

GIFT CITY

INDIA'S FINANCIAL FUTURE OR AN AMBITIOUS DREAM?



INTRODUCTION

■ *“Unsealing Potential” — Beyond merely introducing fresh perspectives, this phrase symbolizes the burgeoning promise of India’s financial sector, especially as global attention shifts towards recognizing its significance. In our upcoming series of articles, the Hubbis Team will explore the core of India’s swiftly growing International Financial Services Centre (IFSC), GIFT City. This first article is inspired by our recent insightful thought leadership discussion which we hosted in Mumbai ([CLICK HERE](#) to view the photos from the event) featuring inputs from 33 industry luminaries, ranging from key private client lawyers, wealth planning specialists, and leaders from asset managers and private client wealth firms, and even the key minds behind the curation of GIFT City itself. Journey through this piece to whet your appetite for the insights to come, surveying the compelling topics, key takeaways, and a forward-looking view of GIFT City through the lens of India’s leading private wealth management experts.*

We also invite you to share your viewpoint – and we would be grateful if you [CLICK HERE to complete our survey](#) – which raises the following critical questions - What’s the opportunity that GIFT City represents to private wealth managers? Wealthy families? Asset managers? Corporations? - What’s the vision for GIFT City? Is it ready to launch? What needs to be added / changed for this GIFT City to be successful? - Is GIFT City fit for purpose as a family office domicile? - Is it a conduit for Indian Families to invest abroad? Or is it still too much ‘linked’ to India and won’t actually be appealing? - Does GIFT City have the right mix of professionals to achieve successful outcomes for clients? - Do you expect the majority demand to be investment ‘out’ or investment in?



» **Setting the scene,** recent studies highlight that India's economy has surged to USD 3.75 trillion. Impressively, it took a mere 13 years to add USD 2 trillion, a stark contrast to the six-decade journey to reach its first trillion post-independence. As the global community pays more attention to India's flourishing startups and growing affluence, the country recognizes the importance of enticing its globally established startups and entrepreneurs to return home. Evaluating this transition involves understanding several factors: foreign currency dominance, attractive tax regimes, ease of investing in global markets,

foreign investment, coupled with affordable entry costs and more flexible compliance regulations, suggests promising prospects if executed properly. This naturally leads to comparisons with global financial centres like the UAE's DIFC, a point that our discussion delegates were keen to raise. Contemplating the adoption of DIFC-inspired regulations in GIFT City, or even looking to models from established jurisdictions like Cayman or Malta, underscores both the challenges and opportunities in shaping GIFT City's future, namely in which direction should the jurisdiction travel? Or is there scope to act as a melting pot of these jurisdictions to create a uniquely

are still so many unknowns to grapple with, that at present the true potential and key product offering(s) of the centre, remains unclear to many of us," reported one attendee.

In a recent report – entitled '[Onshoring the Indian Innovation to GIFT City](#)' - the IFSCA highlighted how countries like the US, Singapore, Estonia, and Israel are becoming hotspots for Indian startups. Their favourable regulatory policies and ease of doing business, outshine what Indian entrepreneurs have to contend with locally. This has led to a trend where many Indian startups are 'flipping' to these

« ***"It is obvious that if positioned correctly, GIFT City has the ability to disrupt some of the well-established IFCs... There are still so many unknowns to grapple with, that at present the true potential and key product offering(s) of the centre, remains unclear to many of us."*** »

closeness to investors, and eased compliance requisites – elements that have historically attracted Indian unicorns to venture overseas.

Context and comparisons

In discussions about the development of GIFT City, the role of the International Financial Services Centres Authority (IFSCA) is crucial. During our thought leadership talk, we highlighted the comparison between (Singapore or the DIFC), ADGM and GIFT City. But how do plans to promote Indian businesses and innovators relate to the IFSC framework? The convergence of talent and

multi-faceted offering which still confers sufficient regulatory security upon participants. "It is obvious that if positioned correctly, GIFT City has the ability to disrupt some of the well-established IFCs. Provided it can offer Indian Families and Indian Businesses a complete range of viable investment and wealth management solutions in an independent regulated framework, (such as those available in other IFCs), GIFT City can position itself as a regional conduit jurisdiction. Enabling global investments to be made from GIFT City in an unfettered, efficient manner, will be critical to its positioning as an attractive midshore centre. There

foreign jurisdictions, as coined by the IFSCA. Additionally, several countries provide incentives that further entice Indian businesses. Notably, the protection of Intellectual Property Rights in such preferred foreign locations, is far more robust than those available within India. Furthermore, while domestic funding (or rupee capital) is limited in India, startups are gravitating towards countries like Singapore, the USA, and the UK for greater access to private capital, emphasizing the allure of these entrepreneur-friendly environments. These points all note the challenges to be addressed by GIFT City, which raises the question, as debated by



our experts, as to whether the new IFSC is up to the task.

