March 2024

Developing GIFT IFSC as "Global Finance and Accounting Hub"

Report of the IFSCA Expert Committee

Foreword

The setting up and operationalization of India's maiden International Financial Services Centre (IFSC) in GIFT City, Gujarat (herein after referred to as GIFT IFSC) is a pathbreaking reform carried out by Government of India to make India a global leader in the realm of international financial services business. The IFSC in GIFT City is gaining global prominence as a special international financial jurisdiction, which is designated as a non-resident zone under Foreign Exchange Management (FEM) Regulations, thereby enabling commercial transactions to be conducted in the notified freely convertible foreign currencies.

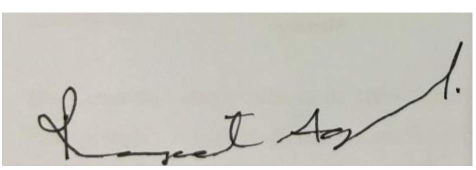
Over the last few years, GIFT IFSC has made remarkable progress in positioning itself as a new age global financial centre, which offers an internationally benchmarked regulatory regime, competitive tax structure and ease of doing business. The International Financial Services Centres Authority (IFSCA), as a unified financial regulator, has contributed immensely towards the development of a vibrant financial market in GIFT IFSC, the Centre today offers full bouquet of international financial services including banking, capital markets, insurance, asset management, aircraft and ship leasing, fintech, etc. The support and facilitation extended by the concerned stakeholders in the Government and the industry have also contributed immensely in elevating the status and credibility of GIFT IFSC as a promising new age global financial centre. This collaborative approach has been instrumental in catalyzing economic growth, creating employment opportunities, and driving finance and technological related innovation.

To develop GIFT IFSC as a "global offshore centre " for accounting, book-keeping, taxation and financial crimes compliance services and, increase its global competitiveness and attractiveness, Ministry of Finance, vide Gazette Notification dated 18th January 2024 notified book-keeping, accounting, taxation and financial crime compliance services as 'financial services' under the IFSCA Act 2019. Considering the huge opportunity arising out of this major policy decision, IFSCA constituted an Expert Committee on Developing GIFT IFSC as "Global Finance and Accounting Hub" (the Committee) in January 2024. The Committee was entrusted with the responsibility of recommending measures and norms for developing of Bookkeeping, Accounting, Taxation and Financial Crime Compliance services business from GIFT IFSC, in line with the best international practices and the Indian legal framework.

The Expert Committee was chaired by CA. Ranjeet Kumar Agarwal and CA. Aniket Sunil Talati, the current and immediate past president of Institute of Chartered Accountants of India. The Expert Committee comprised of eminent experts from the fields of accounting, auditing, taxation, law, financial crime compliance, and higher education. The Committee consulted various stakeholders, including regulators and practitioners, and has conducted a comprehensive analysis of emerging global trends and practices in the relevant domains. The Committee held eight meetings, the details of which are provided at the end of this report.

The Committee outlines its key suggestions and recommendations on developing bookkeeping, accounting, taxation, and financial crime compliance services in the ensuing parts of the report. The report covers various aspects, such as the global opportunity, definitions, safeguards against business shifting, qualification of the principal officer, skill development and capacity building of the professionals and service providers and promotion and marketing strategies in GIFT IFSC.

The Committee hopes that its suggestions and recommendations will serve as a valuable input for the IFSCA, in formulating and implementing appropriate policies and regulations for GIFT IFSC and will contribute to the vision of making India’s GIFT IFSC a "global finance and accounting hub".



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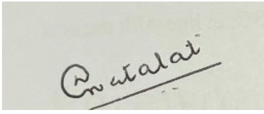
Chairperson

26th March 2024



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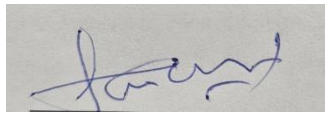
Shobhit Srivastava

Official Liquidator (Gujarat)

Ministry of Corporate Affairs

Member



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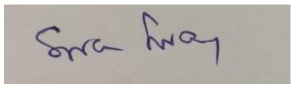

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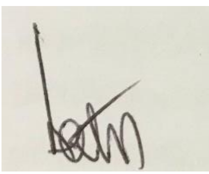

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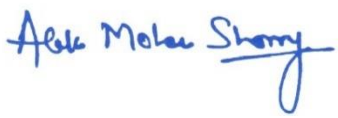

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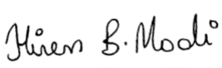

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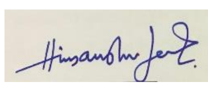

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Acknowledgements

The Expert Committee on Developing GIFT IFSC as “Global Finance and Accounting Hub” (the Committee) would like to convey its deep gratitude to all the stakeholders and industry experts for providing their valuable insights at very short notice.

The Committee would like to thank CA. Monika Jain, Deputy Secretary from ICAI for providing great insights into the areas of Bookkeeping, Accounting and Taxation.

The Committee would like to thank Dr. Dipesh Shah, Executive Director (Development), IFSCA, for guiding the Committee throughout the deliberations of the Committee Dr. Shah ensured full support of IFSCA to the Committee.

The Committee would like to thank Mr. Akshat Ganeriwala, Manager, IFSCA for providing extensive support in drafting and robust coordination in the effective functioning of the Committee. Further, the Committee would like to thank Mr. Shobhit Tripathi, IFSCA for timely organizing meetings and maintaining minutes of the Committee.

The Committee would also like to thank the team from Khaitan & Company comprising of Ms. Khusboo Agarwal and Ms. Mansi Agarwal from Khaitan & Company for their contribution and participation.

The Committee also expresses its appreciation to the team from Price Waterhouse & Co LLP comprising Mr. Vandit Shah, Ms. Reema Purohit, Ms. Nivitha N., Ms. Smriti Sudhakar for actively supporting the Committee in preparation of this report.

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Executive Summary

The Government of India, through a recent Gazette notification, expanded the definition of ‘financial services’ under the IFSCA Act 2019, to include four major services namely book-keeping, accounting, taxation and financial crime compliance. This key policy decision has the potential to transform GIFT IFSC as a ‘global offshore centre for book-keeping, accounting, taxation and financial crime compliance services’ and create large employment opportunities for the talented Indian workforce.

This policy reform also provides an opportunity to develop and promote GIFT IFSC as a full service global financial centre, which is capable of catering to the increased demand for such knowledge intensive services. Globally, the offshore demand for these services is primarily being driven by acute shortage of talented workforce and cost competitiveness in emerging markets.

Furthermore, the advancements in information & technology (IT) and communication have made it possible for corporates, institutions and individuals to seamlessly avail services such as accounting, book-keeping, taxation and financial crime compliance services from anywhere in the world. Considering the inherent strength of India, in terms of, strong technology driven outsourcing capabilities, large talent pool of skilled manpower in the fields of accounting, law, taxation, etc., globally competitive cost structures and high quality service delivery, GIFT IFSC has a unique opportunity to position itself as a global offshore hub for such services.

The key recommendations of the committee are as under:

1. The Committee proposes a new regulation, which provides for a comprehensive and inclusive definition for Bookkeeping, Accounting, Taxation, and Financial Crime Compliance Services.

2. The Committee has considered the Central Product Classification Version 2.1 of the UN Statistical Commission as the starting point and has suggested certain modifications to align it with extant regulations in India.

3. The Committee also suggests that these definitions should be reviewed and updated periodically to reflect the changing market dynamics and customer needs.

4. As per the notification by Government of India dated 18 January 2024, business should not be set up by splitting up, reconstruction, or reorganization of a business already in existence in India. As a primary safeguard, the Committee recommends that entities set up in IFSC to carry out Bookkeeping, Accounting, Taxation, and Financial Crime Compliance Services should only be in the form of a company or a Limited Liability Partnership. Branch of an Indian company or LLP may be permitted only if the entity is regulated by any of the three professional bodies - ICAI, ICSI or ICMAI. Any other entity established overseas may also be permitted to set-up a branch in IFSC only if it doesn't have any presence in India.

