

# Namaste India

The comprehensive guide  
for professionals investing  
in India







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30<sup>th</sup> September, 2017

### **PREFACE**

As the fastest growing major economy in the world, India remains an attractive opportunity for capital market investments. Growth oriented policies by the Government, and bold reforms such as Bankruptcy Act and GST have strengthened the long term potential of Indian economy to become a top-tier leader.

Prudential policy framework for governing financial markets has ensured orderly and transparent market processes. It is important to continue to focus on safe and sound market polices, while developing investor-friendly measures to attract and retain long term capital investments. The FPI regime has fulfilled these objectives over the last three years.

I am pleased to note that Namaste India, a detailed reference guide to the regulatory framework underpinning capital markets, with a particular focus on the FPI model, is entering the fourth edition this year. I commend Deutsche Bank team in continuing the good work and wish the very best to Namaste India Edition 2017.

  
(Praveen Garg)





G. MAHALINGAM  
WHOLE TIME MEMBER

भारतीय प्रतिभूति  
और विनिमय बोर्ड  
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### Preface

India continues to remain one of the top 3 investment destinations globally attracting foreign investments through the portfolio route and as foreign direct investment. The various initiatives taken by the government, coupled with robust domestic demand, a growing middle class and high return on investment adds to the attractiveness of India as an investment destination. Having an investor friendly regulatory framework plays a crucial role in facilitating investment into the country.

Foreign Portfolio Investors (FPI) Regulations 2014, designed as a harmonized and universal entry model for foreign portfolio investments into India has been a major contributor in increasing inflows through the portfolio route. As the FPI Regulations reach the three-year milestone, efforts continue to fine tune the regulations to make them investor friendly; while enhancing transparency and safety for the capital markets. Deutsche Bank team has been playing a commendable role in bringing clarity as well as necessary guidance on the regulations to the global investors through their annual publication Namaste India- A comprehensive guide for FPI investors.

I will like to congratulate the Deutsche Bank team for their continued effort in putting together the Fourth Edition of this publication

  
G MAHALINGAM 28/9/2017







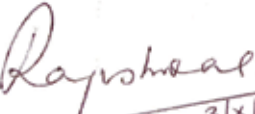
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कार्यपालक निदेशक  
Executive Director

Against a backdrop of global economic uncertainties in recent years, India has remained one of the more stable, consistent, and high performing economies in the world. As India's growth story continues to attract global capital through both the Foreign Direct Investment (FDI) and Foreign Portfolio Investments (FPI) routes, it is important for Indian capital markets to continue to offer a sound and highly evolved framework to support investors.

With the variety of asset classes and products available in the Indian financial markets, a reference guide like Namaste India can help participants to gain better insights about the regulatory framework. I appreciate the efforts of the Deutsche Bank team in publishing this fourth edition of the Namaste India guide and hope this proves to be a useful reference for foreign investors.

  
(M. Rajeshwar Rao) 3/17

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हिंदी आसान है, इसका प्रयोग बढ़ाइए



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## Foreword

Continuing the yearly tradition of releasing the updated version of our annual publication: 'Namaste India: The comprehensive guide for professionals investing in India', the Deutsche team is ready with the Fourth Edition. This edition focuses on all the latest procedural aspects required for Foreign Investors to commence their portfolio investments into India while also providing insights into the other available investment routes for foreign investors interested in accessing India market such as FDI, FVCI.

The current government has been relentless in its efforts to improve the ease of doing business in India and the positive impact can be seen through the improvement in India rankings as per various international reports. Foreign investors continue to compete with each other to get a bigger slice of the India growth story as India's attractiveness as a top notch investment destination continues unabated in 2017.

The FPI regime has completed 3 years since its launch in June 2014. The new regime has been a major contributor towards increasing investment flow through the FPI route. As the regulators continue their effort in further rationalising the access and investment norms, we at Deutsche Bank, are certain that the efforts put by the team in releasing the Fourth Edition of Namaste India will be useful for investors wanting to make an informed decision on investing in India.

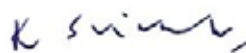
We would like to thank our clients, partners and other intermediaries who have provided us with valuable feedback and assistance contributing to the contents and printing of this book.



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## Foreword

It's that time of the year, when team Deutsche Bank gets ready with its updated version of the annual publication, Namaste India. Positive feedback from the clients continues to motivate the team to not only update but take the new version to the next level.

Political stability coupled with big bang reforms undertaken by the existing Government in India, has ensured steady investment flows into India in 2017 as well. The regulators on their part have been providing much needed impetus by working towards easing the existing access norms.

New investors wanting to access India, for the first time, would love to access a comprehensive guide that tells them exactly, what is required to get started. The team has been constantly working towards beating expectations through this book.

I would like to make a special mention of the image on the front cover – the peacock is not only India's national bird but also a symbol of integrity, perfection, beauty and pride. It conveys our underlying Values & Beliefs and clients commend us for this positive impact that we consistently deliver.

My congratulations to the India team for having done a great job of putting together the Fourth Edition.



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# Introduction

India remains a favourite destination for foreign investors. Institutional investors remain significantly upbeat on opportunities in India and despite expensive valuations in the equity market, leading investors remain overweight on India market.

The new government recently completed its third year in office. During this period, a number of landmark reforms have been implemented, while the macro picture has also improved significantly.

One of the most significant reforms ever undertaken in Indian economy – the Goods and Services Tax (GST) was legislated and is being rolled out across the economy. It is expected that the GST will prove to be transformational for the Indian economy in the medium to long term, helping simplify indirect tax structure, reducing geographical fragmentation, broadening the tax base and increasing the potential growth rate of the economy.

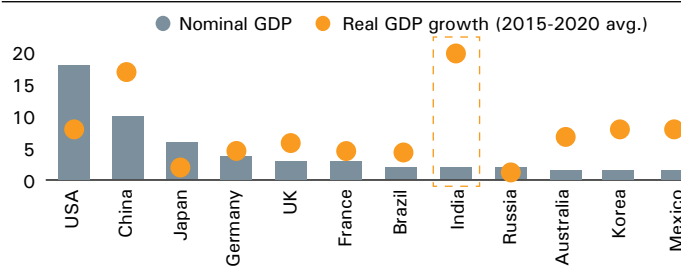
Reform momentum has picked up significantly in the last three years, which is likely to continue in the period ahead across multiple aspects of the economy. India has embarked on a journey to transform itself into a STAR (Simple, Transparent, Affluent and Resilient) economy, and the progress so far has been promising.

- **Simple:** Improve ease of doing business ranking, liberalise and simplify FDI norms further, simplify indirect tax structure by implementing GST
- **Transparent:** Fair and transparent method of e-auctioning of national resources, reduced distortion and discretion through de-regulation of petrol and diesel prices, improve subsidy delivery through direct benefits transfer, bring transparency in the lending process by implementing Bankruptcy Code, demonetisation to reduce black money and cash usage in the economy, enforcement of Benami Act, abolition of cash transaction above INR 200,000 and transparency in political funding by capping donation from each source to just INR 2,000
- **Affluent:** Shift in policy stance with focus currently on wealth creation rather than poverty alleviation; focus on expediting pace of urbanisation through Smart Cities mission along with digitisation to make India more prosperous
- **Resilient:** Commitment to keep inflation low, maintain positive real interest rate in the economy, fiscal consolidation, focus on maintaining rupee stability in a challenging global macro backdrop

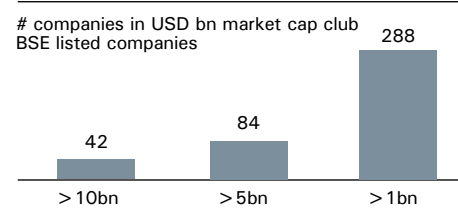
## Three years of PM Modi's Government "Transforming India into a STAR economy"

Simple	Transparent	Affluent	Resilient
– Taxation – Single window clearance	– Cutting intermediaries – Direct benefit transfer	– Policies for wealth creation – Rapid Urbanization	– Fiscal consolidation – Low inflation
<b>Ease of doing business</b> 130th ↑4	<b>GST (Goods and Service Tax)</b> Single tax system merging various central/ state taxes	<b>Make in India</b> USD 2tn investment commitment received	<b>GDP Growth</b> 7.1%, One of the fastest in the world
<b>World investment report</b> 9th ↑6	<b>Aadhaar based payment system</b> Biometric based Direct benefit transfer	<b>Skill India</b> 185 million vocational training seats up 22% from 2014	<b>Current Account Deficit</b> 0.9% est. in FY17; 4.8% in FY13
<b>FDI</b> USD 60.08bn, Apr-Mar 17, growth of 8%YOY	<b>Bankruptcy law</b> Single framework for recovery of debts	<b>Startup India</b> 2000 new startups each year by 2020	<b>Inflation</b> 2.99%, in Apr 17 10% in 2014
<b>Greenfield Investments</b> USD 63bn, Highest in emerging markets	<b>Benami Act</b> To crackdown corruption and black money	<b>Financial Inclusion</b> 240 million Added to banking ambit	<b>Credit growth</b> Showing signs of gradual recovery
<b>Labour reforms</b> Single window compliance for labor related issues	<b>Double taxation avoidance agreement</b> Amended with existing countries (Mauritius), signed with new countries (Cyprus)	<b>Smart Cities</b> 98 Smart cities + Infrastructure modernization of 500 cities	<b>Reducing subsidy burden</b> 1.75% of GDP in FY17, down from 2.5% in 2013

No country above USD 1tn. GDP is likely to grow as fast as India in next 5-6 yrs



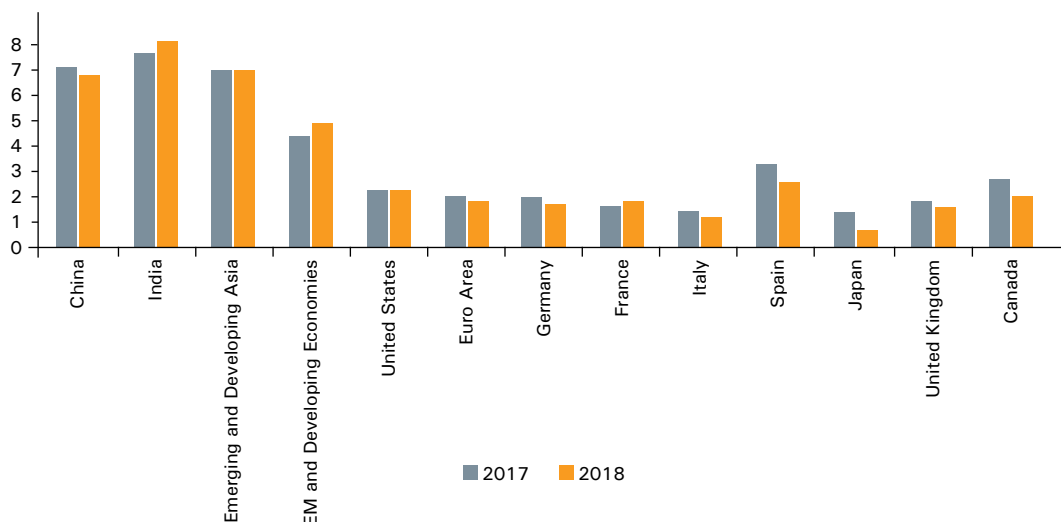
India Inc. market cap topped USD 2tn



India continues to be one of the fastest growing economies in the world, but what has changed in recent years is the quality of growth-inflation mix. Currently India's real GDP growth is in the 7-7.5% range, with CPI inflation anchored in the 4.5-5.0% range. Growth-inflation balance has thus improved and is expected to remain so for in the medium to long term. Achieving high economic growth, along with low or acceptable inflation, is an important strength of Indian economy going forward.

India's equity and debt markets remain the most attractive destination for global investment community. Capital inflows from foreign investors are expected to continue to grow in the medium term.

### Overview of the World Economic Outlook Projections (YoY in percentage)





Foreign direct investments into India have increased significantly in recent years, thereby improving the quality of capital inflow. In the last three years, India has seen a surge in FDI inflows into the country, due to perceptible improvement in policy environment and given the significant liberalisation of FDI norms. In FY17, gross FDI inflows amounted to USD 43.8bn, on the back of USD 44.9bn and USD 35.3bn in the preceding two years.

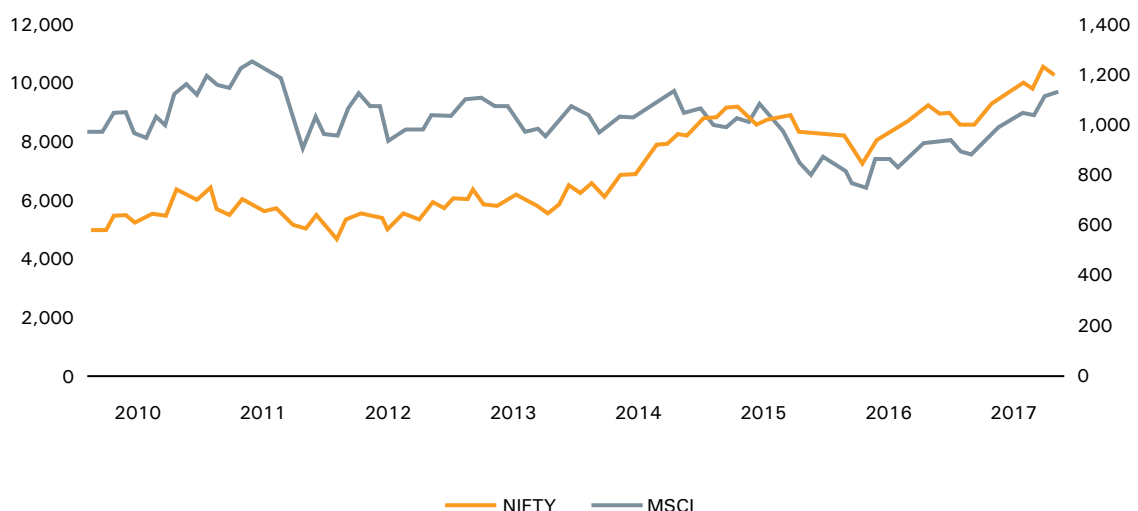
### Government: Key Initiatives

Government initiatives to encourage manufacturing infrastructure, entrepreneurship and develop skill are expected to further boost investor interest. To meet the increased investment demand, and allow foreign investors to participate in this growth, government has also undertaken steps to ease entry and investment for foreign investors, open-up new sectors for investments and make efficient use of IT and emergent technologies.

India’s population dynamic remains positive. India’s population between the age of 15 and 64 is expected to rise from 781 million to about 1 billion over the next 20 years i.e. its labour force will rise by over 30% (Source: United Nations Population database). Increased urbanisation, among other factors, will likely lead to sharp increase in middle class consumption. India is slated to become the leading source of middle-class demand in the coming decades, overtaking US and China by 2030.

Multiple drivers are falling in place to engineer a positive confidence environment for Indian consumers. A boost to per capita disposable income for central government employees, coupled with a good monsoon (after 2 consecutive years of drought), low interest rates and easing liquidity should provide a significant boost to aggregate demand in the near term.

Increasing business confidence, accelerating economic growth, fiscal consolidation, receding inflation, a stable currency and massive infrastructure spending in near term make the India investment compelling. Combine this with India’s long-term advantages such as an expanding working age population, low debt-to-GDP levels, an edge in new age industries such as IT/ Fintech and potential for financial sector growth and the opportunity in India starts to look limitless.



Economic policy makers in India continue to encourage inward capital flows and the regulatory framework therefore is expected to maintain focus on attracting foreign investments as a key objective.

## 1.1. Background – FPI

The Foreign Portfolio Investors (FPI) Regulation 2014 was notified by Securities and Exchange Board of India (SEBI) in January 2014, which became operational from June 1, 2014. The FPI market access model for foreign investors, which evolved from the earlier FII/ sub-account/ QFI model to the harmonised FPI regime, is now stabilised over the last two years and is undergoing a review for further development.

Introduction of the FPI model also included the Designated Depository Participant (DDP) role entrusted by SEBI to Custodians in India in order to introduce efficiency in the market entry process; accompanied by implementation of a risk-based Know Your Client (KYC).

The objective of this document is to provide comprehensive guide on the FPI model for investors, investment professionals, intermediaries and market participants. Overview of all investment routes including Foreign Direct Investment (FDI) and Foreign Venture Capital Investor (FVCI) has been included, along with a summary look at the securities market structure in India.

## 1.2. What's New in the 2017 Edition

This edition covers all the regulatory and procedural changes notified till August 31, 2017 as well as additional material on some key aspects relevant to Foreign Portfolio Investors.

Below is the summary of some key revisions in this edition:

- A significant addition this year is a separate section on FDI/ FVCI route, given the surging growth in FDI investments into India seen consistently over the last 3 years
- Details on REIT and InvTs have been included this year as a separate section, along with AIF concepts
- Government of India is promoting the new International Financial Services Centre (IFSC) developed at GIFT City, Ahmedabad in Gujarat state. A separate chapter has been included in this Edition to cover the IFSC environment
- New regulatory notifications, important policy announcements, consultation papers published this year have been listed in a new chapter for capturing a brief summary of all regulatory changes over last year in one place for ready reference
- Changes in corporate debt market mechanism

## 1.3. Navigation through this Guide

- The document provides a context to the FPI model by sharing a summary information section on the Indian securities market and the various prevalent investment routes into India, as Chapters 2 and 3
- Against a background of steady growth in Foreign Direct Investments (FDI) into India, a separate section has been devoted to detailed coverage of FDI and FVCI routes as Chapter 4
- Comprehensive information on the process of market entry is available in Chapter 5
- Comparative tables on key aspects such as investment permissions across the three foreign investment routes, impact of Categorisation and are included as Chapter 6
- A detailed note on the risk-based KYC framework, applicable to FPIs as well as the KYC framework applicable to other foreign investment routes is included in Chapter 7. Investment guidelines applicable to the FPI route are described in detail in Chapter 8. This

section includes information on debt, equity and other permitted instruments, investment platforms, limits etc.

- Comprehensive information regarding the regulations governing ODIs is included as Chapter 9, which includes latest changes with respect to addition of hedging condition
- Guidelines related to Banking, remittance rules and currency hedging are covered in Chapter 10
- Overview of the clearing and settlement environment in the Indian securities market is available as Chapter 11. FPIs experience the same highly developed and stable clearing and settlement structure, as domestic participants in the market. This section provides summary information, designed to convey key aspects. A detailed note on Asset Servicing environment is also included
- An indicative discussion on the applicable tax structure is provided in Chapter 12. The information included is of indicative nature only, as actual tax applicability will differ on case to case basis depending on various factors. This chapter also includes the latest updates on the significant changes to tax environment, international tax administration etc.
- A new addition, Chapter 13, is devoted to describing the REITs, InvTs and AIF concepts
- Chapter 14 is also a new section, specifically added to describe the IFSC at GIFT City Ahmedabad
- A list of latest important announcements have been summarized in Chapter 15 for ready reference to new regulations, discussion/consultation papers notified this year
- Chapter 16, titled Industry Perspectives, includes articles contributed by market experts on important aspects of Indian financial markets. (Views expressed in these articles are of the authors and do not represent views of Deutsche Bank)
- Annexures include useful reference links, key contacts list, besides Forms/ Templates relevant to FPI market entry

# Securities Market in India: Overview

The securities markets in India have witnessed reform initiatives from FY 2000-01 onwards, which have refined the market structure, modernised operations and broadened investment choices for the investors; while improving efficiency, reliability and making the markets safer for all stakeholders.

## 2.1. Market: Participants and Components

The securities market has essentially three categories of participants, namely the issuers of securities, investors in securities and the intermediaries (brokers, merchant bankers, custodians etc.). The issuers and investors are the consumers of services rendered by the intermediaries. They also facilitate bringing together the issuers and investors in a market place.

### Securities are broadly categorised into:

- Shares/ scripts/ stocks, bonds, debentures, convertible instruments or other marketable securities of a like nature in or of any incorporated company or body corporate
- Government securities
- Rights or interest in securities

The securities market has two interdependent segments, the primary market (new issuances) and secondary market (trading in securities).

- **Primary market:** initial issuance of securities to raise capital resources. Corporate entities issue debt and/ or equity instruments (shares, debentures, etc.), while the governments (central and state governments) issue debt securities (dated securities, treasury bills). Primary market features 'public issues' which can be accessed by all categories of investors, and 'private placement', where the issuance is done to select people/ entities
- **Secondary market:** here securities are traded after being initially offered to the public in the primary market and/or listed on the Stock Exchange. Majority of the trading is done in the secondary market (both equity and debt). The secondary market has further two components:
  - Over-the-counter (OTC) market: Informal markets where securities are negotiated and settled for immediate delivery and payment. However, reporting and settlement of all such OTC trades by entities regulated by SEBI and RBI needs to be done through the clearing corporation of the exchanges
  - Exchange-traded market: here trades are executed on Stock Exchanges and cleared and settled by a clearing corporation which provides innovation and settlement guarantee

Equities market in India is predominantly exchange-driven, while in the Debt segment both OTC and exchange-traded models are present.

Indian securities market includes a vibrant futures market with a variety of derivative products based on single stocks and indexes available to investors.

## Derivatives Market

The forward or futures market is an important part of the secondary market, where assets are traded for future delivery and payment. The versions of forward in formal market are futures and options. In futures market, standardised securities are traded for future delivery and settlement while in case of options, securities are traded for conditional future delivery. There are two types of options – a put option permits the owner to sell a security to the writer of options at a predetermined price while a call option permits the owner to purchase a security from the writer of the option at a predetermined price.

Derivative trading in India is legal and valid only if such contracts are traded on a recognised stock exchange, thus precluding OTC derivatives. Derivatives are formally defined as:

- a security derived from a debt instrument, share, loan whether secured or unsecured, risk instrument or contract for differences or any other form of security
- a contract which derives its value from the prices, or index of prices, or underlying securities

## 2.2. Legal Framework

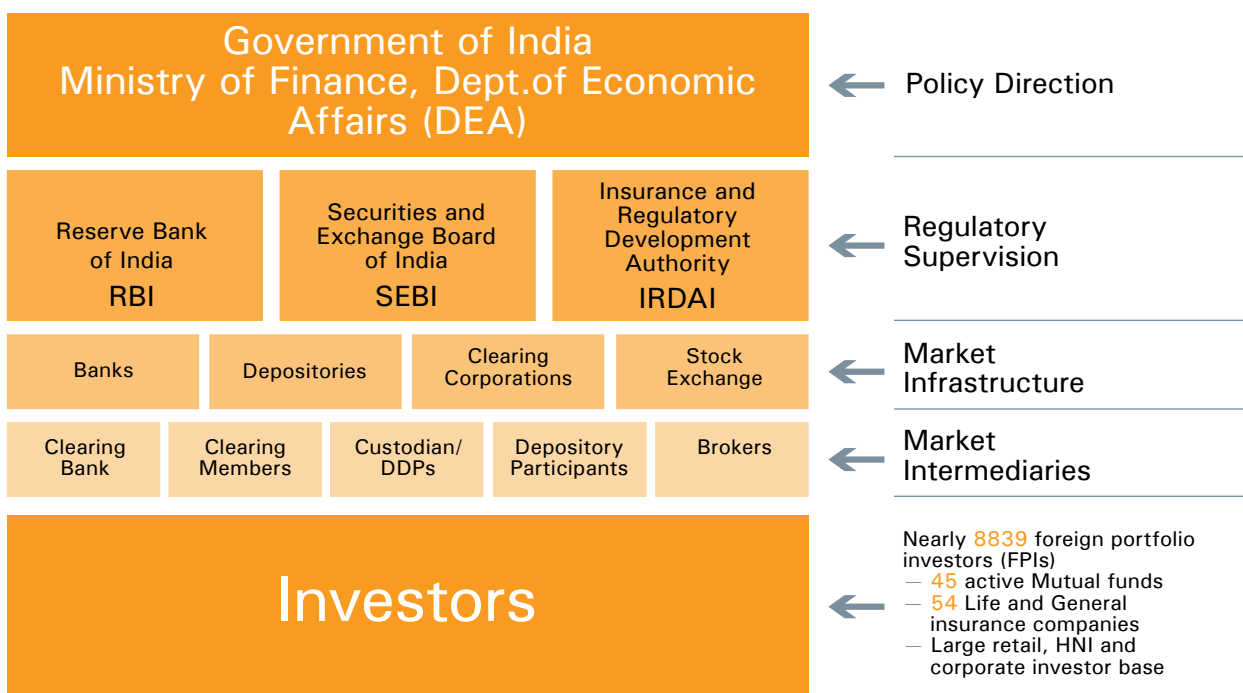
### Important legislations governing the securities market in India are:

- **Companies Act, 1956 and Companies Act, 2013** provides the framework as well as regulates incorporation of a company, responsibilities of a company, directors, dissolution of a company. It also provides a code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, and disclosures to be made in public issues. The Act also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information
- **SEBI Act, 1992** established SEBI to protect investors and develop and regulate securities market. Regulatory jurisdiction extends over corporate in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI has powers to conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act to penalise them in case of violations of the provisions of the Act, Rules and Regulations made thereunder
- **Securities Contracts (Regulation) Act, 1956 (SCRA)** provides for regulation of transactions in securities through control over stock exchanges. It gives the Central Government regulatory jurisdiction over:
  - stock exchanges through a process of recognition and continued supervision
  - contracts in securities, and
  - listing of securities on stock exchanges
- **Depositories Act, 1996** provides for the establishment of depositories in securities market with the objective of ensuring free transferability of securities with speed, accuracy and in a safe and secure manner. It ensures electronic maintenance and transfer of ownership of dematerialised (Demat) securities
  - It provides for all securities held in depository to be dematerialised and in a fungible form
  - It enables the depository to be the registered owner of the securities in the books of the issuer
  - Depository shall maintain a register and index of beneficial owners
  - Depository as the registered owner shall not have any voting rights or any other rights in respect of securities held by it
  - Beneficial owner shall be entitled to all rights and liabilities in respect of his securities held by a depository
- **The Insolvency and Bankruptcy Code, 2016** provides a time-bound process to resolve insolvency



- Exchange Control Manual (ECM) of Reserve Bank of India (RBI) stipulated the regulations that governed for foreign exchange transactions in India till May 2000. In May 2000, the regulations under the Foreign Exchange Management Act (FEMA), 1999 came into force and all notifications regarding foreign exchange transactions since then are prescribed under FEMA
- Prevention of Money Laundering Act (PMLA), 2002 provides the basic statutory framework for identification of customers, transaction records, anti-money laundering measures, monitoring and reporting requirements etc. PMLA defines the broad structure under which KYC and related regulations from SEBI and RBI which are applicable in the securities market are framed
- Rules, regulations and bye-laws of the stock exchanges
- Key statutes applicable for foreign investors also include:
  - FEMA, 1999
  - Exchange Control Manual of RBI
  - SEBI Foreign Portfolio Investors Regulations, 2014
  - SEBI Regulations applicable to key market intermediaries such as Custodians Stock-brokers and regulations governing investor classes – Mutual Funds/collective investment schemes, Alternative Investment Funds, Portfolio Manager etc.

### Supervisory Framework



SEBI has framed regulations under the SEBI Act and the Depositories Act for registration and regulation of all market intermediaries, and for prevention of unfair trade practices, insider trading, etc. Under these Acts, Government and SEBI issue notifications, guidelines, and circulars which need to be complied with by market participants. The responsibility for regulating the securities market is shared by:

1. Department of Economic Affairs (DEA)
2. Ministry of Corporate Affairs (MCA)
3. Reserve Bank of India (RBI) and
4. Securities and Exchange Board of India (SEBI)

The securities laws, statutes and policies are framed by the Government of India and the governing regulations by SEBI. The powers of the DEA under the SCRA are also concurrently exercised by SEBI. The orders of SEBI under the securities laws are appealable before a Securities Appellate Tribunal (SAT) and the courts.

The powers in respect of the contracts for sale and purchase of government securities, gold related securities, money market securities and securities derived from these securities and ready forward contracts in debt securities are exercised concurrently by RBI.

## 2.3. Regulatory Structure

### Market Regulators

The various regulatory bodies in the country are:

#### Ministry of Finance, Government of India (Gol):

The Ministry of Finance is the apex ministry responsible for the administration of the Gol finances. Its primary responsibilities include:

- Managing all the economical and financial matters affecting the country including mobilisation of resources for developmental activities
- It regulates the expenditure of the Central Government including the transfer of resources of the various States

The Ministry comprises the following Departments:

- Department of Economic Affairs
- Department of Expenditure
- Department of Revenue
- Department of Financial Services
- Department of Investment and Public Asset Management - DIPAM (previously known as Department of Disinvestment)

The Department of Economic Affairs (DEA) is the nodal agency of the Gol which formulates and monitors the country's economic policies and programmes at a macro level like policies relating to the functioning of Indian banking, insurance and capital markets.

The Capital Markets Division within the DEA takes primary responsibility of all policy issues related to the growth and development of the securities markets and the orderly functioning of SEBI.

### Ministry of Finance

Contact: Department of Economic Affairs  
North Block, New Delhi

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Web Address: [www.finmin.nic.in](http://www.finmin.nic.in)

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## The Securities and Exchange Board of India (SEBI):

SEBI is the regulatory and registering authority for the various intermediaries and institutional investors connected with the securities market (e.g. brokers, mutual funds, FPIs, custodians, merchant bankers). The Securities and Exchange Board of India Act, 1992 came into force on January 30, 1992 by an Act of Parliament and empowers SEBI to issue various regulations that govern market intermediaries and investors. Among others, SEBI had issued the SEBI Foreign Institutional Investors Regulations, 1995 now replaced by SEBI (Foreign Portfolio Investors) Regulations, 2014, SEBI Custodian Regulations, 1996 and the SEBI Foreign Venture Capital Investor Regulations 2000, which stipulate regulations for foreign portfolio investment, custodial services and foreign venture capital investment, respectively, in India.

### Securities and Exchange Board of India (SEBI)

Contact: Securities and Exchange Board of India  
SEBI Bhavan, Plot Number C4-A, G Block, Bandra Kurla Complex,  
Bandra (E), Mumbai – 400 051

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+ 91 22 26449000

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Web Address: [www.sebi.gov.in](http://www.sebi.gov.in)

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## Reserve Bank of India (RBI):

The RBI is the Central Bank of India performing various functions like:

- Formulation, implementation and monitoring of the monetary policy with the objectives of maintaining price stability and ensuring adequate flow of credit to productive sectors
- Prescribe parameters for banking operations within which the country's banking and financial system functions
- Regulate the foreign investment inflows and outflows being the custodian of the foreign exchange reserves
- Granting approvals to FPIs to open and operate cash and foreign exchange accounts
- Oversees the debt markets through primary dealers and provides liquidity support to market participants

### Reserve Bank of India (RBI)

Contact: Foreign Exchange Department  
Central Office Building, 11th Floor, Mumbai – 400 023

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+ 91 22 2260 1000

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Web Address: [www.rbi.org.in](http://www.rbi.org.in)

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## Central Board of Direct Taxes, Government of India:

Forms part of Department of Revenue under Ministry of Finance and administers direct taxation, which includes the department of income tax. It also holds responsibility for Double Taxation Avoidance Agreement, exchange of information under FATCA and CRS, implementation of GAAR.

## Stock Exchange Supervision:

The stock exchanges in India are self-regulatory organisations with their own rules, regulations and by-laws administered by their board of directors, though they are under the overall regulation of SEBI. Apart from ongoing administration the exchanges are also responsible for ensuring orderly, transparent and fair trading practices, controlling the admission and expulsion of members, maintaining investor protection funds and addressing investor grievances.

The National Stock Exchange (NSE), the Bombay Stock Exchange (BSE) and Metropolitan Stock Exchange (MSE) are the main stock exchanges through which trades are executed. The securities that are listed and traded on these exchanges are mentioned below. All the below mentioned instruments tradable in the Indian stock market are eligible for dematerialisation.

<b>Fixed Income</b>	Government Securities (G-Secs), Corporate Bonds, Debentures, Public Sector Undertaking (PSU) Bonds, STRIPS in G-Secs
<b>Equities</b>	Equity Shares, Preference Shares, Warrants, ADR/ GDR converted shares
<b>Money Markets*</b>	Treasury Bills
<b>Derivatives</b>	Index Futures, Index Options, Options on individual stocks, Stock futures, Interest Rate Derivatives, Currency Derivatives
<b>Others</b>	Mutual Fund Units, Exchange Traded Funds (ETFs), Foreign Currency Exchangeable Bonds (FCEBs) and Indian Depository Receipts (IDRs)

\*FPIs are not permitted to invest in Treasury Bills, Certificates of Deposits and Commercial Papers and other short term instruments having residual maturity of less than 3 years. Liquid and money market mutual fund are also not available to FPIs as an investment option.

Foreign securities cannot be traded on Indian stock exchanges. SEBI has, however, permitted foreign companies to issue IDRs for trading on the Indian stock exchanges. FPIs must obtain a special permission from RBI for investing in IDRs.

## 2.4. Recent Market Developments

### 2.4.1. Ease of Doing Business

Ease of doing business is an important initiative of government of India to attract and encourage investment. As a part of this initiative the government has launched into simplification of regulations, market entry and investment norms etc.

