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# The IFSCA Banking Handbook

## General Directions- V 4.0

### (GEN)

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# IFSCA BANKING HANDBOOK

## INTERPRETATION

## 1. Legal framework

- i. The International Financial Services Centres Authority Act, 2019 (IFSCA Act) provides the foundation for regulatory framework, under the broad definitions of 'financial institution', 'financial services' and 'financial product', for entities and activities including those related to banking business.
- ii. Apart from the IFSCA Act, other legislations mentioned in First Schedule of the IFSCA Act, such as the Reserve Bank of India Act, 1934 (RBI Act); the Banking Regulation Act, 1949 (B R Act); the Securities Contracts (Regulations) Act, 1956 (SCRA Act); the Securities and Exchange Board of India Act, 1992 (SEBI Act); the Foreign Exchange Management Act, 1999 (FEMA); the Credit Information Companies (Regulation) Act, 2005 (CIC Act), the Payment and Settlement Systems Act, 2007 (PSS Act), among others, provide the necessary references related to the powers of the Authority in relation to financial products, financial services and financial institutions. The relevant provisions of such Acts and other laws of India shall also be applicable for banking and other businesses in IFSCs. Accordingly, the IBUs must ensure that they are in compliance with all the relevant provisions of the applicable laws of India, unless specifically exempted
- iii. In case any applicable statute mandates the requirement of audit of the books of accounts of the IBU (Statutory audit), the audit shall be conducted by an entity eligible to conduct such audit as per the respective statute. In case the statute is silent on the eligible entity, the appropriate entity to undertake the Audit may be decided by the IBU.

## 2. IFSCA Banking Regulation

### i. IFSCA's functions and powers for making Regulations

- i. The IFSCA Act, in terms of Section 28(1) empowers the Authority to, by notification, make Regulations consistent with the IFSCA Act and the 'Rules' made thereunder by the Government of India, for carrying out the provisions of the IFSCA Act.
- ii. In terms of Section 12(1) of the IFSCA Act, one of the main functions of the Authority is to develop and regulate the financial products, financial services and financial institutions in IFSCs, by such measures as it deems fit, subject to the provisions of the IFSCA Act. The IFSCA Act, under Section 13(1), enables the Authority to exercise all powers exercisable by an appropriate regulator, under other legislations included in First Schedule of the IFSCA Act, in so far as it relates to the regulation of the financial products, financial services or financial institutions, as the case may be.

### ii. IFSCA Banking Regulations

- i. The IFSCA Banking Regulations made and notified, including the amendments made to them, from time to time - last updated on July 6, 2021, lay down the regulatory framework for IFSC Banking Units (IBUs) and their activities in an IFSC.
- ii. An IBU means a financial institution under clause (c) of sub-section (1) of Section 3 of the Act that is licensed by the Authority to undertake permissible activities under the IFSCA Banking Regulations.
- iii. The IFSCA Banking Regulations provide that the Authority may specify norms, procedures, processes, manners or provide relaxations, by way of guidelines or circulars, for the purposes of implementation of these regulations and matters

incidental thereto, or in order to facilitate and regulate financial services relating to banking activities in an IFSC.

iii. Other IFSCA Regulations applicable for IBUs

In addition to the IFSCA Banking Regulations, some or all the provisions of other Regulations issued by the Authority may be made applicable to the IBUs in respect of certain types of activities.

### 3. Purpose of the IFSCA Banking Handbook

- i. The IFSCA Banking Handbook ('Handbook') contains the directions of the Authority to the Banking Units (BUs) operating as branch of a Banking Company (also referred to as 'parent bank' in the IFSCA Banking Regulations). Unless generally or specifically exempted, the BUs are required to comply with the directions in this Handbook without fail.
- ii. The Authority may, where it feels necessary to do so, issue "Guidance" on the directions for the purpose of amplifying and clarifying the requirements of the directions. BUs are required to take note of the Guidance while complying with the Directions. However, strict compliance of the requirements of the Guidance is not expected as long as the IBU has complied with requirements of the Directions
- iii. The Handbook has three components – General directions, Conduct of Business directions and Prudential Directions applicable to BUs.

### 4. Application of IFSCA Banking Handbook

- i. The IFSCA Banking Handbook shall apply to all IBUs.
- ii. The IBUs shall be required to follow, in addition to the IFSCA Banking Handbook, the regulations / directions / circulars / guidelines / frameworks issued by the Authority in respect of certain specific permitted activities such as Portfolio Management Services, Investment Advisory services, Custodian services, Factoring and Forfaiting, Aircraft Leasing, International Trade Financing Services (ITFS) Platforms and any other such regulations / directions / circulars / guidelines / frameworks issued by the Authority.

### 5. Structure and Components of IFSCA Banking Handbook

- i. The IFSCA Banking Handbook consists of the following three components –
  - (a) General directions (GEN)
  - (b) Conduct of Business directions (COB)
  - (c) Prudential directions (PRU)
- ii. The modules in GEN deal with licencing of IBUs, defining 'controlled' and 'designated' functions and the requirements from 'approved/authorised individuals' who can carry out such functions. The GEN directions also lay out the broad principles for banking business and provide information about the Authority's supervisory powers, functions and approach.
- iii. The modules in COB are aimed at ensuring that IBUs (and other financial institutions operating in the IFSC, wherever made applicable) meet the minimum standards of conduct expected, particularly with regard to the treatment of their clients, their dealings with counterparties and other market participants. COB also includes directions to ensure that the behaviour of IBUs (and other financial institutions operating in the IFSC wherever made applicable) contributes to fostering and maintaining the integrity of financial markets

in the IFSC and will assist the Authority to meet the regulatory objectives, including and particularly those related to:

- (a) protecting the interests of investors and users of financial services;
  - (b) ensuring that the IFSC's financial markets are fair, efficient, transparent and orderly;  
and
  - (c) fostering and maintaining confidence in the IFSC's financial system and regulatory regime.
- iv. Under the extant IFSCA Banking Regulations, an IBU can be set up and operate only as a branch of a parent bank that is regulated by its Home Regulator. The IFSCA Banking Regulations also provide that the minimum initial / regulatory capital for the IBU may be maintained at the parent bank as per the Home Regulators. On similar lines, the IBU shall follow all other non-qualitative prudential requirements applicable on it as a branch of the parent bank under the respective Home Regulations, unless the Authority prescribes any directions for the IBUs on any aspect. The PRU modules cover the prudential requirements in respect of governance, governing board responsibilities, policies, systems and controls to be made applicable on IBUs.





# **IFSCA Banking Handbook**

## **GENERAL DIRECTIONS**

### **(GEN)**

## **MODULE NO.1**

### **LICENSING OF BANKING UNITS**

#### **(LIBU)**

## 1. Requirement for license

- i. Section 3(1) of the IFSCA (Banking) Regulations, 2020 (as amended) (hereinafter referred to as “the regulations”) require Indian Banks and Foreign Banks (hereinafter referred to as the Banking company) to obtain license from the Authority to set up an IBU in an International Financial Services Centre.
- ii. Section 3(8) of the Regulations permits the Banking Company to establish only one IBU in each IFSC and in the form of a branch of the Banking Company.
- iii. Section 3(9) of the Regulations permit a Banking company incorporated in India or outside India to set up Representative Offices (ROs) in IFSC. Module 12 of the Conduct of Business Directions of the IFSCA Banking Handbook lays down the mechanism for setting up a RO in IFSC
- iv. These directions specify the procedure for applying for such licence, conditions to be fulfilled for grant of licence and procedure for acceptance/rejection of application by the Authority.

## 2. Application for license

- i. The Banking company desirous of opening an IBU shall apply to the Authority for a Licence by:
  - (a) completing the form prescribed in Annex 1 and filing the Application Form with the Authority accompanied by such documents as are specified in the Form;
  - (b) providing the information required in Annex 2 such further information as the Authority may require; and
  - (c) paying the fee prescribed in by the Authority<sup>1</sup>

## 3. Minimum conditions for consideration of license application

- i. In addition to the requirements in 2, the Banking company applying for licence to set up an IBU in IFSC (other than in Rule 3 (I)) shall satisfy the following conditions to be considered for issue of license:
  - a. The Banking company shall undertake to maintain necessary regulatory capital for the operations of the IBU subject to a minimum capital of USD 20 million (Base Capital requirement) to be maintained from the date of commencement of operations of the IBU.
  - b. The Banking company shall submit an undertaking to the Authority to the effect:
    - (i) that it shall ensure that the IBU shall have access to liquid assets and financial resources which are adequate in relation to the nature, size

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<sup>1</sup> Fee structure for IFSC Banking Units ( F.no.276/IFSCA/Banking Supervision/2021-22/1 date May 11,2021)

and complexity of the business of the IBU to ensure that there is no significant risk that liabilities cannot be met as and when they fall due.

