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CORPORATE GOVERNANCE IN IFSC ENTITIES: ALIGNING GLOBAL ASPIRATIONS WITH INDIAN REGULATION

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***Abstract*:** The emergence of India's International Financial Services Centres (IFSCs), led by GIFT City, is transforming the landscape of global finance by enabling institutions to operate in a globally competitive regulatory environment. While IFSC entities benefit from a principles-based framework driven by the International Financial Services Centres Authority (IFSCA), the role of corporate governance becomes critical in balancing flexibility with investor protection and systemic stability. This article examines how corporate governance is evolving within IFSCs by comparing it with the mandatory frameworks followed by listed and unlisted companies in India. The paper also discusses voluntary practices adopted by IFSC entities, their strategic importance in attracting global capital, and areas requiring regulatory fine-tuning. The article explores measures to strengthen transparency and governance in IFSCs, supporting their evolution in line with global standards and reinforcing India's broader vision of becoming a competitive international financial hub.

***Index Terms* -** Corporate Governance, IFSC, GIFT City, regulations, SEBI.

I. INTRODUCTION

India's ambitious financial sector reforms have taken a definitive turn with the operationalization of the International Financial Services Centres (IFSCs), particularly GIFT City in Gujarat. These centres aim to bring offshore financial services back to India by offering regulatory clarity, fiscal incentives, and a competitive ecosystem. As of July 2025, GIFT IFSC hosts over 680 regulated entities, including banks, fund managers, insurers, and fintech startups (Times of India, 2024)., ranging from banking units, fund managers, reinsurance firms, to aircraft lessors. While IFSCs offer operational ease and global capital access, their long-term sustainability hinges on robust and credible corporate governance mechanisms. This article explores how these mechanisms are evolving, comparing them with the traditional Indian corporate governance frameworks applicable to listed and unlisted public companies.

1.1 Regulatory Framework for IFSC Entities

The regulatory oversight in IFSCs is provided by the International Financial Services Centres Authority (IFSCA), which consolidates the roles previously held by multiple domestic regulators such as SEBI, RBI, IRDAI, and PFRDA. IFSCA has issued tailored regulations on listing, fund management, fintech, banking, insurance, and capital markets within the IFSC domain. Unlike the SEBI LODR framework that enforces detailed compliance checklists, IFSCA adopts a more flexible, principles-based governance approach allowing businesses to implement best practices suited to global standards. However, this flexibility requires balancing innovation with effective oversight to prevent regulatory arbitrage and ensure investor protection.

II. CORPORATE GOVERNANCE IN TRADITIONAL INDIAN CONTEXT

Listed companies in India are governed by the Companies Act, 2013, and SEBI's Listing Obligations and Disclosure Requirements (LODR) Regulations, 2015. These regulations mandate a well-defined governance structure including independent directors, nomination and remuneration committees, regular disclosure of financial and non-financial performance, and shareholder participation. Unlisted public companies, although not subject to SEBI LODR, still need to comply with corporate governance provisions under the Companies Act such as board composition and statutory audit. This dual structure creates a governance tier in India—highly regulated listed companies and moderately governed unlisted ones—offering a useful benchmark for IFSC governance comparison.

III. VOLUNTARY GOVERNANCE PRACTICES IN IFSCs

One of the defining features of IFSC entities is the voluntary nature of governance practices, which facilitates innovation and global benchmarking. According to IFSCA's internal consultations and the October–December 2024 Quarterly Bulletin, nearly 40% of fund management entities in GIFT IFSC have voluntarily adopted ESG disclosures aligned with OECD principles. Several entities also follow IFRS standards, publish integrated reports, and adopt independent audit committees beyond regulatory minimums. These practices are crucial in enhancing investor confidence, especially for global capital flows, private equity, and alternative investment funds operating within IFSCs. Voluntary governance also sets a precedent for peer-led self-regulation and reputational discipline.

IV. COMPARATIVE ASSESSMENT AND CHALLENGES

Comparing IFSC governance with traditional Indian companies highlights two key distinctions: the flexibility of the regulatory framework and the maturity of enforcement mechanisms. While traditional Indian listed companies operate in a rule-bound compliance environment, IFSC entities enjoy greater leeway to innovate. However, this can lead to governance gaps, particularly in audit transparency, disclosure of related party transactions, and stakeholder grievance redressal. Another concern is the limited public visibility of IFSC entities' disclosures compared to Indian exchanges like NSE or BSE. Building a governance maturity model and institutional benchmarking framework can address these disparities and enhance regulatory convergence.

Table 1: Corporate Governance in SEBI vs IFSCA-Regulated Entities

Governance Element	SEBI (Listed Entities)	IFSCA (IFSC Entities)
Board Independence	Minimum 50% independent	No mandatory threshold
Audit Committee	Mandatory	Optional (recommended)
ESG Reporting	BRSR Mandatory from FY 2023	Voluntary
Grievance Redressal	SEBI SCORES Platform	Entity-specific mechanisms
Disclosure Platform	SEBI Website, Exchanges	Yet to be centralized

V. GLOBAL REGULATORY APPROACHES TO IFSC GOVERNANCE

India's IFSC governance model can benefit from comparative analysis of international financial centres:

1. Dubai International Financial Centre (DIFC), UAE: Operates under Common Law with DFSA as an independent regulator. Its Corporate Governance Module mandates board independence, audit committees, and ESG disclosures. DFSA requires periodic reporting and compliance assessments. [DFSA Rulebook, 2023]
2. Singapore: Governed by MAS (Monetary Authority of Singapore), the Singapore Code of Corporate Governance emphasizes board evaluation, diversity, internal audit, and shareholder rights. The governance guide is periodically updated to reflect market dynamics. [MAS, 2023]
3. Mauritius: The National Code of Corporate Governance (2016) focuses on voluntary adoption with clear disclosure norms. Regulated by the Financial Services Commission(FSC), Mauritius aligns closely with OECD's global standards. [FSC Mauritius, 2023]

India's GIFT IFSC could selectively adopt regulatory tools from these jurisdictions such as digital disclosure dashboards, public ESG ratings, and periodic corporate governance audits.

VI. INSTITUTIONAL ENHANCEMENTS FOR IFSC GOVERNANCE FRAMEWORKS

To future-proof IFSC governance, the following institutional mechanisms are outlined for consideration:

- IFSCA Governance Code: Introduce a hybrid mandatory-voluntary governance code customized for IFSC operations based on OECD and G20 principles.
- Digital Disclosure Portal: Create a centralized platform for ESG, board, audit, and risk disclosures in machine-readable formats.
- Capacity Building: Institutionalize director training, international certification, and governance benchmarking audits.
- Grievance Mechanism: Establish a unified redressal system for investor complaints linked with IFSCA's regulatory sandbox.
- Third-Party Governance Ratings: Encourage global ESG rating firms to assess IFSC entities and publish governance scores publicly.

These enhancements can make IFSCs not just innovation-friendly zones but also globally benchmarked governance ecosystems.

VII. CONCLUSION

IFSCs represent India's aspiration to become a global financial powerhouse. Corporate governance is not merely a compliance tool but a trust-building mechanism essential for capital attraction, risk mitigation, and sustainable growth. While the voluntary framework has served well in the incubation phase, a structured governance architecture that blends global best practices with Indian realities is now imperative. By adopting a proactive, transparent, and inclusive governance framework, IFSCs can secure their strategic relevance for the long term.

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