ELP ECONOMIC LAWS PRACTICE
ADVOCATES & SOLICITORS

IFSC NEWSLETTER: AUGUST 2026

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1. CIRCULARS – DETAILED ANALYSIS

1.1. MODIFICATIONS UNDER THE INTERNATIONAL FINANCIAL SERVICES CENTRES AUTHORITY (ANTI-MONEY LAUNDERING, COUNTER-TERRORIST FINANCING AND KNOW YOUR CUSTOMER) GUIDELINES, 2022

Background

The IFSCA (Anti-Money Laundering (**AML**), Counter-Terrorist Financing (**CTF**) and Know Your Customer (**KYC**) Guidelines, 2022 prescribe the customer due diligence, monitoring and reporting framework for regulated entities in the IFSC. IFSCA has now updated the Guidelines to reflect revised Financial Intelligence Unit - India (**FIU-IND**) reporting arrangements and to clarify the permitted location of customers during video-based customer identification.

What The Circular Provides

Through its Circular dated 3 August 2026, IFSCA modifies the AML, CFT and KYC Guidelines, 2022. The Circular provides the following:

- Clause 10.3 now refers to both Rules 7 (Procedure and manner of furnishing information) and 8 (Furnishing of information to the Director) of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005, bringing the reporting provision in line with the applicable statutory requirements.
- Regulated entities must use the manuals and reporting-format guidance available under "FINnet 2.0 resources for RE" on FIU-India's website, and file reports online through the FINgate 2.0 portal.
- Cross Border Wire Transfer Reports (**CBWTRs**) are expressly added to the reporting guidance alongside the Suspicious Transaction Report and Non-Profit Organization Transaction Reports to be submitted to FIU-IND by the 15th of the succeeding month.
- For video-based customer identification, the IP address of a resident Indian customer must originate in India. For a Non-Resident Indian customer, it may originate from India or the customer's country of residence, if that country is on the permitted list.
- The permitted list now comprises the United States, Japan, South Korea, the United Kingdom excluding British Overseas Territories, Canada, UAE, Singapore, Australia and the European Union, subject to applicable FATF and Central Government high-risk classifications.

Analysis & Comments

The amendments align the Guidelines with FIU-India's current reporting architecture and make CBWTR compliance explicit. The revised V-CIP position offers regulated entities a clearer route to onboard low-risk NRI customers remotely, while retaining jurisdictional safeguards linked to FATF and Central Government risk assessments. The change is operationally significant for institutions serving customers across major financial centres

Way forward

Regulated entities should update AML reporting procedures, system configurations and internal checklists to include CBWTRs and FINgate 2.0 filing. V-CIP controls should be revised to validate the customer's IP location against the permitted jurisdiction list and current high-risk designations.

1.2. SPECIFICATION OF CERTIFICATION COURSE FOR KMPS AND OTHER EMPLOYEES OF CAPITAL MARKET INTERMEDIARIES UNDER THE IFSCA (CAPITAL MARKET INTERMEDIARIES) REGULATIONS, 2025

Background

IFSCA is authorized to specify certification courses for employees of Capital Market Intermediaries (**CMIs**) in the IFSC. Through its Circular dated 2 April 2026, IFSCA had recognized the course titled "Regulatory Framework for Capital Market Intermediaries in IFSC" offered by the Institute of Company Secretaries of India (**ICSI**).

What The Circular Provides

Through its Circular dated 6 August 2026, IFSCA specifies an additional certification course for compliance with Regulation 9(5) of the CMI Regulations. The Circular provides the following:

- The course titled "Regulatory Framework for Capital Markets Intermediaries and Listing Requirements of IFSCA", offered by the Institute of Chartered Accountants of India (**ICAI**), is now recognized.
- Successful completion of either the ICSI course specified on 2 April 2026 or the newly recognised ICAI course is sufficient for compliance.
- The Circular takes effect immediately.

Analysis & Comments

The Circular gives CMIs an additional route to meet the prescribed certification requirement without changing the underlying compliance standard. Recognition of the ICAI course should widen access for KMPs and relevant employees. CMIs must, however, continue to identify the personnel covered by Regulation 9(5) and ensure timely completion of an approved course.

Way forward

CMIs should update training and compliance policies to cover both recognized courses, track certification status of relevant KMPs and employees, and retain completion records for review.

