ELP ECONOMIC LAWS PRACTICE
ADVOCATES & SOLICITORS

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A. REGULATORY DEVELOPMENTS

1. CIRCULARS – DETAILED ANALYSIS

1.1. AMENDMENT TO THE CIRCULAR TITLED "MASTER CIRCULAR FOR CREDIT RATING AGENCIES IN THE IFSC"

Background

The Master Circular dated 05 August 2025 sets out the operational framework for Credit Rating Agencies (**CRAs**) registered in the IFSC. Following the stakeholder consultation and a review of global practices, IFSCA has refined the framework to widen the scope of permitted rating activity, strengthen the audit trail supporting rating decisions and calibrate disclosure requirements for public, unsolicited, and private ratings.

What The Circular Provides

Through its Circular dated 16 July 2026, IFSCA amends the Master Circular for CRAs in the IFSC. The Circular provides the following:

- Expands permissible rating services beyond financial instruments to include issuer ratings, credit quality ratings, and similar services, and expressly recognizes "Financial Strength Ratings"
- Requires CRA records to be sufficiently detailed to reconstruct each rating action, including the material considerations, analytical reasoning and key arguments supporting and opposing the decision.
- Records are to be retained from the date a rating is withdrawn or discontinued in accordance with the IFSCA (Capital Market Intermediaries) Regulations, 2025.
- Requires initial and subsequent rating actions to be published on the CRAs website with the rating rationale. Before publication, the issuer must be given the critical information and principal considerations underlying the action and an opportunity to correct material factual errors, omissions or misperceptions.
- Exempts unsolicited and private ratings from the issuer-review requirement and exempts information relating to private rating assignments from mandatory website disclosure.

Analysis & Comments

The enhanced record-keeping standard creates a clearer audit trail for rating decisions, while issuer review should improve factual accuracy. The issuer review mechanism is limited to factual accuracy and should not become a negotiation over analytical judgment. The carve-outs for unsolicited and private ratings preserve the commercial character and confidentiality of those assignments, while public rating actions remain subject to transparent rationale-based disclosure.

Way forward

CRAs should update their operations manuals, rating-committee records, issuer-communication protocols, website disclosures, and retention schedules. Existing rating products should be reviewed against the expanded scope, and templates for rating rationales and decision records should capture the required analytical trail. CRAs should also segregate public, unsolicited, and private assignments in their disclosure controls and confirm that website publication settings reflect the new carve-outs.

1.2. FRAMEWORK ON CAPITAL RELIEF AND PRUDENTIAL REQUIREMENTS FOR FACTORING TRANSACTIONSBACKGROUND

Finance Companies and Finance Units in the IFSC may undertake factoring transactions under the IFSCA (Finance Company) Regulations, 2021. As factoring structures may involve trade credit insurance, guarantees or an import factor assuming part of the debtor risk, clarity was required on when such credit protection can reduce regulatory capital and how the underlying exposure should be treated for prudential purposes.

What The Circular Provides

Through its Circular dated 21 July 2026, IFSCA clarifies the framework for capital relief and prudential requirements applicable to Finance Companies and Finance Units undertaking factoring business in the IFSC. The Circular provides the following:

- For a factoring exposure covered by eligible credit insurance or a guarantee, the covered portion may carry the risk weight of the protection provider, where lower than that of the underlying counterparty; the uncovered portion carries the importer's risk weight.
- Sovereigns, export credit agencies, public sector enterprises, multilateral development banks, banks, securities firms and other prudentially regulated financial institutions, including insurers and import factors, may provide eligible protection.
- Capital relief is subject to strict contractual conditions: the protection must be direct, clearly linked to identified exposures, irrevocable, free from unilateral cancellation or adverse repricing clauses, and capable of timely payment without prior legal action against the counterparty. Pro-rata protection receives proportionate relief.
- Finance Units may claim relief only where the home regulator of the parent recognizes such treatment. Relief is available whether transactions occur through an ITFS platform or independently.
- Factoring remains within the applicable exposure ceiling. Exposure is ordinarily reckoned on the assignor for with-recourse transactions and on the debtor for without-recourse transactions, with covered portions recognized against an eligible insurer or import factor.
- The receivables unpaid for more than 90 days past due are treated as NPAs. An 180-day threshold applies to smaller Finance Companies with assets below USD 150 million; for similarly sized Finance Units, the lower of the home-regulator period or 180 days applies. Without-recourse underwriting must also be subject to Board-approved limits.

