

## **Consultation paper on the proposed Guidelines on setting up of International Trade Financing Services Platform ('ITFS')**

### **Objective:**

The objective of this consultation paper is to seek comments/views/suggestions from the public on the proposed Guidelines on setting up of International Trade Financing Services Platform ('ITFS').

### **Background:**

1. By operation of section 12 read with sub-clause (xii) of clause (e) of sub-section (1) of Section 3 of the International Financial Services Centres Authority Act, 2019 (hereinafter referred to as 'IFSCA Act'), the Authority is empowered regulate entities engaged in the activity of making arrangements for carrying on financial services for the financial products permitted under the IFSCA Act. In exercise of the abovementioned power, the Authority had issued the "Framework for setting up of International Trade Financing Services Platform ('ITFS') for providing Trade Finance Services at International Financial Services Centres" dated July 9, 2021. The said framework provided the guidelines for setting up and operating an electronic platform for facilitating Trade Financing Services (i.e financing exporter and importer for carrying international trade).

2. The Authority now proposes to replace the abovementioned circular with self-contained guidelines for setting up the ITFS platforms. The proposed guidelines has been framed to enhance the ease of doing business for ITFS operators.

3. The guidelines, inter alia, proposes to:

- a) Specify the list of permissible activities for ITFS platform.
- b) Specify the eligibility criteria and process for authorisation for setting up of an ITFS platform.
- c) Lay down the principles of operations of ITFS platform.

4. A draft of the Guidelines is placed on the website of the IFSCA at <https://ifsc.gov.in/PublicConsultation>. General public and stakeholders are requested to forward their comments/suggestions through e-mail to Mr. Supriyo Bhattacharjee at [supriyo.b@ifsc.gov.in](mailto:supriyo.b@ifsc.gov.in) and Ms. Riddhi Bhandari at [riddhi.bhandari@ifsc.gov.in](mailto:riddhi.bhandari@ifsc.gov.in) and Mr. T P Samuel Wesley at [wesly.samuel@ifsc.gov.in](mailto:wesly.samuel@ifsc.gov.in); on or before September 20, 2024, in the attached format. The comments may be provided in MS Word or MS Excel format only

**Format for providing comments/suggestions**

**Proposed Guidelines on setting up of International Trade Financing Services Platform ('ITFS')**

<b>Name, Designation of the person</b>				
<b>Contact NO.</b>				
<b>Name of Organisation</b>				
<b>Page No. of Draft Regulation</b>	<b>Reg No.</b>	<b>Sub-Regulation No./ Para No.</b>	<b>Comments/Suggestions/Suggested modifications</b>	<b>Rationale</b>

## **Draft Guidelines on setting up of International Trade Finance Service Platform, 2024**

In exercise of the powers conferred by sub-clause (xii) of clause (e) of subsection (1) of Section 3 of the International Financial Services Centres Authority Act, 2019, the Authority hereby makes the following guidelines.

### **Chapter I**

#### **PRELIMINARY**

##### **1. Short Title and Commencement:**

- (1) These guidelines may be called the International Trade Finance Service Guidelines, 2024 (hereafter referred to as 'guidelines'), and shall be applicable from the date of publication on the IFSCA's website.

##### **2. Applicability:**

- (1) These guidelines shall apply to the
- (i) ITFS operators registered under the circular "Framework for setting up of International Trade Financing Services Platform ('ITFS') for providing Trade Finance Services at International Financial Services Centres ('IFSCs')". dated July 9, 2021,
  - (ii) An entity desirous of setting up as an ITFS operator in IFSC,
  - (iii) The participants in an ITFS.