The onshore piece

Building on this premise, our coterie of experts identified several critical areas for review. Notably, one aspect raised was the Indian Trust Act 1882, which offers substantial leeway for family offices (FOs). In turn, provisions onshore have been made which allow Indian lawyers to cater to an international client base more effectively. Consequently, many Indian law firms are setting sights on the opportunity that GIFT City could present to them and their clients, lured by its attractive tax incentives. However, questions about inbound/outbound tax responsibilities and the Foreign Exchange Management Act, 1999 (FEMA)'s role regarding investments inside and outside GIFT City remain.

However, one notes that India retains comparatively high corporate tax rates, which can be a significant burden on young and growing businesses. By shifting their headquarters to countries with lower tax rates or favourable tax structures, startups can reduce their tax liabilities, allowing them to retain more profits for reinvestment and growth. Therefore, it is for GIFT City to address this, should the aim of the IFSC be to retain a greater share of Indian-headed startups.

A look at the legal side

Delving deeper still into GIFT City's challenges, the legal component warrants closer examination. While wealthy Indian families have a comprehensive suite of tools to tailor their financial strategies, India's unique position – a blend of the adaptability of common-law jurisdiction and the advantage of no inheritance tax – hints at potential

areas of growth. The Indian Trust Act 1882, the foundation of trusts in Indian law, is over a century old. Consequently, efforts to both structure and transfer funds from India using the GIFT Family Investment Fund (FIF) have encountered hurdles, primarily due to misalignments between GIFT and the Reserve Bank of India (RBI). These discrepancies pose challenges for families eager to harness GIFT City's international investment potential.

A piece in a larger puzzle

GIFT City's envisioned role as a gateway for inbound and outbound funds, raises many questions. How does it fit into the international financial landscape? As we traverse through its mid-shore and offshore intricacies, we see that while The Foreign Exchange Management Act (FEMA) 1999 applies domestically, it seems to take a backseat when considering offshore investments from GIFT City in the case of non-resident Indians, or other wholly foreign entities. And then there's the matter of Overseas Investment Regulations – with its learning curve and limits based on offshore constraints.

However, based on our discussions, the underlying intent for GIFT City's future doesn't seem to align with the unrestricted offshore investment aspirations of Indian-based families. [As Zac Lucas from Spencer West LLP, a senior participant in our discussion in Mumbai, pointed out](#), the vision for GIFT City is more of a 'mid-shore' model. The ultimate goal isn't to allow capital ownership to move out of India; rather, ultimate beneficial ownership of any GIFT Family Office would remain firmly within Indian borders. This framework

only partially addresses the desires of families to diversify capital ownership outside India. But this still leads one to consider whether this means that GIFT City is not what onshore investors and their representative professionals were prima facie hoping for.

Points from the powers that be

Several pivotal advancements have been made recently. In the FinTech sector, the IFSCA introduced the “FinTech Entity Framework 2022” to both foster and oversee FinTech activities within the IFSC. Furthermore, the IFSCA launched a FinTech Incentive Scheme in February 2022, marking its position as the pioneering Indian financial sector regulator to design an incentive program that offers financial grants specifically for FinTech initiatives.

Shifting focus to domestic matters, GIFT City, India's premier International Financial Services Centre, is strategically placed to encourage Indian startups that have moved abroad to consider returning – a process the IFSCA

describes as “reverse flipping”. To make this vision a reality, the IFSCA stresses the creation of an entrepreneur-friendly regulatory environment, a competitive tax system complemented by financial incentives, and ensuring access to global investors for domestic firms. The goal is to establish a reputation as a leading global FinTech hub. The IFSCA also highlights the importance of tapping into top-tier Indian talent and advancing technological integration. Moreover, the regulator points out that the GIFT IFSC boasts modern infrastructure and is well-connected.

Assessing the current picture

The present scenario presents its own set of challenges. A perceived lack of collaboration from the RBI and the disconnect between domestic regulatory players underscore the need for transparent guidelines. Issues such as the feasibility of hosting fund managers in GIFT City, the call for hybrid solutions, and the quest for market stability are critical. While GIFT City offers potential, it grapples with

regulatory hurdles, emphasizing the need for a more efficient KYC/AML system. Even though the IFSCA plays a significant role, its scope appears limited, suggesting a potential need for a dedicated regulatory institution.

Furthermore, the IFSCA itself has spotlighted challenges like tax rationalization, fostering onshore development to retain businesses domestically, among others. Our experts further still emphasized the need for precise definitions and realistic financial benchmarks as foundational solutions.

Having delved deep into the intricacies of GIFT City in a recent thought leadership discussion, Hubbis has dissected its complexities and debated potential solutions, especially focusing on its offerings for asset managers, family offices, and other critical segments. The future of GIFT City is poised intriguingly between India's vast financial potential and the challenges that lie ahead. Look forward to our upcoming series for Hubbis that unravels our insights and consolidates the views of the local and international community. Stay tuned! ■



Want to find out more about Private Wealth Management in India?

Please [CLICK HERE](#) to view the content curated from our recent Hubbis India Wealth Management Forum 2023. Or you can [CLICK HERE](#) to view the photos from the forum.

Interested in joining us next year on Wednesday, 28th August 2024? Be sure to [reach out today](#) to explore our attendance and partnership options.

And be sure to get in touch [HERE](#) if you have any comments or question on this article.

