

**International Financial Services Centres Authority (Finance Company) Regulations,
2021¹**

[As amended upto 1st July, 2022]

In exercise of the powers conferred by sub-section (1) of Section 28, read with sub-section (1) of Section 12 and sub-section (1) of Section 13 of the International Financial Services Centres Authority Act, 2019, the International Financial Services Centres Authority hereby makes the following regulations for Finance Company in the International Financial Services Centres, namely: -

**CHAPTER I
PRELIMINARY**

1. Short title and commencement

- (1). These regulations may be called the International Financial Services Centres Authority (Finance Company) Regulations, 2021.
- (2). They shall come into force from the date of their publication in the Official Gazette.

2. Definitions

(1) In these regulations, unless the context otherwise requires, -

- a) “Act” means the International Financial Services Centres Authority Act, 2019 (50 of 2019);
- b) “Aircraft Lease” includes operating and financial lease and any hybrid of operating and financial lease of aircraft or helicopter and engines of aircraft or helicopter or any other part thereof;
- c) “Authority” means the International Financial Services Centres Authority established under sub-section (1) of section 4 of the Act;
- d) “Banking Unit” shall have the same meaning as assigned to it under clause (c) of sub-regulation (1) of regulation 2 of the International Financial Services Centres Authority (Banking) Regulations, 2020;
- e) “Finance Company” means a financial institution as defined under clause (c) of sub-section (1) of section 3 of the Act, separately incorporated to deal in one or more of the permissible activities specified under sub-regulation (1) of regulation 5 of these regulations, provided:
 - (i) It does not accept public deposit from resident and non-resident, as defined in these regulations; and
 - (ii) It is not registered with the Authority as a Banking Unit;
- f) “Finance Unit” means a financial institution as defined under clause (c) of sub-section (1) of section 3 of the Act, set up as a branch permitted under these regulations to deal in one or more of the permissible activities specified under sub-regulation (1) of regulation 5 of these regulations, provided:
 - (i) it does not accept public deposit from resident and non-resident as defined in these regulations; and

¹ Vide Notification No. IFSCA/2020-21/GN/REG010, dated 25th March, 2021, published in the Gazette of India, Extraordinary, Part III, Sec.4, vide No. 573, on 31st March, 2021.

- (ii) it is not registered with the Authority as a Banking Unit;
- g) “International Financial Services Centre” shall have the same meaning as assigned to it under clause (g) of sub-section (1) of Section 3 of the Act;
 - h) “Non-resident” means a person resident outside India as defined under clause (w) of Section 2 of The Foreign Exchange Management Act, 1999;
 - i) “Owned fund” for a Finance Company shall mean the paid-up-capital and free reserves balance in share premium account and capital reserves representing surplus arising out of sale proceeds of asset, excluding reserves created by revaluation of asset, as reduced by accumulated loss balance, book value of intangible assets and deferred revenue expenditure, if any;
 - j) “Public deposit”, for the purposes of these regulations shall mean an amount raised from a resident or a non-resident, in any form which is repayable on demand or is a term deposit and includes such other amount as may be specified by the Authority from time to time;
 - k) “Resident” means a person resident in India as defined under clause (v) of Section 2 of The Foreign Exchange Management Act, 1999;
 - l) “Reserve Bank” means the Reserve Bank of India established under the Reserve Bank of India Act, 1934 (2 of 1934);
 - m) “Ship Lease” includes operating and financial lease and any hybrid of operating and financial lease of ships or ocean vessels and engines of ships or ocean vessels or any other part thereof;

(2) Words and expressions used and not defined in these regulations but defined in the Act or Acts mentioned in the First Schedule to the Act or Companies Act, 2013, or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

CHAPTER II

SETTING UP OF A FINANCE COMPANY

3. Registration Requirement

(1) An entity shall commence business as a Finance Company or Finance Unit, as the case may be, in International Financial Services Centres (IFSCs) only after obtaining a certificate of registration from the Authority for carrying out the activities specified in Schedule to these regulations.

²*Provided that* a certificate of registration under these regulations shall be required to be obtained by an entity intending to carry out such permissible activities which are not covered under the framework or regulations under which it was previously granted registration or authorisation, if any.

² Inserted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022)

Explanation: An entity that has obtained a certificate of registration or authorisation for a specific activity under another framework or regulations, issued or notified by the Authority, shall not be required to seek a fresh registration under these regulations for carrying out the same activity, if it is a permissible activity under regulation 5 of these regulations.]