- (ii) that it complies and shall continue to comply with its home regulator's prudential requirements;
  - (iii) that it will share with the Authority reports pertaining to capital adequacy, liquidity risk and leverage ratio that it submits to its home regulator, within such time as may be specified by the Authority.
  - (iv) that, in case of any anticipated or actual breach of any prudential requirements set by its home regulator, it shall notify the Authority forthwith with any relevant documents.
- c. The Banking company shall submit a No Objection Letter from its Home Regulator regarding setting up of an IBU in the International Financial Services Centre;
  - d. The term “home regulator” for the purpose of these directions means a regulatory authority (by whatever name called) that has direct regulatory authority over, and carries out oversight of, the Banking company in the jurisdiction where the Banking company has been incorporated and the term “home supervisor” should be understood along the same lines.

#### 4. Transitional provisions:

- i. IBUs operating in IFSC on the date of commencement of the provisions of the Handbook shall be deemed to have been licensed by the Authority under the provisions of this module.
- ii. IBUs in (i) shall be required to provide the undertaking as required in para 3(i) (a) & (b) to the Authority before April 1,2022.

#### 5. Conditions for granting license

- i. In considering the application of the Banking company for setting up an IBU, the Authority shall also consider the following financial/ non-financial parameters:
  - a. Business record and past performance of the Banking company.
  - b. Preliminary assessment of the Banking company’s internal control system for meeting operational efficiency and effectiveness, managerial and financial reporting, etc.
  - c. Preliminary assessment of Banking company’s Risk management policy including its scope.
  - d. Sources of resource raising by the Banking company.
  - e. Soundness and feasibility of the nature and scale of the business proposed to be conducted out of the proposed IBU
  - f. The Banking company’s track record in complying with Anti-Money laundering/Combating the financing of terrorism (AML/CFT) guidelines in its home jurisdiction.

- g. Ability of the Banking company to appoint persons with the competence and experience to manage the proposed IBU responsibly.
  - h. The extent of Banking company's resources to identify, monitor, measure and take action to remove or reduce risks as to its safety and soundness.
  - i. Extent and sophistication of technology use in operations and reporting to the regulator and the use of (Regtech)
- ii. While considering the application, the Authority shall presume that the processes, practices and policies of the Banking company shall apply, mutatis mutandis, to the operations of the IBU in IFSC if the license is granted. It shall be the responsibility of the Banking company to inform the Authority at the time of applying for license, in writing and with necessary details, if in the opinion of the Banking company, such presumption would not be valid for one or more areas of the proposed operation of the IBU in IFSC.

### **6. Additional conditions for a Banking company not having presence in India applying to set up an IBU in IFSC**

- i. In addition to condition 3 and 4, the applicant shall satisfy the Authority that the home supervisor carries out effective global consolidated supervision of the Banking company.
- ii. The Authority may require the applicant to satisfy such other condition/provide such other information as deemed necessary by it.

### **7. Issuance / Denial of license**

- i. After considering an application for setting up an IBU, if the Authority is satisfied that the said application, prima facie, satisfies the conditions for granting license, the Authority shall communicate an "in principle approval" for the same to the applicant and may require the applicant to satisfy one or more conditions, within the time specified (if any), to be eligible to be issued a license for setting up an IBU.
- ii. On the applicant satisfying the conditions mentioned in the "in principle approval" or any other condition that the Authority may require it to fulfill, within the time specified or any extended period of time granted by the Authority, the Authority shall grant licence to the Banking company subject to such conditions as provided under these regulations or such other additional conditions as it may deem fit.
- iii. The Authority may, if it so desires, seek the opinion of the Government of India or any other body/committee set up by the Government of India before deciding on an application by for a Banking company not having presence in India.
- iv. Grant of a license to open an IBU shall be at the sole discretion of the Authority and the grant of "In-principle approval" by the Authority shall not automatically entitle the applicant to be granted a license to open an IBU.
- v. If the Authority reaches the opinion that licence cannot be granted, it may give thirty days' time to the Banking company, setting out the grounds based on which it cannot grant licence, to enable the applicant to make written submissions, if any.



**FORM OF APPLICATION FOR A LICENCE BY A BANK DESIRING TO COMMENCE BANKING BUSINESS AT IFSC**

Address .....

Date .....

International Financial Services Centres Authority

.....  
.....

Dear Sir,

**Application for a licence, to set up Banking Business at IFSC.**

We hereby apply for a licence to commence banking business in terms of Rule 11, Section 22/23 of the Banking Regulations Act, 1949. We give below the necessary information in the form prescribed for the purpose.

Yours faithfully,

Signature .....

(Authorised Signatory)

Page 1 of 2

1. Name of the Bank.
2. Place of location of the registered office of the Bank.
3. State whether the Company is public or private or others.
4. Date of incorporation.
5. Previous application: (Give particulars of any application previously made to the Reserve Bank of India /IFSCA in this connection).
6. Management:
  - a. Give names, business and address of Directors, the number of shares held by each and the names of the bankers of each of them.
  - b. Give the name of the proposed Chief Executive Officer, his/her qualifications, experience, age and the proposed remuneration.
7. State detailed reasons for the floatation of the IBU
8. The volume and value of the business projected at the proposed IBU
9. Forward an up-to-date copy of the Memorandum and Articles of Association and a copy of the prospectus (with certified translations in English, if not in that language).
10. State whether the IBU fulfils the conditions laid down in sub-section (3) of Section 11, of the BR Act and whether it is agreeable to permit the Authority to satisfy itself by an inspection of the books of the applicant bank or otherwise that the prescribed conditions are being fulfilled by the applicant Bank.
11. Any additional facts which the bank may wish to adduce in support of its application.

**N.B: If a bank is unable or unwilling to supply full details in respect of any of the items, reasons for the omission may be given.**

**Information to be provided by banks desirous of establishing presence in GIFT SEZ IFSC for scrutiny**

<b>Sl.No</b>	<b>Parameters</b>
<b>I</b>	<b>General Information</b>
a.	Name of the applicant bank
b.	Place and date of incorporation
c.	Address of Head Office
d.	Any previous presence in India? If so, the reasons for discontinuation (applicable to non-Indian Banks)
e.	Presence of any other group entity in India/IFSC, if so details thereof (applicable to non-Indian Banks)
<b>II</b>	<b>Ownership &amp; Management</b>
a.	Legal form
b.	List of names and addresses of directors, their qualifications and their principal business
c.	Details of shareholders holding 5 per cent or more of voting stock and their principal business
d.	Name & designation of senior official at Headquarters who will be responsible for the bank's operations in IBU
<b>III</b>	<b>Structure</b>
a.	Organisational chart showing subsidiaries and associated Companies
b.	Countries in which the bank and its subsidiaries operate
c.	Number of domestic and overseas branches
d.	Number/name of domestic banking subsidiaries
e.	Number/name of overseas banking subsidiaries
f.	Number/name of major overseas non-banking financial subsidiaries
g.	Number/name of major non-financial subsidiaries
h.	Total number of financial subsidiaries
i.	Total number of subsidiaries/joint ventures and other affiliates consolidated in the applicant bank's balance sheet
j.	Details of overseas operations of the applicant bank (percentage of overseas assets vis-à-vis the total assets of the bank)
k.	Details of operations in India (if any) including operations of wholly or partly owned subsidiaries, Joint ventures, branches, representative office or in any other form.
<b>IV</b>	<b>Listing in stock exchanges</b>
<b>V</b>	<b>Domestic standing in home country (Ranking by assets size and/ or systemically important)</b>
<b>VI</b>	<b>International standing (Ranking by assets size and/ or systemically important)</b>
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<b>VII</b>	<b>Credit ratings</b>
<b>VIII</b>	<b>Financial position of the bank (for the last three years and current position)</b>
<b>a.</b>	Total Assets (USD million)
<b>b.</b>	CRAR (%)
<b>c.</b>	Tier 1 capital ratio (%)
<b>d.</b>	Return on assets (%)
<b>e.</b>	Return on equity (%)
<b>f.</b>	Profit (USD million)
<b>g.</b>	NPLs ratio (Gross) (%)
<b>h.</b>	NPLs ratio (Net) (%)
<b>i.</b>	Provisioning coverage Ratio (%)
<b>IX</b>	<b>Supervisory Arrangement in home country</b>
<b>1.</b>	Home regulatory/supervisory authority
<b>2.</b>	Details of supervisory arrangements to which the bank is subjected to including prudential norms
<b>3.</b>	Consolidated and comprehensive supervision of the regulator on the holding bank, including the manner in which it supervises the bank, its subsidiaries and associates to assess the bank's overall financial condition and compliance with laws and regulations.
<b>4.</b>	Supervisory Action Plan that is being implemented by the Bank, pursuant to Supervisory Review, to be submitted as a separate document, detailing the directions and action taken/in progress
<b>5.</b>	State the instances where refusal or restriction is placed on the right to carry on business or profession requiring a license, registration or other permission.
<b>6.</b>	Details of correspondent banking relationships with Indian banks (applicable only to foreign banks) and banks operating at GIFT IFSC and the aggregate amount of lines of credit/ other limits extended to them
<b>7.</b>	Details of foreign currency loans extended to Indian companies and other types of business transacted such as underwriting of equity/debt issues of Indian companies etc.
<b>8.</b>	Permissible mode of presence for foreign banks in the applicant bank's home country
<b>9.</b>	<p>Details of home country regulations for foreign banks</p> <p>Entry level norms for foreign banks who wish to establish presence in the home country of the applicant bank including norms for :</p> <ul style="list-style-type: none"> <li>• Large Exposure Norms</li> <li>• Asset Maintenance Ratio requirements, if any</li> <li>• Acceptance of retail deposits</li> <li>• Availability of deposit insurance coverage</li> <li>• Resolution requirements</li> </ul>
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<b>X</b>	<b>Other Information</b>