1.3. SPECIFICATION OF CERTIFICATION COURSE FOR THE EMPLOYEES OF FUND MANAGEMENT ENTITIES UNDER THE IFSCA (FUND MANAGEMENT) REGULATIONS, 2025

Background

Regulation 7(6) of the IFSCA (Fund Management) Regulations, 2025 empowers IFSCA to specify certification courses for employees of Fund Management Entities (**FMEs**) in the IFSC. In April 2026, IFSCA recognised the Institute of Company Secretaries of India course titled "Regulatory Framework for Fund Management in IFSC: AIFs and Retail Schemes" for this purpose.

What The Circular Provides

Through its Circular dated 10 August 2026, IFSCA recognizes an additional certification course for employees of FMEs under the Fund Management Regulations, 2025. The Circular provides the following:

- The ICAI course titled "Regulatory Framework for Fund Management in IFSC" is now an approved certification course.
- Successful completion of either the ICAI course or the previously recognised ICSI course is sufficient for compliance with Regulation 7(6).
- All other provisions of the Circular dated 1 April 2026 remain unchanged, and the new recognition takes effect immediately.

Analysis & Comments

The Circular gives CMIs an additional route to meet the prescribed certification requirement without changing the underlying compliance standard. Recognition of the ICAI course should widen access for KMPs and relevant employees. CMIs must, however, continue to identify the personnel covered by Regulation 9(5) and ensure timely completion of an approved course.

Way forward

CMIs should update training and compliance policies to cover both recognized courses, track certification status of relevant KMPs and employees, and retain completion records for review.

1.4. CLARIFICATION REGARDING IMPLEMENTATION SERVICES BY INVESTMENT ADVISERS IN THE IFSC

Background

Regulation 80 of the IFSCA (Fund Management) Regulations, 2025 permits a Fund Management Entity (**FME**), as part of its Portfolio Management Services, to provide advisory services in accordance with the relevant provisions of the IFSCA (Capital Market Intermediaries) Regulations, 2025.

Separately, IFSCA's Circular dated 12 May 2026 prescribes the manner in which registered Investment Advisers may provide implementation services in the IFSC.

What The Circular Provides

Through its Circular dated 10 August 2026, IFSCA clarifies the applicability of the Implementation Services Circular to FMEs. The Circular provides the following:

- The Circular dated 12 May 2026 on implementation services by Investment Advisers does not apply to a FME providing advisory services.
- FMEs may continue to provide advisory services under Regulation 80 of the Fund Management Regulations, 2025, subject to the applicable provisions of the Capital Market Intermediaries Regulations, 2025.

Analysis & Comments

The clarification removes a potential overlap between the regulatory framework for Investment Advisers and the advisory activities undertaken by FMEs as part of Portfolio Management Services. FMEs are therefore not required to structure such advisory services in accordance with the separate implementation services framework applicable to registered Investment Advisers. The clarification is limited to the non-applicability of that circular and does not dilute the other regulatory requirements governing advisory services by FMEs.

1.5. DIRECTIONS TO ALL REGULATED ENTITIES

Background

A valid and subsisting Letter of Approval (**LoA**) under the Special Economic Zones (**SEZ**) Act, 2005 is a prerequisite for obtaining and maintaining an IFSCA registration, license, recognition, authorization, permission or approval, and for carrying on permissible activities in the IFSC. IFSCA observed that certain regulated entities were continuing business without a valid LoA or applicable regulatory instrument, prompting a restatement of the governing requirements.

What The Circular Provides

Through its Circular dated 10 August 2026, IFSCA directs all regulated entities in the IFSC to maintain valid approvals throughout their operations. The Circular provides the following:

- A LoA is generally valid for one year where business has not commenced and five years where business has commenced. Renewal must be sought from the Administrator (IFSCA) at least two months before expiry.
- An IFSCA registration, licence, recognition, authorisation, permission or approval may be perpetual or valid for the period stated in the relevant instrument.
- Every regulated entity must, at all times, hold a valid and subsisting LoA and all regulatory instruments applicable to its business.
- No business activity may be undertaken without these approvals remaining valid and in force.
- Non-compliance may result in financial penalties, suspension or cancellation of regulatory instruments and other actions under the applicable laws.
- The Circular supersedes IFSCA's earlier circular dated 3 April 2025 and takes effect immediately.

Analysis & Comments

The Circular reinforces that regulatory approval, and SEZ approval operate together: an IFSCA authorization does not permit an entity to continue business if its LoA has expired, and a valid LoA does not replace the need for the relevant IFSCA instrument. The direction is significant because a lapse may lead not only to operational interruption but also to enforcement action. Renewal management must therefore form part of continuing regulatory compliance rather than being treated as an administrative formality.