##### **3. Definitions:**

- (1) In these guidelines, unless the context otherwise requires, the terms defined herein shall bear the meanings as assigned to them below, and their cognate expressions shall be construed accordingly –
- (i) "Authority" means the International Financial Services Centres Authority established under sub-section (1) of Section 4 of the Act;
  - (ii) "Financiers" shall include:
    - (a) Factors under the Factoring Regulation Act, 2011;
    - (b) Finance Company/ Finance Unit undertaking the permissible activity as specified in regulation 5(1)(ii)(a) and 5(1)(ii)(b) of IFSCA (Finance Company) Regulations;
    - (c) Any other entity on-boarded on the ITFS platform for undertaking factoring including Reverse Factoring, Bill discounting under Letter of Credit, Supply Chain Financing, Pre-shipment Credit and Forfaiting ;

- (iii) 'Financial technology (fintech)' means technologically enabled innovation in financial services that could result in new business models, applications, processes or products.
- (iv) "International Trade Finance Service" or "ITFS" refers to an electronic platform for facilitating the financing of trade receivables
- (v) "ITFS operator" shall mean an entity registered with the Authority to operate an ITFS under these guidelines.
- (vi) "net worth" means the aggregate value of the paid-up share capital (or capital contribution) and all reserves created out of the profits, securities premium account and debit or credit balance of profit and loss account, after deducting the aggregate value of the accumulated losses, deferred expenditure and miscellaneous expenditure not written off, as per the balance sheet, but does not include reserves created out of revaluation of assets, write-back of depreciation and amalgamation.
- (vii) "Outsourcing" refers to an arrangement in which a service provider provides the ITFS operator with a service that may currently or potentially be performed by the ITFS operator itself and shall include availment of services by its group entities.
- (viii) "Participants" refers to Exporters, Importers, Financiers, Insurance/Credit Guarantee Institutions, Payment Service Providers (PSP) or any other entity permitted by the Authority.
- (ix) "Reverse Factoring" refers to method of financing where the importer makes provision for a financing arrangement wherein a supplier exporter can choose to receive an early payment on the invoices it draws against the importer
- (x) Trade Financing Unit (TFU)" refers to an invoice or a bill or any other standard trade document on the ITFS. Trade Financing Unit may be created either by the Exporter or Importer.

(2) Words and expressions used and not defined in these guidelines but defined in the International Financial Services Centres Authority Act or Acts mentioned in the First Schedule to the Act or any rules or regulations made thereunder shall have the same meanings respectively assigned to them in those Acts, rules or regulations or any statutory modification or re-enactment there to, as the case may be.

## **CHAPTER II**

### **SETTING UP OF AN ITFS**

#### **4. Eligibility criteria for authorisation:**

(1) **General:** An Entity desirous of setting up as an ITFS operator:

- (i) shall require a Certificate of Authorisation under these guidelines;

- (ii) shall be incorporated in IFSC under the Companies Act, 2013;
- (iii) shall satisfy the requirement of the parent entity of the applicant having experience of at least three years in operating trading infrastructure in financial markets or operating a financial technology(fintech) platform;
- (iv) shall possess or shall be willing to invest in the necessary infrastructure in IFSC including adequate office space requirement, equipment, communication facilities and manpower to undertake the permissible activities;
- (v) shall comply with the net worth requirements as specified in para 4 (2)(i) of these guidelines;
- (vi) shall provide necessary information for the Authority to satisfy itself that the financial position of the parent entity of the applicant is sound;
- (vii) shall provide necessary information for the Authority to satisfy itself that the applicant and relevant persons satisfy the 'fit and proper' requirements as specified in these guidelines;
- (viii) shall inform if the parent entity of the applicant have in the past been refused authorisation by the Authority and if so, the ground for such refusal;
- (ix) shall confirm that the applicant or the relevant persons of the applicant are not subject to any proceeding for breach of law in any jurisdiction;
- (x) shall satisfy any other requirements as may be specified by the Authority from time to time.

**(2) Financial:**

- (i) An Entity desirous of setting up an ITFS shall meet minimum net worth of USD 0.2 million.

**(3) Technical:**

- (i) An entity desirous of setting up ITFS shall submit technical standards or designs of the proposed ITFS.
- (ii) The ITFS operator shall have and maintain robust technology infrastructure with a high degree of reliability, availability, scalability and security in respect of its systems, data and network, appropriate to support its operations and manage the associated risks.
- (iii) The ITFS operator shall ensure capability to disseminate information about interest rates, bidding, discounting and such other information related to TFUs on a real-time basis or near real-time basis to the participants on the platform.
- (iv) The ITFS operator shall put in place robust cyber security controls and processes along with adequate information and data security infrastructure. It shall adhere to cyber security norms, if any, prescribed by the IFSCA or any other applicable guidelines/laws.