Some important changes under the initiative are highlighted below:

Regulatory changes	Impact to market and clients
FPIs allowed to trade in corporate bonds without involving broker	Savings in execution time and cost for FPIs
FPIs permitted access to NDS-OM through their Primary Member	FPIs can trade on NDS-OM through their Primary Member Can Conduct trades with T+1 settlement
The Indian Government has set itself a target of achieving top 25 rank in ease of doing business	The reforms taken to achieve top 25 ranking would ease and expedite the investment procedure
Regulators have permitted foreign investors to use Electronic Permanent Account Number (E-PAN) card for KYC compliance	Ease and expedite the KYC process
Introduction of Goods and Service Tax	Ease inter-state flow of Goods and services in India, promoting cost efficiency in the market and improved returns on investment
<ul style="list-style-type: none"> <li>– Introduction of new Standard Operating procedure for permitting FDI in India</li> <li>– Abolition of Foreign Investment Promotion Board (FIPB)</li> <li>– Introduction of Foreign Investment Facilitation Portal to process FDI investment permission through government approval route</li> </ul>	Simplify FDI approval in India
Introduced online FVCI registration portal	This will ease the registration process for FVCI investors
FPIs are permitted to invest in Unlisted Corporate Debt	Wider Investment avenues available to Foreign Investors in India
Introduction of Legal Entity Identifier Number	Promote transparency and better systemic financial risk management

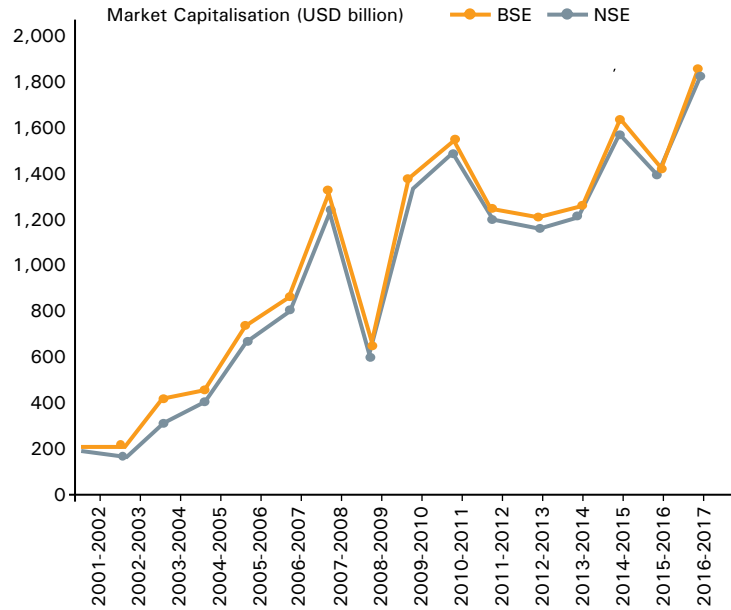


## 2.5. Capital Market Overview

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<b>Regulators</b>	<ul style="list-style-type: none"> <li>– Reserve Bank of India (RBI)</li> <li>– Securities and Exchange Board of India (SEBI)</li> </ul>
<hr/>	
<b>Stock Exchanges and CCPs</b>	<ul style="list-style-type: none"> <li>– National Stock Exchange (NSE) and National Securities Clearing Corporation Limited (NSCCL)</li> <li>– Bombay Stock Exchange (BSE) and Indian Clearing Corporation Limited (ICCL)</li> <li>– Metropolitan Stock Exchange of India (MSEI) and Metropolitan Clearing Corporation of India Limited (MCCIL)</li> </ul>
<hr/>	
<b>G-Sec Market</b>	<ul style="list-style-type: none"> <li>– Negotiated Dealing System- Order Matching (NDS-OM) for trading, reporting</li> <li>– Clearing Corporation of India Ltd. (CCIL) for clearing and settlement</li> </ul>
<hr/>	
<b>Depositories</b>	<ul style="list-style-type: none"> <li>– National Securities Depository Limited (NSDL)</li> <li>– Central Depository Services (India) Limited (CDSL)</li> <li>– Reserve Bank of India (RBI)</li> </ul>
<hr/>	
<b>Market Participants</b>	<ul style="list-style-type: none"> <li>– Brokers, Custodians, Designated Depository Participants, Foreign Portfolio Investors, Domestic Asset Management Companies, Insurance companies, Banks, Financial Institutions, Local corporations and Retail Investors</li> </ul>
<hr/>	
<b>Market Instruments</b>	<ul style="list-style-type: none"> <li>– Equities</li> <li>– Preference shares</li> <li>– Corporate and Government bonds</li> <li>– Debentures and securitised debt instruments</li> <li>– Mutual funds/ ETF</li> <li>– Derivatives</li> <li>– Indian Depository Receipts</li> <li>– Liquid and Short term instruments</li> <li>– Treasury bills</li> <li>– Commercial paper</li> <li>– Certificates of deposit</li> </ul>
<hr/>	
<b>Market Statistics</b>	<ul style="list-style-type: none"> <li>– Market Capitalisation</li> <li>– BSE: USD 2,060 billion (August 2017)</li> <li>– NSE: USD 2,039 billion (August 2017)</li> </ul>

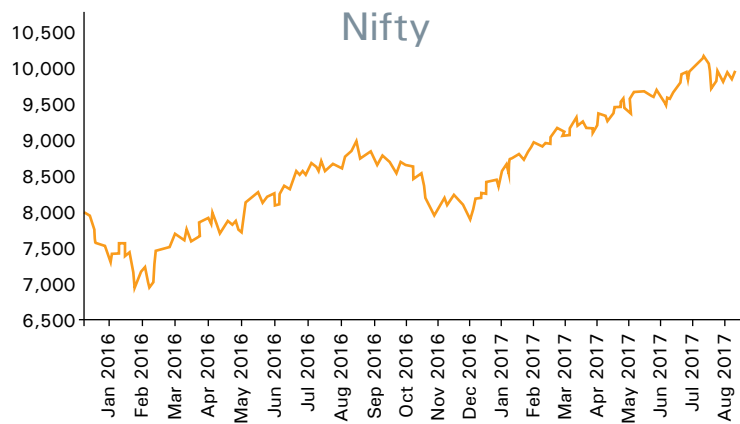
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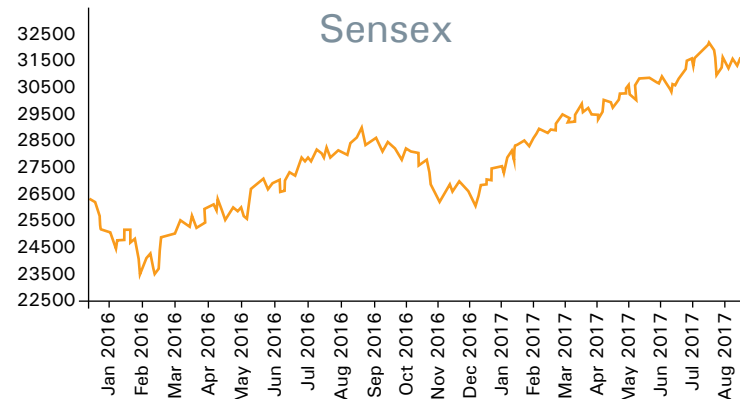
Source: Exchanges

- Total Forex reserves: USD 401 billion (September 2017)
- Debt limits for Foreign Portfolio Investors
  - Government securities: INR 2751 billion
  - Corporate Debt: INR 2443 billion

## Stock Indices



Source: NSE



Source: BSE

## 2.6. Trading Guidelines Overview

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**Settlement Currency** – Indian Rupee (INR) – Convertible (on-shore)

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**Trading Hours**

- Equity markets operate from Monday to Friday: 9:15 am – 3:30 pm (Pre-open call session – 9:00 am to 9:15 am)
- SLB segment for Securities Lending and Borrowing and Debt segment for corporate bonds also follows the same schedule
- F and O segment operates from 9:15 am – 3:30 pm
- Currency derivative segment operates from 9:00 am – 5:00 pm
- NDS-OM : Government Securities (G-Sec) market from 9:00 am – 5:00 pm

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**Settlement Cycle**

- T+2 for Equities
- T+1 for Derivative
- T+1 for SLB
- T+1 for Government securities for all domestic investors and for trades executed on NDS-OM where one or both parties are FPIs
- T+2 for all deals, executed OTC, where one or both parties to the deal is a FPI
- T to T+2 for Corporate bonds

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**Account Structure**

- Segregated Securities Account
- Segregated Cash Account
- Segregated Depository Account

---

**Short Selling** Permitted – for FPIs only against Borrow positions in the SLB (Securities Lending and Borrowing) segment

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**Lock-in Period** None for equities. Specific debt instruments may include lock-in

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**Trade Pre-matching** Available

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**Fail Trades** Forced buy-in will be conducted by the exchange  
Penalties will be levied

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**Securities Lending**

- Available as an exchange-based mechanism
- Foreign investors can lend securities
- Foreign investors can only borrow securities for delivery into short sales

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## 2.7. Securities Identification

The securities in India are identified using the standard code called ISIN (International Securities Identification Number). The National Securities Depository Limited (NSDL) is appointed as the National numbering agency in India to issue the ISIN. From a trading perspective, trades on the stock exchange are also identified by separate codes issued by the stock exchanges.

## 2.8. Asset Classes

The asset classes available for Foreign investors are:

- Equities
- Fixed Income
- Derivatives
- IDR

### 2.8.1. Equities

- Ordinary Equity Shares
- Preference Shares
- Warrants

Equities can be held in physical or dematerialised form. All equity securities that are listed and traded on the stock exchanges are settled on a T+2 rolling settlement cycle basis in dematerialised form.

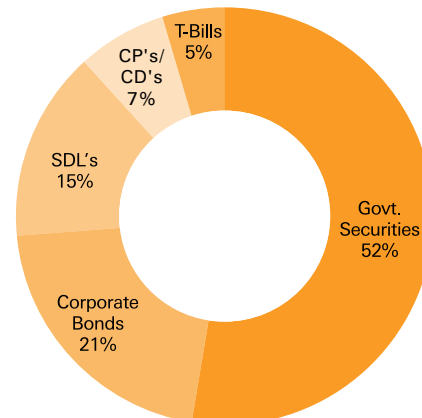
SEBI has mandated that settlement of transactions by foreign investors is to be done in the dematerialised form. SEBI has also mandated that all IPOs will be traded compulsorily in the dematerialised form.

### 2.8.2. Fixed Income

Fixed income instruments or bonds can be classified into the following segments based on the characteristics of the identity of the issuer of these securities:

Market Segment	Issuer	Instruments
Government of India Securities	Central Government	Treasury Bills/ Zero-Coupon Bonds, Coupon Bearing Bonds, STRIPs in G-Secs
	State Governments	Coupon Bearing Bonds
	Local Bodies	Municipal Bonds
Public Sector Bonds	Government Agencies/ Statutory Bodies	Govt. Guaranteed Bonds, Debentures
	Public Sector Units	PSU Bonds, Debentures
Private Sector Bonds	Corporates	Debentures, Bonds, Floating Rate Bonds, Zero Coupon Bonds, Commercial Papers Inter-Corporate Deposits, Foreign Currency Exchangeable Bonds (FCEBs), Foreign Currency Convertible Bonds (FCCBs)
	Banks	Debentures, Bonds, Certificate of deposit
	Financial Institutions	Bonds

## The composition and trends of the fixed income market



The Government Securities (G-Secs) are also referred to as Statutory Liquidity Ratio (SLR) securities in the Indian market as they are utilised by banks to maintain their SLR ratio. All the remaining non-Government securities are called Non-SLR securities.

Some of the key features of various fixed income instruments are as follows:

### Government Securities (G-Secs)

- G-Secs are medium to long term instruments issued by the Reserve Bank of India (RBI) on behalf of the Government of India (GoI) to finance the fiscal deficit of India
- They are issued in bearer form but a holder also has an option of getting them registered
- The securities are held in book-entry form with the RBI
- There is an option to hold the securities in electronic form with the Depositories (NSDL and CDSL) as well
- FPIs are not allowed to invest in Treasury bills and G-secs having residual maturity of less than 3 years

### Corporate Bonds and Debentures

- Corporate bonds are issued with a variety of features
- Secured, unsecured debentures with maturity of 18 months are required to have a specified credit rating provided by approved credit rating agencies
- Corporate bonds are available in physical as well as in dematerialised form. FPIs are permitted to trade in corporate bonds in the dematerialised mode only
- Corporate bonds are transferable by means of a registration process similar to equities
- Transfer of ownership of corporate bonds in physical form is by use of transfer deed and the certificates need to be registered with the issuer
- All publicly issued debentures are listed on exchanges
- FPIs are not allowed to invest in Corporate Bonds having residual maturity of less than 3 years
- FPIs have been permitted to invest in unlisted debt securities subject to compliance with the end use restriction

### Commercial Paper

- Commercial Paper (CP) is a short term Rupee denominated and unsecured negotiable promissory note issued by Indian corporates, Primary Dealers (PDs) and Financial Institutions (FIs)
- With effect from June 2001, financial institutions were permitted to make fresh issuance and hold CPs in dematerialised form only
- FPIs are not allowed to invest in Commercial Papers

### Certificate of Deposit

- Certificate of Deposit is a short term, Rupee denominated deposit issued by Indian commercial banks and Indian Development Finance Institutions (DFIs)
- FPIs are not allowed to invest in Certificates of Deposit



### 2.8.3. Derivatives

- Index Futures
- Index Options
- Single Stock Futures and Options
- Interest Rate Derivatives
- Currency Derivatives, including cross-currency futures and options

### 2.8.4. Indian Depository Receipts (IDR)

A foreign company can access Indian securities market for raising funds through issue of IDRs. An IDR is an instrument denominated in Indian Rupees in the form of a depository receipt created by a Domestic Depository (custodian of securities registered with SEBI) against the underlying equity of issuing company to enable foreign companies to raise funds from the Indian securities markets.

### 2.8.5. INR Denominated Bonds issued overseas (Masala Bonds)

An eligible resident entity can issue plain vanilla Rupee denominated bonds overseas, in a Financial Action Task Force (FATF) compliant financial centres. The bonds can be either placed privately or listed on exchanges as per host country regulations.

### 2.8.6. Other Instruments

- Mutual Fund Units (MFs) – (Liquid/ Money market not permitted for FPIs)
- Pass Through Certificates (PTCs)
- Exchange Traded Funds (ETFs)
- American/ Global Depository Receipts (ADRs/ GDRs)
- Securities receipts issued by securitisation companies or asset reconstruction companies under the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- Tier 1 and Upper Tier II capital hybrid instruments issued by banks
- Units issued by a Collective Investment Scheme (CIS)
- Foreign Currency Exchangeable Bonds (FCEBs), Foreign Currency Convertible Bonds (FCCBs)

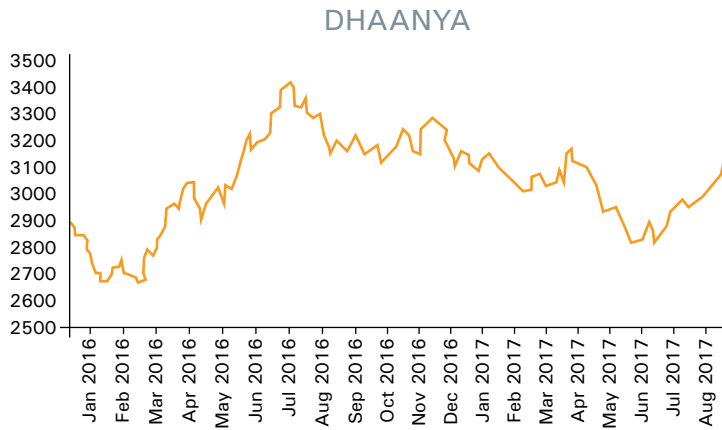
## 2.9. Commodities Derivatives

The use of derivatives in the Indian commodity market is as old as Securities market in India. The commodity futures market in India was established in 1875, under the name of 'Bombay Cotton Trade Association' to trade in cotton derivative contracts. This was followed by institutions for futures trading in oilseeds, foodgrains, etc. The Forward Contracts (Regulation) Act, 1952 was enacted to govern the commodity derivatives, which established a Forward Markets Commission (FMC). In mid-1960s, commodity futures trading in most of the commodities was banned, which continued into 1980s.

Based on recommendations of Khusro Committee in 1980, government initiated futures trading in some commodities. Based on report of Kabra Committee in 1994, through budget announcement established a mechanism for futures trade in commodities. the government of India issued a notification on April 1, 2003 permitting futures trading in commodities. Options contract continue to be banned.

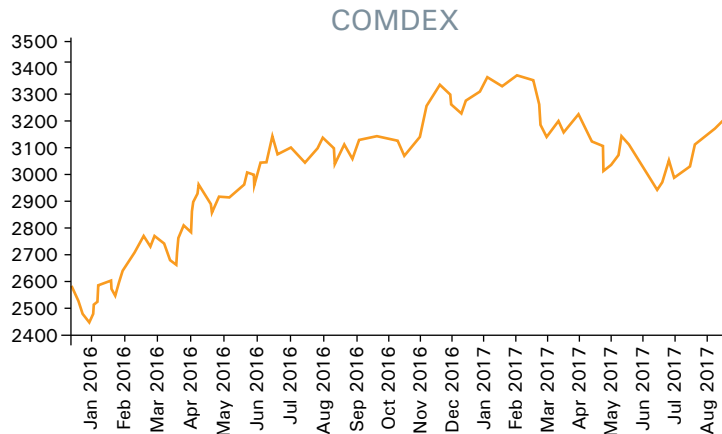
The Commodity Derivatives Market in India witnessed major reform through Finance Act, 2015, when it was brought under the purview of Indian Securities Market Regulator, SEBI, to ensure unified regulator for Commodities and Securities Market. The commodity derivatives are now regulated by SEBI under the SCRA,1956.

<b>Legal Framework</b>	<ul style="list-style-type: none"> <li>– Securities Contracts (Regulation) Act, 1956</li> <li>– Securities Contracts (Regulation) Rules, 1956</li> </ul>
<b>Regulators</b>	<ul style="list-style-type: none"> <li>– Securities and Exchange Board of India (SEBI)</li> </ul>
<b>Stock Exchanges</b>	<ul style="list-style-type: none"> <li>– National Commodity and Derivatives Exchange Limited (NCDEX)</li> <li>– Multi Commodity Exchange of India Limited (MCX)</li> </ul>
<b>Clearing Corporations</b>	<ul style="list-style-type: none"> <li>– SEBI has directed the exchanges to transfer the clearing and settlement function to a separate clearing corporation</li> </ul>
<b>Participants</b>	<ul style="list-style-type: none"> <li>– Currently only Category III AIF are allowed to invest in commodity derivatives. FPIs are currently not allowed to trade in commodity derivatives, directly or through another investment vehicle such as Category III AIF which trades in commodity derivatives</li> </ul>
<b>Traded Commodities</b>	<ul style="list-style-type: none"> <li>– Bullion – Gold and Silver</li> <li>– Metals – Aluminium, Copper, Lead, Nickel, Zinc, Steel</li> <li>– Energy – Crude Oil and Natural Gas</li> <li>– Agro – Cotton, Cardamom, Castor Seed, Rubber, Guar Seeds, Spices, Cereals and Pulses etc.</li> </ul>
<b>Trading Hours</b>	<ul style="list-style-type: none"> <li>– Internationally Referencable Non-Agri Commodities – 10:00 a.m. to 11:30 p.m.</li> <li>– Internationally Referencable Agri Commodities – 10:00 am to 9:00 pm</li> <li>– All Other Commodities – 10:00 a.m. to 5:00 p.m.</li> </ul>
<b>Settlement Cycle</b>	<p>Currently all trades are being mark to market at the closing price of contract and mark to market requirement are settled at T+1</p>
<b>Investment restriction</b>	<p>Category III AIFs shall invest not more than ten percent of the investable funds in one underlying commodity</p>
<b>Key Indices</b>	<p><b>Dhaanya</b></p> <ul style="list-style-type: none"> <li>– Dhaanya is an agricultural commodities index computed by NCDEX. The index values are calculated using the prices of 10 agricultural commodity futures traded on the NCDEX platform</li> <li>– Dhaanya consists of Barley, Castor Seed, Coriander, Cotton Seed Oilcake, Guar Seed 10 MT, Jeera, Mustard Seed, Soy Bean, Turmeric, Wheat</li> <li>– The composition of Dhaanya is reviewed at a regular period of 3 months. The index methodology is designed to include the most liquid agricultural futures into the index</li> </ul>



### MCX COMDEX

MCX COMDEX India's maiden real-time Composite Commodity Index based on commodity futures prices of an exchange. The constituents of the Index are liquid commodities traded on the Exchange. The MCX COMDEX is the simple weighted average of the three group indices - MCX AGRI, MCX METAL and MCX ENERGY




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FPIs are currently not allowed to participate in Commodities Derivatives, either directly or indirectly through any other instrument such as Category III AIFs participating in Commodities Derivatives

## 2.10. Foreign Exchange

Indian currency, the Rupee (INR), is a non-convertible currency and the foreign exchange (FX) environment in India is tightly regulated and is governed by the Reserve Bank of India (RBI).

- FX transactions can be booked through any Authorized Dealers of RBI. Registered foreign investors (FPIs) are permitted to convert foreign currency only for the purpose of securities transactions

Contract Type	Description	FX Settlement
Spot	Spot FX is the most common foreign exchange transaction. A spot transaction requires to be settled within 2 business days.	FX booked on T will settle for value date T+2
Tom	Tom FX is also referred to as overnight and settles on the following day.	FX booked on T will settle for value date T+1
Cash/ Same day	Cash FX matures on the day the transaction takes place.	FX booked on T will settle for value date T itself
Forwards	<p>RBI permits FPIs to book forward cover up to 100% of their exposure in the Indian capital market with respect to their equity and debt instruments. Forward contracts booked by FPIs, once cancelled, can be rebooked up to 10% of the value of the contracts cancelled. Forward contracts can also be rolled over on or before their maturity.</p> <p>RBI has also permitted FPIs to hedge the coupon receipts arising out of their investments in debt securities in India falling due during the following 12 months. The hedge contracts shall not be eligible for rebooking on cancellation. In case the coupon amount is yet to be received, then the contracts can be rolled over on maturity.</p>	Tenor of forward contracts generally extend up to 1 year
Foreign currency – rupee swaps	FPIs can undertake foreign currency-rupee swaps only for hedging the flows relating to the IPO under the ASBA (Application Supported by Blocked Amount) mechanism.	Tenor of the swap should not exceed 30 days

# Investment Routes into India

## 3.1. Foreign Investment Avenues

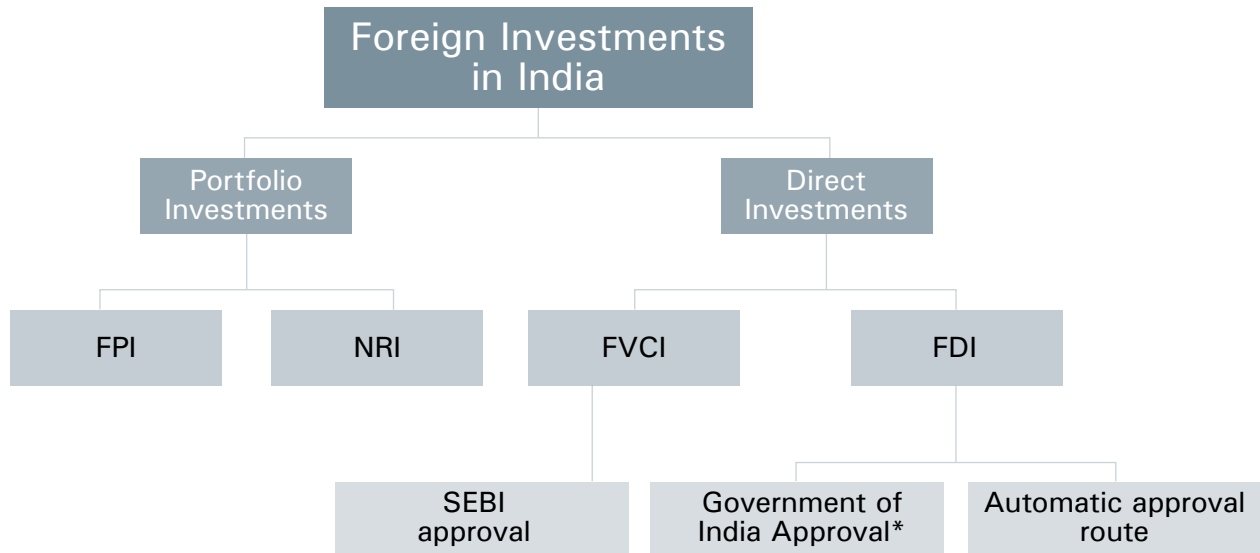
Foreign investors have been permitted to invest in the Indian stock markets from 1992, when the Government of India issued the Guidelines for Foreign Institutional Investments. Subsequently, in November 1995, the SEBI (Foreign Institutional Investors) Regulations, 1995 were notified, which were largely based on the earlier guidelines.

In 2014, SEBI established a new harmonised framework for foreign investment in India called Foreign Portfolio Investor. Key features of FPI are detailed in subsequent parts of this section.

The following routes are presently available for foreign investors to invest funds in India:

- **Foreign Portfolio Investors:** Entities established or incorporated outside India and permitted to invest in listed Indian securities and unlisted debt
- **Non-Resident Indian/ Person of Indian Origin (NRIs/ PIOs):** An Indian citizen who stays abroad for employment or carries on business or vocation outside India or a non-resident foreign citizen of Indian origin
- **Foreign Direct Investments (FDIs) (Strategic investments in Indian companies):** Investments can be made either directly through the automatic investment route or with prior approval from the Reserve Bank of India (RBI) or Government of India department. Previously, the approval process would be carried out by the Foreign Investment Promotion Board (FIPB). This process has been done away with as announced in Union Budget 2017. The approvals would be provided by the concerned department or ministry. The Department of Industrial Policy and Promotion (DIPP) has issued a detailed Standard Operating Procedure (SOP) for processing Foreign Direct Investment (FDI) proposals. The proposal should be uploaded to the Foreign Investment Facilitation Portal of Department of Industrial Policy and Promotion which shall identify the concerned ministry or department and accordingly forward the proposal
- **Foreign Venture Capital Investors:** Investments in venture capital undertakings in specified sectors. Prior approval required from SEBI. SEBI has notified introduction of an online system for application for registration, reporting and filing under the provisions of Foreign Venture Capital Investors (FVCI) Regulations. Existing SEBI registered FVCIs will be required to activate their online accounts

Given below is a snapshot of various investment routes available to foreign investors for accessing the Indian capital markets:



\*The approval would be provided by the concerned ministry or department on behalf of the Government of India. Certain sectors requiring security clearance would also require inputs from the Ministry of Home Affairs.

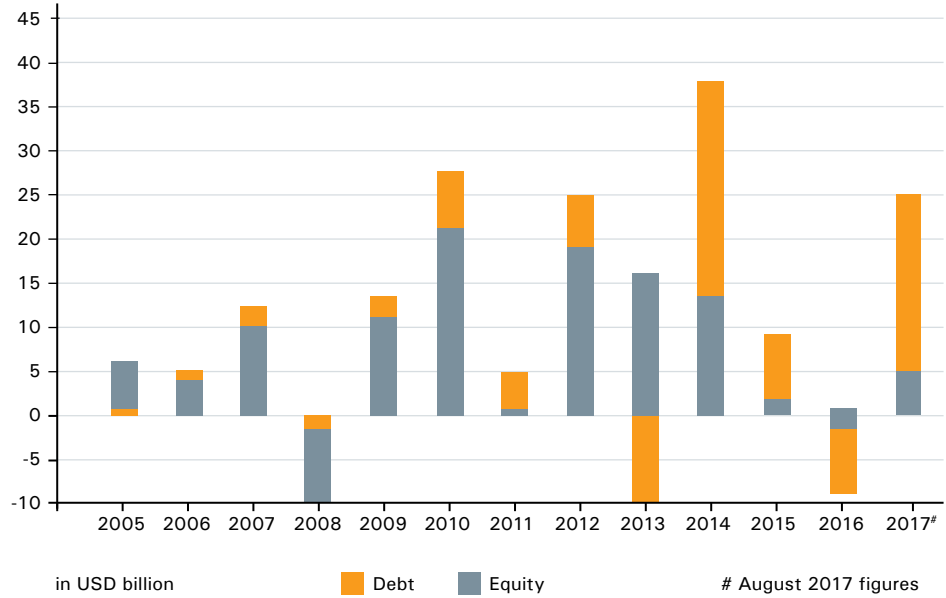
### 3.1.1 Foreign Portfolio Investor (FPI)

- A harmonised route, which came into effect from June 1, 2014, merging the two existing modes of investment i.e. Foreign Institutional Investor (FII) and Qualified Foreign Investor (QFI)
- Market entry through Designated Depository Participant (DDP), who executes market registration process on behalf of SEBI
- The DDP engaged by the FPI will also act as the Custodian to the FPI
- Categorisation model for client registration
- Auto-renewal of registration with payment of fee every 3 years
- One-time Conversion Fee for existing FIIs and sub-accounts moving to FPI
- Risk based KYC applicable
- Individual investment limit to be below 10% equity in any company, and a composite limit of 24% overall which can be increased up to the sectoral cap applicable to the sector



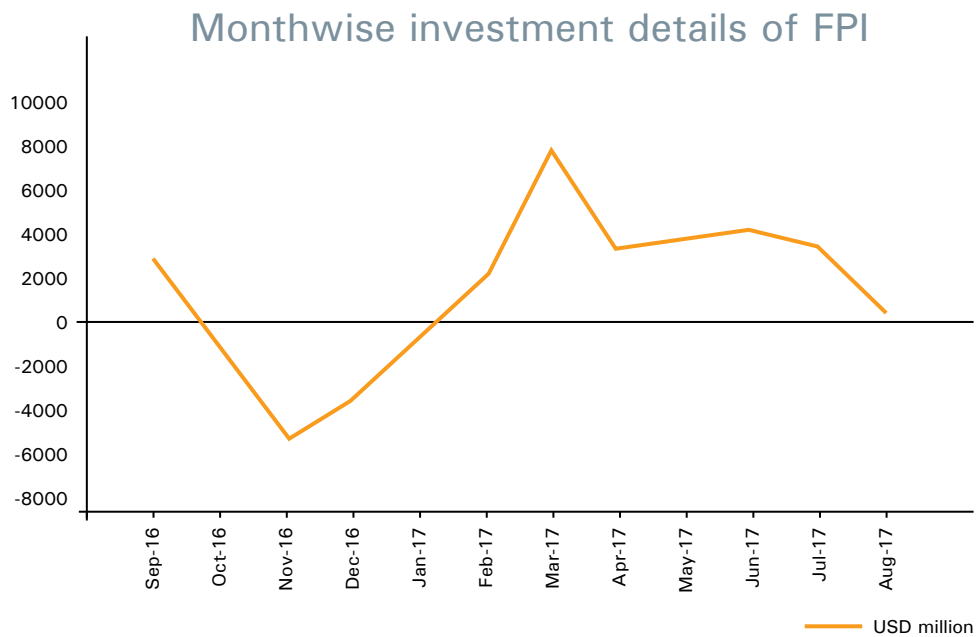
## FPI Investment Statistics

Net Investments through FPI route

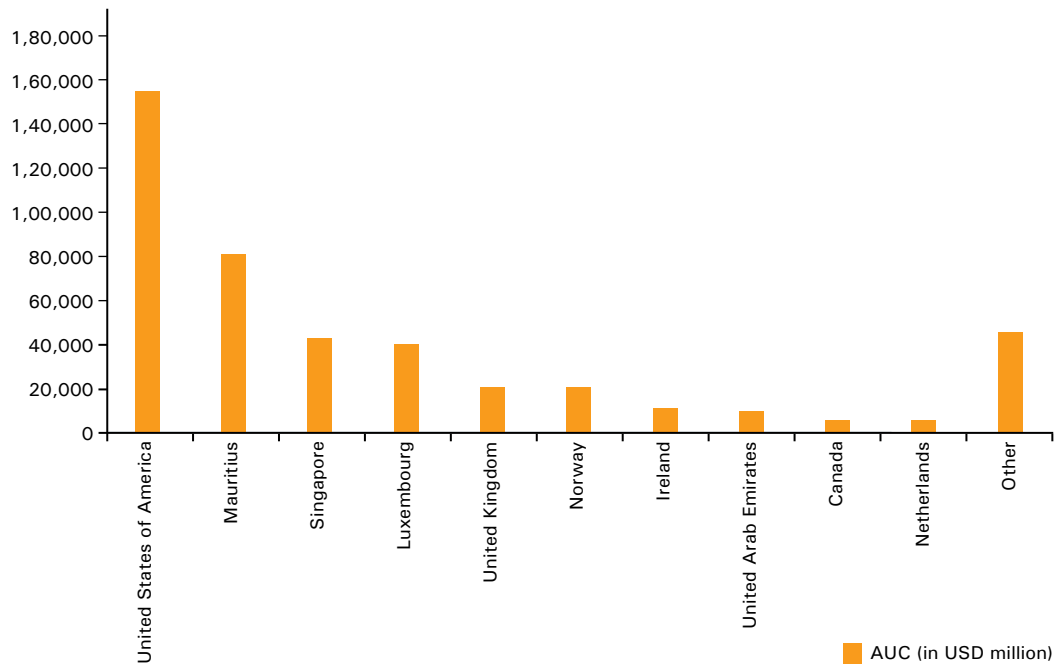


Source: NSDL statistics

## FPI Investment Trend – Sep 2016 to Aug 2017



## FPI Investment Trend (Top 10 Countries)



Source: NSDL website

### 3.1.2. Non-Resident Indians (NRIs)

Portfolio Investment route for entities classified as Non-Resident Indians (NRI) and Persons of Indian Origin (PIO)

- Only entities eligible as NRI/ PIO as per Government guideline are eligible under this route. Overseas Citizens of India (OCIs) are also included in the definition of NRIs. Appointment of a custodian is not compulsory
- Investment in Listed securities and other securities permissible under FEMA
- Individual Limit of 5% equity in any company, and an overall composite limit of 10%. This limit of 10% can be raised to 24%
- NRIs have been permitted to access Exchange Traded Currency Derivatives (ETCD) market, subject to certain conditions
- Uniform KYC guidelines applicable

### 3.1.3. Foreign Direct Investment (FDI)

Investments made through the FDI route are strategic investments

- Sectoral entry rules; Automatic or Government approval. Most of them are currently under automatic route
- RBI guidelines are applicable for entry, exit, pricing, shareholder agreements etc.
- Private placements of listed/ unlisted equity, Compulsorily Convertible Debentures (CCDs) including with optionality clauses. Investments in debt securities are not permitted through the FDI route
- Cannot participate in Initial Public Offers (IPOs)
- Pricing guidelines as per internationally accepted norms
- Permitted to purchase shares of listed companies on the exchange through a registered broker subject to the condition that the non-resident investor has already acquired and continues to hold control in accordance with SEBI Substantial Acquisition of Shares and Takeover (SAST) Regulations, in the investee company
- Government of India has introduced Foreign Investment Facilitation Portal, an online portal to apply for FDI under government approved route

### 3.1.4. Foreign Venture Capital Investment (FVCI)

For attracting foreign investment in selected ventures/ industries identified by Government to encourage certain sectors of the economy

- SEBI Registration required along with payment of fees
- Custodian compulsory
- Investment through IPO permitted (Qualified Institutional Buyer – QIB status)
- Investments restricted to 10 sectors. However, FVCI have been permitted to invest in equity or equity linked instruments or debt instruments issued by a start-up, irrespective of the sector in which it is engaged
- No pricing guidelines
- SEBI has introduced online portal for registration application and regulatory filings or applications, for FVCIs

Besides the above, foreign investments can also be made from off-shore platform through the Depository Receipts mechanism.

### 3.1.5. Depository Receipts

Indian companies are permitted to raise foreign currency resources through two main sources: (a) Foreign Currency Convertible Bonds (FCCBs) (b) Depository Receipts, namely, Global Depository Receipts (GDRs)/ American Depository Receipts (ADRs) to foreign investors i.e. institutional investors or individuals (including NRIs) residing abroad. A Depository Receipt (DR) is any negotiable instrument in the form of a certificate denominated in US dollars. The certificates are issued by an overseas depository bank against certain underlying stocks/shares. DRs facilitate cross border trading and settlement, minimise transactions costs and broaden the potential base, especially among institutional investors.

