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Refresh

Changing Regulatory Landscape

Newsletter

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The FIPB meeting

Some of the interesting cases recently discussed in the FIPB meetings have been classified under the following sectors:

- The government has approved (being the first in this segment) a proposal by a foreign company to acquire through purchase and subscription 50% of the equity share capital of an Indian company engaged in the multi brand retail trading of products.
- An existing pharma company has been specifically approved to issue shares to its parent company against fresh inflow of capital in the company.
- A few proposals involving NR to NR transfer including the transfer of shares to its group company were approved by the FIPB even though a three year lock in period was subsisting as applicable in the construction development business.
- A proposal for the issue of equity shares against transfer of immovable assets of the Indian Liaison Office in India was also approved.



Corporate regulations

FDI

Valuation norms for instruments with options

With a view to liberalise the FDI policy, the RBI has permitted Indian companies to issue shares (equity or preference) or convertible debentures containing an optionality clause to foreign investors.

These instruments can however be issued only if the non-resident investor is not guaranteed any assured exit price. Further, the exit needs to comply with the following requirements:

- **Minimum lock in period:** One year or the lock in period as may be applicable under the sectoral guidelines, whichever is longer.
- **Pricing guidelines:**

Instrument	Pricing guidelines
Equity shares	<u>Of a listed company</u> At the market price determined on the floor of the recognised stock exchanges
	<u>Of an unlisted company</u> At a price not exceeding that arrived at on the basis of RoE as per the latest audited balance sheet. RoE for this purpose shall mean profit after tax or net worth, whereby the net worth will include all free reserves and paid up capital
Preference shares or debentures	At a price worked out as per any internationally accepted pricing methodology at the time of exit, duly certified by a Chartered Accountant or a SEBI registered Merchant Banker



Further, it is provided that all the existing contracts will have to be amended in order to comply with the conditions prescribed above.

Source: Notification No FEMA 294/2013 dated 12 November 2013 notified vide G.S.R No. 805(E) dated 30 December 2013 and A.P. (DIR Series) Circular No.86 dated 9 January 2014

Issue of non-convertible or redeemable bonus preference shares or debentures to non-residents from the general reserve under a Scheme of Arrangement approved by a court

With a view to rationalise and simplify the procedures, the RBI has permitted Indian companies to issue non-convertible or redeemable preference shares or debentures as a bonus to the non-resident equity shareholders including the depositories that act as trustees for the ADR or the GDR holders.

However, this needs to be by way of distribution as a bonus from its general reserve under a Scheme of Arrangement approved by a court in India under the provisions of the Companies Act. Further, no-objection from the Income Tax Authorities will be required.

The RBI has clarified that the issuance of preference shares (non-convertible or redeemable preference shares) and convertible debentures (optionally convertible or partially convertible debentures) otherwise than by way of bonus will continue to be governed by ECB regulations.

A.P. (DIR Series) Circular No. 84 dated 6 January 2014

Foreign investment in India: Participation in credit enhanced bonds

The RBI has allowed the SEBI registered foreign institutional investors, qualified foreign investors as well as the long-term investors registered with SEBI viz sovereign wealth funds, multilateral agencies, pension, insurance or endowment funds and foreign central banks to invest in the credit enhanced bonds up to a limit

of 5 billion USD within the overall limit of 51 billion USD earmarked for corporate debt.

A.P. (DIR Series) Circular No.74 dated 11 November 2013

ODI

Rollover of guarantees

In August 2013, the RBI had reduced the ceiling for overseas investment (equity, loan and guarantees) by an Indian entity from 400% of its net worth to 100%.

It has now clarified that the renewal or rollover of an existing or original guarantee, which is already a part of the total financial commitment of the Indian party, will not be treated as a fresh financial commitment for evaluating the above units if the following key conditions are satisfied:

- The existing or original guarantee was issued in terms of the prevailing FEMA guidelines
- There is no change in the end use of the guarantee, ie the facilities availed by the JV, WOS or the step down subsidiary
- There is no change in the terms and conditions of the guarantee (including the amount) except the validity period
- Rollover of the guarantee will continue to be reported as a fresh financial commitment in Part II of Form ODI

In case, all conditions stated in the circular are not met, the Indian party will need to obtain prior RBI approval for the rollover or renewal of the existing guarantee.