Way forward

Regulated entities should maintain a register of LoAs and regulatory instruments, with advance alerts for expiry and renewal deadlines. Each business activity should be mapped to the approval on which it relies, and compliance teams should periodically verify that all approvals remain valid.

1.6. EXTENSION OF TIMELINE FOR OBTAINING ISINS FROM A RECOGNIZED DEPOSITORY IN IFSC

Background

IFSCA's Circular dated 6 February 2026 requires IFSC units that had obtained International Securities Identification Numbers (**ISINs**) from domestic depositories in India for securities or other permitted financial products to obtain fresh ISINs from an IFSC-recognized depository. The transition was required to be completed by 31 August 2026.

What The Circular Provides

Through its Circular dated 25 August 2026, IFSCA extends the timeline for completing the migration of ISINs to a recognised depository in the IFSC. The Circular provides the following:

- IFSC units must obtain new ISINs from an IFSCA-recognised depository by 31 December 2026, instead of 31 August 2026.
- The recognised depository must submit its compliance report to IFSCA, confirming completion of the transition, by 31 January 2027 instead of 30 September 2026.

Analysis & Comments

The extension gives issuers and market infrastructure institutions more time to migrate existing identifiers to the IFSC depository framework, reducing disruption for securities or financial products with domestic ISINs. The relief only extends the timeline and does not change the requirement to obtain fresh ISINs from an IFSC-recognized depository.

Way forward

IFSC units should identify covered securities and products, coordinate with the recognized depository and intermediaries, and complete ISIN migration by 31 December 2026. They should update reconciliations, investor communications and records, while the depository maintains a tracker for its 31 January 2027 compliance report.

1.7. REQUIREMENT FOR FUND MANAGEMENT ENTITIES TO MAINTAIN A WEBSITE OR WEBPAGE

Background

The IFSCA (Fund Management) Regulations, 2025 prescribe disclosure and investor-protection requirements for FMEs. To improve transparency and provide investors and other stakeholders ready access to information on FME and its IFSC operations, IFSCA has introduced a dedicated online disclosure framework.

What The Circular Provides

Through its Circular dated 26 August 2026, IFSCA requires every FME registered under the Fund Management Regulations, 2025 to maintain a website or webpage. The Circular provides the following:

- An Authorised FME or Registered FME (Non-Retail) may maintain an independent website or a dedicated webpage on the website of its parent, holding or group entity. A Registered FME (Retail) must maintain an independent official website for its IFSC fund management activities.
- The website or webpage must be publicly accessible and clearly distinguish the FME's IFSC operations. It must disclose its registration and contact details, managed funds and activities, key service providers and personnel, grievance mechanism, regulatory disclosures and material enforcement action during the preceding three years.
- A Registered FME (Retail) managing a Retail Scheme must additionally publish scheme documents and periodic information on portfolio, performance, NAV, expenses, valuation, unclaimed amounts and investor education.
- Disclosures must be in English, dated, appropriately identify currency and time zone, and remain accessible for at least three years. NAV, portfolio and expense disclosures should, where feasible, be downloadable and machine-readable.
- Existing FMEs must intimate their website or webpage URL to IFSCA by 1 December 2026. A newly registered FME must comply before commencing business and intimate its URL within 30 days of registration. The Circular takes effect on 1 December 2026.

Analysis & Comments

The Circular improves transparency by centralizing key FME and scheme information in a public source. At the same time, the requirement creates an ongoing governance obligation: disclosures must remain accurate, current and consistent with regulatory filings and scheme documents.

Way forward

FMEs should finalize their website structure, assign disclosure owners, close content gaps before 1 December 2026, and implement review, approval, archival, complaint update and URL intimation controls. Retail FMEs should also ensure reliable publication of NAV, portfolio, performance and expense information.

B. CONSULTATIONS AND POLICY UPDATES

1. CONSULTATION PAPERS ISSUED

Consultation Paper on the financial soundness criteria for existing Payment System Operators (PSOs) and applicants desirous of operating payment systems in IFSC

IFSCA issued the consultation paper to prescribe financial soundness criteria for existing Payment System Operators and applicants seeking to operate payment systems in the IFSC. The draft proposes category-specific requirements, including minimum net-worth standards for certain operators, and requires existing operators to comply within six months of the final circular, while new applicants must comply before authorization.