5. Further, the Committee recommends that the IFSCA should provide clear and objective conditions/criteria for setting up business operations in GIFT IFSC to undertake the notified financial services. These criteria are designed to ensure that new businesses are not created merely by splitting up, reconstructing, or reorganizing existing businesses in India.

6. The condition should be tested at the end of the first full financial year from the date of commencement of the operations and the subsequent nine (9) financial years.

7. The Committee suggests that the IFSCA should prescribe that the unit in IFSC should have a principal officer and a compliance officer. It also suggests that they should possess certain minimum qualifications and experience.

8. The Committee recognises that certain entities might already have been authorised by the IFSCA under the Ancillary Services framework. An appropriate grandfathering of those entities under the new regulations is also suggested.

9. New companies or LLPs that intend to provide services beyond bookkeeping, accounting, taxation services and financial crime compliance services can obtain additional registrations/ authorization under other regulations/ frameworks respectively.

10. The Committee emphasizes the need for continuous training and development programs for the workforce engaged in these services in GIFT IFSC. The programs should aim to update and upgrade the skills and knowledge of the workforce in line with the international standards and best practices, as well as to equip them with the tools and techniques to handle the specific challenges and opportunities in IFSC.

11. The Committee also proposes long-term strategies for education and skill acquisition, such as developing specialized degree or diploma programs, establishing centers of excellence or research hubs, and encouraging participation and membership in professional bodies or associations.

12. The Committee outlines some of the strategies that GIFT IFSC can adopt to promote and develop itself as a bookkeeping, accounting, taxation, and financial crime compliance hub. The strategies include marketing, global partnerships, and center of excellence. The Committee also recommends that GIFT IFSC should leverage its success stories and testimonials, participate in relevant events and platforms, forge strategic partnerships with leading accounting bodies and institutions, and establish a center of excellence for these services.

Introduction

The maiden International Financial Services Centre (IFSC) in India is situated in the Multi-Service special economic zone in GIFT City, Gujarat. The IFSC is being developed and regulated by the IFSCA, which is a unified authority established under the IFSCA Act, 2019 for the development and regulation of financial products, financial services and financial institutions within the IFSCs. GIFT IFSC has been established with a vision to make India a global leader in the realm of international financial services business and plug into the global financial services ecosystem more efficiently. Over the last 3 years, IFSC has witnessed substantial growth across the entire spectrum of financial services business including banking, capital markets, insurance, funds industry, aircraft leasing, fintech, etc. With internationally aligned regulatory regime, competitive tax structure and beneficial cost of operations, GIFT IFSC is fast emerging as a prominent international jurisdiction for undertaking a wide array of international financial services activties. The IFSC aims to attract global financial institutions and investors to India and provide a competitive platform for international financial transactions.

The Government of India, through a recent gazette notification[1], has expanded the definition of financial services under the IFSCA Act 2019, to include four major services namely book-keeping, accounting, taxation and financial crime compliance. This policy decision has the potential to transform GIFT IFSC as a global offshore centre for book-keeping, accounting, taxation and financial crime compliance services and create large employment opportunities for the talented Indian workforce.

These newly notified financial services are essential for ensuring the accuracy, transparency, and integrity of financial reporting and transactions, as well as for complying with the laws and regulations that aim to prevent, detect, and respond to financial crimes.

The IFSCA has previously issued enabling regulations permitting Global In-House Centres (GICs) in IFSC to offer support services to entities within the financial services group. These GICs

[1] https://egazette.gov.in/(S(io2nau4esmpnde0o3yojarp0))/SearchGazetteID.aspx?id=334314

perform various functions including Anit Money Laundering (AML) checks, Risk management, research and other operations. Similarly, considering the importance of professional and other related service providers in aiding and assisting the delivery of financial services in IFSC, a framework for enabling ancillary services was also notified which, among others, allowed legal, compliance and secretarial, as well as auditing, accounting, bookkeeping and taxation services to be offered from GIFT IFSC.

The objective of this report is to provide an assessment of the current regulatory frameworks for bookkeeping, accounting, taxation, and financial crime compliance services, and to propose recommendations for enhancing the competitiveness, efficiency, and effectiveness of these services in the IFSC.

Scope of the Expert Committee's responsibilities:

2. The Terms of Reference (ToR) for the Expert Committee are as follows: -

(i) To make recommendations on the regulatory regime for undertaking Book-keeping services, Accounting services, Taxation services and Financial Crime Compliance services as standalone 'Financial Services' in IFSCs.

(ii) To make recommendations for promotion and development of GIFT IFSC as "Global Finance and Accounting Hub".

(iii) To identify measures and safeguards for preventing shifting of such business from domestic area to GIFT IFSC.

(iv) To suggest measures for enhancing the skills and competencies of workforce proposed to be employed in GIFT IFSC for delivery of such services.

(v) To make recommendations on the qualification requirements for professionals proposed to be employed in the delivery of such services in GIFT IFSC.

(vi) Any other relevant matter referred by the IFSCA.

3. In partial modification to the said OM, the Terms of Reference shall include the following: -

(a) To identify such sub-services within bookkeeping, accounting, taxation and financial crime compliance services that are procured by Indian companies from abroad and suggest measures to onshore the same.

Opportunity for GIFT IFSC

Over the last few years, India has emerged as one of the most preferred jurisdictions for global outsourcing business, which, inter alia, includes information technology services, accounting and finance services, communication services, etc. Globally, the demand for such knowledge intensive services is being driven by acute shortage of talented workforce and cost competitiveness amongst various jurisdictions.

Moreover, the increased pace of globalization has opened up geographical boundaries and made it easier for corporates and countries to access resources and talent from anywhere in the world for such knowledge services. The advancements in information & technology (IT) have made it possible to seamlessly avail services such as accounting, book-keeping, taxation and financial crime compliance services. Recognizing the inherent potential for export of such services, Government of India included "accounting and finance services" as one of the 12 Champion sectors in services for exports.

GIFT-IFSC, being an offshore jurisdiction within India, is uniquely positioned to become a global offshore centre for accounting, book-keeping, taxation and financial crime compliance services. An enabling regulatory environment for such services will not only catalyze the financial services ecosystem in GIFT IFSC but will also enable India to leverage its inherent strengths for exporting these services to global clients. Following factors can contribute towards making GIFT IFSC a global offshore centre for accounting, book-keeping, taxation and financial crime compliance services:

1. Strong technology driven outsourcing capabilities.
2. Large talent pool of skilled manpower in the field of accounting, law, taxation, etc.
3. Globally competitive cost structures for such services
4. High quality and standards of services
5. Skilled manpower is proficient in language

The development of GIFT IFSC as a global offshore centre for accounting, book-keeping, taxation and financial crime compliance services will not only create large employment opportunities for the talented Indian workforce in GIFT IFSC but will also give them an opportunity to exhibit and showcase their talent and productivity.

Financial Crimes Compliance Services

Over the last three decades, the financial crime risk landscape has expanded dramatically, especially after the pandemic. Financial crime losses have a greater influence on the economy than just the money lost; they also have wider social, economic, and regulatory ramifications. Every stakeholder is harmed in some way or the other- to elaborate, it effects public finances and reduction in government revenue. It undermines investor confidence, seriously harms the nation's and firms' reputations, and has an effect on the stability of the financial markets. It also has an impact on how income is distributed and the fight against poverty. Fair distribution of the benefits of economic growth is not the case in countries with high rates of financial crime. Financial crimes also make it more difficult to fight corruption.

The KPMG Report 2024[i] further shares some critical insights-

a) Fraud Losses Increasing. Fraud losses reported in 2023 totaled more than $10 billion, representing a nearly 14 percent increase over reported fraud losses in 2022.
b) Identity Theft Tops Concerns. Consistent with 2022, Identity Theft was the most commonly reported complaint in 2023.
c) Reported Payment Method. The highest reported fraud losses (where a payment method was identified) were associated with bank transfers and payments and cryptocurrencies.

Combatting Financial Crime has become the biggest challenge & of paramount importance to protect the economy & all stakeholders including every business & individual.

