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Policy Brief

April – June, 2017
Vol 1 – Issue 3

Financial Sector Seminar Series

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Pahle India Foundation (PIF) is an FCRA certified, not for profit policy think tank, established in June 2013 as a Section 8 company. PIF's motto is "Facilitating Policy Change." The motto guides all our activities. At PIF, we undertake research and disseminate its findings to contribute to the necessary paradigm shift in development thinking and practices in India. PIF is committed to enriching the public discourse and also to influence policy formulation that will help India successfully complete its triple transition in economic, political and social fields.

Our aim is to emerge as a credible, trustworthy and neutral bridge between economic agents like firms, farmers and professionals on the one hand and policy makers on the other and to contribute to bringing the three principle stakeholders viz government, industry and academia on the same page and pulling in the same direction - a key condition for ensuring India's success in global markets. PIF currently has an analytically strong team of dedicated researchers who are self motivated. PIF's highly qualified team specialises in analyzing India's political economy and its engagement across verticals that are relatively underworked areas that will permit PIF to create a niche for itself in the research and think tank space in the country.

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POLICY BRIEF

About the Seminar Series

India's financial sector compared to its counterparts is still nascent. Our capital markets have not yet developed completely. Our stock and commodity markets are seen by retail investors as a tool for speculation rather than for capital formation. Clearly there is a need for greater research and discussion around policy issues in capital markets space.

With this in mind, Pahle India Foundation (PIF) and Bombay Stock Exchange (BSE) have come together to organise a monthly seminar series, "BSE-PIF Financial Sector Policy Series". The objective of the Seminar Series is to contribute to policy advancement in this important area, by marshalling the available expertise and experience and publishing the proceedings as Policy Briefs.

We have always been committed to submitting a 'Policy Brief' that summarises the discussion after every session, to the regulators and other policymakers, to try and push the policy forward.

Critical Factors for Success of GIFT-IFSC in India

Arindam Goswami

Critical Factors for Success of GIFT-IFSC in India

Introduction

Traditionally finance had been 'global' by characteristic. Money has moved freely across border in various forms while capital has rarely been immobile. Over centuries, frequent change in regimes combined with evolution of administrative systems dampened free movement of capital and discouraged free markets. With passage of time, free trade almost became a fragment of imagination. In the last three decades several International Financial Centres (IFCs) such as IFC London, IFC New York and IFC Tokyo have established themselves as major global financial services centre with advanced settlement and payments systems, supporting large domestic economies, with deep and liquid markets where both, the sources and the uses of funds, are diverse and where legal and regulatory frameworks are adequate to safeguard the integrity of principal-agent relationships and supervisory functions. In recent times Dubai and Singapore have become major centres for international financial services and are emerging as global financial hubs. Modern day IFCs are driven by rapid innovation in financial products and services, instruments, structures, and arrangements to accommodate and manage myriad requirements, risks, and ceaseless quest for cost reduction.

The emergence of the Asian Financial Crisis in 1997 made the policymakers in India sit back and rethink opening India's capital account for the first time. In 2011 when the Ministry of Commerce and Industry gave the final go ahead for setting up of an IFC subject to operational guidelines from the financial regulators in the country. The International Financial Services Centre (IFSC) at Gujrat International Financial Tec-City (GIFT City) also known as GIFT-IFSC was set up as a multi-services Special Economic Zone (SEZ) in accordance with the SEZ Act 2005 read with the SEZ Rules 2006. Sections 18 and 55 of the Act have made provisions for the establishment of an IFSC within an SEZ in India. The Act furtherauthorises the central government to regulate international financial services activities even though it is suggested that a unified regulatory authority is created for governing, controlling and coordination of the financial services being offered at GIFT-IFSC. Creation of a unified financial regulator at GIFT-IFSC will also act as a regulatory sandbox for the Indian market.

The GIFT-IFSC has been designated as a 'deemed foreign territory' for all practical purposes and has the same ecosystem as any offshore location, even though it is physically located on Indian soil. A financial institution setting-up its office under GIFT-IFSC is treated at par with an NRI institution located outside India and is expected to carry out business in foreign currency with such entities, whether resident or non-resident, as the regulatory authority may determine.