A.P. (DIR Series) Circular No. 83 dated 3 January 2014

ECB

ECB for SPVs in infrastructure

Under the extant ECB guidelines, utilisation of ECB proceeds for on-lending or investment in the capital market including investment in SPVs or acquiring a company (or a part thereof) in India is prohibited.

The RBI, with a view to strengthen the flow of resources to the infrastructure sector, has now permitted raising ECB for project use in SPVs in the infrastructure sector under the automatic route or approval route, whichever the case may be. The following are the key features of this window:

- **Eligible borrower:** Holding companies or CICs coming under the regulatory framework of the RBI
- **End use:** Project use in SPVs established extensively for implementing the project in this sector¹

The SPV can use ECB proceeds for fresh capital expenditure or refinancing of the existing Rupee loans availed from the domestic banking system for capital expenditure (refinancing permissible under the approval route subject to existing limits, viz, 40% of ECB raised for the power sector and 25% for other infrastructure sectors).

- **Undertaking by SPV:** No other method of funding, such as, trade credit (if for import of capital goods), etc. will be utilised for that portion of the fresh capital expenditure financed through ECB proceeds

- **Escrow account:** ECB should be parked in a separate escrow account pending utilisation
- **Time line:** ECB can be raised up to three years after the commercial operations date of the SPV

Additional conditions for CICs coming under the regulatory framework of the RBI:

Leverage ratio: The prescribed leverage ratio needs to be complied with outside liabilities including ECB should be less than 2.5 times their adjusted net worth as on the date of the last audited balance sheet.

- **Hedging:** For CICs with an asset size below 100 crore INR, ECB availed should be on a fully hedged basis.

While these amendments will be effective immediately, all other aspects of extant ECB guidelines remain unchanged.

A.P. (DIR Series) Circular No. 78 dated 3 December 2013

Liberalisation of the definition of infrastructure

The RBI has expanded the ambit of the transport sector of infrastructure for the purpose of ECB by including 'MRO' as a part of airport infrastructure.

Accordingly, MRO services which are separate from the related infrastructure services will be considered as part of the airport sub-sector in the transport sector of infrastructure and will thereby be eligible to avail ECB both under the automatic route or approval route.

Source: A.P. (DIR Series) Circular No. 85 dated 6 January 2014

¹ 'Infrastructure sector' is defined to include energy, communication, transport, water and sanitation, social and commercial infrastructure, mining, exploration and refining. The detailed definition of 'infrastructure sector' can be found in RBI's A.P. (DIR Series) Circular No.48 dated 18 September 2013.

Conversion of payable or liability into equity

The RBI has issued the following clarification in connection with the conversion of any foreign currency denominated payables or liabilities by an Indian company such as ECB, lumpsum fees, royalties, etc, into equity shares:

- Exchange rate to be applied for conversion can be the rate prevailing on the date of the agreement between the concerned parties
- Based on a mutual agreement with the lender, the Indian company is free to issue equity shares of a rupee amount less than that arrived as above
- Fair value of the equity shares to be issued needs to be calculated with reference to the date of conversion only

A.P. (DIR Series) Circular No.94 dated 16 January 2014

Exchange control

Import and export of goods and services

The RBI has amended the guidelines relating to merchanting and intermediary trade transactions ('transaction'). The key provisions or changes have been summarised below:

- Both the legs of the transaction should be routed through the same AD bank
- Entire transactions should be completed within an overall period of nine months (which was six months earlier) and the foreign exchange outlay should not be beyond four months (which was three months earlier).

It has been clarified that the commencement of the transaction will be the date of shipment / export leg receipt or import leg payment, whichever is earlier and the completion date will be the date of shipment / export leg receipt or import leg payment, whichever is the later

- Short-term credit either by way of suppliers' credit or buyers' credit has now been made available for transactions including the discounting of the export leg LC by an AD bank
- Merchanting traders have to be genuine traders of goods and not mere financial intermediaries and should earn reasonable profits while undertaking such transactions
- Inward remittance from the overseas buyer should preferably be received first and the outward remittance to the overseas supplier should be made subsequently. Alternatively, an irrevocable LC should be opened by the buyer in favour of the merchant, on the strength of which the merchant in turn may open a LC in favour of the overseas supplier
- Advance receipt against the export leg may be held in a separate deposit or current account in foreign currency or INR and should be earmarked till the payment of import
- Advance against the import leg if demanded by the overseas seller, should be paid against a bank guarantee from an international bank of repute

A.P. (DIR Series) Circular No. 95 dated 17 January 2014

Establishment of LO, BO, PO in India

It has been notified that the citizens of Hong Kong or Macau will require approval of the RBI for establishing an LO, BO, PO or any other place of business in India. Earlier, this restriction applied only to citizens of Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran and China.

