



# India's dream of being International Financial Centre taking shape

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A Financial Centre is a global city that is home to large number of internationally significant banks, asset management companies, insurance, stock exchanges or financial markets. IMF divides Financial Centres into three categories: International Financial Centre (IFC), Regional Financial Centre (RFC) & Offshore Financial Centre (OFC).

**International Financial Centre (IFC):** These are large international full-service centres with advanced settlement and payments systems, supporting large domestic economies, with deep and liquid markets where both the sources and uses of funds are diverse, and where legal and regulatory frameworks are adequate to safeguard the integrity of principal-agent relationships and supervisory functions. IFCs generally borrow short-term from non-residents and lend long-term to non-residents. Examples are New York, London & Tokyo.

**Regional Financial Centre (RFC):** Like IFC, these Centre's have developed financial markets and infrastructure but smaller domestic economies. Examples are Hong Kong, Singapore.

**Offshore Financial Centre (OFC):** It is country or jurisdiction that provides financial services to non-residents on a scale that is incommensurate with the size and the financing of its domestic economy, these are usually smaller, and provide more specialist services. Examples are Ireland, the Caribbean.

## Key Products offered by IFC

- Asset Management and Global Portfolio Diversification.
- Fund Raising for individuals, corporations and governments (sovereign and sub-sovereign).

- Financial Engineering and Architecture for Large Complex Projects.
- Personal Wealth Management (PWM) for high-net worth individuals (HNWIs).
- Financing for Global/Regional Public-Private Partnerships.
- Global Transfer Pricing.
- Global/Regional Corporate Treasury Management.
- Global/Regional Risk Management Operations and Insurance/Re-insurance.
- Global/Regional Mergers and Acquisitions Activity.
- Global Tax Management and Cross border Tax Liability Optimizations.
- Global/Regional Exchange Trading of Financial Securities, Commodities and Derivatives Contracts in Financial Instruments Indices and in Commodities.

The growth of IFCs has been shaped by history based on the capital investments from the geographies along with the domestic resources available within the territory. European and American economies have dominated global GDP since the industrial revolution and the conquest of the east by the west and are considered as traditional or classical IFCs. Offshore Financial Centers (OFCs), which are a relatively recent, post-World War II phenomenon, owe their existence to the deliberate attempts of the authorities in these centers to offer a range of advantages which were not available, or not available to the same extent, in the traditional IFCs.

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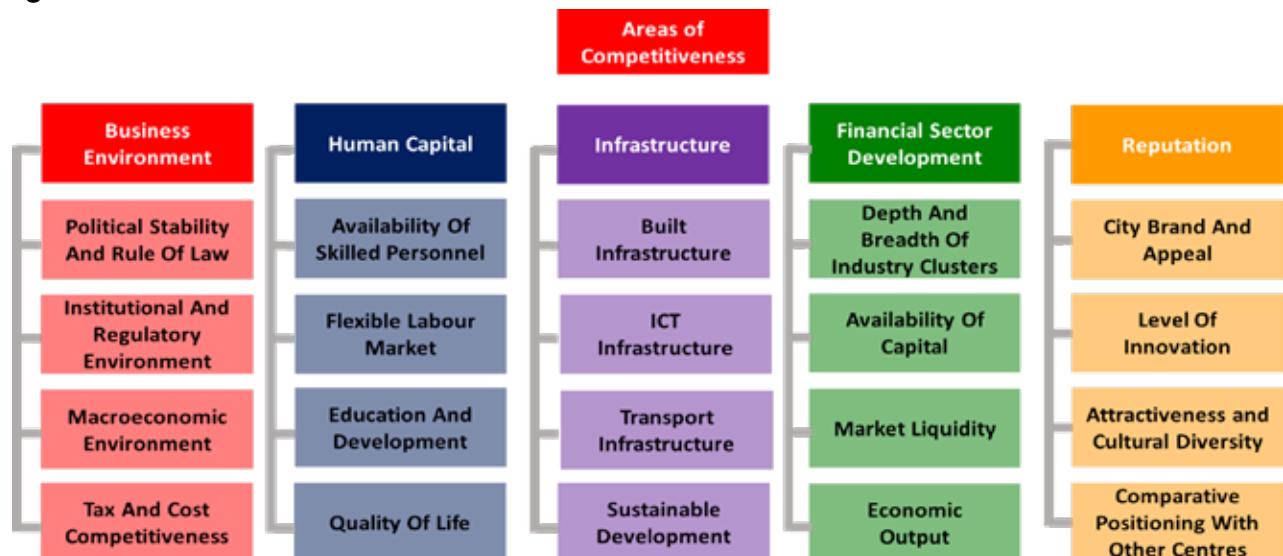
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## Global Financial Centres Index (GFCI)

