



CIRCULAR

F. No 172/ IFSCA/Finance Company/Unit Regulations/2021-22/3

May 03, 2021

To,
All Finance Company's / Finance Units in the International Financial Services Centre (IFSC)

Subject: Prudential Regulations and activity specific guidelines

Finance Company/Finance Unit (FC/FU) may draw reference to regulation 4 on applicable prudential regulations and regulation 5 on permissible activities, of the International Financial Services Centres Authority (Finance Company) Regulations, 2021 (herein referred to as 'Regulations') dated March 25, 2021 issued by the Authority.

2. The International Financial Services Centers Authority (herein referred to as 'Authority'), directs the FC/FU in the International Financial Services Centers (herein referred to as 'IFSCs') in India, to follow the circulars/directions/guidelines mentioned in circular titled 'IFSC (Banking) Regulations, 2020 - Directions for implementation' (herein referred to as 'Directions for implementation') dated December 4, 2020 (F.No. 110/IFSCA/Banking Regulation/2020-21/1), relating to the prudential regulations and activity specific guidelines as referred to in this circular.

3. The 'Directions for implementation' shall apply to FC/FUs, *mutatis mutandis*, for activities permitted to be undertaken by the FC/FU under the Regulations and to the extent that they are not in conflict with the Regulations. In case of conflict between the provisions of the Regulations and circulars issued thereunder and the circulars/directions/guidelines listed below, the provisions of the Regulations and circulars issued by the Authority shall be applicable. Further, it shall be in force till these guidelines are amended or issued by the Authority from time to time.

A. Prudential Regulations:

4. This paragraph shall apply to an FC/FU as the case may be, register under section 3 of IFSCA (Finance Company) Regulations, 2021 and intending to undertake the activities as mentioned in the point 5 and point 6 of the Schedule therein, viz;

- (i) Undertaking one or more core activities with or without non-core activities, and:
- (ii) Undertaking specialized activities with or without core or non-core activities

The circulars/directions/guidelines as specified in the 'Directions for implementation' shall be adhered to for the following prudential regulations:

- a. Guidelines on Loans and Advances
- b. Prudential norms on Income Recognition, Asset Classification and Provisioning pertaining to Advances
- c. Prudential framework for Resolution of Stressed Assets.

B. Activity specific Regulations

5. This paragraph shall apply to an FC/FU as the case may be, register under section 3 of IFSCA (Finance Company) Regulations, 2021 and intending to undertake the activities as mentioned in point 4, 5 and 6 of the Schedule therein, viz;

- (i) Undertaking any of the permissible activities, if operating without customer interface.
- (ii) Undertaking one or more core activities with or without non-core activities.
- (iii) Undertaking specialized activities with or without core or non-core activities

The circulars/directions/guidelines as specified in the 'Directions for implementation' shall be adhered to for undertaking activities as specified below:

- a. Guidelines on Partial Credit enhancement
- b. Guidelines on Guarantees and co-acceptances
- c. Guidelines on Securitization Transactions and Direct Assignment of Cash Flows
- d. Legal Entity Identifier Code
- e. For Fraud reporting
- f. Buy and Sell derivatives

6. In addition to paragraph 5, the following activity specific guidelines shall be adhered to with respect to FC/FU carrying out the following core activities:

(i) Equipment leasing

In terms of sub-regulation 1(ii)(c) of regulation 5 of the Regulations, with reference to undertaking activity of equipment leasing the FC/FU shall adhere to the following:

- a. A FC/FU undertaking equipment leasing and hire purchase business shall treat the activities to be at par with loans and advances subject to the applicable prudential regulations for FC/FUs.
- b. A FC/FU shall not enter into leasing agreement with another equipment leasing company and other FC/FU engaged in equipment leasing.
- c. FC/FUs are required to frame a Board approved policy on leasing business and evolve safeguards to avoid possible asset liability mismatch. While FC/FUs shall ensure compliance with relevant accounting standards.
- d. FC/FUs shall place review reports on equipment leasing and hire purchase undertaken by them on annual basis before their Board of Directors/Management Committee of the Board.

(ii) Buy and sell derivatives

In terms of sub-regulation (ii) e of regulation 5 of the Regulations with reference to buying and selling derivatives the FC/FU intending to undertake derivative transactions as one of the core activities can do so as a client/user only. Acting as a client, a FC/FU shall fulfil the responsibilities and meet the capital charge requirement on derivative transactions for computation of regulatory capital as prescribed under the IFSCA circular on “OTC derivatives at IFSCs”, dated December 4 2020 and as amended from time to time.

C. Know your Customer and Anti-Money Laundering

7. Reference is drawn to regulation 7 on Know Your Customer and Anti-Money Laundering (KYC/AML) under the Regulations. All entities registered under regulation 3 of the Regulations acting as FC/FU as the case may be, shall adhere to the directions on Know Your Customer norms, Anti-Money Laundering standards and Combatting of Financial Terrorism as specified in the ‘Directions for implementation’ and as amended from time to time.

8. All FC/FUs on which this circular is applicable, are directed to ensure compliance with this circular.

Yours faithfully,

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