A.P. (DIR Series) Circular No. 93 dated 15 January 2014

Joint bank accounts maintained by residents in India with non residents

Presently, a non-resident close relative (relatives as defined in Section 6 of the Companies Act, 1956) of resident individuals can be the joint holder of a resident savings bank accounts on a 'former or survivor' basis. Such non-resident Indian close relatives are however, not eligible to operate the account during the life time of the resident account holder.

The RBI has permitted NRIs to operate such accounts on 'Either or Survivor' basis subject to compliance with the prescribed conditions.

A.P. (DIR Series) Circular No. 87 dated 9 January 2014

Retention of foreign assets u/s 6(4) of FEMA: Clarification

A person resident in India is permitted to hold, own, transfer or invest in foreign currency, foreign security or any immovable property situated outside India if such currency, security or property was acquired, held or owned by such a person when he was resident outside India or was inherited from a person who was resident outside India.

The RBI has clarified that the following aspects will be covered under this permission:

- Foreign currency accounts opened and maintained by such a person when he was non-resident
- Income earned through
 - Employment or, business or vocation outside India taken up or commenced while such person was non-resident, or
 - Investments made while such a person was a non-resident
 - Gift or inheritance received while such a person was resident outside India;
- Foreign exchange including any income arising therefrom and conversion or

replacement or accrual to the same, held outside India by a person resident in India and acquired by way of inheritance from a person resident outside India.

A person resident in India can freely utilise all their eligible assets abroad as well as the income from such assets or the sale proceeds thereof received after their return to India for making any payments or to make any fresh investments abroad without approval of the RBI. However, the cost of such investments and any subsequent payments received therefore need to be met exclusively out of the funds forming part of eligible assets held by them.

Further, the transaction should not be in contravention to the extant FEMA provisions.

A.P. (DIR Series) Circular No. 90 dated 9 January 2014

Borrowing and lending in Rupees: Investments by persons resident outside India in tax free, secured, redeemable, non-convertible bonds

Regulation No. 6 (2) of the Foreign Exchange Management (borrowing and lending in Rupees) Regulations, 2000 strictly imposes restrictions on a person resident in India who has borrowed in Rupees from a person resident outside India. The borrowed funds cannot be used for any investment, whether by way of capital or any other form in any company or partnership firm or proprietorship concern or any entity which is in existence or not for relending purposes.

It has been decided to permit such resident entities / companies in India which are authorised by the government, to issue tax-free, secured, redeemable, non-convertible bonds in Rupees to persons resident outside India to use such borrowed funds for the following purposes:

- lending / re-lending to the infrastructure sector
- keeping in fixed deposits with banks in India pending utilization by them for permissible end-uses

A.P. (DIR Series) Circular No.81 dated 24 December 2013

Company Law

Clarification with regard to holding of shares or exercising power in a fiduciary capacity: Holding and subsidiary relationship under Section 2(87) of the Companies Act, 2013

Section 4(3) of the Companies Act, 1956 states that “in determining whether one company is a subsidiary of another, any shares held or power exercisable by that other company in a fiduciary capacity shall be treated as not held or exercisable by it”.

Following the notification of the definition of a ‘subsidiary company’ under Section 2(87) of the Companies Act, 2013, the MCA had received a number of representations seeking clarity on whether the shares held or power exercisable by a company in a ‘fiduciary capacity’ will be excluded while determining if a particular company is a subsidiary of another company. The stakeholders had further pointed out that in terms of Section 4(3) of the Companies Act, 1956, such shares or powers were excluded from the purview of the holding-subsidiary relationship.

MCA has examined this position and has recently clarified that the shares held by a company or power exercisable by it in another company in a ‘fiduciary capacity’ shall not be included for the purpose of determining the holding-subsidiary relationship in terms of the provision of Section 2(87) of the Companies Act, 2013.

