

Union Cabinet approves major Reforms in Telecom Sector

The Union Cabinet (“**Cabinet**”), with the aim to protect and generate employment opportunities, promote healthy competition, protect interests of consumers, infuse liquidity, encourage investment and reduce regulatory burden on Telecom Service Providers (“**TSPs**”), has approved a number of structural and procedural reforms (“**Reforms**”) in the Telecom sector on September 15, 2021.

The Reforms have also been announced in light of the vision of all network technology requisite for the deployment of 4G & 5G technology to be designed and developed in India, with the hope that all users will use the technology developed indigenously within India and create an enabling environment for investment in 5G networks.

Nine structural reforms and five procedural reforms plus relief measures for the TSPs are as below:

Structural Reforms

1. Rationalization of Adjusted Gross Revenue (“**AGR**”): Non-telecom revenue will be excluded on prospective basis from the definition of AGR.
2. Bank Guarantees (“**BGs**”) rationalized: Huge reduction in BG requirements (80%) against License Fee (“**LF**”) and other similar Levies. No requirements for multiple BGs in different licenced service areas (LSAs) regions in the country. Instead, One BG will be enough.
3. Interest rates rationalized/ Penalties removed: From 1st October 2021, delayed payments of LF/Spectrum Usage Charge (“**SUC**”) will attract interest rate of State Bank of India’s Marginal Cost of Funds (“**MCLR**”) plus 2% instead of MCLR plus 4%; interest compounded annually instead of monthly; penalty and interest on penalty removed.
4. For auctions held henceforth, no BGs will be required to secure instalment payments.
5. In future auctions, tenure of spectrum has been increased from 20 to 30 years.
6. Surrender of spectrum will be permitted after 10 years for spectrum acquired in the future auctions.
7. No SUC will be levied for spectrum acquired in future spectrum auctions.
8. Spectrum sharing encouraged- additional SUC of 0.5% for spectrum sharing removed.
9. To encourage investment, 100% Foreign Direct Investment (FDI) under automatic route permitted in Telecom Sector. However, all safeguards will apply.

Procedural Reforms

1. Spectrum auctions to be normally held in the last quarter of every financial year.
2. Cumbersome requirement of licenses under 1953 Customs Notification for wireless equipment has been removed and is replaced with self-declaration.
3. Self- Know Your Customers (“**KYC**”) reforms will be permitted. E-KYC rate revised to only One Rupee.
4. Paper Customer Acquisition Forms (CAF) will be replaced by digital storage of data.
5. Standing Advisory Committee for Frequency Allocation clearance for telecom towers has been eased. The Department of Telecommunications (“**DoT**”) will accept data on a portal based on self-declaration basis. Portals of other Agencies (such as Civil Aviation) will be linked with DoT Portal.

While addressing liquidity requirements of TSPs, the Cabinet approved the following for all the TSPs:

1. Moratorium/Deferment of upto four years in annual payments of dues arising out of the AGR judgement, with however, by protecting the Net Present Value (“**NPV**”) of the due amounts being protected.
2. Moratorium/Deferment on due payments of spectrum purchased in past auctions (excluding the auction of 2021) for upto four years with NPV protected at the interest rate stipulated in the respective auctions.
3. Option to the TSPs to pay the interest amount arising due to the said deferment of payment by way of equity.
4. At the option of the Government, to convert the due amount pertaining to the said deferred payment by way of equity at the end of the Moratorium/Deferment period, guidelines for which will be finalized by the Ministry of Finance.

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