Mumbai First presents

Speaker Series 2019

'IFSC Advantages for Mumbai'

In collaboration with

BDO India & Bombay Stock Exchange (BSE)

On
Monday, 23rd September 2019
3:30 p.m. - 5:30 p.m.

At
Bombay Stock Exchange, Dalal Street, Mumbai

Venue Partner

On a bright Monday afternoon, the BSE's banquet hall witnessed the gathering of Mumbai First, B.D.O. India, B.S.E. grandees and concerned students and citizens, for a talk on the pertinent topic of Mumbai's advantages and potential for becoming India's premier International Financial Services Centre (IFSC). The eminent speaker was Mr. Harry Parikh, Associate Partner of BDO India (specializing in Mergers and Acquisitions Tax, and Tax and Regulatory Services).

Dr. Neville Mehta, CEO of Mumbai First, began the event by explaining that the discussion would regard the advantages, challenges and opportunities for Mumbai, with regards to implementing a globally competitive IFSC. He elaborated by saying that the Union Budget of 2019 had given various incentives for the Gujarat International Finance Tech-City, and this raises the question of how Mumbai's stakeholders can lobby for similar advantages and regulatory concessions, towards the development of an IFSC here. The merits of such ambition are quite apparent, given Mumbai's status as the Indian capital of commerce, finance, culture and arts (all of which were later argued to be indispensable draw factors for the globally mobile professionals required for an IFSC).

He went on to introduce the event partner, BDO India. BDO is a leading professional services organization, offering Assurance, Tax, Advisory and Business Services and Outsourcing for domestic and international clients across a range of industries. BDO delivers truly exceptional client service through a tailored solutions approach, backed by experience, expertise and technology.

Dr. Mehta then introduced the gracious venue partner, the Bombay Stock Exchange (BSE), which is Asia's oldest and the world's fastest stock exchange. It is a leading exchange group and has played a prominent role in the development of Indian capital markets. BSE provides an efficient and transparent market for trading in equity, debt instruments, equity derivatives, currency derivatives, commodity derivatives, interest rate derivatives, mutual funds and stock lending and borrowing. It also provides risk management, clearing, settlement, market data services and education. BSE’s systems and processes are designed to safeguard market integrity, drive the growth of the Indian capital market and stimulate innovation and competition across all market segments.

This was followed by an introductory video about Mumbai First. Mumbai First is a non-profit think tank, which undertakes initiatives with a unique public-private partnership (PPP) model. This model uses the strengths of Mumbai's public sector and its industries, to catalyze social improvements on the fronts of governance, education and sports, housing, health, transport and mobility, security and resilience, art, culture and heritage, the environment and economic growth. Some of Mumbai First's notable projects include the 2016 BRICS Friendship Conclave, the 40-year concept plan for Mumbai's transformation, creating the Citizens Action Group and the Accessible India Campaign for achieving nation-wide accessibility for people with disabilities. All of this contributes to Mumbai First's goal of making Mumbai a world-class city, and a great place to live, work and invest in.

Mr. Shankar Jadhav, Managing Director in charge of BSE investment portfolios, welcomed everyone present, and also stressed the importance of the day's discussion topic. His participation was a boon for the event, given his role in promoting and advising GIFT City on behalf of the BSE. He stated that the world is big enough for both GIFT City and an IFSC in Mumbai, and that he looked forward to hearing Mr. Parikh speak on the tax regime and investor benefits accruing from an IFSC in Mumbai.

Dr. Mehta proceeded to tell the audience more about Mr. Parikh, attempting to condense his extensive biography for the audience. Mr. Parikh focuses on transaction tax practice for the Mumbai office of BDO, and has 13 years of experience in tax advisory on direct tax and crossborder tax, under many different industries.

Mr. Parikh began by noting how in prior work with Dr. Mehta, they had dealt with a lot of regulations that were quite relevant to the day's topic. On the road to implementing an IFSC, Bombay faces a lot of challenges that must first be addressed. He planned to first address the topic of an IFSC, in terms of its needs, its challenges, the actions required by society and the many aspects of regulatory liberalization required. Following this, he would attempt to answer why Mumbai is the most suitable candidate for an IFSC in India, and also perhaps why not, followed by also understanding why the IFSC project in Mumbai was preempted by GIFT City.