Analysis & Comments

The Circular gives IFSC factors a clearer route to translate genuine credit-risk transfer into capital efficiency. Relief, however, depends on the legal enforceability and operational certainty of the protection. Continued application of exposure ceilings and NPA norms ensures that capital relief does not dilute concentration or asset-quality discipline.

Way forward

Finance Companies and Finance Units should map existing factoring portfolios by recourse type, debtor, protection provider, and coverage level; review insurance policies, guarantees, and inter-factor agreements against each qualifying condition; and recalculate risk-weighted assets and exposure ceilings. Finance Units should obtain the required parent undertaking, while Boards should approve limits for without-recourse underwriting and ensure that each claim for capital relief is adequately supported.

1.3. AMENDMENT TO THE CIRCULAR DATED DECEMBER 29, 2025, TITLED "INTERNET BANKING SERVICES TO CLIENTS OF IBUS - REVIEW" AND CIRCULAR DATED JUNE 30, 2026 TITLED "AMENDMENT TO THE CIRCULAR TITLED INTERNET BANKING SERVICES TO CLIENTS OF IBUS -REVIEW"

Background

IFSCA issued the internet-banking framework for IFSC Banking Units (**IBUs**) on 29 December 2025 and subsequently amended the implementation timeline on 30 June 2026. Following requests from IBUs to align compliance with the closure of the Reserve Bank of India's "Swap Facility for FCNR(B) Deposits", IFSCA has granted a further one-time extension.

What The Circular Provides

Through its Circular dated 31 July 2026, IFSCA extends the deadline for compliance with the internet-banking requirements applicable to IBUs. The Circular provides the following:

- IBUs commencing operations after 29 December 2025 may offer liability products without meeting the prescribed internet-banking requirements until 30 September 2026.
- IBUs that commenced operations before 30 June 2026 must also comply with the applicable requirements by 30 September 2026.
- From 1 October 2026, a non-compliant IBU must stop onboarding new customers for each liability product that does not meet the requirements.
- All other provisions of the circulars dated 29 December 2025, and 30 June 2026 remain unchanged.

Analysis & Comments

The extension gives IBUs additional time to complete technology, security and operational readiness without interrupting liability-product offerings during the RBI swap-facility window. The relief is limited to timing and does not dilute the underlying internet-banking standards. The product-specific onboarding restriction also means that non-compliance may directly affect deposit mobilization from 1 October 2026.

Way forward

IBUs should use the extended period to close pending system, control and governance gaps, complete testing and obtain the necessary internal approvals before 30 September 2026.

2. REGULATIONS – DETAILED ANALYSIS

2.1. CONSOLIDATED IFSCA (FINANCE COMPANY) REGULATIONS, 2026

The consolidated Regulations incorporate the amendments effective from 07 May 2026, which introduce framework for Special Purpose Vehicles (**SPV**) undertaking leasing or financing activities in the IFSC.

The key changes and their practical impact are set out below:

