



A BHATT & JOSHI PRACTITIONER HANDBOOK
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SETTING UP AN IFSC BANKING UNIT AT GIFT CITY

*A Practitioner's Handbook on the IFSCA Banking
Regulations 2020 and Banking Handbook v5.0 / v6.0*



IFSCA ACT 2019 · IFSCA (BANKING) REGS 2020
IFSCA BANKING HANDBOOK — GEN v5.0 · COB v6.0 · PRU v5.0
RBI A.P. (DIR) CIRC 10 OF 11 JUL 2022 (SRVA)
FEMA (BORROWING & LENDING) (1ST AMDT) REGS 2026 (ECB)
INCOME-TAX ACT 1961 §80LA(1A) + §115JB(7) · IT ACT 2025 §147

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FOREWORD

This booklet is the eighth in the Bhatt & Joshi Associates Practitioner Series. It addresses the question every foreign and domestic bank evaluating a GIFT City presence asks: "how do we set up an IFSC Banking Unit, what may it do, and what are the live regulatory expectations?" The answer is built up from the IFSCA (Banking) Regulations 2020 and the IFSCA Banking Handbook (GEN, COB, PRU directions at versions 5.0 / 6.0 of 5 April 2024), read with the subsisting RBI Guidelines for Setting Up of IBUs (consolidated as on 21 January 2020) and the Income-tax Act 2025.

The presentation follows the firm's practitioner-handbook discipline: every operative claim is anchored in verbatim statutory or regulatory text, every chapter ends with a deductive walk-through (Premise → Authority → Application → Conclusion), and every uncertainty is expressly flagged. The booklet is current to 31 May 2026.

CHAPTER ONE

Regulatory Architecture — From RBI 2015 to IFSCA 2024

Citations: RBI Notification DOR.IBD.BC.14570/23.13.004/2014-15 dated 1 April 2015; IFSCA Act 2019, Section 3 (commencement 27 April 2020); IFSCA assumption of regulatory powers 1 October 2020; IFSCA Banking Handbook 2021; IFSCA Banking (Amendment) Regulations 2023; IFSCA Banking Handbook — GEN v5.0 / COB v6.0 / PRU v5.0 of 5 April 2024.

¶ **1. The 2015 RBI framework.** The IFSC Banking Unit (IBU) framework originates with the RBI's Guidelines for Setting Up of IBUs dated 1 April 2015. The Reserve Bank issued these as Annexure to its master notification to scheduled commercial banks operating in the SEZ at GIFT City. Under the 2015 Guidelines

the IBU was constituted as a branch of an Indian bank or of a foreign bank with India presence, capitalised at USD 20 million.

¶ **2. The IFSCA hand-over.** On 27 April 2020, the IFSCA Act 2019 came into force. By Government of India notification dated 1 October 2020, IFSCA assumed the regulatory powers of RBI, SEBI, IRDAI and PFRDA in respect of the IFSC. From 1 October 2020 the IFSC banking framework moved from RBI to IFSCA. The RBI 2015 Guidelines remain the conceptual scaffold; live regulation now flows from the IFSCA Banking Handbook.

¶ **3. The IFSCA codification.** On 18 November 2020 IFSCA notified the IFSCA (Banking) Regulations 2020, supplemented by the IFSCA Banking Handbook (GEN, COB, PRU directions, first issued 2021, currently at v5.0 / v6.0 / v5.0 of 5 April 2024). The 2023 amendment introduced the IFSC Banking Company (IBC) — a subsidiary route in addition to the original branch route — with a higher capital threshold of USD 50 million.

IFSCA (BANKING) REGULATIONS 2020 — VERBATIM (currency-of-business clause)

A Banking Unit shall conduct such business in freely convertible foreign currencies and with such persons, whether resident or otherwise, as may be specified by the Authority.

Source: IFSCA (Banking) Regulations 2020 (consolidated to 14 July 2023) — ifsc.gov.in/Document/Legal/consolidated-ifsc-banking-regulations-as-on-july-14-202314082023111415.pdf.

PREMISE. A foreign bank wishes to establish a presence at GIFT City IFSC after 1 October 2020.

AUTHORITY · IFSCA Act 2019 + IFSCA (Banking) Regulations 2020

The Authority is empowered to regulate banking business in the IFSC; Banking Units shall conduct business in freely convertible foreign currencies.

IFSCA Act 2019 read with IFSCA (Banking) Regulations 2020.

APPLICATION. The applicant submits to IFSCA, not RBI, save for parent-bank-level NOC and FEMA-side residual matters.