<b>a.</b>	Penalties/fines levied on the applicant bank in the last five years
<b>b.</b>	Any case of serious misconduct/unethical behaviour/criminal action initiated against the senior officials of the bank in the last five years
<b>c.</b>	Level of AML/CFT compliance by the parent bank
<b>XI</b>	<b>Applicability of conditions as contained in Framework for setting up of IBU issued by IFSCA to the applicant bank.</b>
<b>XII</b>	<b>Reasons for IFSC presence and Business plan</b>
<b>1.</b>	Location of branch
<b>2.</b>	Details of proposed initial capitalisation
<b>3.</b>	Number of officials proposed to be posted in IBU
<b>4.</b>	Purpose of opening branch in IFSC
<b>5.</b>	Business Plan (for three years) - Details about products and business projections to be given
<b>f.</b>	Detailed description of the Group's existing activities
<b>g.</b>	Detailed description of the business strategies/ new project pipeline for the IFSC operations for the next three years.
<b>h.</b>	Accounting year that will be adopted by IBU
<b>XIII</b>	<b>Whether the home country is a member of the Basel Committee on Banking Supervision (BCBS)</b>
<b>XIV</b>	<b>Adoption of Basel standards by the home jurisdiction<sup>2</sup> (based on Regulatory Consistency Assessment Programme report published by BIS)</b> <ul style="list-style-type: none"> <li>• Capital</li> <li>• Capital Buffers</li> <li>• LCR</li> <li>• G-SIBs</li> <li>• D-SIBs</li> <li>• Leverage ratio</li> <li>• Large Exposures</li> <li>• International accounting standards</li> </ul>
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<sup>2</sup> Bank shall provide a brief write up on the level of implementation of the Basel Accord in the country.

<b>XV</b>	<p><b>Adoption of Basel standards by the bank<sup>3</sup> (to be answered in Yes/No)</b></p> <ul style="list-style-type: none"> <li>• Applied at consolidated level:</li> <li>• Solo level:</li> <li>• Capital – Basel II/III</li> <li>• RWA measurement</li> <li>• Credit risk</li> <li>• Market Risk</li> <li>• Operational risk</li> <li>• Counterparty credit risk</li> <li>• Pillar 2 implementation</li> <li>• Pillar 3 implementation</li> <li>• LCR</li> <li>• NSFR</li> <li>• Leverage ratio</li> <li>• Large Exposure standard</li> </ul>
<b>XVI</b>	<b>Documents to be enclosed</b>
<b>a.</b>	COPIES OF MEMORANDUM AND ARTICLES OF ASSOCIATION OR SIMILAR DOCUMENTS
<b>b.</b>	LAST THREE YEARS FINANCIAL STATEMENTS
<b>c.</b>	BUSINESS PROJECTIONS FOR THE FIRST THREE YEARS AND THE STRATEGY TO ACHIEVE THEM
<b>e.</b>	APPROVAL LETTER FROM THE BANK’S BOARD
<b>f.</b>	LETTER OF COMFORT FROM THE PARENT BANK TO MAINTAIN A MINIMUM CAPITAL OF USD 20 MILLION FOR THE IBU FROM THE DATE OF COMMENCEMENT OF OPERATIONS OF THE IBU. (PARA 3 (I)(A) OF THE DIRECTIONS)
<b>g.</b>	UNDERTAKING FROM THE PARENT BANK OF CONDITIONS IN PARA 3(I)(B) OF THE DIRECTIONS
<b>h.</b>	COPY OF NO OBJECTION LETTER FROM HOME REGULATOR OF THE PARENT BANK REGARDING SETTING UP OF THE BANKING UNIT IN THE INTERNATIONAL FINANCIAL SERVICES CENTRE; (PARA 3 (I)(C) OF THE DIRECTIONS)
<b>i.</b>	ORGANOGRAM OF PROPOSED IBU ALONG WITH FUNCTIONS AND RESPONSIBILITIES
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<sup>3</sup> Bank may provide a brief write up on the capital and other measures indicated therein

**Details / Check List of documents to be submitted by banks along with their application for setting up an IBU at GIFT SEZ IFSC**

1. Information from banks as per the enclosed format
2. Specific permission from the home country regulator for setting up an IBU at GIFT SEZ IFSC and their regulatory approval thereof for the bank's presence at IFSC.<sup>4</sup>
3. Approval from the Bank's board to set up an IBU at GIFT SEZ IFSC
4. Letter of comfort from the Parent bank to maintain a minimum capital of USD 20 million for the IBU from the date of commencement of operations of the IBU.
5. Undertaking from the Banking company (parent bank) of conditions in para 3(i)(b) of the Directions
6. Provisional Permission from SEZ authorities to operate at GIFT SEZ IFSC
7. Provisional letter of allotment of office space at GIFT City, Gujarat
8. Last 3 years financial statements/ balance sheets
9. Business plan with strategies, projections and products offered for the first 3 years.
10. Copies of Memorandum and Articles of Association or similar documents
11. Regulator may ask for other details depending on the specific request.

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<sup>4</sup> While applying for such NOC from the home country regulator, the bank must clearly mention about IFSCA's requirements in paras 3(i)(a) and 3(i)(b) of the above directions, in their application.

## **MODULE NO. 2**

# **GOVERNANCE DIRECTIONS**

## **(GOV)**

## 1. Application

- i. These directions lay down the Governance arrangement of an IBU.
- ii. These directions apply to an IBU in relation to its activities undertaken in IFSC.
- iii. Unless otherwise specifically exempted, these directions shall also apply to:
  - a. the management structures, policies, procedures and controls of the Banking company (of which the IBU is a branch) outside IFSC to the extent that they relate to a regulated activity carried on in or from IFSC
  - b. every function exercised by or on behalf of an IBU outside IFSC (including any outsourced function) if such function pertains to the carrying on of an activity in or from IFSC.

## 2. Definitions

Definitions of the terms used in these directions are as follows:

1. “Governing Body” shall mean:

- a. that part of the board of directors of the Banking company that has the responsibility of overseeing the IBU ’s business in or from IFSC;

or

- b. if the IBU does not have that part of the board of the Banking company overseeing its business as described in (i) - that part of the management committee or similar body (by whatever name called of the Banking company (of which the IBU is a branch) that has the responsibility of overseeing the IBU ’s business in or from the IFSC;

or

- c. if the IBU does not have the governance structures described in (a) and (b)—the persons delegated <sup>5</sup> by the board, management committee or other body of the Banking company, with the responsibility of overseeing the IBU ’s business in or from the IFSC.

2. “Governance framework” shall mean the IBU’s organisational structures, policies, procedures and systems and controls as they relate to the IBU ’s business objectives and the means of achieving them and also includes:

- a) its risk management framework
- b) its internal control and assurance functions (that is, its risk management, compliance oversight and internal audit functions)

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<sup>5</sup> The “persons” shall be the employees of the Banking company but shall not include employees of the Banking Company who are posted to the IBU or involved in the operations of the IBU in any capacity. The Banking Company may also consider appointing an independent member to the Governing body, who shall be a person who is not an employee of the Banking company and possesses necessary skills and experience in Banking.