- **Recognition of SPVs under Regulation 2:** The amendments define a SPV as a Finance Company incorporated or administered, or both, by a Trust and Company Service Provider (**TCSP**) authorized under the IFSCA (TechFin and Ancillary Services) Regulations, 2025. This gives ring-fenced, transaction-specific vehicles a clear regulatory identity and places the authorized TCSP at the center of their establishment and administration.
- **Classification under Regulation 5:** Leasing or financing undertaken by an IFSCA-permitted SPV has been expressly included within the list of non-core activities. The amendment removes uncertainty around the regulatory classification of such vehicles and provides a direct route for asset-leasing and structured-finance transactions.
- **Capital requirement under the Schedule:** A qualifying SPV is required to maintain the minimum owned fund or paid-up capital as prescribed under the Companies Act, 2013, or such higher amount as may be specified by IFSCA. This creates a proportionate capital framework for transaction-specific vehicles, while allowing IFSCA to impose a higher threshold where the nature or risk of the proposed activity demands it.
- **Exemption from Regulations 4 and 8:** Qualifying SPVs are exempt from the prudential, governance and disclosure requirements contained in Regulations 4 and 8. The relief should reduce duplication and improve the commercial viability of ring-fenced vehicles that do not carry the broader risk profile of an operating Finance Company.
- **Conditions attached to the relief:** The exemptions should not be treated as general relaxations. The SPV must remain within the activity permitted by IFSCA, maintain the applicable capital and operate through the prescribed TCSP arrangement. Its constitutional documents, financing arrangements and administration framework should preserve its limited purpose and clearly allocate responsibilities among the sponsor, TCSP and other transaction parties.
- **Overall Impact:** The amendments provide welcome regulatory certainty and a more proportionate framework for leasing and financing SPVs. They are likely to support the use of separate vehicles for aircraft, ship, and other asset-financing transactions in GIFT IFSC, while retaining IFSCA's supervisory control through the permission requirement, the authorized TCSP route and the power to prescribe additional conditions or a higher capital threshold.

2.2. CONSOLIDATED IFSCA (REGISTRATION OF INSURANCE BUSINESS) REGULATIONS,2021

The consolidated Regulations incorporate the amendments effective from 12 June 2026, which remove the Managing General Agent (**MGA**) framework from the IFSCA (Registration of Insurance Business) Regulations, 2021 following the introduction of a dedicated regulatory framework for MGAs through the IFSCA (Managing General Agents) Regulations, 2026.

The key changes and their practical impact are set out below:

- **Applicant eligibility and definitions under Regulation 3:** An MGA holding a valid binding agreement with a foreign insurer or foreign reinsurer has been removed from the definition of "Applicant". The definitions of "MGA" and "binding agreement" have also been omitted. The change separates MGAs from the International Financial Service Centre Insurance Office (**IIO**) registration framework and requires them to be assessed under the dedicated IFSCA (Managing General Agents) Regulations, 2026.
- **Registration framework under Regulation 4:** The explanation referring to the registration of MGAs and their relevant foreign insurers or foreign reinsurers under the Third Schedule has been deleted. As a result, the IIO application and registration process no longer operates as the regulatory route for an MGA arrangement. Now, Regulations 5 to 8 of the IFSCA (Managing General Agents) Regulations, 2026 provides a dedicated application, in-principal approval, certificate, and continuing-conditioning process.
- **Branch eligibility under Regulation 5:** The reference to an MGA has been removed from the categories permitted to establish an unincorporated branch in the IFSC. The branch route under these Regulations therefore continues for foreign insurers, foreign reinsurers, and Lloyd's, while an MGA must use the separate framework applicable to its delegated underwriting model.
- **Capital and solvency requirements under Regulation 17:** MGA-specific provisions relating to net owned funds, assigned capital and solvency have been omitted, including the earlier requirement for the relevant foreign insurer or foreign reinsurer to satisfy these obligations on behalf of the MGA. The applicable financial requirements for an MGA and its carrier relationship are provided under the IFSCA (MGA) Regulations, 2026 while the existing requirements continue for insurers, reinsurers and Lloyd's structures remaining within the IIO framework.
- **Principal Officer requirement under Regulation 17:** The specific reference to an MGA in the provision requiring prior approval for appointment of a Principal Officer has been removed. This shifts the governance and key-person analysis for MGAs out of the IIO Regulations and into the standalone MGA regime.
- **Omission of the Third Schedule:** The Third Schedule, which previously contained the detailed framework for MGA registration, binding agreements, delegated authority, and the responsibilities of the relevant foreign insurer or foreign reinsurer, has been omitted in full. This is the central structural change and reflects the migration of MGA Regulation from the insurance registration framework to a separate MGA regime.
- **Overall impact:** The amendments create a clearer distinction between risk-bearing insurers and reinsurers, which remain regulated as IIOs, and MGAs, which act under delegated authority without assuming the underlying insurance risk. Existing and proposed MGA arrangements will need to remap their registration, capital, governance, binding authority, premium handling, claims and reporting obligations to the IFSCA (Managing General Agents) Regulations, 2026. Foreign carriers should also review their agreements and oversight arrangements to ensure that responsibilities previously addressed through the IIO Regulations continue to be appropriately documented and discharged.

