

Chapter – 8

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**SECURITIES AND EXCHANGE BOARD OF INDIA (INTERNATIONAL
FINANCIAL SERVICES CENTRES) GUIDELINES, 2015 dated March 27, 2015¹**

I. Guidelines

In exercise of the powers conferred by section 11(1) of the Securities and Exchange Board of India Act, 1992 and sections 4 and 8A of the Securities Contracts (Regulation) Act, 1956 read with Section 18(2) of the Special Economic Zones Act, 2005, the Securities and Exchange Board of India hereby makes the following guidelines to facilitate and regulate financial services relating to securities market in an International Financial Services Centre set up under Section 18(1) of Special Economic Zones Act, 2005 and matters connected therewith or incidental thereto, namely:—

**CHAPTER I
PRELIMINARY**

Short title and commencement.

- 1.** (1) These guidelines may be called the Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015.
- (2) They shall come into force on April 01, 2015.

Definitions.

- 2** (1) In these guidelines, unless the context otherwise requires, the terms defined herein shall bear the meanings assigned to them below, and their cognate expressions shall be construed accordingly,—

- (a) "Act" means the Securities and Exchange Board of India Act 1992;
- (b) "Board" means the Securities and Exchange Board of India established under the provisions of section 3 of the Securities and Exchange Board of India Act, 1992 (15 of 1992);
- (c) "domestic company" means a company and includes a body corporate or corporation established under a Central or State legislation for the time being in force;
- (d) "financial institution" shall include:
 - (i) a company;
 - (ii) a firm;
 - (iii) an association of persons or a body of individuals, whether incorporated or not; or
 - (iv) any artificial juridical person, not falling within any of the preceding categories engaged in rendering financial services in securities market or dealing in securities market in any manner.

¹ Issued vide SEBI Guidelines dated March 27, 2015

Explanation.- For the purpose of this clause and without prejudice to the generality of the foregoing, the expression financial institution shall include stock brokers and sub-brokers, merchant banks, mutual funds, alternative investment funds, stock exchanges, clearing

corporations, investment advisers, portfolio managers, or any other entity that may be specified by the Board.

- (e) "financial services" shall mean activities a financial institution is allowed to carry out as specified in the respective Act of the Parliament or by the Government of India or by any regulatory authority empowered to regulate the concerned financial institution;
- (f) "foreign jurisdiction" means a country, other than India, whose securities market regulator is a signatory to International Organization of Securities Commission's Multilateral Memorandum of Understanding (IOSCO's MMOU) (Appendix A signatories) or a signatory to bilateral Memorandum of Understanding with the Board, and which is not identified in the public statement of Financial Action Task Force as:
 - i. a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - ii. a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies;
- (g) "intermediary" means and includes a stock broker, a merchant banker, a banker to an issue, a trustee of trust deed, a registrars to an issue, a share transfer agent, an underwriter, an investment adviser, a portfolio manager, a depository participant, a custodian of securities, a foreign portfolio investor, a credit rating agency, or any other intermediary or any person associated with the securities market, as may be specified by the Board from time to time;
- (h) "International Financial Services Centre" or "IFSC" shall have the same meaning as assigned to it in clause (q) of section 2 of the Special Economic Zones Act, 2005;
- (i) "issuer" shall mean a company incorporated in India seeking to raise capital in foreign currency other than Indian rupee which has obtained requisite approval under Foreign Exchange Management Act, 1999 (FEMA) or exchange control regulations as may be applicable, or a company incorporated in a foreign jurisdiction;
- (j) "recognised entity" means any intermediary which is registered with the Board or registered or recognised with a regulator of a foreign jurisdiction:
Provided that such entities shall comply with fit and proper norms specified by the Board;
- (k) "securities laws" means the Act, the Securities Contracts (Regulation) Act, 1956 (42 of 1956), the Depositories Act, 1996 (22 of 1996), provisions of Companies Act,

2013 administered by the Board and the rules, regulations, circulars, clarifications issued thereunder;

(2) Words and expressions used and not defined in these guidelines but defined in the Act, the Securities Contracts (Regulation) Act, 1956, the Depositories Act, 1996, Companies Act, 2013, the Special Economic Zones Act, 2005 or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment thereto, as the case may be.

Applicability and scope.

3 (1) Any entity desirous of organizing or assisting in organizing any stock exchange or clearing corporation or depository, or desirous of undertaking any other financial services relating to securities market, shall be a recognized entity and such an entity shall seek permission of the Board in accordance with the norms specified herein or as may be specified by the Board, from time to time.