Given the devastating impact of fraud loses, nearing almost 8-9% of the global GDP, it has become imperative to take several drastic measures to combat it. The Financial Action Task Force (FATF), global money laundering and terrorist financing watchdog, has laid its international standards that aim to prevent anti-money laundering and illegal activities. Every FATF member country undergoes a periodic evaluation and to safeguard it’s economy, people, global image and access to global resources, implements measures for combatting financial crime.

Collaborative efforts of government & private sector in every county have thus become important for safeguarding the economy and protecting individuals and businesses from the devastating impacts of financial crime. Law enforcement agencies, regulatory bodies, financial institutions, and businesses are working together to share information, coordinate efforts, and develop strategies for detecting and preventing fraud. Initiatives such as information sharing networks and joint task forces are trying to facilitate this collaboration and enhance the collective response to financial fraud.

Financial crime compliance professionals are increasingly seeking adaptive, comprehensive resources that provide visibility into a broader range of financial crime & methodologies to combat them, thus providing financial crime compliance services is one of the most important services in today’s time.

Considering the growing global significance of financial crimes compliance services, GIFT IFSC has the potential to become a global offshore hub for such services.

Definition of Bookkeeping, Accounting, Taxation and Financial Crime Compliance services

The notification of Bookkeeping, Accounting, Taxation, and Financial Crimes Compliance services has the potential to create huge employment opportunities in IFSC and elevate the position of IFSC as a "Global Finance and Accounting Hub". A study and benchmarking of Bookkeeping, Accounting, Taxation, and Financial Crime Compliance services business in other international jurisdictions would help to further understand industry best practices, identify potential areas for improvement, and enhance the competitiveness of GIFT IFSC in the global market.

Benchmarking to definitions under various sources:

Book-Keeping:

1. As per the Black law's dictionary, book-keeping means *"Recording financial aspects of transactions in accounting books."*

2. The Indian Income Tax Act, 1961 ('ITA') does not define book-keeping services. However, it defines "books of account"

   As per Section 2(12A) of the ITA, "books or books of account" includes ledgers, day-books, cash books, account-books and other books, whether kept in the written form or in electronic form or in digital form or as print-outs of data stored in such electronic form or in digital form or in a floppy, disc, tape or any other form of electro-magnetic data storage device."

   Accordingly, the art of recording the books of account in written or in electronic or digital form can be defined as "book-keeping services."

3. IFSCA has also issued the Framework for enabling Ancillary services at International Financial Services Centres in 2021

As per the Framework, "bookkeeping services" is considered to be:

"2.2. Bookkeeping services, except tax returns: *Bookkeeping services consisting of classifying and recording business transactions in terms of money or some unit of measurement in the books of account"*

4. The International Accounting and Reporting Issues: 2013 Review[ii] with reference to Danish Bookkeeping Act[iii] states that "*The bookkeeping act is the law that provides guidelines for the posting and accounting of business transactions. It also prescribes how to register support documentation for transactions*."

5. <u>Digital Bookkeeping System</u>:

   Section 3(6) of the Danish Bookkeeping Act[iv] defines digital bookkeeping as "*A digital service or software containing features that enable the enterprise to register transactions and store records and vouchers, or as a minimum a complete backup copy of these, on a server of a supplier or third party*."

6. The Central Product Classification (CPC) published by United Nations Statistical Commission & United Nations Statistics Division constitutes a complete product classification covering all goods and services. The first version of the CPC, the Provisional Central Product Classification, was published in 1991 which was superseded by the Central Product Classification (CPC) Version 1.0, published in 1998. Thereafter, CPC Version 1.1 was published in 2002 and CPC Version 2 was released in 2008. The current edition, CPC version 2.1, published in 2015 is the result of a scheduled review of the CPC structure to ensure the classifications' relevance for describing current products in the global economy. The United Nations Statistical Commission Central Product Classification Version 2.1 (hereinafter referred to as CPC 2.1) defines Bookkeeping services[v] as under:

   "Bookkeeping services includes classifying and recording business transactions in terms of money or some unit of measurement in the books of account.

Bookkeeping services do not include bookkeeping services related to tax returns, payroll services, including payroll computation and ledgers."

While the above definition of bookkeeping does not include payroll services, the Committee was of the view that the scope of bookkeeping can be extended to book-keeping services related payroll services as well. As per the CPC, payroll is classified as under;

"Payroll services

This subclass includes:

- *payroll processing, including on-line*

- *direct deposit or cheque preparation services*

- *remission of taxes and other deductions*

- *preparation, viewing and storage of payroll ledgers, reports and other documents*

This subclass does not include:

- *bookkeeping services, cf. 82222*

- *payroll processing provided as part of a bundle of management services, cf. 83117"*

It was discussed that preparation, viewing and storage of payroll ledgers, reports and other documents is a service which can be provided from India as a part of the overall bookkeeping services and hence should be included.

Accounting:

1. While bookkeeping is systematic recording of the financial transactions, accounting encompasses a broader scope of activities beyond just recording transactions. It involves analyzing, interpreting, and summarizing financial data to provide insights into the financial health and performance of a business. Accounting includes tasks such as preparing financial statements (e.g., balance sheets, income statements, cash flow statements), conducting financial analysis, budgeting, forecasting, and providing strategic financial advice. Accountants use the information recorded by bookkeepers to generate

financial reports, analyze financial performance, and make recommendations to stakeholders.

2. A scan across jurisdictions shows that the term "Accounting" is described differently by different regulators / bodies:

a) As per the Dubai International Finance Centre (DIFC)[vi], "Accounting & Bookkeeping services" include *"the offices specialized in setting and designing accounting systems for companies and firms, designing accounting documents, records and books, setting documentary cycles or other accounting processes. These offices offer services against fixed fees but may not examine or audit accounts*."

b) As per the Abu Dhabi Global Market (ADGM)[vii], provision of "Accountancy services" means *"the application of accounting principles or judgement with regard to the circumstances of another person, including but not limited to advising such a person on matters relating to accounting procedure and the recording, presentation or certification of financial information or data, including financial information or data required by any law for the time being in force in the Abu Dhabi Global Market."*

c) The Committee of Terminology set up by the American Institute of Certified Public Accountants defines "*Accounting" as "the art of recording, classifying, and summarizing in a significant manner and in terms of money, transactions and events which are, in part at least, of a financial character, and interpreting the result thereof."*[viii]

d) American Accounting Association defines "*Accounting as the process of identifying, measuring and communication economic information to permit informed judgements and decisions by the users of accounts."* [ix]

e) According to the Accounting Principles Board of American Institute of Certified Public Accountants (AICPA), the function of accounting is *to provide quantitative information, primarily of financial nature, about economic entities, that is intended to be useful in making economic decisions.* [x]

f) Further, the Ancillary services framework defines "Accounting services" as follows:

*"**2.1.2. Accounting review services:***
Reviewing services of annual and interim financial statements and other accounting information. The scope of a review is less than that of an audit and therefore the level of assurance provided is lower.

2.1.3. Compilation of financial statements services:
This includes compilation of financial statements from information provided by the client. No assurances regarding the accuracy of the resulting statements are provided.

This service shall also include the preparation services of business tax returns, when provided as a bundle with the preparation of financial statements for a single fee.

2.1.4. Other accounting services:
Other accounting services such as attestations, valuations, preparation services of pro forma statements, etc.

- Accounting services[xi] are classified under the CPC 2.1 as under:

"Accounting services include:

- *reviewing annual and interim financial statements and other accounting information. The scope of a review is less than that of an audit, and the level of assurance provided is thus lower.*
- *compilation of financial statements from information provided by the client. No assurances regarding the accuracy of the resulting statements are provided.*
- *preparation of business tax returns, when provided as a package with the preparation of financial statements for a single fee are classified here.*
- *compilation of income statements, balance sheets, etc.*

- *analysis of balance sheets, etc.*
- *other accounting services such as attestations, valuations, preparation of pro forma statements, etc.*

Accounting services do not include:

- *financial auditing services,*
- *bookkeeping services,*
- *tax preparation services, when provided as separate services"*

Taxation:

1. While the term 'Taxation' is not defined anywhere, the DIFC defines "Tax Consultants within the DIFC"[xii] to include –"*specialized firms engaged in tax advisory to companies, involving advising on VAT services, how to avert double taxation, how to implement tax treaties between countries, reviewing the periodical forms and statements of the companies.*"

2. Further, IFSCA Ancillary services Framework defines 'taxation services' as follows:

   Taxation Services:
   2.3.1. Business Tax Planning and Consulting Services:
   Advisory services to enterprises to do tax planning.
   2.3.2. Business Tax Preparation and Review Services:
   Services consisting of preparing or reviewing various returns and reports required for compliance with the income tax laws and regulations and representing before the tax authorities. This may also include tax planning and control.
   2.3.3. Other Tax Related Services:
   Services consisting of assisting entities in tax planning and preparing all documentation required by law."