³[(2) A Finance Company can be set up either as a subsidiary or a joint venture, or as a newly incorporated company under the Companies Act, 2013, or in any other form as may be specified by the Authority from time to time,

Provided that if the parent of a Finance Company is carrying out a regulated financial activity in its home jurisdiction, it shall obtain a No-objection Certificate from its home country regulator for setting up a Finance Company in the IFSCs, wherever applicable.]

⁴[(3) A Finance Unit can be set up if the applicant is an incorporated entity in its home jurisdiction.

Provided that a Finance Unit can be set up for undertaking core activities as specified in these regulations only if the applicant, being an incorporated entity in its home jurisdiction, is engaged in the business of financial services and is regulated by a financial sector regulator in its home jurisdiction and has obtained a No-Objection Certificate from the home regulator for setting up a Finance Unit in the IFSCs, wherever applicable.

Provided further that the conditions under the above proviso shall not apply to an incorporated entity which desires to set up a Global/Regional Corporate Treasury Centre as a Finance Unit in the IFSCs for undertaking treasury activities or treasury services in accordance with the relevant regulatory framework specified by the Authority.]

(4) An application for grant of registration as a Finance Company or a Finance Unit, as the case may be, shall be made by the applicant in the form and manner as specified by the Authority.

Provided that an applicant intending to undertake either one or more non-core activities may be considered for registration as ‘finance company’ for the purposes of

³ Substituted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022). Before substitution, it stood as under:

“ (2) A Finance Company can be set up either as a subsidiary or a joint venture, or as a newly incorporated company under Companies Act, 2013 (18 of 2013), or in any other form as may be specified by the Authority from time to time:

Provided that if an investing entity in a Finance Company is carrying out a regulated financial activity in its home jurisdiction, it shall obtain a No-objection Certificate from its home country regulator for setting up a Finance Company in the IFSCs, wherever applicable”

⁴ Substituted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022). Before substitution, it stood as under:

“ (3) A finance unit can be set up if the investing entity or the ultimate parent of the investing entity, as the case may be, is carrying out a regulated financial activity in its home jurisdiction and has obtained the No-objection certificate from the home country regulator for setting up a Finance Unit in the IFSCAs.

these regulations even if incorporated in the form of a Limited Liability Partnership or a Trust.

⁵[(5) A Finance Company or a Finance Unit seeking registration shall comply with following conditions:

(i) The applicant seeking registration as a ‘Finance Company’ shall have and maintain minimum owned fund, depending on the category of activity(ies) or a combination of activities classified under different categories under these regulations, and shall maintain the higher of the minimum capital or owned funds or net worth prescribed for each activity or category of activities specified in Schedule under these regulations or under any of the relevant regulatory framework issued by the Authority, as applicable.

(ii) In case the applicant, being an incorporated entity in its home jurisdiction, is seeking to set up and register a ‘Finance Unit’, it shall provide and maintain minimum owned fund on unimpaired basis at all times, depending on the category of activity(ies) or a combination of activities classified under different categories under these regulations, and shall maintain the higher of the minimum capital or owned funds or net worth prescribed for each activity or category of activities specified in Schedule under these regulations or under any of the relevant regulatory framework issued by the Authority, as applicable.]

6) The applicant entity and/or its promoters shall be from a FATF compliant jurisdiction and comply with international standards set by the Financial Action Task Force to combat money laundering and terrorist financing.

(7) After considering the application made under sub-regulation (4), if the Authority is satisfied that the terms and conditions as specified in these regulations have been complied with, it may grant certificate of registration to the applicant, in such form and subject to such conditions, as may be specified:

Provided that on a request received from an applicant, if the Authority is satisfied that the applicant may be given more time to comply with certain conditions for grant of registration, it may, for the reasons to be recorded in writing, consider grant of provisional registration giving additional time to the applicant, subject to such conditions, as it may deem necessary:

⁵ Substituted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022). Before substitution, it stood as under:

“(5) The applicant shall fulfil the following conditions for seeking registration with the Authority:

- (i) In case the applicant is seeking registration as a “Finance Company”, it shall have and maintain minimum owned fund, depending on the activity proposed to be undertaken by it, as specified in Schedule of these regulation, or such other higher amount as may be specified by the Authority.
- (ii) In case the applicant is seeking registration as “Finance Unit”, its parent shall provide and maintain minimum owned fund on unimpaired basis at all times, depending on the activity proposed to be undertaken by the Finance Unit, as specified in Schedule to these regulations, or such other higher amount as may be specified by the Authority.”