Nothing contained in any other regulation shall apply to such a unit, subject to certain provisions. The Government of India offers favourable tax benefits to both financial and non-financial entities (such as information technology enabled services, business process outsourcing units, educational services, healthcare facilities etc.) undertaking business at the GIFT-IFSC. For example, exchanges are charged a reduced Minimum Alternate Tax of 9 per cent compared to 18.5 per cent in the rest of India. Capital market entities are exempted from Security Transaction Tax, Commodity Transaction Tax, Dividend Distribution Tax and Long Term Capital Gain Tax and so on. Apart from these exemptions, various indirect taxes such as Customs Duty, Central Excise Duty, Service Tax, and Central Sales Tax have been waived off based on authorised operations at the IFSC. Additionally, the Government of Gujrat has further waived off stamp duty, electricity duty and registration fees for businesses registering at IFSC under the Gujrat State Industrial and IT policy.

Also, the cost of operation at GIFT-IFSC is much lower than other IFCs across the world. On the legal front, 50 sections of Indian Companies Act have been waived off for companies setting up office at GIFT-IFSC. Recently, GIFT-IFSC City tied up with Singapore Arbitration Centre to set up an arbitration centre within the SEZ.

At present, the GIFT-IFSC houses 11 banks, 2 exchanges and clearing houses, 91broking firms of which 33 have been already approved by SEBI and a total of8 insurance, reinsurance and insurance brokerage companies. More companies are waiting for the requisite completion of formalities to establish operations at GIFT. The Government of India has estimated that value of transactions by IFS firms would exceed USD 120 billion by 2025 and is trying to create a conducive business environment for the same.

Challenges

Although the setting up of the GIFT-IFSC has catapulted India to the league of major IFCs around the world, it is still far from catching up with its global counterparts. Existence of major regulatory and commercial hurdles still plagues GIFT-IFSC which makes it difficult for new participants to enter. Few of the major challenges that still exist at GIFT-IFSC are as follows:

- **Lack of a single approving authority for setting shop at GIFT-IFSC**: The IFSC regulations have been carved out of domestic regulations from the existing financial regulators in the country. Due to this promoters (applicants) need to approach multiple regulators to obtain different clearances that are required to start a business at GIFT-IFSC. Since not all regulatory entities fall under the same nodal agencies within the government, none of these authorities want to be the first one to give a go ahead to the applicant thus delaying the process of entering the market by months.
- **Right to exit:** The current regulatory framework at GIFT-IFSC lacks a well-defined clause of right to exit the market. In the absence of such a clause, financial institution wanting to exit the market get into a convoluted legal process in case of bankruptcy and liquidation.
- **Need for in house legal mechanism:** Although the GIFT-IFSC has tied up with the Singapore International Arbitration Centre for dispute resolution, it still lacks in house legal expertise for various legal framework such as dispute resolution,

arbitral reward, exit process, insolvency and bankruptcy codes which are in line with the global norms and best practices. The lack of such training and education render the law keepers and junior judiciary powerless from taking appropriate actions against the defaulters.

- **Lack of product innovation:** The idea of an IFC is to develop innovative and complex financial products that will enjoy relaxed regulatory norms. Currently, most firms are still dealing in traditional products while product innovation is yet to take place.
- **Taxation and accounting:** Although, the participants at GIFT-IFSC enjoy a competitive tax advantage over domestic players, it is only miniscule when compared to other IFCs. This makes business at GIFT-IFSC far more expensive when compared to its global counterparts. Apart from this, lack of in-house talents with expertise in aligning domestic and foreign accounting process makes it a challenge for the various firms operating at GIFT-IFSC to carry on their day to day business operations.
- **Inadequacy in urban and institutional ecosystem:**The GIFT-IFSC still lacks adequate urban and institutional infrastructure such as convention hall, residential area for employees of GIFT-IFSC, specialised educational institutions and so on.

Recommendations

To develop GIFT-IFSC at par with its global counterparts, regulatory hurdles, operational barriers, differentiated products and services should be explored in detail and every efforts should be made to smoothen out these creases for establishing an IFC of global stature. GIFT-IFSC should pick and choose the best global practices adopted by existing IFCs to carry out their businesses. The need of the hour is to strengthen the three vital aspects i.e. regulatory, legal and commercial frameworks that will encourage foreign participants to choose GIFT-IFSC over its competitors. A list of recommendations to attract further participants at GIFT-IFSC are as follows:

- Currently, the regulation of the financial services being undertaken at GIFT-IFSC lies with the Central Government. Creating a unified regulatory authority will facilitate speedy decision making and frictionless implementation of regulatory directives. The setting up of a unified regulatory body at GIFT-IFSC will further help as regulatory sandbox for the domestic market.
- A single window framework must be developed for granting clearances to applicants. This window should be set up under a nodal agency, preferably at the PMO, comprising members from different approving authorities who would work simultaneously to issue clearances within a stipulated time. Smooth and timely processing of applications is only possible when a nodal agency is given the onus for getting these applications cleared. An excellent example, although not an IFC but operating on the same model is that of Ras-al-Khaimah in the UAE, which has a turn-around-time (TAT) of issuing business license within 48 hours of a participant applying for a license.
- The regulatory framework needs to include a well-defined 'Right of Exit' clause for exiting GIFT-IFSC. While much emphasis has been laid on the ease of entry for business entities at GIFT-IFSC, the government has overlooked the exit process. The right to exit process can be aligned with the FRDI Bill taking into account the global best practices for exiting global financial markets.
- With passage of time, markets will start trading in specialised financial instruments which may be complex in nature, in interpretation as well as in implementation. Due to lack of exposure to such cases, the mainland judiciary may lack the expertise to effectively handle them. In order to ensure that disputes are resolved within a reasonable time-frame and implementation of arbitral award are carried out, the local judiciary and law officers should be trained to deal with these sophisticated legal proceedings. Also, to enforce the arbitral award, the judiciary - specifically the District Court/the Gujrat High Court (depending on whose jurisdiction the matter falls under) - needs to form a special bench so that such cases can be handled smoothly. Additionally, the courts should come out with specific rules for

speedy judgement on priority cases without any adjournment being granted in such matters. In this regard, the Competition Act should be appropriately amended with certain exceptions made for GIFT-IFSC to expedite such proceedings.

- At present, GIFT-IFSC deals mostly in financial products that are domestically traded and dealt within the country. However, for an IFC to survive it is imperative that market innovation, product innovation and modernisation of existing product is carried on a regular basis. The GIFT-IFSC needs to constantly innovate and must focus on product development so as stay ahead of other IFCs around the globe. For this to happen, regulators need to be more receptive to new ideas from the participants at GIFT-IFSC.
- Current taxation structure at GIFT-IFSC offers a limited amount of taxation benefits to participants, clients and investors. These benefits are minuscule when compared to successful IFCs like that of Singapore, London and Dubai. The current taxation regime must have an edge over the already established IFCs that entice participants to shift their business to GIFT-IFSC. Further increase in tax holiday tenures, tax benefits to clients of GIFT-IFSC, liberalising tax norms for complex financial products are only few among many benefits that will encourage foreign participants to initiate further business with and at GIFT-IFSC.
- Both the Central and the State Governments need to join hands to provide state of the art infrastructure at GIFT City. This will enable GIFT City to develop into a world class financial city and will further interest foreign participants to come to do business at GIFT City. Apart from this, allowing foreign training institutes and professional institutions to set up shop at the GIFT City will help in creating in-house talents with expertise in regulatory, legal, commercial and accounting domains for aligning domestic and foreign best practices.These talents can be absorbed by the firms operating at GIFT-IFSC to carry on their day to day business operations reducing the need to import manpower from outside the country.

Municipal Bond Market in India

Gunja Kapoor

Municipal Bond Market in India

Introduction

Municipal bonds have played a pivotal role in the development of infrastructure across the globe. Municipal bonds in India are a relatively nascent concept. In 1996, the Rakesh Mohan Committee on 'Commercialization of Infrastructure Projects' recommended development of the municipal bond market in India. Globally, municipal bonds are classified as revenue bonds or general obligation bonds. However, bonds issued by Urban Local Bodies (ULBs) in India are structured debt obligations, issued by pledging certain sources of revenue.

The Bangalore Municipal Corporation had raised INR125 crore through a private placement in 1997, backed by the state government. Ahmedabad Municipal Corporation issued the first municipal bond without a state government guarantee in 1998. The issue raised INR100 crore, (25 per cent through public placement and 75 per cent through private placement). Both these bonds were taxable.

In 2000-01, the Government of India gave tax exemption to interest income from certain municipal bonds. These bonds were to be used for developing infrastructure for the supply of potable water, sewerage or sanitation, drainage, solid waste management, roads, bridges and flyovers, and urban transport.[1] The first tax-free municipal bond was issued in 2002 by the Ahmedabad Municipal Corporation to raise INR 100 crore for water supply and sewerage. This was also India's first municipal bond to be rated. It was assigned an A+ rating (indicating a credit risk profile in the adequate safety category) by CRISIL.