- c) its business objectives; and
  - d) the governance requirements in these directions and any other applicable directions or statute
3. “Risk management framework” shall mean:
- a) the IBU’s systems for identifying, measuring, evaluating, monitoring, reporting, and controlling or mitigating risks that may affect the IBU’s ability to meet its obligations; and
  - b) the structures, policies, processes and people that support those systems
4. “Internal controls and assurance framework” refers to the functions of the IBU that provides reasonable assurance on the effectiveness and efficiency of the IBU’s operations, the reliability of its financial reporting and the extent of its compliance with applicable laws and regulations and consists of:
- a) Risk management function
  - b) Compliance/AML function
  - c) Internal Audit function
  - d) BCP/DR function
5. The senior management of an IBU shall mean and include the employee/s responsible (singly or jointly) for managing and supervising a part or parts of the IBU’s business related to its activities in IFSC. <sup>6</sup> The employees who are part of the senior management shall operate out of IFSC.
6. The Chief Executive Officer (CEO) /Head -IBU function of an IBU is responsible for the business of the IBU being carried out from IFSC. The CEO/Head-IBU of an IBU shall operate out of IFSC.

### **3. Appointment of the Governing Body**

1. The Banking company shall, prior to the commencement of the IBU’s operations at IFSC, appoint a Governing Body of the IBU and inform the Authority about the same in writing.
2. The Banking company (of which the IBU is a branch) that have already started their operations at IFSC prior to the date of commencement of these directions, shall appoint a Governing Body of the IBU within 3 months from such date of commencement and inform the Authority about the same in writing.
3. The governing body of an IBU shall have at least 3 members.
4. The governing body of an IBU shall meet at least once each quarter and at least 6 times a financial year.

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<sup>6</sup> Senior management, as individuals, shall be below the Governing Body in terms of hierarchy

## 4. Principles of Governance

### 1. Role of governing body

(a) The Governing body of the IBU shall approve the following frameworks /plans commensurate with the nature, scale and complexity of the operations of the IBU:

- a. its governance framework
- b. its risk management framework
- c. an Internal control and assurance framework
- d. business strategy and business plan of the IBU

(b) In case any of the frameworks in 4(i) (a), (b) or (c) or any other framework that the IBU may be asked to put in place by the Authority, already exist for the Banking company and is duly approved by the governing body of such Banking company, the IBU shall be deemed to have complied with the requirements of para 4(i) provided such approved framework is made applicable, mutatis mutandis, to the IBU.

(c) Business strategy and business plan (see 4(i)(d)) of the IBU shall be approved by the Governing body of the IBU, regardless of the fact that the same has been approved by any governing body of the banking company.

(d) The Internal Audit function, which is part of the Internal control and assurance framework, shall have unrestricted access to all relevant records and recourse to, when needed, the Governing Body of the IBU or any committee of the Governing body as may have been set up.

(e) The IBU must document the organisational structure, responsibilities and procedures of the Internal Audit function.

### 2. Role of senior management

The senior management of an IBU must ensure that the approved frameworks /plans is effectively implemented and maintained throughout the IBU's operations.

### 3. Knowledge, skills and expertise

The Banking company shall ensure that persons appointed to the governing body, senior management and as the CEO /Head -IBU should have an appropriate mix of knowledge, skills and expertise to ensure effective management of the IBU commensurate with the nature, scale and complexity of its business. The composition of the governing body of an IBU must reflect a sufficiently broad range of experience in line with the types of operations proposed to be carried out by the IBU.

### 4. Periodic review

(a) The Banking company or the IBU (as applicable) must ensure that a periodic review (at least annually) of its approved frameworks/plans is undertaken to ensure that the frameworks remain effective, the functions within the frameworks remain independent and necessary corrective action is taken to correct any deviations observed.



(b) In case of an IBU to whom the provision of 4(i)(b) applies, the Governing body of the IBU shall, as and when felt necessary, provide necessary inputs to the Banking Company about any gaps or shortcomings observed in the approved frameworks applicable to the IBU along with a suggestion to suitably modify the frameworks to close such gaps or shortcomings. Such gaps or shortcomings might be general in nature or arise out of the differences in legal norms and operational practices applicable to the IBU.

(c) A copy of the input mentioned in (b) shall be shared with the Authority as soon as it is forwarded to the Banking company (of which the IBU is a branch).

### 5. Duties of the Governing body

#### i. General duties

- a. Approve, where applicable, the governance framework, the risk management framework and the Internal control and assurance framework through which the IBU is managed and controlled
- b. Approve the business strategy and business plan of the IBU
- c. Undertake, where applicable, periodic reviews of the governance framework
- d. Provide inputs to the Banking company (of which IBU is a branch) about any gaps or shortcomings observed in the approved frameworks applicable to the IBU (to whom the provision of 4(i)(b) apply)
- e. ensure the IBU's financial soundness and maintain transparency and disclosure.
- f. Keep in mind the legitimate interest of depositors, clients and other stakeholders when making decisions;
- g. Review the IBU's performance and seek the routes for improvement of such performance and the means of achieving such improvement.

#### ii. Due care

- a. Provide sufficient time to perform their functions on the Governing Body
- b. Act with honesty, integrity and independence of mind
- c. Evaluate and challenge, where necessary, the decisions of the senior management, and oversee and monitor decision making.

#### iii. Obligation to approve and update plans

- a. approve strategic and business plans appropriate to the nature, scale and complexity of the IBU's business; and
- b. update the plans regularly to take account of changes in the business environment.

#### iv. Allocation of responsibilities

- a. Subject to the abovementioned provisions of its roles and duties an IBU's governing body must take reasonable care to maintain a clear and appropriate allocation of responsibilities between the body and the IBU's senior management.
- b. The allocation must be in writing and must state whether each significant responsibility is a responsibility of the governing body or senior management.
- c. The governing body must determine which of the IBU's functions or controlled functions (other than the internal control functions) report to it.
- d. The allocation:
  - (i) must consider in case an IBU's senior management is made responsible for more than one function, whether such senior management has adequate skill and knowledge to carry out such functions and is provided sufficient resources to undertake such functions.
  - (ii) must ensure that the IBU's business can be adequately managed by the governing body, the senior management and the CEO/Head -IBU.
- e. The Governing body must ensure that the senior management of the IBU have clear responsibility for the day-to-day management of the IBU 's business in accordance with the business objectives and strategies approved or set by the Governing Body
- v. Competence, training and access to information

The Banking company shall:

  - (a) devote adequate human and financial resources to the induction and training of members of the Governing Body of the IBU.
  - (b) ensure that the Governing Body has access to the information and documents it requires to oversee and monitor decision-making; and
  - (c) notify the Authority of the identity of all the members of its Governing body of the IBU and any proposed changes therein.

### **6. Management information**

- i. The Banking Company shall make necessary arrangements to provide the IBU's governing body and senior management with the information necessary to organise, monitor and control its activities, to comply with all relevant regulations and directions of the Authority and to manage risks. Such information must be relevant, accurate, comprehensive, timely and reliable.

### **7. Remuneration structure and strategy**

- i. The Banking Company shall ensure that the remuneration structure and strategy of the IBU:
  - a. are consistent with the business objectives and strategies and the identified risk parameters within which the conducts its business
  - b. provide for effective alignment of risk outcomes and the roles and functions of the employees, taking account of the nature of the roles and functions of the relevant employees; and whether the actions of the employees may expose the IBU to unacceptable financial, reputational and other risks

### 8. Staffing

- i. IBUs shall provide adequate resources, including infrastructure and manpower, on an ongoing basis, commensurate with the size and nature of their operations being conducted at IFSCs
- ii. The Authority recognises that the diversity of organisational structure and operational arrangements of IBUs (and its parent bank) would warrant the assessment of the adequacy of such resource deployment on an individual IBU basis. Accordingly, the Authority shall engage with the BUs on an ongoing basis to satisfy itself that the operations of the BUs are adequately resourced.

### 9. Compliance

- i. An IBU must establish and maintain compliance arrangements, including processes and procedures that ensure and evidence, as far as reasonably practicable, that the IBU complies with all relevant regulations and directions
- ii. An IBU must document the organisation, responsibilities and procedures of the compliance function.
- iii. An IBU must ensure that an employee, working out of IFSC, is designated as a Compliance officer and the Compliance Officer has access to sufficient resources, including an adequate number of competent staff, to perform his duties objectively and independently of operational and business functions.
- iv. The Compliance officer shall not be made responsible for any other function of the IBU
- v. A Banking company shall designate a senior officer engaged in Compliance function at the Head Office of the Banking company as the “**HO Compliance contact**” of its IBU and share the necessary details of the person so designated the Authority. The “HO Compliance contact” should be appropriately empowered to provide information about the operations of the Banking company to the Authority.
- vi. An IBU must ensure that the Compliance Officer has unrestricted access to relevant records and to the IBU’s governing Body and senior management.
- vii. An IBU must establish and maintain monitoring and reporting processes and procedures to ensure that any compliance breaches are readily identified, reported and promptly acted upon.
- viii. An IBU must document the monitoring and reporting processes and procedures as well as keep records of breaches of any relevant Regulations or Directions.