**American Depository Receipt (ADR):** A negotiable US certificate representing ownership of shares in a Non-US corporation. ADRs are quoted and traded in US dollars in the US securities market. Also, the dividends are paid to investor in US dollars.

**Global Depository Receipts (GDRs):** Defined as a global finance vehicle that allows an issuer to raise capital simultaneously in two or more markets through a global offering. GDRs may be used in either the public or private markets inside or outside the US.

Foreign investments through the Depository Receipts route are part of the FDI (Foreign Direct Investments) segment.

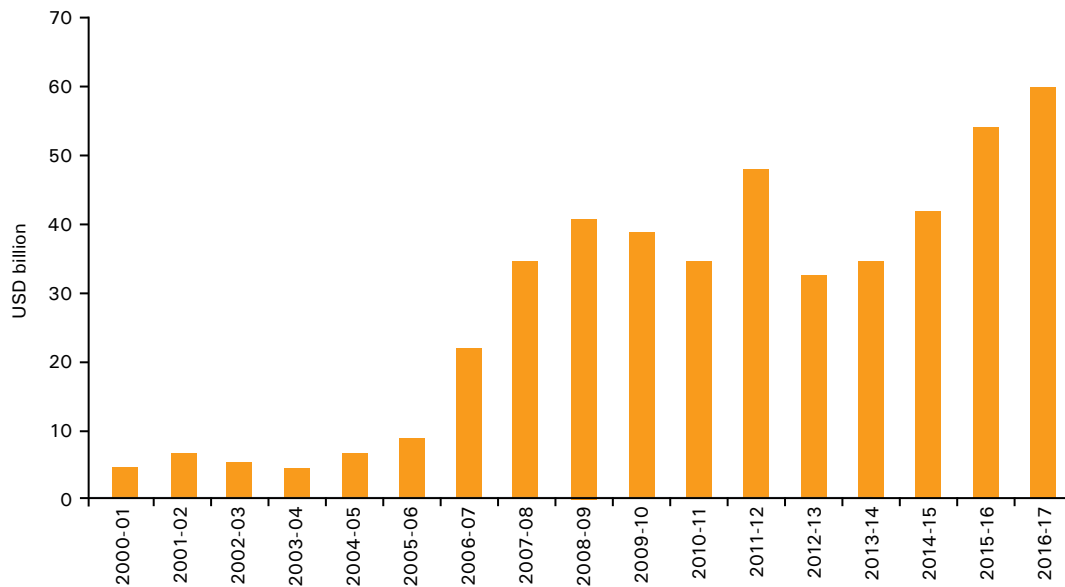
Segregated demat accounts will have to be opened for ADR/ GDR investors, FCCB investors, FDI, FPI and FVCI investors. Investments done through the other available investment routes cannot be co-mingled with the investments done through FPI route.

## 3.2. FDI Overview

Foreign Direct Investment in India is strategic investment into Indian Companies, existing or newly set-up. Since 2015, the Indian government has taken steps to make the country more attractive for FDI, such as easing regulations and the related regulatory environment through business process re-engineering and use of information technology. Most sectors can now get automatic approval rather than requiring a specific approval from the government.

The government's efforts to attract FDI has been paying off as India has become the highest FDI destination for greenfield projects in 2015 and has retained its numero uno position as the world's top-most greenfield FDI destination for the second consecutive year, attracting USD 62.3 billion in the calendar year 2016 (source FDI report 2017).

## Net FDI investment to India



Source: Department of Industrial Policy and Promotion

FDI Investments can be made by non-residents in the equity shares, compulsorily and mandatorily convertible debentures/ preference shares of an Indian company, through the Automatic Route or the Government Route.

**Automatic Route:** Foreign Investment is allowed under the automatic route without prior approval of the Government or the RBI, in all activities/ sectors as specified in FDI policy issued by the government of India and RBI.

**Government Route:** Foreign investment in activities not covered under the automatic route requires prior approval of the Government. The government has abolished the FIPB which would handle the approvals. Now, the application would be considered by ministry/ department concerned. Application has to be made online on Foreign Investment Facilitation Portal of Department of Industrial Policy and Promotion.

### 3.2.1. Composite Caps

The Government of India has notified amendments to the extant FDI policy by introducing composite caps for simplification of FDI policy to attract foreign investments.

Sectoral cap is composite and will include all type of foreign investment, direct and indirect, regardless of whether the investment has been made as FDI, Foreign Portfolio Investment (FPI), Foreign Venture Capital Investment (FVCI), Limited Liability Partnerships (LLPs), Depository Receipts (DRs), and investments by Non-resident Indians (NRIs).

FCCBs and DRs having underlying instruments, in the nature of debt, shall not be treated as foreign investment. However, any equity holding by a person resident outside India resulting from conversion of any debt instrument under any arrangement shall be reckoned as foreign investment.

**Highlights of the Composite Cap include:**

- Foreign investment in sectors under Government approval route resulting in transfer of ownership and/ or control of Indian entities from resident Indian citizens to non-resident entities will be subject to Government approval. Foreign investment in sectors under automatic route but with conditionalities, resulting in transfer of ownership and/ or control of Indian entities from resident Indian citizens to non-resident entities, will be subject to compliance of such conditionalities
- The sectors which are already under 100 percent automatic route and are without conditionalities would not be affected
- Portfolio investment, up to aggregate foreign investment level of 49 percent, will not be subject to either government approval or compliance of sectoral conditions, as the case may be, if such investment does not result in transfer of ownership and/or control of Indian entities from resident Indian citizens to non-resident entities
- Total foreign investment, direct and indirect, in an entity will not exceed the sectoral/ statutory cap
- Any existing foreign investment already made in accordance with the policy in existence would not require any modification to conform to these amendments
- The onus of compliance with the provisions will be on the investee company
- In the defence sector, where the sectoral cap is 100%, investment beyond 49% will be permitted only under government route

Full Fungibility of Foreign Investment Permitted in Banking – Private Sector has been permitted. Accordingly, FPIs, following due procedure, can now invest up to sectoral limit of 74%, provided that there is no change of control and management of the investee company.

### 3.3. FVCI Overview

A Foreign Venture Capital Investor (FVCI) is an investor incorporated or established outside India who can invest either in a Domestic Venture Capital Fund or a Venture Capital Undertaking (Domestic Unlisted Company). Regulators have imposed certain restrictions on use of funds for those who register as an FVCI.

### 3.4. Access Products

**Offshore Derivatives Instruments (ODI)** is a market access product used by foreign investors to access the Indian capital market without directly registering as a foreign investor in the Indian capital market. The reasons for foreign investors using this route vary from achieving tax-efficiency without the need to set-up new entity, doing away with the requirement of managing funding and currency risk across several currencies, saving on cost involved in direct set-up and related resource commitments.

As per the existing regulations, Category I and Category II FPIs are permitted to issue ODIs subject to compliance with the prescribed norms. Category III FPIs and FPIs categorised as Category II by virtue of their regulated investment manager are prohibited from issuing ODIs. ODIs are covered in more detail in Chapter 9.

# Direct Investment into India

## 4.1. Foreign Direct Investment (FDI)

Foreign Direct Investments (FDI) in India attract provisions of the Foreign Exchange Management Act, 1999 and are subject to the Regulations issued by the Reserve Bank of India (RBI). The enabling regulation for investments by foreign investors has been notified vide Notification No. FEMA 20/2000-RB dated May 3, 2000 (as amended).

### 4.1.1. Regulatory Framework

The regulatory framework governing FDI investments are:

1. **Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry**

Department of Industrial Policy and Promotion is responsible for formulation and implementation of promotional and developmental measures for growth of the industrial sector, keeping in view the national priorities and socio-economic objective. With progressive liberalisation of the Indian economy, there has been a consistent shift in the role and functions of this Department. From regulation and administration of the industrial sector, the role of the Department has been transformed into facilitating investment and technology flows and monitoring industrial development in the liberalised environment.

2. **Reserve Bank of India**

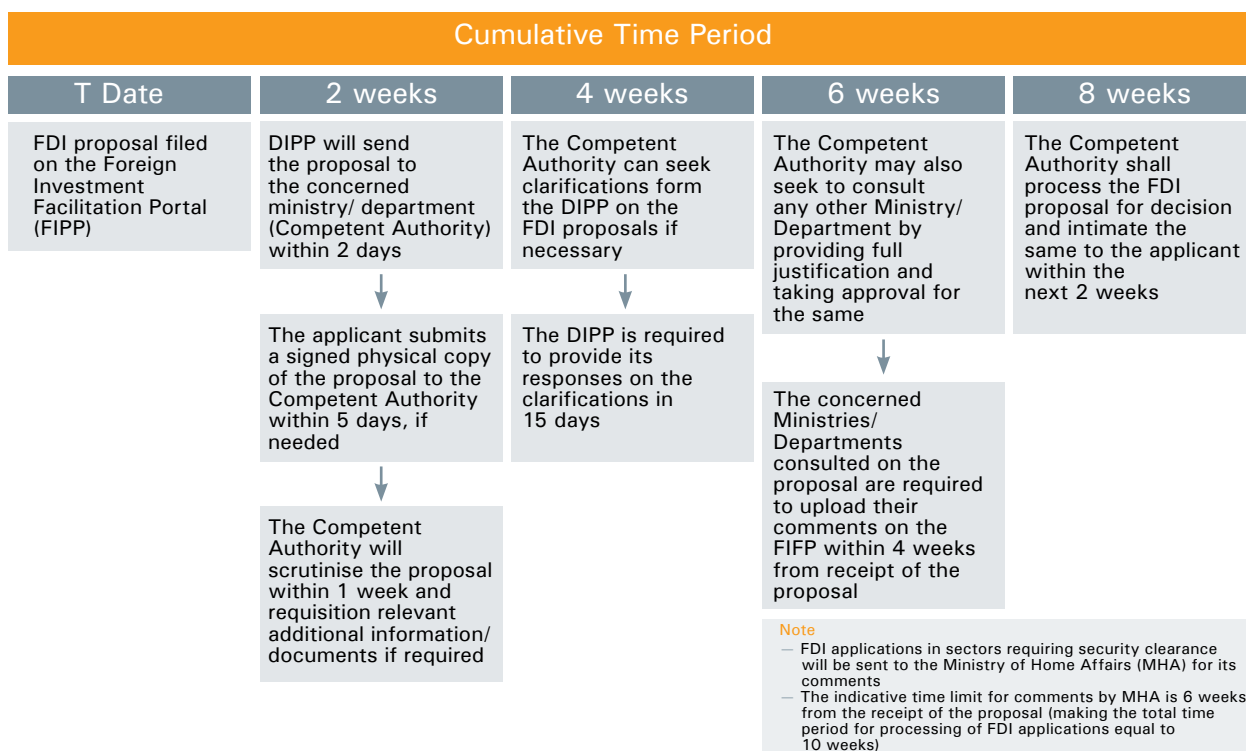
RBI is the central bank of India and regulates the inflows and outflows of foreign investment in India.

### 4.1.2. Procedure for Government Approved Route

#### Online Filing of Application

- The applicant would be required to submit the proposal for foreign investment on the online portal and upload relevant documents
- After the proposals are filed online, DIPP will identify the concerned Administrative Ministry/ Department and e-transfer the proposal to the concerned Administrative Ministry/ Department (Competent Authority) within 2 days
- No physical copy required to be submitted, in case of digitally signed applications. For applications which are not digitally signed, DIPP would inform the applicant through online communication to submit 1 signed physical copy of the proposal to the Competent Authority. Applicant would be required to submit the signed physical copy of the application within 5 days of such communication from DIPP

## Timelines for Application Approval



The list with the names of Competent Authorities for grant of approval for sectors/ activities requiring Government approval has been provided:

Administrative Ministry/ Department	Sector/ Activity
Ministry of Mines	Mining
Department of Defence Production, Ministry of Defence	Defence
Ministry of Home Affairs	Manufacturing of small arms, Private security agencies, Investments from Pakistan and Bangladesh
Ministry of Information and Broadcasting	Broadcasting, Print Media
Ministry of Civil Aviation	Civil Aviation
Department of space	Satellites
Department of Telecommunications, Ministry of Communications	Telecom
Department of Industrial Policy and Promotion (DIPP), Ministry of Commerce and Industry	Trading (single and multi-brand and food products retailing), Issue of equity shares against import of capital goods/ machinery/ equipment (excluding second hand machinery), Issue of equity shares against pre-operative/ pre-incorporation expenses (including payments of rent, etc.)
	Proposals by NRIs/ EOUs requiring Government approval



Department of Economic Affairs, Ministry of Finance	Financial services requiring approval, Foreign investment into a core investment company/ investing company
Department of Financial Services, Ministry of Finance	Banking (public and private)
Department of Pharmaceuticals, Ministry of Chemicals and Fertilisers	Pharmaceuticals

**The detailed procedure and time limits for processing of applications seeking approval for Foreign Investment has been notified:**

- Once the proposal is received, it shall be circulated online by DIPP to RBI for comments from Foreign Exchange Management Act, 1999 (FEMA) perspective. Proposals for foreign investment in sectors requiring security clearance would additionally be referred to Ministry of Home Affairs for comments. Further, all proposals would be forwarded to Ministry of External Affairs (MEA) and Department of Revenue (DoR) for information
- Proposals that will require security clearance from Ministry of Home Affairs have been provided by the SOP
- In case of proposals involving total foreign equity inflow of more than INR 50 billion, Competent Authority shall place the same for consideration of Cabinet Committee on Economic Affairs. After the receipt of the decision of Cabinet Committee on Economic Affairs, approval letter shall be issued within 1 week

The detailed SOP can be accessed here: [www.dipp.gov.in](http://www.dipp.gov.in)

**FDI Policy circular**

Under the Foreign Direct Investments (FDI) Scheme, investments can be made in shares, mandatorily and fully convertible debentures and mandatorily and fully convertible preference shares of an Indian company by non-residents through either the Automatic Route or through the Government Route.

The FDI policy of Government of India can be accessed here:

[http://www.dipp.gov.in/sites/default/files/FDI\\_Circular\\_2016%281%29.pdf](http://www.dipp.gov.in/sites/default/files/FDI_Circular_2016%281%29.pdf)

**Sectors under Automatic route**

Sectors allowed under Automatic route, subject to conditions can be accessed here:

[http://www.dipp.gov.in/sites/default/files/Sectors\\_Under\\_Automatic\\_Route\\_With\\_Conditions.pdf](http://www.dipp.gov.in/sites/default/files/Sectors_Under_Automatic_Route_With_Conditions.pdf)

**Sectors under Government approval route**

Sectors requiring government approval can be accessed here:

[http://www.dipp.gov.in/sites/default/files/Sectors\\_Where\\_Government\\_Approval\\_Is\\_Required.pdf](http://www.dipp.gov.in/sites/default/files/Sectors_Where_Government_Approval_Is_Required.pdf)

### 4.1.3. Prohibited Sectors for FDI

FDI is prohibited in the following sectors:

- Lottery Business including Government/ private lottery, online lotteries, etc.\*
- Gambling and Betting including casinos etc.
- Chit funds
- Nidhi company
- Trading in Transferable Development Rights (TDRs)
- Real Estate Business or Construction of Farm Houses, Manufacturing of cigars, cheroots, cigarillos and cigarettes, of tobacco or of tobacco substitutes
- Activities/ sectors not open to private sector investment e.g. (I) Atomic Energy and (II) Railway operations

\*Foreign technology collaboration in any form including licensing for franchise, trademark, brand name, management contract is also prohibited for Lottery Business and Gambling and Betting activities.

#### 4.1.4. Eligibility Norms

Non-residents can invest in India, subject to the FDI Policy except in those sectors/ activities which are prohibited. However, a citizen of Bangladesh or an entity incorporated in Bangladesh can invest only under the Government route. Further, a citizen of Pakistan or an entity incorporated in Pakistan can invest, only under the Government route, in sectors/ activities other than defence, space and atomic energy and sectors/ activities prohibited for foreign investment. Eligible investors need to adhere to uniform KYC. FDIs are permitted to open demat account, with depository participant, however, cash account is only permitted as escrow account for 6 months.

#### 4.1.5. Caps on Investment

Investments by non-residents in the capital of a resident Indian entity is permitted to the extent of the percentage of the total capital as specified in the FDI policy.

#### 4.1.6. Conditions on Investment

Investments in certain sectors has specific entry conditions. Such conditions may include:

1. norms for minimum capitalisation
2. lock-in period, etc.

Besides the entry conditions on foreign investment, the investment/ investors are required to comply with all relevant sectoral laws, regulations, rules, security conditions, and state/ local laws/ regulations.

#### Inflow

The consideration amount to be received from a person resident outside India by the Indian company issuing shares/ convertible debentures under the FDI scheme can be by:

- (i) Inward remittance through normal banking channels
- (ii) Debit to NRE/ FCNR account of a person concerned maintained with an AD Category I Bank
- (iii) Conversion of royalty/ lump sum/ technical knowhow fee due for payment/ import of capital goods by units in SEZ or conversion of ECB, shall be treated as consideration for issue of shares
- (iv) Conversion of import payables/ pre-incorporation expenses/ share swap can be treated as consideration for issue of shares with the approval of FIPB
- (v) Debit to non-interest-bearing Escrow account in Indian Rupees in India which is opened with the approval from AD Category I bank and is maintained with the AD Category I Bank on behalf of residents and non-residents towards payment of share purchase consideration

If the shares or convertible debentures are not issued within 180 days from the date of receipt of the inward remittance or date of debit to NRE/ FCNR (B)/ Escrow account, the amount of consideration shall be refunded. Further, the Reserve Bank may on an application made to it and for sufficient reasons, permit an Indian Company to refund/ allot shares for the amount of consideration received towards issue of security if such amount is outstanding beyond the period of 180 days from the date of receipt.

### 4.1.7. Remittance, Reporting Remittance and Repatriation

- AD Category I Bank can allow the remittance of sale proceeds of a security (net of applicable taxes) to the seller of shares resident outside India, provided:
  - the security has been held on repatriation basis
  - the sale of security has been made in accordance with the prescribed guidelines, and
  - NOC/ tax clearance certificate from the Income Tax Department has been produced
- AD Category I Banks have been allowed to remit winding up proceeds of companies in India, which are under liquidation, subject to payment of applicable taxes, provided the applicant submits:
  - No objection or Tax clearance certificate from Income Tax Department for the remittance
  - Auditor’s certificate confirming that all liabilities in India have been either fully paid or adequately provided for
  - Auditor’s certificate to the effect that the winding up is in accordance with the provisions of the Companies Act
  - In case of winding up otherwise than by a court, an auditor’s certificate to the effect that there are no legal proceedings pending in any court in India against the applicant or the company under liquidation and there is no legal impediment in permitting the remittance
- Dividends are freely repatriable without any restrictions (net after Tax deduction at source or Dividend Distribution Tax, if any, as the case may be)
- Interest on fully, mandatorily and compulsorily convertible debentures is also freely repatriable without any restrictions (net of applicable taxes)

### Reporting

FDI Reporting requirement: All the below submissions are to be mandatorily done only through online mode on e-Biz portal.

In order to promote the ease of reporting of transactions related to Foreign Direct Investment (FDI), the Reserve Bank of India, under the aegis of the e-Biz project of the Government of India has enabled online filing of the above mentioned returns with the Reserve Bank of India.

Reports	Reporting to	Frequency	Responsibility	Remarks
<b>FDI Reporting Requirement</b>				
Inflow reporting	RBI	Within 30 days of the receipt of consideration	Indian company through its AD Category I Bank	Advance Remittance Form (ARF) along with copy of FIRC and KYC report of the foreign entity also to be provided
Issuance of shares (Form FC-GPR)	RBI	To be filed within 30 days from the date of issue of shares	AD Category I Bank of the Indian company receiving funds	
Transfer of Shares (Form FC-TRS)	RBI	To be filed within 60 days from the date of the receipt of consideration	Resident transferor/ transferee through its AD Category I Bank	Form FC-TRS needs to be signed by the non-resident

## Monitoring and Review

- Competent Authorities will hold a regular monthly review on the foreign investment proposals pending with them
- Joint quarterly review meeting, convened by DIPP, will be held under the co-chairmanship of Secretary, DIPP and Secretary, DEA on pendency of proposals with Government of India

## Modes of Investment under Foreign Direct Investment Scheme

Foreign Direct Investment in India can be made through the following modes:

- (i) Issuance of fresh shares by the company: An Indian company may issue fresh shares/ convertible debentures under the FDI Scheme to a person resident outside India subject to compliance with the extant FDI policy and the FEMA Regulation
- (ii) Acquisition by way of transfer of existing shares by person resident in or outside India: Non-Resident to Non-Resident: A person resident outside India (other than NRI and OCB) may transfer by way of sale or gift, shares or convertible debentures to any person resident outside India (including NRIs but excluding OCBs)
- (iii) RBI has done away the requirement of seeking prior approval, for the following transactions under the Foreign Direct Investment (FDI) policy, subject to the conditions as prescribed by the RBI

Transactions	Conditions for exemption from prior approval
<b>Transfer of shares from a Non-Resident to Resident under the FDI scheme</b>	
Transfer of shares from a Non-Resident to Resident where the pricing guidelines under the Foreign Exchange Management Act (FEMA), 1999 are not met	<ul style="list-style-type: none"> <li>– The original and resultant investment are in line with the extant FDI policy and the FEMA Regulations in terms of sectoral caps, conditions (such as minimum capitalisation, etc.), reporting requirements, documentation, etc.</li> <li>– The pricing is compliant with the specific/ explicit, extant and relevant SEBI regulations/ guidelines – such as Initial Public Offers (IPO), Book building, block deals, delisting, exit, open offer/ substantial acquisition/ SEBI Substantial Acquisitions of Shares and Takeovers (SAST), buy back</li> <li>– Chartered Accountants Certificate to the effect that compliance with the relevant SEBI regulations/ guidelines as indicated above is attached to the form FC-TRS, to be filed with the Authorised Dealer bank</li> </ul>
<b>Transfer of shares from Resident to Non-Resident</b>	
Transfer of shares requiring the prior approval	<ul style="list-style-type: none"> <li>– Approval from the respective departments has been obtained; and</li> <li>– The transfer of shares adheres with the pricing guidelines and documentation requirements as specified by the RBI</li> </ul>
Where SEBI (SAST) Guidelines are attracted	<ul style="list-style-type: none"> <li>– Adherence with the pricing guidelines and documentation requirements as specified by RBI from time to time</li> </ul>

Where the pricing guidelines under FEMA, 1999 are not met	<ul style="list-style-type: none"> <li>– The resultant FDI is in compliance with the extant FDI policy and FEMA regulations in terms of sectoral caps, conditions (such as minimum capitalisation, etc.), reporting requirements, documentation etc.</li> <li>– The pricing for the transaction is compliant with the specific/ explicit, extant and relevant SEBI regulations/ guidelines - such as IPO, Book building, block deals, delisting, exit, open offer/ substantial acquisition/ SEBI SAST; and</li> <li>– Chartered Accountants Certificate to the effect that compliance with the relevant SEBI regulations/ guidelines as indicated above is attached to the form FC-TRS, to be filed with the AD bank</li> </ul>
Where the investee company is in the financial sector	<ul style="list-style-type: none"> <li>– Any ‘fit and proper/ due diligence’ requirements as regards the non-resident investor as stipulated by the respective financial sector regulator, from time to time, have been complied with; and</li> <li>– The FDI policy and FEMA regulations in terms of sectoral caps, conditions such as minimum capitalisation, reporting requirements, documentation etc., are complied with</li> </ul>

#### 4.1.8. General Conditions

- Investments can be made by non-residents in the capital of a resident entity only to the extent of the percentage of the total capital as specified in the FDI policy
- Investments by non-residents may be permitted in the equity capital of a resident entity in certain sectors/ activity with entry conditions
- Foreign investment in Indian company could be direct or indirect. The indirect investment can also be a cascading investment i.e. through multi-layered structure
- Authorised Dealer Banks can allow the remittance of sale proceeds of a security (net of applicable taxes) to the seller of shares resident outside India, provided the security has been held on repatriation basis, the sale of security has been made in accordance with the prescribed guidelines and No Objection Certificate (NOC)/ tax clearance certificate from the Income Tax Department/ tax consultant has been produced
- Optionality clauses are allowed in equity shares, fully, compulsorily and mandatorily convertible debentures and fully, compulsorily and mandatorily convertible preference shares under FDI scheme, subject to the following conditions:
  - After the lock-in period and subject to FDI Policy provisions, if any, the non-resident investor exercising option/ right shall be eligible to exit without any assured return, as per pricing/ valuation guidelines issued by RBI from time to time
  - Minimum lock-in period of 1 year which shall be effective from the date of allotment of such capital instruments

#### Valuation norms

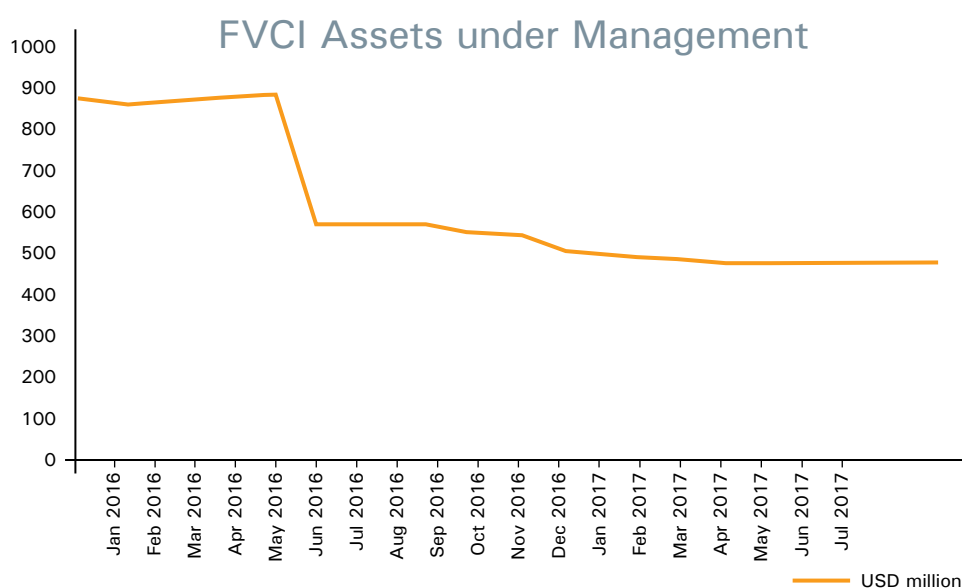
The price/ conversion formula of convertible capital instruments shall be determined upfront at the time of issue of the instruments. The price at the time of conversion should not in any case be lower than the fair value worked out, at the time of issuance of such instruments, in accordance with the extant FEMA regulations. The pricing of shares or debentures shall be as per any internationally accepted pricing methodology on arm's length basis for the unlisted companies and valuation in terms of SEBI (ICDR) Regulations, for the listed companies.

## 4.2. Foreign Venture Capital Investors (FVCI)

Venture Capital Investments are seen as an important channel to promote innovation, enterprise and conversion of scientific technology and knowledge-based ideas into commercial production. The considerable potential of venture capital funds for augmenting the growth of knowledge-based industries is relevant to several areas such as information technology, bio-technology, pharmaceuticals and drugs, agriculture, food processing, telecommunications, services, etc.

### 4.2.1. Market Entry

The Securities and Exchange Board of India (SEBI) has issued detailed regulations, known as the SEBI (Foreign Venture Capital Investors) (FVCI) Regulations 2000. The Reserve Bank of India (RBI) has also permitted SEBI registered Foreign Venture Capital Investors (FVCIs) to invest in India.



Source: NSDL website

FVCI wishing to invest in India is required to register with the capital market regulator SEBI. Effective April 2016, the requirement of obtaining prior approval from RBI, has been removed.

### 4.2.2. Definitions

**Venture Capital Fund** means a fund registered with the Board under the SEBI (Venture Capital Funds) Regulations, 1996 or under the SEBI (Alternative Investment Funds) Regulations, 2012 in the sub-category of "Venture Capital Fund" under Category I Alternative Investment Fund.

**Venture capital undertaking** means a domestic company:

- Which is not listed on a recognised stock exchange in India at the time of making investment
- Which is engaged in the business for providing services, production or manufacture of article or things and does not include following activities or sectors:
  - Non-banking Financial Companies (NBFCs), other than Core Investment Companies (CICs) in the infrastructure sector, Asset Finance Companies (AFCs), and Infrastructure Finance Companies (IFCs) registered with RBI
  - Gold financing
  - Activities not permitted under industrial policy of Government of India
  - Any other activity which may be specified by the Board in consultation with Government of India

**Investee Company** means any company, special purpose vehicle or limited liability partnership or body corporate or real estate investment trust or infrastructure investment trust in which an Alternative Investment Fund makes an investment.

**Registration** for the purpose of seeking registration under these regulations, the applicant shall make an application to the Board in Form A as prescribed under SEBI (Foreign Venture Capital Investors) Regulations 2000 along with the application fee.

Eligibility Criteria	<ul style="list-style-type: none"> <li>– Applicant is an investment company, investment trust, investment partnership, pension fund, mutual fund, asset management company, investment manager or investment management company or any other investment vehicle incorporated outside India</li> <li>– Applicant is authorised to invest in venture capital fund or carry on activity as a FVCI or Alternative Investment Fund in its jurisdiction</li> <li>– Professional Competence, Financial soundness, Experience, General reputation of fairness, Integrity</li> <li>– The applicant is regulated by an appropriate foreign regulatory authority or is an income tax payer; or submits a certificate from its banker of its or its promoter’s track record where the applicant is neither a regulated entity nor an income tax payer</li> <li>– To determine as to whether the applicant is a fit and proper person, the Board may take account of any consideration as it deems fit, including but not limited to the following criteria in relation to the applicant, the principal officer, the director, the promoter and the key management persons by whatever name called             <ul style="list-style-type: none"> <li>– integrity, reputation and character</li> <li>– absence of convictions and restraint orders</li> <li>– competence including financial solvency and networth</li> <li>– absence of categorisation as a wilful defaulter</li> </ul> </li> </ul>
Information to be provided	Information or clarification with respect to the registration process such Investment strategy, commitment letters from Investors, life cycle of funds, etc.
Procedure for grant of certificate	<ul style="list-style-type: none"> <li>– Regulators to send intimation if application is approved to grant certificate</li> <li>– The registration fee USD 2500 at the time of application and balance of USD 10000 to be paid post receipt of in-principle approval</li> </ul>
Conditions of Certificate	<p>Certificate granted to the foreign venture capital subject to the conditions</p> <ul style="list-style-type: none"> <li>– abide by the provisions of the Act, and these regulations</li> <li>– appoint a domestic custodian for purpose of securities</li> <li>– shall open an operating non-resident rupee and foreign currency account</li> </ul>



### 4.2.3. Documentation Requirements

A FVCI, to be registered with the SEBI, has to submit the following documents/ declarations (in duplicate) along with the application (Form A) for FVCI registration:

- Application Form
- Copy of certificate of registration with home regulator; or
- Copy of income tax return filed in the home country; or
- Copy of bankers certificate fair track record of the applicant
- Contact Person details along with name, address, contact number and email ID
- Details of all the directors along with name, address, contact number and email ID
- Copy of Memorandum and Articles of Association/ Constitution Document of the applicant. The applicant must ensure that the main objects permit the applicant to carry on the activity of venture capital
- Structure Diagram of the Applicant
- State whether the applicant or any of its directors has not been refused a certificate by the SEBI Board
- State whether the applicant is registered with SEBI or any other regulatory authority in any capacity in India or has filed for registration with SEBI in any other capacity
- Write up on Directors/ Key personnel of the FVCI. The write up should include the educational qualifications, the past experiences etc.
- Disclose the investment strategy as required under Regulation 11(a) of the SEBI (Foreign Venture Capital Investors) Regulations, 2000. The Investment strategy along with the duration of Life cycle of the Fund
- Declaration in respect of “Fit and Proper Person” criteria as per regulation 4A of the SEBI (Foreign Venture Capital Investors) Regulation, 2000 and as specified under Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulation, 2008
- Copy of latest financial statements of the applicant or the promoters
- Copy of custodian agreement, entered into, with a domestic custodian
- Certified copy of Business license (if any), issued by the regulatory agency abroad, with which the applicant is registered
- Confirm that the applicant has appointed a designated Bank in India
- “Firm Commitment Letter “from the applicant clearly specifying that ‘x’ amount (in INR terms) would be invested within a specific period. This is a very critical requirement from SEBI. Also note that the amount mentioned has to be a confirmed amount and cannot be ‘approximate or tentative’
- Firm commitment letter(s) from investors of the applicant for contributions aggregating to at least USD 1m
- Copies of financial statements as well as those of the applicant’s investors who have provided firm commitment letter(s), for the financial year preceding the one during which this application is being made
- Name, address, contact number and the e-mail address of all investor(s) of the applicant providing firm commitment letter(s)

### 4.2.4. Online filing of application

- All new applications for FVCI registration will be accepted online only through the SEBI Intermediary Portal
- All registered FVCIs are required to file their compliance reports and submit applications for any request under FVCI Regulations, through the online system. SEBI registered FVCIs will be required to activate their online accounts

An FVCI is required to appoint a domestic custodian and will have to enter into an arrangement with a designated bank for the purpose of opening a special non-resident Indian rupee and/ or foreign currency account. The FVCI or a Global Custodian acting on behalf of the FVCI shall enter into an agreement with the domestic custodian.

An application which is not complete shall be rejected by SEBI. Before rejecting any such application, the applicant shall be given an opportunity to remove the objections indicated within thirty days of the date of receipt of communication. This period may further be extended by SEBI, at its discretion, but will not be extended beyond ninety days.

### 4.2.5. Fees

Fee Type	Amount (in USD)	When Paid
Application Fee	2,500	At the time of application
Registration Fee	10,000	Once in-principle approval is granted

The fees are payable by way of direct credit in the bank account through NEFT/ RTGS/ IMPS or by bank draft in favour of "The Securities and Exchange Board of India" payable at Mumbai. Any other mode allowed by RBI would be acceptable.