MCA Circular 20/2013 dated 27 December 2013

Objections of the Income Tax Department to be considered by the RD in cases involving arrangement, compromise, reconstruction or amalgamation:

- The RD, while filing a report under Section 394 of the Companies Act, 1956 on behalf of the central government shall invite specific comments from the Income Tax Department within 15 days of the receipt of notice to the Central Government. Further, these comments will be required to be projected in the RD’s representation on behalf of the central government.
- If no response from the Income Tax Department is forthcoming, it may be presumed that the Income Tax Department has no objection to the action proposed under Section 391 or 394, whichever the case may be.
- The Regional Director must also see if in a particular case, feedback from any other sectoral regulator has to be obtained and if it appears necessary for him to obtain such feedback, it should also be dealt with in a similar manner.

General Circular No.1/ 2014 dated 15 January 2014

Sectoral regulations

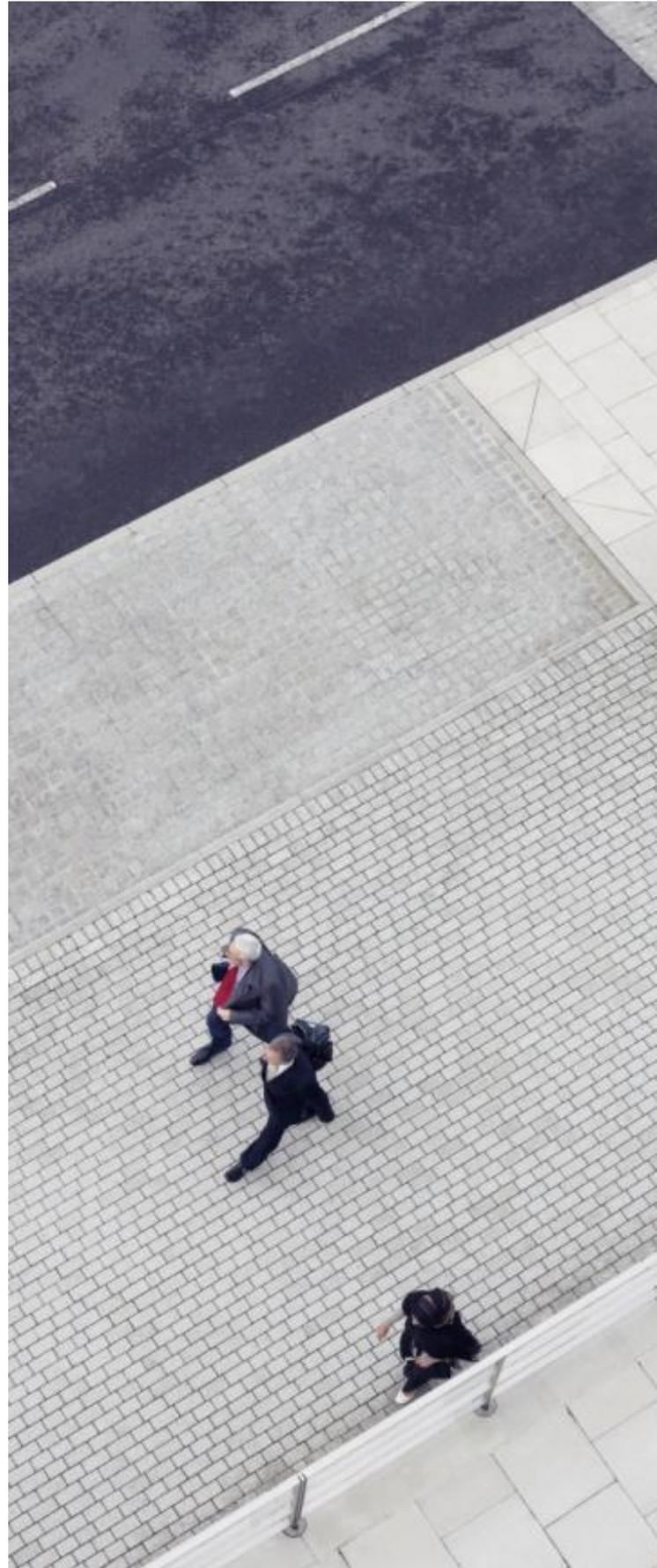
Financial services

SEBI (FPI) Regulations, 2014 Dated 9 January 2014

SEBI has notified SEBI (FPI) Regulations, 2014 to put in place a framework for registration and procedures with regard to the foreign investors which propose to make portfolio investment in India.