3. Taxation services[xiii] in CPC 2.1 is defined as under:

"Corporate tax consulting and preparation services includes providing advice and guidance concerning corporate taxes, as well as preparing and filing of tax returns of all kinds (e.g., VAT).

Individual tax preparation and planning services includes tax preparation and planning services for unincorporated business and individuals"

Financial Crime:

1. Financial crime[xiv] can be defined as illegal activities aimed at deceiving financial institutions for personal or organizational financial gain. These crimes are typically carried out by individuals, groups, or criminal organizations. The impact of such activities extends beyond financial loss, affecting the social and emotional well-being of individuals and damaging the reputation of organizations. Financial Crime Compliance (FCC) is akin to the security detail for a VIP event—it safeguards the integrity of the financial system by ensuring that laws are followed, and unethical practices are stamped out. Financial crime compliance in banking involves a series of internal policies, procedures, and systems designed to detect and prevent activities that could involve money laundering, fraud, or other financial crimes.

2. The aim is not just to catch wrongdoers but also to create an environment where they are less likely to attempt illicit activities in the first place. Much like how well-lit streets and visible policing deter crime in a city, effective FCC in banking and other financial institutions seeks to dissuade financial crimes from occurring within the financial system.

3. The term 'financial crime' is defined in section 1H(3) of the United Kingdom's Financial Services and Markets Act 2000 ("**FSMA 2000**")[xv].The definition of Financial Crime is reproduced below:

"1H (3) "Financial crime" includes any offence involving—

(a) *fraud or dishonesty,*

(b) *misconduct in, or misuse of information relating to, a financial market,*

(c) *handling the proceeds of crime, or*

(d) *the financing of terrorism.*

As per the FSMA, Financial crime can be categorized into five broad areas[xvi]:

- Money Laundering
- Terrorist Financing and Sanctions evasion
- Fraud and Identity Theft
- Bribery and Corruption
- Market Manipulation and Insider Trading

4. Further, as per the FSMA, activities that would constitute financial crime compliance services are:

   a. *Assess and Assure Services:* Identify, quantify, document, monitor, and manage financial crime risks both horizontally across the business, as well as vertically down to any one individual customer relationship to evaluate the effectiveness and design of the financial crimes landscape.

   b. *Respond and Remediate Services:* Regulatory examination planning and management programme, remediation planning and execution, regulatory change planning and execution, incident response and crisis management.

   c. *Investigation Services*: Consolidates processes into one customised enterprise driven solution.

   d. *Data and Analytics Services*: Analyse and validate business data to test the effectiveness of internal controls across your financial crime programmes so the organisation can execute strategic initiatives while mitigating risks.

   e. *Transformational Services:* Transform compliance programme using data, technology, and human intelligence to optimise programmes while reducing risks, containing costs, and improving financial crime ecosystem.

f. People and Organisation Services

g. *Managed Services:* Take a cost-effective analytical approach to better manage low-level low-costs tasks, anticipated resource needs, and improve flexibility, so organisations can focus on driving business growth and meet client demand.

h. *Anti-Money Laundering Services:* Consultative services designed to assist organisations in all aspects of Anti-Money Laundering/Combating the Financing of Terrorism (CFT) compliance.

The Financial Crime Compliance Services is however not defined in CPC 2.1. For the purpose of this report, Financial Crime Compliance Services may be considered as under:

a) Conducting risk assessments and due diligence on customers, transactions, products, and jurisdictions;
b) Developing and implementing policies, procedures, and controls to mitigate financial crime risks and ensure adherence to applicable standards and best practices;
c) Providing training and awareness programs to staff and stakeholders on financial crime compliance topics and responsibilities;
d) Monitoring and screening transactions, accounts, and customers for suspicious or unusual activity and reporting to relevant authorities as required;
e) Investigating and resolving financial crime incidents and alerts and taking appropriate remedial actions;
f) Maintaining and updating records and documentation to demonstrate compliance and support audits and inspections;
g) Reviewing and enhancing financial crime compliance systems and processes to ensure their effectiveness and efficiency;
h) Advising and consulting on financial crime compliance matters and emerging trends and issues.

Key components of financial crime compliance may include:

a) AML Compliance: Implementing measures to detect and prevent money laundering activities, including customer identification, risk assessment, adherence to relevant laws, regulatory frameworks, FATF recommendations, IFSCA (Anti Money

Laundering, Counter Terrorist-Financing and Know Your Customer) Guidelines, 2022, as well as internal policies, procedures, and systems.

b) KYC Procedures: Establishing thorough KYC procedures to verify the identities of customers and assess the associated risks, Non-profit organisations(NPOs), Politically Exposed Persons (PEPs) etc .

c) Transaction Monitoring: Monitoring financial transactions for unusual patterns or behaviors that may indicate potential financial crimes, reviewing historic transaction data for investigations.

d) Sanctions Compliance: Ensuring compliance with international sanctions and embargoes to prevent dealings with prohibited entities.

e) Fraud Detection, Prevention & reporting: Implementing measures to detect and prevent fraudulent activities within financial transactions and operations, also including use of new tools, techniques and methodologies.

f) Regulatory Reporting: Meeting reporting requirements to regulatory authorities regarding suspicious transactions, potential financial crimes, and other compliance-related matters.

g) Training and Awareness: Providing training and certifications, promoting awareness among employees to recognize and address financial crime risks.

h) Investigations and Asset Tracing: Conduct investigations on behalf of regulators and offer asset tracing and recovery services to identify and recover misused or diverted funds.

i) Forensic Accounting and Data Analytics: Utilize forensic accounting techniques and data analytics, review of stressed assets/NPAs to identify any misuse or diversion/siphoning of funds.

j) Setting up Early Warning & futuristic Systems: Implement early warning systems to proactively identify and address potential financial crime risks before they escalate, consult upcoming Fintech solutions and their use for mitigating Financial Crime risks.

Financial crime compliance services should however not include:

a) Providing legal advice or representation to clients who are accused or suspected of financial crimes, as this could create a conflict of interest or undermine the credibility of the compliance function.

b) Engaging in any transactions or relationships that could facilitate or conceal financial crimes, such as accepting or making payments in cash, using shell companies or offshore accounts, or participating in tax evasion schemes.

c) Sharing confidential or sensitive information about clients, transactions, or investigations with unauthorized parties, such as competitors, media, or criminals, as this could compromise the security and integrity of the financial system and expose the institution to legal or reputational risks.

d) Failing to report or escalate any suspicious or unusual activities or transactions to the relevant authorities or internal units, such as the anti-money laundering (AML) or fraud teams, as this could hinder the detection and prevention of financial crimes and expose the institution to regulatory sanctions or penalties.

e) Ignoring or violating the applicable laws, regulations, standards, or codes of conduct that govern financial crime compliance, such as the Bank Secrecy Act (BSA), the USA PATRIOT Act, the Foreign Corrupt Practices Act (FCPA), or the Wolfsberg Principles, as this could undermine the legitimacy and effectiveness of the compliance function and expose the institution to legal or reputational risks.

Based on the above, Book-keeping, Accounting, Taxation and Financial Crime Compliance Services that may be adopted by IFSCA has be described as under:

1. **Accounting services** shall include:

- reviewing annual and interim financial statements and other accounting information;
- compilation of financial statements from information provided by the client. No assurances regarding the accuracy of the resulting statements are provided;

- preparation of business tax returns, when provided as a package with the preparation of financial statements;
- compilation of income statements, balance sheets or other financial information;
- Analysis of balance sheets;
- other related accounting support services in relation to the above including valuation support services.