CONCLUSION. The operative regulator is IFSCA. RBI involvement is residual (parent-bank NOC; FEMA on cross-border flows; ECB and SRVA frameworks).

CHAPTER TWO

Branch (IBU) or Subsidiary (IBC) — Choice of Form

Citations: IFSCA (Banking) Regulations 2020 r. 3 (capital); IFSCA Banking (Amendment) Regulations 2023 of 6 July 2023.

¶ **1. The two structures.** Two structural forms are available. The branch form — IBU — is the older route: the IBU is treated as a branch of the parent bank, with the parent capitalising it at USD 20 million minimum. The subsidiary form — IFSC Banking Company (IBC) — was introduced by the 2023 amendment: the IBC is a separately incorporated entity, capitalised at USD 50 million minimum. Both structures are eligible for registration with IFSCA; the choice depends on the parent's operational and tax priorities.

IFSCA (BANKING) REGULATIONS 2020 — ELIGIBILITY VERBATIM (Branch / IBU)

The Parent bank must provide a minimum capital of USD 20 million or such other amount as may be specified by the Authority, or equivalent in any foreign currency to its Banking Unit, obtain a No Objection Letter from its home regulator regarding setting up of the Banking Unit, and submit an undertaking that it shall provide liquidity to its BU whenever needed for the operations of the BU.

Source: IFSCA (Banking) Regulations 2020.

IFSCA BANKING (AMENDMENT) REGULATIONS 2023 — IBC VERBATIM

The Parent bank must provide the necessary capital for the IBC, subject to a minimum of USD 50 million or such other level of capital that may be specified by the Authority.

Source: IFSCA Banking (Amendment) Regulations 2023, effective 6 July 2023.

2.1 Choice considerations

- Capital — USD 20 mn (IBU) vs USD 50 mn (IBC).
- Liability ring-fencing — IBC is a separate legal entity; the IBU is part of the parent's balance sheet.
- Local-incorporation costs — Companies Act 2013 obligations apply to IBC.
- Tax — both qualify for Section 80LA(1A) / Section 147 (Income-tax Act 2025) 100% deduction; the 9% MAT under Section 115JB(7) applies to both.
- Supervision — IBC files standalone returns; IBU rides on the parent's filings.

CHAPTER THREE

Permitted Activities — Product Map under COB v6.0

Citation: IFSCA Banking Handbook — Conduct of Business Directions v6.0 of 5 April 2024.

COB DIRECTIONS v6.0 — DEPOSITS AND BORROWINGS (verbatim)

IBUs may borrow funds in INR/foreign currency from their parent, domestic branches of Indian banks, overseas branches of Indian banks, persons resident outside India, and may accept deposits from persons resident in India, in the manner provided under the IFSCA Deposit Directions, 2020.

Source: IFSCA Banking Handbook — COB Directions v6.0 — ifsc.gov.in/Document/Legal/the-ifsca-banking-handbook-cob-directions-v6-005042024051513.pdf.

COB DIRECTIONS v6.0 – LENDING UNIVERSE (verbatim)

The Banking Units (BUs) may undertake acceptance of deposits, borrowing from and lending to other IBUs, parent bank of the IBU, and banks outside IFSC, as well as retail lending.

Source: IFSCA Banking Handbook – COB Directions v6.0.

COB DIRECTIONS v6.0 – DERIVATIVE ACTIVITY (verbatim)

IBUs may participate in derivative transactions including: entering into over the counter derivative contracts for asset liability management requirements, undertaking over the counter derivative contracts for their own account or for corporate or Qualified Individual clients, transacting in Interest Rate and Currency Derivatives in INR with settlement in foreign currency listed on a Stock Exchange, undertaking derivative or forward contracts in gold for hedging gold investments, and offering non-deliverable currency contracts involving INR to persons resident outside India and Banks in India having presence in the International Financial Services Centre.

Source: IFSCA Banking Handbook – COB Directions v6.0.

¶ **1. The product universe.** The permitted-activities universe captures (a) deposits — from residents and non-residents, in foreign currency for retail and in either currency for institutional; (b) lending — syndicated, trade finance, ECB to Indian residents, retail lending in foreign currency; (c) derivatives — OTC, IRD / CRD, exchange-listed NDFs involving INR, gold-hedging; (d) credit enhancement, credit insurance, sale and purchase of portfolios; (e) factoring and forfeiting of export receivables; (f) equipment leasing including aircraft leasing.