### 4.2.6. Investment Criteria

FVCI which has obtained registration under the Securities and Exchange Board of India (FVCI) Regulations, 2000, can invest in:

- Equity or equity linked instrument or debt instrument issued by an Indian company whose shares are not listed on a recognised stock exchange at the time of issue of the said securities/ instruments and engaged in any of the following sectors:
  - Biotechnology
  - IT related to hardware and software development
  - Nanotechnology
  - Seed research and development
  - Research and development of new chemical entities in pharmaceutical sector
  - Dairy industry
  - Poultry industry
  - Production of bio-fuels
  - Hotel-cum-convention centres with seating capacity of more than three thousand
  - Infrastructure sector (This will include activities included within the scope of the definition of infrastructure under the External Commercial Borrowing guidelines/ policies notified under the extant FEMA Regulations as amended from time to time)
- Equity or equity linked instrument or debt instrument issued by an Indian 'start-up' irrespective of the sector in which the start-up is engaged

A start-up will mean an entity (private limited company or a registered partnership firm or a limited liability partnership) incorporated or registered in India not prior to five years, with an annual turnover not exceeding INR 250 million in any preceding financial year, working towards innovation, development, deployment or commercialisation of new products, processes or services driven by technology or intellectual property and satisfying certain conditions given in the Regulations

- Units of a Venture Capital Fund (VCF) or of a Category I Alternative Investment Fund (Cat-I AIF) (registered under the SEBI (AIF) Regulations, 2012) or units of a Scheme or of a fund set up by a VCF or by a Cat-I AIF

It has been clarified that downstream investments by a Venture Capital Fund (VCF) or a Cat-I AIF, which has received investment from FVCI, shall have to comply with the provisions for downstream investment as laid down in Schedule 11 of the Principal Regulations.

Details of Schedule 11 can accessed here:

<https://rbi.org.in/scripts/NotificationUser.aspx?Id=10130&Mode=0>

There will be no restriction on transfer of any security/ instrument held by the FVCI to any person resident in or outside India.

All investments to be made by an FVCI would be subject to the following conditions:

- FVCIs must disclose their investment strategy (and any subsequent changes) to SEBI. This information must be furnished to SEBI while seeking their certificate of registration
- It shall disclose the duration of life cycle of the fund
- It can invest its total funds committed in one venture capital fund or AIF
- FVCIs cannot invest in Venture capital undertakings engaged in activities which have been classified under the negative list of the SEBI FVCI Regulations 2000
- The following investment limits are applicable to FVCI investments:
  - a. At least 66.67% of the investible funds have to be invested in unlisted equity shares or equity linked instruments of venture capital undertaking or Investee Company defined as above. Equity linked instruments includes instruments convertible into equity shares or share warrants, preference shares, debentures compulsorily or optionally convertible into equity
  - b. Not more than 33.33% of the investible funds can be invested by way of:
    - IPOs of a venture capital undertaking or Investee Company as defined above, whose shares are proposed to be listed
    - Debt or debt instrument of a venture capital undertaking or Investee Company as defined above, in which the venture capital fund has already made an investment by way of equity
    - Preferential allotment of equity shares of a listed company, subject to a lock-in period of one year
    - Equity shares or equity-linked instruments of a financially weak company. A financially weak company means a company, which has at the end of the previous financial year accumulated losses, which has resulted in erosion of more than 50% but less than 100% of its net worth as at the beginning of the previous financial year
    - Special Purpose Vehicles, which are created for the purpose of facilitating or promoting investment under the SEBI FVCI Regulations 2000

Investible funds mean the fund committed for investments in India net of expenditure for administration and management of the fund.

- The FVCI may acquire or sell securities at a price mutually acceptable to the buyer and seller/ issuer
  - FVCIs may invest in eligible securities (which include equity, equity linked instruments, debt, debt instruments, debentures of an Indian Venture Capital Undertaking (IVCU) or Venture Capital Funds (VCF), units of schemes of funds set up by VCFs) or of a Category I Alternative Investment Fund (Cat I – AIF) through private arrangements/ purchase from third parties
- FVCIs are required to report to SEBI venture capital activity (investment category wise i.e. equity, debt or VCF and industry wise) for each calendar quarter
  - RBI has also clarified that FVCIs would also be allowed to invest in securities on a recognised stock exchange, subject to the conditions prescribed under the SEBI (FVCI) Regulations, 2000

The general permission from the RBI permits the FVCI to:

- Open foreign currency denominated account with a designated branch of an Authorised Dealer bank for crediting inward remittances subject to the condition that the account will be used only and exclusively for transactions under Schedule VI of FEMA (Transfer or Issue of security by a person resident outside India) Regulations, 2000
- The consideration for all investment by an FVCI shall be paid out of inward remittance from abroad through normal banking channels or out of sale/ maturity proceeds or incoming generated from investment already made as stated earlier
- Transfer sums from the foreign currency account to the special non-resident account at market rates of exchange
- Make investments (in accordance with prescribed regulations) in VCUs or VCFs out of the balance in the special non-resident rupee account
- Remit funds abroad from the foreign currency account or the special non-resident rupee account at the prevailing rate of exchange, subject to deduction of applicable taxes
- Meet local expenses of the FVCI related to investments
- Debit any losses on account of forward contracts entered into by the FVCI

FVCIs are allowed to book forward cover to the extent of their total inward remittance.

In case the FVCI has made any remittance by liquidating some investments, the original cost of investments will be deducted from the eligible cover. FX transactions of FVCI investors must be executed with any Authorised Dealer.

#### 4.2.7. FVCI allowed registration as FPI

Designated Depository Participants (DDPs) are allowed to grant registration as Foreign Portfolio Investor (FPI) to applicants holding registration as FVCIs, subject to the following:

- Applicant complies with the eligibility criteria as prescribed under SEBI (FPI) Regulations, 2014 and is not an opaque structure as defined in the FPI regulations
- The funds raised, allocated and invested must be clearly segregated as FPI and FVCI
- Applicant will appoint same custodian for its activities as FPI and FVCI
- Separate accounts must be maintained with the custodian for execution of trades as well as for securities held under FVCI and FPI registrations
- Reporting of transactions must be done separately according to the conditions applicable under the specific registration
- All the conditions applicable to the entity under the respective registrations must be complied with at the level of the segregated funds and activities with respect to the specific registrations
- The investment restrictions as applicable to FPIs will also be applicable to FVCI applicants

We further understand that, investment limit of below 10% of the total issued capital of the company shall be applicable across FPI and FVCI investment clubbed together.

#### Reporting

FVCIs Reporting requirement: All registered FVCIs are required to file their compliance reports, through the online system.

The portal can be accessed here:

<https://siportal.sebi.gov.in/intermediary/index.html>

Reports	Reporting to	Frequency	Responsibility	Remarks
<b>FVCIs</b>				
Foreign exchange Inflow and outflow reporting in prescribed format	RBI	Monthly	FVCI through its AD Category I Bank	Within 10 <sup>th</sup> of the next month for previous month
Details of investment in permitted sectors as per the prescribed format	RBI	Monthly	FVCI through its AD Category I Bank	Within 10 <sup>th</sup> of the next month for previous month
Online filing of investment details in permitted sector	SEBI	Quarterly	FVCI	Within 3 working days from the end of the previous quarter

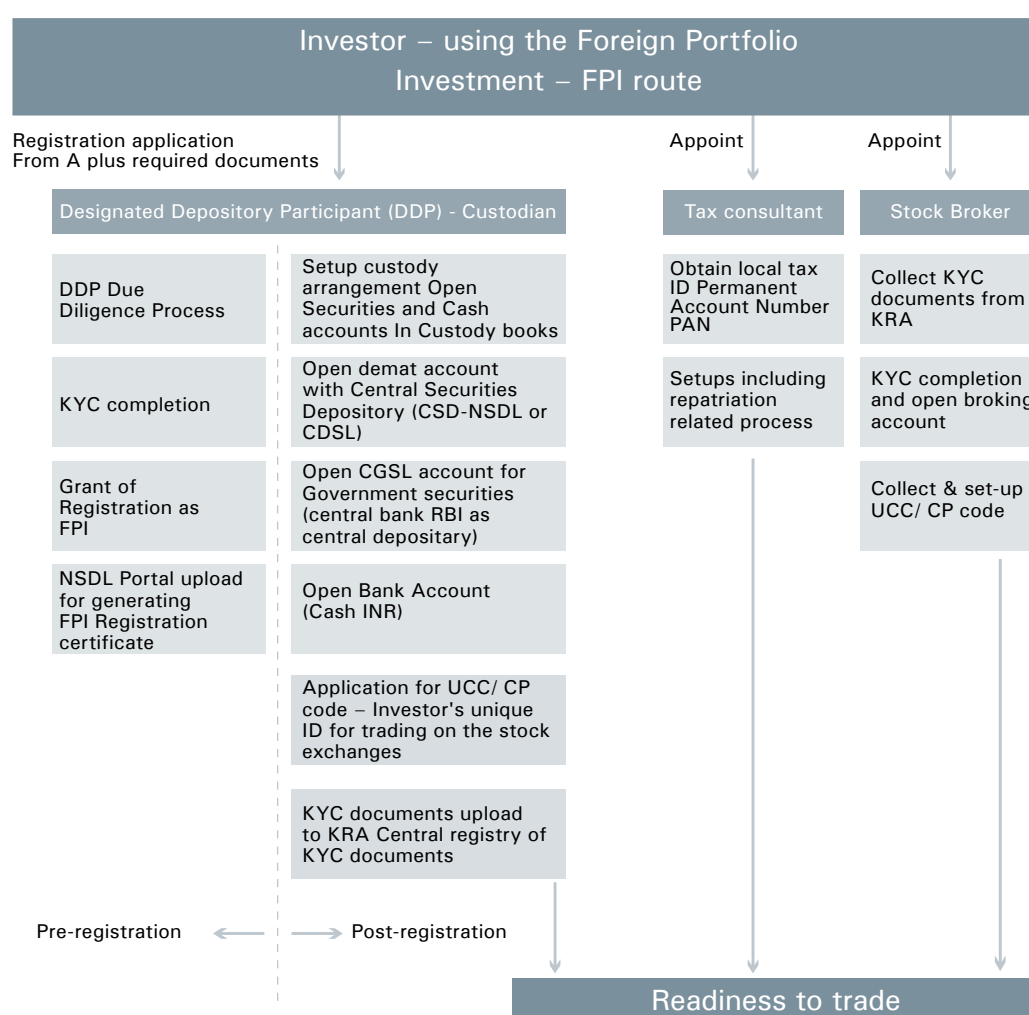
# Foreign Portfolio Investor (FPI) – Market Entry

## 5.1. Introduction

As part of the efforts to harmonise foreign investment routes into India, a joint initiative across Regulatory Authorities and the Government of India under the Shri K. M. Chandrasekhar Committee, has recommended the introduction of a single-entry portfolio investment route for foreign investors called FPI (Foreign Portfolio Investors).

The erstwhile FII and QFI regimes have been merged into the FPI regime. This initiative, has also brought about important changes to market mechanisms, aimed at efficiency and global standards in key market processes.

### Foreign Portfolio Investors – Market Entry Flowchart



## 5.2. Eligibility Criteria

The entry norms listed below have been prescribed for entities interested in accessing the Indian capital market through the FPI route:

- The applicant is a person not resident in India
- Non-Resident Indians (NRIs) cannot access this route for investments into India
- The applicant is resident of a country whose securities market regulator is a signatory to International Organisation of Securities Commission's (IOSCOs) Multilateral Memorandum of Understanding (MMoU) (Appendix – A Signatories) or a signatory to bilateral Memorandum of Understanding (MOU) with SEBI
- SEBI is currently undertaking a review to expand the eligible jurisdictions for grant of FPI registration to Category I FPIs to include countries having diplomatic tie-ups with India and FEMA compliant

The current list of permissible IOSCO jurisdictions can be accessed here:  
<https://www.iosco.org/about/?subSection=mmou&subSection1=signatories>

List of countries that have bilateral MOU with SEBI is available here:  
[http://www.sebi.gov.in/cms/sebi\\_data/internationalAffr/IA\\_BilMoU.html](http://www.sebi.gov.in/cms/sebi_data/internationalAffr/IA_BilMoU.html)

- In case the applicant is a bank, it should be a resident of a country whose central bank is a member of Bank for International Settlements (BIS)

List of countries whose Central Bank is a member of the BIS is available here:  
[http://www.bis.org/about/member\\_cb.htm](http://www.bis.org/about/member_cb.htm)

- Applicant is not resident in a country identified in the public statement of Financial Action Task Force (FATF) as:
  - a jurisdiction having a strategic AML or Combating the Financing of Terrorism (CFT) deficiencies to which counter measures apply; or
  - a jurisdiction that has not made sufficient progress in addressing deficiencies or has not committed to an action plan developed with the FATF to address the deficiencies

List of countries that are listed in the public statements issued by FATF is available at <http://www.fatf-gafi.org/topics/high-riskandnon-cooperativejurisdictions> [Ref. Regulation 4(b), 4(c) and 4(d)]

- The applicant is legally permitted to invest in securities outside the country of its incorporation or establishment or place of business
- The applicant is authorised by its Memorandum of Association and Articles of Association or equivalent document(s) or the agreement to invest on its own behalf or on behalf of its clients
- The applicant has sufficient experience, a good track record, is professionally competent, financially sound and has a generally good reputation of fairness and integrity.
- The grant of certificate to the applicant is in the interest of the development of the securities market
- The applicant is a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008. One of the suggestions being considered in the consultation paper on easing of FPI norms is to do away with any additional documentation and procedural requirements under the regulation for ascertaining fit and proper criteria for Category I and II investors
- Any other criteria specified by SEBI from time to time

### Opaque structures not permitted as FPI

Opaque structure shall mean any structure such as a protected cell company, segregated cell company or equivalent, where the details of ultimate beneficial owners are not accessible or where the beneficial owners are ring fenced from each other or where the beneficial owners are ring fenced with regard to enforcement.

Investors having opaque structure(s) will not be considered for the FPI Registration unless such structure is mandatory as per the law in the home jurisdiction of the entity and



provided the following criteria are met:

- The applicant is regulated in its home jurisdiction
- Each fund or sub fund in the applicant satisfies broad based criteria (at least 20 investors, with no investor holding more than 49% of the shares or units)
- The applicant provides an undertaking to furnish information regarding its beneficial owners as and when SEBI seeks this information

## 5.3. Categorisation

A foreign investor shall seek registration as a FPI under any one of these three categories:

Category	Entities
I	Government and Government related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organisations or agencies
II	<ul style="list-style-type: none"> <li>– appropriately regulated broad based funds such as mutual funds, investment trusts, insurance/ reinsurance companies</li> <li>– appropriately regulated persons such as banks, asset management companies, investment managers/ advisors, portfolio managers</li> <li>– broad based funds that are not appropriately regulated but whose investment manager is appropriately regulated, provided that               <ul style="list-style-type: none"> <li>– The investment manager of such broad-based fund is itself registered as Category II FPI and</li> <li>– The investment manager undertakes that it shall be responsible and liable for all acts of commission and omission of all its underlying broad-based funds and other deeds and things done by such broad based funds under these regulations</li> </ul> </li> <li>– University funds and pension funds; and</li> <li>– University related endowments already registered with the Board as FII or sub-accounts</li> </ul>
III	Shall include all others not eligible under Category I and II FPI such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices

### Notes to categorisation table

- **Appropriately regulated:** An applicant seeking registration as a FPI shall be considered to be "appropriately regulated" if it is regulated or supervised by the securities market regulator or the banking regulator of the concerned foreign jurisdiction, in the same capacity in which it proposes to make investments in India
- **Broad Based Fund:** A fund, established or incorporated outside India, which has at least 20 investors, with no investor holding more than 49% of the shares or units of the fund:
  - Provided that if the broad-based fund has an institutional investor who holds more than 49% of the shares or units in the fund, then such institutional investor must itself be a broad based fund
  - To determine whether an entity qualifies for the broad-based criteria, for ascertaining the number of investors in a fund, direct investors as well as underlying investors shall be considered. However, only investors of entities which have been set up for the sole purpose of pooling funds and making investments shall be considered for the purpose of determining underlying investors
  - Consultations are on to permit FPI applicants having Bank, Sovereign Wealth Fund, Insurance/ Reinsurance Companies, Pension Funds, and Exchange Traded Funds as its underlying investor to be deemed as broad based subject to the condition that such underlying investor(s) in the fund shall either individually or jointly hold majority stake in the applicant fund at all times



- **Insurance and Re-insurance companies:** It is clarified that insurance and reinsurance companies shall be deemed to be appropriately regulated for the purpose of the Regulations, if they are regulated or supervised by the relevant regulator in their concerned foreign jurisdiction in the same capacity in which they propose to make investments in India
- **Investment manager:** The Investment manager shall mean an entity performing the role of investment management, investment advisory, trustee or any equivalent role and is responsible for investment related compliance of the FPI

## 5.4. Registration process and documentation requirement

An application for the grant of certificate as FPI shall be made to the Designated Depository Participant (DDP) in Form A of the First Schedule of the FPI Regulations and shall be accompanied by the fee specified in Part A of the Second Schedule.

Documentation requirement for registration as FPI:

- Application to DDP (Form A)
- Standard Declaration/ Undertakings to be submitted to DDP
- Other registration documents (Refer Appendix)

## 5.5. Role of Designated Depository Participant

Designated Depository Participant (DDP) means a person who has been approved by the SEBI Board and shall be custodian of securities registered with SEBI, an Authorised Dealer Category I bank authorised by RBI and a Depository Participant. With the objective of bringing out efficiency in the market entry process, SEBI has shifted the registration process for foreign investors from SEBI to DDPs under the FPI Regulation 2014.

This is a shift from the erstwhile process, wherein the due diligence process, earlier done by SEBI, is now performed by the DDPs and registration granted to the applicant within a period of 30 days from the date of receipt of complete application.

The FPI will also enter into an agreement with the DDP engaged by it to act as custodian of securities, before making investment under these regulations.

In order to minimise delays and improve transparency in the processing of FPI applications by DDPs, SEBI has directed DDPs to issue acknowledgments to FPIs post the receipt of complete documentation. DDPs may further consider closing/ returning the application in case of non-receipt of complete documentation/ fees/ pending query resolution instead of keeping it pending if no revert is received from the client subsequent to sending of 2 communications/ reminders within a total span of 10 days.

### Change of DDP

In case the FPI wishes to change the DDP, the request for change shall be routed through the proposed DDP to SEBI for their approval. Documents to be submitted are as follows:

- Request from the FPI for change of DDP
- NOC to be issued by the existing/ transferor DDP
- Acceptance letter from the proposed/ transferee DDP

The existing process of obtaining prior approval from SEBI is under discussion and is expected to be done away with. As per the new process, upon receipt of no objection from the transferor/ local custodian/ DDP, the transferee local custodian/ DDP shall approve the change and intimate SEBI about the change.

## 5.6. Registration duration and fees

### 5.6.1. Registration Fee

The registration as a FPI is valid for a block of 3 years. Category II and Category III investors need to pay USD 3000 and USD 300 respectively to the DDP, who are responsible to transfer the funds to the designated bank account of SEBI. The fees are to be paid by way of electronic transfer in designated account of SEBI. Further, SEBI has clarified that FPIs being re-categorised from Category III to Category II, would be required to pay the full registration fee applicable to Category II (USD 3000) and not just the difference between Category III and II.

Application and payment of fees for conversion and continuance of the registration of Foreign Portfolio Investors (FPIs), should be submitted by the applicants to Designated Depository Participants (DDPs) at least 15 days prior to expiry of their current registration.

The fee structure is summarised below:

Category	Entities	Validity of Registration
I	Exempt (refer note below)	3 years
II	USD 3,000	3 years
III	USD 300	3 years

**Note:** Category I investors are exempted from the payment of registration fees. However, in case of FPIs having common beneficial owner(s), the privilege of registration fee exemption will only be extended to one FPI and the rest will be liable to pay registration fees as applicable to Category II, except where the beneficial owner is an international/ multilateral agency such as World Bank and other Institutions, established outside India for providing aid, which have been granted privileges and immunities from payment of duties and taxes by the Central Government.

### 5.6.2. Conditional Registration

If the applicant is newly incorporated/ established, seeking to register itself as a broad-based fund under Category II, but does not satisfy the broad-based criteria at the time of making application, the DDP may consider grant of conditional registration, with validity period of 180 days to such applicant if:

- The applicant is an India dedicated fund or undertakes to make investment of at least 5% corpus of the fund in India
- The applicant undertakes to comply with the broad-based criteria before the expiry of validity of its conditional registration i.e. within 180 days
- In order to assess the compliance with the broad-based criteria, the FPI shall provide details of investors to the DDP. The DDP may, after appropriate due-diligence, issue acknowledgement regarding fulfillment of broad based criteria, if it is satisfied
- In case the DDP issues acknowledgement regarding fulfillment of broad based criteria, the conditional registration shall be treated as registration, henceforth

If the FPI fails to satisfy the DDP that it has attained broad based status within 180 days, it shall be reclassified as Category III. The accounts of such entities would be blocked until the balance KYC documents as applicable under Category III are regularised. The FPI cannot execute new purchase transactions, however they can hold/ sell the existing stocks in the clients account. Further, in case the client holds any securities that they cannot hold under Category III, then such securities will need to be disinvested.

One of the recommendation currently being considered is to provide a time period of 3 months to regain its broad base status to funds that loses its broad-based status due to exit of some offshore global investors.

### 5.6.3. Categorisation by virtue of Investment Manager

Unregulated broad-based funds can seek registration as Category II FPI provided the investment manager of such broad-based entity is appropriately regulated and registered as Category II FPI.

### 5.6.4. Surrender of Registration

Where an FPI desires to surrender its certificate of registration, it may make an application to the DDP. The DDP shall accept the surrender of registration after ensuring the following:

- There are no dues by the applicant outstanding to SEBI
- The holdings of the concerned applicant in security account and bank account is nil
- SEBI has given its NOC

### 5.6.5. Procedure for Sale of Securities after Expiry of Registration

- FPIs which are not desirous of continuing with the registration but are holding certain securities may hold such securities after expiry of registration. Such FPIs shall be permitted to hold the residual securities for subsequent disposal, after the expiry of FPI registration, subject to receipt of specific permission from DDP in this regard
- The procedure for seeking permission for disinvestment by FPIs after expiry of registration is given below:
  - At the time of expiry of registration, the FPI desiring permission for disinvestment shall make a request to DDP along with details of its holdings
  - The DDP may grant such permission for disinvestment with an initial validity period of 6 months
- The required sale trades shall be carried out by the FPI only after receipt of permission from DDP
- The permission shall be granted only for sale of the securities held by the FPI as on date of expiry of registration. No purchase transactions shall be permitted after the expiry of registration
- Credit of corporate benefits and application for rights issue in respect of existing securities would be permitted
- If the FPI is unable to sell the securities within 6 months, it can approach the DDP for extension of permission. The request shall mention the reason for seeking extension and also accompanied by a statement of current holdings in the required format. These requests may be considered based on the merits of the case

## 5.7. Other applicable norms

### 5.7.1. Home Jurisdiction Compliance – Change in Status

- If a jurisdiction, which was compliant with SEBI (FPI) Regulations at the time of grant of registration to FPI, becomes non-compliant i.e. ceases to be member of IOSCO/ BIS or the concerned jurisdiction is listed in FATF public statement as "high risk" and "non-cooperative" jurisdiction, then concerned DDP shall not allow the FPIs belonging to such jurisdictions to make fresh purchases till the time the jurisdiction is compliant with SEBI (FPI) regulations. However, the FPI shall be allowed to continue to hold the securities already purchased by it
- The concerned DDP shall inform SEBI a list of such jurisdiction along with the details of FPIs belonging to the jurisdiction

### 5.7.2. Change in Material Information

- Under the Regulations, if there is any material change in the information previously furnished by the FPI to the DDP and/or SEBI, which has a bearing on the certificate granted by the DDP on behalf of SEBI, it shall forthwith inform the DDP and/ or SEBI of the change
- Such material change may include: direct or indirect change in control, change in regulatory status, merger, demerger or restructuring, change in category, change in structure etc.
- The DDP shall examine all such material changes and re-assess the eligibility of the FPI
- Where there is a delay of more than six months in intimation of material change by the

FPI to the DDP, the DDP shall, forthwith, inform all such cases to SEBI for appropriate action, if any

### 5.7.3. Name Change

In case the FPI has undergone a change in name, the request for updation/ incorporation of new name should be submitted by the FPI to the DDP accompanied by documents certifying the name change. The documents relevant for name change are:

- Original FPI registration certificate granted in the old name
- Certified copy of document(s) from home regulator evidencing the name change
- Certified copy of document(s) from Registrar of Company (or equivalent authority) (wherever applicable) issued, thereby evidencing the name change
- An undertaking by the FPI stating that it is a mere name change and does not involve change in beneficial ownership

Upon receipt of the request for name change along with abovementioned documents, the DDP shall effect the change in name in the Registration Certificate and in its database. If there is a delay of more than 6 months in intimation of name change by the FPI to the DDP, then it shall lead to violation of Regulation 23(1)(c) and liable for penal action, as deemed fit, by SEBI. The DDP is required to forward all such cases of delayed reporting to SEBI for appropriate action, if any.

FPIs undergoing a name change will have to obtain PAN card in the new name issued by the Income Tax. Clients are requested to connect with their Tax consultants for the same. The PAN card in the new name will be required to complete the KYC on the KRA.

## 5.8. Requirement of Permanent Account Number (PAN)

Every entity registered as a FPI in India is required to obtain tax registration number PAN, before it can start its operations in India (i.e. operating the demat account and investing in the Indian securities). Tax registration is required to be quoted in all the communications with the tax authorities.

### Procedure for obtaining PAN card

For the purposes of obtaining PAN, FPIs are required to make an application in the prescribed form i.e. Form 49AA. This duly filled application form is required to be submitted to the designated authorities along with the necessary information and documents. The information and document required for obtaining PAN would depend on the legal status/ form of the applicant e.g. company, trust, partnership firm, individual, etc. The tax consultant appointed by the FPIs generally assists them in obtaining the PAN card.

The Central Board of Direct Taxes (CBDT) has notified the introduction of Digital Signature Certificate (DSC) based application process for PAN and Tax Deduction Account Number/ Tax Collection Account Number (TAN), on the portals of PAN service providers M/s NSDL eGov (NSDL e-Governance Infrastructure Limited) and M/s UTIITSL (UTI Infrastructure Technology and Services Limited), for company applicants. Under the new process, PAN and TAN will be allotted within 1 day after completion of valid on-line application.

### Highlights of the PAN application process

- Under the new process PAN would be allotted within 24 hours
- PAN application needs to be made electronically
- For making an online application of the PAN, the authorised signatory of the applicant company will need a Digital Signature Certificate (DSC) issued by an Indian vendor
- For obtaining a DSC, the applicant is required to submit an application form as well as documents (duly apostilled/ consularised) to the Indian authorities. The process of obtaining the DSC is likely to take around a week
- Supporting documents (duly apostilled/ consularised) for proof of identity and proof of address need to be uploaded along with the PAN form

On successful submission of the application, an acknowledgement is received in the form of the application number which can be used to track the status of the application. Once details submitted are verified and processed, the applicant will receive the PAN card through registered post.

### Information and Documents required for PAN

In case of an applicant being a legal entity such as Company/ Trust/ Partnership firm (i.e. other than foreign individual)

Details required for application	
1	Full name
2	Date of Incorporation (DD/MM/YYYY)
3	Registration Number
4	Full name and address of the office (along with the State name, Country name and Zip code)
5	Name, designation and e-mail address of the authorised signatory
6	Telephone number/ Mobile number along with ISD code and STD/ Area code
7	Legal Status of the applicant in its country of incorporation
8	Detail of sources of income (Source of income is mandatory) a. Income from Business/Profession b. Income from Capital Gain c. Income from Other Sources
9	Know Your Customer (KYC) requirements as prescribed

Custodians are required to verify the PAN card, issued by Income tax authorities in India on the Income tax website, before opening any depository account. Hence the applicant entity will need to submit either the original PAN card or copy of the PAN card to the custodian for verification in order to open depository accounts.

(SEBI) has also permitted the intermediaries to verify the PAN of FPIs online from website authorised by Income Tax department at the time of account opening. This in effect relaxes the requirement of obtaining PAN card copy from FPIs at the time of account opening.

#### The FPIs will however be required to furnish copy of the PAN card to their intermediaries:

- Within 60 days of Account-opening or
- Before remitting funds out of India, whichever is earlier

As a next step towards further simplification of the existing process, the Central Board of Direct Taxes (CBDT) has introduced E-PAN card, which is sent by email, in addition to issue of physical PAN card, to all applicants where PAN is allotted. FPIs can share the Electronic Permanent Account Number (E-PAN) card with market intermediaries at the time of account opening thus ensuring compliance with the KYC norm.

## 5.9. General Obligations and Responsibilities of Foreign Portfolio Investors

The foreign portfolio investor shall:

- comply with the provisions of the FPI regulations, as far as they may apply, circulars issued thereunder and any other terms and conditions specified by SEBI from time to time
- forthwith inform SEBI and the DDP in writing, if any information or particulars previously submitted to SEBI or DDP are found to be false or misleading, in any material respect
- forthwith inform SEBI and DDP in writing, if there is any material change in the information previously furnished by him to SEBI or DDP
- as and when required by SEBI or any other government agency in India, submit any information, record or documents in relation to its activities as a FPI
- forthwith inform SEBI and the DDP, in case of any penalty, pending litigations or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against it
- obtain a PAN from the Income Tax Department. As per clarification received, PAN is required to be obtained by all FPIs including non-investing FPIs
- in relation to its activities as FPI, at all times, subject itself to the extant Indian laws, rules, regulations and circulars issued from time to time and provide an express undertaking to this effect to the DDP
- provide such declarations and undertakings as required by the DDP
- provide any additional information or documents as may be required by the DDP to ensure compliance with the Prevention of Money Laundering Act, 2002 and rules and regulations prescribed thereunder, Financial Action Task Force standards and circulars issued from time to time by SEBI

In case of jointly held depository accounts, each of the joint holders shall meet the requirements specified for FPI and each shall be deemed to be holding a depository account as a FPI. In case the same set of ultimate beneficial owner(s) invest through multiple entities, such entities shall be treated as part of same investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single FPI. In case of any direct or indirect change in structure or beneficial ownership of the FPI, it shall bring the same to the notice of its DDP.

## 5.10. Code of Conduct

An FPI shall, at all times, abide by the code of conduct as specified in Third Schedule of FPI regulations

- A foreign FPI and its key personnel shall observe high standards of integrity, fairness and professionalism in all dealings in the Indian securities market with intermediaries, regulatory and other government authorities
- An FPI shall, at all times, render high standards of service, exercise due diligence and independent professional judgment
- An FPI shall ensure and maintain confidentiality in respect of trades done on its own behalf and/ or on behalf of its clients
- An FPI shall ensure the following:
  - Clear segregation of its own money/ securities and its client's money/ securities
- Arms-length relationship between its business of fund management/ investment and its other business
- An FPI shall maintain an appropriate level of knowledge and competency and abide by the provisions of the Act, regulations made thereunder and the circulars and guidelines, which may be applicable and relevant to the activities carried on by it. Every foreign portfolio investor shall also comply with award of the Ombudsman and decision of the Board under Securities and Exchange Board of India (Ombudsman) Regulations, 2003
- An FPI shall not make any untrue statement or suppress any material fact in any documents, reports or information to be furnished to the DDP and/ or SEBI
- An FPI shall ensure that good corporate policies and corporate governance are observed by it



- An FPI shall ensure that it does not engage in fraudulent and manipulative transactions in the securities listed in any stock exchange in India
- An FPI or any of its directors or managers shall not, either through its/ his own account or through any associate or family members, relatives or friends indulge in any insider trading
- An FPI shall not be a party to or instrumental for:
  - creation of false market in securities listed or proposed to be listed in any stock exchange in India
  - price rigging or manipulation of prices of securities listed or proposed to be listed in any stock exchange in India
  - passing of price sensitive information to any person or intermediary in the securities market

## 5.11. Account Structure for Foreign Investors investing in India

India is a beneficial ID market and hence segregated accounts need to be opened at investor level. Omnibus structures are not permitted.

Investor Category	Depository/ Securities account	Cash Account
FPIs	Segregated-depository account	Segregated Cash account
FDIs	Segregated-depository account	Cash account permitted through escrow route for a maximum period of 6 months
FVCIs	Segregated-depository account	Segregated Cash account



# Comparative Tables

## 6.1. Effects of Categorisation

The table below highlights the differences in the categorisation model applicable for FPIs:

	Details	Category I	Category II	Category III
1	Fees (Registration as well as Renewal)	No fees*	USD 3000	USD 300
2	KYC	Simplified documentation requirement	Entity level rationalised documentation	Exhaustive documentation requirement at entity level and beneficial owner level
3	Qualified Institutional Buyer (QIB) status	QIB status granted	QIB status granted	No QIB status
4	Issue of Offshore Derivative Instruments (ODIs)	Permitted FPIs have been prohibited from issuing ODIs with derivative as underlying, except those derivative positions that are taken for hedging the equity shares held by it, on a one to one basis	Permitted However investors categorised as Category II by virtue of their investment manager being regulated not permitted to issue ODI  FPIs have been prohibited from issuing ODIs with derivative as underlying, except those derivative positions that are taken for hedging the equity shares held by it, on a one to one basis	Not permitted

	Details	Category I	Category II	Category III
5	Margins on Equity trades	No margins will apply on Day T  Margins apply on T+1 unless early payin is made	No margins will apply on Day T  Margins apply on T+1 unless early payin is made	In category III, upfront margins on Day T will apply to FPIs who are corporate, individuals and family offices. All other Category III FPIs are subject to same requirements as Category I and Category II FPIs
6	Position limit on Currency Derivative segment	FPIs in Category I have a higher position limit: Gross open position across all contracts shall not exceed 15% of the total open interest or maximum limit as specified for each currency pair whichever is higher	FPIs in Category II have a higher position limit: Gross open position across all contracts shall not exceed 15% of the total open interest or maximum limit as specified for each currency pair whichever is higher	FPIs in Category III have a lesser position limit: Gross open position across all contracts shall not exceed 6% of the total open interest or maximum limit as specified for each currency pair whichever is higher
7	Equity derivatives and Interest Rate Futures	FPIs in Category I shall have position limits as applicable to FPIs in the derivatives segment	FPIs in Category II shall have position limits as applicable to FPIs in the derivatives segment	FPIs in Category III shall have position limits similar to the Client level position limit, applicable in the derivatives segment
8	Trading through brokers	Transactions in Corporate Bond Market permitted without broker	Transactions in Corporate Bond Market permitted without broker	A Broker is required for corporate bond transactions

\* Category I investors are exempted from the payment of registration fees. However, in case of FPIs having common beneficial owner(s), the privilege of registration fee exemption will only be extended to one FPI and the rest will be liable to pay registration fees as applicable to Category II, except where the beneficial owner is an international/ multilateral agency such as World Bank and other Institutions, established outside India for providing aid, which have been granted privileges and immunities from payment of duties and taxes by the Central Government.

