



Edelweiss
Ideas create, values protect

PRIME
BROKERAGE SERVICES

PRIME TIME

NEWS & VIEWS

MONTHLY BULLETIN - MAY 2018



INDEX

 From the Desk of Atul Badkar - Head International Institutions Clients Group	01
---	----

Market Update

• Fixed Income	02
• Forex	02a - 02b
• Equity	02c

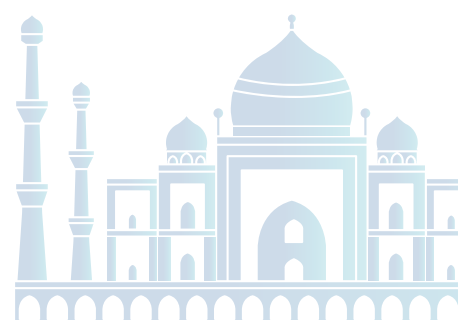
Regulatory Updates

• SEBI Circulars	03
• RBI Circulars	03

Guest Columns

• Business Opportunities for BFSI in International financial services at GIFT International Financial Services Centre (IFSC)	04 - 04c
---	----------

 Disclaimer	05
--	----





FROM THE DESK OF

Atul Badkar, Head International Institutions Clients Group

Dear Patrons,

The Indian economy is at an interesting juncture among all emerging & developing economies with an expected 7% +GDP growth in the near future. These are early positive signs that the economy is picking up and in the coming Years is likely to hold an upward trajectory. International Financial Services Centres (IFSC) at Gujarat GIFT City has come to represent a major economic stake.

SEBI regulates the securities market in the IFSC and issued the IFSC Guidelines, in March 2015. IFSC has separate regulations for stock exchanges, banking and insurance. There is an effort to create a "Unified Regulator" for Gift City in the near future. The domestic as well as foreign investors are permitted to trade in IFSC. Both the stock exchanges present today INDIA INX (BSE) and NSE IFSC offer encouraging volumes with daily notional volumes of USD 700 mn USD 300 mn respectively and have introduced Liquidity Enhancement Schemes (LES) on select equity derivatives on both futures as well as options. GIFT IFSC also offers several tax incentives & tax holidays to the investor's. Here are some highlights:



Atul Badkar

For Brokers / FPI / Foreign Clients

- No Securities Transaction Tax (STT)
- Commodity Transaction Tax (CTT) waived off
- Short Term and Long Term Capital Gain (LTCG) waived off

For entities with physical presence in GIFT

- Dividend Distribution Tax (DDT) abolished
- Minimum Alternate Tax (MAT) reduced from 18.5 % to 9 % in IFSC
- Stamp duty exemptions for entities having registered office in GIFT for capital market activities
- Tax Holiday - Complete income tax holidays for first 5 years, and then 50 % for next 5 years and 50% off in subsequent 5 years if profit is ploughed back

Key Highlights For Foreign Portfolio Investors (FPIs) investing in Gift city exchange products

- **Ease of Access:** No registration required for FPIs & for EFI only KYC with bank or broker
- **Multiple products:** Trade Equity Indices, Currencies, Commodities on single platform
- **Lower Trading Costs:** Lowest trading costs, No transaction tax
- **Long Trading Hours:** 23 hours of Trading with all time Zones. DMA, Co-location available
- **No Currency Risk:** All transactions traded & settled in US Dollar & hence No FX risk involved

To further facilitate ease of market access for foreign investors, SEBI has permitted **Segregated Nominee Account Structure (SNA)** in the IFSC that allows orders to be routed through eligible segregated nominee account providers (SNAP).

Edelweiss is an active **Trading and Clearing** member at IFSC. Our aim is to build a strong eco system by providing an End to End hand holding to Institutional clients & believe to make India an equally competitive country in the global landscape of International Financial centres leading to a path of greater financial prosperity for the country.

