Executive summary

The International Financial Services Centres Authority (IFSCA)¹ has issued a framework for undertaking Global/ Regional Corporate Treasury Centres activities by Finance companies (FCs)/ Finance units (FUs) in an IFSC² in India (Framework). The Framework is aimed at allowing the FCs/ FUs in an IFSC in India to undertake permitted treasury activities and provide permitted treasury services to its group entities.

The Circular providing the Framework was issued on 25 June 2021³.

This alert summarizes key aspects of the Framework.

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¹ IFSCA is a regulatory authority established under the International Financial Services Centres Authority Act, 2019 for regulating financial institutions, financial services and financial products in an IFSC in India.

² International Financial Services Centre

³ F. No. 331/IFSCA/GRCTC/2021-22
Background

The IFSCA\(^4\) vide notification dated 25 March 2021 had notified IFSCA (Finance Company) Regulations, 2021 (Regulations), to provide a framework for finance companies in an IFSC in India. The Regulations specified certain permissible activities for FCS/ FUs in the IFSC which included ‘Global/Regional Corporate Treasury Centres’.

The IFSCA had also constituted an expert committee on positioning the IFSC in India as a hub for offshore trading in INR which published its report on 18 June 2021. The Committee inter-alia recognized the need for attracting Indian multinationals to base their global treasury operations in IFSC as an important growth factor for the IFSC in India.

The IFSCA has now vide Circular\(^2\) dated 25 June 2021 issued a framework for undertaking such Global/ Regional Corporate Treasury Centres activities by FCS/ FUs in an IFSC in India.

This alert summarizes the key aspects of the Framework.

Registration Requirement to undertake Global/ Regional Corporate Treasury Centre services

Any eligible entity which satisfies the conditions specified in the Regulations\(^4\) and proposes to undertake Global/ Regional Corporate Treasury Services can make an application to IFSCA in the prescribed form to be registered as a FC/ FU.

The Global/ Regional Corporate Treasury Centres can perform treasury activities and/ or provide treasury services exclusively to its Group Entities which are domiciled in a jurisdiction not identified by Financial Action Task Force as ‘High-Risk Jurisdictions subject to a Call for Action’ (except entities domiciled in any country specified by the Government of India by an order or by way of an agreement or treaty).

Group Entities means an entity registered with any competent or statutory body in its home jurisdiction and includes its holding, subsidiary or associate companies, branch, joint venture investment or subsidiary of a holding company to which it is also a subsidiary.

Permissible Treasury Services

FC/ FU shall be permitted to provide the following treasury services to its Group Entities:

- Managing and optimising multi-currency cash management and liquidity management including cash forecasting, arranging credit facilities and cash pooling;
- Processing of payments to vendors or suppliers;
- Managing relationships with financial institutions and investors in debt or equity instruments;
- Providing corporate finance advisory/ transaction services including debt or equity fund raising, capital budgeting, intra-group financing, provisioning of different forms of guarantees and remittances on behalf of Group Entities;
- Assistance in Internal group restructuring;
- Advising on the management of investments of the funds of the Group Entities;
- Advising or providing services in relation to financial risk management;
- Advising or providing services in relation to compliances with accounting standards, internal treasury policies and regulatory requirements in relation to treasury management;
- Advising or providing services on treasury management system operations;
- Providing business planning and co-ordination including economic or investment research and analysis in connection with any specified treasury services;
- In-house centre providing virtual accounts to undertake settlements without physical remittance of funds;
- Re-invoicing centre as long as such re-invoicing is undertaken for the limited purpose of ensuring that liquidity flows and financial risk can be aggregated and netted; and
- Any other treasury services with prior intimation to the IFSCA.

Permissible Treasury Activities

FC/ FU shall be permitted to carry out following treasury activities for its Group Entities:

► Transacting/ investing the funds in specified financial instruments for managing the cash and liquidity position;

► Transaction in respect of specified contracts;

► Factoring and forfaiting activities;

► Borrowing by collateralizing inventory held;

► Advances and structured credit facilities against future sales/ exports;

► Commercial activities only to the extent it serves the purpose of a re-invoicing centre;

► Structured finance transactions;

► Foreign exchange transactions;

► Transacting or investing in stocks and shares of any entity listed on recognized stock exchanges;

► Extending credit facilities by raising short/ long term debt;

► Raising of equity and other form of capital; and

► Any other treasury activities with prior intimation to the IFSCA.

Currency for conduct of business

► FCs/ FUs will carry out its operation in a freely convertible foreign currency only; however, it will be permitted to have a separate INR account to pay their administrative expenses;

► Where a FC/ FU is required to transact is a non-freely convertible currency because the underlying trade flows of its Group Entities are denominated in such a currency, such trade flow should be specifically identified against the transaction in a non-freely convertible currency which will be settled in freely convertible currency;

► FCs/ FUs may transact in foreign currency-rupee derivatives only where the foreign currency leg is in a freely convertible currency;

► USD-INR derivatives can be undertaken with approved dealers in India in accordance with the RBI guidelines applicable to off-shore entities hedging their currency exposures with authorized banks in India;

► Participation in non-deliverable forwards (including rupee or other currencies) or offshore markets shall be governed by the current guidelines in force.

Reporting Requirements

► Every FC/ FU shall furnish the following information to IFSCA (within 90 days from the finalization of annual financial statements)
  - Annual performance report
  - Confirmation of compliance with the applicable regulations, circulars, guidelines and directions issued by the IFSCA

► FC/ FU shall submit all the financial information to the IFSCA in USD [unless otherwise specified].

Comments

The IFSCA has provided a descriptive framework of the treasury activities and services that can be provided by the Global/ Regional corporate treasury centre in the IFSC in India.

The Framework not only prescribes administrative services for treasury management activities but also allows capital transactions such as permitting investments in recognized stock exchanges and raising of equity capital/ debt. This is an important move towards promoting IFSC as a regional corporate treasury Centre.

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5 Deposits, Bank Deposits, Inter-company deposits, certificate of deposits, bonds and debentures, notes, virtual accounts, money-market funds, repo and securities lending and other instruments as approved by IFSCA

6 Foreign exchange contract including hedging for commodities, commodity derivatives, forward, futures, swap, options, commodities, purchase of credit enhancements or derivatives with the intent of reducing credit risk
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