



भारतीय रिज़र्व बैंक

RESERVE BANK OF INDIA

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RBI/2014-15/533

DBR.IBD.BC. 14570/23.13.004/2014-15

April 1, 2015

All Scheduled Commercial Banks
(excluding Regional Rural Banks)

Dear Sir/Madam,

Setting up of IFSC Banking Units (IBUs)

Please refer to the Reserve Bank of India [Notification No. FEMA.339/2015-RB dated March 02, 2015](#) (copy enclosed) under FEMA 1999 on Foreign Exchange Management (International Financial Services Centre) Regulations, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). These regulations have been published in the Official Gazette of Government of India on March 23, 2015 vide Notification No. G.S.R. 218 (E) dated March 2, 2015.

2. Pursuant to the above Notification, Reserve Bank has formulated a scheme for the setting up of IFSC Banking Units (IBUs) by banks in IFSCs. The broad contours of the scheme for Indian banks and foreign banks already having presence in India are detailed in Annex I and Annex II, respectively. You may be aware that Government of India has already announced setting up of an IFSC in Gujarat namely Gujarat International Finance Tec-City (GIFT) in Gandhinagar, Gujarat. The guidelines contained in this circular will be applicable to IBUs set up in GIFT as well as in other IFSCs which may be set up in India.

3. Eligible banks intending to set up IBU may approach this department with an application under Section 23 of the Banking Regulation Act, 1949.

Yours faithfully

(Rajinder Kumar)
Chief General Manager

Scheme for setting up of IFSC Banking Units (IBU) by Indian Banks

The Reserve Bank has issued a notification under FEMA vide Notification No. FEMA.339/2015-RB dated March 02, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). The regulatory and supervisory framework governing IBUs set up in IFSCs by Indian banks is detailed below.

2. The scheme**2.1 Eligibility criteria**

Indian banks viz. banks in the public sector and the private sector authorised to deal in foreign exchange will be eligible to set up IBUs. Each of the eligible banks would be permitted to establish only one IBU in each IFSC.

2.2 Licensing

Eligible banks interested in setting up IBUs will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1)(a) of the Banking Regulation Act, 1949 (BR Act). For most regulatory purposes, an IBU will be treated on par with a foreign branch of an Indian bank.

2.3 Capital

With a view to enabling IBUs to start their operations, the parent bank will be required to provide a minimum capital of US\$ 20 million or equivalent in any foreign currency to its IBU. The IBU should maintain the minimum prescribed regulatory capital on an on-going basis as per regulations amended from time to time.

2.4 Reserve requirements

The liabilities of the IBU are exempt from both CRR and SLR requirements of Reserve Bank of India.

2.5 Resources and deployment

The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and deployment of the funds can be with both persons resident in India as well as persons not resident in India. However, the deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.

2.6 Permissible activities of IBUs

The IBUs will be permitted to engage in the form of business mentioned in Section 6(1) of the BR Act as given below, subject to the conditions, if any, of the licence issued to them.

- i. IBUs can undertake transactions with non-resident entities other than individual / retail customers / HNIs.
- ii. All transactions of IBUs shall be in currency other than INR.
- iii. IBUs can deal with the Wholly Owned Subsidiaries / Joint Ventures of Indian companies registered abroad.
- iv. IBUs are allowed to have liabilities including borrowing in foreign currency only with original maturity period greater than one year. They can however raise short term liabilities from banks subject to limits as may be prescribed by the Reserve Bank.
- v. IBUs are not allowed to open any current or savings accounts. They cannot issue bearer instruments or cheques. All payment transactions must be undertaken via bank transfers.
- vi. IBUs are permitted to undertake factoring / forfaiting of export receivables.
- vii. IBUs are permitted to undertake transactions in all types of derivatives and structured products with the prior approval of their Board of Directors. IBUs dealing with such products should have adequate knowledge, understanding, and risk management capability for handling such products.

2.7 Prudential regulations

All prudential norms applicable to overseas branches of Indian banks would apply to IBUs. Specifically, these units would be required to follow the 90 days' payment delinquency norm for income recognition, asset classification and provisioning as applicable to Indian banks. The bank's board may set out appropriate credit risk management policy and exposure limits for their IBUs consistent with the regulatory prescriptions of the RBI.

The IBUs would be required to adopt liquidity and interest rate risk management policies prescribed by the Reserve Bank 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 board at prescribed intervals.

The bank's board would be required to set comprehensive overnight limits for each currency for these Units, which would be separate from the open position limit of the parent bank.

2.8 Anti-Money Laundering measures

The IBUs will be required to scrupulously follow "Know Your Customer (KYC)", Combating of Financing of Terrorism (CFT) and other anti-money laundering instructions issued by the Reserve Bank from time to time. IBUs are prohibited from undertaking cash transactions.

2.9 Regulation and Supervision

The IBUs will be regulated and supervised by the Reserve Bank of India.

2.10 Reporting requirements

The IBUs will be required to furnish information relating to their operations as prescribed by the Reserve Bank from time to time. These may take the form of offsite reporting, audited financial statements for IBUs, etc.

2.11 Ring fencing the activities of IFSC Banking Units

The IBUs would operate and maintain balance sheet only in foreign currency and will not be allowed to deal in Indian Rupees except for having a Special Rupee account out of convertible fund to defray their administrative and statutory expenses. Such operations/transactions of these units in INR would be through the Authorised Dealers (distinct from IBU) which would be subject to the extant Foreign Exchange regulations. IBUs are not allowed to participate in the domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.

The IBUs will be required to maintain separate nostro accounts with correspondent banks which would be distinct from nostro accounts maintained by other branches of the same bank.