As per the Ministry of Urban Development (MoUD), municipal bonds where the carrying rate of interest is less than or equal to 8 per cent will qualify as tax-free bonds. However,

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[1] Only if it qualifies as a municipal function under the respective state legislation

the Corporate Bonds and Securitisation Advisory Committee (CoBoSAC) of Securities and Exchange Board of India (SEBI) has maintained that the rate of interest on tax free municipal bonds be floating to make the instrument an attractive proposition for investors.

Hurdles to municipal bond market in India

Indian urban local bodies are among the world's weakest in terms of financial autonomy and in terms of their capacity to raise external capital as per Report on Indian Urban Infrastructure and Services (2011).[2] This has made the issuance of Municipal bonds both difficult and unattractive. Other problems include:

- Increasing dependence on state and central grants
- Cost involved in municipal bond issues
- Poor record keeping
- Dominance of big municipal corporations in municipal bond market
- Financial unattractiveness of municipal bonds
- Credit Ratings of Municipal Bonds
- Illiquid bond market
- Lack of Collateralised Borrowing and Lending Obligations (CBLOs) for municipal and corporate bonds

Recommendations

(a) Incentivise stakeholders in the municipal bond market

(i) Incentivising the ULBs: The Indian financial markets offer opportunities to both small and large investors, in terms of asset class, tenure and returns. However, the

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2 http://icrier.org/pdf/FinalReport-hpec.pdf

asset class lacks the attractiveness associated with its counterparts like gold and equity. In order to create incentives,link additional central or state grants to the ability of the ULB to raise resources through municipal bonds.

(ii) Incentivising theInvestor: Creating demand for municipal bonds is as much a challenge as supply of municipal bonds. Retail and wholesale investors may be increased by:

- Exempting municipal bond interest payments from tax
- Removing the existing interest rate ceiling of 8 per cent on municipal bonds and allowing the market to discover the rate by itself.
- Including municipal bonds as a part of priority sector lending or counting bank subscription to municipal bonds as part of SLR holding

(b) Existing Financial Institutions to Function as State Financial Intermediaries

Many ULBs do not have the foresight or technical competence to explore capital markets as a source of financing their cash flow requirements. The situation is even worse for smaller ULBs which do not have the required asset pool to generate revenue. Enable RBI or existing public/private sector banks to function as state financial intermediaries and provide ULBs with requisite support and advice with respect to using capital markets optimally. When ULBs are small in size, these intermediaries may draw up pooled financing plans, draft an investor friendly prospectus and provide end-to-end support for bond issues. The Tamil Nadu Urban Development Fund (TNUDF) is one such example.

(c) Quality of services

The service quality of ULBs has been poor and failed to meet consumer expectations. ULBs are entrusted with a number of revenue generating responsibilities. However, this has not translated into their balance sheets. Poor service delivery and weak financial position dilutes the credibility of ULBs. ULBs would need to prove their operational capabilities to be able to access private savings.

(d) Pooled Finance Development Fund (PFDF) Scheme

The central government's PFDF scheme allows smaller ULBs to pool assets and issue bonds backed by pooled assets. This would enable creation of a bundled asset, which would establish its ability to service debt to potential lenders. PFDF would save on restructuring of existing debts and provide for timely availability of capital to ULBS. Over an extended period of time, PFDF would improve urban infrastructure as ULBs would steer towards self-sufficient systems.

(e) Accounting Discipline

The borrowing capacity of ULBs is low in India on account of several factors including the absence of audit compliance. ULBs have been following cash-based, single entry accounting systems. Investor friendly double entry accounting systems need to be adopted to improve their credit worthiness. There needs to be structural reform in order to provide adequate comfort to lenders willing to participate in the urban credit market. Disclosures and accounting standards need to be in line with capital market expectations for ULBs to improve their credit worthiness.

(f) Setting up a Financing Authority

Every state comprises of multiple ULBs. A state level body that would monitor the accounting and budgeting processes of these ULBs would allow uniformity in measuring ULB performance. This body may also study project feasibility, assess corresponding financial requirements and identify suitable sources of financing. Such measures will increase lender confidence and make the municipal bond market competitive.

REITs and InvITs in India

Nirupama Soundararajan

REITs and InvITs in India

Introduction

Infrastructure sector and real estate have played a vital role in development of any economy. The employment generated in these sectors is higher than that generated in other sectors with similar levels of investment. It is much easier to attract FDI and help the businesses grow if the infrastructure is pre-existing. The GDP growth rate of a developing country also impinges on the investments in infrastructure and real estate that it can generate.

