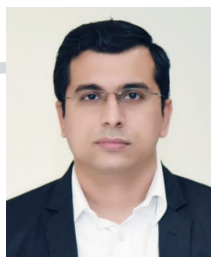


Capital Markets Ecosystem in GIFT-IFSC

IFSCA had notified the IFSCA (Market Infrastructure Institutions) Regulations in April, 2021¹ providing a unified regulatory framework for stock exchanges, clearing corporations and depositories operating in IFSC. The regulations, inter-alia provide for the requirements for grant of recognition of MIIs, net worth requirement and shareholding requirements, fit and proper criteria for Directors, Shareholders and KMPs of MIIs, Governance norms and code of conduct to be followed by MIIs.



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INTRODUCTION

The International Financial Services Centres Authority (IFSCA) has been established on April 27, 2020 under the International Financial Services Centres Authority Act, 2019. It is headquartered at GIFT City, Gandhinagar in Gujarat.

IFSCA was established in 2020 as a unified regulator with a holistic vision to promote ease of doing business in IFSC and provide a world class regulatory environment. The main objective of IFSCA is to develop a strong global connect and focus on the needs of the Indian economy as well as to serve as an international financial platform for the entire region and the global economy as a whole.

The IFSCA is a unified authority for the development and regulation of financial products, financial

services and financial institutions in the International Financial Services Centre (IFSC) in India. At present, the GIFT-IFSC is the maiden international financial services centre in India. Prior to the establishment of IFSCA, the domestic financial regulators, namely, RBI, SEBI, PFRDA and IRDAI regulated the business in IFSC.

CAPITAL MARKETS ECOSYSTEM IN IFSC

The Capital Markets ecosystem in IFSC consists of:

- Market Infrastructure Institutions (MIIs) which comprise the Stock Exchanges, Clearing Corporations and Depository
- Capital Market Intermediaries (CMI) such as Broker-Dealers, Clearing Members, Depository Participants, Investment Advisors, Custodians, Investment Bankers, etc.

The MIIs provide the necessary infrastructure for listing, trading, clearing and settlement of securities and form the crucial pillars of the capital market ecosystem. At present, there are two Stock Exchanges, two Clearing Corporations and one Depository in IFSC:

Name	Type of MII	Owned by
India International Stock Exchanges IFSC Limited	Stock Exchange	Subsidiary of BSE Limited
NSE IFSC Limited	Stock Exchange	Subsidiary of NSE India
India International Clearing Corporation IFSC Limited	Clearing Corporation	Subsidiary of BSE
NSE IFSC Clearing Corporation Limited	Clearing Corporation	Subsidiary of NSE Clearing Limited
India International Depository IFSC Limited	Depository	Owned by a consortium led by BSE, NSE, MCX, NSDL and CDSL

Additionally, there are 127 capital market intermediaries registered with IFSCA in the form of Broker-Dealers, Clearing Members, Depository Participants, Investment Advisors, Custodians, Investment Bankers and Debenture Trustees.

REGULATORY FRAMEWORK FOR MARKET INFRASTRUCTURE INSTITUTIONS IN IFSC

IFSCA had notified the IFSCA (Market Infrastructure Institutions) Regulations in April, 2021¹ providing a unified regulatory framework for stock exchanges, clearing corporations and depositories operating in IFSC. The regulations, *inter-alia* provide for:

- a) the requirements for grant of recognition of MIIs
- b) net worth requirements
- c) shareholding requirements
- d) fit and proper criteria for directors, shareholders and Key Management Personnel of MIIs
- e) the corporate governance norms and code of conduct to be followed by the MIIs

The extant corporate governance norms require the MIIs to constitute their Governing Board in such a way that the number of Public Interest Directors (Independent Directors) should not be less than the Shareholder Directors. Further, it also mandates the appointment of the Chairman of the Governing Board from the Public Interest Directors.

The regulations also require the MIIs to follow the broader principles of governance prescribed under the Principles for Financial Market Infrastructures by the Committee on Payments and Market Infrastructures (CPMI) and International Organization of Securities Commissions (IOSCO).

IFSCA has mandated the constitution of various Committees² by the MIIs for effective regulatory oversight on their functioning. Such Committees include the Member Selection Committee, Investor Grievance Redressal Committee, Nomination and Remuneration Committee, Standing Committee of Technology, Regulatory Oversight Committee, Audit Committee. Additionally, the code of conduct and code of ethics for Directors and Key Managerial Personnel of the MIIs has also been specified by IFSCA by way of a circular.³

REGULATORY FRAMEWORK FOR CAPITAL MARKET INTERMEDIARIES IN IFSC

IFSCA has notified the IFSCA (Capital Market Intermediaries) Regulations, 2021 (CMI Regulations)⁴ for providing regulatory framework for various capital market intermediaries in IFSC. The CMI Regulations provide a comprehensive and unified regulatory framework for regulatory requirements in respect of registration, obligations and responsibilities, cross-border business,

¹ <https://ifsc.gov.in/Document/Legal/ifsc-market-infrastructure-institutions-regulations-202119042021052010.pdf>

² <https://ifsc.gov.in/Document/Legal/committees-at-market-infrastructure-institutions-miis-in-ifsc-28062022095230.pdf>

