Perspectives from KPMG in India

Time to set-up a Treasury Centre in IFSC?

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Key takeaways:

- *IFSCA has prescribed a framework to enable corporates to set up a Global Treasury Centre (GTC) in IFSC*
- *They have supported Indian corporates with one of the best facilities in IFSC through modern infrastructure and light touch regulations, not only in GTC regulations but in every FS area, from banking through to funds*
- *This is a good opportunity for corporates to access the global markets and capital without incurring costs in foreign markets.*

India's first International Financial Services Centre (IFSC) at the Gujarat International Finance Tech City (GIFT City) was called out among the 'emerging global contenders' in the world by the latest Global Financial Centers Index.[1] Within a short span of time, IFSC at GIFT City was rated among the top 15 global financial centers that are likely to gain greater significance over the next 24 months.

IFSC was created by the current Prime Minister to make it India's gateway for inbound and outbound investments. It is fast emerging as an attractive destination for global financial services players. With the foundation of the International Financial Services Centre Authority (IFSCA) [being the unified regulator for IFSC], some path breaking regulations and policy announcements have been witnessed for different aspects of financial services such as banking, stock-broking, investors, alternative investment funds, global in-house centres in IFSC, etc.

In the lending space, only the banking units which were set up in IFSC as a branch, of their parent bank, could provide loans. Global experience, however, has shown that non-banking financial companies (NBFCs) complement the role of banking of providing finance, innovative products, and services in this space and thus, play an important role in the development of a financial centre. In order to provide for a competitive regulatory environment for NBFCs to complement the role of banking in IFSC in India, the IFSCA has issued Finance Company Regulations (the Regulations) which lay down the framework for operations of finance companies (FC)/finance units (FU) at IFSC. Apart from lending, FCs/FUs are permitted to carry out multifarious financial activities such as factoring, investment advisory, Portfolio Management Services (PMS), etc.

The focus of this article is to reflect on the opportunities open for Indian corporates to set up FCs and carry out Global Treasury Centre ('GTC) activities from IFSC. For a variety of reasons, Indian MNCs traditionally set up their GTC functions outside India. To bring this business onshore in IFSC, the IFSCA has laid down a competitive framework for MNCs and Indian companies. This will create opportunities for global and Indian corporates to develop international operations by centralising their treasury activities for availing corporate financing, including intra-group financing, better liquidity management, and risk management practices among others.

[1] Global Financial Centers Index, 29 March 2021

The applicant entity and/or its promoters need to be from Financial Action Task Force (FATF) compliant jurisdiction. GTC can undertake many Treasury Activities (TA) and Treasury Services (TS) for its group entities from IFSC. Some of the key activities are mentioned below:

1) **Group financial risk management and access to financial markets:** GTC can undertake foreign exchange, interest rate risk management and commodity hedging programmes for the entire group by concentrating all exposures at it. Access to deeper financial markets and products like structured derivatives or non-deliverables forward (NDF) market will help GTCs to better manage all aspects of financial risk

2) **Access to capital:** GTCs will have access to distinguished internationals banks and financial institutions which will aid in raising foreign currency funding instruments and thereby provide access to cheaper and diverse funding options for the GTCs

3) **Efficient cash and liquidity management:** GTCs will have access to financial markets and international products like cash pooling and cash sweeping to efficiently manage cash and liquidity at entity and group level. This will help GTCs to rationalise interest cost at group level by accessing cheaper short-term funds from financial markets and infusing liquidity within the group through inter-company advances. GTC can also play the role of an in-house bank and rationalise the group's banking architecture and its associated cost.

A GTC achieves these objectives as it is permitted to perform TA on behalf of its group entities and provide permissible services as well.

The objective of the IFSCA is to clearly invite companies to set up GTCs and give an impetus to IFSC growth. There are clear advantages for corporates for moving to IFSC such as:

- **Tax and regulatory attractiveness:** the income of the GTC enjoys a 100 per cent tax exemption for any 10 consecutive years out of 15 years. Minimum alternate tax (MAT) may also not be applicable to FC in IFSC opting for new corporate tax regime. Further, being in the special economic zone (SEZ), the FC/ FU would also be eligible to certain indirect tax benefits/stamp duty/Securities Transaction Tax (STT) etc.

- **Ease of capital movement:** easy capital movement in and out of GTC contemplated

- **Access to financial and capital markets:** access to deep financial and capital markets to evaluate various funding and financial structures for low cost capital in form of debt or equity

- **Infrastructure and accessibility:** availability of enhanced physical and technological infrastructure along with easy accessibility due to location being within India and very well connected by air for faster reach

All of the above aspects would be seamless for an entity set up in GIFT IFSC. Due to proximity of GIFT City to Indian corporates head office and potential cost savings would make a strong case from set up, travel, compliance, and management control perspective.

However, few challenges need to be addressed to make the GTC proposition more attractive. Transactions between GTC (in form of FC/FU) with domestic group entity are subject to foreign exchange management act (FEMA) provisions. To make these structures workable, certain carveouts may be allowed under FEMA. On the tax side also, interest if paid by the DC to GTC will have practical withholding tax challenges even though GTC enjoys income tax holiday. This results in blockage of working capital and compliance burden of obtaining refund for GTC. Therefore, a blanket exemption may be provided for any payments made to the GTC. Also, the depth and volumes across foreign exchange, interest and commodities will determine the movement of large Corporations to set up FC in the GIFT IFSC.

To summarise, IFSCA has provided Indian corporates good facilities in IFSC through world class infrastructure and light touch regulations, not only in GTC regulations but in every aspect of financial services, from banking through to funds. Now, corporates will need to size up and capitalise on this opportunity to access global markets and capital without incurring costs in foreign markets. As the fund industry picks up steam, it may even result in bringing the Indian diaspora closer to home.