Provided further that the provisional registration can be withdrawn by the Authority if the Authority is satisfied that the applicant is unable to comply with any of the conditions under which the provisional registration was granted.

(8) After considering the application for registration, if the Authority is of the opinion that registration cannot be granted, it shall communicate the deficiencies to the applicant giving it thirty days' time to rectify them.

(9) If the applicant fails to rectify such deficiencies to the satisfaction of the Authority within the specified time, the Authority may refuse to grant certificate of registration and shall communicate the same to the applicant, giving reasons for such refusal:

Provided that no such refusal shall be made by the Authority without giving the applicant an opportunity to make written submissions on the grounds on which the registration is proposed to be refused.

CHAPTER III

PRUDENTIAL REGULATORY REQUIREMENTS

4. Applicable prudential regulations

(1) The prudential regulations applicable to a Finance Company or a Finance Unit, as the case may be, shall be such as may be specified by the Authority.

(2) Capital Ratio (CR)

A Finance Company or a Finance Unit, as the case may be, shall maintain a minimum capital ratio at eight *per cent.* of its regulatory capital to its risk-weighted assets or at such per centage as may be specified by the Authority.

(3) Liquidity Coverage Ratio (LCR)

A Finance Company or a Finance Unit as the case may be, shall maintain LCR on stand-alone basis, at all times, as may be determined by the Authority.

Provided that in the case of a Finance Unit, the LCR may be allowed to be maintained by the parent entity, with specific approval of the Authority.

(4) Exposure Ceiling (EC)

The sum of all the exposures of a Finance Company or a Finance Unit, as the case may be, to a single counterparty or group of connected counterparties shall not exceed twenty-five *per cent.* of its available eligible capital base without the approval of the Authority.

Explanation: The Authority shall issue operational guidelines with respect to the implementation of the requirements under sub-regulations (1) to (4) of regulation 4.

CHAPTER IV

PERMISSIBLE ACTIVITIES

5. Permissible activities

(1) A Finance Company or a Finance Unit, as the case may be, may undertake the following permitted core and non-core activities, subject to compliance with such terms and conditions or guidelines as may be specified by the Authority:

(i) ⁶[* * *]

⁷[(ii) **Permitted Core activities**

- (a) Lend in the form of loans, commitments and guarantees, credit enhancement, securitisation, financial lease, and sale and purchase of portfolios;
- (b) Factoring and forfaiting of receivables;
- (c) Undertake investments, including subscribing, acquiring, holding, or transferring securities or such other instruments, as may be permitted by the Authority;
- (d) Buy or Sell derivatives;
- (e) Global/Regional Corporate Treasury Centres; and
- (f) Any other core activity as may be permitted by the Authority.

⁶ Omitted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022). Prior to omission, it read as under:

“ Permitted Specialised Activities

- (a) Credit enhancement
- (b) Factoring and forfaiting of receivables
- (c) Any other specialised activity as may be permitted by the Authority.

⁷ Substituted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022). Before substitution, it stood as under:

“ (ii) Permitted Core Activities

- (a) Lend in the form of loans, commitments and guarantees, securitisation, and sale and purchase of portfolios;
- (b) Undertake investments, including subscribing, acquiring, holding, or transferring securities or such other instruments, as may be permitted by the Authority;
- (c) Undertake equipment leasing,
- (d) Carry out financial lease transactions for aircraft lease and ship lease;
- (e) Buy or Sell derivatives;
- (f) Global/Regional Corporate Treasury Centers;
- (g) Any other core activity as may be permitted by the Authority.

(iii) Permitted Non-core Activities

Subject to specific registration requirements, wherever applicable, permitted non-core activities for a Finance Unit, as the case may be, shall include following activities:

- (a) Merchant Banking;
- (b) Authorised person;
- (c) Registrar and Share Transfer Agent;
- (d) Trusteeship Services;
- (e) Investment Advisory Services;
- (f) Portfolio Management Services;
- (g) Distribution of mutual fund units;
- (h) Distribution of insurance products;
- (i) Function as trading and clearing members or professional clearing member of exchanges and clearing corporations set up in IFSC;
- (j) Transactions permitted under the Framework for Aircraft Operating Lease, as specified by the Authority
- (k) Transactions permitted under the Framework for Ship Operating Lease, as may be specified by the Authority;”
- (l) Asset Management support services permitted under the Framework for Enabling Ancillary Services as specified by the Authority,
- (m) Any other non-core activity, as may be permitted with prior approval of the Authority.

