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Securities and Exchange Board of India

Investments by FPIs in Government Securities

Securities and Exchange Board of India ("**SEBI**") vide its *Circular dated April 3, 2017* has provided the revised limits applicable to Foreign Portfolio Investor's ("**FPI**") investment in Government securities for the April- June 2017 Quarter as follows:

1. Limit for FPIs in Central Government securities is enhanced to Rs. 184,901 crores (Rupees One Lakh Eighty Four Thousand Nine Hundred and One Crores)
2. Limit for Long Term FPIs, Sovereign Wealth Funds ("**SWF**s"), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks in Central Government securities is revised to Rs. 46,099 crores (Rupees Forty Six Thousand Ninety Nine Crores)
3. The limit for investment by all FPIs in State Development Loans ("**SDL**") is enhanced to Rs. 27,000 crores (Rupees Twenty Seven Thousand)

Accordingly, the revised FPI debt limits would be as follows:

Type of Instrument	Upper Cap as on March 31, 2017 Rupees in crores	Revised Upper Cap with effect from April 03, 2017 Rupees in crores
Government Debt	1,52,000	1,84,901
Government Debt – Long Term	68,000	46,099
SDL	21,000	27,000
Total	**2,41,000**	**2,58,000**

Inclusion of "Derivatives on Equity shares" – IFSC

SEBI vide its *Circular dated April 13, 2017* has provided for the inclusion of derivatives on equity shares as permissible security for stock exchanges operating in International Financial Services Centres ("**IFSC**") and its guideline which are as follows-

1. Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 ("**SEBI (IFSC) Guidelines, 2015**") were notified by SEBI on March 27, 2015, which came into force on April 01, 2015.
2. Clause 7 of SEBI (IFSC) Guidelines, 2015 specifies the types of securities in which dealing may be permitted by stock exchanges operating in IFSC.
3. SEBI has now been decided to specify 'Derivatives on equity shares of a company incorporated in India' ("**Derivatives on equity shares**") as permissible security under sub-clause (vi) of Clause 7 of SEBI (IFSC) Guidelines, 2015. Accordingly, the recognized stock exchanges operating in IFSC may permit dealing in Derivatives on equity shares, subject to prior approval of SEBI.
4. SEBI registered FPIs, operating in IFSC and eligible entities which are incorporated and operating in IFSC shall be eligible to trade in Derivatives on equity shares.
5. The applicable position limits for eligible participants shall be as stipulated vide SEBI *Circular dated November 02, 2001*, *Circular dated January 20, 2006* and *Circular dated December 27, 2016*.
6. The Market Wide Position Limit ("**MWPL**") for Derivatives on equity shares shall be equal to ten percent (10%) of the number of shares held by non-promoters in the relevant underlying security i.e. free-float holding. Further, the MWPL for Derivatives on equity shares in recognized stock exchanges in IFSC shall be reckoned separately from that in recognized stock exchanges in domestic market and the MWPL (in value terms), in no circumstances, shall exceed the fifty percent (50%) of the MWPL (in value terms) in recognized stock exchanges in domestic market.

Review of the framework of position limits for Interest Rate Futures

SEBI vide its *Circular dated April 18, 2017* has provided for review of the framework of position limits for Interest Rate Futures contracts

For Interest Rate Futures contracts, it is clarified that the position limit linked to open interest shall be applicable at the time of opening a position. Such positions shall not be required to be unwound immediately by the market participants in the event of a drop of total open interest in Interest Rate Futures contracts within the respective maturity bucket.

However such market participants shall not be allowed to increase their existing positions or create new positions in the Interest Rate Futures contracts of the respective maturity bucket till they comply with the applicable position limits.

In view of risk management or surveillance concerns with regard to the positions of such market participants, stock exchanges may direct such market participants to bring down their positions to comply with the applicable position limits within the time period prescribed by the stock exchanges.

IFSC Banking Units ("IBUs") acting as Trading Member or Professional Clearing Member on stock exchanges/clearing corporations in IFSC

SEBI vide its *Circular dated April 27, 2017* has provided clarification for an IBU set up in IFSC.

Clause 8 of SEBI (IFSC) Guidelines, 2015 provides that

"Any recognised entity or entities desirous of operating in IFSC as an intermediary, may form a company to provide such financial services relating to securities market, as permitted by the Board".

Based on the representations received from the market participants and RBI *Circular dated April 10, 2017*, it is clarified that an IBU set up in IFSC shall be permitted to act as a Trading Member of an exchange or a Professional Clearing corporation in IFSC, without forming a separate company, subject to the conditions mentioned in the aforesaid RBI circular.