## **MODULE NO. 3**

# **CONTROLLED AND DESIGNATED FUNCTIONS**

## **(CODF)**

## 1. Application

- i. These directions apply to an IBU in relation to its activities undertaken in IFSC
- ii. Unless otherwise specifically exempted, these directions shall also apply to:
  - a. an IBU's management structures, policies, procedures and controls outside IFSC to the extent that they relate to an activity carried on in or from IFSC
  - b. every function exercised by or on behalf of an IBU outside IFSC (including any outsourced function) if such function pertains to the carrying on of an activity in or from IFSC.

## 2. Definitions

- i. "Controlled functions" refers to those functions of an IBU that are specified as such in these directions and that may only be carried out by individuals who have been approved by the Authority to carry out those functions.
- ii. "Designated functions" refers to those functions of an IBU that are specified as such in these directions and that may only be carried out by individuals who have been appointed by the IBU or the Banking company (as applicable) according to the process specified in these directions
- iii. "Approved individual" refers to an employee of the IBU or the RO, working out of IFSC, who has been approved by the Authority to carry out "Controlled functions". Application form for 'Approved Individual' status is at Annex to this module.

## 3. Mandatory appointments

- i. Appointments to be filled by Approved Individuals
  - a. The Banking company must make the following appointments with respect to an IBU and ensure that they are held by an Approved Individual at all times:
    - (i) CEO/Head - IBU
    - (ii) Compliance Officer
    - (iii) such other role or function as the Authority may direct from time to time
  - b. For a Representative Office the mandatory appointments in (a) may be made by its Principal Representative.
  - c. The CEO/Head-IBU shall have ultimate responsibility for the day-to-day management, supervision and control of all parts of the IBU's activities.

- d. The Compliance officer function shall have ultimate responsibility for all compliance matters pertaining to IBU's activities.

## 4. Controlled Functions

- i. Specification of roles as Controlled Functions
  - a. The following functions shall be a "Controlled function" for an IBU:
    - i. CEO/Head - IBU
    - ii. Compliance officer
    - iii. The non-executive governance function;
    - iv. such other role or function as the Authority may direct from time to time
  - b. The non-executive governance function of an IBU is the function of being a member of the IBU 's governing body but not being responsible for the day-to-day direction of the IBU 's affairs.

## 5. Exercise of two or more controlled functions by same individual

- i. Subject to (ii), an individual may exercise two or more controlled functions of the IBU provided the IBU's governing body confirms to the Authority in writing that the individual's exercise of such Controlled function in combination:
  - a. does not give rise to any internal or external conflict of interest;
  - b. does not compromise the independence, objectivity and effectiveness of the exercise of any of the functions
  - c. the individual's combined exercise of the functions will not increase the firm's risk of non-compliance with the applicable laws and the regulations of the Authority.
- ii. The Authority may, subject to its satisfaction that the conditions in para 5(i) has been fulfilled and that the said individual is capable of exercising such functions in combination permit such individual to exercise such functions.
- iii. The Governing Body of the IBU shall review, on an annual basis, the decision of combining the controlled functions.
- iv. The Authority may, if it is satisfied that it is no longer appropriate for two or more controlled functions to be exercised for an IBU by the same individual, may direct the IBU to stop combining the functions and/or appoint one or more individuals to exercise any of the functions.

## 6. Application for Approved Individual status

- i. A Banking Company may apply for its officer or employee to be granted Approved Individual status by:

- a. Completing the prescribed form and filing the form with the Authority accompanied by such documents as are specified in the form;
  - b. providing such further information as the Authority may require
  - c. paying the fee prescribed in the to the Authority<sup>7</sup>
- ii. The IBUs that have commenced operations in IFSC before the date of application of these directions shall apply to the Authority within 3 months from the date of application of these directions to obtain Approved Individual status for incumbents undertaking the Controlled functions.

## 7. Criteria for approval of Approved Individual

- i. The Authority shall authorise an individual to carry on a Controlled Function if it is satisfied that the individual is fit and proper to be an Approved Individual.
- ii. In making this assessment, the Authority shall have regard to:
  - (a) the individual's adherence to moral and ethical principles, as demonstrated by his/her actions as an employee of the Banking company and in his/her previous employment for which information is available to the Authority
  - (b) the individual's competence and capability to carry out the function proposed in the IBU as demonstrated by his/her educational and professional qualifications and relevant experience.
  - (c) the individual's financial soundness as demonstrated by his/her assets and liabilities.
  - (d) the individual's proposed role within the IBU ; and
  - (e) any other matters that the Authority considers to be relevant to the application.
- iii. The Authority shall not regard an individual as fit and proper if the individual:
  - (a) is bankrupt; or
  - (b) has been convicted of a criminal offence in India or overseas; or
  - (c) is the subject of a concluded disciplinary proceeding by a regulatory body or the then employer leading to a disciplinary action (by whatever name called) in his current or previous employment
- iv. Authority's discretion to waive requirements

An IBU may apply to the Authority to waive the abovementioned requirements on the basis of any registration, authorisation or approval the relevant officer or employee may have in a jurisdiction outside the IFSC. The Authority may,

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<sup>7</sup> No application fee is prescribed to be levied by the Authority, in this regard, till further notice .

at its discretion, grant such waiver subject to any conditions that it might deem fit to impose.

v. Modification or withdrawal of an Approved Individual's registration

An IBU or an Approved Individual may apply to the Authority to modify or withdraw the Approved Individual's status by:

- (a) completing the prescribed form and filing the form with the Authority accompanied by such documents as are specified in the form; and
- (b) providing such further information as the Authority may require; and
- (c) paying the fee prescribed, if any, to the Authority.<sup>8</sup>

vi. The Authority may, suo moto, withdraw the Approved Individual status granted to an individual if it is of the opinion that such individual no longer satisfies the requirements to be so designated.

vii. Dismissal or resignation of an Approved Individual

In the event of an Approved Individual ceasing to be employed by an IBU to perform a Controlled Function, the IBU must:

- (a) request the withdrawal of the Approved Individual status within seven days of the Approved Individual ceasing to be employed.
- (b) inform the Authority of any circumstances which lead the IBU to consider that the individual is no longer fit and proper; and
- (c) if the Approved Individual was dismissed or requested to resign, provide the Authority with a statement of the reason, or reasons, for the dismissal or resignation.

## 8. Designated Functions

i. Specification of roles as Designated Functions

a. The following functions shall be "Designated functions" of an IBU:

- (i) Senior Manager function
- (ii) such other role or function as the Authority may direct from time to time

b. The Senior Manager function is carried out by an individual who, working out of IFSCA, is responsible either alone or jointly with other individuals for the management, supervision, or control of one or more parts of an IBU's activities and who is an employee of the IBU

## 9. Criteria for appointment of an employee to undertake a Designated function

i. Before appointing an individual to undertake a Designated Function, an IBU must take reasonable steps to satisfy itself that the individual is fit and proper as per the criteria

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<sup>8</sup> No application fee is prescribed to be levied by the Authority, in this regard, till further notice



in para (ii) supplemented by additional information, if any, that the IBU may have in its possession.

ii. In making this assessment the IBU must have regard to:

(a) the individual's adherence to moral and ethical principles, as demonstrated by his/her actions as an employee of the Banking company and in his/her previous employment for which information is available to the Banking company and the IBU

(b) the individual's competence and capability to carry out the function proposed in the IBU as demonstrated by his/her educational and professional qualifications and relevant experience in the Banking company or in his/her previous employment; and

(c) the individual's financial soundness as demonstrated by his/her assets and liabilities; and

(d) the individual's proposed role within the IBU; and

(e) any other matters that the Authority may prescribe.

iii. An IBU may not regard an individual as fit and proper if the individual:

(a) is bankrupt; or

(b) has been convicted of a criminal offence in India or overseas; or

(c) is the subject of a concluded disciplinary proceeding by a regulatory body or the then employer leading to a disciplinary action (by whatever name called) or civil finding in his current or previous employment

iv. Appointment of an employee to undertake a Designated function

In respect of the appointment of each employee to undertake a Designated function, an IBU must keep records of the assessment process that it has undertaken to satisfy itself that the relevant individual is a fit and proper person. Such records must be kept for a minimum of seven years from the date of the assessment or for a period as required by any law applicable to the IBU, whichever is longer.