(2) Any entity desirous of operating in an IFSC for rendering financial services relating to securities market, shall comply with the provisions relating to registration or recognition, as the case may be, of applicable regulations of the Board:

Provided that certain entities shall be permitted to operate in IFSC subject to these guidelines.

(3) Save as otherwise provided in these Guidelines or as specified by the Board from time to time, all provisions of securities laws shall apply to a financial institution operating in an IFSC.

(4) These Guidelines shall be subject to the guidelines of Government of India on foreign investment.

CHAPTER II

STOCK EXCHANGES, CLEARING CORPORATIONS AND DEPOSITORIES

Eligibility and shareholding.²

4. (1) Eligibility and shareholding limit for stock exchanges desirous of operating in IFSC: Any Indian recognised stock exchange or any recognised stock exchange of a foreign jurisdiction shall form a subsidiary to provide the services of stock exchange in IFSC wherein at least fifty one per cent. of paid up equity share capital shall be held by such stock exchange and the remaining share capital shall be held by the following:

- i) any other stock exchange,
- ii) a depository,
- iii) a banking company,
- iv) an insurance company,
- v) commodity derivatives exchange,

whether Indian or of foreign jurisdiction and

- vi) a public financial institution of Indian jurisdiction,

² Amended vide SEBI Circular No. SEBI/HO/CIR/P/2017/85 dated July 27, 2017

provided that any one of the aforesaid entities may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent of the paid up equity share capital of such stock exchange.

(2) Eligibility and shareholding limit for clearing corporations desirous of operating in IFSC: Any Indian recognised stock exchange or clearing corporation, or, any recognized stock exchange or clearing corporation of a foreign jurisdiction shall form a subsidiary to provide the services of clearing corporation in IFSC wherein at least fifty one per cent of paid up equity share capital shall be held by such stock exchange or clearing corporation, and the remaining share capital shall be held by the following:

- i) any other stock exchange,
- ii) a clearing corporation,
- iii) a depository,
- iv) a banking company,
- v) an insurance company,

whether Indian or of foreign jurisdiction and

- vi) a public financial institution of Indian jurisdiction,

provided that any one of the aforesaid entities may acquire or hold, either directly or indirectly, either individually or together with persons acting in concert, upto fifteen per cent. of the paid up equity share capital of such clearing corporation.

(3) (a) Eligibility and shareholding limit for foreign depositories desirous of operating in IFSC: Any regulated depository of a foreign jurisdiction shall form a subsidiary to provide the depository services in IFSC where atleast fifty one per cent of paid up equity share capital is held by such depository and remaining shares may be offered to any other registered depository or recognised stock exchange or clearing corporation, whether Indian or of foreign jurisdiction.

(b) Setting up of IFSC Depositories Services by Indian registered depositories: Any Indian registered depository may set up a branch – IFSC Depository Services (IDS) at IFSC. The interested depositories shall be required to obtain prior approval of the Board for setting up an IDS. Such Indian depository shall be required to ring fence its domestic operations, financially, operationally and technologically, from its operations at IFSC.”

(2) Every person who acquires equity shares of a recognised stock exchange or recognised clearing corporation or registered depository in IFSC shall inform the Board within fifteen days of such acquisition.

Net worth requirement of a permitted stock exchange, clearing corporation and depository.

5. (1) Every permitted stock exchange shall have a minimum network equivalent of twenty five crore rupees initially and it shall enhance its network to a minimum equivalent of one hundred crore rupees over the period of three years from the date of approval.

(2) Every permitted clearing corporation shall have a minimum network equivalent of fifty crore rupees initially and it shall enhance its network to a minimum equivalent of three hundred crore rupees over the period of three years from the date of approval.

(3) Every permitted depository shall have a minimum networth of twenty five crore rupees and it shall enhance its networth to a minimum equivalent of one hundred crore rupees over the period of three years from the date of approval.

Certain provisions not to apply.

6 (1) The provision of Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 that every recognised stock exchange shall credit twenty five per cent. of its profits every year to the Fund, of the recognised clearing corporation(s) which clears and settles trades executed on that stock exchange shall not be applicable to the stock exchanges operating in IFSC.

(2) The provision of Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 that every depository shall credit twenty five per cent. of profits every year to the investor protection fund shall not be applicable to the depositories operating in IFSC.