## **5. Application for Authorisation:**

- (1) An entity desirous of setting up ITFS shall apply to the Authority, for grant of Certificate of Authorisation, in the format and in the manner as may be specified by the Authority.
- (2) The application under para 5(1) shall be accompanied by a non-refundable application fee as may be specified by the Authority;
- (3) The parent of the applicant shall be from a jurisdiction which has not been identified in the public statement of Financial Action Task Force (FATF) as “High Risk Jurisdiction – subject to call for action”.

## **Chapter III**

### **OPERATIONAL FRAMEWORK OF ITFS**

## **6. Permissible Activities:**

- (1) ITFS shall act as a facilitator for transactions relating to factoring including Reverse Factoring, Bill discounting under Letter of Credit, Supply Chain Financing, Pre-shipment Credit and Forfaiting.

## **7. Principles of operation:**

- (1) The ITFS operator shall undertake necessary due diligence at the time of on-boarding of the participants in line with the applicable laws.
- (2) The ITFS operator shall comply with the applicable provisions of the IFSCA (Anti Money Laundering, Counter-Terrorist Financing and Know Your Customer) Guidelines, 2022, dated October 18, 2022.
- (3) The ITFS operator shall have well documented rules and regulations including, but not limited to, on-boarding of participants, suspension and cessation of membership, roles and responsibilities of participants and operator, liability framework for ITFS and users in case of breach of rules and regulations, restrictions or other requirements that may apply for using the ITFS, processing and execution of orders, risk management and control.
- (4) the financiers as defined under clause 3(1)(ii)(c) above and on-boarded as participants may preferably be members of Factors Chain International (FCI).
- (5) The ITFS operator shall ensure that option for competitive bidding exists for TFUs created on the platform thereby ensuring price discovery.

## **8. Technology:**

- (1) The ITFS operator shall have in place a suitable Business Continuity Plan (BCP) including contingency and disaster recovery arrangements that are appropriate to the nature, scale, and complexity of its business to ensure continuity and availability of its operation;
- (2) An ITFS operator shall carry out IT/IS audit, at least once in a year or whenever major technical changes are brought in the ITFS platform, by auditors empanelled by CERT-IN;
- (3) All data related to transactions generated on ITFS shall be maintained in easily retrievable form.

## **9. Clearing and Settlement:**

- (1) An ITFS operator intending to provide clearing and settlement of funds through the ITFS platform shall, prior to offering such a service, seek authorisation from IFSCA as a system provider under the Payment and Settlement Systems Act, 2007.

## **10. Risk Management:**

- (1) An ITFS operator shall put in place a comprehensive risk management framework covering all aspects of its operations.
- (2) An ITFS operator shall ensure that risks associated with the activities of the ITFS platform operated by it are identified properly and managed prudently.

## **11. Dispute Resolution:**

- (1) An ITFS operator shall put in place a dispute resolution mechanism to address any dispute that may arise or likely to arise between its members.
- (2) The dispute resolution mechanism shall be in compliance with the guidelines issued by the Authority from time to time.
- (3) The dispute resolution mechanism shall be disclosed to the participants at all times.

## **12. Outsourcing:**

- (1) The software on which the ITFS platform runs should be owned by the ITFS operator.
- (2) The following activities pertaining to ITFS platform shall not be outsourced:
  - (i) Onboarding of participants
  - (ii) Day to Day operations of ITFS platform.

- (3) An ITFS operator outsourcing its activities, other than those mentioned in sub clause (2) above, partially or fully, shall ensure that:
- (i) It has an effective governance and risk management mechanism for managing all risks inherent in such outsourcing relationships;
  - (ii) Such outsourcing arrangements do not impede or interfere with or hinder such ITFS operator from compliance with these or any other regulations/directions/instructions/guidelines issued by the IFSCA from time to time;
  - (iii) The requirements relating to preservation, access, use of data and reporting as per all the relevant laws and IFSCA (Anti Money Laundering, Counter Terrorist-Financing and Know Your Customer) Guidelines, 2022 are adhered to;
  - (iv) There should be clear service level agreements entered into for all outsourcing contracts and available for review by the Authority whenever called for.

