measures have to be taken by both Indian and foreign banks to ring-fence the activities of the IBU:

- The IBUs would operate and maintain balance sheets only in foreign currency and would not be allowed to deal in INR, except for having a special rupee account for meeting administrative and statutory expenses.
- The IBUs are not allowed to participate in domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.
- The IBUs are required to maintain separate Nostro accounts with Correspondent Banks distinct from those of other branches in India.

14. Are the deposits of the IBU covered by deposit insurance in India?

No, the deposits of IBUs are not covered by deposit insurance in India.

15. Are the loans and advances of IBU reckoned for priority sector lending obligations?

No, the loans and advances of IBUs are not reckoned as part of the Net Bank Credit of the parent bank for computing priority sector lending obligations.

16. Which are the concerned departments at RBI for IFSC-related queries?

Department of Banking Regulations and Foreign Exchange Department (FED), RBI

17. Has RBI provided FAQs for IFSC?

RBI has provided FAQs for IFSC operations vide letter dated 7 February 2019. These FAQs are uploaded on the GIFT website <http://www.giftgujarat.in/documents/RBI-FAQs-for-IFSC-March-01-2019.pdf>.