Accounting services shall not include:

- financial auditing services,
- bookkeeping services,
- tax preparation services, when provided as separate services.

2. **Bookkeeping Services** shall include:

- classifying and recording business transactions in terms of money or some unit of measurement in the books of account. Bookkeeping services shall also include preparation, viewing and storage of payroll ledgers, reports and other related documents.

Bookkeeping Services shall not include:

- Bookkeeping services related to tax returns
- Other payroll services.

3. **Taxation Services** shall include:

- tax consulting, preparation tax consulting, preparation services and planning services which includes providing advice and guidance concerning taxes as well as preparing and filing of tax returns of all kinds

  Explanation – For the purpose of this definition 'Taxes' shall include and not be limited to all forms of direct or indirect taxes, cess, duties or levies.

4. Financial Crime Compliance Services shall include:

- services rendered in relation to compliances of Anti-Money Laundering (AML) /Countering the Financing of Terrorism (CFT) measures and Financial Action Task Force (FATF) recommendations, and other related activities.

Digital and Electronic Records

1. It is clarified that any reference to ‘records’, ‘reports’, ‘ledgers’, ‘books’ etc in the context of services to be rendered shall mean and include those prepared or maintained in digital formats and the delivery of services by the units in IFSC shall mean and include delivery of any such services to its clients through electronic means.
2. Towards this end, the Unit shall be responsible to ensure adequate physical, digital, telecommunication and information technology infrastructure is maintained by the Unit.

Compliance with laws relating to Data privacy and data localization

- The Committee deliberated as to whether there would be any specific need for specifying any standards for Data Privacy that an IFSC unit offering these services needs to adhere to. However, it was concluded that as in case of other activities being carried out from the IFSC, where similar data privacy concerns may be there, the obligation shall be of the IFSC Unit to ensure due adherence and compliance to the relevant laws, relating to data protection that may apply to their operations in IFSC.

Qualification of Principal Officer and Compliance Officer

Qualification Requirements for Principal Officer and Compliance Officer of entities providing Bookkeeping, Accounting, Taxation and Financial Crime Compliance services from IFSC:

1. It is recommended that the IFSC unit undertaking bookkeeping, accounting, taxation and financial crimes compliance services shall appoint a Principal Officer, who shall be responsible for the overall activities of the unit and a compliance officer who shall be responsible for reporting to the board of directors or heads of the organization, as the case maybe, for compliance of policies, procedures, maintenance of records and the implementation of the requirements as specified under these regulations.

2. Accordingly, it is recommended that the principal officer and compliance officer shall possess following education qualification:

   - A professional qualification to practice as Chartered Accountant (CA), Company Secretary (CS), Cost and Management Accountant (CMA), Certified Public Accountant (CPA), Chartered Financial Analyst (CFA) or any other equivalent qualifications from foreign professional bodies or institutes or a post-graduate degree in finance, law, accountancy, business management, commerce, economics, taxation from a university or an institution recognized by the UGC or AICTE or equivalent authority in foreign jurisdiction.

   - Additionally, for IFSC Units providing financial crimes compliance services, the principal officer may also be required to hold relevant qualification from a reputed foreign or domestic institution in financial crimes compliances.

3. Further, the experience qualification for the Principal officer should be minimum five (5) years' experience in the relevant field and for the Compliance officer should be minimum two (2) years' experience in the relevant field.

Safeguards against Business Shifting

The Government of India notification dated 18 January 2024 notifies book-keeping services, accounting services, taxation services and financial crime compliance services as financial services and provides that such financial services offered by units in an IFSC to non-residents cannot be set up either by –

(i) splitting up of business already in existence in India; or
(ii) reconstructing of business already in existence in India; or
(iii) reorganising of a business already in existence in India:

The notification further specifies that units cannot provide the services by transferring or receiving existing contracts or work arrangements from their group entities in India.

Considering the safeguards incorporated in the notification, it appears that the intent and objective is to promote new investment in IFSC and restrict migration of existing business in India to GIFT IFSC.

In the ensuing paragraphs, the Committee has examined the general meaning of the conditionalities prescribed in the notification.

General interpretations

1. Splitting up of business already in existence in India

The words ‘splitting-up of the business already in existence’, indicates a case where a business already in existence in India is broken up and different sections of the activities previously conducted are carried on independently. In common parlance, it suggests fragmentation of a business, where one part remains in the original undertaking while another part moves into the new undertaking.

2. Reconstructing/ re-organising of existing business

Reconstructing/ re-organising of a business connotes the idea of substantially the same people carrying on substantially the same business. It suggests re-establishment or rehabilitation of old business in a new way or manner.

In other words, reconstruction/ reorganization of business already in existence indicates that the desire is not to set up altogether a new unit or new undertaking but to reconstruct existing business by some alteration in a manner that the continuity of the existing business is preserved in altered form.

Need to establish objective conditionalities

While the Government of India notification has provided conditions for setting up units in IFSC, these conditions are subjective in nature and therefore give scope for multiple interpretations by various organisations/ authorities. For the IFSCA, such subjective interpretation may cause difficulty in ensuring compliance of the aforementioned conditions and may also create uncertainty for businesses that are planning to set up their presence in the IFSC.

There are different aspects/ interpretations of splitting-up /reconstruction in common parlance. For the purpose of these regulations, splitting up/reconstruction/ reorganisation should be tested on the following parameters:

a) Workforce Criteria
b) Plant and machinery Criteria

Workforce Criteria

a) Establishing a new business unit exclusively with fresh hires is an ideal scenario but often not feasible in practice. Business expansion frequently necessitates the reallocation of employees from current operations to new ones to capitalise on their skills and knowledge.

This transfer is crucial for upholding the quality of service and client satisfaction that the business is known for. Therefore, the movement of a certain portion of the workforce to a new unit should not automatically be interpreted as the new entity being set up a result of splitting or reconstructing an existing business. Nevertheless, it's reasonable to consider imposing a cap on the number of employees, who can be moved from established units to ensure a balanced approach.

Plant and machinery Criteria

a) A critical factor for establishing a new unit is significant investment in new plant and machinery. Alternatively, this investment might also be sourced from the business's internal earnings. While using existing plant and machinery is cost-effective and prevents unnecessary spending, it's advisable to set a cap on the amount of such equipment that can be repurposed for the new unit to ensure optimal operation and efficiency.

b) Another question is what constitutes plant and machinery? Illustratively, depending on the nature of business, computer components including laptops, speakers, printers, servers, server cables and accessories should be eligible to fall within the ambit of plant and machinery.

c) Reference may also be made to other acts that provide for similar conditions on splitting up/ reconstruction.

Key conditions on splitting up or reconstruction under Income-tax Act, 1961

The Income Tax Act, 1961 (ITA) allows deductions from total income for several kinds of industries/enterprises/ units on setting up of new businesses, subject to the rider that the new business is not set up by ‘splitting up or reconstruction’ of existing business of the taxpayer.

Deduction for STPI/ SEZ units

Section 10AA of the ITA provided for a tax holiday benefit in respect of profits earned by SEZ units for a period of 15 years from the date on which the unit begins to provide service.

Amongst the various conditions prescribed in order to claim the above tax holiday, there was the condition that the SEZ unit should not be formed by the splitting up, or the reconstruction, of a business already in existence or by the transfer to a new business, of machinery or plant previously used for any purpose.

The objective behind the introduction of the conditions was to restrict taxpayers from claiming the tax holiday beyond the 10 year period, by splitting-up or by reconstruction of an existing undertaking.

The Central Board of Direct Taxes (CBDT) received several representations on the issue of transfer/redeployment of technical manpower from the existing units of a taxpayer engaged in computer software development to its new SEZ unit. This, at times, was considered as splitting up or reconstruction of the existing business by some tax officers resulting in litigation to avail the tax holiday under section 10AA of the IT Act to the taxpayer.