## 6.2. Permitted Investments for Foreign Investors

The below table summarises the types of investment instruments available to different categories of investors:

Market Segment	Instrument type	FPI	FDI	FVCI
Equity Market	Listed Equity	✓	✓*	✓*
	Unlisted Equity	No	✓	✓
	Preference shares	✓	✓	✓
	Warrants	✓	✓	✓
	Partly paid shares	✓	✓	No
	Fixed Income	Dated Government Securities	✓	No
	Treasury Bills	No	No	No
	Commercial Paper	No	No	No
	Certificate of Deposits	No	No	No
	Corporate Bonds – Non Convertible	✓	No	✓*
	Corporate Bonds – Convertible	✓*	✓	✓
	Corporate Bonds under default	✓	No	No
	Unlisted Corporate Bonds – Non Convertible***	✓	No	✓*
	Credit Enhanced Bonds	✓	No	No
Mutual Funds	Units of Mutual Funds	✓**	No	No
	Exchange Traded Funds (ETFs) (excluding gold ETFs)	✓	No	No
Derivative Contracts	Index Futures	✓	No	No
	Index Options	✓	No	No
	Stock Futures	✓	No	No
	Stock Options	✓	No	No
	Interest Rate Futures	✓	No	No
	Currency Derivatives	✓	No	No
	Cross-Currency Derivatives	✓	No	No
Others	Perpetual Debt instruments such as Tier I and Upper Tier II instruments of banks	✓	No	No
	Collective Investment Schemes	✓	No	No
	Asset Reconstruction Companies (ARC)	✓	✓	No
	Security Receipts issued by ARC/ Securitisation Companies	✓	No	No

Market Segment	Instrument type	FPI	FDI	FVCI
	Securities Lending and Borrowing (SLB)	✓	No	No
	Category I Alternative Investment Funds	No	✓	✓
	Category II Alternative Investment Funds	No	✓	No
	Category III Alternative Investment Funds	✓	✓	No
	Real Estate Investment Trusts	✓	✓	No
	Infrastructure Investment Trusts	✓	✓	No
	Securitised Debt	✓	No	No

\*Additional restrictions or conditions may be applicable specific to the asset class and investment route.

\*\* Units of short term investment schemes of mutual funds – Liquid/ Money market schemes with Fixed Maturity Plan (FMPs) less than 3 years – are not permitted. Investments in debt mutual funds will be reckoned under the corporate bond limits.

\*\*\*Unlisted Corporate Bonds are subject to end use restriction.

# Know Your Client (KYC) Framework

The introduction of the Categorisation model facilitated the adoption of SEBI and RBI prescribed risk based KYC, wherein, the documentation requirement will vary according to the category applicable to the Foreign Portfolio Investor (FPI). As can be seen in the table below, the documentation requirement is minimal for applicants in Category I, whereas exhaustive documentation requirement has been specified for Category III. The applicant needs to fill in the standard KYC form issued by SEBI and provide the required supporting documents as mentioned in the list below according to the Categories. Once the registration process is completed by the DDP, the custodian/ DDP will upload the below documents on the KRA portal for other market intermediaries to access and complete their KYC requirements. Apart from the KYC requirement stated below, each intermediary might have additional documentation requirement for conducting enhanced due diligence as per their internal policies.

As per the existing market norms, FATCA/ CRS self-certification is a requirement for account opening by all market intermediaries. Though it is not part of the standard KYC requirement, each intermediary may require the self-certification form prior to on-boarding a new client.

## 7.1. KYC for FPI

Document Requirement	Documentation	FPI Category – I	FPI Category – II	FPI Category – III
	Constitutive Docs	Required	Required	Required
	Proof of Address	Required – Power of Attorney (POA), mentioning the address, is acceptable as address proof	Required – POA, mentioning the address, is acceptable as address proof	Required – Address proof other than POA to be provided
Entity Level	PAN Card	Required	Required	Required
	Financials	Exempt*	Exempt*	Risk based – Financial data sufficient
	SEBI Registration Certificate	Required	Required	Required
	Board Resolution#	Exempt*	Required	Required

Document Requirement	Documentation	FPI Category – I	FPI Category – II	FPI Category – III
Senior Management (Whole Time Directors/ Partners/ Trustees etc.)	Bank letter for satisfactory banking relationship	Not required	Not required	Required
	KYC Form	Required	Required	Required
	List	Required	Required	Required
	Proof of Identity	Exempt*	Exempt*	Entity declares* on letterhead – full name, nationality and date of birth or photo-identity proof
	Proof of Address	Exempt*	Exempt*	Declaration on letter head*
	Photographs	Exempt	Exempt	Exempt*
Authorised Signatories	List and Signatures	Required – List of Global Custodian (GC) signatories can be given in case of POA to GC	Required – List of GC signatories can be given in case of POA to GC	Required
	Proof of Identity	Exempt*	Exempt*	Required
	Proof of Address	Exempt*	Exempt*	Declaration/ details on letterhead required*
	Photographs	Exempt	Exempt	Required/ Exempt (for RBI KYC)*
Ultimate Beneficial Owner (UBO)	List	Exempt*	Required – or declaration of no UBO holding over 25% in case of multi-investor entities	Required
	Proof of Identity	Exempt*	Exempt*	Required
	Proof of Address	Exempt*	Exempt*	Declaration/ details on letterhead required*
	Photographs	Exempt	Exempt	Exempt*

\* Not required while opening the bank account. However, FPIs concerned to submit an undertaking that upon demand by Regulators/ Law Enforcement Agencies the relevant document/s would be submitted to the bank.

CBDT has introduced Electronic Permanent Account Number (E-PAN) card. FPIs can share the E-PAN card with market intermediaries at the time of account opening thus ensuring compliance with the Know Your Client (KYC) norms.

**# Alternate documents in lieu of Board Resolution for KYC purposes**

- Power of Attorney granted to Global Custodian/ Local Custodian
- Prospectus/ Information Memorandum/ Offer Document/ Investment Management Agreement/ Regulatory Filings

Clients will have to comply with the KYC requirements as prescribed by SEBI and their KYC data must be uploaded to the KYC Registration Agency (KRA) system at the time of application as FPI.

**Additional Guidelines:**

- Custodians or Intermediaries like brokers with whom the client has contractual arrangement, have to upload all updated KYC information on the KRA portal on behalf of FPIs
- In case of non-submission of KYC documents, transactions will not be permitted for such investors
- Reliance on information available from reliable public sources (e.g. websites of Regulators, Exchanges, Self-Regulatory Organisations, Registrars) can be accepted. However, the copies of such documents must be sent to the Eligible Foreign Investor/ FPI to confirm the validity of the information. These documents should be attested by an authorised official of the intermediary specifying the (a) source of the document and (b) signature against the same. The documents submitted for KYC should be self-certified and attested by one of the below mentioned categories
- Notary Public, Manager of a Scheduled Commercial/ Co-operative Bank or Multinational Foreign Banks (Name, Designation and Seal should be affixed on the copy)
- In case of Non Resident Indians (NRIs), authorised officials of overseas branches of Scheduled Commercial Banks registered in India, Notary Public, Court Magistrate, Judge, Indian Embassy/ Consulate General in the country where the client resides are permitted to attest the documents
- Global Custodian banks
- If the address mentioned in the Power of Attorney is different from the address mentioned in the KYC form, an additional Proof of Address needs to be provided for the specified address
- Proof of address can include - utility bills or overseas bank statement dated within the last 2 months
- Periodic KYC: The KYC details once updated is also subject to a periodic review process as prescribed by the regulators from time to time

## 7.2. Foreign Direct Investment and Foreign Venture Capital Investor

Document Type	Document	Corporate	Partnership firm	Trust
Entity Level	Constitutive Docs	Required – Copies of the Memorandum and Articles of Association and certificate of incorporation	Required – Copy of Partnership Deed Certificate of registration (If registered)	Copy of Trust Deed Certificate of Registration for registered Trusts
	Proof of Address	Required	Required	Required
	PAN Card	Required	Required	Required



Document Type	Document	Corporate	Partnership firm	Trust
Entity Level	Financials	Copy of the balance sheets for the last 2 financial years (to be submitted every year)	Copy of the balance sheets for the last 2 financial years (to be submitted every year)	Copy of the balance sheets for the last 2 financial years (to be submitted every year)
	SEBI Registration Certificate	SEBI registration required for FVCI investors		
	Board/ Partner/ Member Resolution or any other equivalent document permitting investments in the securities market	Required	Required	Required
	KYC Form – Annexure K	Required	Required	Required
Senior Management (Whole Time Directors/ Partners/ Trustees etc.)	List	Required	Required	Required
	Proof of Identity	Required	Required	Required
	Proof of Address	Required	Required	Required
	Photographs	Required	Required	Required
Authorised Signatories	List and Signatures	Required	Required	Required
	Proof of Identity	Required	Required	Required
	Photographs	Required	Required	Required
Ultimate Beneficial Owner (UBO)/ Shareholding Pattern	List	Required– until the Ultimate Beneficial Owner	Required– until the Ultimate Beneficial Owner	Required– until the Ultimate Beneficial Owner
	Proof of Identity	Required if UBO with substantial percentage identified	Required if UBO with substantial percentage identified	Required if UBO with substantial percentage identified

# Investment Guidelines

FPIs are permitted to invest in the following instruments:

Equity Market	Fixed Income Market	Derivative Contracts	Other
<ul style="list-style-type: none"> <li>– Listed Equity Shares</li> <li>– Partly Paid Equity Shares</li> <li>– Preference shares</li> <li>– Warrants</li> <li>– Units of Mutual Funds</li> </ul>	<ul style="list-style-type: none"> <li>– Dated Government Securities having residual maturity of more than three years</li> <li>– Corporate Bonds and Debentures (Listed and Unlisted)</li> <li>– Non-Convertible Debentures (NCDs)/ bonds which are under default</li> <li>– Public Sector Undertaking (PSU) Bonds</li> <li>– Credit Enhanced Bonds</li> <li>– Security Receipts</li> </ul>	<ul style="list-style-type: none"> <li>– Index Futures</li> <li>– Index Options</li> <li>– Stock Futures</li> <li>– Stock Options</li> <li>– Interest Rate Futures</li> <li>– Currency Derivatives</li> </ul>	<ul style="list-style-type: none"> <li>– Perpetual Debt instruments such as Tier I and Upper Tier II instruments of banks</li> <li>– Collective Investment Schemes</li> <li>– Indian Depository Receipts</li> <li>– Asset Reconstruction Companies</li> <li>– Securities Lending and Borrowing</li> <li>– Real Estate Investment Trusts</li> <li>– Infrastructure Investment Trusts</li> <li>– Category III Alternative Investment Funds</li> </ul>

Notes:

FPIs are not allowed to invest in the following asset classes:

- Certificates of Deposit
- Commercial Papers
- Treasury Bills
- Corporate bonds and Government Securities having residual maturity of less than 3 years
- Units of liquid mutual funds and money market mutual funds
- Overnight and term money markets
- Category III AIF investing in commodities market

FPI investments in Unlisted Corporate Bonds is subject to end use restriction

## 8.1. Equity

### 8.1.1. Foreign Ownership Limit

The following foreign ownership limits exist for investment by FPIs in the shares of companies listed on any stock exchange in India:

- Each FPI (investing on its own) holding in equity shares should always be below 10% of the paid-up capital of a company. The 10% investment limits will be applicable across investments of ADR/ GDR, FDI, FPI, FVCI, in addition to Participatory Notes/ ODI where the beneficial owner is common. However, in case of ADR/ GDR, if the investor holding the ADR/ GDR has converted them into underlying equity shares, such converted shares only will be taken into account for computation of 10% investment limits
- The Depositories will monitor holdings of FPIs at an entity level. Where multiple FPIs belong to the same investor group, (as defined below in section 8.1.2.) the investment limits of all such FPIs shall be clubbed at the investment limit as applicable to a single FPI. This shall be the responsibility of the depositories. The DDP shall report the details of investor group(s) to the depositories
- The maximum permissible investment in the shares of a company, jointly by all FPIs together is 24% of the paid-up capital of that company
- This limit of 24% can be raised up to the FDI limits specified for that particular sector, subject to approval from the shareholders and the RBI
- In the case of public sector banks, the foreign ownership limit is 20%. In case of private sector banks, acquisition beyond 5% by any investor, foreign or domestic, would require prior RBI approval
- Any acquisition in excess of 1% by FPIs in Credit Information Companies (CICs) will have to be reported to RBI as a mandatory requirement
- FPIs can acquire or hold not more than 5% of the paid-up equity share capital in a recognised stock exchange or recognised clearing corporation. Any acquisition exceeding 2% of the paid up equity share capital of a recognised stock exchange or recognised clearing corporation needs to be approved by the SEBI Board within 15 days of the acquisition
- Foreign Portfolio Investors (FPIs) have been permitted to acquire shares in stock exchanges, clearing corporations and depositories through initial allotment

### 8.1.2. Monitoring of Investment Limits

- The RBI will monitor FPI investments under PIS only at 24% or at the applicable sectoral cap/ statutory ceiling only. A company, which has fixed an intermediate foreign ownership ceiling (i.e. between 24% and the overall FDI cap for that sector), have been delegated the responsibility of ensuring that the intermediate ceiling is not breached by an FPI
- It is mandatory for all foreign investors (FPIs/ NRIs) to declare their holdings to the RBI. The AD Category I Bank is responsible for reporting the details of foreign investments to the RBI daily
- This reporting ensures that the RBI monitors the investment limits by foreign entities in the Indian companies
- If a company reaches the caution limits specified above, the FPI wanting to buy these stocks should inform the DDP who in turn will approach the RBI for seeking permission to buy these shares
- Approval for investments in stocks which have reached the trigger limits is given by RBI on a case to case basis and the FPI is expected to purchase the shares within 3 days of receipt of the RBI approval beyond which the approval stands cancelled
- Only inter-FPI trades can be entered into if the overall ownership limit is reached. Such trades need to be reported separately to the RBI
- Clubbing of limits: Investor Group
  - The investment limits of all FPIs belonging to the same investor group needs to be below 10% of the issued capital of the investee company at all times. The depositories shall club the investment limits and ensure that combined holdings of all these FPIs do not exceed 10% of the issued capital of the investee company at any time
  - For the purpose of ascertaining investor group, the concerned DDPs shall consider all such entities having direct or indirect common shareholding/

- beneficial ownership/ beneficial interest of more than 50%, as belonging to same investor group. The DDP shall report the details of investor group(s) to the depositories
- FPIs shall provide details of all entities having direct or indirect common shareholding/ beneficial ownership/ beneficial interest, of more than 50%, as a part of their group, for submitting this data. The common beneficiary owner(s) shall be identified on the basis of (a) shareholding, (b) voting rights (c) any other forms of control, in excess of 50%, across FPIs, if any
  - In case the same set of ultimate beneficial owner(s) invest through multiple entities, such entities shall be treated as part of same investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single portfolio investor
  - Tracking of the limits by depository: Transactions undertaken by FPIs will be reported to the regulator as well as to the depositories on a daily basis in the form and manner as prescribed from time to time. The depositories shall club the investment limits of FPIs belonging to same investor group to ensure that combined holdings of all FPIs belonging to the same investor group remains below 10% of the issued capital of the investee company at any time

## 8.2. Debt Investments

FPIs are permitted to invest in the debt market only within the permissible limits.

RBI, in its Fourth Bi-monthly policy statement for the year 2015-16 had announced that the limit in Central government securities would be raised to 5% of the total outstanding securities, by March 2018. To this end, the limits are being gradually raised every quarter. The announcement for the release of the next tranche of limits for investment in government securities is expected by January 2018.

The overall limits for investment by FPIs in Government securities and corporate bond is as given below:

Type of Limit	Category	Current Limit in INR billion
Central Government Securities	All Categories	1,897
	Long Term FPIs	603
State Development Loans	All Categories	300
	Long Term FPIs	93
Corporate Debt	All Categories	2,178.22*
	Long Term FPIs in Infrastructure sector	95

\*Corporate debt limit of INR 2,273.22 billion for FPIs includes the below sublimit for Corporate Debts as follows:

- Credit enhanced bond – INR 239.53 billion
- Unlisted Corporate Debt and Securitised Debt – INR 350 billion

To harmonise the debt limits in SDLs with Central government securities, RBI has revised the format of SDL limits, which would be announced as limit available to General FPI category and Long Term FPI category. RBI has also discontinued the practice of transfer of unutilised limits under Long Term FPI category to General Category and announced that further release of limits for Central government securities or SDLs would be divided as follows:

- 75% for 'Long-Term' category of FPIs and
- 25% for 'General' category of FPIs
- RBI, in its third monetary policy for 2017-18 has announced the introduction of a separate limit of INR 50 billion for undertaking long position in Interest Rate Futures. Formal notification on the same is awaited. Once this becomes effective, the limits prescribed for investment by FPIs in government securities would be exclusively available for acquiring government securities
- A security-wise limit of 20% of the amount outstanding under each Central Government security has been set with regard to FPI investments in Central Government securities. Accordingly:
  - The Central Government securities in which the aggregate FPI investment has reached 20% of the amount outstanding would be placed in a negative list and fresh investments in these securities would not be permitted
- The monitoring of security-wise limits for FPIs investing in Central Government Securities will be on the Negotiated Dealing System – Order Matching (NDS-OM)

### 8.2.1. Government Securities Limit auction

Foreign investors are allowed to invest in government debt without purchasing debt limits till the overall investment reaches 90%, after which the auction mechanism would be initiated for allocation of the remaining limits. Upon breach of the 90% trigger limit, limits are to be allocated via bidding on stock exchanges.

In order to ensure that the threshold limit of 90% of the allocated investment limit is not breached, SEBI has re-iterated the following:

- If the limit utilisation as displayed on the depository website is below 90%, the FPIs are required to ensure that no trade is executed/ agreed which may potentially breach the 90% limit
- The custodian has to ensure that any trade executed either by a single FPI or multiple FPIs serviced by it are confirmed only to the extent that the limit of 90% is not breached. Accordingly, custodians will not be confirming trades in Government Debt on behalf of the FPIs if it is likely to breach the threshold limit
  - In case of receipt of multiple buy trade instructions potentially breaching the 90% threshold limit, custodian shall prioritise the confirmation based on trade settlement instructions received from their FPI clients or global custodian, on a First In First Out basis (FIFO) basis
  - Only buy deals will be considered for the limit monitoring process described above

The status of utilisation of debt limits as well as the monitoring of investments by FPIs is done by the depositories.

Details of FPI debt utilisation can be accessed on a daily basis on the depository's website:

- National Securities Depository Limited (NSDL):  
<https://www.fpi.nsdsl.co.in/web/Reports/ReportDetail.aspx?RepID=1>
- Central Depository Securities (India) Limited:  
<https://www.cdslindia.com/publications/FIIs.aspx>

Custodians shall provide necessary data to depositories on a daily basis for this purpose. The position published on the website is the End of Day position as of that date.

SEBI has issued the following norms to govern the bidding sessions on stock exchanges, for securing limits for investment in Government, upon breach of the 90% trigger limit.

- The Depositories – National Securities and Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL), shall direct the DDPs to halt all FPI purchases in Government Securities where the 90% trigger limit is breached
- The Depositories shall also inform stock exchanges regarding the unutilised debt limits for conducting the auction. Upon receipt of information from the depositories, the stock exchanges shall conduct an auction for the allocation of unutilised debt limits on the following working day
- Auctions are held alternately on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE)

- The auction would be held only if the free limit is greater than or equal to INR 1 billion
- The auction mechanism shall be discontinued and the limits shall once again be available for investment on tap when the debt limit utilisation falls below 85%
- SDL, both under the Long Term and All Categories, are not under auction mechanism and investments are available on-tap

### 8.2.2. Security-wise limit monitoring on NDS-OM for FPI investment in Government Securities

RBI has shifted limit monitoring for 20% limit on individual securities, to NDS-OM system.

Effective January 18, 2016, reporting of purchase transactions in Central Government securities on NDS-OM in which the aggregate FPI investment reaches 20% of the amount outstanding will be restricted by NDS-OM system on real time basis.

As a result of limit monitoring on real time, it is possible that securities which were not in the negative list at the beginning of the day may enter the negative list during the day due to the purchase transaction reported on NDS-OM. Any purchase transaction received post breaching of limit will be restricted from being reported on the system. Hence, it is advisable to send the deal instructions as soon as the deal is executed.

The depositories (NSDL and CDSL) have put in place the necessary systems for daily reporting by the custodians of the FPIs and also disseminate on their websites the negative investment list, the aggregate security-wise holdings by FPIs and the coupon investment data along with the daily debt utilisation data.

### 8.2.3. Re-investment of Government Securities bought on tap

FPIs have been permitted to re-invest Government securities that were bought when the limits were available on tap subject to the following norms:

- FPIs shall be permitted to buy government securities on same day upon any sale/ redemption or maturity of existing government securities bought when the limits were available on tap
- This facility shall be available to all FPIs under the general category as well as to long term FPI category
- The buy transaction shall be executed only after the confirmation/ settlement of sell transactions. The value of buy transaction should not exceed the value of sell transaction
- The benefit of buy transactions will be available only to the same FPI having a confirmed/ settled sale transaction executed on the same day
- In case of FPIs registered under the Multiple Investment Managers (MIMs) structure, the benefit of re-investment on the same day can be utilised by the other FPI registered under the same MIM structure

As per the existing norms, FPIs are permitted to report their buy deals upto 1 pm on T+1 day. However, if the FPI intends to utilise the benefit of re-investment of proceeds available from sale of government securities that were bought on tap, the reporting of such deals needs to be done to the custodian on T day itself.

### 8.2.4. Re-investment of coupons in Government Securities

- FPIs have been permitted to reinvest the coupons earned on their existing investments in Government Securities, even when the limits are fully utilised. FPIs will have an investment period of 5 working days from the date of receipt of the coupon
- These investments by FPIs in Government Securities have been kept outside the applicable limits reset in INR. Any proceeds arising out of sale/ redemption of Government Securities acquired in this manner from coupon receipts, shall be eligible for a re-investment period of 5 working days
- Further coupons earned on government securities acquired in this manner shall also have the same facility



- All the other existing conditions for investments by FPIs in Government Securities will remain unchanged for this additional facility as well
- The coupons invested in purchasing Government securities shall be classified into a separate investment category which is over and above the allocated Government debt limit
- The depositories shall be responsible for disseminating the coupon investment data along with the daily debt utilisation data on the basis of daily transactions reported by the custodians of the FPIs

### 8.2.5. Utilisation of G-sec limit by FPIs upon their re-categorisation

SEBI has clarified regarding utilisation of G-sec limit by FPIs upon their re-categorisation as long term FPI or vice versa

- The existing G-sec holdings (i.e. prior to re-categorisation of the FPI/ deemed FPI) will not be re-classified
- Pursuant to the re-categorisation of the FPI/ deemed FPI, all future G-sec investments will be reckoned against the appropriate debt limits, as applicable
- The FPI/ deemed FPI shall have re-investment period as applicable at the time of the initial investment

### 8.2.6. Corporate Debt (INR denominated bonds issued onshore by Indian Corporates)

- The limits for Foreign Portfolio Investment (FPI) in Corporate Debt Securities have been reset in INR as against the existing limit of USD 51 billion. Prior to October 03, 2017, this amount was reset to INR 2,443.23 billion and had been redefined as combined corporate debt limit for all foreign investments in INR denominated bonds, issued onshore and offshore by Indian corporates
- Effective October 03, 2017, INR denominated bond issued overseas has been excluded from the total limit allocated for FPI investments in corporate bonds. Accordingly the amount of INR 440.01 billion arising from exclusion of INR denominated bonds issued overseas will be released for FPI investment in corporate bonds in tranches over the next two quarters. Issue of INR denominated corporate bonds will form a part of the External Commercial Borrowings (ECBs) and will be monitored accordingly. Eligible Indian entities proposing to issue INR denominated corporate bonds may approach Foreign Exchange Department, Reserve Bank of India, Central Office, Mumbai

The limits would be released as follows:

- October 03, 2017 – INR 270 billion
- January 01, 2018 – INR 170.01 billion

Further, INR 95 billion of the limit released in each quarter would be reserved for Long Term FPIs for investment in infrastructure sector. The definition of 'Infrastructure' shall be the same as defined under the Master Direction on ECBs issued by the Reserve Bank of India. Long term FPIs will continue to be eligible to invest in sectors other than infrastructure.

The limits released over the next 2 quarters would accordingly, be as under:

Sr. No	Limit	Limit released on October 03, 2017 (in INR billion)	Limit released on January 01, 2017 (in INR billion)
1	Limit released	270	170.01
2	Limit reserved for Long Term FPIs in Infrastructure sector	95	95
3	Balance Limit available for all FPIs(2)-(1)	175	75.01
	Total Limit released	270	170.01



The table below summarises the revised limits for FPIs in Corporate Bonds effective October 03, 2017

Sr. No	Details	Amount in INR billion
1	FPI limits for corporate bonds (including masala bonds) prior to October 03, 2017	2,443.23
2	INR denominated offshore bonds	440.01
3	Revised FPI limits after excluding INR denominated bonds issued overseas (2-1)	2,003.22
4	Additional limit released on October 03, 2017 for utilisation	270.00
5	Total FPI limit for investment in corporate bonds (3+4)	2,273.22
6	Limits reserved for Long term FPIs for investment in infrastructure sector only	95.00
7	FPI corporate bonds investment limit (5-6) available to all FPIs including long term FPIs	2,178.22

- The revised corporate debt limit of INR 2,178.22 billion shall be available 'on-tap' for investment till the utilised limit reaches 95% of the aggregate available limit. Once the limit crosses 95%, further investments can be made only after acquiring limits through auctions conducted on the stock exchanges

### 8.2.7. Corporate Bonds under default

RBI has permitted Foreign Portfolio Investors (FPIs) to invest in Corporate Bonds which are under default, subject to following conditions:

- FPIs can acquire Non-Convertible Debentures (NCDs)/ bonds which are under default, either fully or partly, with the repayment of principal on maturity or principal installment, in the case of an amortising bond (FPIs shall be guided by RBI's definition of an amortising bond in this regard)
- The revised maturity period of such NCDs/ bonds, restructured based on negotiations with the issuing Indian company, should be 3 years or more
- The FPI which propose to acquire such NCDs/ bonds should disclose to the Debenture Trustees, the terms of their offer to the existing debenture holders/ beneficial owners from whom they are acquiring
- Such investment will be within the overall limit prescribed for corporate debt from time to time

### 8.2.8. Unlisted Non-convertible debentures/ bonds

FPIs are permitted to invest in Unlisted non-convertible debentures/ bonds issued by an Indian company, subject to:

- Guidelines issued by Ministry of Corporate Affairs, Government of India
- Minimum residual maturity of 3 years
- Should be held in dematerialised form
- End use-restriction on investment in real estate business, capital market and purchase of land. The custodian banks of FPIs shall ensure compliance with this condition

Definition of Real Estate business: Dealing in land and immovable property with a view to earning profit there from and does not include development of townships, construction of residential commercial premises, roads or bridges, educational institutions, recreational facilities, city and regional level infrastructure, townships. Further, earning of rent income on lease of the property, not amounting to transfer, will not amount to real estate business.

### 8.2.9. Securitised debt instruments

FPIs are permitted to invest in securitised debt instruments including:

- Any certificate or instrument issued by a special purpose vehicle (SPV) set up for securitisation of asset(s) with banks, Financial Institutions (FIs) or Non-Banking Financial Companies (NBFCs) as originators; and
- Any certificate or instrument issued and listed in terms of the SEBI (Public Offer and Listing of Securitised Debt Instruments) Regulations, 2008

Investment by FPIs in securitised debt instruments shall not be subject to the minimum 3 year residual maturity requirement

Investment by FPIs in the unlisted corporate debt securities and securitised debt instruments shall not exceed INR 350 billion within the extant investment limits prescribed for corporate bond

### 8.2.10. Investment in credit enhanced bonds

Credit enhancement refers to a method whereby a company attempts to improve its debt or credit worthiness. Through credit enhancement, the lender is provided with reassurance that the borrower will honour the obligation through additional collateral, insurance, or a third party guarantee. Credit enhancement reduces credit/ default risk of a debt, thereby increasing the overall credit rating and lowering interest rates.

The guidelines for investment in credit enhanced bonds are as given below:

- FPIs are allowed to freely invest in credit enhanced bonds until the aggregate investments reach 90% of INR 239.53 billion (90% of USD 5 billion i.e. USD 4.5 billion)
- The Custodian-DDP shall provide transaction details on a daily basis, to their respective depositories – NSDL and CDSL on the same day i.e. the day on which the transaction is carried out, before the time stipulated by the depositories
- The depositories shall jointly publish the aggregate investment of FPIs in credit enhanced bonds, on a daily basis
- When the aggregate investments of all the FPIs reach 90% of the investment limit, the same shall be published by the depositories on their websites as well as informed to the Custodians and stock exchanges. No fresh purchases shall be allowed without prior approval of the depositories
- Additional purchases shall be allowed only post receipt of approval from the depositories
- The FPI shall request for prior approval to the concerned depository through the Custodians specifying therein the name of the FPI, PAN and other unique identification numbers relating to that FPIs
- The concerned depository shall provide the details of prior approval request received by it to the other depository
- Approval shall be provided by the depository, post market hours on a first-come-first-served basis in co-ordination with the other depository, based on time of receipt of the prior approval requests by the depositories. The validity of the approval shall be for the next 2 trading days
- In case the aggregate holding of the FPI exceeds overall investment limit, the depositories shall jointly notify the respective Custodians-DDPs regarding the breach along with the names of the FPIs due to whom the limits have been breached
- In case the aggregate holding of the FPIs exceeds overall investment limit for whatsoever reason, the FPI due to whom the limit is breached shall mandatorily divest excess holdings within 7 working days of such breach being notified by depositories to the Depository Participant (DP)
- The depositories shall also inform the custodians and stock exchanges when aggregate investments of all the FPIs fall below 90% of the investment limits
- The Custodians-DDPs shall obtain necessary authorisation from the FPIs at the time of account opening for divestment of such excess holdings

### Auction Mechanism for Corporate Debt Limit

SEBI has introduced the auction mechanism for Corporate Debt Limit. The auction mechanism would trigger when the utilised debt limit reaches 95% of the total available limit. The market shall continue to be under auction mechanism till the utilised limit remains above 92%. The auction mechanism will be discontinued and the limits will be once again available for investment on tap when the debt limit utilisation falls below 92%. The reinvestment facility upon sale/ redemption will be terminated and cannot be availed for the same limits when the utilisation crosses 95% again.

In the event the overall FPI investment in Corporate Debt exceeds 95%, the following procedure shall be followed:

- The depositories, National Securities Depository Limited (NSDL) and Central Depository Services Limited (CDSL) will direct the custodians to halt all FPI purchases in corporate debt securities
- The depositories will inform the exchanges, National Stock Exchange (NSE) and Bombay Stock Exchange (BSE) regarding the unutilised debt limits for conduct of auction. Upon receipt of information from the depositories, the exchange (starting with BSE) will conduct an auction for the allocation of unutilised debt limits on the 2nd trading day from the date of receipt of intimation from the depositories. Thereafter, the auction will be conducted alternately on NSE and BSE
- The auction will be held only if the free limit is greater than or equal to INR 1 billion. If the free limit remains less than INR 1 billion for 15 consecutive trading days, then an auction shall be conducted on the 16th trading day to allocate the free limit

### 8.2.11. Comparison of the Auction Mechanism for obtaining limits in Corporate Debt and Government Securities

Topic	Corporate Debt	Government Securities
<b>Similarities</b>		
Duration of bidding	The bidding shall be conducted for 2 hours from 3:30 p.m. – 5:30 p.m.	The bidding shall be conducted for 2 hours from 3:30 p.m. – 5:30 p.m.
Access to Platform	Trading Members or custodians	Trading Members or custodians
Minimum bid	INR 10 million	INR 10 million
Maximum bid	One-tenth of free limit being auctioned	One-tenth of free limit being auctioned
Ticket Size	INR 10 million	INR 10 million
Allocation Methodology	Price time priority	Price time priority
Pricing of bid	Minimum flat fee of INR 1000 or bid price whichever is higher	Minimum flat fee of INR 1000 or bid price whichever is higher
Auction Platform	Alternating between BSE and NSE	Alternating between BSE and NSE
Maximum limit	A single FPI/ FPI Group cannot bid for more than 10% of the limits being auctioned	A single FPI/ FPI Group cannot bid for more than 10% of the limits being auctioned
<b>Differences</b>		
Auction Trigger	Utilised Limit crosses 95%	Utilised Limit crosses 90%
Discontinue Auction	Utilised Limit falls below 92%	Utilised Limit falls below 85%

Topic	Corporate Debt	Government Securities
Minimum free limit availability for auction	Free limit is greater than or equal to INR 1 billion. However, if the free limit remains below INR 1 billion for 15 consecutive trading days, auction will be conducted on 16th trading day	Free limit is greater than or equal to INR 1 billion
Utilisation Period	Time period for investing in debt securities using the allotted limits will be 10 trading days. Limits not utilised within 10 trading days would come back to the pool of free limits	Time period for investing in securities using the allotted limits will be 15 days. Limits not utilised within 15 days would come back to the pool of free limits
Re-investment period in case of Sale/ Redemption	Upon sale or redemption of debt, the FPI will have a re-investment period of 2 trading days. If reinvestment is not made within 2 trading days, then the limits will be clubbed in the pool of free limits	Upon sale or redemption of debt, the FPI will have a re-investment period of 5 working days. If reinvestment is not made within 5 working days, then the limits will be clubbed in the pool of free limits
Subsequent Auctions	Subsequent auctions would be held 12 trading days from the date of the last auction, subject to the condition that the free limit is greater than or equal to INR 1 billion	Subsequent auctions would be held 20 days from the date of the last auction, subject to the condition that the free limit is greater than or equal to INR 1 billion and the debt limit utilisation continues to be above 85%

### 8.2.12. Security Receipts issued by Securitisation Companies

RBI has amended the Foreign Exchange Management Act (FEMA) permitting foreign institutional investors Foreign Portfolio Investors (FPIs) and long term FPIs (Sovereign Wealth Funds, Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks) to invest in Security Receipts issued by Securitisation Companies. As per the existing SEBI regulations, FPI investment in Security Receipts issued by Asset Reconstruction Companies is reckoned with in the existing FPI limit on corporate bonds. While SEBI notification on FPI investment in Security Receipts issued by Securitisation Companies is awaited, we understand that the investment in Security Receipts issued by Securitisation Companies will also be reckoned under the existing FPI limits for corporate bonds

### 8.2.13. INR Denominated Bonds Issued Offshore (Masala Bonds)

The International Finance Corporation (IFC), investment arm of the World Bank, in November 2014, issued bonds worth INR 10 billion to fund infrastructure projects in India. These bonds were listed on the London Stock Exchange (LSE) and IFC named them Masala Bonds (the Indian word for spices) to evoke the culture and cuisine of India. Masala Bonds are INR denominated bonds issued offshore.