**Application for 'Approved Individual' status  
in an IBU to exercise a Controlled Function**

Banking Company

Name of Individual for whom 'Approved Individual' status is sought

Date of Application

**For IFSCA use:**

**Ref No:** \_\_\_\_\_

**Date Received** \_\_\_\_\_

**Received By:** \_\_\_\_\_

**CONTENTS**

1. DECLARATION BY THE APPLICANT INDIVIDUAL
2. DECLARATION BY THE BANKING COMPANY
3. GENERAL INFORMATION ABOUT THE BANKING COMPANY AND IBU
4. GENERAL INFORMATION ABOUT THE APPLICANT INDIVIDUAL
5. CONTROLLED FUNCTION
6. EDUCATION AND PROFESSIONAL QUALIFICATIONS
7. EMPLOYMENT HISTORY
8. OTHER POSITIONS/ HOLDINGS
9. PROFESSIONAL MEMBERSHIPS
10. FIT AND PROPER QUESTIONNAIRE

## 1. Declaration by the Applicant Individual

- 1.1 I declare that, to the best of my knowledge and belief, having made due inquiry, the information given in this form, the supplements and documents attached, as well as any applicable supporting documents, is complete and correct
- 1.2 I declare that I am fit and proper to perform the function of Approved Individual to which this application relates and, in the event of a failure to remain fit and proper, I shall notify the IFSCA of such fact as reasonably practical.
- 1.3 I declare my understanding that the IFSCA may request more detailed information (including but not limited to, personal educational, employment and financial information) should it be deemed necessary to adequately assess the fitness and propriety of the firm or any person connected to the firm. I consent to the IFSCA contacting any previous employers, educational institutions, professional organisations or any other organisations, to verify any information contained in this form.
- 1.4 I understand that any personal data provided to the IFSCA will be used to discharge its regulatory functions under the IFSCA Act, 2019, and other relevant legislation and may be disclosed to third parties for those purposes.
- 1.5 I confirm that all documents submitted as part of this application, whether physical or electronic, become property of the IFSCA.

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Signature of the Applicant

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Date

Printed name of the above signed individual:

Proposed position or title of the Controlled Function:

## 2. Declaration by the Banking Company

- 2.1 We declare that the Applicant's competence has been assessed in accordance with the requirements of the IFSCA Banking Handbook and I declare that the Applicant is fit and proper to perform the Controlled Functions to which this application relates.
- 2.2 We declare that, to the best of my knowledge and belief, having made due inquiry, the information given in this form, the supplements and documents attached, as well as any applicable supporting documents, is complete and correct.
- 2.3 We confirm that I have the authority to make this application, to declare as specified above and sign this form for, or on behalf of, the Banking Company. I also confirm that I have authority to give the consent specified above.
- 2.4 We understand that any personal data provided to the IFSCA will be used to discharge its regulatory functions under the IFSCA Act, 2019 and other relevant legislation and may be disclosed to third parties for those purposes.
- 2.5 We confirm that all documents submitted as part of this application, whether physical or electronic, become property of the IFSCA.

\_\_\_\_\_  
Signature of Authorized Signatory

\_\_\_\_\_  
Date

Printed name of the above signed individual:

Position or title of the above signed individual

**3. General information about the Banking Company and IBU**

3.1	Name of the Banking Company and the IBU	
3.2	IFSCA License number (for an IBU)	
3.3	The Banking Company/ IBU application contact person	
3.4	Position or title of contact person	
3.5	Contact telephone number	
3.6	Contact e-mail address	
3.7	Contact address	

**4. General information about the Applicant Individual**

4.1	Title (Mr., Ms, Mrs., Dr, etc.)	
4.2	Full name as it appears in the Applicant's Pan Card/ passport (if the person does not have a PAN card)	
4.8	Date of birth	
4.10	Pan Card or Passport number/numbers (only required if the Applicant does not have a PAN card)	
4.11	Nationality	
4.13	Please provide details of any previous individual registrations the Applicant has held with the IFSCA or any other financial services regulator in FATF compliant jurisdictions	
	Present Residential address	

	Contact details (please provide telephone, e-mail, and postal address)	
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**5. Controlled Function**

<b>Controlled Functions:</b>	Controlled Function that are being applied for:
CEO/Head – IBU/Head-RO	
Compliance Officer (IBU/RO)	
Non- executive governance function	

**The Applicant’s role and experience:**

5.1 Proposed Job title within the IBU:

5.2 Commencement date of Controlled Function(s):

5.3 Please attach a curriculum Vitae (CV) of the Applicant and detailed job description of the role (clearly state the responsibilities of the Controlled Function to be carried out) to be taken up by the Applicant with this application and confirm the same below.

5.4 Indicate below if the role is full time. If not, detail how much of the Applicant’s time will be devoted to carrying out the Controlled Function role:

**6. Education and professional qualifications**

6.1 List all higher education degrees and diplomas held (Please attach attested copy of the degree/ certificate):

Dates:		Full name of institute and location:	Details of degree or diploma:
From:	To:		

6.2 List any professional qualifications held (Please attach attested copy of the degree/ certificate):

Dates:		Full name of institute and location:	Full name of qualification:
From:	To:		

List any other qualifications held by the Applicant that are relevant to their role (Please attach attested copy of the degree/ certificate):

Dates:		Full name of institute and location:	Full name of qualification held:
From:	To:		

## 7. Employment history

7.1 Provide a full summary of career for the past 5 years. Any gaps between employment or education of more than one month must be included and relevant details provided. For example, career break, unemployment, etc.:

Dates:		Employer's name:	Position held:
From:	To:		

## 8. Other Positions/ Holdings

8.1 Has the applicant for a Controlled Function, held or been granted, in a personal capacity, any license or registration by any Financial Services Regulator?

If answered "Yes", provide the full details below:

Full name of the Financial Services Regulator:

Nature of the license, registration, or authorization held:



Scope of the activities permitted by license, registration, or authorization held:

Relevant dates, from when to when, of the license, registration, or authorization held:

8.2 Provide an explanation to demonstrate the competence and relevant experience, as the applicant for a Controlled Function adequately in light of any other employment commitments might have:

**9. Professional memberships**

9.1 List all current professional memberships that the Applicant holds:

Date of admission or membership:	Full name of the organisation:	Location of jurisdiction:	Brief outline the organisation:

**10. Fit & Proper Questionnaire**

Please complete the following questionnaire in relation to the Controlled Function(s) that the Applicant will be responsible for. Answers must be provided to every question.

11.1 Has the Applicant been: Yes    No

the subject of a Complaint in connection with a Financial Services or ancillary service which relates to his/her integrity, morality, ethical principles, competence, or financial soundness?		
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11.2 Has the Applicant been: Yes No

subject of a concluded disciplinary proceeding by a regulatory body or the then employer leading to a disciplinary action (by whatever name called) in his current or previous employment		
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11.3 Has the Applicant been: Yes No

dismissed/ suspended or requested to resign from any office of employment, position of Trust, fiduciary office due to lack of capability and competence to carry out the assigned function?		
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11.4 Please confirm that the Applicant at the time of application is neither: Yes No

<ul style="list-style-type: none"><li>• bankrupt; nor</li><li>• convicted of criminal offence in India or overseas.</li></ul>		
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11.5 If have answered “Yes” to any of the above questions, provide appropriatedetails of the matter(s) below:



## **MODULE NO. 4**

### **CORE PRINCIPLES**

#### **(CORP)**

## 1. Application

- i. The Core Principles apply to an IBU in respect of its activities undertaken out of IFSC.
- ii. Another set of Core Principles apply to the 'Approved Individuals' and 'Designated Individuals' of an IBU

## 2. Principles for IBUs

- i. Principle 1 - Equitability and fairness in dealings and market conduct

An IBU must observe high standards of integrity, equitability and fairness in dealing with other institutions and clients. An IBU must follow and demonstrate expected standards of professional conduct while dealing in financial markets.

- ii. Principle 2 - Adequate resources and management

An IBU must maintain adequate resources – financial, human and others to be able to demonstrate that its affairs are managed responsibly by its senior management.

- iii. Principle 3 - Minimum diligence and skill levels

An IBU must carry out all its business activities with due diligence and its employees must possess the necessary skills for the same.

- iv. Principle 4 - Responsible market conduct

An IBU must observe proper standards of conduct in the financial markets in which they participate within and outside IFSC.

- v. Principle 5 - Systems and controls

An IBU must put in place have adequate systems and controls to ensure compliance with all relevant laws and directions applicable to it.

- vi. Principle 6 - High standards of governance

An IBU must comply with the governance framework laid down in the GOV module. Apart from this, the IBU shall ensure that the governance framework and practices of the IBU must be adequate to promote prudent management and oversight of the IBU 's business while protecting the interests of its clients and stakeholders.