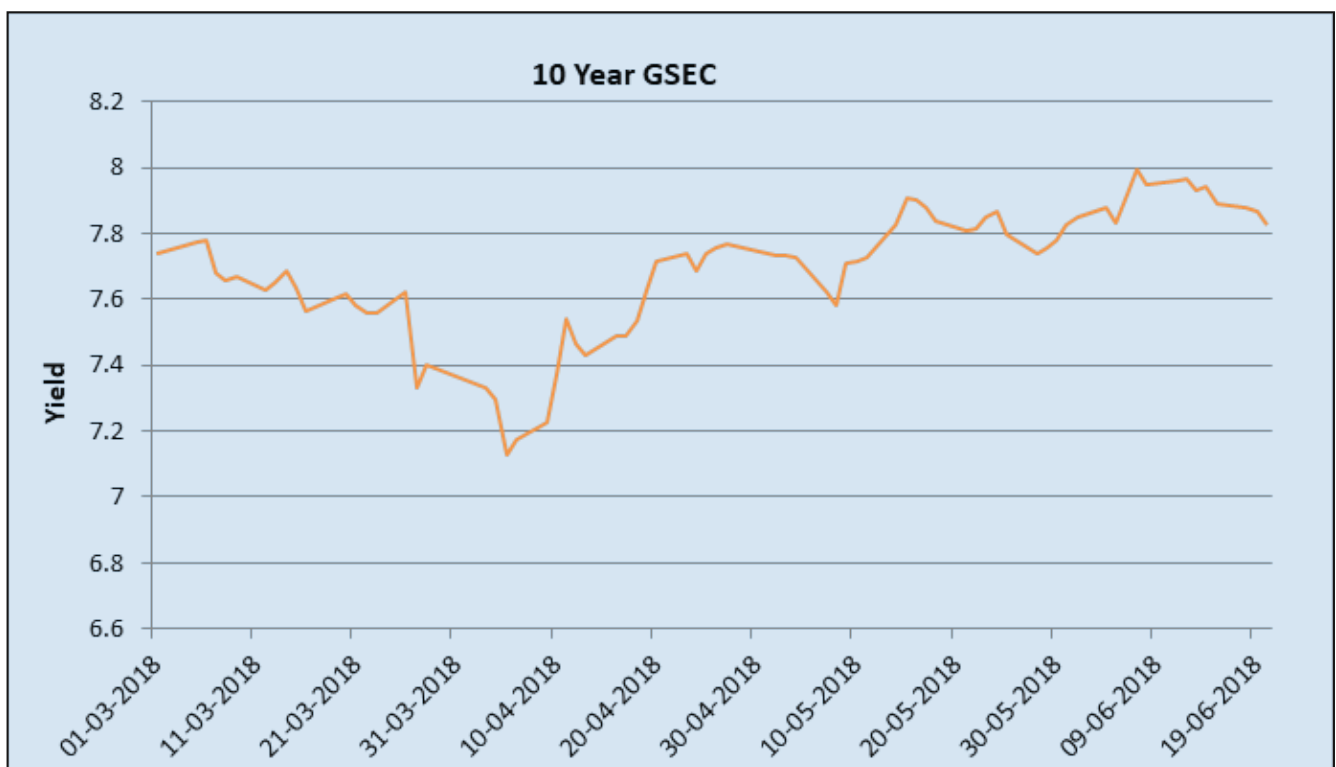
Warm Regards
Atul Badkar



MARKET UPDATE

FIXED INCOME

The bond markets continued to weaken and the benchmark yield touched fresh near term highs of 7.90%. The key triggers last month were from the global front as Brent crude prices touched USD 80/bbl and US 10Y treasury yields breached 3%. As a result, the currency also depreciated sharply and fell below the 68 mark before recovering partially towards the end of the month. Elevated levels of crude, US yields and a weak rupee do not bode well for the bond markets as inflationary pressures build up in the system and prospects of a near term rate hike loom large. This has translated into subdued participation as evidenced by below average traded volume in G-Secs and any intermediate rallies being of limited magnitude due to sustained selling pressure.



FOREX



USDJPY

JPY rallied in last month as it is one of safe havens assets, as there was global volatility due to middle-east tensions, the US-China trade war and the Italian political crisis. The Japanese yen touched the high of 111.46, the level which was last seen in January 2018. The continuation of the ultra-loose stance from the Bank of Japan is weighing on JPY.

USDINR

The Indian rupee touched 68.50 against dollar as oil prices surged to \$80.5 per barrel which was taken as indication of fiscal and current account pressure for India. The month May witnessed FPI outflow of \$4.5 billion, the largest and fastest outflow since 1999. Also, it's a general trend in rupee to depreciate before general elections as it was observed in eight out of nine occasions previously. Rupee is expected to depreciate gradually as we run down to elections in 2019.