The key features of the said regulation are:

- Every person who buys, sells or otherwise deals in securities as FPI will have to obtain a certificate of registration with the depository participant.
- A qualified foreign investor may continue to buy, sell or otherwise deal in securities subject to the provisions of these regulations, for a period of one year from the date of commencement of these regulations, or until he obtains a certificate of registration as a foreign portfolio investor, whichever is earlier.
- A foreign institutional investor may, subject to payment of conversion fees as specified in regulation, continue to buy, sell or otherwise deal in securities till the expiry of the registration as a foreign institutional investor or until he obtains a certificate of registration as FPI, whichever is earlier.
- FPIs have been broadly categorised as follows:
 - Category I: Includes foreign governments and government related foreign investors



- Category II: Includes regulated broad-based funds, regulated entities and broad-based funds that are not regulated but whose investment manager is appropriately regulated, university funds, university-related endowments and pension funds
- Category III: All others not eligible under the first two categories
- The designated depository participant shall endeavor to dispose the application for the grant of certificate of registration as soon as possible within thirty days.
- The registration granted by the designated depository participant on behalf of the board under these regulations shall be permanent unless suspended or cancelled by the board or surrendered by the FPI.
- Designated depository participant
 - Should be recognised and approved by SEBI
 - Can be a custodian of securities who is registered with the board on the date of commencement of these regulations. Such custodians shall be deemed to have been granted approval as a designated depository participant
 - Can be a qualified depository participant which has been granted approval by the board prior to the commencement of these regulations. Such a participant shall be deemed to have been granted approval as a designated depository participant

FPIs will be allowed to invest in securities in the primary and secondary markets. These will include units of schemes floated by the domestic mutual funds, treasury bills, dated government securities, commercial papers, and Indian depository receipts, among others.

Illustrative format of the Statement of Assets and Liabilities in SEBI (ICDR) Regulations, 2009

SEBI has updated the illustrative format of the Statement of Assets and Liabilities to be provided in the offer document as prescribed under Regulation - (2)(IX)(B)(9)(f) of Part-A of Schedule VIII of SEBI (ICDR) Regulations, 2009 and brought in line with the requirements of the Companies Act, 1956 and Companies Act, 2013. The key features of the said circular are:

- The revised format for disclosure of the Statement of Assets and Liabilities in the offer document is in Annexure A to the Circular No. CIR/CFD/DIL/15/2013 dated 3 December 2013.
- The circular is applicable for all draft as well as final offer documents filed with the board on or after the date of this circular.
- It may be noted that the necessary amendments to SEBI (ICDR) Regulations, 2009 are being carried out, post which this circular will stand rescinded.

Circular No. CIR/CFD/DIL/15/2013 dated 3 December 2013

Simplification of the demat account opening process:

SEBI has simplified and rationalised the demat account opening process to protect the interests of investors in securities and to promote the development of and to regulate the securities markets. The key features of the said circular are:

- The existing Beneficial Owner-Depository Participant agreements shall be replaced with a common document 'Rights and Obligations of the Beneficial Owner and Depository Participant'. This document shall be mandatory and binding for all the existing as well as the new clients and depository participants.

- The depository participant shall provide a copy of this document to the beneficial owner and shall take an acknowledgement of the same. They shall ensure that any clause in any voluntary document neither dilutes their responsibility nor shall it be in conflict with any of the clauses in this circular, rules, bye-laws, regulations, notices, guidelines and circulars issued by SEBI and the depositories from time to time. Any such clause introduced in the existing as well as new documents shall stand null and void.

Circular No. CIR/MIRSD/12/2013 dated 4 December 2013

SEBI (Investor Protection and Education Fund) (Amendment) Regulations, 2014 dated 9 January 2014

SEBI has notified SEBI (Investor Protection And Education Fund) (Amendment) Regulations, 2014 to amend the SEBI (Investor Protection and Education Fund) Regulations, 2009.