B. REGULATORY DEVELOPMENTS

1. AMENDMENT TO RULE 157 OF THE INCOME TAX RULES, 2026

Rule 157 of the Income-tax Rules, 2026 has been amended to widen the meaning of “specified fund” for the Permanent Account Number (**PAN**) exemption under Section 262 of the Income Tax Act, 2025 (**ITA**).

The earlier wording in the rule referred only to funds covered by Schedule VI [Note 1(g)], which created uncertainty for Category I and Category II Alternative Investment Funds (**AIFs**) located in an IFSC. The revised rule now expressly includes eligible Category I and Category II AIFs, while retaining the existing coverage for eligible Category III AIFs, retail schemes and Exchange Traded Funds located in IFSC.

At-A-Glance

Position	Scope of “specified fund”	Impact
Earlier Rule 157	Includes only funds referred to in Schedule VI [Note 1(g)] – principally eligible Category III AIFs, retail schemes, and ETFs in an IFSC.	Category I and Category II AIFs were not expressly covered.
Substituted Rule 157	Expressly includes eligible Category I and Category II AIFs located in an IFSC, in addition to funds covered by Schedule VI [Note 1(g)].	Wider and clearer access to the PAN exemption, subject to prescribed conditions.

The amendment removes the mismatch between the tax frameworks and extends the benefit to a wider range of funds operating from IFSC. Fund managers and administrators should nevertheless confirm that the fund meets the prescribed conditions before relying on the PAN exemption.

C. CONSULTATIONS AND POLICY UPDATES

1. CONSULTATION PAPERS ISSUED

Consultation Paper on the revised Draft IFSCA (Setting up and Operation of International Branch Campuses) Regulations, 2026

IFSCA has issued a second consultation paper on the revised framework for foreign higher educational institutions setting up International Branch Campuses in GIFT IFSC. The draft seeks to strengthen the registration, course recognition, governance, student-protection, and operational framework. The final Regulations are expected to replace the existing 2022 regime as approved in the IFSCA's 29th meeting held on July 24, 2026.

Consultation Paper for issuing Circular on Foreign Currency Settlement System (FCSS) to International Banking Units (IBUs) in GIFT IFSC

IFSCA has issued a consultation paper proposing operational instructions for IBUs participating in FCSS, including mandatory use of FCSS for inter-bank transactions between member IBUs, customer awareness and access requirements, and credit of customer funds within one hour. Following consultation, a circular prescribing these requirements for member IBUs is expected to be issued under the Payment and Settlement Systems Act, 2007 and the IFSCA Act, 2019.

Consultation Paper on The Regulatory Framework for Direct Listing of Specified Securities Without Public Offer

IFSCA has issued a consultation paper proposing a detailed framework for direct listing of equity shares and convertible securities on recognized stock exchanges in IFSC without a public offer. The proposed framework is expected to operationalize Regulation 40 of the IFSCA (Listing) Regulations, 2024 through eligibility thresholds, an information document and investment-banker due diligence, minimum public shareholding, independent valuation, and a special pre-open price-discovery mechanism.

Consultation Paper on proposal to expand list of jurisdictions for distribution activities

IFSCA has issued a consultation paper proposing to expand the jurisdictions from which capital market products and services may be distributed by IFSCA-registered distributors to any category of client. An amendment to the Master Circular for Distributors in the IFSC is expected to add the UAE, Singapore, Australia, and the European Union excluding Croatia, thereby widening access beyond sophisticated investors, subject to the laws of the product-origin and client jurisdictions.