RETAIL CARVE-OUTS

Retail banking is permitted only in foreign currency. INR savings and current accounts to the retail public are not permitted. Retail lending must be in foreign currency. The IBU is not a substitute for a domestic Indian retail bank branch.

CHAPTER FOUR

Capital, Prudential Regime and Supervisory Architecture

Citations: IFSCA Banking Handbook – Prudential Directions v5.0 of 5 April 2024 (caalley.com/ifsc24/the-ifsc-a-banking-handbook-pru-directions-v5-005042024051629.pdf); Basel III framework.

PRU v5.0 – BASEL III APPLICATION (verbatim)

Such prudential guidelines of the Home Regulators of the Banking Companies as applicable also on the IBUs set up as branches - unless otherwise specified by the Authority, must be based on the updated Basel framework including the Basel III reforms.

Source: IFSCA Banking Handbook – PRU Directions v5.0.

PRU v5.0 – QUARTERLY COMPLIANCE CERTIFICATE (verbatim)

The IBU shall furnish a quarterly certificate issued by an authorised official of the Banking Company about compliance in respect of capital adequacy and leverage ratio for the IBU... within forty five days after the end of the quarter.

Source: IFSCA Banking Handbook – PRU Directions v5.0.

PRU v5.0 – ICAAP RELIANCE (verbatim)

In relation to the IBU's Internal Capital Adequacy Assessment Programme (ICAAP), the IBU may rely on the ICAAP for the Banking Company of which it is a branch.

Source: IFSCA Banking Handbook – PRU Directions v5.0.

¶ **1. Prudential regime.** The prudential regime is Basel III at parent level, applied to the IBU through the parent's CRAR / LCR / NSFR / leverage ratio compliance. The IBU files a quarterly compliance certificate within 45 days of quarter-end; it may rely on the parent's ICAAP rather than maintaining a standalone ICAAP. KYC / AML obligations apply through the IFSCA AML / CFT / KYC Guidelines 2022 (Chapter 7).

CHAPTER FIVE

Correspondent-Banking, SRVA and Cross-Border Plumbing

Citations: RBI A.P. (DIR Series) Circular No. 10 of 11 July 2022 (SRVA); Asian Clearing Union framework; OFAC sanctions perimeter.

¶ **1. Parent-routed clearing.** The IBU is not a direct member of CHIPS or Fedwire — USD clearing rides on the parent bank's nostro network. Citi, JPMorgan and BNY Mellon are the dominant USD-correspondent banks; Deutsche and HSBC dominate EUR. The IBU's settlement architecture is therefore parent-routed; its operational autonomy is bounded by the parent's correspondent-banking risk appetite (notably for Russia / Iran / sanctioned-counterparty business).

¶ **2. The SRVA framework.** On 11 July 2022 RBI issued A.P. (DIR Series) Circular No. 10 (Notification 12358), creating the Special Rupee Vostro Account (SRVA) framework. The framework permits Indian AD-Cat-I banks (including IBUs, as branches of an AD bank) to maintain SRVAs for foreign correspondents to settle cross-border trade in INR. The framework was liberalised in November 2023 to permit investment of surplus rupee balances in Government Securities. The SRVA route is available to IBUs without prior RBI approval since the 5 August 2025 IFSCA / RBI liberalisation.

¶ **3. ACU.** The Asian Clearing Union, with nine members (Bangladesh, Bhutan, Iran, India, Maldives, Nepal, Pakistan, Sri Lanka, Myanmar), permits settlement in

ACU Dollar, ACU Euro and ACU Yen. ACU has operational relevance for IBUs handling South-Asia trade but does not extend to Russia or to the OECD bloc.

CHAPTER SIX

Lending to Indian Residents — the ECB Interface

Citation: FEMA (Borrowing and Lending) (First Amendment) Regulations 2026, effective February 2026.

FEMA (BORROWING AND LENDING) (FIRST AMENDMENT) REGULATIONS 2026 — RECOGNISED LENDER (verbatim)

The Revised ECB Regulations expand the scope of a recognized lender to include all persons (including individuals) resident outside India, a branch outside India of an entity whose lending business is regulated by the RBI or a financial institution or its branch set up in the International Financial Services Centre (IFSC).

Source: FEMA (Borrowing and Lending) (First Amendment) Regulations 2026 — Norton Rose Fulbright client alert.