The board has inserted the following After-Clause (e) in Regulation 4 of SEBI (Investor Protection and Education Fund) Regulations, 2009:

- (f) *Amounts forfeited for non-fulfilment of obligations specified in regulation 15B of the SEBI (Buy-back of Securities) Regulations, 1998;*
- (g) *Monies transferred in accordance with Sub-Regulation (9) of Regulation 45 of SEBI (Issue of Capital and Disclosure Requirements) Regulations, 2009;*
- (h) *Amounts disgorged under Section 11B of the Act or Section 12A of the Securities Contracts (Regulation) Act, 1956 or Section 19 of the Depositories Act, 1996.*

Broadcasting

Consultation paper on 'Migration of FM Radio Broadcasters from Phase II to Phase III'

TRAI has released a consultation paper on 'Migration of FM Radio Broadcasters from Phase II to Phase III'. MIB had sent a reference dated 9 April 2013 to the authority, seeking recommendations of TRAI on the same.

The consultation paper has been prepared to seek the comments and views of the stakeholders on:

- Date of migration from Phase II to Phase III
- Duration of permission after migration from Phase II to Phase III
- Methodology for charging a migration fee from the existing operators on their migration from Phase II to Phase III

Directions issued to multi-system operators/ local linked cable operators

TRAI, in order to protect the interest of consumers has issued certain directions to the multi-system operators as well as local linked cable operators. Some of these directions include:

- offering cable TV services to their subscribers on both pre-paid and post-paid payment options and generate bills
- providing an itemised bill on regular basis to every subscriber
- submitting a compliance report by the 31 December 2013 for the areas of the National Capital Territory of Delhi, Municipal Council of Greater Mumbai and Kolkata Metropolitan area

Electronics policy

Electronics Policy 2012

Amendment to M-SIPS guidelines

The DeITY offers a package of incentives to attract domestic and global investments into the ESDM sector. One such initiative is the M-SIPS under which financial incentives, both on the capex and in the form of reimbursement of excise and duties is available when the investment exceeds a specified threshold.

The M-SIPS guidelines currently suggest that if the proposed project includes manufacturing one or more electronic products routed through a single initial application, the applicable threshold will be sum of the thresholds required to manufacture each of the products separately.

As per a recent amendment to the aforementioned guidelines (dated 23 December 2013), it has been stated that incase the same manufacturing set up or production line is used to manufacture more than one electronic products falling under verticals with different thresholds, the applicable threshold will be of the vertical which has the highest threshold. However, if the manufacturing set up for the proposed products are significantly different, the applicable threshold will be sum of the thresholds required to manufacture each of the products separately.

Notification of brownfield EMC

One of the main impediments in the way of attracting investments for manufacturing semiconductors, components and electronic products is the lack of availability of good and reliable infrastructure. With a view to correct this disability, the government has decided to offer financial support for the development of EMCs. The financial assistance will be available to both greenfield as well as brownfield EMCs.

All units within the aforementioned areas which are located within industrial estates or an area approved by state, central or local government

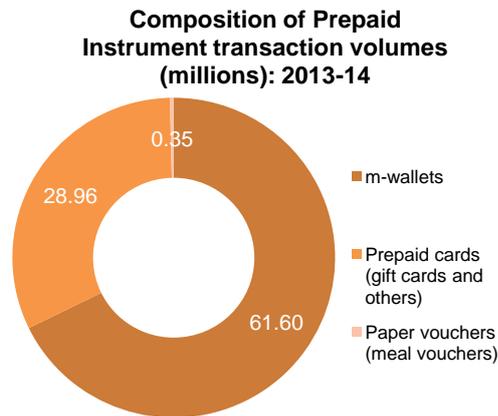
or municipal authorities for industrial purpose will be eligible for M-SIPS benefits.

As per a recent notification (dated 23 December 2013), the following brownfield clusters have been notified. These brownfield EMCs are generic in nature and include all verticals of ESDM.

S no	State	Location or district
1	Haryana	District Gurgaon
2	Himachal Pradesh	Block Kandaghat
3		Block and Urban Body Area, Solan
4		Block, Dharampur
5		Block, Nalagarh
6		Urban Body Area, Nalagarh
7		Urban Body Area, Baddi
8		Urban Body Area, Parwanoo
9		Kerala
10	District Alappuzha	
11	Maharashtra	District Pune
12	Rajasthan	District Jaipur

Perspective

Regulatory environment for electronic prepaid payment instruments in India: A paradigm shift?