India's infrastructure is generally accepted as inadequate and inefficient and could do with sizable investments in power, roads, railways, public transport and a hundred other basic infrastructure projects. The Finance Minister, Arun Jaitley had pegged the required investment over the next 10 years at USD1.5 trillion; about 75 per cent of India's 2016 GDP. Before 1991, infrastructure was financed mainly by the government; after the crisis in 1990, the government embarked on a path towards fiscal responsibility and private investment flowed into telecommunications, power, roads and airports among others. The government now believes that it does not have the resources to meet all of India's infrastructure requirements and hence it has tried to attract private capital, promoting public private partnerships (PPP) in highways, roads, and airports among others.

In 2007-08, Securities Exchange Board of India (SEBI) had come out with the initial set of regulations for rela estate mutual funds. These however barely saw lift off due to multiple constraints. Soon developers in India looked to offshore markets to raise capital for investment in the real estate and infrastructure. In order to attract these investors back to the country and to prevent any further export of these markets. The genesis of real estate and infrastructure funds was during this period of introspection.

SEBI took an innovative step and introduced Real Estate Investment Trust (REIT) and Infrastructure Investment Trust (InvIT) regulations for projects. These regulations have been in effect since 2014 but the products are expected to be launched this year and are expected to alleviate the burden on the banking system by making available fresh and patient capital for the infrastructure sector.

About REITs and InvITs

In general terms, a REIT is an investment vehicle that owns and operates real estate-related assets, and allows individual investors to earn income produced through ownership of commercial real estate without actually having to buy any assets. Estimates suggest a benefit of USD 121 billion or a 1.73 billion square feet benefit provided in terms of commercial real estate- office, retail, and warehouse spaces.A REIT's objective is to provide the investors with dividends that are generated from rentals of properties and the capital gains accruing from the sale of the commercial assets. The trust distributes 90 per cent of the income among its investors via dividends. Apart from reducing the entry investment, a REIT is supposed to provide diversified and safe investment opportunities with reduced risks, and under a professional management to ensure the maximum return on investments.

The advantages with REITs include:

a. **Dividend Income:** 90 per cent of distributable cash at least twice in a year

b. **Transparency:** REIT will showcase the valuation of properties on a yearly basis

c. **Diversification:** According to the guidelines, REITs will have to invest in a minimum of two projects with a maximum of 60 per cent of asset value in a single project

d. **Lower Risk:** At least 80 per cent of the assets will have to be invested into revenue-generating and completed projects. The remaining 20 per cent of the properties that include properties like under construction projects, equity shares of the listed properties, mortgage- based securities, equity shares that derive a minimum of 75 per cent of income from Government securities or G-secs, money market instruments, cash equivalents and real estate activities.

Evolution in India

The real estate sector in India has been lucrative for savvy investors over the last decade, but it has not been without accompanying uncertainties. Recognising the potential benefits of these products SEBI has been proactive in easing of norms regulating these products. Post such changes in 2016 two InvIT issuances took place.[3]

The regulations for REITs and InvITs have been lauded by industry as the most comprehensive set of regulations that have been a result of detailed industry interaction and feedback. Unlike the norm, the regulations have been drafted keeping in mind the Indian scenario and have not been blindly copied from international frameworks, although these were studied in detail. The regulations also act as an exemplar of how the Ministry of Finance has supported the products initiated by the capital markets regulator by granting them many tax breaks within three years of its initiation. Now the regulations are balanced from the viewpoint of the developers and fund houses interested in moving their assets into REITS or InvITs. The regulator has been careful not to copy the regulation from foreign countries but has tailor made them to suit the Indian investor.

REITs and InvITs are a good way to allow smaller investors to invest in the real estate market. The REIT like mutual funds will pool the money from all investors across the country. The money collected from the REIT funds will subsequently be invested in commercial properties to generate income.

The market for REITs and InvITs is very nascent in India. However, with the growth of the economy and the middle class, and the need for housing and infrastructure, the scope for these investment vehicles is immense. In 2016, the government removed the dividend distribution tax (DDT) on special purpose vehicles which was a major hindrance for the development of the market. Rules for REITs have also been relaxed

[3] IRB came out with its issue in May followed by India Grid Trust, although both are trading below par currently, mainly due to market vagaries than any regulatory discrepancy.

and the investment cap in under-construction projects raised to 20 per cent. Special purpose vehicles (SPVs) are now allowed to have holdings in other SPV structures and the limit on number of sponsors has also been removed.