Consultation paper on proposed amendments to the IFSCA Banking Handbook on General Directions

IFSCA issued the consultation paper to strengthen the governance and risk-management requirements applicable to IFSC Banking Units. The proposals require at least two quarterly Governing Body meetings each year to be held physically in the IFSC and mandate a Risk Officer as an Approved Individual for International Banking Units (**IBUs**) crossing prescribed advances, investment or derivatives thresholds.

Consultation Paper on the Draft Circular titled "Framework for Leasing Activity in International Financial Services Centre"

IFSCA issued the consultation paper proposing a consolidated framework for leasing activities undertaken by Finance Companies and Finance Units in the IFSC. The draft brings aircraft and ship leasing under a single framework, enables oilfield-equipment leasing, standardizes permissible activities and asset-specific requirements, and introduces a dedicated regime for leasing through Special Purpose Vehicles.

Public Consultation on Enabling Operating Lease, including any Hybrid of Operating and Financial Lease, of 'GPU and Connected Data Centre Equipment' as a Financial Product

IFSCA issued the consultation paper proposing to recognize the operating lease, including hybrid operating and financial lease structures, of Graphics Processing Units and connected data centre equipment as a financial product in GIFT IFSC. The proposed scope includes processing units, rack-scale AI systems, processors, power-supply and networking equipment, and related parts and accessories. A thought leadership article examining this proposal is provided under section D. on page no.13.

Consultation Paper on Secondary Listing of Exchange Traded Funds in IFSC

IFSCA issued the consultation paper proposing a framework under which an ETF managed by a fund manager regulated in India or a foreign jurisdiction may obtain a secondary listing on a recognized stock exchange in the IFSC without establishing an FME solely for that purpose. The proposal contemplates continued home-jurisdiction regulation, a local representative, prescribed disclosures and market-making arrangements.

2. PUBLIC COMMENTS INVITED

Public comments on proposed amendments to the IFSCA (Manner of Payment and Receipt of Premium) Regulations, 2022

Public comments have been received on the consultation paper issued on 12 May 2026 proposing amendments to the manner in which insurance premiums may be paid and received in the IFSC. Stakeholder suggestions included enabling premium financing through regulated lending institutions and clarifying the treatment of reinsurance premiums, authorised intermediaries and reinstatement premiums. The amended regulations are expected to be notified following completion of the regulatory process.

Public comments on amendments to the IFSCA (Fund Management) Regulations, 2025

IFSCA has published the complete set of comments received on the consultation paper concerning amendments to the IFSCA (Fund Management) Regulations, 2025. The feedback covered, among other matters, scheme structuring and investment limits, temporary deployment of pre-first-close monies, FME and associate participation, payment-service arrangements, governance, valuation and key personnel requirements. The approved amendments are expected to be notified through the revised regulatory framework.

Public comments on the draft IFSCA (Prohibition of Market Abuse in Securities Markets) Regulations, 2026

Public comments have been received on the draft IFSCA (Prohibition of Market Abuse in Securities Markets) Regulations, 2026. Stakeholder feedback addressed the scope and applicability of the framework, definitions of connected persons and material non-public information, legitimate-purpose exceptions, trading plans, maintenance of electronic databases, compliance certification and an informant mechanism.

C. PRESS RELEASES AND INSTITUTIONAL UPDATES

1. PRESS RELEASES

IFSCA directs Regulated Entities to maintain valid approvals

Through its press release, IFSCA reiterated that Regulated Entities must maintain valid approvals, including a subsisting Letter of Approval under the Special Economic Zones Act, 2005, and apply for renewal at least two months before expiry. A detailed analysis of the related Circular is provided under Section A. Regulatory Developments on page no. 7.

Caution to Public – Digital Scams

Through its press release dated 11 August 2026, IFSCA cautioned the public against the unauthorised use of its logo and false claims of authorisation, registration or regulatory association. The public and other stakeholders should verify an entity's status through the IFSCA Directory and confirm that communications claiming to originate from IFSCA use the official "@ifsca.gov.in" domain. Suspected misuse, impersonation, deepfakes and other digital frauds relating to the IFSC should be reported to IFSCA.

Consultation on leasing of GPUs and connected data centre equipment

Through its press release, IFSCA announced a consultation on recognising the operating lease, including hybrid lease structures, of GPUs and connected data centre equipment as a financial product in GIFT IFSC. The consultation paper is discussed under Section B. Consultations and Policy Updates along with a detailed thought leadership on page no. 11.