(3) All the transitory provisions or relaxations that were provided to the stock exchanges and clearing corporations to comply with Securities Contracts (Regulation) (Stock Exchanges and Clearing Corporations) Regulations, 2012 shall not be applicable to stock exchanges and clearing corporations operating in IFSC.

(4) Provisions of Chapter IIA of Securities and Exchange Board of India (Depositories and Participants) Regulations, 1996 and Chapter V of Securities Contracts (Regulation) (Stock Exchanges And Clearing Corporations) Regulations 2012 shall not apply to depositories, stock exchanges, clearing corporations in IFSC, as the case may be:

Provided that depositories, stock exchanges, clearing corporations operating in IFSC shall adopt the broader principles of governance prescribed by International Organization of Securities Commissions (IOSCO) and Principles for Financial Market Infrastructures (PFMIs) and such other governance norms as may be specified by the Board, from time to time. Further, the parent depository/stock exchange/clearing corporation shall be responsible for the governance of such depository, stock exchange and clearing corporation in IFSC at all times³.

Permissible securities.

7. The stock exchanges operating in IFSC may permit dealing in following types of securities and products in such securities in any currency other than Indian rupee, with a specified trading lot size on their trading platform subject to prior approval of the Board:

- (i) Equity shares of a company incorporated outside India;
- (ii) Depository receipt(s);
- (iii) Debt securities issued by eligible issuers;
- (iv) Currency and interest rate derivatives;
- (v) Index based derivatives;
- (vi) Such other securities as may be specified by the Board.

³ Amended vide SEBI Circular No. SEBI/HO/CIR/P/2017/85 dated July 27, 2017

CHAPTER III INTERMEDIARIES

Approval.

8 (1) Any SEBI-registered intermediary (except trading member or clearing member) or its international associates in collaboration with such SEBI- registered intermediary may provide financial services relating to securities market, in IFSC, without forming a separate company, subject to the prior approval of the Board.

(2) Any entity based in India or in a foreign jurisdiction may form a company in IFSC to act as a trading member of a stock exchange and/or a clearing member of a clearing corporation in IFSC.⁴

Nature of clients.

9.(1) Any intermediary permitted by the Board for operating within the IFSC shall provide financial services to the following categories of clients:

- (i) a person not resident in India;
- (ii) a non-resident Indian;
- (iii) a financial institution resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted;
- (iv) a person resident in India who is eligible under FEMA, to invest funds offshore, to the extent allowed under the Liberalized Remittance Scheme of Reserve Bank of India, subject to a minimum investment as specified by the Board from time to time:

Provided that clients referred to in clauses (ii) to (iv) may be provided services, subject to guidelines of Reserve Bank of India.

(2) Any intermediary permitted by the Board for operating within the IFSC shall, for the purpose of enforcing compliance with regulatory requirements, appoint a senior management person as "Designated Officer".

(3) In order to avail investment advisory or portfolio management services in IFSC, the client shall be:

- (i) a person resident outside India;
- (ii) a non-resident Indian;
- (iii) a financial institution resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted;
- (iv) a person resident in India having a net worth of at least US Dollar one million during the preceding financial year who is eligible under FEMA to invest funds offshore, to the extent allowed in the Liberalized Remittance Scheme of Reserve Bank of India:

Provided that clients referred to in clauses (ii) to (iv) may be provided services, subject to guidelines of Reserve Bank of India.

(4) A portfolio manager operating in IFSC shall be permitted to invest in the following:⁵

- (a) Securities which are listed in IFSC;
 - (b) Securities issued by companies incorporated in IFSC;
 - (c) Securities issued by companies incorporated in India or companies belonging to foreign jurisdiction
- Subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and Government of India from time to time.

⁴ Amended vide SEBI Circular No. SEBI/HO/CIR/P/2017/85 dated July 27, 2017

⁵ SEBI Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/45 dated May 23, 2017

CHAPTER IV ISSUE OF CAPITAL

Raising capital.

10. (1) Domestic companies intending to raise capital, in a currency other than Indian Rupee, in an IFSC shall comply with the provisions of Foreign Currency Depository Receipts Scheme, 2014 notified *vide* F. No. 9/1/2013-ECB by Government of India on October 21, 2014.

(2) Companies of foreign jurisdiction, intending to raise capital, in a currency other than Indian Rupee, in an IFSC shall comply with the provisions of the Companies Act, 2013 and relevant provisions of Securities and Exchange Board of India (Issue of Capital and Disclosure Requirements) Regulations, 2009 as if the securities are being issued under Chapter X and XA of the said regulations, as may be applicable.