- vii. Principle 7 - Disclosure and suitability for protecting clients' interest

An IBU must ensure that the due regard is given to protecting the interests of its clients and the relevant information is communicated to them in a clear and fair manner that minimises the possibility of them getting misled. An IBU must take reasonable care to ensure the suitability of its 'advice' and other discretionary decisions for the clients based on their financial standing, risk appetite and business goals.

viii. Principle 8 - Conflicts of interest

An IBU must take all reasonable steps for identifying, disclosing, preventing and managing all conflicts of interest between itself and its clients, between its employees and clients and between one client and another, in such a way that the interests of a client are not adversely affected.

ix. Principle 9 - Remuneration practices

An IBU must have a remuneration structure and strategies which are well aligned with the long-term interests of the IBU, and are appropriate to the nature, scale and complexity of its business.

x. Principle 10 - Co-operation with the Authority

An IBU must deal with the Authority in an open and co-operative manner. An IBU must keep the Authority duly informed of any significant event(s) or any other matter relating to the IBU about which the Authority would reasonably expect to be notified.

### 3. Principles for Approved Individuals and other employees

i. Principle 1 - Integrity and Responsible Market Conduct

Each Approved Individual and other employees of the IBU must observe high standards of integrity and fair dealing and expected standards of conduct in financial markets in carrying out every Controlled Function or Designated Function.

ii. Principle 2 - Due diligence and skill

Each Approved Individual and other employees of the IBU must act with due diligence and must possess the necessary skill for carrying out every Controlled Function or Designated Function.

iii. Principle 3 - Management, systems and control

Each Approved Individual and other employees of the IBU who has significant responsibility must take reasonable care to ensure that the business of the IBU for which he is responsible is managed and controlled effectively.

iv. Principle 4 - Compliance



## The IFSCA Banking Handbook: General Directions- v 4.0

Each Approved Individual and other employees of the IBU who has significant responsibility must take reasonable care to ensure that the business of the IBU for which he is responsible complies with all relevant laws and directions.

v. Principle 5 - Co-operation with the Authority

Each Approved Individual and other employees of the IBU must deal with the Authority in an open and co-operative manner and must disclose appropriately any significant event(s) or any other matter about which the Authority would reasonably expect to be notified.



## **MODULE NO. 5**

# **SYSTEMS AND CONTROLS**

## **(SYSCO)**

## 1. Application

- i. These directions apply to an IBU in relation to its activities undertaken in IFSC
- ii. Unless otherwise specifically exempted, these directions shall also apply to:
  - a. an IBU's management structures, policies, procedures and controls outside IFSC to the extent that they relate to a regulated activity carried on in or from IFSC
  - b. every function exercised by or on behalf of an IBU outside IFSC (including any outsourced function) if such function pertains to the carrying on of a regulated activity in or from IFSC.

## 2. General requirements

### i. Requirement to maintain systems and controls

An IBU must establish and maintain systems and controls, including but not limited to financial and risk systems and controls that ensure that its affairs are managed effectively and responsibly.

### ii. Review of systems and controls

An IBU must undertake regular reviews of its systems and controls and the manuals, policies and processes for implementing such systems and controls.

### iii. Business plan and strategy

- a. An IBU must produce a business plan which enables it, amongst other things, to manage the risks to which it and its clients are exposed.
- b. The business plan must consider the IBU 's current business activities and the business activities forecast for the next twelve months.
- c. The business plan must be documented and updated as appropriate to take account of changes in the business environment and to reflect changes in and the complexities of the business of the IBU.

### iv. Prevention of market abuse, financial crime and other illegal conduct



- a. An IBU must establish and maintain systems and controls that ensure, as far as reasonably practical, that the IBU and its employees do not engage in conduct, or facilitate others to engage in conduct, which may constitute:
  - i. Market abuse, wherever committed;
  - ii. a financial crime under any applicable laws; or
  - iii. a contravention of applicable regulations or directions.

### 3. Outsourcing

- i. Responsibility for compliance

- a. An IBU which outsources any of its functions or activities directly related to its activities in IFSC to a service provider (including a service provider within the group of the Banking company) shall not be relieved of its regulatory obligations and shall continue to remain responsible for compliance with the directions and regulations of the Authority and any directions issued
- aa. An IBU shall consider all relevant laws, regulations, rules, guidelines and conditions of approval, licensing or registration, when performing its due diligence in relation to outsourcing of IT services.
- b. “Outsourcing” refers to an arrangement in which a service provider provides the IBU with a service that may currently or potentially be performed by the IBU itself and shall include avilment of services by the IBU from other branches (Indian or foreign) of the Banking Company– of which it is a branch.

- ii. Outsourced function deemed to be carried on by IBU

The outsourced function under 3(i) shall be deemed to be carried out by the IBU itself.

- iii. Due diligence and supervision

An IBU which uses a service provider as referred to in 3(i) must ensure that it:

- (a) the service provider has been chosen after necessary due diligence;
- (b) effectively supervises the outsourced functions or activities; and

(c) deals effectively with any act or failure to act by the service provider that leads, or might lead, to a breach of the directions.

iv. Notification of Authority of material outsourcing arrangements

- (a) An IBU must inform the Authority about any material outsourcing arrangements as per para 3(vii) and any change in terms of such material outsourcing arrangements within 7 working days of such change.
- (b) An outsourcing arrangement will be considered to be material if it is a service of such importance that weakness or failure of that service would cast serious doubt on the IBU 's continuing ability to remain fit and proper or to comply with the directions. All outsourcing arrangements within group entities of the Banking company shall be included in the definition of material outsourcing arrangement.

v. Material outsourcing arrangements

An IBU which has a material outsourcing arrangement must:

- (a) establish and maintain comprehensive outsourcing policies, contingency plans and outsourcing risk management programmes controls;
- (b) enter into an appropriate and written outsourcing contract; and
- (c) ensure that the outsourcing arrangements neither reduces its ability to fulfil its obligations to Clients and the Authority, nor hinder supervision of the IBU by the Authority.

vi. Terms of outsourcing contracts

An IBU must ensure that the terms of its outsourcing contract with each service provider under a material outsourcing arrangement require the service provider to:

- (a) provide information and documents where required by the Authority; and
- (b) deal in an open and co-operative way with the Authority.

vii. Information to the Authority

The IBU shall, within 3 months of the commencement of these directions, provide the Authority with the complete list of its material outsourcing

arrangements and update the said list every time there is a change in such material outsourcing arrangements.

viii. Maintenance of records

(a) An IBU shall maintain a complete and accurate inventory of material outsourcing arrangements.

(b) An IBU shall review such inventory on a regular basis to ensure that it is accurate and up to date.

ix. Audit requirements

The internal audit function of the IBU shall periodically review the risk management controls over material outsourcing arrangements of the IBU and report to the Governing Body about the results of such review.

#### 4. Management of risks

i. Operational risk

An IBU must establish a robust operational risk management framework with appropriate systems and controls to identify, monitor and manage operational risks that key participants, other BUs, service providers (including outsourcers) and utility providers might pose to itself.

ii. Legal risk

An IBU must have a well-founded, clear, transparent, and enforceable legal basis for each material aspect of its activities in all relevant jurisdictions.

iii. Fraud risk

An IBU must establish and maintain effective systems and controls to:

(a) deter and prevent suspected fraud against the IBU ; and

(b) report suspected fraud and other financial crimes to the Authority and other relevant authorities.

iv. Business continuity plan

An IBU must have a business continuity plan, which is subjected to periodic review and scenario testing that addresses events posing a significant risk of disrupting operations including events that could cause a widespread or major disruption.

#### 5. Recordkeeping

i. Record keeping obligation



An IBU must make and retain records of matters and dealings, including Accounting Records and corporate governance practices.

ii. Retrieval of records

- a. An IBU must ensure that records stored pursuant to 5(i) are capable of reproduction on paper within a reasonable period not exceeding five Business Days.
- b. An IBU must ensure that the relevant records, in whatever form it is stored and in whichever location it is stored in, shall at all times be fully under its control and shall be accessible to the Authority as and when required .



## **MODULE NO. 6**

### **SUPERVISION**

#### **(SUP)**

## 1. Supervisory powers of the Authority

The supervisory powers of the Authority are derived from the provisions of the IFSCA Act, including those under Section 13(1) that enables the Authority to exercise all powers exercisable by an appropriate regulator, under other legislations included in First Schedule of the IFSCA Act, in so far as it relates to the regulation of the financial products, financial services or financial institutions, as the case may be.