He first outlined the concept of an IFSC, as a jurisdiction that provides financial services to nonresidents and residents in any international currency except for the domestic currency, dealing with flows of financial products and services across borders. He noted that India is an importer of financial services, in the sense that it offshores many of its financial activities despite its reputation for on-shoring business in manufacturing and services. India's GDP is constantly on the rise, and the country will soon look to compete with the biggest economies in the world. To facilitate this, investment must be forward looking, and it is expected that in the next decade, artificial intelligence (AI) and financial services will be the sectors showing the most significant growth and performance. He noted that India already has a level of competency in AI, but requires much progress in the field of financial services.

The Indian government has been giving production-linked incentives in various sectors, but Mr. Parikh posed the question of why incentives are required, for the sake of bringing success stories to India. The government offers such incentives because it recognizes the value of private sector participation and input, through a PPP cooperation model. Thus such a courting of stakeholders is needed in the form of an impetus package, after an idea has been proposed and the relevant legislation has been designed, so that the project can be pushed through implementation to its success.

Mr. Parikh spoke about how India has had great success in outsourcing, both in terms of financial attractiveness and business environment for the presence of business process outsourcing (BPO) and knowledge process outsourcing (KPO). Given this capacity, why has the country been thus far unable to upgrade to providing IFSC services? A BPO provides low-value, low skill repetitive tasks, such as coding. A KPO is focused on research, analytics and data handling, which India has also excelled in thus far. However, an IFSC has to provide the functions of designing financial instruments and structures, and host client-facing cross-border networks, negotiations and interaction. India's regulatory structure poses myriad challenges, such as the requirement for all transactions to be denominated in INR or pegged to the dollar, or sometimes a lack of adequate regulatory structure for allowing certain financial services.

Given India's status as a net importer of financial services, Indian businesses are shelling out considerable sums for these services. This raises the urgent question of whether Mumbai must plan and compete to be an IFSC, or whether it will flourish spontaneously upon the provision of an adequate regulatory environment. To answer this question about competition, Mr. Parikh framed other IFSCs in three categories. The clear leaders are the likes of London, New York and Singapore, while the upcoming players are Dubai and Shanghai, and the trailing cities are regionally focused financial centers such as Paris, Frankfurt and Tokyo. Mumbai's aim should be to compete with the leaders, but how do we get there? Mumbai needs to compete with these leaders to improve as an investment destination and attract capital flows. However, Mumbai's ambitions to become an IFSC have gotten jammed before the implementation phase.

There are three relevant regulatory bodies to consider:

- The Securities and Exchange Board of India (SEBI), which published IFSC Guidelines in 2015.
- The Insurance Regulatory and Development Authority of India (IRDA), which published the IFSC Insurance Intermediary Offices Guidelines in 2019
- The Reserve Bank of India (RBI), which made the Foreign Exchange Management (IFSC)

Regulations in 2015, and endeavors to provide the required tax benefits and freedom of currency

Thus far, only GIFT City has become operational, albeit at a limited scale. Thus there is still an argument to be made for Mumbai as a prime candidate for India's IFSC needs. Mumbai accounts for the largest deposits mobilization and trading volumes in financial services in India. The presence of sophisticated transportation is also crucial for an IFSC, and Mumbai possesses rapid transit consisting of suburban railway lines and commuter rails for more outlying suburbs, as well as connective highways to other cities. For the improvement of public rapid transit, Mumbai requires an independent, private service provider, and to this end Mumbai has accepted financing from the Japan International Cooperation Agency to build the Mumbai Metro. Most notably, almost every major financial market player in India has its head office in Mumbai, including foreign institutional investors (FIIs), term lending institutions, merchant bankers, broking houses and regulatory agencies such as the RBI, SEBI, NSE and BSE. This is coupled with the highest concentration of qualified professionals in India, especially in the field of quantitative finance.

This leads to the next set of considerations, which are the requirements of an IFSC. The first requirement is under physical infrastructure, and more specifically, world-class commercial residences to attract the best professional talent, given that professionals of such caliber have the luxury of choosing between IFSCs around the globe. This has to be connected with integrated and uncongested transport infrastructure, which Mr. Parikh argued is already in development with the Metro, along with water and waste management facilities.