Listing and trading.

11. Companies, domestic or of foreign jurisdiction, may list and trade their securities as per norms specified by the Board.

CHAPTER V ISSUE OF DEBT SECURITIES

Eligible issuers.

12. (1) No issuer shall be eligible to issue debt securities, unless the following criteria are complied with:

- (a) The issuer is eligible to issue debt securities as per its constitution;
- (b) The issuer should not have been debarred by any regulatory authority in its home jurisdiction or any other jurisdiction, where it is operating or has raised any capital;
- (c) The issuer or its directors should not be convicted of any economic offence in its home jurisdiction or any other jurisdiction where it is operating or has raised any capital;
- (d) Any other criteria as may be specified by the Board.

Minimum subscription in case of private placement.

13. The minimum subscription amount in case of private placement per investor shall not be less than US Dollar hundred thousand or equivalent or such amount as may be specified by Board from time to time.

Mandatory listing.

14. An issuer desirous of issuing debt securities shall make an application for listing of such debt securities to one or more stock exchanges set up in IFSC.

General requirements.

15. The requirements such as appointment of trustee, creation of debenture redemption reserve etc. shall be as specified by the Board from time to time.

Advertisement for public issue.

16. Advertisement for debt issues within IFSC may be made in any print media.

Credit rating requirement

17. For debt securities listed on stock exchanges in IFSC, the credit rating shall be obtained either from a credit rating agency registered with the Board or from any other credit rating agency registered in a Financial Action Task Force (FATF) member jurisdiction.⁶

Agreement with depository or custodian.

18. (1) An issuer of debt securities shall enter into an agreement with a depository or custodian, registered in a Financial Action Task Force (FATF) member jurisdiction, for issue of the debt securities, for the purpose of holding and safekeeping of such securities and also to facilitate transfer, redemption and other corporate actions in respect of such debt securities.⁷

(2) Necessary disclosure regarding appointment of depository or custodian shall be made in the information memorandum.

Reporting of financial statements.

19. The entities issuing and/or listing their debt securities in IFSC shall prepare their statement of accounts in accordance with IFRS/US GAAP or accounting standards as applicable to them in their place of incorporation. In case an entity does not prepare its statement of accounts in accordance with IFRS/US GAAP, a quantitative summary of significant differences between national accounting standards and IFRS shall be prepared by such entity and incorporated in the relevant disclosure documents to be filed with the exchange.⁸

Relaxation from listing agreement.

20. The issuer shall comply with the continuous listing requirements including corporate governance and such other conditions as specified in the listing agreement, entered into between the issuer and the stock exchange where such debt securities are sought to be listed:

Provided, where the securities of the issuer are already listed on another stock exchange whether foreign or domestic, and it complies with listing agreement in respect of such securities, the Board may modify or relax certain conditions or requirements with regard to listing agreement in respect of debt securities issued under these Guidelines.

Trading of debt securities.

21. The debt securities listed in stock exchanges shall be traded on the platform of the stock exchange and such trades shall be cleared and settled through clearing corporation set up in IFSC as specified.

⁶ Amended vide SEBI Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/97 dated August 31, 2017

⁷ Amended vide SEBI Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/97 dated August 31, 2017

⁸ Amended vide SEBI Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/97 dated August 31, 2017

CHAPTER VI

FUNDS

Conditions on investment

(1) In order to make an investment in an alternative investment fund or a mutual fund operating in IFSC, the investor shall be:

- (i) a person resident outside India;
- (ii) a non-resident Indian;
- (iii) institutional investor resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted;
- (iv) person resident in India having a net worth of at least US Dollar one million during the preceding financial year who is eligible under FEMA to invest funds offshore, to the extent allowed in the Liberalized Remittance Scheme of Reserve Bank of India:

Provided that investors referred to in clauses (ii) to (iv) may make an investment in an alternative investment fund or a mutual fund operating in IFSC, subject to guidelines of Reserve Bank of India.

(2) Any alternative investment fund or mutual fund operating in IFSC shall accept money from eligible investors only in foreign currency.

(3) Any alternative investment fund or mutual fund operating in IFSC shall be permitted to invest in the following:⁹

- (a) Securities which are listed in IFSC;
- (b) Securities issued by companies incorporated in IFSC;
- (c) Securities issued by companies incorporated in India or companies belonging to foreign jurisdiction

Subject to such conditions or guidelines that may be stipulated or issued by the Reserve Bank of India and government of India from time to time.

