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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:

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
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

DXY
Dollar index surged to its highest level since July 2017 at around 95.1 on the backdrop of breakout in oil prices and the U.S. Treasury yields breaching important psychological level of 3%. Oil touched $80.5 amidst geo-political tensions in middle-east and trade war tensions. Dollar also strengthened because of political turmoil in Italy witnessed the Euro to touch multi month low. By end of May dollar index settled near 94 levels as the global volatility eased off.

EURUSD
Euro was gradually depreciating since mid-April as underlying theme of weaker data was playing major role. The sharp fall in the Euro came when Italy, the third largest economy in Eurozone, entered into political turmoil. The rise in Eurosceptic forces in Italy pushed Euro to 1.1510 levels, last seen in January 2017. However, as degree of calm returned to Italian political scenario and inflation data of Eurozone came marginally higher, Euro experienced intraday gain of 1.1% on 30th May to 1.1725.

GBPUSD
Since bank of England kept interest rates unchanged at 0.5% and toned town growth forecast to 1.4% from 1.8% which reduced probability of increase in interest rate, the pound plunged to 1.3570 from high of 1.40. The pound is expected to be under pressure as Britain's macro-economic data is still looking soft.
**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

<table>
<thead>
<tr>
<th>Date</th>
<th>Description</th>
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<tbody>
<tr>
<td>May 17, 2018</td>
<td>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</td>
</tr>
<tr>
<td>May 21, 2018</td>
<td>Investment of own funds (excluding funds lying in Core Settlement Guarantee Fund) by Clearing Corporations in International Financial Services Centre (IFSC)</td>
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<td>May 24, 2018</td>
<td>Segregated Nominee Account Structure in International Financial Service Centre (IFSC)</td>
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<td>May 28, 2018</td>
<td>System-driven Disclosures in Securities Market</td>
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## RBI CIRCULARS

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<th>Description</th>
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<tr>
<td>May 01, 2018</td>
<td>Investment by Foreign Portfolio Investors (FPI) in Debt - Review</td>
</tr>
<tr>
<td>May 03, 2018</td>
<td>Monitoring of foreign investment limits in listed Indian companies.</td>
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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:

<table>
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<th>General Insurance Company</th>
<th>Reinsurance Company</th>
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</thead>
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<tr>
<td>• Insure properties of Indian WOS / JV abroad</td>
<td>• Initiate Offshore Treaty Business &amp; Facultative Business</td>
</tr>
<tr>
<td>• Insure goods of India exporters, Overseas Travel insurance</td>
<td>• Book offshore to offshore business from GIFT IFSC</td>
</tr>
<tr>
<td>• Opportunity to expand Reinsurance Business from GIFT IFSC</td>
<td>• Opportunity to expand International Reinsurance Business in India</td>
</tr>
<tr>
<td>• Opportunity to tap all SEZs of India from GIFT IFSC</td>
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<tr>
<td>• Expand to provide Insurance to entities in neighbouring countries namely Nepal, Bhutan, Sri Lanka &amp; Bangladesh etc.</td>
<td></td>
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</tbody>
</table>

Insurance / Reinsurance and Intermediaries:

<table>
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<th>Opportunity to trade in following securities</th>
<th>Capital Market Participants</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Equity shares of a company incorporated outside India</td>
<td>• Exchanges, Depository, Clearing Corporation</td>
</tr>
<tr>
<td>• Depository Receipts</td>
<td>• Broker</td>
</tr>
<tr>
<td>• Debt Securities issued by eligible issuers</td>
<td>• Investment Adviser</td>
</tr>
<tr>
<td>• Currency and interest rate derivatives</td>
<td>• Portfolio Manager</td>
</tr>
<tr>
<td>• Index based derivatives</td>
<td>• Alternate Investment Fund/ Mutual Fund</td>
</tr>
<tr>
<td>• Commodities</td>
<td>• Merchant Banker</td>
</tr>
<tr>
<td>• Other such securities specified by SEBI</td>
<td>• Any other intermediary</td>
</tr>
</tbody>
</table>
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.
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