

3. Gift City's New Forex Settlement System – Economy

Union Finance Minister Nirmala Sitharaman launched a Foreign Currency Settlement System (FCSS) at the International Financial Services Centre (IFSC) in Gujarat International Finance Tec-City (GIFT City).

Foreign Currency Settlement System (FCSS) – Overview

Introduction – The Foreign Currency Settlement System (FCSS) is a pioneering mechanism introduced at GIFT City, India's premier International Financial Services Centre (IFSC). It enables direct onshore settlement of foreign currency transactions between banks operating within India, significantly reducing time and costs associated with traditional international payment routes.

Aim – To reduce settlement time, enhance liquidity management, lower settlement risk, and improve operational efficiency for international financial transactions conducted through the GIFT IFSC ecosystem.

Need for the System

Traditional Process – Presently, foreign currency transactions in GIFT IFSC are executed through correspondent banking networks using Nostro accounts—accounts that domestic banks hold with foreign banks abroad. This multi-leg routing involves several intermediaries and time zones, leading to settlement delays of 36–48 hours or more.

Challenges in the Existing Mechanism – Dependence on foreign intermediaries increases settlement and liquidity risks. High operational costs due to multiple cross-border compliance layers and forex conversion charges. Limited efficiency in real-time liquidity management for banks operating in the IFSC.

Rationale for Reform – The FCSS aims to localize the settlement process, allowing banks within GIFT City to settle transactions domestically in foreign currencies. This move enhances India's financial autonomy and positions GIFT City as a self-sufficient international financial hub.

Key Features of the FCSS

1. Settlement Mechanism – A local settlement bank, selected through a transparent bidding process, will act as the central settlement hub. Member IFSC Banking Units (IBUs)—branches of Indian and foreign banks located in GIFT City—will maintain foreign currency accounts with this settlement bank. Inter-bank foreign currency transactions will be settled directly through these accounts, eliminating the need for multi-step correspondent chains.

2. Supported Currencies – Initially, the FCSS will support US Dollar transactions, the world's dominant reserve currency. Over time, it will expand to include other major currencies such as the Euro, Japanese Yen, and Pound Sterling, based on market demand and infrastructure readiness.

3. Legal and Regulatory Framework – Operates under the Payment and Settlement Systems (PSS) Act, 2007, which governs all payment and settlement operations in India. Authorized and regulated by the International Financial Services Centres Authority (IFSCA)—the unified regulator for GIFT City. The system's software and technological backbone are being developed by Indian Financial Technology & Allied Services (IFTAS), a wholly owned subsidiary of the Reserve Bank of India (RBI).

4. Operational Structure – Enables real-time or near real-time settlement of transactions, depending on liquidity availability. Provides end-to-end digital reconciliation, audit trails, and compliance monitoring for enhanced financial integrity. Designed for scalability, allowing integration with other payment systems like SWIFT, RTGS, and future CBDC platforms.

Significance of the FCSS

1. Faster Settlements – Reduces settlement time from 36–48 hours to near real-time, drastically improving transaction turnaround. Helps Indian banks and corporates manage cash flows more efficiently and respond faster to global market movements.

2. Lower Settlement Risk – Eliminates dependency on foreign intermediary banks, reducing counterparty and time-zone risks. Enhances financial sovereignty, as transactions occur within India's legal and regulatory perimeter.

3. Improved Liquidity Management – Allows banks to manage liquidity positions continuously in foreign

currencies within GIFT City. Enables intraday liquidity optimization, especially for large-value trade, forex, and derivatives transactions.

4. Cost Efficiency – Reduces costs associated with Nostro accounts, cross-border transaction fees, and foreign exchange conversions. Encourages more Indian corporates and financial institutions to route international transactions through GIFT IFSC, rather than offshore centres.

5. Strategic Global Positioning – Positions GIFT City alongside global financial hubs like Hong Kong, Tokyo, and Manila, which already have localized foreign currency settlement infrastructures. Enhances India's reputation as a credible and competitive international finance centre.