The Indian IT industry represented that there was only a limited pool of resources available within a company with requisite skill, talent, experience and domain knowledge. Given the highly technical and competitive nature of software development, some technical persons having prior experience were required to manage the critical functions of software development in a new unit.

Thereafter, the CBDT, vide circular no. 12/2014, dated 18 July 2014, clarified that mere transfer or re-deployment of existing technical manpower from an existing unit to a new SEZ unit in the first year of commencement of business will not be construed as splitting up or reconstruction of an existing business, provided the number of technical manpower so transferred does not exceed 20% of the total technical manpower actually engaged in developing software at any point of time in the given year in the new unit.

However, further representations were made to the CBDT stating that the aforesaid limit of 20% was inadequate and restrictive since it impacts the competitiveness of Indian software Industry in global market in terms of quality of product and delivery timelines.

Therefore, the CBDT issued a revised circular no. 14/2014 dated 8 October 2014, providing that the transfer of technical manpower from existing units to the new unit shall not be considered as splitting up / reconstruction provided the number of technical manpower so transferred does not exceed 50% of the total technical manpower engaged in the new unit. The CBDT prescribed two alternative mechanisms for SEZ units to comply with this condition:

1. The number of technical manpower transferred from existing unit as at the end of the financial year should not exceed 50% of the total technical manpower actually engaged in development of software or IT enabled products in the new unit; or
2. The enterprise is able to demonstrate that the net addition of new technical manpower in all units of the enterprise is at least equal to the number that represents 50% of the total technical manpower of the new SEZ unit during such the year.

For the purposes of compliance with the condition that a unit is not formed by the transfer to a new business, of the machinery or plant previously used for any purpose, following objective conditions were specified:

1. Any machinery or plant which was used outside India by any person other than the assessee shall not be regarded as machinery or plant previously used for any purpose, if the following conditions are fulfilled:

   a) such machinery or plant was not, at any time previous to the date of the installation by the assessee, used in India;
   b) such machinery or plant is imported into India from any country outside India; and
   c) no deduction on account of depreciation in respect of such machinery or plant has been allowed or is allowable under the provisions of this Act in computing the total income of any person for any period prior to the date of the installation of machinery or plant by the assessee.

2. Where any machinery or plant or any part thereof was previously used for any purpose is transferred to a new business and the total value of the machinery or plant or part so transferred does not exceed twenty per cent of the total value of the machinery or plant used in the business, then the condition specified shall be deemed to have been complied with.

From a contract / customer base standpoint, CBDT also clarified that tax benefits will not be denied in the absence of a separate master services agreement (‘MSA’) for each SOW (Statement of Work), and that the SOW normally prevails over the MSA in determining eligibility for tax benefits.

<u>Gujarat IT/ ITES policy</u>

The Gujarat IT/ ITES policy provides several incentives for ‘Eligible units’.

1. 'Eligible Unit' means any *new unit* having a minimum of 10 employees on its payroll or an *expansion unit* having a minimum of 15 employees on its payroll after expansion.
2. ‘Expansion unit’ is defined as:
    a) An expansion unit means an existing unit in Gujarat undertaking expansion such that the total headcount of employees on its payroll, increases by 50 per cent of the existing headcount or by 1,000 employees, whichever is lower, during the operative period of the Policy.
    b) It shall be applicable for incentives only one time during the operative period of the policy.
    c) To be eligible for incentives, the new investment made for the expansion must be brought into commercial operations during the operative period of the Policy.

The Gujarat IT/ ITeS policy also recognises the fact that expansion of existing units can be determined based on the overall increase in headcount at an entity level and not at an individual unit level. However, they have emphasised that there should be new investments made in the expansion unit to avail the benefits under IT/ ITeS policy.

Recommendations from the Committee on Unit Establishment

The Committee recommends that entities set up in GIFT IFSC to carry out Bookkeeping, Accounting, Taxation, and Financial Crime Compliance Services should be in form of a Company incorporated under the Companies Act, 2013 or Limited Liability Partnership under LLP Act, 2009.

Permitting a branch model was extensively debated. Majority of the members were of the view that branch model should be permitted for professional firms. Operating as a branch allows such firms to leverage its existing reputation and client relationships. This can be particularly important for Bookkeeping, Accounting, Taxation and Financial crime compliance services sector, where trust and credibility are paramount. Some members have expressed apprehension regarding the potential misuse of the branch model, particularly in relation to migration of India business into GIFT IFSC.

In view of the apprehensions, it was largely felt that it is important to restrict the branch model for firms regulated by regulatory bodies as they are still subject to oversight and compliances set forth by their respective regulatory bodies. For e.g., a firm regulated by the ICAI necessarily adheres to the standards and guidelines issued by the ICAI.

In light of this, the branch model is suggested for professional firms that are regulated by the ICAI, the ICSI and the ICMAI.

Also, it is suggested that the foreign entities that currently do not have any presence in India can also operate under the branch model within the IFSC.

Splitting up, Reconstruction or Reorganisation of existing business

Further, considering the current regulations and industry practices, the Committee proposes the adoption of clear, objective criteria, grounded in best practices, for evaluating whether a new unit is established through splitting up, reconstruction or reorganisation of existing business. To evaluate these, the following two criteria should be applied:

1. **Manpower Criteria (taking reference from CBDT circular no. 14/2014 dated 8 October 2014)**
   a) The number of employees transferred/relocated from existing units of the group in India as at the end of the financial year should not exceed 20% of the total employees actually engaged in provision of services in the new unit; or

   b) The enterprise should be able to demonstrate that the net addition of employees in all units of the enterprise is at least equal to the number that represents 50% of the total employees of the new IFSC unit during such the year.

The above condition has to be tested at the end of the first full financial year from the date of commencement of the operations and at the end of the subsequent 9 financial years.

To consider an employee as a new employee of the IFSC unit, the employee should not have been employed by any of the group entities in India for a period of 12 months immediately preceding his/ her joining date.

2. **Transfer of Plant and Machinery (Computer Hardware and Software) previously used for any purpose**

   - The condition for plant and machinery is not relevant for segment of business that is proposed to be enabled here. Therefore, it is recommended that **all** assets owned by the new IFSC unit should only be new assets or fresh purchases. There should not be any transfer of any old asset from any of the group entities in India.

Only an entity satisfying the above two conditions will be considered to have set-up without splitting up, reconstruction, or reorganizing of businesses in India.

3. **Transferring of existing contracts or work arrangements**

Apart from the restrictions prescribed for setting up a unit in IFSC by splitting up or reconstruction or reorganization of an existing business in India, the Government of India notification also specifies that the units shall not offer the services by way of transferring or receiving of existing contracts or work arrangements from their group entities in India.

Service Provision Scenarios:

This discussion outlines the guidelines and compliance measures for engaging with clients in the provision of services under various scenarios. These scenarios are defined based on the nature of the client relationship (new or existing) and the type of service offered (new, same, or similar). The objective is to clarify the permissibility of service provision under different circumstances, ensuring adherence to regulatory and internal policy requirements.

a. New Client with a New Service

Description: When engaging with a new client to provide a service that is not currently offered by any group entities within the DTA, such engagement may be fully permissible. This scenario encourages business expansion and diversification without overlapping with existing services offered within the group's domestic operations.

E.g. An accounting firm having presence in India sets up an entity in IFSC. In India, it currently offers only bookkeeping service to its clients. It enters into an engagement with a new non-resident client not presently served by it from DTA to handle its taxation work.

b. Existing Client with a New Service

Offering a new service to an existing client should be treated as permissible and should be viewed as business expansion. This scenario clearly demonstrates that there is a growth in the client-service provider relationship as they are introducing additional value through new services, thereby strengthening the business engagement.

E.g. The accounting firm, presently engaged in rendering bookkeeping services to its client, initiates a new division dedicated to taxation services. It sets up a new entity in IFSC. Subsequently, the firm enters into a formal agreement with the pre-existing client to offer taxation services from IFSC. Given that taxation services represent an entirely new line of service for the firm, this arrangement does not constitute the transfer or receiving of existing contracts or work arrangements from its group entities in India.

c. New Client with Same or Similar Service as Provided from DTA

Onboarding a new client in IFSC for the provision of a service that is same or similar to those offered by group entities from the DTA should also be treated as permissible. This approach allows for market expansion and client base growth, even in areas of existing service competency within the group.

