



RBI/2016-17/118

DBR.IBD.BC.32/23.13.004/2016-17

November 10, 2016

Chairman/Managing Director and CEOs

All Scheduled Commercial Banks (excluding Regional Rural Banks)

Dear Sir/Madam,

Setting up of IFSC Banking Units (IBUs) – Permissible activities

Please refer to our [circular DBR.IBD.BC.14570/23.13.004/2014-15 dated April 01, 2015](#) setting out RBI directions relating to IFSC Banking Units (IBUs). We have received a few suggestions and queries during the last few months reflecting practical issues faced by banks in implementing these regulations. These issues have been examined and the directions stand modified as follows:

2. The existing paragraph 2.5 of Annex I and II of the aforesaid circular dated April 1, 2015 shall be amended to read as follows:

“2.5.1 The sources for raising funds, including borrowing in foreign currency, will be persons not resident in India and overseas branches of Indian banks.

2.5.2 The deployment of funds can be with both persons resident in India as well as persons not resident in India. However, deployment of funds with persons resident in India shall be subject to the provisions of FEMA, 1999.”

3. The existing paragraph 2.6 (i) of Annex I and II of the aforesaid circular dated April 1, 2015 shall be amended to read as follows.

“IBUs can undertake transactions with resident (for deployment of funds) and non-resident (for both raising of resources and deployment of funds) entities other than individuals including HNIs / retail customers as indicated in paragraph 2.5.1 and 2.5.2 above.

4. *The existing paragraph 2.6 (vii) of Annex I and II of the aforesaid circular dated April 1, 2015 shall be amended to read as follows:*

“With the prior approval of their board of directors, the IBUs may undertake derivative transactions including structured products that the banks operating in India have been allowed to undertake as per the extant RBI directions. However, IBUs shall obtain RBI’s prior approval for offering other derivatives or structured products. Before seeking RBI’s approval, banks shall ensure that the IBUs have necessary expertise to price, value and compute the capital charge and manage the risks associated with the products / transactions intended to be offered and should also obtain their Board’s approval for undertaking such transactions”.

5. *A new paragraph No.2.6 (viii) shall be added to the Annex I and II of the aforesaid circular dated April 1, 2015, which reads as under:*

“IBUs are allowed to open foreign currency escrow account of Indian resident entities to temporarily hold subscriptions to the GDR/ADR issues until issuance of the Receipts. After GDRs/ADRs are issued, the funds should immediately be transferred to the client’s account outside the IBU and cannot be retained by the bank in any form including in long term deposits”.

6. *A new paragraph No.2.6 (ix) shall be added to the Annex I and II of the aforesaid circular dated April 1, 2015, which reads as under:*

“IBUs are allowed to act as underwriter / arranger of Indian Rupee (INR) denominated overseas bonds issued by Indian entities in overseas market in terms of extant RBI instructions contained in FED CO [AP Dir Circular No 17 dated September 29, 2015](#). However, in cases where part of the issuance underwritten by an IBU devolves on it, efforts must be made to sell the underwritten holdings and after 6 months of the issue date these holdings must not exceed 5% of the issue size.”

7. All other terms and conditions contained in the aforementioned circular remain unchanged.

8. An updated copy of the RBI circular on IBU dated [April 01, 2015](#) incorporating the amendments made on [January 07, 2016](#) and November 10, 2016 is available in RBI's website.

Yours faithfully,

(Rajinder Kumar)
Chief General Manager