

Decoding IFSC: India's Gateway to Global Financial Services



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In today's globalized world, financial services are no longer restricted to borders.[1] Countries are constantly trying to create environments that attract international investments and India is no exception. One of the key steps in this direction is the development of International Financial Services Centre (IFSC) which aims to bring global financial services within India's regulatory framework. [1]

Before understanding the regulatory framework, it is important to briefly look at the meaning of IFSC is and why it was introduced.

Meaning of IFSC

An International Financial Services Centre (IFSC) is a designated jurisdiction that provides a platform for conducting a wide range of financial services and dealing into products for cross-border transactions. Financial Services, in simple terms, refer to services relating to managing money-

- Banking
- Insurance and Reinsurance
- Capital market transactions
- Asset management

The primary purpose of an IFSC is to integrate the domestic financial system with global markets, enabling seamless cross border transactions and international capital flows. India's first operational IFSC is located within the Gujarat International Fin-Tech City (GIFT City) at Gandhinagar. This project encompasses India's vision to become a major global player in financial services by offering world-class infrastructure, technology driven facilities and business friendly regulations.

[1] The article reflects the general work of the authors and the views expressed are personal. No reader should act on any statement contained herein without seeking detailed professional advice.



Objective/ Purpose behind setting up an IFSC in India:

Prior to the creation of an IFSC, many Indian Companies and Investors routed international transactions through financial centers such as Singapore or Dubai due to their liberalized framework and ease of doing business. Recognizing this gap, the Government of India envisioned the establishment of a domestic IFSC to offer similar services within the Indian territory, thereby retaining high value financial transactions and associated employment opportunities.

Through GIFT IFSC, India has brought significant offshore financial activities in India. It enables banks, financial institutions, insurance companies, asset managers, capital market intermediaries and fintech innovators to operate in foreign currency while maintaining proximity to the domestic markets. This ecosystem facilitates international collaboration, financial innovation and capital mobilization, positioning India as a global financial hub.

Legal and Regulatory Framework:

GIFT City IFSC operates under a unified regulatory framework governed by International Financial Services Centres Authority (IFSCA) which ensures that regulatory standards align with best global practices. IFSCA has assumed the powers of four financial sector regulators, namely, Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI) and Pension Fund Regulatory and Development Authority of India (PFRDAI) to ensure a streamlined and efficient regulatory environment.

IFSC is set up within the Special Economic Zones (SEZs) allowing it to benefit from a distinct regulatory and tax regime. This enables IFSC to operate with greater flexibility in dealing with cross-border financial transactions. This framework is designed to ensure effective regulation of operations at the same time maintaining ease of doing business.

Features of IFSC:

IFSC in India is designed to offer a globally competitive environment for financial services. One of their key features is a liberal regulatory framework supported by a single regulator, i.e. International Financial Services Centres Authority, which helps to reduce regulatory overlap and simplifies compliance for entities operating within this Centre.



Another important aspect of IFSC is the range of tax and operational incentives available to entities situated therein, such as flexibility to carry out transactions in foreign currencies. This makes IFSC attractive for entities dealing with international business. Additionally, IFSC provides a focused ecosystem for a wide range of financial services, including banking, insurance, capital markets, and fund management. By combining tax incentives, regulatory ease and global accessibility, IFSC aims to create an environment that is comparable with leading financial hubs.

Setting up a unit: Domestic Area vs. SEZ

To better understand the real-life impact of IFSC, it is useful to compare the requirements of setting up a unit in domestic area with those applicable to units in IFSC located within SEZs.

In the domestic area, setting up a financial services unit mainly involves dealing with multiple regulatory authorities, depending on the nature of the business. This can result in a more layered process of approval, separate licensing, compliance requirements and continuous monitoring by various regulators. The operations are largely focused on domestic market and involve Indian currency, which may limit flexibility for entities looking to engage in global transactions.

Whereas units established in SEZ benefit from a streamlined approach. They operate under the unified regulatory framework of International Financial Services Centres Authority (IFSCA), which simplifies approval processes and reduces regulatory overlap. Additionally, being in SEZ, these units are better positioned to carry out cross-border transactions with greater ease and flexibility.

From a business perspective, this distinction becomes important for people to decide between focusing on domestic operations or tapping global financial markets. In this regard, IFSCs offer a more facilitative environment for financial services.



Way Forward

While IFSCs have already created a strong foundation for international financial services in India, their long-term success will depend on how effectively they continue to evolve with global market expectations. Strengthening regulatory clarity, expanding range of permitted activities and encouraging greater participation from both domestic and international institutions will be important in making these centers competitive.

Many businesses and professionals are still unaware of how IFSC differs from traditional domestic setups. Greater awareness can help more entities understand the opportunities these centres offer.

With the right balance between regulation and innovation, IFSC has the potential to become not just an alternative financial jurisdiction within India, but a meaningful contributor to India's position in the global financial landscape.

Conclusion

While IFSC is continuously evolving, it represents a strong step towards integrating Indian financial services with the global financial services system. The distinction between domestic and IFSC framework highlights the need for more flexible and internationally oriented systems.

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