Payment systems in India have undergone major changes over the last decade. The rising adoption of internet and mobiles, a young and dynamic population, the emergence of multiple, innovative business models and the launch of the revolutionary *Aadhaar* program have all contributed to a widespread adoption of electronic payment instruments. The Indian electronic payments market is still relatively nascent. With the exception of credit and debit cards, innovative products such as pre-paid instruments, electronic and mobile wallets and e-commerce are just making their way into the marketplace.

A sound legal system is particularly important for electronic payment instruments, wherein transactions are conducted virtually, via digital channels. To that end, a number of legislations find application in the operation of payment systems in India. The PSS Act played a significant role in ushering the era of electronic payments in the country. The Act provided a legal definition for payment systems and settlement procedures, and established the RBI as the designated authority for the regulation and supervision of all payment systems in the country. The legal authority provided by this Act



enabled the RBI to formulate regulatory guidelines that were broadly in line with its vision of fostering electronic payment systems and promoting the idea of a society less dependent on cash.

Since the notification of the PSS Act, the RBI has released a number of specific guidelines for credit cards, remittance products and prepaid payment instruments, among others.

PPI guidelines: An overview

The PPI guidelines were first released by the RBI in April 2009 and aimed at developing a regulatory framework to ensure that the PPI segment developed in a prudent and customer friendly manner. These guidelines defined the types of PPIs as well as stakeholders involved in the issue and operation of PPIs, categorised PPIs according to their nature of usage and laid down the eligibility criteria for persons or entities seeking to gain a license to issue and operate PPI systems.

The guidelines classified PPIs under the following three categories:

- **Closed system PPIs:** These are primarily used within a merchant establishment and do not permit cash-withdrawal. As these instruments cannot be used at third-party stores and are essentially of a closed-loop nature, they are not regulated by the RBI.

For example: Gift vouchers issued by Shoppers' Stop, Lifestyle, etc.

- **Semi-closed system PPIs:** These are redeemable at a group of merchant establishments that have partnered with the issuer for acceptance of the instrument and cannot be used for cash withdrawal. These instruments can be issued up to a maximum of 50,000 INR based on the prescribed KYC norm fulfilment (limited and full KYC).

For example: Mobile wallets provided by telcos (Airtel Money, M-pesa, mRupee),

digital wallets (ItzCash, Paymate), gift cards (Qwikilver), etc.

- **Open system PPIs:** These are acceptable at any merchant establishment that accepts cards, and permit cash withdrawal. Only banks are allowed to issue open system PPIs.

For example: Prepaid cards issued by Axis Bank, ICICI Bank etc.

In addition, such guidelines have been issued and strengthened from time to time to build the confidence of public and merchant establishments. For instance, non-banks are mandated to hold customer funds in an escrow account with their principal banks and observe strict compliance with the escrow management to ensure timely settlement of claims. Furthermore, by way of installing adequate safeguards against money laundering risks, the RBI guidelines require transaction monitoring or caps on remittance values, and checks to prevent multiple purchases of PPIs.

Challenges faced by the PPI segment

In the face of the regulatory restrictions on the 'cash-out' facility, semi-closed PPIs, especially mobile wallets, found limited usage in the country resulting in limited adoption. In order to overcome this restriction to some degree, the telecom companies formed partnerships with banks, in order to create a separate segment of mobile wallets. These mobile wallets can facilitate cash withdrawal at business correspondent or agent outlets, thereby providing flexibility to customers, especially the migrant labourers.

There have been a number of other issues around the cost structure, distribution network and existing regulatory framework on escrow account mechanism. The proactive policy makers are however, endeavouring to address these challenges over a period of time and transform prepaid instruments into preferred instruments for use on a daily basis. The planned pilot project for enabling cash out (for

semi-closed PPIs) with biometric identification and the adoption of e-KYC are some of these steps in the right direction.

Payment banks: Divergent future for PPI?

The recently released Nachiket Mor Committee Report on financial inclusion proposes a revolutionary future for the payments ecosystem, wherein specialised banks (christened 'Payment Banks') take the lead to provide payment services across the length and breadth of the country. Under this model, all the existing as well as new PPI providers (with minimum capital base of 50 crore INR) will have to apply for a payment bank license under the Banking Regulations Act and no further PPI licenses will be issued. These payment banks are expected to provide various payment services, deposit services, follow compliances and enjoy privileges of the scheduled commercial banks. However, they will not be allowed to take any credit risks and therefore, will have to use their deposits to invest in short-term government securities (with the tenure not exceeding three months) and other approved SLR securities.