Consultation Paper on the Draft 'IFSC Depositor Education and Awareness Fund (IDEA Fund) Scheme, 2026

IFSCA has issued a consultation paper on a dedicated framework for transfer and administration of deposits and other eligible amounts remaining unclaimed or inoperative for ten years or more with IFSC Banking Units. Once finalized, the IDEA Fund Scheme is expected to provide for depositor claims and reimbursement, fund governance, audit and investment, and use of the Fund for depositor education and awareness.

2. PUBLIC COMMENTS INVITED

Public comments on Consultation Paper on proposed Amendments in CMI Regulations and Master Circular with respect to Credit Rating Agencies in IFSC

Public comments were invited until 05 April 2026 on the consultation paper issued in March 2026 proposing changes to the regulatory framework for Credit Rating Agencies in the IFSC. Following consideration of stakeholder feedback, IFSCA amended the IFSCA (Capital Market Intermediaries) Regulations, 2025 and issued the related amendments to the Master Circular for Credit Rating Agencies through its Circular dated 16 July 2026, with immediate effect. A detailed analysis of the Circular is provided on page number 2.

D. PRESS RELEASES AND INSTITUTIONAL UPDATES

1. PRESS RELEASES

Reporting of Foreign Direct Investment (FDI) received by regulated entities in IFSC

Through its press release dated 01 July 2026, IFSCA clarified that regulated entities in IFSC are not required to file the Annual Return on Foreign Liabilities and Assets directly with the Reserve Bank of India, although investment data remains necessary for compilation of India's balance of payments. IFSCA is expected to issue separate instructions prescribing the manner and format in which regulated entities must submit the required data.

International Financial Services Centres Authority, India and Financial Services Agency, Japan execute Exchange of Letters (EoL)

Through its press release dated 2 July 2026, IFSCA announced that it had signed an Exchange of Letters with the Financial Services Agency of Japan on 26 June 2026 to formalize regulatory cooperation. The arrangement is expected to facilitate exchange of information on financial products, services, and institutions as well as regulatory and supervisory developments, initiatives, and best practices. This may support closer India-Japan engagement in financial services through GIFT IFSC.

Press Release on Report of the Expert Committee on Development of REITs and InvITs in IFSC submitted to IFSCA

Through its press release dated 15 July 2026, IFSCA released the Expert Committee's roadmap for developing GIFT IFSC as a global platform for real estate and infrastructure financing. The recommendations include Mortgage REITs, calibrated treatment of SM REITs, anti-greenwashing standards, new sponsor and capital-raising mechanisms, an Investor Protection Fund, cross-border listing routes and tax and foreign-investment reforms. IFSCA is expected to examine these proposals and pursue the necessary changes in phases. The Report of the Expert Committee on Development of REITs and InvITs in IFSC can be accessed here.

Financial Action Task Force (FATF) High Risk Jurisdictions Subject to a Call for Action and Jurisdictions Under Increased Monitoring – June 19, 2026

Through its press release dated 17 July 2026, IFSCA drew regulated entities attention to FATF's updated statements of 19 June 2026. Countermeasures continue to apply to DPRK and Iran, enhanced due diligence is required for Myanmar, Bosnia and Herzegovina, and Iraq as they have been added to increased monitoring, and Algeria and Namibia have been removed. No separate framework is proposed; regulated entities are expected to reflect the revised country-risk position in their risk-based AML/CFT/CPF controls while legitimate business with the listed jurisdictions remains permissible subject to appropriate safeguards.

IFSCA issues framework on capital relief and prudential requirements for factoring transactions

Through its press release dated 21 July 2026, IFSCA announced a framework permitting eligible capital relief for factoring exposures protected by qualifying credit insurance, guarantees or two-factor arrangements, in alignment with the Basel III framework. The detailed analysis of the Circular is provided on page number 3.