The framework for issuance of Rupee denominated bonds overseas enables eligible resident entities to issue only plain vanilla Rupee denominated bonds, overseas. The bonds can be

issued in Financial Action Task Force (FATF) compliant financial centres. The bonds can be either placed privately or listed on exchanges as per host country regulations.

The RBI has notified the following norms with respect to investment in INR denominated bonds issued overseas:

- The maximum amount which can be borrowed by an entity by issuance of INR denominated bonds overseas in a financial year under the automatic route has been reset at INR 50 billion as against the existing limit of USD 750 million per annum
- Proposals to borrow beyond INR 50 billion in a financial year will require prior approval of the Reserve Bank
- The INR denominated bonds can only be issued in a country and can only be subscribed by a resident of a country
  - that is a member of Financial Action Task Force (FATF) or a member of a FATF-Style Regional Body; and
  - whose securities market regulator is a signatory to the International Organisation of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to bilateral Memorandum of Understanding with the Securities and Exchange Board of India (SEBI) for information sharing arrangements; and
  - Should not be a country identified in the public statement of the FATF as:
    - A jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
    - A jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies
- Multilateral and Regional Financial Institutions where India is a member country will also be considered as recognised investors
- Related party within the meaning as given in Ind-AS (Indian Accounting Standards) 24 cannot subscribe or invest in or purchase such bonds
- Indian banks, subject to applicable prudential norms, can act as arranger and underwriter. In case of an Indian bank underwriting an issue, its holding cannot be more than 5% of the issue size after 6 months of issue. However, underwriting by overseas branches/ subsidiaries of Indian banks for issuances by Indian banks will not be allowed
- The all-in-cost ceiling for such bonds will be 300 basis points over the prevailing yield of the Government of India securities of corresponding maturity
- Minimum original maturity period will be as follows:
  - Minimum maturity of 3 years, for Masala Bonds raised upto USD 50 million equivalent in INR per financial year
  - Minimum maturity of 5 years, for Masala Bonds raised above USD 50 million equivalent in INR per financial year
- Borrowers issuing INR denominated bonds overseas should incorporate clause in the agreement/ offer document so as to enable them to obtain the list of primary bond holders and provide the same to the regulatory authorities in India as and when required. The agreement/ offer document should also state that the bonds can only be sold/ transferred/ offered as security overseas subject to compliance with aforesaid IOSCO/ FATF jurisdictional requirements
- Indian banks too are allowed to raise finance through this route

#### Available route

Proposal of borrowing by eligible Indian entities for issuance of these bonds will be examined at Foreign Exchange Department, Central Office, Mumbai and such request should be forwarded through AD bank only. Issuance of Rupee denominated bonds overseas will be within the applicable ECB guidelines.

#### Eligible borrowers

Any corporate or body corporate is eligible to issue such bonds. REITs and INVITs coming under the regulatory framework of the SEBI are also eligible.

#### End-use Restriction

The proceeds of the borrowing can be used for all purposes except for the following:

- Real estate activities other than development of integrated township/ affordable housing projects
- Investing in capital market and using the proceeds for equity investment domestically
- Activities prohibited as per the foreign direct investment guidelines;
- On-lending to other entities for any of the above purposes; and
- Purchase of Land

#### Conversion rate

Rupee conversion shall be the market rate on the date of settlement for the purpose of transactions undertaken for issue and servicing of the bonds.

#### Hedging

The overseas investors are eligible to hedge their exposure in Rupee through permitted derivative products with AD Category I banks in India. The investors can also access the domestic market through branches/ subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence on a back to back basis.

#### Reporting

AD Category I banks should report to the Foreign Exchange Department, External Commercial Borrowings Division, the figures of actual drawdown(s)/ repayment(s) by their constituent borrowers quoting the related loan registration number. Such reporting by email shall be made on the date of transaction itself.

#### Investment Norms

- Trades in securitised debt and in corporate bonds between specified entities (including FIs/ sub-accounts/ FPIs), settle through the National Securities Clearing Corporation Ltd (NSCCL) or the Indian Clearing Corporation Limited (ICCL) on a DVP1 basis
- FPIs are not permitted to make any investments in debt instruments having an optionality clause exercisable in less than 3 years, even if the initial/ residual maturity of the instrument is 3 years or more
- FPIs are permitted to invest in amortised debt instruments provided the duration of the instrument is 3 years and above:
  - Transaction in Corporate Bond Markets by Category I and Category II FPIs and transactions on the Electronic Book Provider (EBP) platform of the recognised stock exchanges can be carried out without stock brokers as intermediaries

FPIs permitted to trade Government securities (G-Sec) in the secondary market through the primary members of Negotiated Dealing System-Order Matching (NDS-OM) including the web-module

### 8.3. REITs, InvITs and AIFs

Foreign Portfolio Investors (FPIs) have been permitted to invest in units of:

- Real Estate Investment Trusts (REITs)
- Investment Infrastructure Trusts (InvITs) and
- Category III Alternative Investment Funds (AIFs) except those investing in commodities derivatives market
- FPIs have been permitted to hold upto 25% stake in a Category III AIF

### 8.4. General Investment Restriction

- Total FPI portfolio investment in a company is capped at 24% of the FDI limit specified for the particular sector
- All secondary market operations can be done only at the prevailing prices through the recognised brokers on the stock exchanges except for government securities and corporate bonds (applicable to Category I and II) which can be bought directly from the secondary market without the involvement of a broker
- Prevailing regulations do not permit FPIs to avail overdraft facilities. FPIs have to fund their account or maintain adequate cash balances to meet payment obligations to the exchanges or other counterparties
- Derivatives trading by FPIs are subject to the position limits specified for FPIs
- Securities lending and borrowing transactions will be subject to limits



- Existing investments in unlisted companies purchased under the erstwhile FII route and still held by FPI after an Initial Public Offer (IPO)/ listing of the issuer company will be subject to a lock-in for the same period as applicable to a FDI holding such shares, under the existing FDI policy of the Government
  - FPIs are not allowed to engage in naked short selling. FPIs may short sell equity shares, provided they have borrowed securities under the SEBI securities borrowing and lending scheme and deliver the shares to the clearing corporation on settlement date. Further, FPIs are permitted to borrow securities only for delivery into short sales
  - Free of Payment Asset Transfer/ Cash Transfer is not allowed in India without approval from SEBI/ RBI respectively. SEBI has clarified that approval will not be granted if:
    - The transferor entity is domiciled in tax-favourable jurisdictions such as Mauritius, Singapore etc. and the transferee entity is domiciled elsewhere, and it appears that the request is made to circumvent tax liability
    - The transferor and the transferee entities had not declared their common beneficial ownership initially and the common FPI grouping details being maintained by depositories were not updated accordingly
  - Each FPI is allowed to open only one cash, securities and depository account with a single custodian (Multiple accounts are not allowed)

An FPI can hold or deliver securities only in dematerialised form. If any shares are held in non-dematerialised form, before the commencement of these regulations, those can continue to be held in non-dematerialised form, if such shares cannot be dematerialised.

## 8.5. Derivatives

FPIs are allowed to invest in derivatives traded on a recognised stock exchange. Derivatives include Index Futures, Index Options, Options on individual stocks, Stock futures, Interest Rate Derivatives, Currency Derivatives.

### Investment Position limits:

- FPIs in Category I and II shall have position limits as applicable to trading member in the derivatives segment
- FPIs in Category III shall have position limits similar to the Client level position limit, applicable in the derivatives segment

### Trading Member-wise Position Limits

	Index options	Index futures	Stock options and futures
FPI Level (Cat I and II)	INR 5 billion or 15% of the total open interest in the market in equity index options, whichever is higher. This limit is applicable on open positions in all options contracts on a particular underlying index	INR 5 billion or 15% of the total open interest of the market in index futures, whichever is higher. This limit is applicable on open positions in all futures contracts on a particular underlying index	The combined futures and options position limit shall be 20% of the applicable Market Wide Position Limit (MWPL)

### Client Level Position Limits (FPI Cat III)

The gross open position for each client, across all the derivative contracts on an underlying, should not exceed:

- 1% of the free float market capitalisation (in terms of number of shares) or
- 5% of the open interest in all derivative contracts in the same underlying stock (in terms of number of shares) whichever is higher.



Client level position limits underlying-wise, are available to members on NSE's website.

### 8.5.1. Interest Rate Futures (IRFs) and Interest Rate Options

FPIs can also invest in Exchange traded cash settled Interest Rate Futures.

Currently available IRFs are:

- 91 day Treasury Bills (FPIs cannot invest in these as investment in treasury bills is prohibited for FPIs)
- 6 year Government of India security
- 10 year Government of India security
- 13 year Government of India security

#### Position Limits for IRF contracts (Government of India security)

- Client/ Category III FPI: the gross open positions of the client across all contracts within respective maturity buckets shall not exceed 3% of the total open interest or INR 2 billion, whichever is higher
- Trading Member/ Category I and II FPI: The gross open positions of the trading member across all contracts within respective maturity buckets shall not exceed 10% of the total open interest or INR 6 billion, whichever is higher
- Additional restriction for FPIs: the total gross short (sold) position of each FPI in IRF shall not exceed its long position in the government securities and in Interest Rate Futures, at any point in time. The total gross long (bought) position in cash and IRF markets taken together for all FPIs shall not exceed the aggregate permissible limit for investment in government securities for FPIs
- Position limit linked to total open interest will be applicable at the time of opening a position. Such positions would not be required to be unwound immediately by the market participants in the event of a drop of total open interest in IRF contracts within the respective maturity bucket
- Stock exchanges will direct the market participants to bring down their positions in order to comply with the applicable position limits within prescribed time
- Market participants will not be allowed to increase their open positions, or create new position in IRF of the respective maturity bucket, till they comply with applicable limits

FPIs are required to ensure compliance with the above limits.

RBI has notified the introduction of Interest Rate Options. Effective January 31 2017, all entities including Foreign Portfolio Investors with underlying interest rate risk can participate as users for hedging their underlying risk.

Interest Rate Options are permitted on exchanges authorized by SEBI as well as in the Over-the-Counter (OTC) market. Exchanges are required to obtain prior approval of RBI before introducing any Interest Rate Option.

Though the regulation has been notified, the exchanges are yet to launch their product offering relating to Interest Rate Options.

### 8.5.2. Currency Derivatives

FPIs have been permitted to participate in the Currency derivative segment of the exchanges (refer Chapter 10 for details).

## 8.6. Securities Lending and Borrowing

SEBI and RBI have permitted onshore short selling and Securities Lending and Borrowing (SLB). FPIs are eligible to lend and borrow securities through SLB mechanism offered by the exchanges as well as permitted to short sell securities against borrowed positions.

SLB mechanism in India is fully exchange-driven, and OTC model is not permitted.

SEBI has mandated that all SLB transactions have to be routed through the clearing corporation of the stock exchanges. Consequently, the NSCCL and the ICCL (the clearing

corporations) are eligible to become Approved Intermediaries (AI) for SLB transactions. The borrowers and lenders do not have direct access to trade on the SLB platform of the AIs and must therefore execute trades through existing NSE and BSE clearing members (including banks and custodians) who become SLB participants. The clearing and settlement of SLB trades by investors will be through the designated custodian of the institutional investors.

#### Some salient features of SLB

- Automated trading on AI provided online platforms
- Also act as counterparty to every trade
- 12 Monthly contracts available with expiry on the first Thursday of every month
- Available on all derivative stocks plus few additional scripts
- Recall and Repay facility available
- Corporate actions are adjusted to ensure lender receives all benefits. In the event of corporate actions other than dividends and stock splits, foreclosure is executed by clearing house
- Short selling is the sale of a security that the seller does not own. Naked short selling is prohibited. Accordingly, all investors would be required to mandatorily honour their obligation of delivering the securities at the time of settlement
- Short selling will only be permitted in securities on which derivative products are offered. However, short selling will not be permitted for equity shares which are in RBI's foreign ownership ban list and/ or caution list
- FPIs may purchase shares of companies which are on the foreign ownership ban list / caution list, without prior RBI approval, for the purpose of meeting SLB repayment obligations, provided the purchase is to the extent of meeting SLB repayment obligations and the company whose shares are being purchased, was not under foreign ownership restrictions (caution or ban) at the time of executing the SLB trade
- All transactions would be grossed for institutional investors at the custodians' level and the institutions would be required to fulfill their obligations on a gross basis. Day trading i.e., intraday square-off of transactions is not permitted
- A screen-based, exchange-traded system, where the exchange's clearing corporation collects the collateral and acts as a central counterparty, has been implemented for SLB. Therefore, unlike other markets, OTC SLB transactions are not permitted
- Borrowing of equity shares by FPIs shall only be for the purpose of delivery into short sale
- SLB contracts have been permitted to have tenure up to a maximum period of 12 months. The approved intermediary, viz. Clearing Corporation/ Clearing House shall have the flexibility to decide the tenure of the contract, subject to the maximum period of 12 months
- The margin/ collateral shall be maintained by FPIs only in the form of cash. No interest shall be paid to the FPI on such margin/ collateral

Institutional investors are required to disclose their intention to short sell upfront before placement of short sale order. Brokers will be required to collect and collate scrip-wise details on short sales and upload it to the stock exchanges before the commencement of trading on the following day.

NSE and BSE permits rollover in Securities Lending & Borrowing Scheme (SLBS) to facilitate lenders or borrowers who wish to extend an existing lend or borrow position, to roll-over such position.

Key highlights are as follows:

- Rollover shall be allowed for a period of 3 months (original contract plus two rollover contracts)
- The last trading day of rollover contracts shall be the 4th working day prior to expiry of respective near month series, excluding settlement holidays
- In case of corporate actions in a security resulting in foreclosure, no rollover shall be allowed from or to the series getting foreclosed, of the security

The shut period end date for all corporate actions shall be book closure start date or record date of the corporate action. During shut period no transactions, including rollover, shall be allowed in the security.

Deutsche Bank Securities Services (custody team) is a registered participant with NSCCL and ICCL which allow us to offer execution services in the SLB segment. Our lend product offering in SLB segment is called "SLB Plus" where we offer "spot the opportunity and execution" services for our clients in addition to clearing and settlement of SLB transactions.

**Position Limit**

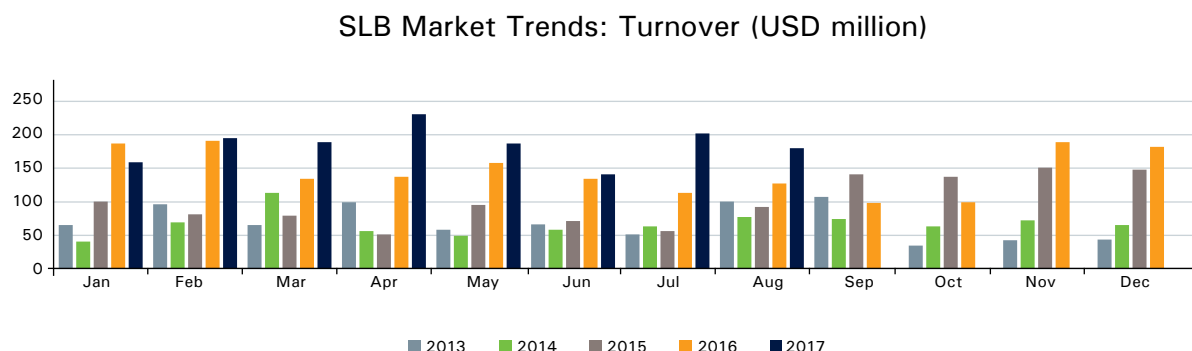
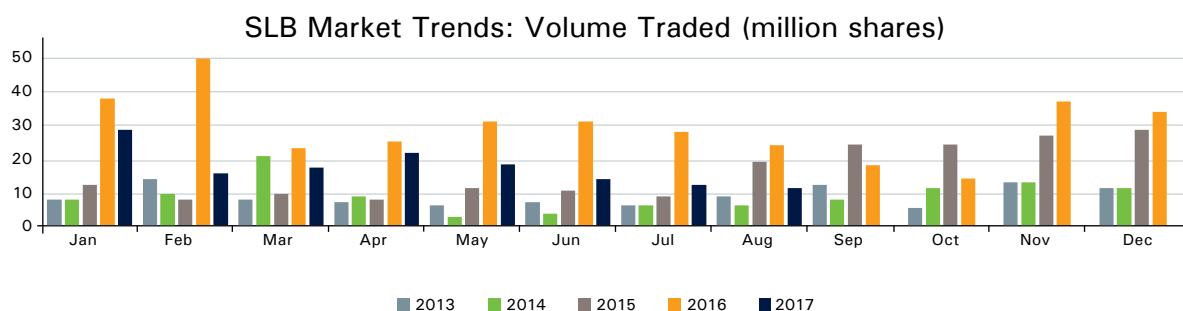
The following position limits will be applicable to SLB transactions

Level	Position limit	Source of Information
Market-wide limit	10% of the free-float capital of the company in terms of number of shares	Market-wide limit will be announced by the NSCCL/ ICCL on a month end basis
Clearing member/ Participant	Open position restricted to 10% of the market-wide position limits or INR 500 million (base value), whichever is lower	To be computed by the clearing member/ participant
FPIs	Open position restricted to 10% of the market-wide position limits or INR 500 million (base value), whichever is lower	This limit is applicable at the FPI level

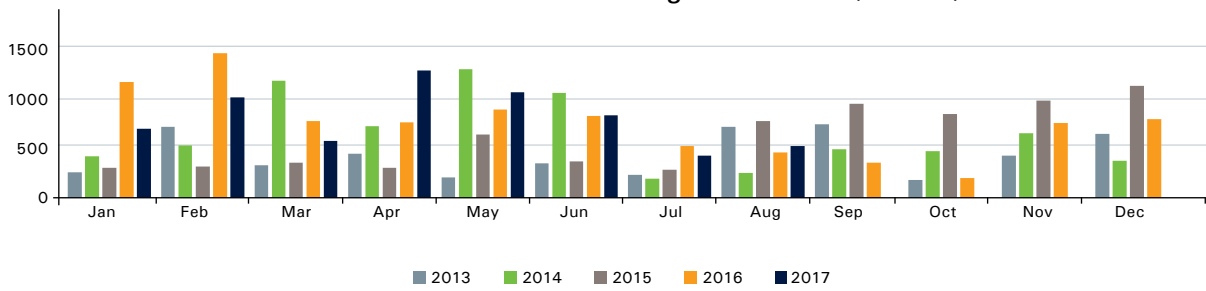
Below are some key statistics with respect to trading volumes, yields, lending fees earned by investors etc. for the SLB market in India.

Source - NSE

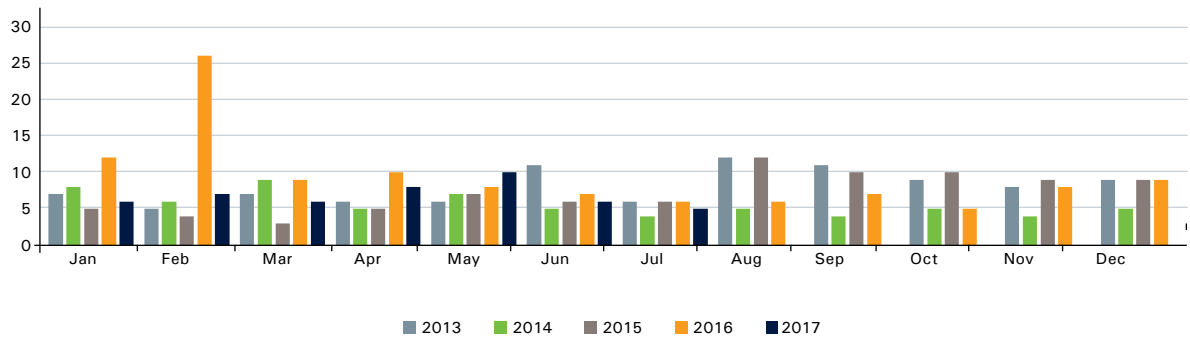
**Substantial acquisition of shares of voting rights**



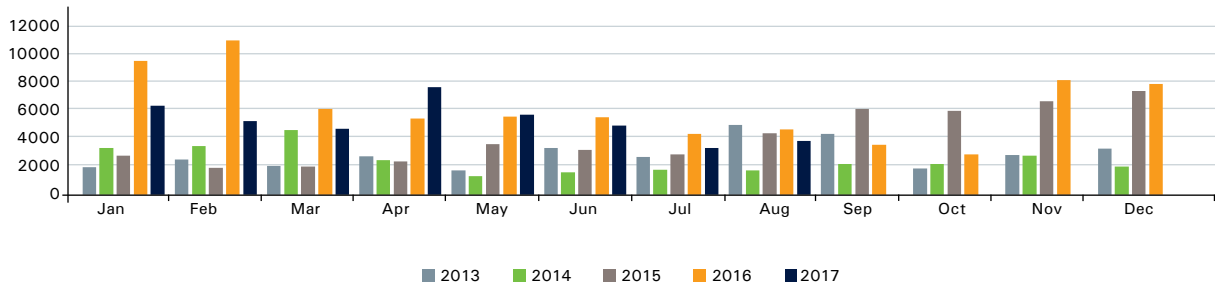
SLB Market Trends: Lending Fee Earned (USD K)



SLB Market Trends: Average Yield Earned



SLB Market Trends: Number of Trades



## 8.7. Reporting requirements

The table below summarises the reporting requirements under foreign investment routes such as FPI, FDI and FVCI

Reports	Reporting to	Frequency	Responsibility	Remarks
FPIs				
Assets under custody	SEBI	Fortnightly, Monthly	Custodian	
Equity and Debt Transaction	SEBI, RBI and Depositories (NSDL,CDSL)	Daily	Custodian	
CSGL reporting of transaction	RBI	Weekly	Custodian	
Original Maturity wise FPI holding in debt	SEBI	Monthly	Custodian	
Residual maturity reporting	SEBI RBI	Monthly Weekly	Custodian	
Debt limit Reporting	Depositories (NSDL,CDSL)	Daily	Custodian	To facilitate calculation of daily debt utilisation limits of FPIs. The limits are published at EOD by the depositories on their website
Ownership pattern of GOI securities by FPI	RBI	Daily	Custodian	
Utilised-unutilised Debt limit	SEBI and RBI	As and when	Custodian	
FPI holding in corporate debt and G-Sec	RBI	Fortnightly	Custodian	Holding with details of purchase/sale at an ISIN level for each FPI is reported
Client wise debt holding	Depositories (NSDL, CDSL)	Monthly	Custodian	
Foreign Exchange inflow and outflow details	RBI	Daily, Weekly and monthly	AD Category I Bank	
Report for GDR repatriations	RBI	Monthly	AD Category I Bank	
Balances for FPI clients	RBI	Weekly	AD Category I Bank	
Details of outstanding forward contracts	RBI	Monthly	AD Category I Bank	
Non trade data (dividend, interest etc.)	RBI	Quarterly	AD Category I Bank	

Reports	Reporting to	Frequency	Responsibility	Remarks
Breach of permitted position limits in currency derivative segment	SEBI/ RBI	On occurrence of the breach	Custodian Bank	
Reporting under (SAST) Regulations, 2011	<ul style="list-style-type: none"> <li>– Stock Exchanges where the shares of the target company are listed</li> <li>– The target company at its registered office.</li> </ul>	<p>On reaching the prescribed threshold of:</p> <ul style="list-style-type: none"> <li>– 5% or more of the shares of the target company</li> <li>– +/- 2% change in the holding position of the target company</li> </ul> <p>Reporting to be done within 2 working days</p>	FPI/ FDI/ FVCI	
Insider Trading Regulations	To the Company	<p>Types of disclosures as per provisions of the Act</p> <ul style="list-style-type: none"> <li>– Initial Disclosures</li> <li>– Continual Disclosures</li> <li>– Disclosures by other connected persons</li> </ul>	FPI/ FDI/ FVCI	
<p>Issuance of ODIs:</p> <ul style="list-style-type: none"> <li>– Transaction Reporting(Equity, Debt and F&amp;O)</li> <li>– Reporting of complete transfer trails of ODIs</li> <li>– Summary Report (As per the prescribed format)</li> </ul>	SEBI	Monthly	FPIs issuing the ODIs	
Reconfirmation of ODI positions	SEBI	Semi-Annual	FPI issuing ODI	Exception reporting: Only cases of divergence from reported monthly data
Periodic Operational Evaluation Certificate	SEBI	Annual	CEO or equivalent of the issuer	

- The trigger limit for acquirers to make an open offer of shares under the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations is 25% of the shares or voting capital in a company
- An acquirer, holding 25% or more of the shares or voting rights in a company, can make acquisitions of up to 5% per financial year, without triggering the requirement of making an open offer. This is provided the acquisition does not result in the acquirer breaching any maximum permissible non-public shareholding
- Acquisition of control - Irrespective of acquisition or holding of shares or voting rights in a target company, no acquirer shall acquire, directly or indirectly, control over such target company unless the acquirer makes a public announcement of an open offer for acquiring shares of the target company, in accordance with these regulations

#### Offer Size

- The minimum amount of shares to be sought in an open offer by an acquirer is 26% of the shares of voting capital in a company
- The open offer for acquiring shares to be made by the acquirer shall be for at least 26% of total shares of the target company, as of tenth working day from the closure of the tendering period. Tendering period is the period within which shareholder can tender shares in acceptance of an open offer

#### Reporting under SEBI (SAST) Regulations, 2011

- Under the SEBI (SAST) Regulations 2011 any acquirer who acquires shares or voting rights in a target company which taken together with shares or voting rights, if any, held by him and by persons acting in concert with him in such target company aggregating to 5% or more of the shares of such target company, shall disclose their aggregate shareholding and voting rights within two working days of the receipt of intimation of allotment of shares, or the acquisition of shares or voting rights to:
  - every stock exchange where the shares of the target company are listed; and
  - the target company at its registered office
- Any acquirer who together with persons acting in concert with him, holds shares or voting rights in a target company aggregating to 5% or more, shall disclose every acquisition or disposal of shares of the target company of 2% or more of the shares or voting rights, within two working days of the receipt of intimation of allotment of shares, or the acquisition of shares or voting rights in the target company to
  - every stock exchange where the shares of the target company are listed; and
  - the target company at its registered office
- Shares taken by way of encumbrance shall be treated as an acquisition and shares given upon release of encumbrance shall be treated as a disposal
- Continual Disclosure: every entity that holds shares or voting rights entitling them to exercise 25% or more of the voting rights in a target company, shall disclose their aggregate shareholding and voting rights as of the March 31, in such target company within seven working days from the end of each financial year to
  - every stock exchange where the shares of the target company are listed; and
  - the target company at its registered office

#### SEBI (Prohibition of Insider Trading), Regulations, 2015

SEBI has notified the SEBI (Prohibition of Insider Trading) Regulations, 2015, on January 15, 2015 which replaces SEBI (Prohibition of Insider Trading), Regulations, 1992.

Key highlights of the approved regulations:

- It is intended that anyone in possession of or having access to unpublished price sensitive information should be considered an “insider” regardless of how one came in possession of or had access to such information
- Unpublished Price Sensitive Information (UPSI) has been defined as information not generally available and which may impact the price
- The definition of Insider includes persons connected on the basis of being in any contractual, fiduciary or employment relationship that allows such person access to UPSI. Insider will also include a person who is in possession or has access to UPSI. Immediate relatives would be presumed to be connected persons, with a right to rebut the presumption
- Considering every investor’s interest in securities market, advance disclosure of unpublished price sensitive information at least two days prior to trading has been



made mandatory in case of permitted communication of unpublished price sensitive information

- Clear prohibition on communication of unpublished price sensitive information (UPSI) has been provided except for legitimate purposes, performance of duties or discharge of legal obligations
- Mandatory disclosure of UPSI in public domain before trading, so as to rule out asymmetry of information in the market, as prevalent in other jurisdictions
- Principle based Code of Fair Disclosure and Code of Conduct has been prescribed
- In given cases, certain circumstances which can be demonstrated by an insider to prove his innocence have been provided

# Offshore Derivative Instruments (ODIs)

Offshore Derivative Instrument/ Participatory Notes (P-Notes) is issued overseas by a Category I or permitted Category II Foreign Portfolio Investor as a derivative instrument against the underlying Indian securities held in their FPI account maintained with a custodian in India.

Unregulated Broad based funds classified under Category II on account of their appropriately regulated investment manager itself registered as Category II FPI, cannot issue, subscribe or deal in ODIs either directly or indirectly.

## 9.1. Conditions for issuance of ODIs under FPI Regulations 2014

SEBI has issued the following guidelines for issuing ODIs or P-Notes, thus aligning the eligible entry and investment norms under the FPI route and the subscription through the ODI/ P-Notes

- A FPI can issue ODIs only to those subscribers who satisfy the eligibility criteria mentioned below. This is in line with Clause 4 of the SEBI (Foreign Portfolio Investor) Regulations, 2014
  - The applicant is resident of a country whose securities market regulator is a signatory to International Organisation of Securities Commission's (IOSCO) Multilateral Memorandum of Understanding or a signatory to bilateral Memorandum of Understanding (MoU) with the Board
  - The applicant being a bank, is a resident of a country whose central bank is a member of Bank for International Settlements (BIS)
  - The applicant is not resident in a country identified in the public statement of Financial Action Task Force as:
    - A jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply
    - A jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies
- The FPI shall not issue ODIs to subscribers having opaque structures. In line with FPI Regulations, opaque Structures are defined as any structure such as a protected cell company, segregated cell company or equivalent, where the details of ultimate beneficial owners are not accessible or where the beneficial owners are ring fenced from each other or where the beneficial owners are ring fenced with regard to enforcement
  - Two or more ODI subscribers having common Beneficial Owner (BO) shall be considered together as a single ODI subscriber, in the same manner as is being done in the case of FPIs. Thus the investments held as FPI and position held as ODI subscriber in the underlying Indian company will be clubbed together for monitoring the investment limit of below 10% of the total issued capital of the company
- All the existing ODI positions which are not in accordance with the revised requirements are permitted to continue till the expiry of the ODI contract. No additional issuances/ renewal/ rollover of such positions shall be permitted to subscribers
- FPIs are required to have necessary systems in place to ensure compliance with the revised requirements for issuing ODIs

- Fresh issuance of ODIs shall be made only to the eligible subscribers subject to the compliance with the revised norms as well as with SEBI (Foreign Portfolio Investors) Regulations, 2014 and other applicable norms

## 9.2. Prohibition from issue of ODI with underlying as Derivatives

- FPIs have been prohibited from issuing ODIs with derivative as underlying, except those derivative positions that are taken for hedging the equity shares held by it, on a one to one basis
- In the case of issuance of fresh ODIs with derivatives as underlying, a certificate has to be issued by the compliance officer (or equivalent) of the ODI issuing FPI, certifying that the derivatives position, on which the ODI is being issued, is only for hedging the equity shares held by it, on a one to one basis. The said certificate is to be submitted along with the monthly ODI reports
- Existing ODIs where the said underlying derivatives position are not for purpose of hedging the equity shares held by FPIs, need to be liquidated, latest by the maturity date of the ODI instrument or by December 31, 2020, whichever is earlier. However, ODI issuing FPIs should endeavour to liquidate such ODI instruments prior to the said timeline
- The term “hedging of equity shares” means taking a one-to-one position in only those derivatives which have the same underlying as the equity share

## 9.3. KYC Compliance

SEBI has issued enhanced KYC requirements to be followed by FPIs issuing ODIs aligning the requirements with the FPI regulations and Indian PMLA norms

- ODI Issuers shall be required to identify and verify the beneficial owners in the subscriber entities, who hold in excess of the threshold of:
  - 25% in case of a company and
  - 15% in case of partnership firms/ trusts/ unincorporated bodies
- When no beneficial owner is identified, ODI issuers shall be required to identify and verify the person(s) who has a controlling stake or decision maker based on the aforesaid materiality threshold
- The definition of the term “Beneficial Owner” shall be as per sub-rule (3) of Rule 9 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005
- ODI issuers to seek specified KYC documents like identity and address proof from each of the ODI subscribers in respect of beneficial owner who holds above the threshold limits in such ODI subscriber. The materiality threshold to identify the beneficial owner should be applied at ODI subscriber level and a look through principle shall be applied to identify the beneficial owner of the material shareholder/ owner entity
- Where no beneficial owner is identified in the ODI subscriber using materiality threshold, the identity and address proof of the natural person holding position of senior managing official of the ODI subscriber shall be required
- The prescribed KYC documents are required to be maintained with the ODI issuers at all times and be made available to SEBI on demand

Beneficial Owner as per sub-rule (3) of Rule 9 of the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 is defined as:

- Where the client is a company, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has a controlling ownership interest or who exercises control through other means
  - “Controlling Ownership Interest” means ownership of or entitlement to more than 25% of shares or capital or profits of the company
  - “Control” shall include the right to appoint majority of the directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholders agreements or voting agreements
- Where the client is a partnership firm, the beneficial owner is the natural person(s) who, whether acting alone or together, or through one or more juridical person, has ownership of/ entitlement to more than 15% of capital or profits of the partnership

- Where the client is an unincorporated association or body of individuals, the beneficial owner is the natural person(s), who, whether acting alone or together, or through one or more juridical person, has ownership of or entitlement to more than 15% of the property or capital or profits of such association or body of individuals
- Where no natural person is identified under (a) or (b) or (c) above, the beneficial owner is the relevant natural person who holds the position of senior managing official
- Where the client is a trust, the identification of beneficial owner(s) shall include identification of the author of the trust, the trustee, the beneficiaries with 15% or more interest in the trust and any other natural person exercising ultimate effective control over the trust through a chain of control or ownership; and
- Where the client or the owner of the controlling interest is a company listed on a stock exchange, or is a subsidiary of such a company, it is not necessary to identify and verify the identity of any shareholder or beneficial owner of such companies

SEBI has also mandated periodic review of the KYC, on the basis of risk criteria determined by the ODI issuer, at following periodicity:

- New ODI subscribers:
  - At the time of on-boarding and once every 3 years for low risk clients
  - At the time of on-boarding and every year for all other clients
- Existing ODI subscribers:
  - Within 3 years for low risk clients from the date of the notification i.e. July 01, 2016
  - 1 year for all other clients from the date of the notification i.e. July 01, 2016

## 9.4. Issuance and Transfer of ODIs

ODI issuer shall ensure that any transfer of ODIs issued by or on its behalf is carried out subject to the following conditions:

- Such ODIs are transferred only to persons in accordance with Regulation 22 (1) of SEBI (Foreign Portfolio Investors) Regulations, 2014; and
- Prior consent of the FPI is obtained for such transfer, unless the person to whom the ODIs are to be transferred to are pre-approved by the FPI

Issue or transfer of Offshore Derivative Instruments (ODI) to the following persons is not permitted:

- Resident Indians
- Non-Resident Indians (NRIs)
- Entities which are beneficially owned by Resident Indians or NRIs

Effective April 01, 2017, FPIs will be required to collect "Regulatory Fee" of USD 1,000 from every Offshore Derivative Instrument (ODI) subscriber and deposit the same with SEBI. The fee has to be deposited with SEBI through electronic transfer in designated bank account of SEBI. The regulatory fee needs to be deposited once in every 3 years.