RBI

Setting up of IFSC Banking Units – Permissible activities

Reserve Bank of India ("**RBI**") vide its *Circular dated April 10, 2017* has amended the rules regarding setting up of IFSC Banking Units ("**IBUs**") notified vide its *Circular dated April 1, 2015* ("**April 2015 Circular**"). The amendments are given below-

1. The existing paragraph No.2.6 (vii) of Annex I and II of the April 2015 Circular is amended and will now read as follows:

   "With the prior approval of their board of directors, IBUs may undertake derivative transactions including structured products that the banks operating in India have been allowed to undertake as per the extant RBI directions. However, IBUs shall obtain RBI's prior approval for offering any other derivative products. Before seeking RBI's approval, banks shall ensure that their IBUs have necessary expertise to price, value and compute the capital charge and manage the risks associated with the products / transactions intended to be offered and should also obtain their Board's approval for undertaking such transactions."

2. A new paragraph No.2.6 (x) will be added to the Annex I and II of April 2015 Circular, which will read as under:

   "The fixed deposits accepted from non-banks by the IBUs cannot be repaid prematurely within the first year. However, fixed deposits accepted as collateral from non-banks for availing credit facilities from IBUs or deposited as margin in favour of an exchange, can be adjusted prematurely in the event of default in repayment of the loan or meeting a margin call."

3. A new paragraph No.2.6 (x) is added to the Annex I and II of April 2015 Circular, which will read as under:

   "The fixed deposits accepted from non-banks by the IBUs cannot be repaid prematurely within the first year. However, fixed deposits accepted as collateral from non-banks for availing credit facilities from IBUs or deposited,

as margin in favour of an exchange, can be adjusted prematurely in the event of default in repayment of the loan or meeting a margin call."

4. New paragraphs No.2.6 (xi) and (xii) are added to the Annex I and II of the of April 2015 Circular, which will read as under:

"(xi) An IBU can be a Trading Member of an exchange in the IFSC for trading in interest rate and currency derivatives segments that the banks operating in India have been allowed to undertake as per the extant RBI directions.

(xii) An IBU can become a Professional Clearing Member ("PCM") of the exchange in the IFSC for clearing and settlements in any derivatives segments. This shall be subject to the following conditions:

a) The parent bank of the IBU ("the bank") shall fulfil the prudential requirements as set out in Para 21 of the Master Direction/ DBR.FSD.No.101/ 24.01.041/2015-16 dated May 26, 2016.

b) The IBU shall, with the approval of the bank's Board, put in place effective risk control measures, prudential limits on risk exposure in respect of each of its trading clients, taking into account their net worth, business turnover, etc.

c) The IBU may, as a PCM of derivatives segments, guarantee trades executed by its clients as trading members of the exchanges subject to the condition that the total exposure which the bank would take on its registered clients should be determined by the Board in relation to the net worth of the bank and monitored regularly. However, the IBU should not guarantee any transaction other than what is required in its role as a PCM.

d) The IBU shall ensure strict compliance with various margin requirements as may be prescribed by the bank's Board as also the extant RBI guidelines regarding guarantees issued on behalf of commodity brokers.

e) The IBU shall comply with all the conditions, if any, stipulated by other regulatory bodies that may be relevant for their role as a PCM."

5. A new paragraph No.2.6 (xiii) is added to the Annex I and II of the of April 2015 Circular, which will read as under:

"IBUs are allowed to extend facility of bank guarantees and short term loans to IFSC stock broking/commodity broking entities, subject to the terms and conditions contained in paragraph 2.3.1.2 of the Master Circular on Statutory Restrictions on Loans and Advances dated July 1, 2015."

6. The following text is added at the end of paragraph 2.11 of Annex I and II of the April 2015 Circular:

"As per *FEMA Notification No.339/2015-RB dated March 02, 2015* ("**March 2015 Circular**"), a financial institution or a branch of a financial institution set up in the IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority shall be treated as a person resident outside India. Further, under *FEMA Notification No.5(R)/2016-RB (schedule-4) dated April 01, 2016*, any person resident outside India, having business interest in India, may maintain Special Non-Resident Rupee Account(s) ("SNRRA") with an Authorised Dealer in the domestic sector for meeting their administrative expenses in INR. Accordingly, any financial institution as defined under March 2015 Circular or a branch of a financial institution including an IBU operating in an IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority, can maintain SNRRA with a bank (Authorised Dealer) in the domestic sector for meeting its administrative expenses in INR. These accounts must be funded only by foreign currency remittances through a channel appropriate for international remittances which would be subject to the extant FEMA regulations. The financial institution can make payments, permissible under FEMA regulations, from its SNRRA, in its capacity as a customer, by suitably instructing the domestic bank with whom the SNRRA is maintained."