E.g. The firm provides financial crime complaince related services in India. It takes on a new client to perform services similar to what it provides to its existing clients. Onboarding a new client will not be considered to be transferring or receiving of existing work arrangements from their group entities in India.

d. Existing Client with Same or Similar Service

For existing clients, receiving the same or similar services, no assignment of the existing contract will be permitted. Any assignment of existing contract will be treated as transferring or receiving of existing work arrangements from their group entities in India.

Additionally, there may be instances where parties may propose substituting an existing contract with a new one, specifically to facilitate the introduction of a new IFSC entity, with the intent to nullify the original agreement. These scenarios will also be treated as the transferring or receiving of existing work arrangements from their group entities in India.

End of Contract and Re-appointment Considerations:

Upon the natural expiry of a contract period, a client may choose to either reappoint the same service provider, opt for a competitor (whether within India or abroad), or transition the service requirements out of India based on competitive considerations encompassing overall cost and service efficacy.

This scenario necessitates a distinction, recognizing the natural conclusion of a contract and the autonomous decision-making process of the client in choosing their subsequent service provider.

Therefore, merely because a contract period is nearing its end, and the client is engaged within an IFSC, this situation should not be automatically treated as the transferring or receiving of existing work arrangements from their group entities in India. It is essential to differentiate between strategic business decisions made in the competitive interest of the client and migration of contracts intended to circumvent regulatory and economic frameworks.

The concept of a "group" in the context of corporate entities is pivotal for various regulatory, accounting, and taxation purposes. The definition adopted from the Indian ITA under Section 286 provides a comprehensive understanding of what constitutes a group entity. This definition is particularly relevant when it comes to the preparation of consolidated financial statements, which are essential for presenting a clear and unified financial picture of a parent entity and its subsidiaries. Accordingly, for the purpose of the definition of group entity it was unanimously agreed to adopt the definition from Indian ITA as mentioned under Section 286:

Accordingly, "group" includes a parent entity and all the entities in respect of which, for the reason of ownership or control, a consolidated financial statement for financial reporting purposes, —

(i) is required to be prepared under any law for the time being in force or the accounting standards of the country or territory of which the parent entity is resident; or

(ii) would have been required to be prepared had the equity shares of any of the enterprises were listed on a stock exchange in the country or territory of which the parent entity is resident.

For the purpose of this definition, it is clarified that the group entities will only include entities in India.

4. Requirement of Repeals and savings

To aid and assist delivery of financial services, the IFSCA had previously issued a Framework for enabling Ancillary services in the IFSC in the year 2021 (herein after referred to as Ancillary Services Framework), several entities have obtained authorisation under the same. As mentioned earlier, the framework enabled ancillary service providers to provide various ancillary services such as taxation services, bookkeeping services, fund accounting, business consulting etc. to non-resident entities, and resident entities, who wish to setup business operations in IFSC.

Considering that the IFSCA has provided authorisation to such ancillary service providers and monitors them on periodic intervals, it is important that suitable grandfathering is provided to such entities and appropriate timelines are granted for compliances, if any.

The following scenarios may be considered:

a) Any Company/LLP or a Branch of Company/LLP in IFSC authorised under ancillary service framework authorized to provide only book-keeping, accounting or taxation services to financial services entities should be migrated to the new regulations and should be granted a registration under the new regulations. A branch entity, which has been authorized in the ancillary services framework, should be permitted to operate as a branch even under the new regulation.

b) Any Company/LLP or Branch of Company/LLP in IFSC authorised under ancillary services framework and approved for carrying out services beyond book-keeping, accounting or taxation services (e.g. such entities could also be providing Professional services or management consulting services or legal or compliance & secretarial services) should be grandfathered and should be registered under the new regulations. However, for the services other than bookkeeping, accounting or taxation provided by such entities, such entity/branch should be permitted to operate under the Ancillary Services framework. A branch entity which has been authorised in the ancillary services framework should be permitted to operate as a branch even after they are migrated to the new regulations.

   No applications to register as a branch under the ancillary services framework should be considered upon commencement of these new regulations.

   The "Repeals and Savings" clause is intended to facilitate a seamless transition for such units, ensuring that they are in compliance with the new regulatory requirements without the need for additional administrative procedures to demonstrate adherence to any newly established conditions. This automatic compliance mechanism is designed to uphold the integrity of the regulatory framework while minimizing disruption to the operations of the grandfathered entities.

Further, any subsequent actions taken by these entities should be in strict compliance with the new regulations. The entities must ensure that all future operations, business dealings, and services are conducted in accordance with the new regulations.

c) New companies or LLPs that intend to provide services beyond bookkeeping, accounting, taxation services and financial crime compliance services can obtain additional registrations/ authorisation under other regulations/ frameworks respectively.

5. Additional Safeguards

Minimum office requirement for Units in IFSC undertaking the specified services: A minimum space of 60 sq. ft. per shift should be designated for each employee of the Unit.

Promotion and Development Strategies

The GIFT IFSC aims to become a leading international financial hub that offers a comprehensive range of financial services and products to domestic and global clients. To achieve this vision, GIFT IFSC needs to attract and retain high-quality service providers in the areas of bookkeeping, accounting, taxation, and financial crimes compliance, as there is growing demand for such services globally. Moreover, the growth of such services has the potential to create huge employment opportunities in IFSC and elevate the position of IFSC as a global finance and accounting hub.

Some of the strategies that GIFT IFSC can adopt to promote and develop itself as a global offshore centre for bookkeeping, accounting, taxation, and financial crime compliance services are as under:

1. Marketing:

a) GIFT IFSC can showcase its unique value proposition as a bookkeeping, accounting, taxation, and financial crime compliance hub, by highlighting its globally aligned regulatory architecture, its state-of-the-art infrastructure and connectivity, its competitive cost structure and tax regime, and its access to a large and diverse pool of financial services clients and markets.

b) GIFT IFSC can also leverage its success stories and testimonials from existing service providers and clients, as well as its rankings and ratings from reputable international agencies and publications, to enhance its brand awareness and reputation.

c) GIFT IFSC can also participate in relevant events, forums, and platforms, both online and offline, to showcase its offerings and network with potential service providers and clients.

2. Infrastructure Development:

a) GIFT IFSC can invest in upgrading and expanding its physical and digital infrastructure, to ensure that it meets the evolving needs and expectations of bookkeeping, accounting, taxation, and financial crimes compliance service providers and clients.

b) This includes providing adequate office space, utilities, transportation, and amenities, as well as ensuring reliable and secure internet, power, and communication networks.

c) GIFT IFSC can also leverage its smart city features, such as integrated command and control center, intelligent traffic management system, and waste management system, to enhance its operational efficiency and sustainability.

3. Global Partnerships:

a) GIFT IFSC can forge strategic partnerships with leading accounting bodies, associations, and institutions, both domestic and international, to facilitate the exchange of knowledge, best practices, and standards, as well as to promote mutual recognition and cooperation.

b) For example, GIFT IFSC has signed memoranda of understanding (MoUs) with the Institute of Chartered Accountants of India (ICAI). The objective of the MoU is to enhance collaboration and promote financial excellence by jointly organizing international and domestic events, conferences, seminars and roundtable meetings and harnessing the expertise of both entities to bolster the financial landscape in India and on the global stage.

c) MoUs with other institutes such as the Institute of Company Secretaries of India (ICSI), the Institute of Cost Accountants of India (ICMAI), the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the International Auditing and Assurance Standards Board (IAASB), the International Ethics Standards Board for Accountants (IESBA), and the International Public Sector Accounting Standards Board

(IPSASB) can help GIFT IFSC to align its bookkeeping, accounting, taxation, and financial crimes compliance services with the global norms and expectations, as well as to enhance its credibility and attractiveness as a service hub.