The ODI subscribers will have to seek prior permission of the original ODI issuer for further/ onward issuance/ transfer of ODIs. FPIs shall also ensure that further issuance or transfer of any offshore derivative instruments on its own behalf should be only to persons regulated by an appropriate regulatory authority and with prior permission of the FPI.

## 9.5. Reporting of Issuance of ODI/ Participatory Notes by FPIs

- The FPI issuing the ODI will be required to submit the reports as prescribed by SEBI
- The ODI/ P-Notes issuer shall file the transaction details in the relevant annexures along with the monthly summary report by the tenth of every month for previous month's ODI transactions
  - The ODI issuers are required to capture the details of all the intermediate transfers during the month in the monthly report submitted to SEBI. In case an ODI issuer (A) issues an ODI to another FPI (B) that further issues the ODI, then the ODI reporting for (A) would be limited to naming (B) as the subscriber, on the basis that (B) in its capacity as FPI is providing a monthly ODI report to SEBI, the reporting from (B)

- would meet SEBI's requirements and avoid duplication of reporting
- Under the applicable norms, FPIs shall commence reporting to SEBI in the format prescribed, only from the month they start issuing ODIs

### 9.5.1. Manner of submission

The above-mentioned reports shall be submitted in a password secured excel format. The e-mail should be sent only by the compliance officer of the respective FPI to the dedicated e-mail ID: odireporting@sebi.gov.in with the subject line "ODI/ PN Report of [FPI Name and Registration No.] for the month of [...]". The password should be sent in a subsequent email.

### 9.5.2. Reconfirmation of ODI positions

Reconciliation of positions by ODI issuers to be done on a semi-annual basis. In case of any divergence from reported monthly data, the same should be informed to SEBI in the format provided.

### 9.5.3. Periodic Operational Evaluation

- ODI issuers shall be required to put in place necessary systems and carry out a periodical review and evaluation of its controls, systems and procedures with respect to the ODIs
- A certificate in this regard should be submitted on annual basis (within 1 month of end of every calendar year) to SEBI by the Chief Executive Officer (CEO) or equivalent of the ODI issuer

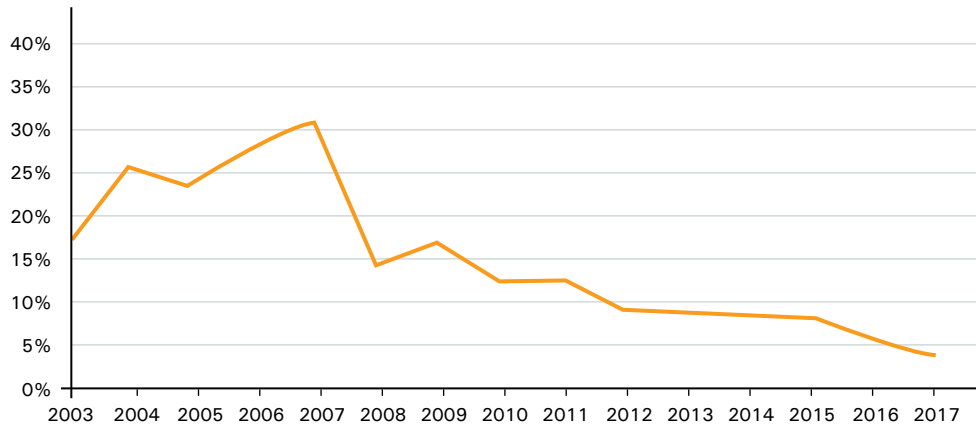
### 9.5.4. Grandfathering of ODIs

SEBI has issued the following clarification regarding grandfathering of ODIs Issuers and Subscribers, effective from August 01, 2016

- The ODI subscribers who have subscribed to ODIs under the Foreign Institutional Investor (FII) Regulation are allowed to continue subscribing to ODIs under the Foreign Portfolio Investor (FPI) Regulation, subject to the condition that they:
  - Comply with the Conditions for issuance of Offshore Derivative Instruments (as laid down in Regulation 22 of SEBI FPI Regulations, 2014) and
- Meet the eligibility criteria as notified by SEBI
- Fresh ODIs can only be issued to entities meeting the above eligibility criteria
- ODI subscribers not meeting the criteria, including unregulated funds whose investment manager is appropriately regulated, have been permitted to hold their existing position till the expiry date of such positions or till December 31, 2020, whichever is earlier. Such subscribers cannot take fresh positions or renew old positions

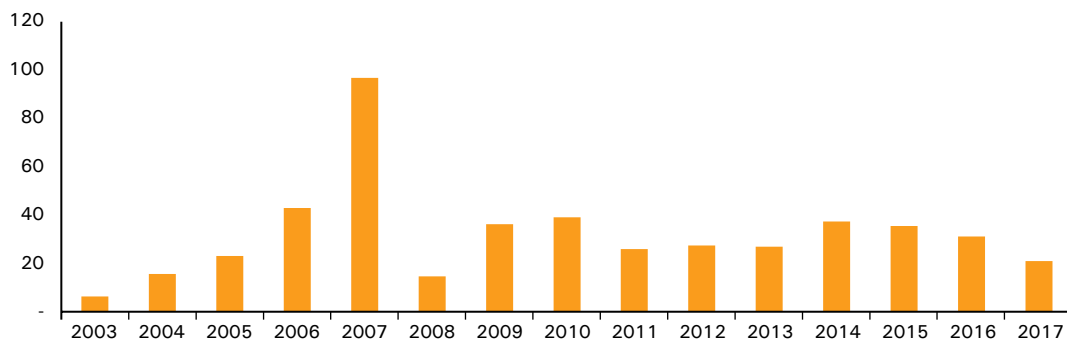
The regulator has been taking steps towards ensuring transparency in terms of money inflow by streamlining and tightening the conditions for issuance and reporting of Overseas Derivative Instruments by FPIs registered with SEBI. As a result of this, Investments via ODIs as a percentage of FPI flows have been falling over the years. Their contribution to total FPI flows in India was at an all-time high of 55.7% in June 2007, and fell to 15.1% in December 2010. As of March 2016, it was a mere 10% of the total FPI flows and it fell further to 4% by August 2017.

### ODI as percent of FPI



Data as of August 2017  
Source: SEBI

### Total notional value of ODIs (in USD billion)



Data as of August 2017  
Source: SEBI

# Banking and Currency Hedging Guidelines

## 10.1. Permissible Banking Facilities

The Foreign Exchange Management Act (FEMA) allows a FPI to open a single special non-resident rupee account and foreign currency denominated account in permitted currencies with an AD Category I Bank, for the purpose of investment under the Portfolio Investment Scheme. Both the Rupee and the foreign currency accounts are non-interest bearing accounts. Deutsche Bank as a designated Authorised Dealer (AD) bank maintains cash accounts denominated in INR as well as foreign currency accounts. Within the FEMA guidelines issued by RBI, a SEBI registered FPI is permitted to:

- Appoint a Custodian for safekeeping of investments and facilitating settlement of transactions
- Open a single Special Non-Resident Rupee (SNRR) account with an AD Category I Bank, to facilitate credit of funds received via conversion from foreign currency account, sale proceeds of shares/ debentures/ bonds/ G-Secs etc., dividends and interests payments received
- The SNRR account may be debited for purchase of shares/ debentures/ bonds/ G-Secs, margin payments to the stock exchanges/ clearing members for securities and derivatives, and payment of the brokerage fees associated with the trades
- Debits are also permitted for payment of fees to the Chartered Accountant/ Tax Consultant where such fees constitute an integral part of the investments
- Transfer sums from the foreign currency accounts to the rupee accounts, at the market rates of exchange
- Transfer funds from the rupee account to the foreign currency account(s) at the market rates of exchange. Such transfers are permitted post payment of the taxes at the applicable rate in accordance with the Income Tax Act
- Foreign Investors are permitted to book foreign exchange deals (both inward as well as outward) through any Authorised Dealer Category 1 Bank apart from its designated AD Bank

## 10.2. Currency Hedging

FPIs are allowed to hedge their entire investment in equity and/ or debt in India as on a particular date using the following products:

- Foreign exchange contracts with rupee as one of the currencies and foreign currency-INR options
- Foreign currency – INR swaps for IPO related flows
- Participation in the Currency Derivative segment of the Exchange

### 10.2.1. Facilities permitted for Foreign Portfolio Investors

- To hedge currency risk on the market value of entire investment in equity and/ or debt in India as on a particular date
- To hedge the coupon receipts arising out of investments in debt securities falling due during the following twelve month
- To hedge Initial Public Offers (IPO) related transient capital flows under the Application Supported by Blocked Amount (ASBA) mechanism



### 10.2.2. Forward Foreign Exchange Contracts

RBI has permitted Authorised Dealer Category I banks to offer forward FX contracts to FPI's, as per the following conditions:

- Forward contracts are only permitted for sale trades i.e. for Sell INR vs foreign currency
- The hedge is permitted up to the market value of the FPIs entire investment in equity and/ or debt in India as on a particular date
- The eligibility cover to be determined on the basis of:
  - A valuation certificate to be provided by the designated AD category I bank and
  - Declaration by the FPI stating that its global outstanding hedges plus the derivatives contracts cancelled across all AD category banks is within the market value of its investments
- AD Category I Banks to undertake periodic reviews at least at quarterly intervals to ensure that the forward contract outstanding is supported by an underlying exposure. FPI should also provide a declaration once in a quarter to the Custodian bank that the total amount of derivative contract booked across all AD category banks are within the market value of its equity/ debt investments
- If a hedge becomes naked in part or full owing to shrinking of the portfolio, for reasons other than sale of securities, the hedge may be allowed to continue to the original maturity, at the discretion of the AD Category I Bank
- Forward contracts booked by FPIs can be rolled over on or before maturity or cancelled
- Forward contracts booked by FPIs once cancelled can be rebooked to the extent of 10% of the value of the contracts cancelled
- The hedges taken with AD banks other than designated AD bank have to be settled through the SNRR account maintained with the designated AD bank through the banking channels
- The cost of any hedge must be met out of repatriable funds and/ or inward remittance through normal banking channel
- All outward remittances incidental to the hedge are net of applicable taxes
- There is no limit on the tenor of a forward contract for equities. The tenor of a forward contract on debt is restricted to the maturity period of the underlying debt instruments
- If an FPI wishes to enter into a forward contract for the exposure relating to that part of the securities held by it against which it has issued any PN/ ODI, it must have a mandate from the PN/ ODI holder for the purpose. AD Category I Bank is expected to verify such mandates, or in cases where this is rendered difficult, the bank may obtain a declaration from the FPI regarding the nature/ structure of the PN/ ODI establishing the need for a hedge and that this is undertaken against specific mandates obtained from the FPI's end clients

FPIs are permitted to hedge the coupon receipts arising out of their investments in debt securities in India falling due during the following 12 months, subject to the below mentioned condition:

- The hedge contracts shall not be eligible for rebooking on cancellation
- In case the coupon amount is yet to be received, then the contracts can be rolled over on maturity

### 10.3. Foreign Currency-Rupee swaps permitted for Initial Public Offer related flows under ASBA

FPIs are permitted to undertake foreign currency-rupee swaps only for hedging the capital flows relating to the investments in IPOs under the Application Supported by Blocked Amount (ASBA) mechanism, subject to the following conditions:

- The amount of the swap should not exceed the amount proposed to be invested in the IPO
- The tenor of the swap should not exceed 30 days
- The contracts, once cancelled, cannot be rebooked. Rollovers under this scheme is also not permitted

## 10.4. Participation in the Currency Derivative segment of the Exchange

FPIs investing in India are allowed to access the exchange traded currency futures and options, to hedge the currency risk arising out of their market value of their exposure to investment in debt and equity securities. These contracts are subject to the following conditions:

- FPIs can take both long (bought) position as well as short (sold) position in foreign currency up to USD 15 million, per exchange without any underlying exposure
- In addition, they are allowed to take long as well as short positions in EUR-INR, GBP-INR and JPY-INR currency pairs up to a limit of USD 5 million equivalent per exchange, without any underlying exposure
- Exchanges have been permitted to prescribe fixed limits for the contracts in currencies other than USD such that these limits are within the equivalent of USD 5 million
- FPIs may take the entire USD 5 million equivalent position in single currency pair or combination of currency pairs and have to ensure that their position in EUR-INR, GBP-INR, JPY-INR, all put together does not exceed USD 5 million equivalent
- FPIs shall ensure that their short position per stock exchange, across all contracts does not exceed USD 15 million in USD-INR pair and USD 5 million equivalent in EUR-INR, GBP-INR and JPY-INR pairs, all put together at any point of time
- FPIs shall be permitted to take long position in excess of the limits mentioned above, provided they have an equivalent underlying exposure in debt or equity securities in India
- FPIs cannot take a short position beyond USD 15 million in USD-INR pair and USD 5 million in all other currency pairs put together, per exchange
- Exchange traded option contracts in the following currency pairs have been introduced, in addition to the existing USD-INR pair
  - GBP-INR
  - EUR-INR
  - JPY-INR
- The options derivatives shall be part of the limits for respective currency pairs
- The exposure limit will apply on both day-end as well as intra-day
- These limits shall be monitored by the Exchanges and breaches, if any may be reported to the Financial Market Regulation Department of RBI

### Position limits for permitted currency pairs per stock exchange

Position limits for Category I and II FPIs are as below:

Currency Pair	Position limits
USD-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher
EUR-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 50 million, whichever is higher
GBP-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 50 million, whichever is higher
JPY-INR	Gross open position across all contracts shall not exceed 15% of the total open interest or JPY 2000 million, whichever is higher

## Position limits for Category III FPIs:

Currency Pair	Position limits
USD-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 10 million, whichever is higher
EUR-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 5 million, whichever is higher
GBP-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 5 million, whichever is higher
JPY-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or JPY 200 million, whichever is higher

- Position limit linked to total open interest will be applicable at the time of opening a position. Such position would not be required to be unwound in event of drop in total open interest at a stock exchange
- In such scenario, the eligible market participants will not be allowed to increase their open positions, or create new position in the currency pair, till they comply with applicable limits
- Stock exchanges will prescribe the time limit to the market participants in order to bring down their positions to comply with the applicable position
- The regulators have introduced exchange traded cross currency futures and options contract. The exchanges have initiated the process of obtaining approval from the regulators regarding the product offering. Once the necessary approval is received, trading in cross currency derivatives will be launched
- FPIs, are allowed to take positions in the exchange traded cross-currency futures and option contracts for the following pairs, subject to the applicable norms as laid down by SEBI and RBI
  - EUR-USD
  - GBP-USD
  - USD-JPY

## Position limits for Category I and II FPIs, as permitted by the respective sectoral regulators and AD Category I banks:

Currency Pair	Position limits
EUR-USD	Gross open position across all contracts shall not exceed 15% of the total open interest or EUR 100 million, whichever is higher
GBP-USD	Gross open position across all contracts shall not exceed 15% of the total open interest or GBP 100 million, whichever is higher
USD-JPY	Gross open position across all contracts shall not exceed 15% of the total open interest or USD 100 million, whichever is higher

## Position limits for Category III FPIs:

Currency Pair	Position limits
EUR-USD	Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher
GBP-USD	Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 5 million, whichever is higher
USD-JPY	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 5 million, whichever is higher

**Methodology for calculating USD 5 million equivalent in other currency pairs:**

- The exchange will provide a fixed conversion ratio from USD 1 million into respective currency pair. The ratio provided by the exchange will be amended on quarterly basis after giving sufficient notice to market participants
- For instance, if the conversion ratio provided by the exchange is as given below, a Client/ FPI can take position up to EUR 4.55 million in EUR-INR or GBP 3.30 million in GBP-INR or JPY 595.5 million in JPY-INR
  - USD 1 million = 0.91 EUR million
  - USD 1 million = 0.66 GBP million
  - USD 1 million = 119.10 JPY million

**Alerts for client level position**

- The Exchange provide alerts to the clearing member or custodian if the gross open position of a client across all contracts exceeds the aforesaid position limits at the end of the day
- Gross open position is computed as higher of long position (long futures, long call options, short put options) or short position (short futures, short call options, long put options) based on the total Open Interest of the previous day's trades in that symbol

## 10.5. Responsibilities of FPIs

- FPI is responsible to ensure that for any contracts in excess of the limits booked, is supported by an equivalent underlying exposure in equity/debt security
- If the total value of the contracts exceeds the market value of the holdings on any day, the concerned FPI shall be liable for penal actions as may be laid down by the Securities and Exchange Board of India (SEBI) and action as may be taken by RBI, under the Foreign Exchange Management Act (FEMA), 1999

## 10.6. Monitoring of Positions

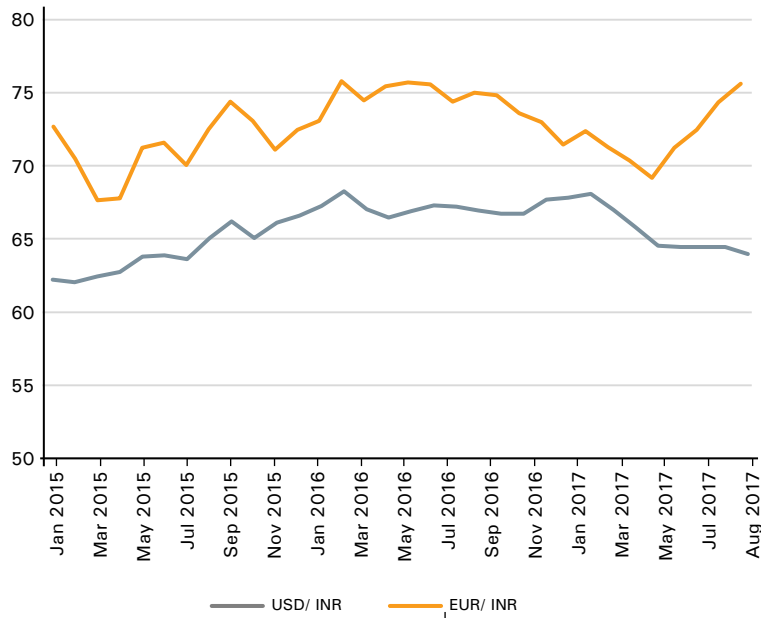
- The exchange/ clearing corporation will provide FPI wise information on day-end open position as well as intra-day highest position to the respective custodian banks
- The custodian banks will aggregate the position of each FPI on the stock exchanges as well as the Over the Counter (OTC) contracts booked with themselves and other Authorised Dealer (AD) banks
- The designated custodian bank will be monitoring the total position and bring transgressions, if any, to the notice of RBI/ SEBI
- The limit shall be monitored on end of day position basis. The USD 5 million limit is being considered as separate for short position across the 3 currency pairs and separate for long position across the 3 currency pairs
- The exchange will intimate custodian of the FPIs of the intraday highest position taken during the day by FPIs, through end of day report

The National Stock Exchange (NSE) has also released the Frequently Asked Questions (FAQs) relating to Foreign Portfolio Investors (FPIs) investment in Currency Derivatives segment.

The FAQs can be accessed by clicking on the below link:  
[http://www.nseindia.com/invest/resources/download/CDS\\_FAQ\\_FPI.pdf](http://www.nseindia.com/invest/resources/download/CDS_FAQ_FPI.pdf)

## 10.7. Currency Trend

The chart below reflects the currency movement during the period Jan 2015 to Aug 2017 (USD/ INR and EUR/ INR)



Source: RBI

The graph below reflects the currency trend since January 2000.



Source: Bloomberg

# Clearing and Settlement Environment

## 11.1 Introduction

The Securities markets in India has witnessed several innovations in Clearing and Settlement mechanism which includes use of:

- State of art information technology
- Compression of settlement cycle
- Dematerialisation and electronic transfer of securities
- Securities Lending and Borrowing
- Efficient risk management systems
- Clearing Corporations for Counterparty risk management

Besides the above, stock exchanges in India were following a system of account period settlement for cash market transactions and then the T+2 rolling settlement was introduced for all securities. In the T+2 settlement pay-in and pay-out of funds as well as securities take place 2 working days after the trade is executed

Movement of securities has become almost instantaneous in the dematerialised environment with depositories National Securities Depositories Ltd. (NSDL) and Central Depositories Services Ltd. (CDSL) providing electronic transfer of securities.

### Clearing and Settlement

Stock Exchanges like National Stock Exchange (NSE), Bombay Stock Exchange (BSE) and Metropolitan Stock Exchange (MSE) provides a trading platform to its trading members; the National Securities Clearing Corporation Ltd. (NSCCL), Indian Clearing Corporation Limited (ICCL) and Metropolitan Clearing Corporation of India Ltd. (MCCIL), determines the funds/ securities obligations of the trading members and ensures that trading members meet their obligations for Equities. Government securities are settled through Clearing Corporation of India Limited (CCIL). Clearing houses are obligated to meet all settlement obligations, regardless of member defaults, without any discretion.

The core functions involved in the settlement function are:

- Trade recording
- Trade confirmation
- Determination of obligation
- Pay-in of funds and securities
- Pay-out of funds and securities
- Risk management

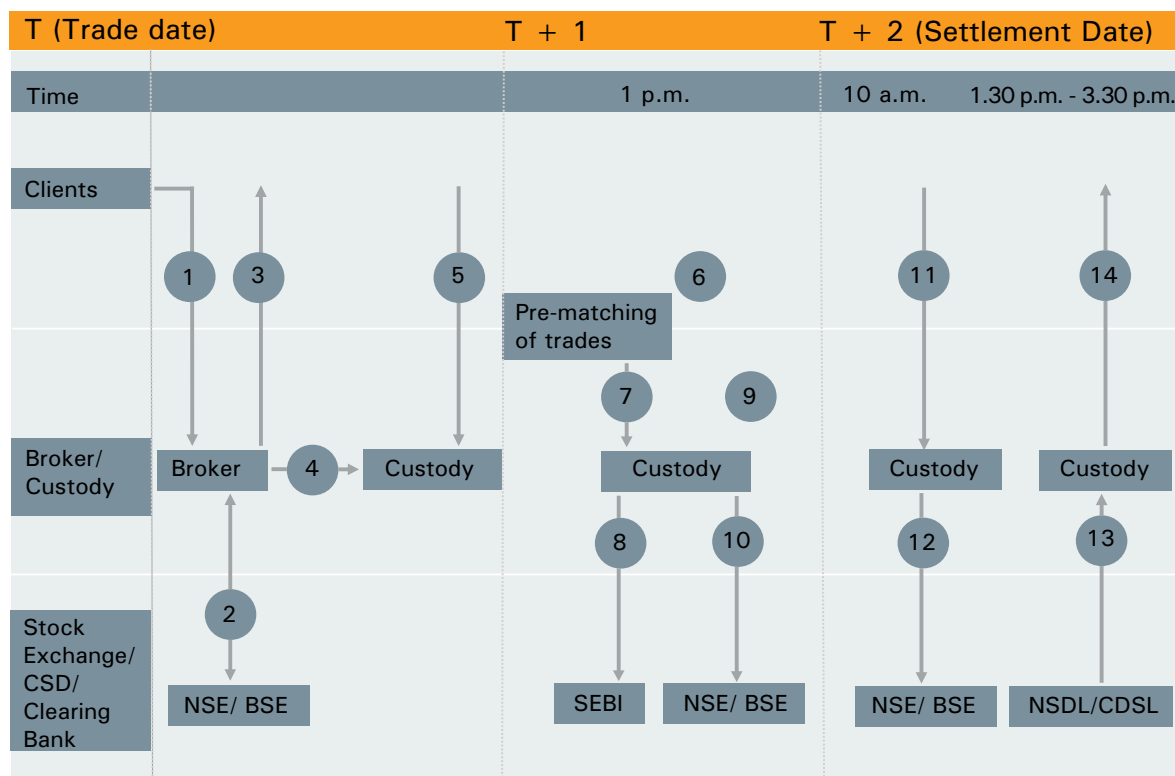
## 11.2. Equities

The equity stock market in India has successfully transitioned to T+2 rolling settlements effective April 2003. Clearing participants in the settlement of an equity transaction along with Intermediaries perform the following functions:

- Clearing Corporations like the National Securities Clearing Corporation Limited (NSCCL)/ Indian Clearing Corporation Limited (ICCL)/ Metropolitan Clearing Corporation of India Limited (MCCIL). Clearing and settlement of trades and risk management are its core central functions

- They are also responsible for post-trade activities of the stock exchanges
- Trading members: execute trades on the stock exchange and is responsible for trade settlement in case of hand delivery trades
- Clearing Members: are responsible for settling their obligations as determined by the clearing corporations. The clearing members have to make available funds and/or securities in the designated accounts on the settlement day
- Custodians: Custodian as clearing members settles trades assigned to them by trading members
- Clearing Banks: act as a link between the Clearing Members and the Clearing Corporations for funds settlement
- Depositories: The Depositories (NSDL and CDSL) help in the settlement of the dematerialised securities
- Professional Clearing Member: Special category of members admitted by the clearing corporations may clear and settle trades executed for their clients (individuals, institutions etc.)

### Settlement Flow – Equity Purchase Trade

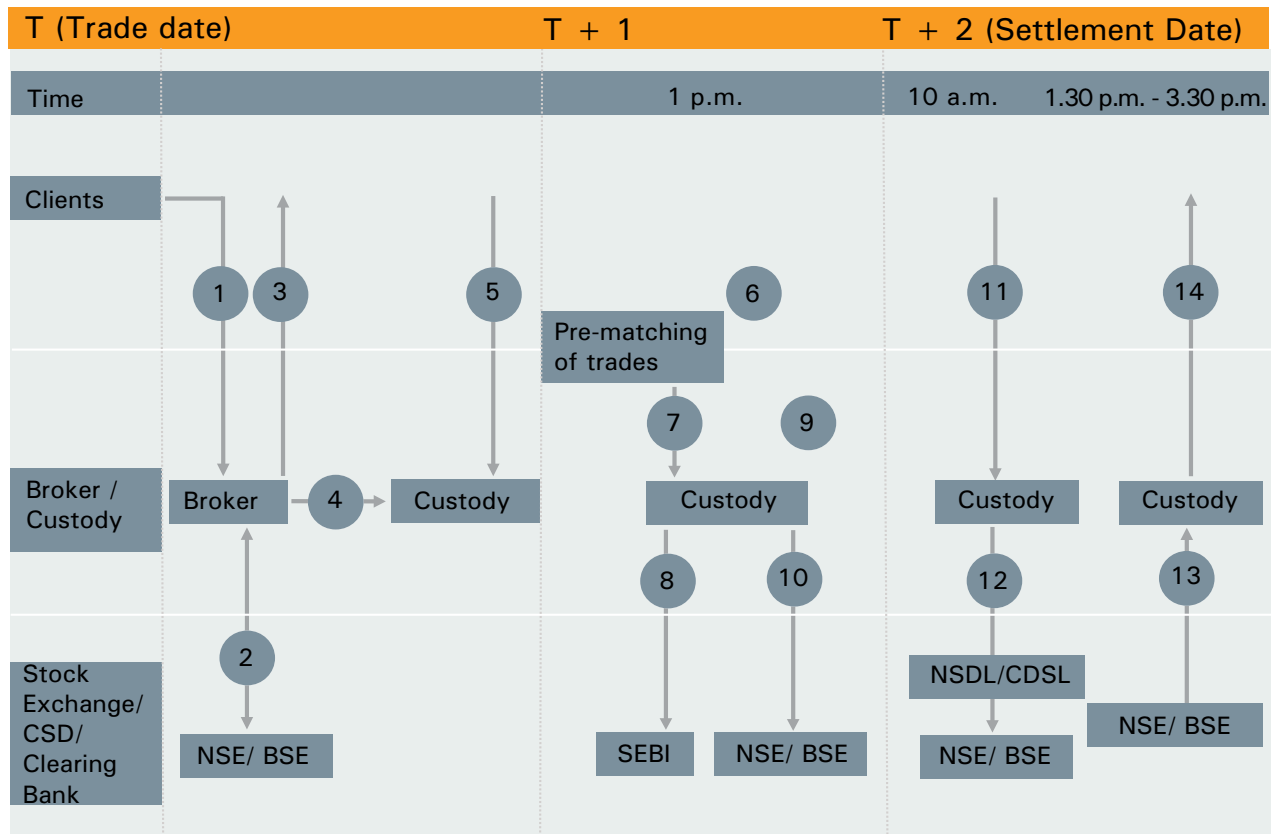


#### Legend

1. Client sends trade instruction to broker
2. Trade Executed by broker on the exchange
3. Trade confirmation sent by broker to the client
4. Broker sends Contract Note to custodian via STP gateway on day T
5. Client sends settlement instruction to custodian by EOD on day T
6. Client to arrange for INR funds towards margin/ full Settlement (early pay-in)
7. Pre-matching done and Trade confirmation by 1p.m., T+1 by Custody
8. Reporting of transactions to SEBI
9. Clients' bank account maintained with custodian debited for margin/ early pay-in proceeds
10. Pay margins/ Early pay-in of funds to the exchange through the clearing bank
11. For clients who have opted for margin, Net settlement amount is debited from client's account by T+2, 10a.m.
12. Payment for settlement value to the exchange through the clearing bank
13. Payout of securities via depositories and credited to the client's security account maintained by the custodian
14. Settlement confirmation to client



Settlement Flow – Equity Sale Trade



Legend

1. Client sends trade instruction to the broker
2. Trade Executed by broker on the exchange
3. Trade confirmation sent by broker to the client
4. Broker sends Contract Note to custodian via STP gateway on day T
5. Client sends settlement instruction to custodian by EOD on day T
6. Client to arrange for margin proceeds/ instruct for early pay-in of securities
7. Pre-matching done and Trade confirmation by 1pm, T+1 by Custody
8. Reporting of transactions to SEBI
9. Clients bank account maintained with custodian debited for margin (unless client has opted for early pay-in of securities)
10. Pay margins/ Early pay-in of securities to the exchange
11. For clients who have opted for margins, securities are debited from the client's account on T+2, by 10 a.m.
12. Pay-in of securities by 10 a.m. to the depositories
13. Payout of funds received via the clearing bank
14. Credit proceeds to the client's account and send settlement confirmation to the client

## 11.3. Fixed Income

### Government Securities

Government Securities (G-Sec) are largely traded through the anonymous order matching platform called Negotiated Dealing System – Order Matching (NDS-OM). G-Secs can also be traded on the exchange. On the NSE, trades in G-Secs are executed under the Negotiated Trade Reporting Platform. On BSE, such securities are traded under the Debt Market Segment or under the Retail Debt Market Segment. Accordingly, clearing and settlement of such trades is governed by the bye-laws, rules, regulations, and related circulars of these segments. The trading mechanism for trades in the Retail Debt Market (RDM) segment for both the NSE and the BSE is identical to the one used for equity transactions. Trades in government securities executed on Wholesale Debt Market (WDM) segment of NSE and BSE are routed through the clearing corporation of the exchanges.

All trades in government securities are reported to RBI-SGL through the NDS-OM of RBI, and Clearing Corporation of India Limited (CCIL) provides settlement guarantee for transactions in government securities including repos.

### RBI as depository

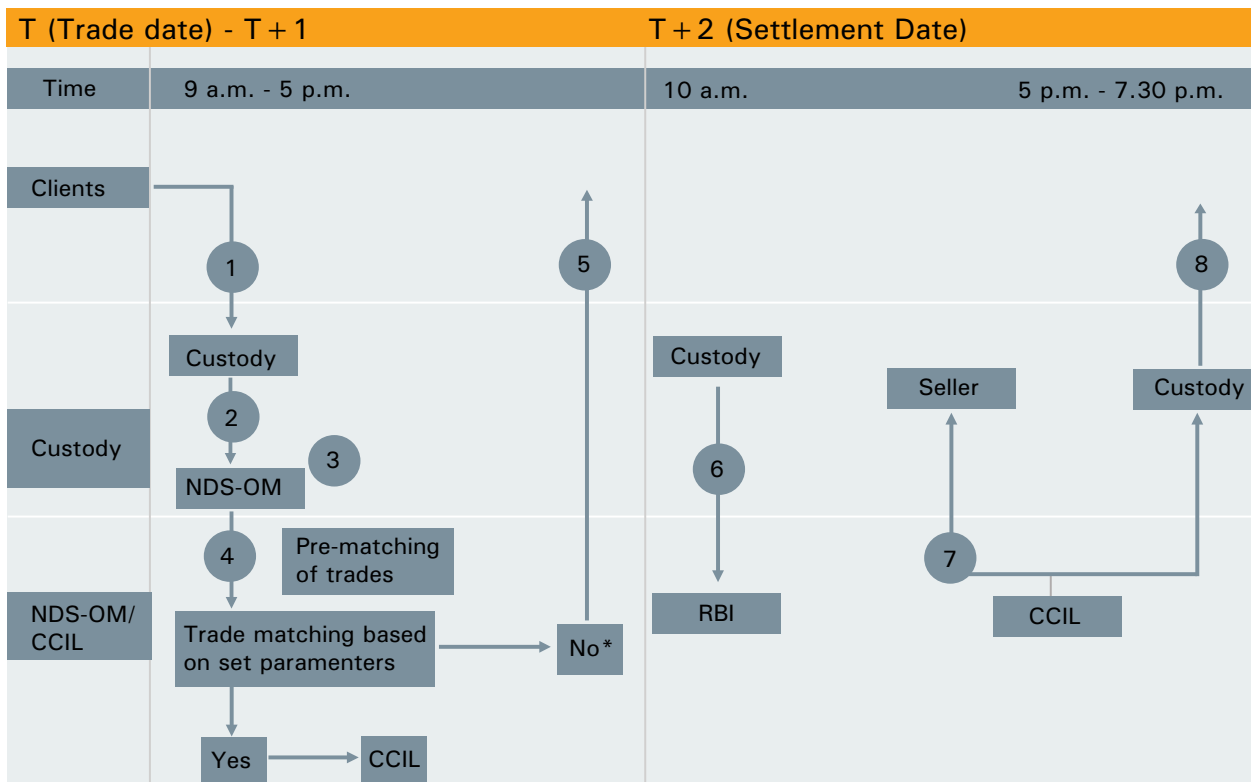
The Public Debt Office (PDO) of the Reserve Bank of India, Mumbai acts as the registry and central depository for the Government securities.