EQUITY

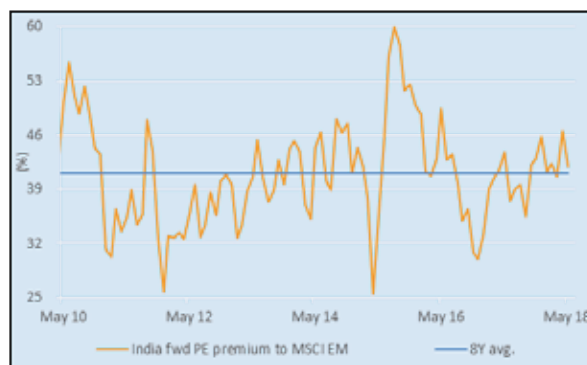
After strong performance in April markets locked itself in consolidation phase and broader market indices remained flat in May. However in contrast to large caps, mid caps and small caps were under pressure, with mid cap and small cap index correcting by 7%. On flows side, FII's continued to remain net sellers in the market and reduced their exposure by another USD 1.4 Bn.

On sectoral performance side, Consumer staples, and Utilities were the best performers for May'18 with marginal positive return. However healthcare and telecom continued to remain weak (down 10%).

On valuation side MSCI India is trading at 17x 12 months forward earnings, 42% premium to MSCI EM. This is at the long term average of 41%.

With this going ahead, political events, global liquidity and earnings performance will be the key for market direction.

MSCI India 12months forward PE premium above its long term average



Nifty has corrected from its all-time high



Source: Bloomberg



REGULATORY UPDATES

SEBI CIRCULARS

MAY
17
2018

Amendment to SEBI Circular No. IMD/FPIC/CIR/P/2018/61 dated April 5, 2018 and Circular No. IMD/FPIC/CIR/P/2018/74 dated April 27, 2018 on Monitoring of Foreign Investment limits in listed Indian companies

READ MORE »

MAY
21
2018

Investment of own funds (excluding funds lying in Core Settlement Guarantee Fund) by Clearing Corporations in International Financial Services Centre (IFSC)

READ MORE »

MAY
24
2018

Segregated Nominee Account Structure in International Financial Service Centre (IFSC)

READ MORE »

MAY
28
2018

System-driven Disclosures in Securities Market

READ MORE »

RBI CIRCULARS

MAY
01
2018

Investment by Foreign Portfolio Investors (FPI) in Debt - Review

READ MORE »

MAY
03
2018

Monitoring of foreign investment limits in listed Indian companies.

READ MORE »





GUEST COLUMN



Business Opportunities for BFSI in International financial services at GIFT International Financial Services Centre (IFSC)

Dipesh Shah

Chief (GIFT IFSC), Gujarat International Finance
Tec – City Co. Ltd

INTRODUCTION

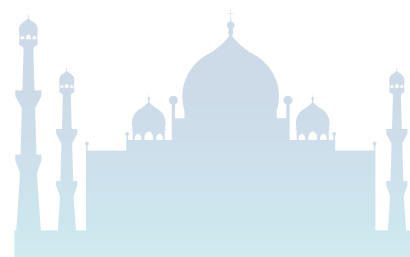
International BFSI business has new offshore location in India for doing business at GIFT International Financial Services Centre (IFSC), GIFT City. The Govt. of India has carved out location in India – GIFT IFSC, GIFT City, Gujarat, which for all practical purposes is a deemed foreign territory for undertaking International BFSI business.

India is one of the largest countries in the world and large user of the international financial services (IFS), however only recently in April 2015, India announced development of IFSC. Considering the global market being actively connected through technology, it is inevitable for India to step into the map of global Financial Centre and mark its presence by setting up a successful IFSC in India. In the absence of IFSC in India, it is estimated that India is losing US \$ 50 billion per year (2015), which will grow to US \$ 120 billion by 2025.

IFSC seeks to bring to the Indian shores, those financial services transactions that are currently carried on outside India by overseas financial institutions, Indian financial institutions/ entities and overseas branches/subsidiaries of Indian financial institutions to a centre which has been designated for all practical purposes as a location having the same eco system as their present offshore location, which is physically on Indian Shore.

IFSC in Indian context can be defined as centre that provides International financial services to non-residents and residents in any currency except Indian Rupee from Indian Soil.