It is the biannual evaluation report published jointly by Z/Yen group based in London and China Development Institute. Since 2007, GFCI is enriching

Global financial community by evaluating and ranking financial centres based on their competitiveness & performance. Areas of importance are Business environment, Human capital, Infrastructure, Financial sector development, and Reputation.

**Figure 1: Focus areas of GFCI**



Source: [en.cdi.org.cn](http://en.cdi.org.cn/) / [www.longfinance.net](http://www.longfinance.net)

As per latest GFCI rankings, GFCI - 30<sup>th</sup> edition published in Sep 2021, top 3 IFCs are New York, London and Hong Kong.

**New York:** Often regarded as Finance Capital of the World, New York retained its number one position in GFCI list of world's leading financial hub. Presence of top Universities, World's largest Banks, Financial Institutions, Credit rating agencies, Insurance companies, PE firms & Hedge funds attract talent from across the world and makes it home to most of the Fortune 500 companies. It is famous for wall street, and stock exchanges - New York Stock Exchange (NYSE) & NASDAQ.

**London:** London has been a global financial hub since 1698, when the second largest stock exchange of Europe, the London Stock Exchange was founded. It is also home to second oldest Central Bank of the world, the Bank of England; World's Largest market

for gold and silver trading, London Bullion Market Association (LBMA). It has maintained its 2<sup>nd</sup> position in the GFCI list, despite Brexit. Though its future as leading Financial Centre is uncertain as with Brexit it has lost the Passporting rights of European Union. The City gave up the automatic right to sell its services freely throughout the remaining 27 member states.

**Hong Kong:** Its Strategic location and presence of good number of Banking & Financial Institutions makes it a key financial hub. After the United States, it is second largest trading partner of China. It is home to fourth largest stock exchange of the world, the Hong Kong Stock Exchange. It has attractive Tax system and an efficient and transparent judicial and legal system. The city has seen disruptions in retail, and tourism due to pro-democracy protests, but has managed to stand at 3<sup>rd</sup> position in the GFCI list.

Financial Centres of India shown improvement in latest GFCI list, as Mumbai jumped 11 Ranks and featured at 54<sup>th</sup> position, Delhi bettered its position by 25 rank and is at 55<sup>th</sup> Position and GIFT-City Gujarat is up 16 ranks and is at 76<sup>th</sup> position.