**13. Currency of operations:**

- (1) The ITFS operator shall maintain its books of accounts, records and documents in USD.
- (2) ITFS operator may open INR account under the provisions of Schedule 4 of the Foreign Exchange Management (Deposit) Regulations, 2016 as amended.

**Chapter IV**

**AUTHORISATION TO SET UP AN ITFS**

**14. Issue of In-principle approval:**

- (1) After considering an application for authorisation, if the Authority is satisfied that the said application, prima facie, satisfies the conditions for granting authorisation, the Authority may issue a “in-principle approval” letter to the Applicant and shall require the Applicant to satisfy such conditions and within such time as may be specified by the Authority before grant of authorisation.
- (2) Grant of authorisation to an Applicant who has been issued “in-principle approval” shall be at the sole discretion of the Authority and the issue of “in-principle approval” by the Authority shall not automatically entitle the Applicant to be granted an authorisation.
- (3) The Applicant shall intimate to the Authority about any change of ownership or control of the Applicant during the period when a “in-principle approval” is in force.
- (4) The Authority, after receipt of intimation under the para 14(3) above or when it otherwise becomes aware of any change of ownership or control of the Applicant to whom a “in-principle approval” has been issued, may undertake a review of its decision of grant of “in-



principle approval” to the applicant. The outcome of the review undertaken shall be communicated to the Applicant.

- (5) If as a result of the review as stated in para 14(4) above, the Authority decides to revoke the “in-principle approval” granted to the Applicant, the Authority shall provide a reasonable opportunity of hearing to the Applicant before taking a final decision in the matter.

#### **15. Grant of Authorisation:**

- (1) The Authority may, on being satisfied that the Applicant has complied with the conditions laid down in these guidelines and those under the in-principle approval, shall grant a Certificate of Authorisation to the Applicant subject to such conditions as the Authority may deem fit to specify.
- (2) The Certificate of Authorisation granted under para 15(1) above shall be valid unless revoked by the Authority or surrendered by the ITFS operator.
- (3) The ITFS operator shall, at any time after the grant of authorisation, intimate to the Authority of any material change in the information or particulars previously furnished.

#### **16. Refusal of Authorisation:**

- (1) If the Authority is of the opinion that the authorisation cannot be granted due to certain deficiencies, it shall communicate the same to the Applicant advising it to rectify such deficiencies within thirty days from the date of communication.
- (2) If the Applicant fails to rectify such deficiencies within the specified time, the Authority shall refuse to grant authorisation and communicate the same to the Applicant.

*Provided that no such refusal shall be made without giving the Applicant a reasonable opportunity of being heard.*

- (3) The application filed under para 5 of these guidelines, may be withdrawn by the Applicant at any time before the grant of authorisation by making a communication to this effect to the Authority.
- (4) The Applicant whose application is refused or withdrawn under these guidelines, may submit a fresh application for authorisation after a period of six months from the date of communication of refusal of the application by the Authority or the date of withdrawal of the application.

#### **17. Revocation of Authorisation:**

- (1) If the Authority is satisfied that an ITFS operator has failed to comply with any of the conditions of the authorisation, provision/s of these guidelines, orders or directions of the Authority, it may revoke the authorisation granted to such ITFS operator.
- (2) The order for revocation of the authorisation shall be issued after giving the ITFS operator a reasonable opportunity of being heard.

#### **18. Surrender of Authorisation:**

- (1) An entity that has been granted in-principle approval or authorisation as an ITFS operator may file an application with the Authority, either before or after commencing its operations, in such a form and manner as specified by the Authority, seeking permission to surrender of the authorisation granted to it.
- (2) The Authority may permit the entity seeking surrender of authorisation to do so subject to satisfaction of such conditions as the Authority may specify.