Seven years after the passage of the Payments and Settlement Systems Bill, industry players are still constantly tweaking their business plans to fulfil regulatory and market requirements. The market models are still evolving as the industry participants seek to find the one best suited for the Indian scenario. The regulatory environment too is undergoing significant transformation. The impact of the divergent upcoming regulatory changes cannot be ascertained at present. However, these developments do raise open questions such as what will be the FDI norms and the licensing requirements for payment banks. All such questions lead to one significant question: Do these recent indications of a shift in regulatory attitudes signal a paradigm shift for the PPI industry?

- Amit G Jain (Manager, Regulatory Services)

Glossary

AD	Authorised dealer
BO	Branch office
CCPS	Compulsorily convertible preference share
DC	Development commissioner
DEA	Department of Economic Affairs
DeiTY	Department of Electronics and Information Technology
DGFT	Directorate General of Foreign Trade
DIPP	Department of Industrial Policy and Promotion
DoC	Department of Commerce
DTA	Domestic tariff area
EHTP	Electronic hardware technology park
EMC	Electronics manufacturing cluster
EOU's	Export oriented units
ESDM	Electronics Systems Design and Manufacturing
FCCB	Foreign currency convertible bond
FDI	Foreign direct investment
FEIs	Foreign educational institutions
FEMA	Foreign Exchange Management Act
FII's	Foreign institutional investors
FIPB	Foreign Investment Promotion Board
FPI	Foreign portfolio investor
FY	Financial year
GDR	Global depository receipt
ICDR	Issue of capital and disclosure requirements
INR	Indian Rupee
IT	Information technology
JV	Joint venture
LC	Letter of credit
LO	Liaison office
LoA	Letter of approval
MBRT	Multi-brand retail trading
MCA	Ministry of Corporate Affairs
MIB	Ministry of Information and Broadcasting
MoC	Ministry of Commerce
MRO	Maintenance, repairs and overhaul
M-SIPS	Modified special incentives package scheme
NRI's	Non resident Indians
ODI	Overseas direct investments
PIB	Press Information Bureau
PO	Project office
PPI	Prepaid payments instruments
PSS Act	Payment and Settlement Systems Act of 2007
R&D	Research and development
RBI	Reserve Bank of India
RD	Regional Director
RoE	Return on equity
SBRT	Single brand retail trading
SEBI	Securities Exchange Board of India
SEZ	Special economic zone
SPV	Special purpose vehicle
UAC	Unit approval committee
USD	United States dollar
WOS	Wholly owned subsidiary

Contacts

Ahmedabad

President Plaza, 1st Floor Plot No 36
Opp Muktidham Derasar
Thaltej Cross Road, SG Highway
Ahmedabad, Gujarat 380054
Phone +91-79 3091 7000

Bangalore

6th Floor, Millenia Tower 'D'
1 & 2, Murphy Road, Ulsoor,
Bangalore 560 008
Phone +91-80 4079 7000

Chennai

8th Floor, Prestige Palladium Bayan
129-140 Grems Road,
Chennai 600 006
Phone +91 44 4228 5000

Hyderabad

#8-2-293/82/A/113A Road no. 36,
Jubilee Hills, Hyderabad 500 034,
Andhra Pradesh
Phone +91-40 6624 6600

Kolkata

56 & 57, Block DN.
Ground Floor, A- Wing
Sector - V, Salt Lake.
Kolkata - 700 091, West Bengal, India
Phone +(91) 033 - 2357 9101 / 4400 1111

Mumbai

PwC House, Plot No. 18A,
Guru Nanak Road - (Station Road),
Bandra (West), Mumbai - 400 050
Phone +91-22 6689 1000

Gurgaon

Building No. 10, Tower - C
17th & 18th Floor,
DLF Cyber City, Gurgaon
Haryana -122002
Phone : +91-124 3306 6000

Pune

GF-02, Tower C,
Panchshil Tech Park,
Don Bosco School Road,
Yerwada, Pune - 411 006
Phone +91-20 4100 4444

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