The next point was just as significant, extolling the importance of social infrastructure such as education, healthcare, hospitality, entertainment, landscaping and zoning. Factors such as educational quality, an abundance of leisure opportunities and cultural capital are crucial intangible factors that sway the choices of any professional, and audience members were keen to point out that in these aspects, Mumbai has a clear advantage among Indian cities.

Mr. Parikh noted that GIFT City's selection to be developed as an IFSC was largely due to the perceived difficulty in implementing broad infrastructural makeovers in Mumbai, which blocked economic development. On the other hand, Mumbai enjoys more comprehensive connectivity, cosmopolitan leisure and cuisine diversity as well as the other aforementioned advantages. The audience acceded to this view, postulating that having an IFSC in GIFT City was as good as India not having an IFSC at all. The establishment of an 'IFSC tower' in Bandra-Kurla Complex had stalled owing to the lack of government initiative and space. Public sector enthusiasm appeared to be a key hurdle, as Mumbai has its act together on other important factors such as connectivity, safety and security. Mumbai already hosts the most prominent financial intermediaries of the country, so locating an IFSC in Mumbai is the optimal response to an existing socio-economic environment.

The achieved consensus was that Mumbai is the existing financial capital of India and must now be made into an international hub for business and financial services, in the mold of a true 'Global City'. This will help it become India's prime exporter for financial services and also spur the development of other cities in the vicinity, including Pune and Nagpur. Mumbai's abundant potential signals a path to success, and Mr. Parikh argued that the Mumbai and GIFT City could coexist in India as primary and secondary financial centers.

The clear way forward for Mumbai involves the creation of world-class infrastructure, in the physical and social sense. As with the previously stymied attempt in Bandra-Kurla complex, finding and zoning an adequate location in Mumbai for an IFSC is key. The Maharashtra Industry, Trade and Investment Facilitation Cell (MAITRI) has made notable plans for the improvement of connectivity, public infrastructure and ease of doing business in the state, including establishing Special Economic Zones. MAITRI could be tasked to set up an IFSC in a suitable part of the Mumbai Metropolitan Region. Mr. Parikh suggested that once infrastructural transformation is underway, this could all be an 18-24 month project, and clearly a great investment for the city's future. As a parting remark, he said that time is of the essence, as finance is mobile and can move elsewhere in the face of staggered development, and all relevant stakeholders must be alert to the present window of opportunity.

The Question and Answer session included a query regarding why regulatory agencies have obstructed Mumbai's development into an IFSC, while facilitating the growth of GIFT City. Mr. Parikh clarified that regulators have not specifically discriminated against Mumbai, but that existing financial regulations are not conducive to an IFSC, and have only been relaxed in a targeted manner for GIFT City.

Mr. Nandan Maluste of Mumbai First's Executive Board was invited to make the concluding remarks, and began by reiterating the definition of an IFSC as a jurisdiction that facilitates business in a foreign currency, catering to residents and non-residents, and that it proffers a great opportunity for income and business growth. In the current status quo, there are transactions amounting to billions of dollars that are booked in Singapore and Mauritius when they could be in Mumbai. Mumbai already has the requisite knowledge and expertise for this work, especially given that 90 percent of India's foreign currency transactions are conducted in Mumbai, and almost all non-life insurance financial services are also here. Mumbai's greatest asset is the rich skill-base of its labor force, and this is what will draw income to the city. Mr. Maluste also concurred that social infrastructure (and clearly leisure and entertainment) are important factors for the development of an IFSC and a 'global city', citing as an example Mumbai's privilege of hosting the Symphony Orchestra of India. He mentioned the second airport of Mumbai and how the city will soon move hundreds of millions of people per year, cementing its centrality to the regional economy. Towards the end of the event, Mr. Maluste and Mr. Parikh also discussed the importance of Mumbai becoming a competent legal arbitration and dispute settlement hub on par with the current provider of legal services to many Indian financial entities: Singapore. One of the biggest obstructions to achieving this distinction is the issue of Judicial Pendency, which Mumbai First had first addressed in a Speaker Series Event in March 2019.

Dr. Mehta ended the event with expressions of gratitude to Mr. Parikh, Mr. Maluste, Mr. Jadhav and the organizers and participants of the event. Given that Mumbai is already a financial hub and enjoys all the statistical advantages in pursuit of becoming an IFSC, he exclaimed that the key remaining task is convincing the leadership of the Government of India.