

Treasury activities in IFSC GIFT City



IFSC at GIFT City

The Gujarat International Finance Tec-City (GIFT City) has been built to attract global players to set up units in the International Financial Services Centre (IFSC). It also allows Indian financial institutions to establish a presence in the IFSC and provide financial services to overseas markets.

The city has been developed on a multi-service special economic zone (SEZ) and provides various direct and indirect tax benefits to financial institutions and overseas investors.

The regulatory powers of the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority of India (PFRDA) have been vested in the International Financial Services Centres Authority (IFSCA). It regulates financial institutions, products, and services in IFSC at GIFT City, exercisable by the IFSCA from 1 October 2020. Each unit set up in an IFSC must obtain an SEZ IFSC unit license, in addition to a license from the IFSCA.

Key benefits of setting up a unit in IFSC at GIFT City



Provides a complete financial service ecosystem for cross-border transactions.



Attracts foreign capital through liberal tax and a regulatory regime.



Helps domestic companies in the financial services sector to do cross-border business easily.



Global/regional corporate treasury activities in IFSC-GIFT City

The IFSCA (Finance Company) Regulations, 2021 ('FC Regulations') issued in March 2021 provide a framework for a finance company (FC) / finance units (FUs) in the IFSC. FCs/FUs play a crucial role in providing non-banking financial intermediation services in the IFSC and are allowed to carry out permissible activities characterised as core and non-core activities. The permissible core activities include lending, investments, trading in derivatives, acting as a global/regional corporate treasury centres (GRCTCs).

The committee report published in June 2021 on positioning the IFSC as a hub for offshore trading in INR also highlighted the importance of attracting Indian MNCs to base their global treasury operations in the IFSC to contribute to the growth of the IFSC.

Pursuant to the same, the IFSCA, vide circular dated 25 June 2021, issued a framework for undertaking global / regional corporate treasury centres activities whereby FCs/FUs in the IFSC can undertake treasury activities and treasury services for its group entities*, acting as the in-house GRCTC.



Setting up a FC/FU as GRCTC

- A GRCTC can be set up in the IFSC as a FC (i.e. subsidiary or joint venture or as a separately incorporated entity) or a FU (i.e. branch of an incorporated entity).
- FCs/FUs carrying out the GRCTC may be exempted from the prudential requirements on the fulfillment of prescribed conditions.



Key aspects of the framework

Setting up of GRCTC in IFSC

Particulars	Regulations
Registration requirement	Any eligible entity that satisfies the eligibility conditions and proposes to undertake global/regional corporate treasury services or activities shall make an application under the IFSCA (FC) Regulations, 2021 in the prescribed form to be registered as a FC/FU.
Service recipients	It can perform treasury activities and/or provide treasury services exclusively to its group entities* that are domiciled in a jurisdiction not identified by the Financial Action Task Force as "High-risk jurisdictions subject to a call for action" (except entities domiciled in any country specified by the government of India by an order or by way of an agreement or treaty).

*Group entities mean entities registered with any competent or statutory body in their home jurisdiction and include their holding, subsidiary or associate companies, branch, joint venture investment or subsidiary of a holding company to which it is also subsidiary.



Permissible activities

Permissible treasury services

- i. Managing and optimising multi-currency cash management and liquidity management, including cash forecasting, arranging credit facilities and cash pooling
- ii. Processing payments to vendors or suppliers
- iii. Managing relationships with financial institutions and investors in debt or equity instruments
- iv. Providing corporate finance advisory/transaction services, including debt or equity fund raising, capital budgeting, intra-group financing, provisioning of different forms of guarantees and remittances on behalf of group entities
- v. Assistance in internal group restructuring
- vi. Advising on the management of investments of the funds of the group entities
- vii. Advising or providing services in relation to financial risk management
- viii. Advising or providing services in relation to compliances with accounting standards, internal treasury policies and regulatory requirements in relation to treasury management
- ix. Advising or providing services on treasury management system operations
- x. Providing business planning and coordination, including economic or investment research and analysis in connection with any specified treasury services
- xi. An in-house centre providing virtual accounts to undertake settlements without the physical remittance of funds
- xii. A re-invoicing centre as long as such re-invoicing is undertaken for the limited purpose of ensuring that liquidity flow and financial risk can be aggregated and netted
- xiii. Any other treasury services with prior intimation to the IFSCA