#### **19. Commencement of Operations:**

- (1) The ITFS operator shall commence its operations within six months from the date of issuance of Certificate of Authorisation.
- (2) The ITFS operator shall deploy resources, located in and operating from IFSC, that is commensurate to the volume and nature of activities being undertaken by the ITFS operator.
- (3) The ITFS operator may submit an application for extension of time for commencing operations, if the decision to submit such an application is passed by a resolution of its board of directors or the board of directors of the parent in the case of a branch, at least two months prior to the last date of commencement as stipulated under para 19(1).
- (4) The application under para 19(3) shall, *inter-alia*, include complete details of the reasons behind the request for extension, duration of extension sought, steps being undertaken to overcome the delay and any other information which, in the opinion of the ITFS operator, is relevant to the request for extension.
- (5) On receipt of the application under para 19(3), if the Authority is satisfied that ITFS operator cannot commence its operation within stipulated time period, it may extend the time period by such further period, as it thinks fit, but not exceeding three (3) months.

### **Chapter V**

## **GOVERNANCE**

## **20. Corporate Governance :**

- (1) Every ITFS operator shall have a Board approved corporate governance policy.
- (2) The policy shall comprehensively and clearly document its governance arrangements i.e., the framework under which its Board and senior management shall function.
- (3) The ITFS operator shall develop a policy for management of risks including risk management policies, procedures, systems that enable it to identify, measure, monitor and manage the range of risks that arise in or are borne by it while providing permissible services. Such a policy shall be subject to a periodic review by the Board of the ITFS operator.

## **21. Change of Management:**

- (1) Any mergers, acquisitions, takeovers or change in management of a ITFS operator, that results in its change in control of at least twenty per-cent. of total share capital, or of business decisions under an agreement, shall be subject to prior approval of the Authority.

## **22. Fit and Proper:**

- (1) The ITFS operator shall ensure that its Directors, key managerial persons and persons exercising control over it (hereinafter referred to as 'Relevant Person(s)') satisfy the 'Fit and Proper requirements' (FPR) specified in **Schedule I** of these guidelines.
- (2) The Authority may undertake an evaluation of any Relevant Person(s) under the FPR during the time of authorisation and any time thereafter.

## **Chapter VI**

### **MISCELLANEOUS**

## **23. Power to relax strict enforcement of the guidelines:**

- (1) The Authority, for reasons to be recorded in writing, may in the interest of development of financial market in IFSC, relax the strict enforcement of any requirements of these guidelines.
- (2) For seeking relaxation under para 23 (1), an application giving details and the grounds on which such relaxation has been sought, shall be filed with the Authority along with such non-refundable fee as may be specified by the Authority.

## **24. Power to specify norms, procedures, issue clarifications and remove difficulties:**

- (1) For the purposes of implementation of these guidelines and matters incidental thereto, the Authority may specify norms, procedures, processes, additional requirements, etc. by way of circulars or guidelines or directions.
- (2) In order to remove any difficulties in the interpretation or application of the provisions of these guidelines, the Authority may issue necessary clarifications through guidance notes or circular.

#### **25. Payment of Fees:**

- (1) The ITFS operator shall pay such fee or charges as may be specified by the Authority from time to time.

#### **26. Action in case of Default:**

- (1) If an ITFS operator fails to fulfil any of the conditions subject to which the authorisation under this framework has been granted, the Authority may take any action as it may deem fit, including suspension or cancellation of authorisation, after giving an opportunity to the entity, of making its submissions.

#### **27. Submission of Report/Information:**

- (1) Every ITFS operator shall submit all the financial information to the Authority in USD, unless otherwise specified.
- (2) The Authority, from time to time, may call for any other information, documents or records as it may deem necessary from the ITFS operators.

#### **28. Repeal and Savings**

- (1) On and from the commencement of these guidelines, Circular with title "Framework for setting up of International Trade Financing Services Platform ('ITFS') for providing Trade Finance Services at International Financial Services Centres ('IFSCs')". dated July 9, 2021, shall cease to apply.
- (2) Notwithstanding anything contained in clause (i) above, any action taken or purported to have been taken under the circular mentioned in clause(i), before the commencement of these guidelines shall be deemed to have been done or taken or commenced under the corresponding provisions of these guidelines.