Further, it is clarified that portfolio manager, alternative investment fund or mutual fund shall invest in India through the foreign portfolio investor route.

(4) An asset management company of a mutual fund operating in IFSC shall have a net worth of not less than USD two million which shall be increased to USD ten million within three years of commencement of business in IFSC.

(5) The requirements such as appointment of trustee, custodian, manager, etc., shall be as specified by the Board.

(6) The requirements regarding raising of funds in foreign currency such as minimum investment amount, minimum corpus of fund, disclosures, investment conditions, valuations, types of schemes, professional qualifications, etc., shall be as specified by the Board.

⁹ SEBI Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/45 dated May 23, 2017

CHAPTER VII MISCELLANEOUS

Maintenance of books, records and documents.

22. Every issuer, domestic company or a company of foreign jurisdiction or financial institution or intermediary, as the case may be, to whom these guidelines apply, shall maintain the books, records and documents as per the applicable regulations notified by the Board.

Sanction for violations.

23. Any contravention of these guidelines shall be dealt with by the Board in accordance with the securities laws.

Power to specify procedures, etc. and issue clarifications.

24. For the purposes of implementation of these guidelines and matters incidental thereto, or in order to facilitate and regulate financial services relating to securities market in an IFSC, the Board may specify norms, procedures, processes, manners or provide relaxations, by way of guidance notes or circulars.

Power to remove difficulties.

25. In order to remove any difficulties in the interpretation or application of the provisions of these guidelines, or in order to facilitate and regulate financial services relating to securities market in an IFSC, the Board shall have the power to issue clarifications through guidance notes or circulars.

II. Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 (IFSC Guidelines) - Inclusion of Commodity Derivatives¹⁰

1. SEBI (International Financial Services Centres) Guidelines, 2015 were issued on March 27, 2015.
2. Pursuant to Section 131 of the Finance Act, 2015 and Central Government notification S.O. 2362 (E) dated August 28, 2015, all recognized associations (commodity derivatives exchanges) under the Forward Contracts (Regulation) Act, 1952 ('FCRA') are deemed to be recognized stock exchanges under the Securities Contracts (Regulation) Act, 1956 ('SCRA').
3. Section 133 of the Finance Act, 2015 had amended Securities Contracts (Regulation) Act, 1956 to include "Commodity Derivatives" as securities. Further, the sub-clause (vi) of Clause 7 of IFSC Guidelines, 2015 provides that "Such other securities as may be specified by the Board". Accordingly, it is hereby specified that the "Commodity Derivatives" shall be eligible as securities for trading and the stock exchanges operating in IFSC may permit dealing in Commodity Derivatives.

III. Guidelines for functioning of Stock Exchanges and Clearing Corporations in International Financial Services Centre (IFSC)¹¹

¹⁰ Circular No. MRD/DSA/41/2016 dated March 17, 2016

¹¹ Circular No. SEBI/HO/MRD/DSA/CIR/P/2016/123 dated November 28, 2016

1. Based on representations received from the market participants on the proposed market structure and risk management framework and subsequent to deliberations in Secondary Market Advisory Committee (SMAC) and Risk Management Review Committee (RMRC), it has been decided to put in place the broad framework for functioning of stock exchanges and clearing corporations in IFSC as under:

1.1. Market Structure: There shall be a single market structure to achieve synergies in terms of various operations and to facilitate ease of doing business.

1.2. Trading Hours and Settlement: The trading hours for all product categories shall be as decided by the stock exchanges in IFSC based on cost-benefit analysis, but not exceeding 23 hours and 30 minutes in a day and settlement shall be done at least twice a day. The stock exchanges and clearing corporations in IFSC shall ensure that the risk management system and infrastructure are commensurate to the trading hours at all times.

1.3. Product Category: All categories of exchange-traded products as available for trading in stock exchanges in FATF/IOSCO compliant jurisdictions shall be eligible for trading, subject to prior approval of SEBI. However, with respect to commodity derivatives, only non-agri commodity derivatives shall be eligible for trading.

1.4. Position Limits: Stock exchanges in IFSC shall evolve a detailed framework for the applicable position limits for each product to be traded.