Govt. of India (GoI) has taken initiative to develop International Finance Services Centre (IFSC) in India under the SEZ route to help India realise its' potential in International Financial Services (IFS).



Following the Union Budget (2015), the regulators namely the Securities Exchange Board of India ("SEBI"), Reserve Bank of India ("RBI") and the Insurance Regulatory and Development Authority of India ("IRDAI") issued separate regulations to operationalize International Financial Services Centre in India under the provisions of the Special Economic Zone Act.

In India, IFSC has now been approved by the Government of India at GIFT City, Gandhinagar and in October 2015, India's first IFSC Banking Unit became operational at GIFT IFSC. In a very short time 11 banks have been licensed and operational in GIFT IFSC and have already reported transactions of more than US \$ 12 bn.

The capital market got flying start with the inauguration of India's first international exchange (India INX) lead by Bombay Stock Exchange (BSE) at the hands of Hon'ble Prime Minister of India. More than 100 broking entities in short span of time has become part of the eco system at GIFT IFSC. National Stock Exchange (NSE) has also operationalised its international exchange at GIFT IFSC. The average daily trading volume at the GIFT IFSC Exchanges has crossed US \$ 1 billion.

The Insurance vertical at GIFT IFSC made a good beginning with India's leading Insurance Companies namely New India Assurance Co., GIC Re and ECGC getting license from IRDAI to operate from GIFT IFSC. Large Insurance intermediaries also got license to do international business from GIFT IFSC.

These early transactions, starting of Banks, exchanges, broking entities, insurance players validates the urgent need for growth of IFSC in India.

As India seeks to expand its economic and strategic space globally, promoting International Financial Services (IFS) from India merits urgent consideration of policy makers, and of financial and capital market stakeholders. The primary rationale for promoting IFS in India is that the potential net benefit to the stakeholders and to the country are considerable, and therefore worth the economic, regulatory, administrative and political effort.

India has already become a large purchaser of IFS from the rest of the world; much larger than is realised in policy-making or commercial circles, let alone by the public at large. The growing importance of INR in the global market is well known; with over half of the dollar-rupee market being overseas.

As equity and interest rate derivatives markets increasingly move offshore, including to centres which are lightly regulated, India's imports of IFS will grow, and its critical talent pool will decline. This trend can only be reversed by enabling IFSC business through regulatory, tax, and business policies in line with the global financial centres.

The business potential for IFSC provides for undertaking international banking, insurance and capital market activities.

Following are some of the activities that licensed BFSI entity can carry out in foreign currency from GIFT IFSC:

- Foreign currency loans to non-residents (Foreign Corporates & WOS/JVs of Indian Corporate)
- Provide ECBs to Indian entities seeking foreign currency funds as permitted under FEMA
- Project Finance for Foreign Corporates & WOS/JVs of Indian Corporates
- Provide corporate banking facilities to various units in IFSC
- Factoring & forfaiting services as part of the trade finance requirements to WOS/JVs of Indian corporates abroad and foreign corporates & Letter of Credit and Bank Guarantee for overseas transactions (Inward & Outward)
- FOREX Transactions (Buying & Selling of various currency)
- Bulk deposits from Foreign Corporates / WOS of Indian Corporates
- Market borrowings such as inter-bank borrowings, debt issuance etc.
- Derivatives and structured products – swaps, futures, etc..
- Providing trade loans to correspondent banks

Insurance / Reinsurance and Intermediaries:

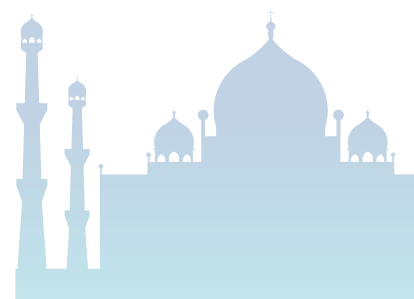
General Insurance Company	Reinsurance Company
<ul style="list-style-type: none"> • Insure properties of Indian WOS / JV abroad • Insure goods of India exporters, Overseas Travel insurance • Opportunity to expand Reinsurance Business from GIFT IFSC • Opportunity to tap all SEZs of India from GIFT IFSC • Expand to provide Insurance to entities in neighbouring countries namely Nepal, Bhutan, Sri Lanka & Bangladesh etc. 	<ul style="list-style-type: none"> • Initiate Offshore Treaty Business & Facultative Business • Book offshore to offshore business from GIFT IFSC • Opportunity to expand International Reinsurance Business in India