## 2. Powers of supervision over IBUs and banking business in IFSC

- (i) The IFSCA Act under Section 13 gives the powers of the respective domestic regulator under the applicable Acts covered under the First Schedule to the IFSCA including those related to specifying the procedure of inspection, investigation or prosecution of offences, settlement of civil and administrative proceedings, compounding or adjudication of any offence or penalty for the contravention of any provisions of respective Acts, as they apply to the financial products, financial services and financial institutions in IFSCs.
- (ii) In respect of the IBUs carrying out activities in the nature of banking business in IFSC, the Authority shall exercise the powers of regulation and supervision as per the amendments in certain provisions of the relevant legislations, as provided in the Second Schedule of the IFSCA Act.
- (iii) Apart from the other applicable legislations, the Banking Regulation Act, 1949, empowers the Authority to inspect and supervise the IBUs in IFSCs. These powers may be exercised through on-site inspection and off-site surveillance, as per the supervisory framework of the Authority, based on the principles of Risk-Based Supervision (RBS).
- (iv) The powers of the Authority include but are not limited to the power to gather information; restrict, suspend or withdraw a Licence, if the applicant Banking Company or the IBU, as the case may be, fails to fulfil any condition(s) subject to which the licence under Regulation 3 of the Regulation has been granted ; impose penalty and/or any additional requirement, prohibition or restriction on any activity. The Authority may exercise such powers at any time where it considers it necessary or desirable to do so in pursuing its mandate and regulatory objectives.
- (v) In case of withdrawal of the licence (mentioned in 2 (iv)), the Authority shall provide an opportunity to the IBU to submit an explanation to the Authority, if any, within thirty days from the date of receipt of the communication from the Authority to the IBU, in this regard.
- (vi) The Authority shall exercise the supervisory powers in accordance with the supervisory policy under the RBS framework the relevant component of which shall be duly notified to the IBUs. The powers mentioned at 2(iv) above are likely to be exercised by the Authority in the following circumstances:
  - (a) an IBU is failing, or is likely to fail, to satisfy the criteria referred for the grant of a Licence; or
  - (b) an IBU has failed, during a period of at least 12 months, to start or carry on the activity for which it has a licence; or

- (c) it is desirable to take such steps to exercise such power in order to protect the interests of clients or customers of an IBU or for the stability of the financial system; or
- (d) an IBU is in or is likely to be in breach of, or has been, in breach of one or more conditions, restrictions or requirements applicable to its licence; the IFSCA Act or any Rules or Regulations issued thereunder; or
- (f) a request has been received from the home regulator; or
- (g) an IBU has contravened or is likely to contravene a relevant requirement and there is a reasonable likelihood that the contravention will continue or be repeated; or
- (h) required confirmations regarding capital, prudential norms etc. from Banking company has not been submitted within the prescribed time limit or additional time limit that may have been provided
- (i) any other situation where it becomes necessary for justifiable reasons

### 3. Supervision in respect of prudential requirements

- (i) The IBUs shall follow the prudential requirements applicable on the Banking Company as per the respective Home Regulations, unless specified otherwise by the Authority.
- (ii) The IBUs shall ensure compliance with prudential requirements, qualitative or quantitative, if any, prescribed by the Authority. In case such prudential requirements are at a variance with those issued by the Home Regulator as applicable on the IBU as a branch of its Banking Company, the IBU shall demonstrate compliance with the minimum requirements prescribed by the Authority for the purposes of compliance with the Authority's directions in that regard.
- (iii) The supervision in respect of capital adequacy and other non-qualitative prudential requirements shall be carried out in coordination with the respective Home Regulator. The IBU shall submit a periodic certification confirming compliance with all prudential limits / ceilings / conditions applicable as per the Home Regulations, by the parent bank, in respect of IBU's operations.
- (iv) An IBU shall promptly report any anticipated or actual breach of prudential limits by the parent bank, to the Authority. An IBU shall also share with the Authority, a copy of any compliance reports submitted to Home Regulator, if called for by the Authority.
- (v) The Authority may take suitable supervisory and enforcement actions including imposition of a penalty, as per the IFSCA's framework for banking supervision, in respect of any breach of or non-adherence to any prudential regulations / guidelines issued by the Home Regulator of the of the Banking Company of which the IBU is a branch or of any regulations / directions issued by the Authority.



**MODULE NO. 7**

**RAISING QUERIES PERTAINING TO BANKING**

**(QUEST)**



## 1. General Provisions

- i. These directions set out the framework for asking questions to the Authority and the procedure to be followed by the Authority to respond to such questions.

## 2. Legal framework for issuing this guidance

- i. These directions are issued by exercising power u/s 20<sup>9</sup> of the IFSCA (Banking) Regulations, 2020 (as amended)

## 3. Eligible entities

- i. The references made by IFSC Banking Units (IBUs) shall be considered as questions and shall need to adhere to this guidance.
- ii. An individual or an organisation, may ask questions under this module provided such persons are able, in the opinion of IFSCA, to demonstrate a clear link between the questions asked and their current or proposed activity in the IFSC or with an IBU.

## 4. Language

- i. Questions may be asked preferably in English for a quicker response
- ii. The response from the Authority shall be in English.

## 5. Subject matter of questions

- i. Questions should relate to the practical application or implementation of provisions of:
  - The IFSCA (Banking) Regulations, 2020 (as amended)
  - IFSCA Banking Handbook.
- ii. Questions related to guidelines under consultation or not yet in force shall not be answered.

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<sup>9</sup> for the purposes of implementation of provisions these regulations and matters incidental thereto, or in order to facilitate and regulate financial services relating to banking and investment activities in an International Financial Services Centre, the Authority may specify norms, procedures, processes, manners or provide relaxations, by way of guidelines or circulars.

## 6. Manner of asking questions

- i. Questions should be as short and specific as possible, and not refer to individual institutions, transactions or products.
- ii. Questions should be sufficiently clear and should clearly identify a provision of the IFSCA (Banking) Regulations, 2020 (as amended), the IFSCA Banking handbook and any guidelines adopted under these provisions or within the scope of IFSCA's powers.
- iii. Questions should be clearly phrased, identify an issue of practical application or implementation.
- iv. The questions can be sent by email (to: **banking.queries@ifsc.gov.in**) or by post to

“The Head, Banking  
IFSCA  
2nd & 3rd Floor,  
PRAGYA Tower  
Block 15, Zone 1, Road 1C  
GIFT SEZ, GIFT City  
Gandhinagar,  
Gujarat - 382 355”

## 7. Priority of reply

- i. To ensure that questions are answered quickly and are as useful as possible, the Authority shall give priority to questions which:
  - a. raise a material issue: i.e. does it raise a pertinent issue, within the Authority's remit. These considerations could include aspects about regulatory and supervisory practices.
  - b. are relevant for a broad set of stakeholders: i.e. for a large number of stakeholders.
  - c. need guidance or clarification: i.e. where diverse practices could be accepted without undermining policy objectives.
- ii. Questions which do not fall within the above priorities may not be answered. Questions which are likely not to be answered include those which would involve:
  - a. providing bespoke advice, approval specifically related to an individual submitter, or to a particular transaction or product;
  - b. merely directing submitters to where they can find information on a given topic within the legislative text, or its associated delegated and implementing acts, guidelines and recommendations, adopted under these statutes;
  - c. explaining the provisions of legislation, regulations or directions which despite not being fully explicit are sufficiently clear or unambiguous;
  - d. repeating answers to questions previously asked;

- e. hypothetical questions such as "What would have been the consequence under provision xxx if yyy had happened?";
- f. amending, reinterpreting or calling into question a legislative or regulatory document;
- g. anticipating ongoing or expected changes to legislative or regulatory documents;
- h. legislation or regulatory products which are still in draft form or not yet in force;
- i. not meeting the formal criteria for submitting questions as set out in this document.

### **8. Manner and timeline of reply**

- i. Once a question has been submitted, it will be subject to close analysis and review by the Authority.
- ii. It may be necessary for the Authority to request further information from the submitter in order to obtain clarity on the question.
- iii. In some cases, in the interests of expedience, and efficiency and quality, questions of a similar nature and priority may be grouped together or merged.
- iv. Due to the complexity of many issues and the depending on the number of queries under submission, questions may take sufficient time to be answered. The Authority aims to respond to submitted questions as promptly as possible and within one month of the receipt of the question.
- v. If, this is unlikely to be met, the submitter will be informed of the same, the reasons for the delay and also about the additional steps being taken to ensure prompt finalisation.

### **9. Objectives to be achieved**

- i. The Authority shall endeavour to answer, in a timely manner, all the questions that are relevant and useful for achieving its regulatory objectives including enhancing ease of doing business and better clarity for the stakeholders.
- ii. The Authority places significant emphasis on the guiding principles of transparency, accountability, clarity, comprehensiveness and timeliness. It strives to continuously improve public understanding of its regulations and directions