(iii) Permitted Non-core Activities

Subject to specific registration requirements, wherever applicable, permitted non-core activities for a Finance Company or a Finance Unit, as the case may be, shall include following activities:

- (a) Merchant Banking;
- (b) Authorised person;
- (c) Registrar and Share Transfer Agent;
- (d) Trusteeship Services;
- (e) Investment Advisory Services;
- (f) Portfolio Management Services;
- (g) Operating lease of any products, including aircraft lease, ship lease or any other equipment as may be specified by the Authority from time to time;
- (h) International Trade Financing Services Platform;
- (i) Distribution of financial products (including mutual fund units and insurance products);
- (j) Function as trading and clearing members or professional clearing member of exchanges and clearing corporations set up in IFSCs;
- (k) Asset Management support services permitted under the Framework for Enabling Ancillary Services as specified by the Authority;
- (l) Undertaking to act as facilitators of permissible activities as and when permitted by the Authority;
- (m) Any other activity without involving a customer interface, as may be permitted with the prior approval of the Authority, that is classified as a non-core activity by the Authority, under these regulations; and
- (n) any other activity, as may be permitted and classified as a non-core activity by the Authority, under these regulations.]

⁸[(2) A Finance Company or a Finance Unit registered for carrying out one or more non-core activities only, may be permitted to undertake investment activities for the purpose of liquidity and balance sheet management as part of its normal business operations and such investment activity shall not be treated as core activity for the purpose of these regulations.]

(3) A Finance Company or a Finance Unit intending to undertake either a single or a combination of non-core activities, shall fulfil the following conditions:

- (a) It shall carry out each such activity through separately identifiable department (SID);
- (b) It shall ensure a fire wall between various non-core activities so that no conflict of interest situation arises;
- (c) It shall formulate Board approved grievance redressal and customer compensation policy to deal with such complaints.

⁸ Substituted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022). Before substitution, it stood as under:

“(2) A Finance Company or a Finance Unit intending to undertake aircraft lease transactions shall be in conformity to the Cape Town convention and Protocol.”

⁹[(3A) A Finance Company or a Finance Unit intending to undertake any of the non-core activity (ies) shall be subject to the provisions of the respective framework as specified by the Authority for that particular activity.]

(4) The Finance Company or a Finance Unit, as the case may be, may undertake transactions in financial products and financial services as part of permissible activities as specified in sub-regulation (1), with both residents and non-residents:

Provided that any dealing with residents shall be subject to the provisions of Foreign Exchange Management Act, 1999.

(5) Every Finance Company or a Finance Unit, as the case may be, carrying out non-core activities may also undertake derivative transactions only for the purpose of hedging their underlying exposures.

(6) A Finance Company or a Finance Unit, as the case may be, shall not undertake or fund any speculative transaction.

(7) The source of funds for Finance Company or a Finance Unit, as the case may be, shall be from residents and non-residents:

Provided that any dealing with residents shall be subject to the provisions of Foreign Exchange Management Act, 1999.

CHAPTER V MISCELLANEOUS

6. Currency of Operations

(1) A Finance Company or a Finance Unit, as the case may be, shall carry out its operation in a freely convertible foreign currency and with such persons, whether resident or otherwise, as may be permitted by the Authority:

Provided that a Finance Company or a Finance Unit, as the case may be, may be permitted to conduct such business transactions denominated in INR as may be specified by the Authority, subject to settlement of those business transactions in freely convertible foreign currency.

(2) A Finance Company or a Finance Unit, as the case may be, shall be permitted to have an INR account out of the freely convertible foreign currency to defray their administrative and statutory expenses and for such other purposes as may be specified by the Authority.

(3) Every Finance Company or a Finance Unit shall maintain its balance sheet only in United States Dollars (USD). A Finance Unit shall ensure that accounts pertaining to its transactions are kept distinct from that of its parent.

7. Know Your Customer and Anti-Money Laundering

Every Finance Company and Finance Unit shall follow Know Your Customer norms, combating of financing of terrorism and other anti-money laundering requirements, including reporting requirements, as specified for a Banking Unit in IFSCs.

⁹ Inserted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022).