1.5. Trading in Rupee denominated bonds issued overseas (Masala Bonds): Masala Bonds shall be eligible for trading in stock exchanges in IFSC, provided such bonds are listed on stock exchanges in FATF/IOSCO compliant jurisdictions.

1.6. Risk Management Framework: Prior to commencement of their operations, stock exchanges in IFSC shall tie-up with Clearing Corporations for clearing and settlement of their trades. The Clearing Corporations desirous of providing clearing and settlement services in IFSC shall evolve a robust risk management framework in line with the CPMI IOSCO Principles for Financial Market Infrastructures (PFMIs), in addition to adherence to the following:

1.6.1. Margining framework: Clearing Corporations in IFSC shall evolve a margining framework based on the best practices prevailing in the Clearing Corporations globally. However, Clearing Corporations shall be required to conduct stress tests, reverse stress tests, back testing, liquidity stress testing, etc. to ensure the robustness of risk management framework. Further, Clearing

Corporations shall ensure that the margining framework is compliant with CPMI IOSCO PFMI at all times.

1.6.2. Ring-fencing: Any Indian recognized stock exchange or clearing corporation forming a clearing corporation in IFSC shall take into consideration the following:

- a) Clearing Corporations at IFSC shall be ring fenced down to the lowest level and their functions shall be limited only to clearing and settlement, and risk management.
- b) The capital of clearing corporations in IFSC shall not form part of the net worth of their holding companies. Additionally, holding companies shall not be allowed to extend any financial help to Clearing Corporations operating in IFSC, if such Clearing Corporations become financially distressed.

1.6.3. Eligible collateral: Clearing corporations in IFSC shall be permitted to accept cash and cash equivalents (which shall include major foreign currencies as may be decided by the clearing corporation from time to time, term deposit receipts and bank guarantees issued by bank branches located in IFSC), Indian securities held with foreign depositories, foreign securities including units of liquid mutual funds and gold, as eligible collateral for trades in all product categories. However, cash and cash equivalents shall form at least 50% of the total liquid assets at all times.¹²

1.6.4. Fund to guarantee settlement of trades: Clearing corporations in IFSC shall establish and maintain a Fund to guarantee the settlement of trades executed in the stock exchanges in IFSC. To begin with, such Fund shall have a corpus equivalent to at least 10% of the net worth of the clearing corporation. Clearing corporations shall evolve a detailed framework for the Fund, subject to approval of SEBI.

1.7. Dispute Resolution Mechanism: Market participants shall avail the arbitration, mediation and other dispute resolution mechanisms offered by International Arbitration Centre in IFSC to resolve securities market-related disputes.

1.8. Business Continuity Plan (BCP) and Disaster Recovery (DR): The Disaster Recovery Site (DRS) shall be set up sufficiently away, i.e. in a different seismic zone, from Primary Data Centre (PDC) to ensure that both DRS and PDC are not affected by

¹² Circular No. CIR/MRD/DRMNP/41/2018 dated February 20, 2018

the same disasters. Stock exchanges and clearing corporations in IFSC shall take adequate steps in a time-bound manner to comply with all the other provisions of SEBI circulars on Business Continuity Plan (BCP) and Disaster Recovery (DR) viz. SEBI circular no. CIR/MRD/DMS/12/2012 dated April 13, 2012 and circular no. CIR/MRD/DMS/17/2012 dated June 22, 2012.

The stock exchanges and clearing corporations in IFSC shall abide by all the Rules/Regulations/Circulars/Guidelines issued by SEBI from time to time.

IV. Inclusion of “Derivatives on Equity Shares”- IFSC¹³

Securities and Exchange Board of India (International Financial Services Centre) Guidelines, 2015 were notified by SEBI on March 27, 2015, which came into force on April 01, 2015.

2. Clause 7 of SEBI (IFSC) Guidelines, 2015 specifies the types of securities in which dealing may be permitted by stock exchanges operating in IFSC. Based on the recommendations of the Risk Management Review Committee of SEBI, it has been decided to specify “Derivatives on equity shares of a company incorporated in India” (hereinafter referred to as ‘Derivatives on equity shares’) as permissible security under sub-clause (vi) of Clause 7 of SEBI (IFSC) Guidelines, 2015. Accordingly, the recognized stock exchanges operating in IFSC may permit dealing in ‘Derivatives on equity shares’, subject to prior approval of SEBI.

3. SEBI registered Foreign Portfolio Investors (FPIs), operating in IFSC, in terms of SEBI Circular IMD/HO/FPIC/CIR/P/2017/003 dated January 04, 2017, and eligible entities which are incorporated and operating in IFSC shall be eligible to trade in ‘derivatives on equity shares’.

