

RBI eases norms for setting up IFSC banking units

Summary

The Reserve Bank of India (RBI) had issued a circular¹ in 2015 formulating a scheme for the setting up of International Banking Units (IBUs) in International Financial Service Centres (IFSCs) by Indian banks and foreign banks (already with a presence in India). One of the key conditions under the circular was the requirement for the parent bank to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBUs.

The RBI has, vide its recent Circular², amended the provisions to clarify that minimum capital is required to be maintained at all times at the parent level and not at the IBU level. The Circular also prescribes additional conditions for IBUs.

Key amendments

The key amendments in relation to the capital requirement for IBUs are as under:

- **Indian banks setting up an IBU**

- The parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU. This level should be maintained at all times.
- The minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an ongoing basis at the parent level.

- **Foreign banks (with presence in India) setting up an IBU**

- The parent bank will be required to provide a minimum capital of USD 20 million or equivalent in any foreign currency to its IBU. This level should be maintained at all times.
- The minimum prescribed regulatory capital, including for the exposures of the IBU, shall be maintained on an ongoing basis at the parent level as per the regulations in the home country.
- The IBU shall submit to the RBI a certificate to this effect obtained from the parent on a half-yearly basis.
- The parent bank will be required to provide a 'Letter of Comfort' for extending financial assistance, as and when required, in the form of capital/liquidity support to the IBU.

¹ RBI Circular DBR.IBD.BC.14570/23.13.004/2014-15 dated 01 April 2015

² RBI Circular DBR.IBD.BC.105/23.13.004/2017-18 dated 17 May 2018

Our comments

This Circular would provide clarity as well as a much-needed boost to banks which are looking at setting up a branch in an IFSC. In view of maintaining capital at the parent level, banks (Indian as well as foreign) will not have to infuse separate capital into IBUs. This relaxation, coupled with fiscal benefits provided to IBUs, would attract banks, especially foreign banks, to set up a presence in IFSCs.



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