About GIFT City

1. Concept and Establishment – GIFT City (Gujarat International Finance Tec-City) is India's first International Financial Services Centre (IFSC) and special economic zone (SEZ). Conceived in 2007 and officially inaugurated in 2015, it aims to create a globally integrated financial ecosystem within India. Combines features of a global finance hub, fintech innovation zone, and smart city infrastructure.

2. Objective – To onshore offshore financial activities—bringing back businesses that earlier operated through hubs like Singapore, Dubai, or Mauritius due to favourable tax and regulatory frameworks. Provides globally competitive regulatory, tax, and financial services frameworks to attract international investors.

3. Regulatory Authority – The International Financial Services Centres Authority (IFSCA) was established in 2020 as the unified regulator for all financial products, institutions, and services within GIFT City. IFSCA performs the combined roles of RBI, SEBI, IRDAI, and PFRDA for the IFSC ecosystem, ensuring single-window regulation.

Need for GIFT City

Offshore Leakage – Before GIFT City, Indian companies raised capital or managed offshore investments through foreign jurisdictions (like Singapore or Mauritius) due to easier regulations and tax benefits. This led to capital outflow, revenue loss, and diminished regulatory oversight.

Strategic Goal – GIFT City was envisioned to bring such operations back onshore by creating a world-class financial ecosystem within India, compliant with international standards and offering operational flexibility.

Economic Sovereignty – Reduces dependence on foreign financial centres, enhances India's global financial integration, and strengthens its control over capital flows.

Achievements of GIFT City (as of mid-2025)

Institutional Presence – Hosts nearly 1,000 registered entities, including –

1. Major Indian and foreign banks
2. Insurance companies
3. Asset management firms
4. Capital market intermediaries
5. Fintech startups

Innovative Financial Activities –

1. India's first aircraft and ship leasing units established here.
2. Active derivatives trading, cross-border fund management, and fintech innovation ecosystem.
3. Development of green finance and sustainable investment products.

Global Recognition – GIFT City is increasingly being recognized as a regional hub for financial innovation, particularly in fintech, digital banking, and sustainable finance.

Strategic Importance of FCSS for GIFT City

Enhances Competitiveness – The FCSS will significantly increase GIFT City's appeal to global investors by offering real-time settlement capabilities in major currencies.

Boosts Financial Integration – Facilitates cross-border trade, capital market activity, and foreign investment flows through faster settlement and reduced operational friction.

Reduces Dollar Dependency Abroad – Encourages Indian banks to hold foreign currency reserves

domestically, minimizing reliance on global correspondent networks.

Foundation for Digital Finance and CBDC Integration – The FCSS framework can later integrate with India's Central Bank Digital Currency (CBDC) for instant, secure, programmable international settlements.

Way Forward

Phase-wise Currency Expansion – Extend the FCSS to other currencies beyond USD, in coordination with global central banks and payment networks.

Interoperability with Global Systems – Establish linkages with SWIFT, Cross-Border Instant Payment Systems, and foreign clearing houses to enhance scalability.

Regulatory Strengthening – Continuous supervision by IFSCA to ensure robust compliance, cyber resilience, and systemic stability.

Capacity Building – Develop specialized skill clusters within GIFT City for foreign currency risk management, settlement operations, and digital payments innovation.

Positioning as a Regional Hub – With the FCSS operational, GIFT City could emerge as South Asia's premier hub for dollar and multi-currency settlements, reducing the dominance of offshore centres.

Conclusion

The Foreign Currency Settlement System (FCSS) marks a transformative leap in India's journey toward becoming a global financial powerhouse. By localizing foreign currency settlements, it strengthens India's financial autonomy, enhances operational efficiency, and aligns GIFT City with the world's top financial hubs. Together, GIFT City and FCSS represent the cornerstone of India's next-generation financial infrastructure, supporting the nation's broader vision of "Viksit Bharat @2047" and a digitally sovereign economy.

Source – https://www.business-standard.com/finance/news/foreign-currency-settlement-system-gift-city-launch-ifsc-nostro-125100800568_1.html