Decisions taken at the 29th IFSCA Authority Meeting

Through its update on the 29th Authority Meeting held on 24 July 2026, IFSCA announced the approval of several regulatory measures across the IFSC ecosystem. Key decisions include amendments to the IFSCA (Capital Market Intermediaries) Regulations, 2025 on withdrawal of credit ratings; the IFSCA (Prohibition of Market Abuse in Securities Markets) Regulations, 2026; amendments to the IFSCA (Fund Management) Regulations, 2025; frameworks for differential distribution in Restricted Schemes and Venture Capital Schemes and for Electronic Trading Platforms; and the revamped IFSCA (Setting up and Operation of International Branch Campuses) Regulations, 2026. The approved measures are expected to be operationalized through the notification of the relevant regulations, amendments, and supporting directions.

E. THOUGHT LEADERSHIP PIECE

REDEFINING CROSS-BORDER BANKING: THE RBI FCNR(B) SWAP FACILITY

On 8th June 2026, the Reserve Bank of India (**RBI**) introduced a USD-INR foreign exchange "*Swap Facility for FCNR(B) Deposits*" (**the Facility**) for fresh Foreign Currency Non-Resident (Bank) (**FCNR(B)**) deposits with tenors of 3 to 5 years. Designed to shore up the balance of payments and draw foreign currency inflows, the Facility permits eligible deposits to be mobilised until 30th September 2026, with the swap window itself remaining open until 16th October 2026.

The response to the Facility has been emphatic. By 31st July 2026, banks had mobilised USD 40.816 billion under it, of which FCNR(B) deposits alone contributed USD 36.725 billion, nearly 90% of total inflows, already surpassing the amount raised under a similar facility introduced in 2013.

It must, however, be borne in mind that mobilisation is only the first test. FCNR(B) deposits are borrowed USD i.e., liabilities that banks must eventually repay in foreign currency. They can strengthen near-term liquidity and headline reserves, but they are not permanent capital, nor do they add, in equal measure, to India's unencumbered external wealth. The mechanics of the Facility make that distinction clear.

How the Facility Works

An eligible depositor places a 3- to 5-year FCNR(B) deposit in a freely convertible currency with an Authorised Dealer Category-I bank. The bank sells the eligible USD principal to the RBI at the applicable reference rate in exchange for INR. At maturity, it returns the contracted INR amount and receives back the USD principal. Because the swap is struck "at par", the bank is insulated from USD-INR movement on the swapped principal.

That protection is partial as only the principal, and not the interest, is swapped. The RBI imposes a 1-year lock-in, after which banks may permit premature withdrawal of the FCNR(B) deposit. But even then, the RBI leg runs for the full 3- to 5-year tenure regardless. Swaps are undertaken in multiples of USD 1 million, and banks are not required to enter into an ISDA (International Swaps and Derivatives Association) agreement with the RBI.

The Facility also changes the credit capacity associated with these deposits. Paragraph 402 of the RBI (Commercial Banks - Credit Facilities) Directions, 2025, does not apply to deposits mobilised under the Facility, thereby permitting banks to issue non-fund-based credit facilities against them.

This exception is what makes leverage possible. An NRI can place personal funds in an FCNR(B) deposit and use it to backstop a guarantee or a standby letter of credit (**SBLC**). That SBLC can then support an additional foreign-currency loan, which the NRI redeploys into a further deposit or investment. A relatively small amount of the investor's own capital can thus support a position several multiples its size, and where the FCNR(B) rate exceeds the borrowing cost, that leverage amplifies the return on capital.

Why the Swap Changes Bank Economics

An FCNR(B) deposit gives a participating bank foreign currency, while much of its lending book and income are rupee denominated. Ordinarily, the bank must hedge the resulting currency mismatch because the deposit is repayable in foreign currency. That hedge can materially erode the spread between rupee asset yields and the return required by an overseas depositor.

The at-par principal swap substitutes the RBI for that market hedge. This can give banks room to offer more competitive deposit rates while retaining a viable margin on rupee deployment. It also temporarily relaxes the interest-rate ceiling for qualifying three-to-five-year FCNR(B) deposits, strengthening the mobilisation incentive.

The exposure is transferred, not extinguished. The RBI acquires dollars now and commits to return principal dollars against contracted rupees later. The ultimate economic effect depends on exchange rates, interest rates, the return earned on the RBI's foreign assets and the facility's precise pricing.