IFSCA, India and FSC, Taiwan Execute Cooperation Agreement on Fintech

IFSCA and Taiwan's Financial Supervisory Commission operationalised a fintech cooperation agreement on 28 August 2026 during the 19th India-Taiwan Economic Consultations. The agreement establishes a referral mechanism for fintech businesses seeking to enter either market and facilitates information-sharing on financial innovation, emerging technologies, market trends and related regulatory developments. It builds on the general memorandum of understanding signed by the two authorities in December 2025.

D. THOUGHT LEADERSHIP PIECE

LEASING GPUS AND DATA CENTRE EQUIPMENT: UNPACKING IFSCA'S NEW FINANCIAL PRODUCT

IFSCA's August 2026 consultation paper (**the Paper**) proposes classifying Graphics Processing Units (**GPUs**) and connected data centre equipment as a "financial product" under section 3(1)(d)(vi) of the IFSCA Act. This would permit operating leases (and lease hybrids) of AI hardware in GIFT IFSC, on the same footing as aircraft, ship and oilfield equipment leases, in exercise of powers under the Government's 2021 notification[1]. The scope is broad and technology-neutral, covering GPUs, AI accelerators, servers, storage, networking and power equipment "used directly or indirectly" in a data centre. The products and equipment proposed to be covered are mapped, but not confined, to an indicative HSN/CTH tariff schedule. The Paper frames leasing as a means of financing capital-intensive GPUs while shifting obsolescence risk to specialist lessors, who are better placed to price, manage and remarket them.

Interplay with Existing Laws:

IFSCA's proposal is not, as such, a novelty; it fits within existing IFSC leasing frameworks. The IFSCA (Finance Company) Regulations, 2021 already allow finance companies to enter into operating leases (leases where the leased asset stays on the lessor's books, akin to a long-term rental) of "*equipment as may be specified by the Authority*". Under Ind AS 116, such leases would remain "operating leases" on lessees' books, consistent with this framework.

The aircraft leasing framework incorporates the Cape Town Convention, while the ship leasing framework operates under the Merchant Shipping Act, 2025. No such parallel regime exists for GPUs, so such leases will rest on ordinary contract and Indian law, albeit integrated into IFSCA's upcoming "*Framework for Leasing Activity in IFSC*"[2].

Scope of "GPU and Connected Data Centre Equipment"

The Paper defines "GPU" broadly and functionally to include accelerated computing processors (GPUs, AI accelerators, TPUs, NPUs) and defines "connected data centre equipment" as the servers, storage, networking and power/thermal equipment necessary to operate them. This technology-neutral language reflects an intention to future-proof the definition and avoid repeated amendments as these products evolve.

Such breadth can, however, be a double-edged sword. It appropriately captures all gear "*without which such devices cannot be deployed in a data centre environment*", but it also raises the question of whether allied power, cooling and thermal equipment can be leased independently of the core GPU equipment.

Comparative Regulatory Features

The Paper borrows heavily from existing leasing frameworks. However, a GPU, unlike an aircraft or a ship, is a high-tech and rapidly depreciating capital asset with no dedicated international framework governing it. Lessors must therefore rely only on legal remedies available within the IFSC in the event of a dispute. Further, export-control or reclassification risk arises once GPUs leave the IFSC, a matter the Paper itself notes remains subject to origin-country controls beyond IFSCA's purview.

Ambiguities and Implementation Risks

- **Definitional Clarity:** The functional definition is broad and intentionally tech-neutral, but it could lead to blurred lines in real-world applications. The Paper covers AI systems and networking gear but leaves peripherals indeterminate, and it itself asks whether or not power/cooling gear should be covered.
- **Fungibility and Obsolescence:** Unlike aircraft or ships, GPUs have short product cycles. The Paper states that leasing "*transfers obsolescence and residual-value risk to a lessor better placed to price, manage and remarket it*", but that assumes a robust secondary market. If lessees upgrade every one to two years and that market sags, lessors would bear the loss. The framework should therefore contemplate higher risk weights, realistic residual-value modelling and concentration risk where a few cloud providers dominate lease volumes. Physical repossession is comparatively

[1] S.O. 5199(E), issued by the Department of Economic Affairs, Ministry of Finance, Government of India, published in the Gazette of India, Extraordinary, Part II, Section 3, Sub-section (ii), dated December 14, 2021

[2] Consultation Paper on the Draft Circular titled 'Framework for Leasing Activity in International Financial Services Centre', issued by IFSCA in August 2026.

easy as GPUs, unlike aircraft or ships, are portable. However, cross-border enforcement will, in the absence of a uniform international framework, follow domestic law.

