

IFSCA Signals Stricter Enforcement for Violation of SEZ Rules

The International Financial Services Centres Authority (**IFSCA**), through its recent public notice dated March 27, 2026 (**IFSCA Notice**), has highlighted recurring compliance gaps among International Financial Services Centre – Special Economic Zone (**IFSC SEZ**) units and signalled a clear shift towards stricter enforcement of existing SEZ requirements. While the underlying legal framework remains unchanged, the regulator has indicated that from FY 2026–27 onwards, higher penalties will be imposed for non-compliances, particularly where such non-compliances are continuing or repetitive in nature.

The IFSCA Notice has been issued by the Administrator (IFSCA), a department of IFSCA, to whom the powers of the SEZ Authority have been delegated.

The IFSCA Notice reiterates that non-compliance by any entity operating in the IFSC SEZ with the terms of the Letter of Approval (**LOA**) issued to such entity or the Bond cum Letter of Undertaking (**BLUT**), may attract penal consequences under Rule 54(2) of the Special Economic Zones Rules, 2006 (**SEZ Rules**), read with Section 11(2) of the Foreign Trade (Development and Regulation) Act, 1992, which prescribes penalties ranging from INR 10,000 (Indian Rupees Ten Thousand) up to 5 (five) times the value of the contravention.

In addition, IFSCA has advised all IFSC units to regularise pending non-compliances by 15 April 2026, effectively providing a limited window to cure existing defaults before stricter enforcement sets in.

Key Non-Compliances Identified

The IFSCA Notice specifically lists out a set of recurring non-compliances, most of which relate to delays in complying with procedural timelines under the Special Economic Zones Act, 2005 and the SEZ Rules (**SEZ Framework**). These are summarised below:

S.No.	Type of non-compliance [The text in this column has been taken ad verbatim from the IFSCA Notice]	Explanation /Background
1	Application for LOA extension after expiry of the validity of the LOA <i>[Rule 19(4) of SEZ Rules, 2006]</i>	An LOA issued to any entity in GIFT-SEZ is valid for 1 year, within which period the entity should commence operations and intimate such commencement to the SEZ. This one-year term can be extended by the Development Commissioner (“ DC ”) (up to 3 additional years in phases) and thereafter by the Board of Approval on a case-by-case basis. However, the request for an extension has to be made before the validity of the LOA expires. It should not be made after the expiry of the LOA’s validity.

2	<p>Application for Intimation of Date of Commencement after expiry of the validity of the LOA</p> <p><i>[Rule 19(5) of SEZ Rules, 2006]</i></p>	<p>An entity should commence operations and intimate such commencement to the SEZ within the LOA validity period (which may be the original 1 year or any extended period).</p>
3	<p>Application for Renewal of LOA after a period of 2 months before the date of expiry of the LOA</p> <p><i>[Rule 19(6A)(1) of SEZ Rules, 2006]</i></p>	<p>An LOA is valid for a period of 5 years from the date of intimation of commencement of business activities by the entity and needs to be renewed thereafter every 5 years.</p> <p>An application for renewal of the LOA must be filed at least 2 months prior to expiry of the LOA's term, in the prescribed form with required authorisation.</p> <p>Renewal of the LOA needs to be distinguished from an extension of the LOA, which is mentioned in row 1 above. The latter is required if the entity is unable to commence operations within one year of issuance of the LOA.</p> <p>Any delay in applying for renewal of LOA may be condoned by the DC based on the facts and circumstances of the case.</p>
4	<p>Application for Renewal of LOA after expiry of the validity of the LOA</p> <p><i>[Rule 19(6A)(1) of SEZ Rules, 2006]</i></p>	<p>As mentioned above, any delay in applying for renewal of LOA may be condoned by the DC based on the facts and circumstances of the case. So, even though an application for renewal has to be filed at least 2 months prior to expiry of the LOA's term, even an application for renewal filed after expiry of the LOA's term may be accepted by the DC if the circumstances justify such a delay.</p>
5	<p>Application for extension of the deadline for submission of the Lease Deed after 6 months of issuance of the LOA</p> <p><i>[Rule 18(2)(ii) of SEZ Rules, 2006]</i></p>	<p>Every entity that is in GIFT-SEZ should submit to the SEZ Authority* the registered lease deed for the premises occupied by such entity to the Authority within 6 months of receipt of the LOA. If unable to do so, an extension of the time period to comply with this rule can be obtained by sending an email to ifscadmin@ifsc.gov.in requesting the Unit Approval Committee ("UAC") to condone the delay and seek an extension of the deadline to submit the Lease Deed.</p> <p>Failure to apply for the extension and appear before the UAC is a non-compliance and may lead to withdrawal of the LOA after due hearing.</p>
6	<p>Non-submission/late submission of APR</p> <p><i>[Rule 22(3) of SEZ Rules, 2006]</i></p>	<p>An Annual Performance Report is required to be submitted to the SEZ Authority* within 180 days from the end of the financial year, once an entity commences operations.</p>

7	Continuation of carrying out authorised operations even after the expiry of the validity of the LOA <i>[Rule 19(4) and 19(5) of SEZ Rules, 2006]</i>	One of the necessary preconditions for an IFSC unit is being an SEZ unit with a valid LOA. An entity without a valid SEZ LOA cannot do any business, raise invoices, receive money, etc., in a SEZ, which will directly impact their IFSC operations. If the LOA expires and the unit continues with operations without taking any steps to extend the term, monetary penalties may follow.
8	Shifting of office premises without prior approval of the Administrator (IFSCA)	Prior approval of IFSCA is mandatory for any change in premises.

****As mentioned above, the powers of the SEZ Authority have been delegated to the Administrator (IFSCA), and hence, references in the IFSCA Notice to the SEZ Authority should be construed to mean the Administrator (IFSCA).***

ELP Comments

- *The message from IFSCA is clear: procedural compliance is very important, and going forward, non-compliance will be punished with greater rigour. Each IFSC unit should therefore put in place suitable systems that will ensure strict compliance with all regulations under the SEZ Rules that are applicable to such unit.*
- *The prior approval of the Administrator (IFSCA) is required for an IFSC unit to shift its office premises within the GIFT-SEZ or to exit the GIFT-SEZ. In practice, it is not possible for an IFSC unit to shift to new premises within GIFT-SEZ without the approval of the SEZ Authority because SEZ developers in GIFT-SEZ usually verify if such approval is in place and also append the SEZ Authority's approval to the lease deed for the new premises, which is also submitted to the SEZ Authority. Therefore, the last item (item 8) in the IFSCA Notice in all probability relates only to IFSC units that exit the GIFT-SEZ without the approval of the Administrator (IFSCA). As per the SEZ Framework, any entity that wishes to exit the GIFT-SEZ has to intimate its intention to surrender its premises to the SEZ developer, complete the formalities mentioned under Rule 74 of the SEZ Rules and obtain approval from the Administrator (IFSCA).*

We hope you have found this information useful. For any queries/clarifications, please write to us at insights@elp-in.com or write to our authors:

Vinod Joseph, Partner – Email - vinodjoseph@elp-in.com

Zaynali Badami, Associate – Email - zaynalibadami@elp-in.com

Akhil Ganatra, Associate – Email - akhilganatra@elp-in.com

Saloni Khaitan, Associate – Email - salonikhaitan@elp-in.com

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