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International Financial Services Centres Authority Bill, 2019

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The Union Cabinet has approved **International Financial Services Centres Authority Bill, 2019** which seeks to **establish a unified authority** for regulating all financial services in **International Financial Services Centres (IFSCs) in India.**

International Financial Service Centre (IFSC)

- An IFSC caters to customers **outside the jurisdiction** of the domestic economy. Such centres deal with **flows of finance, financial products** and services **across borders.**
- An expert panel headed by former **World Bank economist Percy Mistry** submitted a report on making **Mumbai an international financial centre in 2007.** However, the global financial crisis in 2008 made countries including India cautious about rapidly opening up their financial sectors.
- In India, IFSC has been **defined in SEZ Act, 2005.** As per the act:
 - The **Central Government may approve the setting up** of an International Financial Service Centre in a Special Economic Zone and may prescribe the requirements for setting up and operation of such centre.
 - The Central Government shall approve **only one International Financial Services Centre in a Special Economic Zone.**
- Since India has **many restrictions on the financial sector**, such as **partial capital account convertibility, high SLR (statutory liquidity ratio) requirements and foreign investment restrictions**, an SEZ can serve as a testing ground for financial sector reforms before they are rolled out in the entire nation.

Special Economic Zone (SEZ)

- In India, the Special Economic Zones (SEZs) **Policy was announced in April 2000.**

- The **Special Economic Zones Act, 2005**, was passed by Parliament in May, 2005 and **came into effect in 2006**.
- SEZs addresses the issue of multiplicity of controls and clearances, have world-class infrastructure, and a stable fiscal regime.
- SEZs focus on economic growth supported by quality infrastructure complemented by an attractive fiscal package, both at the Centre and the State level, **with the minimum possible regulations**.

GIFT (Gujarat International Finance Tec-City), located in Gandhinagar is India's first International Financial Services Centre.

Background

- Currently, the banking, capital markets and insurance sectors in IFSC are **regulated by multiple regulators, i.e. RBI, SEBI and IRDAI**.
- The dynamic nature of business in the IFSCs necessitates a **high degree of inter-regulatory coordination**. It also requires regular clarifications and frequent amendments in the existing regulations governing financial activities in IFSCs.
- The development of financial services and products in IFSCs would **require focussed and dedicated regulatory interventions**. Hence, a need for a **unified financial regulator for IFSCs in India** to provide world class regulatory environment to financial market participants.
- Further, this would also be essential from an **ease of doing business perspective**. The unified authority would also provide the much needed impetus to further development of IFSC in India **in-sync with the global best practices**.

Salient Features of the Authority

- **Composition:** The Authority shall consist of a **Chairperson, one Member each** to be nominated by the **Reserve Bank of India (RBI), the Securities Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI) and the Pension Fund Regulatory and Development Authority (PFRDA)**, **two members** to be dominated by the Central Government and two other whole-time or full-time or part-time members.
- **Functions:** The Authority shall **regulate all such** financial services, financial products and Financial Institutions in an IFSC. It may also **recommend to the Central Government** such other financial products, financial services and financial institutions which may be permitted in the IFSCs.
- **Powers:** All powers exercisable by the respective financial sector regulatory (viz. RBI, SEBI, IRDAI, and PFRDA etc.) under the respective Acts shall be **solely exercised by the Authority in the IFSCs** in so far as the regulation of financial products, financial services and FIs that are permitted in the IFSC are concerned.

- **Processes and procedures:** The processes and procedures to be followed by the Authority shall be governed in accordance with the provisions of the respective Acts of Parliament of India applicable to such financial products, services or institutions, as the case may be.
- **Grants by the Central Govt.:** The Central Govt. may, after due appropriation made by Parliament by law in this behalf, make to the Authority grants of such sums of money as the Central Government may think fit for being utilized for the purposes of the Authority.
- **Transactions in foreign currency:** The transactions of financial services in the IFSCs **shall be done in the foreign currency** as specified by the Authority in consultation with the Central Govt.