4. The applicable position limits for eligible participants shall be as stipulated vide SEBI circulars SMDRP/DC/CIR-10/01 dated November 02, 2001, DNPD/Cir-30-2006 dated January 20, 2006 and SEBI/HO/MRD/DP/CIR/P/2016/143 dated December 27, 2016.

5. The Market Wide Position Limit (MWPL) for ‘derivatives on equity shares’ shall be equal to ten percent of the number of shares held by non-promoters in the relevant underlying security (i.e. free-float holding). Further, the MWPL for ‘derivatives on equity shares’ in recognized stock exchanges in IFSC shall be reckoned separately from that in recognized stock exchanges in domestic market and the MWPL (in value terms), in no circumstances, shall exceed the fifty percent of the MWPL (in value terms) in recognized stock exchanges in domestic market.

V. Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 - IFSC Banking Units (IBUs) acting as Trading Member or Professional Clearing Member on stock exchanges/clearing corporations in IFSC¹⁴

1. Please refer to SEBI (International Financial Services Centres) Guidelines, 2015 which were notified by SEBI on March 27, 2015.

¹³ Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/31 dated April 13, 2017

¹⁴ Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/34 dated April 27, 2017

2. Clause 8 of SEBI (IFSC) Guidelines, 2015 provides that "Any recognised entity or entities desirous of operating in IFSC as an intermediary, may form a company to provide such financial services relating to securities market, as permitted by the Board".
3. Based on the representations received from the market participants and Reserve Bank of India (RBI) circular dated April 10, 2017, it is clarified that an IFSC Banking Unit (IBU) set up in IFSC shall be permitted to act as a Trading Member of an exchange or a Professional Clearing Member of a clearing corporation in IFSC, without forming a separate company, subject to the conditions mentioned in the aforesaid RBI circular.

VI. Position limits for cross-currency futures and options contracts (not involving Indian Rupee) on exchanges in International Financial Services Centres (IFSC)¹⁵

1. Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 were notified on March 27, 2015, which came into force on April 01, 2015 wherein currency derivatives were specified as permissible securities in which dealing may be permitted by stock exchanges in IFSC.
2. It has been decided that for cross-currency futures and options contracts (not involving Indian Rupee), the position limits for eligible market participants, per currency pair per stock exchange, shall be as follows:
 - a) **Trading Members (positions on proprietary basis as well as clients' position)** - Gross open position across all contracts not to exceed 15% of the total open interest or USD 1 billion equivalent, whichever is higher
 - b) **Institutional Investors** - Gross open position across all contracts not to exceed 15% of the total open interest or USD 1 billion equivalent, whichever is higher
 - c) **Eligible Foreign Investors (as referred to in SEBI Circular IMD/HO/FPIC/CIR/P/2017/003 dated January 04, 2017)** - Gross open position across all contracts not to exceed 15% of the total open interest or USD 1 billion equivalent, whichever is higher
 - d) **Other Clients** - Gross open position across all contracts not to exceed 6% of the total open interest or USD 100 million equivalent, whichever is higher.

¹⁵ Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/43 dated May 17, 2017

3. Stock exchanges shall impose appropriate penalties for violation of position limits by eligible market participants.

VII. Guidelines for participation/functioning of Eligible Foreign Investors (EFIs) and FPIs in IFSC - Amendment¹⁶

1. Kindly refer to the SEBI circular IMD/HO/FPIC/CIR/P/2017/003 dated January 04, 2017 on the captioned subject.
2. Based on the discussions with various market participants, it has been decided to replace Clause 2 c) of the aforesaid circular with the following:
“In case of participation of an EFI, not registered with SEBI as an FPI, but desirous of operating in IFSC, a trading member of the recognized stock exchange in IFSC may carry out the due diligence on its own or it may rely upon the due diligence carried out by a bank, which is permitted by RBI to operate in IFSC, during the account opening process of an EFI”.