**Table 1: List of Top 30 Centre's & Indian IFCs (Comparison GFCI 30 -Sep 2021 v/s GFCI 29 - Mar 2021)**

Centre	GFCI 30		GFCI 29		Change In Rank	Change In Rating
	Rank	Rating	Rank	Rating		
New York	1	762	1	764	0	▼2
London	2	740	2	743	0	▼3
Hong Kong	3	716	4	741	▲1	▼25
Singapore	4	715	5	740	▲1	▼25
San Francisco	5	714	12	718	▲7	▼4
Shanghai	6	713	3	742	▼3	▼29
Los Angeles	7	712	13	716	▲6	▼4
Beijing	8	711	6	737	▼2	▼26
Tokyo	9	706	7	736	▼2	▼30
Paris	10	705	25	699	▲15	▲6
Chicago	11	704	15	714	▲4	▼10
Boston	12	703	24	703	▲12	0
Seoul	13	702	16	713	▲3	▼11
Frankfurt	14	701	9	727	▼5	▼26
Washington DC	15	700	14	715	▼1	▼15
Shenzhen	16	699	8	731	▼8	▼32
Amsterdam	17	698	28	695	▲11	▲3
Dubai	18	694	19	710	▲1	▼16
Toronto	19	693	29	694	▲10	▼1
Geneva	20	692	20	709	0	▼17
Zurich	21	690	10	720	▼11	▼30
Edinburgh	22	689	21	708	▼1	▼19
Luxembourg	23	688	17	712	▼6	▼24
Madrid	24	687	33	683	▲9	▲4
Sydney	25	686	18	711	▼7	▼25
Stockholm	26	685	31	688	▲5	▼3
Montreal	27	682	27	696	0	▼14
Vancouver	28	681	11	719	▼17	▼38
Melbourne	29	680	23	705	▼6	▼25
Hamburg	30	679	43	664	▲13	▲15
Mumbai	54	627	65	599	▲11	▲28
New Delhi	55	625	80	584	▲25	▲41
GIFT City-Gujarat	76	568	92	568	▲16	0

Source: [en.cdi.org.cn/](http://en.cdi.org.cn/) / [www.longfinance.net](http://www.longfinance.net)

## Financial Centres in India

India is world's 3<sup>rd</sup> largest economy on the basis of PPP and 6<sup>th</sup> largest economy on the basis of Nominal GDP and aims to become USD 5 trillion economy and global power house by FY 2025. Despite this, India misses the list of top 50 IFCs. IFC due to its secure jurisdictions & friendly tax environment, plays a crucial role in mobilising finance.

## Why India needs an IFC

India is not only one of the world's fastest growing economies, but it is also world's largest consumer of manufacturing goods and services. India's stable government, strategic location, demographic dividend, cost of living and further potential to grow, is keeping it in bright spot and India is one of the largest recipients of FDI flows. India is also one of the big purchaser of International Financial Services (IFS) from the world and as per the Finance Ministry estimates, in the absence of International Financial Services Centre in India, it may lose funds to the tune of USD 120 billion per year by 2025. To retain human capital, sustain economic growth and increase its strategic influence around the globe, India needs to promote IFS and enter in the space of financial intermediation.

## Gujarat International Finance Tec-City (GIFT City- Gujarat)

It is an emerging global financial and IT services hub, a first of its kind in India, designed to be at or above par with globally benchmarked business districts. It is supported by state-of-the-art infrastructure encompassing all basic urban infrastructure elements along with an excellent external connectivity. Companies from financial services, technology and all other services sector will be targeted as potential occupants within the city.

While inaugurating GIFT City, Prime Minister of India, Shri Narendra Modi shared his vision "My vision is that in ten years from now, GIFT City should become the price setter for at least a few of the largest traded instruments in the world, whether in commodities, currencies, equities, interest rates or any other instrument."



Figure 2. GIFT City - A Hub for IFS

Source: [en.cdi.org.cn/](http://en.cdi.org.cn/) / [www.longfinance.net](http://www.longfinance.net)

## The International Financial Services Centres Authority (IFSCA)

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

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

As the dynamic nature of business in the IFSCs requires a high degree of inter-regulatory coordination within the financial sector, the IFSCA has been established as a unified regulator with a holistic vision in order to promote ease of doing business in IFSC and provide world class regulatory environment.