Challenges

- The recent performance of InvITshas not been encouraging. As mentioned, this is due to market downturn. However, it has to a large degree permeated scepticism in the market muting investor demand. given good returns to the investors. The initial investment which came in REITs was expecting short term returns while the REITs are supposed to be long term stable investments.
- The value of the commercial real estate is a factor of rental yield. However, the value of residential real estate is dependent on eventual capital value of the asset. For this reason, REITs stay more focussed on commercial properties rather than residential. Furthermore, the Indian mentality is not used to the concept of long term residential rental leases.
- In the specific context of REITs even though we are yet to see any issuance, a big challenge could be with regard to Lease Rental Discounting (LDRs). When these occur at high rates, it results in higher yields, almost at 10-11 per cent. However, in the recent past, these have fallen and hence yields too have dropped to 7-7.75 per cent, which means the cap for REITs, if they come in would be even lower at around 6 per cent. At these cap rates, the investments would hardly be attractive to investors.
- InvITs have remained confined to four sectors which are power, ports, airports and highways. Private sector participation has been low on account of such a constricted scope of investment area.
- Tolls have always been a means of generating a revenue stream. However recent resistances to tolls in the country makes the revenue stream ook uncertain to the investor.

- Under the current framework, the returns generated by REITs are not likely to be competitive when compared to other asset classes. REITs may generate returns in the range of 6 per cent, which is equal to what any investor will make on a fixed deposit or government bonds. Unless there is a way for REITs to offer returns that are atleast 2-3 per cent higher than risk free assets, the product may never take off.
- The most important challenge is identifying who would create the REITS. Under current circumstances, market making is essential.

Recommendations

One of the biggest benefits of promoting REITs and InvITs is to help banks. Currently, India is hugely dependent on banks for funding of long term projects, especially infrastructure products. While banks have lent money, they do so unwillingly in most cases because of the huge asset liability mismatch. Insurance and pension funds are also absent from the market on account of regulatory restrictions. REITs and InvITs can fill this gap by providing long term investment. For this reason alone, it is important that these products success.

- Investor education requires renewed impetus for these products. It is only through education that investors will understand the advantages of these products, especially InvITs, which is a product that is unique to India.
- We must stop treating these investments at par with equities. They will not and have not internationally either, offer returns at par or higher than equities. However, these are funds that are ideal for portfolio diversification and for offering steady income. Or this to happen however, REITs and InvITs will require market makers. Long term investors are required. This can be done in the following ways:
    - o The RERA regulation requires developers to keep 70 per cent of money in development of residential assets and 30 per cent can be moved to other projects. If this 30 per cent is incentivised to move from commercial assets to REITs it would provide a flush of funds into the investments. Furthermore it would also help developers maintain liquidity.

- o Many public sector entities have own huge amounts of real estate in prime locations. A mechanism to tie these in to REITs must be thought through. This would provide a definite fillip to the products.
- o Long term domestic and foreign institutional investors should be incentivised to invest in these products. Domestic institutional investors such as banks and insurance companies are allowed, but the monies are yet to stream in. International pension funds with very long term position on India would be ideally candidates for these products.
- o Non for profit organisations and many public enterprises are mostly not allowed to invest in any "risky" asset. However, REITs and InvITs by design will generate regular returns and are not heralded as necessarily risky. For this reason, these new brand of investors would be ideal to pump in huge amounts into the funds.

- One of the biggest reasons for high costs of operation are stamp duties. Stamp dties vary across the country and is a major reason for driving up cost of property. This is also one of the reason why most people prefer to deal in property transactions in cash. REITs worked in Singapore because they received stamp duty exemptions. India must strive to do this. It will be a challenge since stamp duty is a State subject. Either we must move towards a unified stamp duty regime (utopia) or provide the necessary exemptions for the investments. This would also help a lot of public sector enterprises to transfer their assets into a SPV, which they are unable to do so currently on account of high stamp duty implications.
- We must diversify the sectors in which InvITs can invest. Sectors such as healthcare and education that come under the ambit of social infrastructure, amongst many others, lend themselves well to these kind of funds. While SEBI has made the provisions for funds to flow into these sectors, the market is yet to explore new possibilities.

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