GIFT City: Supporting Infrastructure

Under the erstwhile facility introduced in 2013, the foreign currency lending and deposit arrangements involved separate entities. Foreign banks such as Standard Chartered, HSBC, and Citi acted as lenders, while the FCNR(B) deposits were maintained with Indian banks. As a result, additional documentation, including SBLC arrangements, was required to facilitate the transaction structure.

Under the Facility, banks having International Banking Units (**IBUs**) in GIFT IFSC can undertake foreign currency transactions through their IFSC units, which are treated as foreign entities for regulatory purposes. The GIFT IFSC unit may provide the foreign currency funding, while the corresponding FCNR(B) deposit may be accepted by the same bank's domestic branch outside GIFT IFSC. Since both sides of the transaction are within the same banking group, separate SBLC arrangements may not be required, resulting in a more streamlined and efficient structure.

Tax Treatment

The tax analysis has two distinct legs. The first is the deposit leg: interest on an eligible FCNR(B) deposit is exempt from Indian income tax, provided the depositor maintains their non-resident status. This exemption applies only within India; the interest may still be taxable, and may trigger foreign-account reporting, in the NRI's country of residence.

The second is the borrowing leg, arising in a leveraged structure where the NRI's deposit serves as collateral and the bank extends a loan against it, often 9 to 19 times the deposit amount. The tax treatment of the resulting loan interest depends on the borrower's residence, the lender and lending branch, the source and place of payment, domestic law and treaty eligibility.

Loan interest payments may attract withholding in the lender bank's jurisdiction. For example, for a US lender, withholding may apply at the statutory rate of 30%. Whereas for a Singapore resident borrower, the position turns on where the loan is booked: interest paid to the Singapore branch of an Indian bank is not subject to Singapore withholding tax, but when paid to a non-Singapore lender (including a GIFT IFSC unit of the same bank) is treated as Singapore-sourced and does attract withholding (generally 10% under the India-Singapore tax treaty, as opposed to the 15% domestic rate).

Often when a lender requires interest free of withholding, the NRI may also be required to gross up the interest payment and bear the tax cost. Since withholding applies to the full interest payment rather than the investor's narrow spread, it can materially reduce or even eliminate the expected gain.

The real return, therefore, must be assessed after tax and not merely by comparing the FCNR(B) deposit rate with the loan rate. Reported spreads on these leveraged structures are typically in the range of 50 to 80 basis points. Withholding tax can erode most of that margin and, in some cases, turn an apparently attractive carry trade into a loss.

The Real Test: From Maturity to Durable Resilience

Between 2029 and 2031, participating banks will return INR to the RBI and receive the contracted USD, which will then be used to repay depositors who do not renew. If maturities are concentrated and renewal rates are low, the resulting transactions could tighten INR liquidity and increase pressure on the banks' foreign-currency funding.

The 2013 experience shows that a large maturity need not cause a crisis if reserves, forward purchases and liquidity operations are planned. Early planning is even more imperative now, since the amount deposited under the Facility is already larger than it was in 2013.

The Facility has achieved its immediate objective i.e., to attract USD quickly. Whether it ultimately strengthens the balance of payments will depend on how banks deploy the INR, how the RBI measures and communicates its forward exposure, and how the maturity wall is managed.

India should therefore refrain from treating the borrowed USD as a substitute for durable flows from exports. The Facility can help buy time and reduce immediate volatility. But its success will be measured not by the headline amount raised in 2026, but by whether that amount can leave again in 2029-2031 without reopening the very INR question the Facility has, for now, brought quietus to.

THE EXEMPTION: DGMA LICENSING REQUIREMENT LIFTED FOR IFSC CHARTERING

A licence has been dispensed with. On 7th July 2026, by Notification S.O. 3690(E) (**Exemption Order**), issued under Section 37 of the Coastal Shipping Act, 2025 (**CSA**), the Central Government, through the Ministry of Ports, Shipping and Waterways, exempted units of the IFSC at GIFT City from the requirement of obtaining a licence under Section 11 of the CSA to charter foreign vessels for EXIM and international trade operations. The Directorate General of Maritime Administration (**DGMA**) gave effect to the exemption through Circular No. 37 of 2026, dated 15th July 2026.