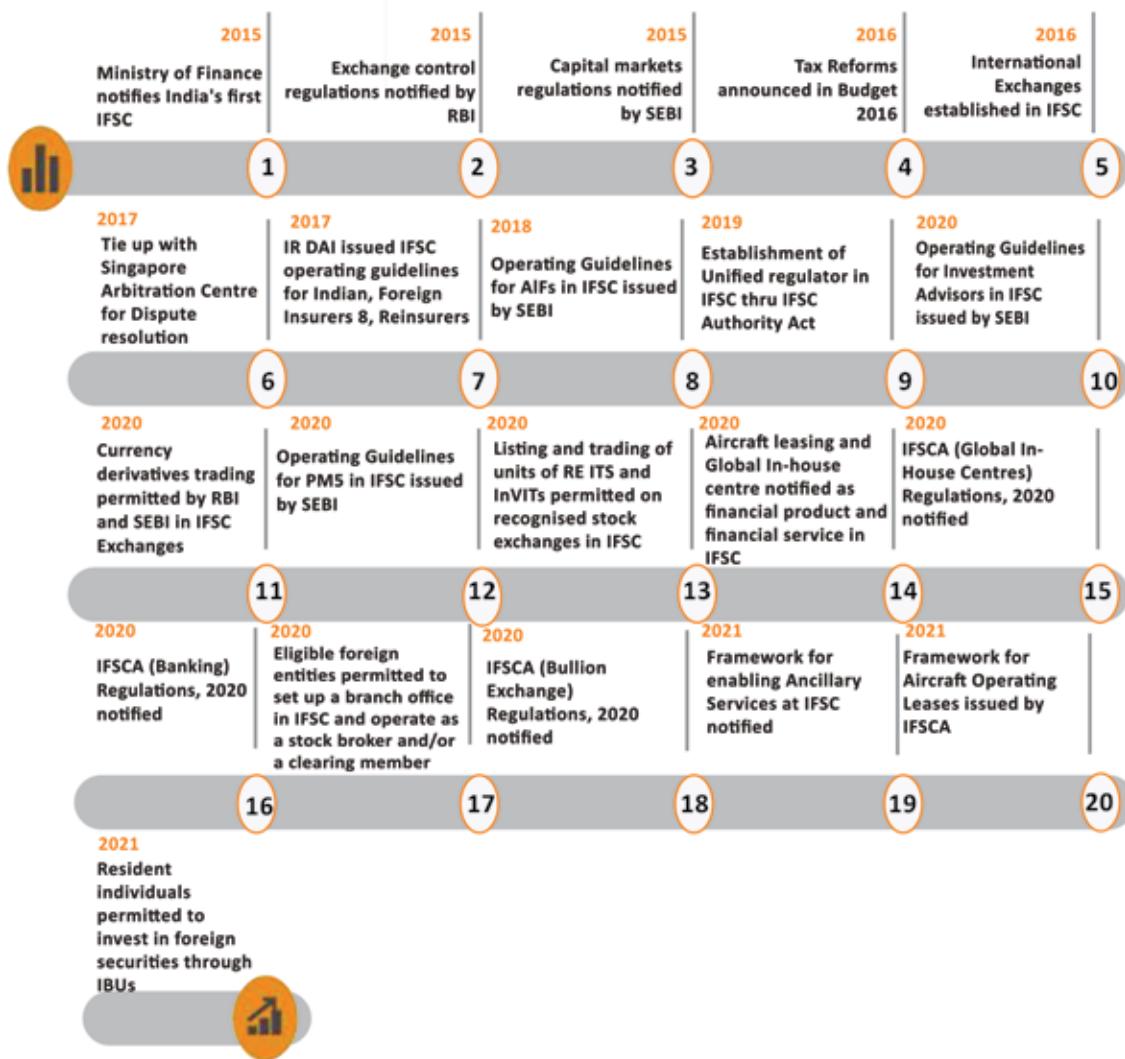
The main objective of the IFSCA is to develop a strong global connect and focus on the needs of the Indian economy as well as to serve as an international financial platform for the entire region and the global economy as a whole.