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**Fit and Proper Criteria  
(Clause 22)**

For the purpose of Fit and proper criteria as given here, the term 'functionaries' include (but are not limited to) the following officials of the applicant. Separate form should be submitted by each functionary, as applicable. For, all the questions below, provide details for the past 8 years.

- Promoters
- Founders
- Directors/Partners/Designated Partners
- Key Managerial Personnel
- Principal Officers
- Persons /Shareholders having 10% and above share/voting rights/ distributable dividend
- Trustees
- Authorised Representatives
- Any other person, as maybe specified.

Sr. No.	Particulars	Comments/Remarks
1	<p>Whether any of the functionaries or any of the entities associated with<sup>9</sup> the functionary have been refused a Registration/ Authorization/ License by the IFSCA or any other regulatory authority or their Registration/ Authorization/ License has been suspended at any time prior to this application.</p> <p>(If Yes, provide details. If No, enclose a declaration to that effect).</p> <p><sup>9</sup>for this Section, a person is said to be 'associated with' an entity if he/she is/ was a functionary of the entity</p>	
2	<p>Whether the functionary or any of the companies/ entities in which the functionary is/ was associated with<sup>9</sup>, is in default or have defaulted in the past in respect of credit facilities obtained from any entity or bank?</p> <p>(If yes, please furnish information about the default and the name of the lending institution)</p>	
3	<p>Whether any of the functionaries have been disqualified to act as promoter/ director/ key managerial personnel under any law in any jurisdiction where the applicant entity or the group companies of the applicant entity are operating?</p> <p>If yes, please furnish details.</p>	
4	<p>Name/s of the companies, firms, partnership firms, in which any of the functionaries hold substantial interest.</p>	
5	<p>Whether the Applicant/Group<sup>4</sup> or any of the functionaries are/ were undergoing/ involved in</p>	

	<p>any investigation/ disciplinary action/ legal or regulatory violations/ criminal case by any law enforcement/ regulatory agencies?</p> <p>If yes, please furnish details.</p>	
<b>6</b>	<p>Whether any order has been passed by any bankruptcy/ resolution authority against any company/ entity with which any of the functionaries are/ were associated<sup>9</sup>?</p> <p>If yes, please furnish details.</p>	
<b>7</b>	<p>Whether any of the functionaries have been convicted by a court for any offence involving moral turpitude or any economic offence or any offence against securities laws?</p> <p>If yes, please furnish details.</p>	
<b>8</b>	<p>Whether a recovery proceeding has been initiated against any of the functionaries by a financial regulatory authority and is pending?</p> <p>If yes, please furnish details.</p>	
<b>9</b>	<p>Whether an order for winding up has been passed against any of the functionaries for malfeasance?</p> <p>If yes, please furnish details.</p>	
<b>10</b>	<p>Whether an order restraining, prohibiting or debarring any of the functionaries from accessing or dealing in financial products or financial services, has been passed by any regulatory authority/ courts, and a period of five years from the date of the expiry of the period specified in the order has not elapsed?</p> <p>If yes, please furnish details.</p>	
<b>11</b>	<p>Whether any other order against any of the functionaries, which has a bearing on the securities market, has been passed by any regulatory authority, and a period of five years from the date of the order has not elapsed?</p> <p>If yes, please furnish details.</p>	
<b>12</b>	<p>Whether any of the functionaries</p> <p>i) have been declared insolvent and not discharged?</p> <p>If yes, please furnish details.</p>	
	<p>ii) have been found to be of unsound mind by a court of competent jurisdiction and the finding is in force?</p> <p>If yes, please furnish details.</p>	

	iii) are financially not sound or have been categorized as a wilful defaulter?  If yes, please furnish details.	
	iv) have been declared a fugitive economic offender?  If yes, please furnish details.	
We declare that all the functionaries have a record of fairness and integrity, including but not limited to financial integrity, good reputation, character and honesty.		
We undertake to bring to the notice of IFSCA within one week, if any of the above actions is initiated against any of the functionaries in future.		
	<b>Signature:</b>	
	<b>Name:</b>	
	<b>Designation</b>	
	<b>Seal / Stamp</b>	
	<b>Date:</b>	<b>Place:</b>