



BANKING AND FINANCE

IFSCA Clarifies Opening of Foreign Currency Accounts by Indian Residents in IFSCs

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Introduction

On 13 August 2025, the International Financial Services Centres Authority (IFSCA) issued a circular clarifying that person(s) resident in India may open and maintain foreign currency accounts in any of the specified foreign currencies with International Banking Units (IBUs) in International Financial Services Centres (IFSCs), without requiring prior approval of the Authority. This update aligns the regulatory framework with India's foreign exchange laws and significantly eases access to offshore-equivalent banking facilities within India.

Table of contents

- [Introduction](#)
- [Legal Background](#)
- [Significance of the Update](#)
- [Conclusion](#)

Legal Background

The legal foundation for this circular lies in the **Foreign Exchange Management Act, 1999 (FEMA)** and the regulations framed thereunder:

1. **Foreign Exchange Management (Foreign Currency Accounts by a Person Resident in India) Regulations, 2015** (“2015 Regulations”) – issued on 14 January 2015, these regulations prescribe the circumstances in which a person resident in India may open, hold, and maintain a foreign currency account with a bank outside India (e.g., retention of export proceeds, foreign project offices, or overseas direct investment).
2. **Interpretation Issue** – The text of the 2015 Regulations used the phrase “foreign currency account with a bank outside India”. This raised a question: whether an account with an IBU in an Indian IFSC (which is located within India but regulated separately under the IFSCA Act, 2019) would qualify as such.
3. **IFSCA Circular (13 August 2025)** – The Authority clarified that:
 - The expression “foreign currency account with a bank outside India” shall include accounts opened with IBUs in IFSCs in the specified foreign currencies.
 - IBUs may open such accounts for residents without prior permission of IFSCA, subject to the conditions under sub-paras (B)–(F) of para 5 of the 2015 Regulations.
 - The circular was issued under Sections 12 and 13 of the IFSCA Act, 2019, and came into force with immediate effect from 13 August 2025.

Significance of the Update

This clarification is strategically significant for India's financial system:

- **Brings Offshore Banking Onshore:** By treating IBUs in IFSCs as equivalent to overseas banks for foreign currency accounts, the circular allows Indian residents to access international banking services within India's jurisdiction. This reduces dependence on overseas institutions and associated compliance costs.
- **Boost for Exporters and Trade:** Exporters can now retain export proceeds in foreign currency at an IBU, improving cash-flow flexibility, hedging opportunities, and global trade settlement efficiency, without sending funds abroad.
- **Ease of Doing Business:** Removing the requirement of prior approval reduces transaction friction for corporates and individuals. Routine business operations such as maintaining foreign project accounts or overseas investment proceeds become faster and simpler.
- **Strengthening IFSC Ecosystem:** This change deepens the functional scope of GIFT City, positioning it as India's gateway to global capital and aligning it with international financial centres such as Singapore and Dubai. By channelling more foreign currency activity into IFSCs, India strengthens its ambition of making it a regional financial hub.
- **Regulatory Coherence and Risk Management:** By harmonizing FEMA regulations with the IFSCA framework, the circular clarifies legal ambiguities and reduces interpretative disputes. At the same time, accounts remain subject to FEMA's permitted

use cases, balancing liberalization with regulatory safeguards.

Conclusion

The IFSCA's circular marks a regulatory milestone in India's foreign exchange framework. By explicitly allowing Indian residents to open foreign currency accounts in IBUs located in IFSCs, the Authority has effectively shifted offshore banking capabilities into an Indian jurisdiction. This provides exporters, corporates, and residents with easier access to foreign currency management while simultaneously strengthening GIFT City's stature as a competitive global financial centre.

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