2.12 Priority sector lending

The loans and advances of IBUs would not be reckoned as part of the Net Bank Credit of the parent bank for computing priority sector lending obligations.

2.13 Deposit insurance

Deposits of IBUs will not be covered by deposit insurance.

2.14 Lender of Last Resort (LOLR)

No liquidity support or LOLR support will be available to IBUs from the Reserve Bank of India.

Scheme for setting up of IFSC Banking Units (IBU) by foreign banks already having a presence in India

The Reserve Bank has issued a notification under FEMA vide Notification No. FEMA.339/2015/RB dated March 02, 2015 setting out RBI regulations relating to financial institutions set up in International Financial Services Centres (IFSC). The regulatory and supervisory framework governing the IFSC Banking Units (IBU) set up by foreign banks is detailed below.

2. The scheme**2.1 Eligibility criteria**

Only foreign banks already having presence in India will be eligible to set up IBUs. This shall not be treated as a normal branch expansion plan in India and therefore, specific permission from the home country regulator for setting up of an IBU will be required. Each of the eligible banks will be permitted to establish only one IBU in each IFSC.

2.2 Licensing

The banks will be required to obtain prior permission of the Reserve Bank for opening an IBU under Section 23 (1) (a) of the Banking Regulation Act, 1949 (BR Act). The applications of foreign banks will be considered on the basis of extant guidelines for setting up branches in India subject to the additional requirement of the home country regulator/s confirmation in writing of their regulatory comfort for the bank's presence in the IFSC, having regard among other things, to the provisions of paragraphs 2.3 and 2.14 below.

2.3 Capital

With a view to enabling IBUs to start their operations, the parent bank would be required to provide a minimum capital of US\$ 20 million or equivalent in any currency, other than INR, to the IBU. The IBUs should maintain the minimum prescribed regulatory capital on an on-going basis as per regulations amended from time to time. The parent bank will be required to provide a Letter of

Comfort for extending financial assistance, as and when required, in the form of capital / liquidity support to IBU.

2.4 Reserve requirements

The liabilities of the IBU are exempt from both CRR and SLR requirements of Reserve Bank of India.

2.5 Resources and deployment

The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and deployment of the funds can be with both persons resident in India as well as persons not resident in India. However, the deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.

2.6 Permissible activities of IBUs

The IBUs will be permitted to engage in the form of business mentioned in Section 6(1) of the BR Act as given below, subject to the conditions, if any, of the licence issued to them.

- i. IBUs can undertake transactions with non-resident entities other than individual / retail customers / HNIs.
- ii. All transactions of IBUs shall be in currency other than INR.
- iii. IBUs can deal with the Wholly Owned Subsidiaries / Joint Ventures of Indian companies registered abroad.
- iv. IBUs are allowed to have liabilities including borrowing in foreign currency only with original maturity period greater than one year. They can however raise short term liabilities from banks subject to limits as may be prescribed by the Reserve Bank.
- v. IBUs are not allowed to open any current or savings accounts. They cannot issue bearer instruments or cheques. All payment transactions must be undertaken via bank transfers.
- vi. IBUs are permitted to undertake factoring/forfeiting of export receivables.
- vii. IBUs are permitted to undertake transactions in all types of derivatives and structured products with the prior approval of their Board of Directors. IBU dealing with such products should have adequate knowledge, understanding, and risk management capability for handling such products.

2.7 Prudential regulations

An IBU shall adopt prudential norms as prescribed by Reserve Bank of India. The bank's board may set out appropriate credit risk management policy and exposure limits for their IBUs consistent with the regulatory prescriptions of the Reserve Bank of India.

The IBUs will be required to adopt liquidity and interest rate risk management policies prescribed by the Reserve Bank and function within the overall risk management and ALM framework of the bank subject to monitoring by the board at prescribed intervals.

The bank's board would be required to set comprehensive overnight limits for each currency for these Units, which would be separate from the open position limit of the other branch/es of the foreign bank having a presence in India.

2.8 Anti-Money Laundering measures

The IBUs will be required to scrupulously follow "Know Your Customer (KYC)", Combating of Financing of Terrorism (CFT) and other anti-money laundering instructions issued by RBI from time to time, including the reporting thereof, as prescribed by the Reserve Bank / other agencies in India. IBUs are prohibited from undertaking cash transactions.

2.9 Regulation and supervision

The IBUs of foreign banks will be regulated and supervised by the Reserve Bank of India.

2.10 Reporting requirements

The IBUs will be required to furnish information relating to their operations as prescribed from time to time by the Reserve Bank. These may take the form of offsite reporting, audited financial statements for the IBU, etc.

2.11 Ring fencing the activities of IFSC Banking Units

The IBUs would operate and maintain balance sheet only in foreign currency and would not be allowed to deal in Indian Rupees except for having a Special Rupee account out of convertible fund to defray their administrative and statutory expenses. Such operations/transactions of these units in INR would be through the Authorised Dealers (distinct from IBU) which would be subject to the extant Foreign Exchange regulations. IBUs are not allowed to participate in the domestic call, notice, term, forex, money and other onshore markets and domestic payment systems.

The IBUs will be required to maintain separate nostro accounts with correspondent banks which would be distinct from nostro accounts maintained by other branches of that foreign bank in India.

2.12 Priority sector lending

The loans and advances of IBUs will not be reckoned as part of the Net Bank Credit for computing priority sector lending obligations of the foreign bank in India.

2.13 Deposit insurance

Deposits of IBUs will not be eligible for deposit insurance in India.

2.14 Lender of Last Resort (LOLR)

No liquidity support or LOLR support will be available to IBUs from the Reserve Bank of India.