- **Accounting and Classification:** The Paper invokes Ind AS 116 (aligned with the global IFRS 16 standard), under which an operating lease does not transfer ownership or the right to claim depreciation, unlike a finance lease, which functions more like a loan secured by the asset. This distinction matches IFSCA's operating/hybrid-lease focus. But the line between the two can blur as lease periods approach the asset's useful life, and lessors must classify deals carefully to avoid inadvertently creating what is, in substance, a sale or a loan.
- **Cross-Border and Customs Issues:** GIFT IFSC is an SEZ, meaning GPUs entering it are exempt from ordinary import duty when leased within regulated transactions. However, the Paper does not limit leasing only to end uses located within the IFSC. A multinational leasing GPUs for its India branches, for instance, could trigger duties or GST on re-export to domestic data centres. On the other hand, a "dry lease" (where the lessor supplies only the hardware, with no accompanying services or personnel) to a foreign entity would raise the converse question.
- **Insolvency and Repossession:** This is perhaps the most pertinent issue. Aircraft and ships enjoy repossession remedies under treaties such as the Cape Town Convention. GPUs have no such equivalent, so enforcement falls to ordinary Indian (or foreign) law. Repossession may also involve data protection compliance, where it entails erasing tenant data.

In sum, the Paper is a forward-looking step that taps into existing IFSC mechanisms to meet India's burgeoning AI infrastructure needs. However, to fully realise these benefits, the finer points must be tidied through careful drafting and cross-regulatory collaboration. With those measures, the IFSC can indeed "*broaden its leasing ecosystem and position India as an early participant in this emerging market*".

DIRECT LISTINGS AT GIFT IFSC: RETHINKING PUBLIC MARKET ACCESS WITHOUT AN IPO

IFSCA's July 2026 Consultation Paper proposes a mechanism that has no precedent in Indian securities law, i.e., listing without a public offer. Drawing on the rule-making power under Sections 12 and 13 of the IFSCA Act, 2019, and the enabling carve-out in Regulation 40 of the IFSCA (Listing) Regulations, 2024, the proposal would permit eligible companies to list equity or convertible securities on the IFSC exchanges in GIFT City. Listing would rest on an Information Document vetted by investment bankers, an independent valuation, and a pre-open call auction. The prospectus, the statutory underwriter, and the roadshow all fall away. The likeliest takers of this framework would be technology and start-up companies that have outgrown venture funding but are reluctant to accept an IPO-scale dilution and the liability exposure that comes with it.

Key Features:

This route is available only to an issuer that has not previously listed its specified securities on any stock exchange, whether in India, an IFSC, or a foreign jurisdiction. Subject to that threshold condition, an issuer qualifies under any one of three alternative tests: operating revenue of at least USD 20 million, pre-tax profit of at least USD 1 million, or a post-listing market capitalisation of at least USD 50 million, itself twice the USD 25 million threshold applicable to a conventional public-offer listing. The framework also permits issuers with Superior Right (**SR**) equity shares (dual-class structures carrying differential voting rights) to list without a public offer, provided the SR shares were authorised by shareholder resolution and have been held for at least three months before the Information Document is filed.

Listing requires in-principle approval from the relevant recognised stock exchange, which must approve or reject the application within fifteen days, and may not reject it without first hearing the issuer. The 10% minimum public float requirement continues to apply, but the source of that obligation differs by issuer: for an Indian-incorporated issuer it runs through Rule 19A of the SCRR, while for a foreign issuer it is imposed directly by the circular itself, since Rule 19A does not otherwise extend to it. In place of a prospectus and a statutory underwriter, the issue price is fixed as a reference price by an independent registered valuer, tested against demand through a special pre-open call auction on the first day of trading. No investor-eligibility restrictions are proposed: retail and institutional, resident and non-resident investors would all be permitted to participate. However, FEMA restrictions applicable to resident investors may continue to matter.