VIII. Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 -Liquidity Enhancement Scheme.¹⁷

1. SEBI vide circular CIR/MRD/DP/14/2014 dated April 23, 2014 permitted stock exchanges to introduce liquidity enhancement schemes in the equity derivatives and equity cash segments to enhance liquidity in illiquid securities.
2. Clause 5 of the SEBI circular dated April 23, 2014 prescribes that the incentives under liquidity enhancement schemes shall be transparent and measurable.
3. Based on the internal discussions and consultations held with the stakeholders and given the fact that the stock exchanges at GIFT IFSC are in a nascent stage and do not have access to net profits/free reserves, it has been decided to grant an exemption to stock exchanges at IFSC from complying with clause 5.1 and 5.2 of SEBI circular dated April 23, 2014 subject to the condition that the exchange would create a reserve specifically to meet Liquidity Enhancement Schemes (LES) incentives/expenses based on the normative study of the LES in the domestic market and such reserves would not be included in the net worth calculation.

Based on discussions held with the stakeholders, it is clarified that the exemption granted to stock exchanges at IFSC for the introduction of LES shall be applicable to all the products traded in IFSC.¹⁸

¹⁶ Circular No. SEBI/HO/CIR/P/2017/79 dated July 11, 2017

¹⁷ Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/95 dated August 10, 2017

¹⁸ Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/103 dated September 21, 2017

4. Further, based on the aforesaid normative study, stock exchanges at IFSC shall furnish proposal for approval.

IX. Investment of own funds (excluding funds lying in Core Settlement Guarantee Fund) by Clearing Corporations in International Financial Services Centre (IFSC)¹⁹

1. SEBI vide circular SEBI/HO/MRD/DRMNP/CIR/P/2016/54 dated May 04, 2016, has specified Investment policy of a clearing corporation.
2. Currently, the clearing corporations are permitted to invest their own funds as well as funds lying in Core Settlement Guarantee Fund in Fixed Deposits/ Central Government Securities and Liquid schemes of Debt Mutual Funds.
3. Upon review of investment instruments/avenues available for Clearing Corporations in IFSC and based on the feedback received, it has been decided to permit the Clearing Corporations in IFSC to invest their own funds in AAA rated Foreign Sovereign Securities. However, the investment in such AAA rated Foreign Sovereign Securities shall not exceed a limit of ten per cent of the total investible resources, excluding funds lying in Core Settlement Guarantee Fund of the Clearing Corporation.

X. Segregated Nominee Account Structure in International Financial Service Centre (IFSC)²⁰

1. With a view to further facilitate ease of market access for foreign investors in IFSC and based on feedback received from market participants, it has been decided to permit Segregated Nominee Account Structure in IFSC wherein orders of foreign investors may be routed through eligible Segregated Nominee Account Providers (hereinafter referred to as 'Providers'), for trading on stock exchanges in IFSC while adhering to regulatory requirements, inter alia, relating to identification of end-client, Unique Client Code, order placement at client level, client level margining and position limits.
2. The broad features of the Segregated Nominee Account Structure are given in Annexure, enclosed herewith.
3. It shall be obligatory on the stock exchanges, brokers and 'Providers' to furnish to SEBI, inter alia, information relating to trades on stock exchanges in IFSC originated by/through 'Providers', including KYC details of their end-clients, as

¹⁹ Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/82 dated May 21, 2018

²⁰ Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/83 dated May 24, 2018

and when requested.

4. Stock exchanges in IFSC shall ensure that the provisions of Prevention of Money Laundering Act, 2002 (PMLA) and the rules thereof, including those relating to capturing the KYC information for sharing with the Central KYC Registry (CKYCR) to the extent applicable to FPIs, are adhered to by 'Providers' for their end-clients.

REFERENCE – List of Guidelines/Circulars

1. SEBI IFSC Guidelines dated March 27, 2015
2. Circular No. CIR/MRD/DSA/31/2016 dated March 17, 2016.
3. Circular No. SEBI/HO/MRD/DSA/CIR/P/2016/125 dated November 28, 2016
4. Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/31 dated April 13, 2017
5. Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/34 dated April 27, 2017
6. Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/43 dated May 17, 2017
7. Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/45 dated May 23, 2017
8. Circular No. SEBI/HO/CIR/P/2017/79 dated July 11, 2017
9. Circular no. SEBI/HO/CIR/P/2017/85 dated July 27, 2017
10. Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/95 dated August 10, 2017
11. Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2017/97 dated August 31, 2017
12. Circular No. SEBI/HO/MRD/DSA/CIR/P/2017/103 dated September 21, 2017
13. Circular no. SEBI/HO/MRD/DSA/CIR/P/2017/117 dated October 17, 2017
14. Circular No. CIR/MRD/DRMNP/41/2018 dated February 20, 2018
15. Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/82 dated May 21, 2018
16. Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/83 dated May 24, 2018