8. Corporate Governance and Disclosure Requirements

- (1) Every Finance Company and Finance Unit shall adhere to the guidelines on corporate governance and disclosure requirements to be specified by the Authority.
- (2) Any mergers, acquisitions, takeovers or change in management of a Finance Company, which results in its change in control of at least twenty *per-cent.* of total share capital, or of business decisions under an agreement, shall be subject to prior approval and such other requirements as may be specified by the Authority:

Provided that mergers, acquisitions, takeovers or change in management in the parent of a Finance Unit shall be in compliance to its registration requirements and shall be intimated to the Authority within a period of 15 days from the date of such event.

9. Reporting Requirements

- (1) Every Finance Company and Finance Unit shall furnish information relating to its operations to the Authority, in such manner, interval and form, as may be specified by the Authority.
- (2) Every financial reporting by a Finance Company and a Finance Unit to the Authority shall be in US Dollar, unless otherwise specified by the Authority.

10. Power to Specify Procedures and Issue Clarifications

- (1) For the purposes of implementation of these regulations and matters incidental thereto, or in order to facilitate and regulate financial services relating to activities permitted under these regulations, the Authority may specify norms, procedures, processes, manners including relaxations therefrom, if any, by way of circulars or guidelines.
- (2) The applicant entity /Finance Company/ Finance Unit, shall pay to the Authority, such fees and charges, as may be specified.

¹⁰[(10A). **Power to remove difficulties and relax strict enforcement of the regulations**

- (1) In order to remove any difficulty in the application or interpretations of the provisions of these regulations, the Authority may issue clarifications through guidance notes or circulars.
- (2) The Authority, for reasons to be recorded in writing, may in the interest of development of financial market, relax the strict enforcement of any requirement of these regulations, upon payment of fee, if any, as may be specified by the Authority.]

11. Action in Case of Default

If a Finance Company or a Finance Unit, as the case may be, fails to fulfil any of the conditions subject to which the registration under Regulation 3 has been granted, the Authority may take any action as it may deem fit, including suspension, withdrawal or cancellation of registration, after giving an opportunity to the entity, of making its submissions.

¹⁰ Inserted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022).

¹¹**[SCHEDULE**

[See regulation 3(1), 3(5)(i) and 3(5)(ii)]

No.	Activity	Minimum Owned Fund Requirement (in USD or equivalent amount in any other freely convertible currency)	Exempted Regulations, if Any
1	Undertaking one or more of the non-core activities only – without any core activity(ies).	(1) Higher of USD 0.2 million or any such amount as may be required to seek specific registration for a proposed non-core activity under the respective Framework/ Regulation for that particular activity; or (2) Any higher amount as may be specified by the Authority.	Regulation (4) and Regulation (8) subject to the following: (i) To have a Board approved prudential policy (ii) Fit and Proper criteria set out by the Authority.
2	Undertaking one or more core activities with or without non-core activities, except for Global/Regional Corporate Treasury Centres	1) Higher of USD 3 million, minimum regulatory capital for core activities as specified by the Authority; or any such amount as may be required for a non-core activity(ies) under the respective Framework/Regulation for that particular activity; or (2) Any higher amount as may be specified by the authority.	None

¹¹ Substituted by Notification No. IFSCA/2022-23/GN/REG026, dated 1st July, 2022 (w.e.f 04.07.2022). Before substitution, it stood as under:

“SCHEDULE

[See regulation 3(1), 3 (5) (i) and 3 (5) (ii)]

No.	Activity	Minimum Owned Fund	Exempted Regulations, if any
1	Undertaking only operating lease transactions for aircraft lease.	USD 0.2 mn or equivalent amount in any other freely convertible currency	Regulation (4) and Regulation (8) subject to the following: (i) To have a Board approved prudential policy (ii) Fit and Proper criteria set out by the Authority.
2	Undertaking one or more of the non-core activities.	USD 0.2 mn or equivalent amount in any other freely convertible currency or any such amount as may be required to seek specific registration for a proposed non-core activity.	
3	Undertaking to act as facilitators of core activities as and when permitted by the Authority.		
4	Undertaking any of the permissible activities, if operating without customer interface.		
5	Undertaking one or more core activities with or without non-core activities.	USD 3 mn or equivalent amount in any other freely convertible currency.	None
6	Undertaking specialised activities with or without core or non-core activities.	USD 5 mn or equivalent amount in any other freely convertible currency.	None

3.	Undertaking activities of Global/Regional Corporate Treasury Centres.	Higher of USD 0.2 million or any such amount as may be required under the relevant regulatory framework specified by the Authority	Regulation (4) subject to the following: (i) To have a Board approved prudential policy (ii) Fit and Proper criteria set out by the Authority.
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