¶ **1. The ECB framework.** An IBU lending to an Indian resident is, under FEMA, treated as a branch "outside India" — the loan is an External Commercial Borrowing for the Indian borrower, and the full ECB framework applies (minimum average maturity period of three years; borrowing cap of USD 1 billion or 300% of net worth; end-use restrictions; Form ECB reporting). The 2026 Amendment Regulations made three material liberalisations: (i) the MAMP was standardised at three years; (ii) the all-in-cost ceiling was removed; (iii) the FATF / IOSCO residency requirement for lenders was removed.

CHAPTER SEVEN

Tax Regime — §80LA(1A) / §147 + §115JB(7) + CBDT Notifications

Citations: Income-tax Act 1961, §80LA(1A) and §115JB(7); Income-tax Act 2025, §147 (in force 1 April 2026); CBDT Notification 67/2025; Union Budget 2026-27.

INCOME-TAX ACT 1961 §80LA(1A) — VERBATIM

Where the gross total income of an assessee, being a Unit of an International Financial Services Centre, includes any income referred to in sub-section (2), there shall be allowed, in accordance with and subject to the provisions of this section, a deduction from such income, of an amount equal to one hundred per cent of such income for any ten consecutive assessment years, at the option of the assessee, out of fifteen years, beginning with the assessment year relevant to

the previous year in which the permission, under clause (a) of sub-section (1) of section 23 of the Banking Regulation Act, 1949 (10 of 1949) or permission or registration under the Securities and Exchange Board of India Act, 1992 (15 of 1992) or any other relevant law was obtained.

Source: Income-tax Act 1961 §80LA(1A); migrated to Section 147 of the Income-tax Act 2025 (effective 1 April 2026).

INCOME-TAX ACT 1961 §115JB(7) – 9% MAT FOR IFSC UNITS (verbatim)

Where the assessee is a unit located in International Financial Services Centre and derives its income solely in convertible foreign exchange, such unit shall be liable to pay MAT at the rate of 9% instead of 18.5%.

Source: Income-tax Act 1961 §115JB(7).

¶ **1. The tax stack.** The tax regime gives an IBU a 100% deduction on qualifying income for ten consecutive assessment years out of fifteen, under §80LA(1A) / new §147. MAT under §115JB(7) is 9% rather than the standard 18.5% — applicable when the IBU derives income solely in convertible foreign exchange. The Union Budget 2026-27 proposed extension to twenty-of-twenty-five years with a 15% post-holiday rate — to be verified against the Finance Act 2026 text once enacted.

CHAPTER EIGHT

Operative Precedents and Practitioner Checklist

Source: IFSCA Pages/Contents/IFSC_Codes_issued_to_IBUs.

¶ **1. Live IBU population and a precedent.** The live IBU population at GIFT City includes: Indian banks — State Bank of India, ICICI Bank, Axis Bank, HDFC Bank, Federal Bank, IndusInd Bank, RBL Bank, Kotak Mahindra Bank, Yes Bank, Bank of Baroda, Punjab National Bank; foreign banks — Standard Chartered, HSBC, Citibank, Bank of America, MUFG, Crédit Agricole CIB, DBS, Deutsche Bank. Citibank was the first U.S. bank to set up an IFSC branch (August 2021); HSBC was the first to be licensed by IFSCA as a unified regulator; Federal Bank opened the first IBU (November 2015); Axis Bank went live on 1 November 2017. The Cyril Amarchand-advised USD 225 million syndicated facility for Piramal Critical Care (November 2022; SBI London / Axis IBU GIFT / HSBC USA) is the operative cross-border-syndication precedent.

8.1 Practitioner setup checklist

- 1.** Decide structure: IBU (branch) at USD 20 mn or IBC (subsidiary) at USD 50 mn.
- 2.** Obtain home-regulator NOC for the parent bank (or board resolution for IBC).

3. File IFSCA Form A — application for licence as an IFSC Banking Unit / Company.
4. Capital remittance + SWIFT MT103 evidence; assigned capital escrowed at an IFSC Banking Unit (parent or third-party IBU).
5. SEZ Letter of Approval (Development Commissioner, GIFT-SEZ).
6. Resident-Indian KMP recruitment: Branch Head, Compliance Officer, Internal Auditor; CFO if IBC.
7. AML / CFT / KYC policy filed under IFSCA AML/CFT Guidelines 2022.
8. Investment policy and product manual filed under PRU v5.0.
9. Quarterly compliance certificate cycle commenced; first filing due 45 days after first quarter-end.
10. Tax registration: PAN, GST (if applicable), §80LA deduction option opted; FATCA / CRS reporting under Rules 114F-H of the Income-tax Rules.



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