Permissible treasury activities

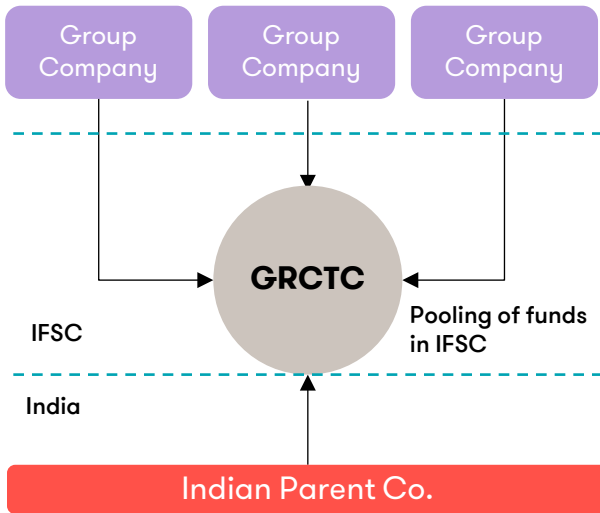
- i. Transacting/investing the funds in specified financial instruments for managing the cash and liquidity position
- ii. Transaction in respect of specified contracts
- iii. Factoring and forfaiting activities
- iv. Borrowing by collateralising the inventory held by its group entities
- v. Advances and structured credit facilities against future sales/exports
- vi. Commercial activity only to the extent that it serves the purpose of a re-invoicing centre
- vii. Structured finance transactions
- viii. Foreign exchange transactions
- ix. Transacting or investing in stocks and shares of any entity listed on recognised stock exchanges
- x. Extending credit facilities by raising short/long-term debt
- xi. Raising equity and other form of capital
- xii. Any other treasury activities with prior intimation to the IFSCA





Proposed structures for GRCTC in IFSC

Indian conglomerate having foreign group entities



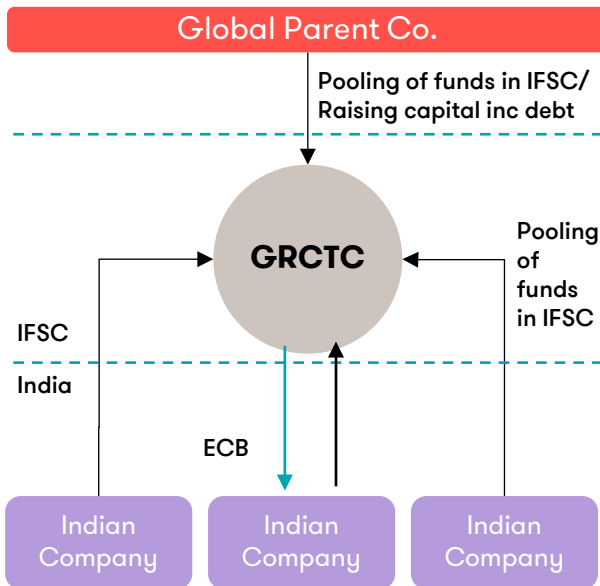
Commercial benefits on pooling of funds in GRCTC

- Consolidated fund management
- Enhanced utilisation of surplus funds and increased efficiency
- Pooling and investment of group funds in foreign currency
- Easy availability of foreign exchange at reasonable rates

Tax benefits

- Interest paid by a GRCTC to group companies outside India is exempt from tax
- Income earned by a GRCTC may be subject to a tax holiday

Foreign multinationals having an Indian group company



Commercial benefits on pooling of funds in GRCTC

- A GRCTC can raise money from the global parent and other group companies to meet the requirements of the Indian group entities in an efficient manner and at a reduced cost
- Indian group companies may benefit from outbound treasury activities

Tax benefits

- The interest paid by a GRCTC to group companies outside India is exempt from tax
- The Income earned by a GRCTC subject to a tax holiday
- The dividend paid by a GRCTC to a non-resident shareholder is subject to the reduced tax rate of 10%
- A proposal to exempt deemed dividend provisions in case where the parent company is listed in a stock exchange outside India



Tax benefits

A FC/FU set up within the IFSC undertaking global/regional corporate treasury activities shall be entitled to the following concessions applicable to the IFSC units.

- 100% income tax exemption for 10 consecutive years out of 15 years
- Minimum Alternate Tax (MAT) / Alternate Minimum Tax (AMT) at 9% of book profits applies to units in the IFSC (MAT is not applicable to companies in the IFSC opting for the new tax regime)
- Dividend paid to non-residents by a unit set up in the IFSC is taxable at a reduced tax rate of 10%
- Interest paid to non-residents is tax-exempt
- Deemed dividend provisions proposed to not apply where the parent entity of the group is listed on a recognised stock exchange outside India
- Nil goods and service tax (GST) on services received by units in the IFSC, or services provided to the IFSC/SEZ units or offshore clients
- GST applicable on services provided to the DTA. State subsidies applicable to the IFSC units

Our Insights

This framework will create opportunities for global and Indian corporates to develop international operations by centralising their treasury activities for availing corporate financing, including intra-group financing, better liquidity management, and risk management practices among others. IFSC-GIFT city would be an ideal location for setting up a global/regional corporate treasury centre on account of an attractive tax regime, robust banking ecosystem, access to capital markets and a facilitative regulatory regime.



How we can help



Evaluate the eligibility criteria for setting up an entity in IFSC in accordance with the prescribed regulations



File income tax and regulatory compliance and provide advisory services, as and when required, to the entities in the IFSC-GIFT City



Advise on the capital requirements and other conditions prescribed under the regulations



Obtain approval from the IFSC Authority and other statutory registrations for operating in the IFSC-GIFT city



Advise on the tax implications arising from activities in IFSC



Help with due diligence, internal audit and IT consulting

Our Differentiators



Fully operational office at GIFT City, which is in close proximity to the regulators; good relationship with both IFSCA and GIFT City authorities



Dedicated Partner/Director-led team with vast and varied experience in providing focused services to the financial services sector



Provide updates upon any change in laws and regulations through emails, webinars, alerts, flash news, etc.

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