Insurance / Reinsurance and Intermediaries:

Opportunity to trade in following securities	Capital Market Participants
<ul style="list-style-type: none"> • Equity shares of a company incorporated outside India • Depository Receipts • Debt Securities issued by eligible issuers • Currency and interest rate derivatives • Index based derivatives • Commodities • Other such securities specified by SEBI 	<ul style="list-style-type: none"> • Exchanges, Depository, Clearing Corporation • Broker • Investment Adviser • Portfolio Manager • Alternate Investment Fund/ Mutual Fund • Merchant Banker • Any other intermediary

The IFSC will allow businesses that are currently not being done in India to be done in India. It will allow qualified professionals working outside India to come to India and carry out their business. This will result in getting back those businesses which were some point of time done from India but due to various reasons have resulted in them being done from other countries. An IFSC will also establish a platform for qualified Indian professionals to pursue global opportunities by residing and working in India rather than moving to foreign countries. It will effectively try and stop brain drain from the country. Separately, it will also result in re-importing our securities market and will create employment for people residing in India.

IFSC at GIFT City provides a great opportunity for India to provide International BFSI business from offshore location in India and has a potential to be a game changer for International BFSI business.





DISCLAIMER

Prime Time is a monthly newsletter introduced by Edelweiss Prime Brokerage Services. Edelweiss Prime Brokerage Services offers innovative solutions and services across multiple asset classes to a diverse set of clients ranging from Institutions, brokers, corporates and High Net-worth Individuals (HNIs). These services offered by Edelweiss Custodial Services Limited, is being published for general information purpose only to our esteemed subscribers to it.

Edelweiss Custodial Services Limited and its group companies and associates (hereinafter singly and jointly referred to as " ") have taken due care and caution in compilation of the data and the contents for this newsletter. This newsletter does not constitute an offer or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction.

The newsletter is a compilation of data and substance from multiple sources which includes government and/or regulatory websites and other public sources and have only reproduced the information validated by the respective sources. It may contains key indices, rates, recommendations on various internal products for the purpose of investment or trading, hence Edelweiss advises its users to verify the veracity / appropriateness of the information before taking any decisions. We do not represent that it is accurate or complete and it should not be relied on as such.

The information given in this newsletter pertains to data collected for preparing this newsletter and is current and/or past as on date and there can be no assurance that future results or events will be consistent with this information.

Similarly information provided in this newsletter is obtained from sources believed to be reliable but cannot be guaranteed as to the completeness, timeliness, adequacy or accuracy of any information and Edelweiss is not responsible for any errors or omissions or for the results obtained from the use of such information. Edelweiss reserves the right to make modifications and alterations to this information as may be required from time to time. However, Edelweiss is under no obligation to update or keep the information current. Nevertheless, Edelweiss is committed to providing independent and transparent recommendation to its client and would be happy to provide any information in response to specific client queries.

This newsletter is provided for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigation as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult his own advisors to determine the merits and risks of such investment. The investment discussed or views expressed may not be suitable for all investors. .Additionally any guest article published in this newsletter does not receive compensation in any form or type.

Neither Edelweiss nor any of its affiliates, group companies, directors, employees, agents or representatives shall be liable for any damages whether direct, indirect, special or consequential including lost revenue or lost profits that may arise from or in connection with the use of the information.

The art and design style rendered in this newsletter is a creative interpretation based on the content of the various articles and information generally available in the public domain. The art and design style is for representation purposes only. All trademarks and rights acknowledged. Edelweiss or any of its affiliates/group companies shall not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this newsletter.

This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose. This newsletter is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Edelweiss and affiliates/group companies to any registration or licensing requirements within such jurisdiction. The distribution of this newsletter in certain jurisdictions may be restricted by law, and persons in whose possession this book comes, should inform themselves about and observe, any such restrictions. All copyrights of the publication are reserved by Edelweiss and any copying and/or electronic transmission of the content of the newsletter is a violation of copyright law.



Edelweiss Financial Services,
Edelweiss House, Off CST Road,
Kalina, Mumbai, 400098



prime.brokerage@edelweissfin.com



www.edelweissfin.com

