

## ERGO

*Analysing developments impacting business*

### LIBERALISATION OF INVESTMENTS IN IFSC

23 July 2024

#### **Introduction**

In February 2021, the Reserve Bank of India (RBI) had decided to permit resident individuals to make investments in the International Financial Services Centers (IFSC) under the Liberalized Remittance Scheme (LRS Scheme) with a view to strengthen the financial markets in IFSC and to provide Indian resident individuals with the opportunity to expand and diversify their portfolios.

The RBI's LRS Scheme permits a resident individual to freely remit funds outside India up to USD 2,50,000 per Financial Year (April-March) for any permitted current or capital account transaction or a combination of both. The LRS Scheme is only available for resident individuals and not for corporates, partnership firms, HUF, trusts, etc.

As per the previous provisions, remittance to IFSC by resident individual under the LRS Scheme was only permitted for the following purposes:

- Investing in securities except those issued by entities/ companies' resident in India; and
- Payment of fees for education of foreign universities or foreign institutions in IFSC.

The limited scope for investments by resident individuals in IFSC created hurdles in generating interest in the financial centre and unlocking its true potential. Thereby, in a move to boost the investment portfolios of resident individuals and to meet the standards of global financial centres, the RBI, on 10 July 2024, expanded the scope of investments allowed to be made by resident individuals in IFSC. The resident individuals can now open a Foreign Currency Account (FCA) in IFSC for the following purposes and monies up to the LRS limit can be transferred in these accounts.

- Investment in financial services or financial products within IFSC as per the International Financial Services Centres Authority Act, 2019; and
- All permissible current and capital account transaction in foreign jurisdiction (other than IFSC) through an FCA held in IFSC.

**Comment:**

The liberalization has provided opportunities to resident individuals with a wide array of investment activities like purchasing overseas property, purchasing foreign insurance, and sending gifts abroad, and has effectively removed the limitations of the scope that the erstwhile provision imposed. With the increase in the investment opportunities, the interest of investors in the financial center should multiply, especially for the High-Net-worth Individuals who were more inclined towards opening accounts in financial centers located in Dubai and Singapore.

The amendment also promotes financial inclusion of resident individuals and leads to the development of the financial sector by providing various investment opportunities in advanced financial products for both domestic and international players.

In line with the government's agenda of developing the financial sectors in the country, the move to liberalise remittance by resident individuals in the IFSC coupled with the recent implementation of the Development of Enterprise and Service Hubs Bill, 2022 to revive interest in the Special Economic Zones strongly indicates towards government interest in encouraging investments and development of IFSC and strengthening India's financial ecosystem through a globalisation stride.

From a practical transactional standpoint, we would suggest that any proposed remittance by the resident individuals (i) to the FCAs opened in the IFSCs by resident individuals; and (ii) to foreign jurisdictions from the FCAs, is evaluated in light of the applicable requirements of the Indian foreign exchange regime.

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