Legal Basis and Scope of the Exemption

Section 11 of the CSA lays down a clear rule that no foreign vessel chartered by a citizen of India, an NRI, an OCI, a company, a co-operative society, an LLP, or any other entity notified by the Central Government may be put to sea (from a port within or outside India) without a licence from the DGMA.

Section 37 empowers the Central Government, where the public interest so requires, to exempt any vessel or class of vessels from the Act, including vessels chartered by the very entities named in Section 11. This is the power the Central Government has now exercised *vide* the Exemption Order. It has exempted foreign vessels chartered by IFSC units at GIFT City from the Section 11 licence.

The exemption is confined to IFSC units and confined further to the licensing requirement under Section 11 of the CSA. Every other obligation under the CSA, the Merchant Shipping Act, 2025 (**MSA**), and the wider body of applicable rules, regulations, conventions and directions remains in force. So, too, does the licence for vessels engaged in coasting trade, which continues to be required under Section 4 of the CSA.

Purpose and Expected Benefits

The aim is to draw global capital into India's maritime sector; to encourage ship-owning and ship-leasing entities to establish themselves here; to build, in time, a complete maritime ecosystem, with financing and asset management as part of it; and to foster the value-added services that such an ecosystem requires. Behind all this lies a single ambition that GIFT City should become, in substance and not merely in name, a world-class IFSC for maritime business.

The requirement it removes had no counterpart in most other jurisdictions. That, in large part, is why Indian shipping companies took their commercial and chartering business to Singapore and Dubai instead. Indian operators with substantial EXIM trade have, until now, conducted their international asset management and chartering operations abroad, not for lack of business at home, but because the domestic regime made it easier to do so elsewhere. That obstacle has now been removed. Taken with the tax incentives GIFT IFSC already offers, the exemption gives these operators good reason to bring such activities back to India, rather than continue to conduct them offshore.

Interaction with the RoFR Policy

India has long followed a Right of First Refusal (**RoFR**) policy, giving preference to Indian-built, Indian-flagged, and Indian-owned vessels in cargo tenders. This preference already extends to vessels owned through IFSC units. The policy's purpose is to strengthen domestic tonnage, and its order of priority reflects that:

- Indian-built, Indian-flagged, and Indian-owned.
- Indian-built, Indian-flagged, and Indian IFSC unit-owned.
- Foreign-built, Indian-flagged, and Indian-owned.
- Foreign-built, Indian-flagged, and Indian IFSC unit-owned.
- Indian-built, foreign-flagged, and foreign-owned.

A question naturally arises. Does the exemption undermine this policy? The concern is that, by relieving IFSC units of the Section 11 licence, the competitive position of the domestic fleet might be quietly weakened. Government officials say it does not, and the explanation they offer is a sound one. IFSC units generally charter foreign-flagged vessels on long-term, time-charter arrangements. Should such a vessel later be deployed within India's Domestic Tariff Area, the ordinary requirements apply in full, RoFR included. Should it instead serve an overseas company on overseas business, RoFR has no application at all: that is not domestic cargo, and the policy was never meant to reach it.

There is a further safeguard. IFSC-registered units may own or charter foreign-flagged vessels long-term, but they may not carry on voyage charter operations directly under the IFSC framework. Taken together, these limits confine the exemption to what it was meant to achieve, i.e., maritime leasing and financing in GIFT City, without disturbing the protection Indian-flagged vessels already enjoy under the RoFR policy.

Conclusion

India's IFSC already has the tax and regulatory advantages a modern ship-leasing regime requires. What it lacked was relief from procedure, and that lack has now, in one respect, been made good. Eligible IFSC units need no longer seek a Section 11 licence to charter foreign vessels for EXIM and international trade. It is a real step, though not the last one. Amendments to the MSA, a registry framework built for the IFSC, and clearer rules on foreign-flag operations are still required if GIFT City is to stand comparison with Singapore and Dubai. Bring these reforms together, and India will have a genuine claim on the attention of lessors, domestic and international alike.

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

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