4. Centre of Excellence:

a) GIFT IFSC in collaboration with ICAI can establish a centre of excellence (CoE) for bookkeeping, accounting, taxation, and financial crimes compliance services, to serve as a focal point for research, innovation, training, and development in these domains.

b) The CoE can collaborate with academic institutions like ICAI, industry associations, and professional bodies, to conduct cutting-edge research and analysis on the emerging trends, challenges, and opportunities in these services, as well as to develop and disseminate best practices, standards, and guidelines.

c) The CoE can also provide training and certification programs, workshops, seminars, and webinars, to enhance the skills and competencies of the existing and potential service providers and clients, as well as to create awareness and interest among the students and professionals. The CoE can also facilitate the adoption and integration of new technologies, such as artificial intelligence, blockchain, cloud computing, and data analytics, to improve the efficiency, quality, and security of these services.

Workforce Competency Enhancement and Qualification

The provision of bookkeeping, accounting, taxation, and financial crime compliance services in IFSC requires a high level of professional competence and adherence to international standards and best practices. The workforce engaged in these services should possess the necessary qualifications, skills, and experience to perform their duties effectively and efficiently. This section outlines the current state of workforce skills, the training and development programs needed, the long-term strategies for education and skill acquisition, and the review of qualification standards for professionals in these services.

1. Current state of workforce skills

a) The current state of workforce skills in bookkeeping, accounting, taxation, and financial crime compliance services in IFSC is largely influenced by the domestic market and regulatory environment. The majority of the workforce consists of qualified accountants, auditors, tax consultants, and compliance officers who have obtained their degrees or certifications from Indian institutions or bodies.

b) However, some of the workforce also holds international qualifications or accreditations from recognized global organizations or associations. The level of skills and knowledge varies depending on the type and scope of services offered, the nature and size of the clients, and the complexity and diversity of the transactions and operations involved. The workforce also faces challenges in keeping themselves abreast of the latest developments and changes in the international regulatory frameworks, standards, and practices that apply to IFSC. Therefore, there is a need for continuous training and development programs to enhance the workforce competency and qualification requirements in these services.

2. Training and development programs

a) The training and development programs needed for the workforce in bookkeeping, accounting, taxation, and financial crime compliance services in IFSC should aim at achieving the following objectives:

i. To update and upgrade the skills and knowledge of the workforce in line with the international standards and best practices in these services.
ii. To equip the workforce with the necessary tools, techniques, and methodologies to handle the specific challenges and opportunities in IFSC, such as dealing with cross-border transactions, multi-currency operations, complex financial instruments, and diverse regulatory regimes.
iii. To foster a culture of compliance, ethics, and professionalism among the workforce and to ensure adherence to the applicable laws, regulations, guidelines, and codes of conduct in IFSC.
iv. To enhance the communication, collaboration, and coordination skills of the workforce to facilitate effective and efficient service delivery and customer satisfaction in IFSC.

b) Some of the training and development programs that can be implemented for the workforce in these services are:

i. Short-term courses, workshops, seminars, webinars, and conferences on relevant topics and issues related to bookkeeping, accounting, taxation, and financial crime compliance services in IFSC, conducted by experts, practitioners, regulators, or industry associations.
ii. Foreign universities and institutions establishing International Branch Campuses and Offshore Education Centres under IFSCA (Setting up and Operation of International Branch Campuses and Offshore Education Centres) Regulations, 2022 can be requested to offer long term and short-term courses on bookkeeping, accounting, taxation, and financial crime compliance services

iii. Online courses, modules, or certifications on specific aspects or domains of these services, offered by reputed international institutions or bodies, such as the International Federation of Accountants (IFAC), the International Accounting Standards Board (IASB), the International Taxation Standards Board (ITSB), the Financial Action Task Force (FATF), the International Compliance Association (ICA) or the ACFCS.

iv. On-the-job training, mentoring, coaching, or shadowing programs, where the workforce can learn from the experience and guidance of senior or peer professionals in these services, either within the same organization or across different organizations in IFSC.

v. Exchange or mobility programs, where the workforce can gain exposure and insights from working in different jurisdictions, markets, or sectors that are relevant to these services, either within India or abroad.

3. Long-term strategies for education and skill acquisition

The long-term strategies for education and skill acquisition for the workforce in bookkeeping, accounting, taxation, and financial crime compliance services in IFSC should aim at creating a pipeline of qualified, skilled, and competent professionals who can meet the current and future demands and expectations of these services. Some of the long-term strategies that can be adopted are:

a) Developing and promoting specialized degree or diploma programs in bookkeeping, accounting, taxation, and financial crime compliance services in IFSC, in collaboration with leading academic institutions or universities, both in India and abroad.
b) Establishing and supporting centers of excellence or research hubs in these services in IFSC, where the workforce can access and contribute to the latest knowledge, innovations, and best practices in these fields.
c) Encouraging and facilitating the participation and membership of the workforce in professional bodies or associations that represent and regulate these services, both at the national and international level, such as the ICAI, the ICSI, the ICMAI, the International

Association of Bookkeepers (IAB), the International Association of Taxation Professionals (IATP), the ACAMS or the ACFCS.

d) Creating and maintaining a database or registry of the workforce in these services in IFSC, where their qualifications, skills, experience, and performance can be recorded, verified, and updated regularly.

4. Review of qualification standards for professionals

a) The review of qualification standards for professionals in bookkeeping, accounting, taxation, and financial crime compliance services in IFSC should aim at ensuring that the workforce possesses the minimum level of competence and credibility to perform these services in IFSC. Courses can be developed at the Indian and foreign universities/insitutions in IFSC. Further, the review of qualification standards should also consider the alignment and compatibility of the domestic qualifications with the international qualifications in these services, as well as the recognition and acceptance of the qualifications by the clients, regulators, and other stakeholders in IFSC. Some of the factors that should be taken into account in the review of qualification standards are:

i. The curriculum, content, and coverage of the qualifications, and their relevance and suitability to the IFSC context and environment.

ii. The assessment, examination, and certification processes and criteria of the qualifications, and their validity and reliability in measuring the competence and proficiency of the professionals.

iii. The accreditation, endorsement, or approval of the qualifications by the relevant authorities, bodies, or institutions, both in India and abroad.

iv. The quality assurance, monitoring, and evaluation mechanisms and systems of the qualifications, and their effectiveness and efficiency in ensuring the standards and outcomes of the qualifications.

v. The comparability, equivalence, or harmonization of the qualifications with the international qualifications in these services, and their implications and benefits for the mobility and employability of the professionals.

Appendices

Glossary

Abbreviation	Full Form
ACAMS	Association of Certified Anti-Money Laundering Specialists
ACFCS	Association of Certified Financial Crime Specialists
DEA	Department of Economic Affairs
FATF	Financial Action Task Force
IAB	International Association of Bookkeepers
IASB	International Accounting Standards Board
IATP	International Association of Taxation Professionals
ICA	International Compliance Association
ICAI	Institute of Chartered Accountants of India
ICMAI	Institute of Cost Accountants of India
ICSI	Institute of Company Secretaries of India
IFAC	International Federation of Accountants
IFSC	International Financial Services Centre
IFSCA	International Financial Services Centres Authority
ITA	Income Tax Act, 1961
ITSB	International Taxation Standards Board
LLP	Limited Liability Partnership

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[x] https://resource.cdn.icai.org/74599bos60479-fnd-cp1-u1.pdf

[xi] CPC version 2.1, published in 2015
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[xiii] CPC version 2.1, published in 2015.

[xiv] https://www.tookitaki.com/compliance-hub/financial-crime-compliance-fcc

[xv] Financial Services Act 2012 (legislation.gov.uk)

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Details of Expert Committee Meetings held:

S. No	Committee Meeting	Meeting Date
1	1^{st} Committee Meeting	01.02.2024
2	2^{nd} Committee Meeting	06.02.2024
3	3^{rd} Committee Meeting	13.02.2024
4	4^{th} Committee Meeting	21.02.2024
5	5^{th} Committee Meeting	29.02.2024
6	6^{th} Committee Meeting	01.03.2024
7	7^{th} Committee Meeting	08.03.2024
8	8^{th} Committee Meeting	23.03.2024