³ <https://ifsc.gov.in/Document/Legal/circular-for-the-code-of-conduct-and-code-of-ethics-for-the-directors-and-key-managerial-personnel-of-the-miis-gift-ifsc13092021100456.pdf>

⁴ <https://ifsc.gov.in/Document/Legal/ifsc-capital-market-intermediaries-regulations-2021-as-amended-up-to-july-3-202320072023040848.pdf>

The Connect aims to bring together international and GIFT-IFSC participants to create a bigger liquidity pool for Nifty products in GIFT-IFSC. SGX has set up a subsidiary in GIFT-IFSC to act as a pass-through entity for orders routed through SGX which is registered with IFSCA as broker-dealer cum clearing member. Full-scale operations of GIFT Connect commenced from July 3, 2023 with US\$8.05 billion open interest in Nifty futures and over US\$1.04 billion open interest in Nifty Options. Following the transition, all US dollar-denominated Nifty derivatives contracts are being exclusively traded on NSE IFSC for more than 21 hours in a day which overlaps Asia, Europe, and US trading hours.

inspection, and enforcement of various types of capital market intermediaries.

All the capital market intermediaries in IFSC are subject to a fit and proper criteria and code of conduct as specified in the CMI Regulations.

OFFERINGS BY STOCK EXCHANGES IN IFSC

Stock Exchanges in IFSC offer trading in Equity Index Derivatives, Currency Derivatives, Commodity Derivatives, Bonds (Green bonds, corporate bonds, masala bonds, sustainable bonds, etc) and Depository Receipts. The trading, clearing and settlement in IFSC happens in US Dollar eliminating foreign exchange risk for foreign investors and providing access to Indian capital markets.

The most popular index derivatives available on India INX are S&P BSE SENSEX & S&P BSE SENSEX 50. NSE IX offers trading in Futures and Options contracts on four Indices which are, NIFTY 50 Index, NIFTY BANK INDEX, NIFTY FINANCIAL Services Index, NIFTY IT Index.

The trading by non-residents in the securities listed on the Stock Exchanges in IFSC is exempt from capital gains tax. Additionally, the trading on stock exchanges in IFSC is also exempt from Securities Transaction Tax. This acts as a major incentive for non-resident investors to trade on the stock exchanges.

The Stock Exchanges in IFSC are open for trading for more than 21 hours in a day which overlaps the time zones of Japan, Europe, and USA and offers convenience in trading hours to international investors from various jurisdictions.

Subsequent to the full-scale operationalization of GIFT Connect, there has been a 75% increase in the turnover of derivatives on the Stock Exchanges in FY 2023-24 in comparison to FY 2022-23.



GIFT CONNECT

The NSE IFSC-SGX Connect (rebranded as the GIFT Connect) is a mutual collaborative effort between the NSE International Exchange (NSE-IX) and the Singapore Exchange (SGX). With India's economy projected to become the world's third largest in the near future, the GIFT Connect presents an innovative pathway for international investors to gain exposure to India equities market.

The Connect aims to bring together international and GIFT-IFSC participants to create a bigger liquidity pool for Nifty products in GIFT-IFSC. SGX has set up a subsidiary in GIFT-IFSC to act as a pass-through entity for orders routed through SGX. This subsidiary is registered with IFSCA as a Broker-Dealer cum Clearing Member.

The full-scale operations of GIFT Connect commenced from July 3, 2023 with US\$8.05 billion open interest in Nifty futures and US\$1.04 billion open interest in Nifty Options migrating from SGX to NSE-IX. Following this transition, all US dollar-denominated Nifty derivatives contracts are being exclusively traded on NSE-IX. The trading activity on NSE-IX has been witnessing steady growth since this transition.

During the period July 2023 to June 2024, the total turnover in NIFTY products \$881.26 billion with the highest monthly turnover of \$95.55 billion being recorded in the month of June 2024.

DIRECT LISTING

The Hon'ble Union Minister of Finance and Corporate Affairs of India on July 28, 2023, announced the decision

of Government of India to allow direct listing of equity shares of public Indian Companies on the international exchanges in the IFSC ("Direct Listing").

Subsequently, the Government of India has on January 24, 2024 notified Foreign Exchange Management (Non-debt Instruments) Amendment Rules, 2024 and the Companies (Listing of Equity Shares in Permissible Jurisdictions) Rules, 2024 enabling direct listing of equity shares by public Indian companies on the international exchanges in the IFSC.

IFSCA has the regulatory framework for issuance and listing of securities in form of IFSCA (Issuance and Listing of Securities) Regulations, 2021. The listing regulations issued by IFSCA is proposed to be revised in line with global best practices. It is expected that Indian companies, especially the start-ups in the sunrise and technology sectors can utilize the opportunity to raise foreign capital through Direct Listing on Stock Exchanges in IFSC.

CONCLUSION

The capital market ecosystem in GIFT-IFSC represents a dynamic and sophisticated environment designed to cater to the diverse needs of global financial participants. The presence of world-class Market Infrastructure Institutions supported with robust regulatory framework and favorable tax regime enhances the attractiveness of IFSC as premier international financial hub. The recent announcement of Direct Listing is expected to play a pivotal role for the issuers and investors in GIFT-IFSC and contribute towards the vision of Government of India to make GIFT-IFSC as a gateway for inflow of capital into India.