Order of Hon'ble Rajasthan Electricity Regulatory Commission ("Commission") in the matter in case No. RERC/1102/17 of M/s Mytrah Vayu (Som) Private Limited V/s Rajasthan Renewable Energy Corporation Ltd., Jaipur and Jaipur and Jaipur Vidyut Vitran Nigam Ltd., Jaipur, Ajmer Vidyut Vitran Nigam Ltd., Ajmer, Jodhpur Vidyut Vitran Nigam Ltd., Jodhpur, Rajasthan Urja Vikas Nigam Ltd., Jaipur (collectively referred as "Discoms")

1. The Petitioner for setting-up a wind power plant with a capacity of 90 MW ("**Project**"), filed an application for registration with Rajasthan Renewable Energy Corporation Limited ("**RREC**"). The draft PPA for the Project was forwarded after approval from RREC to RDPPC (presently Rajasthan Urja Vikas Nigam Ltd.) in favour of Petitioner, for a capacity of 90 MW for which commissioning was scheduled on March 31, 2016.

2. However the Petitioner received an allocation letter from RDPCC under preferential tariff only to the tune of 39.1 MW, and thereafter for 24.8 MW instead of 90 MW as allotted by SLEC and recommended by RREC. The Petitioner entered into PPAs for 39.1 MW and 24.8 MW.

3. The Petitioner submitted that the all the other project developers had entered into a PPA with the Rajasthan Discoms for their full capacities as approved by SLEC with the only exception being that of the Petitioner. The Petitioner stated that the Discoms had given a preference to other developers and entered into PPAs for other power projects for fulfilling the Renewable Purchase Obligation ("**RPO**") for the year 2015-16, in spite of the Petitioner's pending request of entering into PPA for the remaining capacity of the Project. The Petitioner prayed to the Hon'ble Commission to direct the Discoms to enter into a PPA immediately to the extent of remaining capacity of 26.1 MW at preferential tariff and subsequently issue commissioning certificates as per prescribed procedure before 31.3.2017.

4. The Hon'ble Commission while rejecting the prayers of the Petitioner stated that it was within the domain of Discoms, whether they should purchase

the power or not, beyond the quantity required to fulfill the RPO and that the Petitioner had not pointed to any provision empowering the Commission to issue a direction to sign PPA dehors the requirement of Discoms.

5. Also the Hon'ble Commission stated that the Petitioner cannot rely upon the approval of SLEC to compel the Discom to sign PPA as being argued by the Petitioners and cited the para 6 of the sanction letter of SLEC which is reproduced below-

> *"6. It is also made clear that the SLEC approval is only for setting up of the projects and is not for purchase of power by Discoms under preferential tariff. The Discoms will execute PPAs for preferential tariff only upto RPO determined by RREC till 2015-16 as per the Wind Policy, 2012."*

CERC

Determination of levellised generic tariff for FY 2017-18 under Regulation 8 of the Central Electricity Regulatory Commission (Terms and Conditions for Tariff determination from Renewable Energy Sources)

The Hon'ble Central Electricity Regulatory Commission ("**CERC**") has issued the *Central Electricity Regulatory Commission (Terms and Conditions for Tariff determination from Renewable Energy Sources) Regulations, 2017* ("**RE Tariff Regulations**") , on April 4, 2017 which provide for terms and conditions and the procedure for determination of generic tariff of the following categories of Renewable Energy ("**RE**") generating stations:

a. Small Hydro Projects;
b. Biomass Power Projects with Rankine Cycle technology;
c. Non-fossil fuel-based co-generation Plants;
d. Biomass Gasifier based projects;
e. Biogas based projects

CERC has determined the project specific tariff for the following RE technologies:

a. Solar PV and Solar Thermal;
b. Wind Energy (including on-shore and off-shore);
c. Biomass Gasifier based projects, if a project developer opts for project specific tariff;
d. Biogas based projects, if a project developer opts for project specific tariff;
e. Municipal Solid Waste and Refuse Derived Fuel based projects with Rankine cycle technology;
f. Hybrid Solar Thermal power projects;
g. Other hybrid projects include renewable–renewable or renewable conventional sources, for which renewable technology is approved by Ministry of New and Renewable Energy ("**MNRE**");

g. Any other new renewable energy technologies approved by MNRE

The following are the notable proposed levellised generic tariff for various RE Technologies for FY 2017-18:

1. USEFUL LIFE

'Useful Life' in relation to a unit of a generating station including evacuation system to mean the following duration from the date of commercial operation ("**COD**") of such generation facility:

Renewable Energy Projects	Years
Small Hydro	35
Biomass power project with Rankine Cycle technology	20
Non-fossil fuel based co-generation	20
Biomass Gasifier	20
Biogas	20

2. CONTROL PERIOD

Regulation 5 of the RE Tariff Regulations provides that the control period for determination of tariff for RE projects shall be three (3) years of which the first year of the control period is FY 2017-18.

3. TARIFF DESIGN

Regulation 10 of the RE Tariff Regulations outlines the principles for tariff design for RE generating stations as under:

a. The generic tariff shall be determined on levellised basis for the Tariff Period. Provided that for RE technologies having single part tariff with two components, tariff shall be determined on levellised basis considering the year of commissioning of the project for fixed cost component while the fuel cost component shall be specified on year of operation basis.

b. For the purpose of levellised tariff computation, the discount factor equivalent to Post Tax weighted average cost of capital shall be considered.

c. Levellisation shall be carried out for the 'useful life' of the Renewable Energy project.

d. The above principles shall also apply for project specific tariff.

4. LEVELLISED TARIFF

Levellised Tariff is calculated by carrying out levellisation for 'useful life' of each technology considering the discount factor for time value of money. Norms to be considered for computation are as follows:

a. Discount Factor

b. Capital Cost

c. Debt– Equity Ratio

d. Return on Equity

e. Interest on Loan

f. Depreciation

g. Interest on Working Capital

h. Calculation of Capacity Utilisation factor ("**CUF**")/ Plant Load Factor ("**PLF**")

5. **CUF**

Regulation 29 of the RE Tariff Regulations proposed the norms for Capacity Utilization Factor (CUF) of units generated in a year in respect of the Small Hydro generating stations as per the details given in the table below:

Renewable Energy Projects	**CUF**
Small Hydro	
(i) Himachal, Uttarakhand, West Bengal and North Eastern States	45 %
(ii) Other States	30 %

5. Plant Load Factor

Regulations 34, 63 and 71 of the RE Tariff Regulations proposed the PLF of units generated in a year for Biomass, Biomass Gasifier, and Biogas based renewable energy generating stations as given in the table below:

Renewable Energy Projects	RE Projects
(A) Biomass	
(a) During stabilization (6 months)	60 %
(b) During remaining period of the first year (after stabilization)	70 %
(c) Second year onwards	80 %
(B) Biomass Gasifier	85 %
(C) Biogas	90 %

6. Subsidy or incentive by the Central / State Government

Regulation 23 of the RE Tariff Regulations provides for the projects availing the benefit of accelerated depreciation, an applicable Income tax rate of 34.61% (30% IT rate + 12% surcharge + 3% Education cess) has been considered. For the purpose of determining net depreciation benefits, depreciation @ 5.28% as per straight line method (Book depreciation as per Companies Act, 1956) has been compared with depreciation as per Income Tax Act i.e. 40% of the written down value method. Moreover, additional 20% depreciation in the initial year is proposed to be extended to new assets acquired by power generation companies vide amendment in the section 32, sub-section (1) clause (iia) of the Income Tax Act.

The generic tariffs of different RE projects for the financial year 2017-18 which have been arrived at and are proposed are given in detail in the RE Tariff Regulations on the CERC site *here*.

Ministry of New & Renewable Energy

GUIDELINES FOR PROCUREMENT OF WIND POWER THROUGH BIDDING

The draft for procurement of wind power Guidelines have been formulated by Ministry of New & Renewable Energy for procurement of wind power through transparent process of bidding as required under Section 63 of the Electricity Act 2003 (**"EA 2003"**).

These guidelines have been formulated for procurement of wind power through transparent process of bidding as required under Section 63 of the EA 2003.

APPLICABILITY OF GUIDELINES

The Guidelines are being issued under the provisions of Section 63 of the EA 2003 for procurement of electricity by the 'Procurer(s)', from grid-connected WPPs (**'WPP'**), having individual size of 5 MW and above, through transparent process of bidding.

Procurer(s): The term 'Procurer(s)', as the context may require, shall mean the distribution licensee(s), or their Authorized Representative, or an Intermediary Procurer.

The details thereof are provided on the website of the Ministry of New & Renewable Energy *here*.

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Warm Regards,

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