Unresolved Risks and Ambiguities:

That substitution of underwriters for investment bankers is where the difficulty lies. The Consultation Paper requires the investment banker to submit a due diligence certificate and to certify, along with the issuer, that the disclosures in the Information Document are true, correct and adequate. But it stops there; it does not specify the consequence of a false certification, so it remains unclear whether that certification carries anything approaching underwriter liability, or whether Section 34 of the Companies Act, 2013 (liability for misstatements in a prospectus) has any application to a document that is, by the Paper's own design, not a prospectus.

Traceability of shares to a particular offering, which underlies most securities litigation, is also harder to establish once shares from private trades intermix with the public float. The US SEC has itself raised this concern in the context of direct listings. The Paper preserves the 10% minimum public float requirement, running through Rule 19A of the SCRR for an Indian-incorporated issuer and as a standalone circular obligation for a foreign issuer. Either way, the underlying rule was designed for an offering in which shares are freshly sold to the public. Applied to a mechanism with no public sale, it is not clear how an existing, potentially wholly promoter-held, shareholding is meant to satisfy it.

A further layer of difficulty follows from IFSC trading sitting alongside SEBI-regulated onshore listings and FEMA's foreign investment regime. Questions of disclosure duplication, insider trading enforcement, and RBI clearance for transfers to non-resident holders all arise, and the Consultation Paper leaves their resolution to future coordination between the IFSCA, SEBI, the Ministry of Corporate Affairs, and the RBI.

Lessons from Other Jurisdictions:

The Consultation Paper's own comparative survey, spanning the NYSE, Nasdaq, the London Stock Exchange, and the Tokyo Stock Exchange, is instructive, and counsels against reading too much into the word “direct”.

Both NYSE and Nasdaq impose materially higher quantitative thresholds on a direct listing than on a conventional IPO: NYSE requires either USD 100 million in shares sold through its opening auction or USD 250 million in aggregate market value of publicly held shares, against USD 40 million for a public-offer listing, and Nasdaq requires USD 110 million in unrestricted publicly held shares, more than double its USD 45 million threshold for a traditional listing.

The LSE's only direct listing to date, Wise, took place under the UK's "introduction" route in 2021, which the Paper's own comparative annexure shows subject to a public float of 10% of total shares and a market capitalisation threshold of roughly USD 39.6 million, thresholds set at broadly the same level as those applicable to a capital-raising listing.

Tokyo's regime is the closest structural analogue to what IFSCA proposes: an issuer must furnish, through its managing trading participant, a document on valuation, a document on post-listing liquidity measures, and a document on the reference price, much the same information a valuer and an investment banker would produce for an IFSC direct listing, but Tokyo builds this into a formal pre-listing filing rather than a matter of pricing convention. In none of these markets was "direct" shorthand for lighter-touch regulation. It was simply a different route to the same disclosure and liability destination.

GIFT IFSC's liquidity profile adds another layer of risk. Secondary market trading in India remains heavily concentrated on the NSE. A new offshore venue that opens with no pre-commitment of demand risks thin trading, volatile pricing, and manipulation exposure that IFSCA's surveillance apparatus, distinct from SEBI's, is not yet resourced to police.

Recommendations:

Four amendments would meaningfully strengthen the proposal before it is put to its first listing.

- First, the question of disclosure liability should be settled by express provision rather than left to inference. The Information Document should either be deemed a prospectus-equivalent for the purposes of Section 34 of the Companies Act, 2013, or the certifying bankers should be made expressly liable for its contents.
- Second, the jurisdictional overlap with SEBI, the MCA, and the RBI should be resolved through a published inter-regulatory framework or memorandum of understanding addressing disclosure duplication, insider-trading enforcement, and the FEMA/overseas-portfolio-investment treatment of IFSC-listed shares.
- Third, the framework should underwrite liquidity, not merely enable price discovery. The Paper already permits an issuer to appoint one or more market makers but leaves this voluntary. It should be made mandatory, subject to quote-depth obligations, together with a short lock-in on founder shareholding to preserve traceability.
- Fourth, IFSCA should explain, by way of a worked illustration, how the 10% public float requirement under Rule 19A of the SCRR is to be satisfied once the minimum public offer and allotment norms under Rule 19(2)(b), which the Paper expressly disapplies, no longer provide a route to it. This is, at present, the single largest gap in the proposal.

Conclusion:

The IFSCA has identified a genuine gap in India's listing architecture. Whether direct listing emerges as a credible alternative to the IPO, rather than a lightly regulated shortcut, will depend on how the questions of liability, jurisdiction, and liquidity left open by the Paper are eventually resolved

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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