## GIFT - International Financial Services Centre (IFSC)

In India, initial thought of setting up IFSC unit was introduced by Percy Mistry Committee in the year 2007 with an objective of not only catering India's

## IFSC Journey So Far

### Key reforms and development far



growing needs but also catering to ever increasing global financial needs, but due 2008 market crises the proposition was put off. Globally IFC's are contributor to the business of International Banking, Financial Services & Insurance (BFSI).

With the objective of bringing back to India the International financial service business generated in India, and gradually emerge as an international financial services hub at the regional and global

level, in April 2015, the Government of India took the initiative to develop an International Financial Services Centre (IFSC) at Gujarat International Finance Tech-City Gujarat, a Special Economic Zone to help India realize its potential in the international financial services industry. GIFT City IFSC provides a strategic location to develop an efficient platform for all inbound and outbound foreign currency transactions.

## Benefits offered by IFSC

Besides offering bare, furnished, plug-and-play and press-and-play business units on an outright purchase or lease with guaranteed service agreements, the GIFT City offers a set of advantages that no other location in India provides. For instance, the IFSC benefits include:

- 10-year tax holiday on 100% of the profit for business units in IFSC.
- Minimum Alternate Tax (MAT) will be 9% of profit-booking.

- Gujarat government exempts entities from stamp duty if they have registered offices in GIFT City for capital market activities.
- Zero Commodity Transaction Tax (CTT).
- Zero Security Transaction Tax (STT).
- Zero Dividend Distribution Tax (DDT).
- Extension of long-term capital gains tax exemption to equities, exchange-traded funds, alternative investments & mutual funds.
- Zero Good & Services Tax (GST) on transactions carried out in IFSC exchanges.

## Key Activities in IFSC

<b>Banking:</b> <ul style="list-style-type: none"><li>Corporate Banking.</li><li>Factoring / Forfaiting of Trade receivables.</li><li>ECB Lending</li><li>Trade Finance</li></ul>	<b>Capital Markets:</b> <ul style="list-style-type: none"><li>Trading Members</li><li>Stock and Commodity Exchanges</li><li>Clearing Corporations, Depositories.</li><li>Brokers</li><li>Registrar / Share Transfer Agent.</li></ul>	<b>Insurance:</b> <ul style="list-style-type: none"><li>General / Non Life Insurance</li><li>Life Insurance</li><li>Reinsurance</li><li>Insurance Intermediaries</li><li>Co-Insurance</li><li>Captive Insurance.</li></ul>	<b>Asset Management</b> <ul style="list-style-type: none"><li>Mutual Funds</li><li>AIFs</li><li>Pension Fund Services.</li><li>Custodial Services</li><li>Portfolio Management Services</li><li>Wealth Management</li><li>Investment Advisors</li><li>Trust Services</li></ul>	<b>Ancillary Services:</b> <ul style="list-style-type: none"><li>Consultancy - Legal, Accounting &amp; Audit</li><li>Aircraft Leasing &amp; Financing</li><li>Risk Management Services</li><li>R&amp;D Services</li><li>Fintech hub</li></ul>
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## Conclusion

In recent years, India has taken several initiatives at operational, regulatory and policy levels to make system open, predictable and efficient, providing equal opportunities to all the international businesses.

India's IFSC dream has finally taken shape, with the launch of IFSC in Gujarat's GIFT City. It is not only a global financial platform, but it has also provided an easy access to the fast growing Indian economy to global investors. Domestic and international players have commenced their global operations at IFSC. We should focus on tapping domestic economy and Indian diaspora present across the world for further growth of IFSC.

India has entered late in the IFSC space, but our efforts are being recognized and are getting attention from far and wide. Gujarat's GIFT City first appeared in the Global Financial Centres Index (GFCI) in 2018 (GFCI-24) and has been featured ever since. GFCI-29 (Mar 2021) has placed GIFT city – IFSC at the top, amongst 15 centres globally which are likely to become more

significant over the next two to three years. IFSC has the potential and is gradually emerging as a preferred gateway for outbound and inbound capital flow into India.

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