- Demat form: From May 20, 2002, it is mandatory for all the RBI regulated entities to hold and transact in Government securities only in dematerialised (SGL) form. Also, transfers and servicing of demat securities are electronic and hassle free. The holders can maintain their securities in dematerialised form in either of the two ways:
  - SGL Account: Reserve Bank of India offers Subsidiary General Ledger Account (SGL) facility to select entities who can maintain their securities in SGL accounts maintained with the Public Debt Offices of the Reserve Bank of India.
  - Gilt Account: As the eligibility to open and maintain an SGL account with the RBI is restricted, an investor has the option of opening a Gilt Account with a bank or a Primary Dealer which is eligible to open a Constituents' Subsidiary General Ledger Account (CSGL) with the RBI. Under this arrangement, the Bank or the Primary Dealer, acts as a custodian of the Gilt Account holders. They would maintain the holdings of its constituents in a CSGL account (which is also known as SGL II account) with the RBI. The servicing of securities held in the Gilt Accounts is done electronically, facilitating hassle free trading and maintenance of the securities. Receipt of maturity proceeds and periodic interest is also faster as the proceeds are credited to the current account of the custodian bank / PD with the RBI and the custodian (CSGL account holder) immediately passes on the credit to the Gilt Account Holders (GAH).

Settlement of all outright secondary market transactions in government securities is standardised to T+1 with the only exception being settlement of trades done by FPIs. RBI has permitted extended reporting timings and settlements of G-Sec transaction executed by FPIs on T+2 basis. Accordingly all buy and sale transactions in G-Sec, where at least one of the parties is an FPI, will be settled on T+2 basis.

Custodian bank of the FPI selling the security or the counterparty entity selling the security to the FPI will have to report the deal on trade date itself within the prescribed reporting time. Custodian bank of the FPI buying the security can report the deal upto 1pm the next business day (T+1). All the other conditions with respect to settlement shall continue to apply for transactions settled on T+2 basis. FPIs have been permitted to trade in government securities directly without availing the services of a broker. FPIs are not allowed to invest in Repo transactions.

Settlement Flow – G-Sec Purchase Transaction



Legend

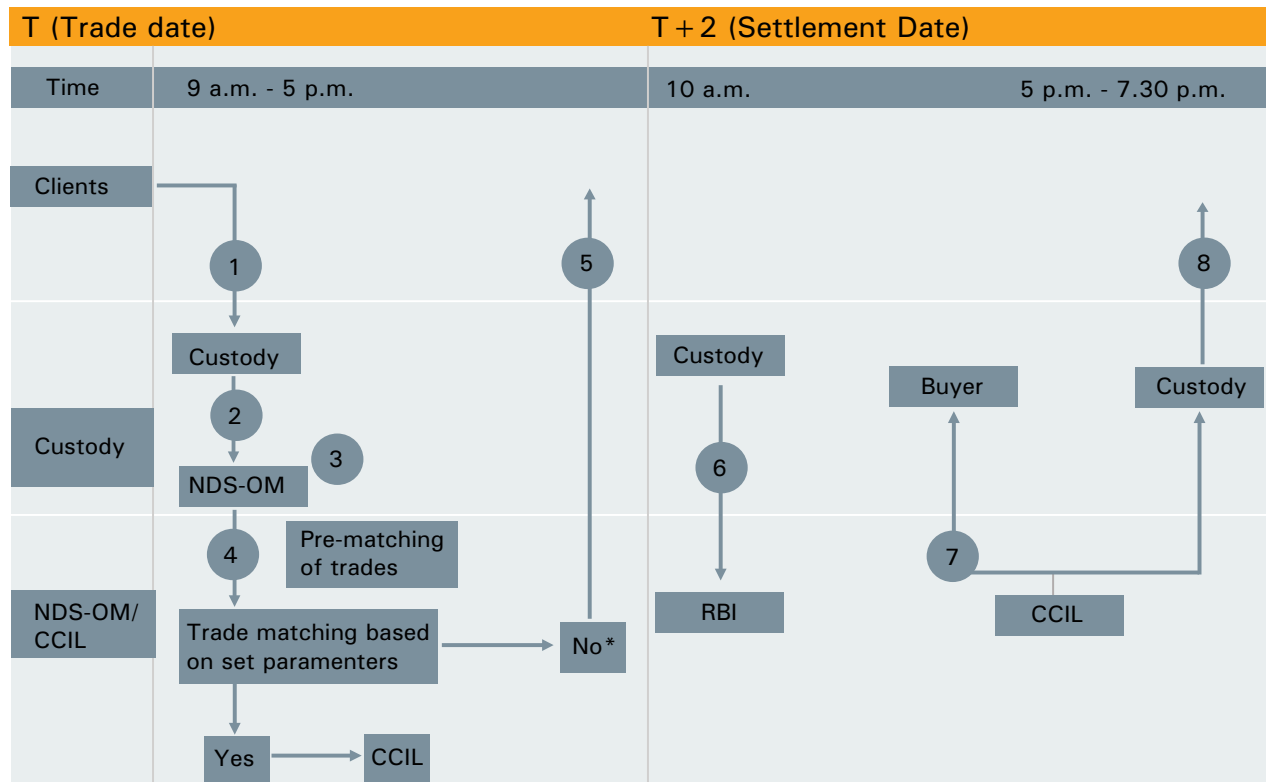
NDS-OM – Negotiated Dealing System Order Matching Platform

CCIL – Clearing Corporation of India, responsible for settling trades on the NDS platform

1. Client sends trade instructions to the custodian
2. Reporting (by buyer and seller) of trades on NDS-OM to be completed within 15 minutes of trade execution
3. Reporting/ confirmation of G-sec purchase trades can be either on T or T+1 date before 1p.m.
4. Pre-matching is done with the counter-party based on set parameters. If matched, trades are transferred to CCIL for settlement
5. In case matching fails, intimation sent to the client to revise trades
6. Debit settlement amount from the client’s account and make payment to RBI by 10a.m.
7. CCIL transfers funds to the seller and securities to the buyers CSGL account held with custodian
8. Settlement confirmation sent to the client

\*Trades remain unmatched in the NDS-OM platform and are cancelled at the end of the day

Settlement Flow – G-Sec Sale Transaction



Legend

NDS-OM – Negotiated Dealing System Order Matching Platform

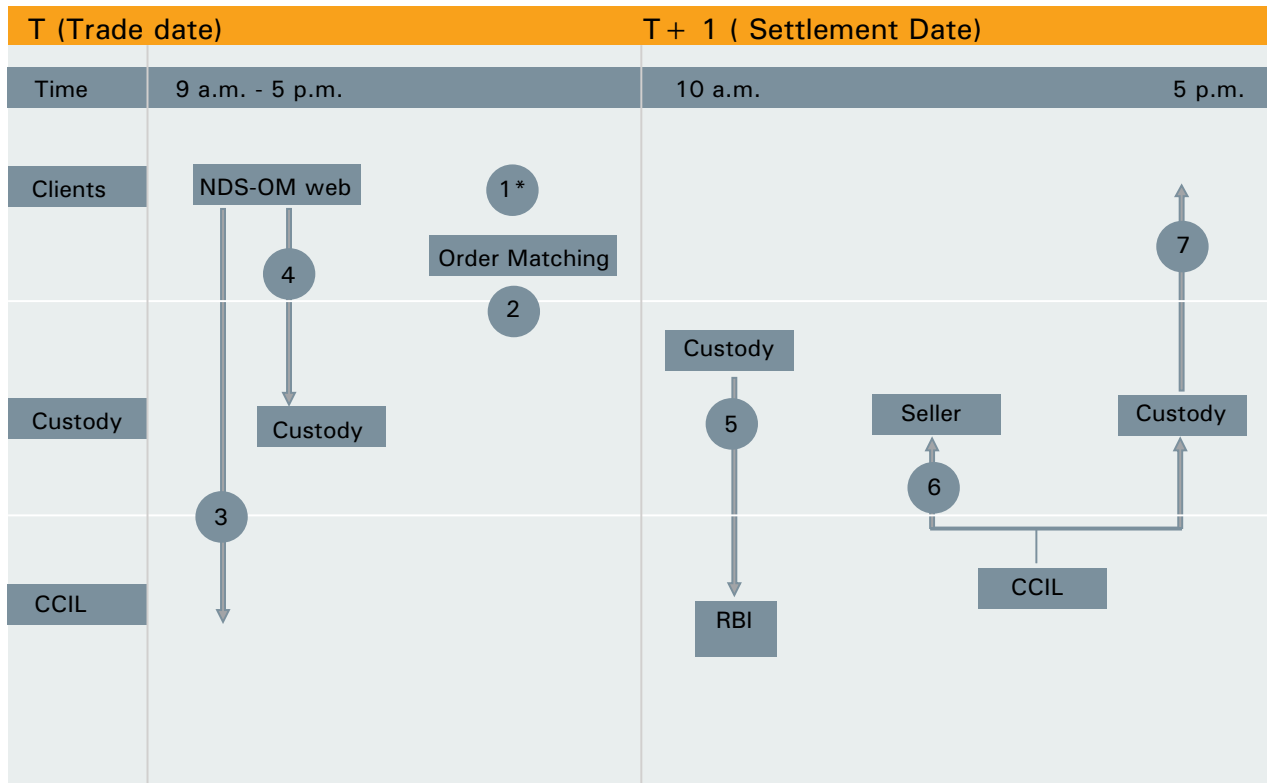
CCIL – Clearing Corporation of India, responsible for settling trades on the NDS platform

1. Client sends trade instructions to the custodian
2. Reporting (by buyer and seller) of trades on NDS-OM to be completed within 15 minutes of trade execution
3. Reporting and confirmation of G-sec trades should be on T date only before 5p.m.
4. Pre-matching done with the counter-party based on set parameters. If matched, trades are transferred to CCIL for settlement
5. In case matching fails, intimation sent to the client to revise trades
6. Securities are debited from the client’s Gilt account
7. CCIL transfers funds to the seller and securities to the buyers CSGL account held with custodian
8. Credit client’s cash account and send a settlement confirmation to the client

\*Trades remain unmatched in the NDS-OM platform and are cancelled at the end of the day.

The facility of NDS-OM has now been made available to FPIs on web module. Trades by FPIs using NDS-OM web module would be settled on T+1 basis.

Settlement Flow – G-Sec Purchase executed on NDS OM Web



Legend

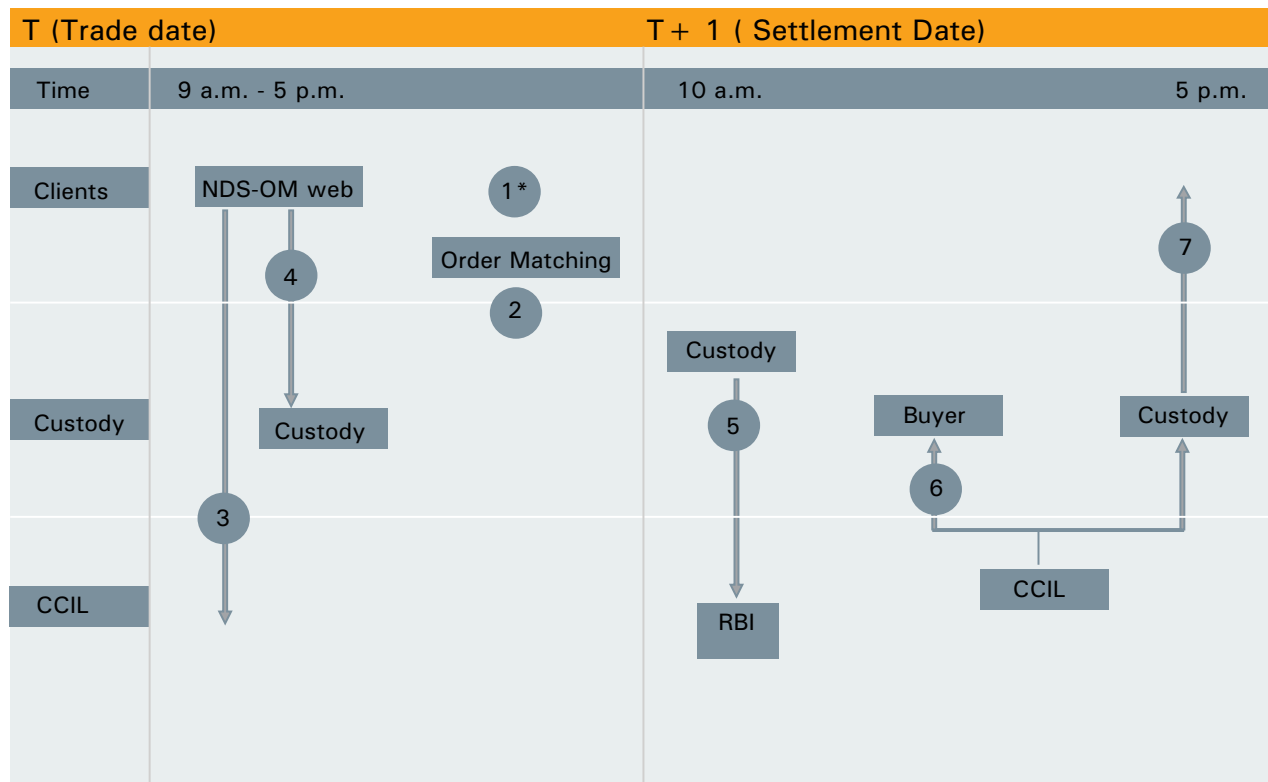
NDS-OM – Negotiated Dealing System Order Matching Platform

CCIL – Clearing Corporation of India, responsible for settling trades on the NDS platform

1. Client executes the order on NDS OM web
2. Trade Orders are matched by the system on predefined criteria to form matched trades
3. Trades matched on NDS-OM shall be automatically sent by the system to CCIL for settlement
4. Instructions of matched trades are sent to the custodian for settlement
5. In case of a Purchase transaction, debit settlement amount from the client’s account and make payment to RBI by 10am
6. CCIL transfers securities/ funds to the buyer/ seller which are credited to the client’s Cash/ CSGL account held with custodian
7. Settlement confirmation sent to the client

\*Trade orders that remain unmatched in the NDS-OM web platform are cancelled at the end of the day.

Settlement Flow – G-Sec Sale executed on NDS OM Web



Legend:

NDS-OM – Negotiated Dealing System Order Matching Platform

CCIL – Clearing Corporation of India, responsible for settling trades on the NDS platform

1. Client executes the order on NDS OM web
2. Trade Orders are matched by the system on predefined criteria to form matched trades
3. Trades matched on NDS-OM shall be automatically sent by the system to CCIL for settlement
4. Instructions of matched trades are sent to the custodian for settlement
5. In case of a sale transaction, securities are debited from the client’s account and delivered to RBI by 10am
6. CCIL transfers funds to the seller and securities to the buyers Gilt account
7. Settlement confirmation sent to the client

\*Trade orders that remain unmatched in the NDS-OM web platform are cancelled at the end of the day.

Advantages of using NDS-OM web module for the FPI investors

- The GAH will have access to the same order book of NDS-OM as the Primary Members  
GAH will be in a better position to control their orders (place/ modify/ cancel/ hold/ release) and will have access to real time live quotes in the market
- Since notifications of orders executed as well as various queries are available online to the GAH, they are better placed to manage their positions
- Web based interface that leverages on the gilt accounts already maintained with the custodian Banks/ PDs therefore provides an operationally efficient system

Corporate Bonds – Over the Counter

Most of the trades in the corporate debt market are executed bilaterally between the parties to the deal. Entities regulated by Securities and Exchange Board of India (SEBI), Reserve Bank of India (RBI) and Insurance Regulatory and Development Authority of India (IRDAI) are required to report their corporate debt trades on the trade reporting platform of the exchanges and settle through the clearing corporation of the exchanges i.e. through the

NSCCL and ICCL the clearing corporations of the National Stock Exchange and the Bombay Stock Exchange respectively. OTC trades, reported on exchange or settled through the clearing corporation are not guaranteed by the exchange or the clearing corporation. The settlements of corporate bond trades shall be carried out between Monday to Friday for three settlement cycles viz., T+0, T+1 and T+2. FPIs have the option to trade directly in the corporate market without availing the services of a broker.

The following transaction can be carried out by FPIs without stock brokers as intermediaries:

- Transaction in Corporate Debt Markets by Category I and Category II FPIs. Category III FPIs have to continue using the services of the broker for executing deals in the corporate debt market
- Transactions on the Electronic Book Provider (EBP) platform of the recognised stock exchanges

FPIs are also permitted to invest in unlisted Corporate Bonds, subject to certain restrictions, as covered under Chapter 7.

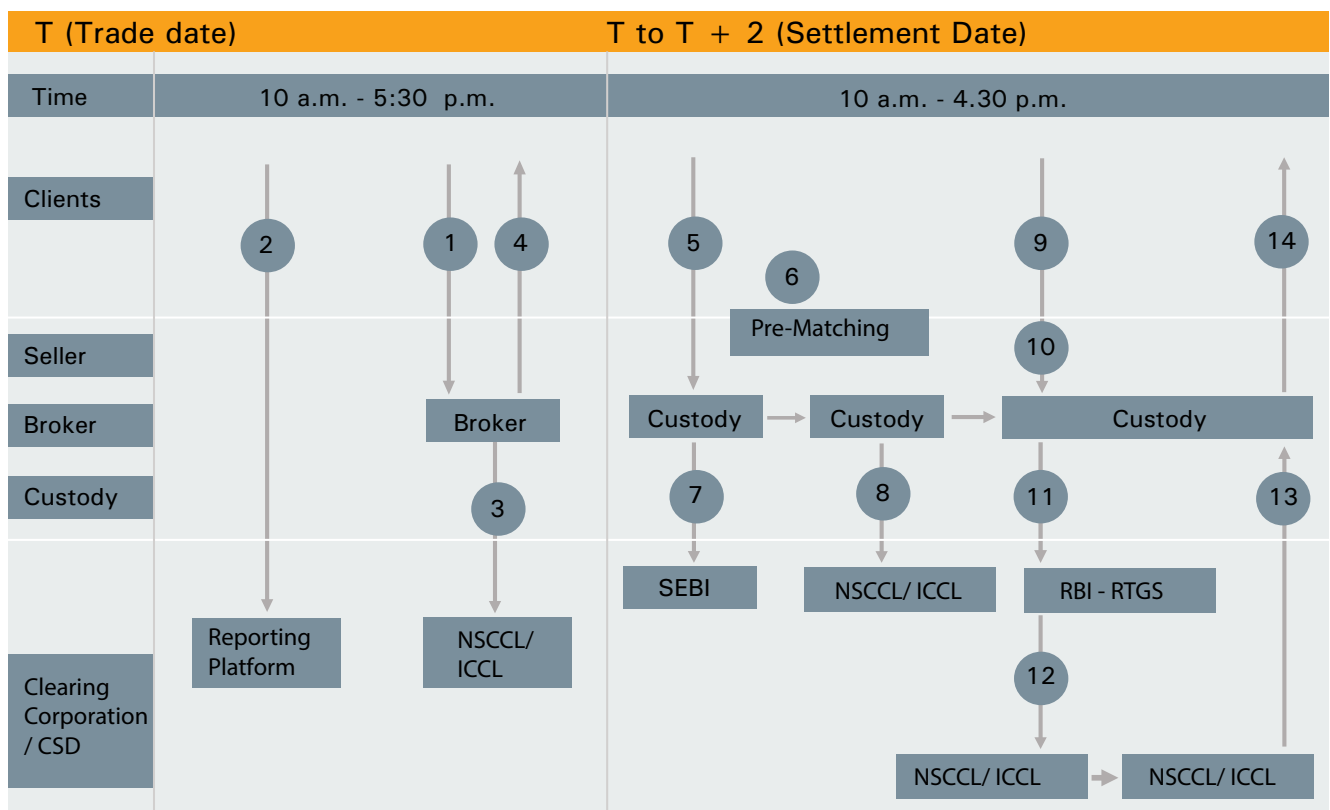
The bond reporting platform offered by NSE is known as CBRICS (Corporate Bond Reporting and Integrated Clearing and Settlement platform). The NSE has introduced Two Factor Authentication (2FA) for users of its bond reporting platform to further enhance security of this application.

BSE uses the New Debt Reporting and Settlement Platform - Indian Corporate Debt Market (ICDM) as its debt reporting platform, from July 14, 2016. The platform has the settlement functionalities such as deal confirmation, addition of client and settlement related details.

The reporting platforms offer the following facilities:

- Single system for reporting and settlement
- Portfolio creation facility
- Single order entry screen for reporting Corporate Bond, CP and CD, Government Securities
- Reporting and settlement from same order entry window
- Trade history
- Daily market analytical reports

### Settlement Flow – Purchase Trade Corporate Bonds





Legend:

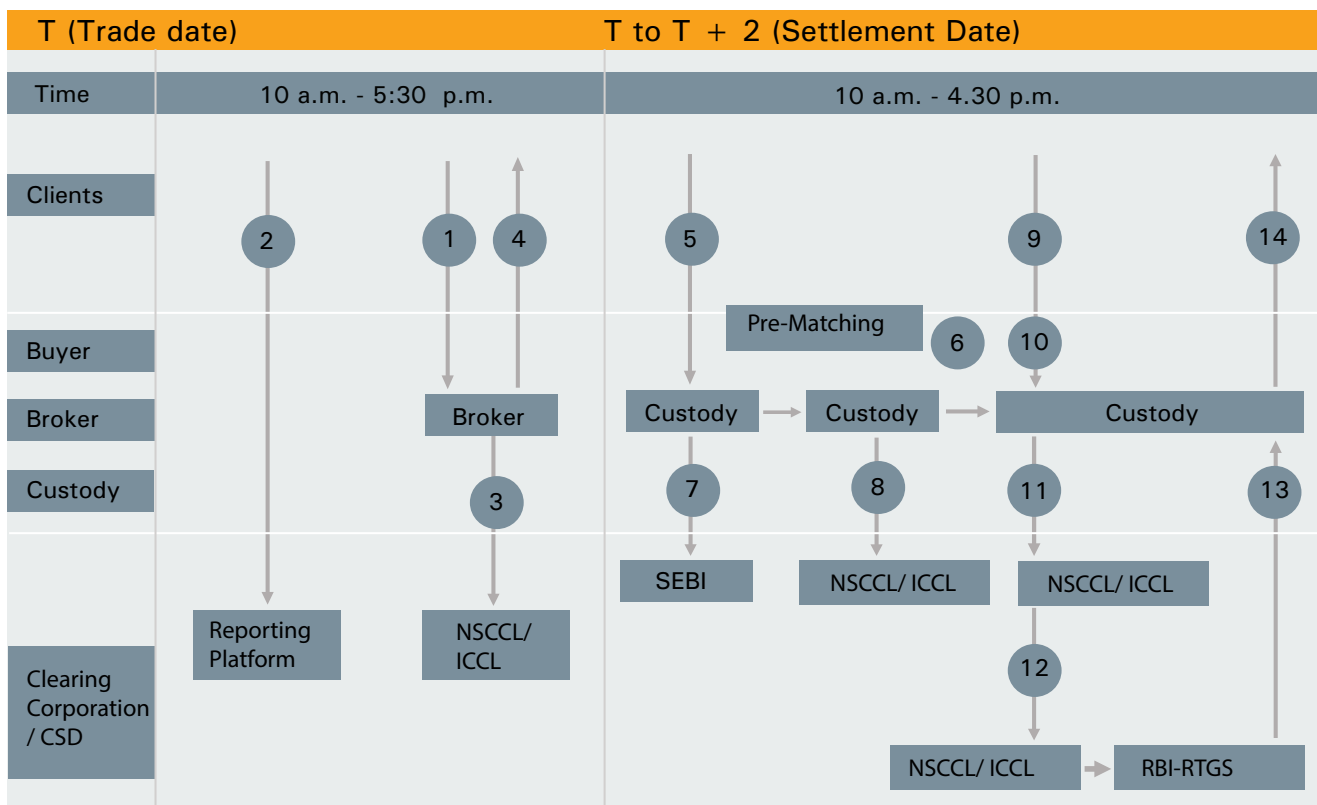
Legend

NSCCL – National Securities Clearing Corporation Limited

ICCL – Indian Clearing Corporation Limited

1. Trade instructions sent by client to the broker
2. Trade reported on exchange reporting platform
3. Broker reports trades to the exchange
4. Trade confirmation to the client along with broker contract note
5. Settlement instructions as per agreed timeline
6. Pre-matching between client instructions and entry on bond reporting platform
7. Reporting of trades to SEBI
8. Trades confirmed on NSCCL and ICCL
9. Client to ensure the account is funded
10. Debit client's cash account
11. Payout of funds to the clearing corporations through RBI-RTGS
12. Settlement via the clearing corporations
13. Delivery of bonds and credit to the clients account through the Depository
14. Settlement confirmation sent to the client

### Settlement Flow – Sale Trade Corporate Bonds



Legend:

NSCCL – National Securities Clearing Corporation Limited

ICCL – Indian Clearing Corporation Limited

1. Trade instructions sent by client to the broker
2. Trade reported on exchange reporting platform
3. Broker reports trades to the exchange
4. Trade confirmation to the client along with broker contract note
5. Settlement instructions as per agreed timeline
6. Pre-matching between client instructions and entry on bond reporting platform
7. Reporting of trades to SEBI
8. Trades confirmed on NSCCL and ICCL
9. Client to ensure there is adequate saleable stock
10. Debit client's security account for pay-in of securities

11. Pay-in of securities through Depositories
12. Settlement via the clearing corporations
13. Funds received via RBI-RTGS
14. Credit client's cash account and send the settlement confirmation

### Coprorate Bonds executed and settled through Exchange platform

The Exchanges also permit execution of trades on their debt market platform. Trades executed on exchange platform are settled through the respective clearing corporation of the exchange. Such trades, which are executed on the exchanges trading platform are guaranteed by the clearing corporation.

As per SEBI directions, the exchanges are required to put in place the following mechanism for auction and financial close-out for corporate bonds traded on the Stock exchanges platform, in case of short delivery:

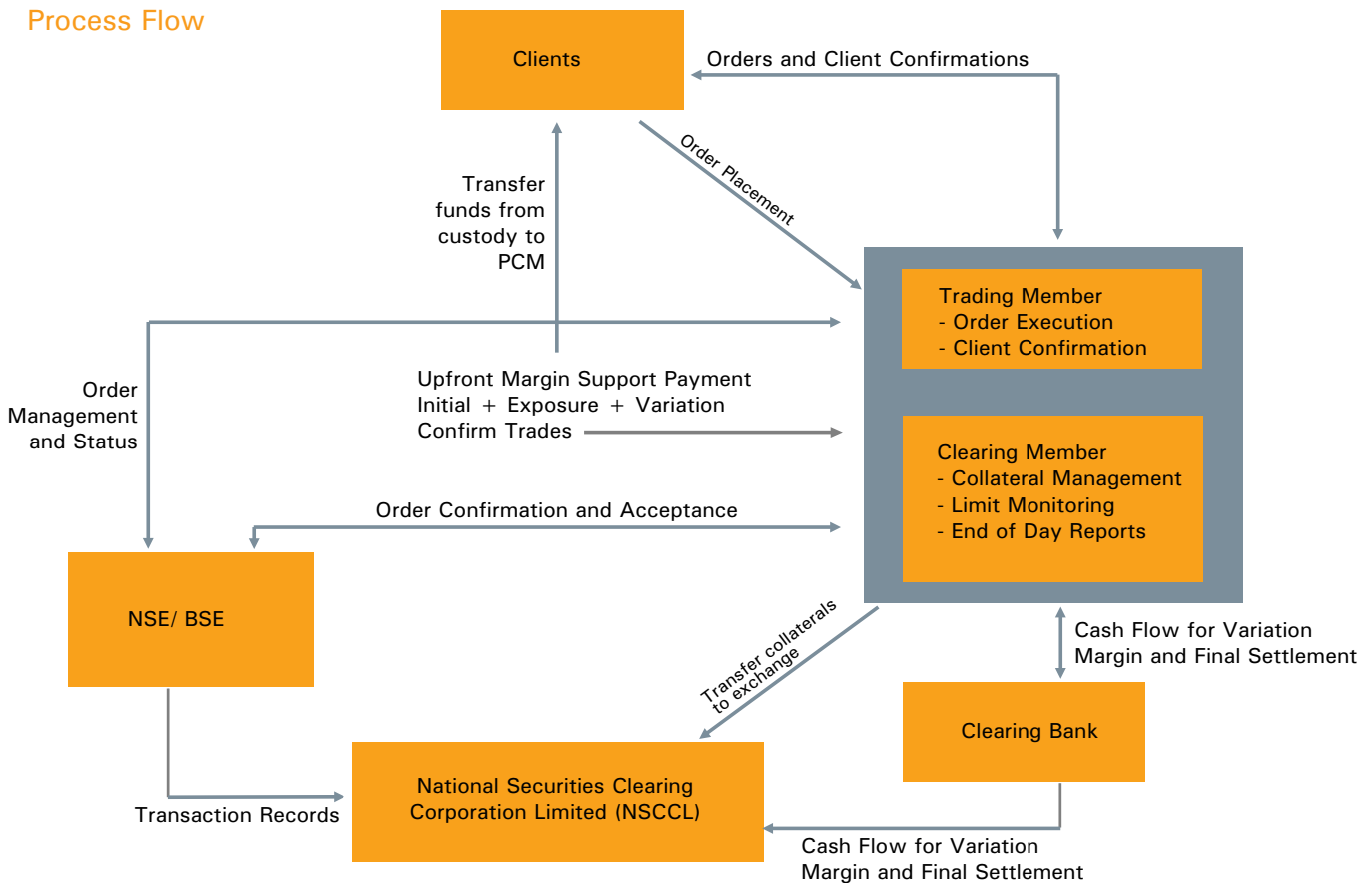
In case of shortage of delivery, stock exchanges/ clearing corporations will conduct financial close-out at the highest price on Trade date (which becomes the trade price) with a 1% mark-up on the same.

- Settlement will be on gross obligation basis, compulsorily done under dematerialised mode and settlement guarantee shall be provided
- Failure of the seller to deliver securities to result in buy-in auction for the shares by Clearing Corporation as per declared auction schedule
  - Auction shall be conducted on T+1 day and settled on T+2 day
  - The depositories will facilitate transfer of those securities to the respective 'Clearing Corporation Settlement Pool account' by 09:30 a.m.
  - The auction amount will be charged to the short delivering member
- The valuation price for bonds not delivered on the settlement day for bonds, would be the closing price of those bonds on T day unless prescribed otherwise from time to time by the relevant authority
- Failure to procure shares in auction or failure of auction seller to deliver shares in part or full on auction pay-in day, to result in close out
  - The financial close out would be at highest price on Trade date (which would be the trade price) with a 1% mark-up on that trade price.

## 11.4. Derivatives Segment

- Equity Derivatives: The Clearing Corporations of the exchanges act as clearing and settlement agency for all deals executed on the Derivatives (Futures and Options) segment. NSCCL acts as legal counter-party to all deals on NSE's F&O segment and guarantees settlement and ICCL acts as legal counter-party to all deals on BSE's F&O segment and guarantees settlement

Process Flow



- Currency Derivatives: Clearing Corporation of the exchanges is the clearing and settlement agency for all deals executed on the Currency Derivatives segment. NSCCL acts as legal counter-party to all deals on NSE's Currency Derivatives segment and guarantees settlement
- Interest Rate Futures (IRF): Clearing Corporation of the exchanges is the clearing and settlement agency for all deals executed on the Derivatives segment relating to IRFs. NSCCL acts as legal counter-party to all deals on NSE's Derivatives segment relating to IRFs and guarantees settlement. ICCL acts as legal counterparty to all deals on BSE's derivative segment relating to IRFs and guarantees settlement. All transactions relating to IRFs will be cash settled in Indian rupees

### 11.4.1. Legal Entity Identifier Code

The Reserve Bank of India (RBI) has implemented Legal Entity Identifier (LEI) code for all participants in the Over-the-Counter (OTC) markets for Indian Rupee (INR) Interest Rate derivatives, foreign currency derivatives and credit derivatives in India.

The LEI code has been conceived as measure to improve quality and accuracy of financial data systems for better risk management post the Global Financial Crisis. It is designed to create a global reference data system that uniquely identifies every legal entity or structure, in any jurisdiction, that is party to a financial transaction. The LEI is a 20-character unique identity code assigned to entities who are parties to a financial transaction

LEI can be obtained from any of the Local Operating Units (LOUs) accredited by the Global Legal Entity Identifier Foundation (GLEIF). List of LOUs is provided by GLEIF and can be accessed by using the link below:

<https://www.gleif.org/en/about-lei/how-to-get-an-lei-find-lei-issuing-organisations>

In India, LEI code may be obtained from Legal Entity Identifier India Ltd. (LEIL)

<https://www.ccilindia-lei.co.in>

All current and future participants would be required to obtain the unique LEI code as per time lines indicated below. Entities without an LEI code would not be eligible to participate in the OTC derivative markets, after the date specified below:

Phase	Entities	Deadline
Phase I	<ul style="list-style-type: none"> <li>– Entities regulated by               <ul style="list-style-type: none"> <li>– RBI</li> <li>– Securities and Exchange Board of India (SEBI)</li> <li>– Insurance Regulatory and Development Authority of India (IRDA)</li> <li>– Pension Fund Regulatory and Development Authority (PFRDA)</li> </ul> </li> <li>– Corporates With Net Worth above INR 10 billion</li> </ul>	August 01, 2017
Phase II	<ul style="list-style-type: none"> <li>– Corporates With Net Worth between INR 2 billion and INR 10 billion</li> </ul>	October 01, 2017
Phase III	<ul style="list-style-type: none"> <li>– Corporates With Net Worth between INR 700 million and INR 2 billion</li> </ul>	December 01, 2017
Phase IV	<ul style="list-style-type: none"> <li>– Corporates With Net Worth between INR 700 million and below</li> </ul>	March 31, 2018

## 11.5. Securities Lending and Borrowing

SEBI and RBI have permitted onshore short selling and Securities Lending and Borrowing (SLB) for all classes of investors. Therefore, all institutional investors as regulated by SEBI are eligible to short sell. Naked short selling is not permitted in the Indian securities market and investors will be required to mandatorily honour their obligations of delivering the securities at the time of settlement. Accordingly the scheme for securities lending and borrowing was put in place.

SEBI has mandated that SLB transactions have to be routed through the clearing corporation of the stock exchanges. Consequently, only the NSCCL and the ICCL, the clearing corporations, are current Approved Intermediaries (AI) for SLB transactions.

The borrowers and lenders do not have direct access to the trade on the SLB platform of the AIs and must therefore execute trades through existing NSE and BSE clearing members (including banks and custodians) who become SLB Participants. The clearing and settlement of the SLB trades by investors will be through the designated custodian of the institutional investors.

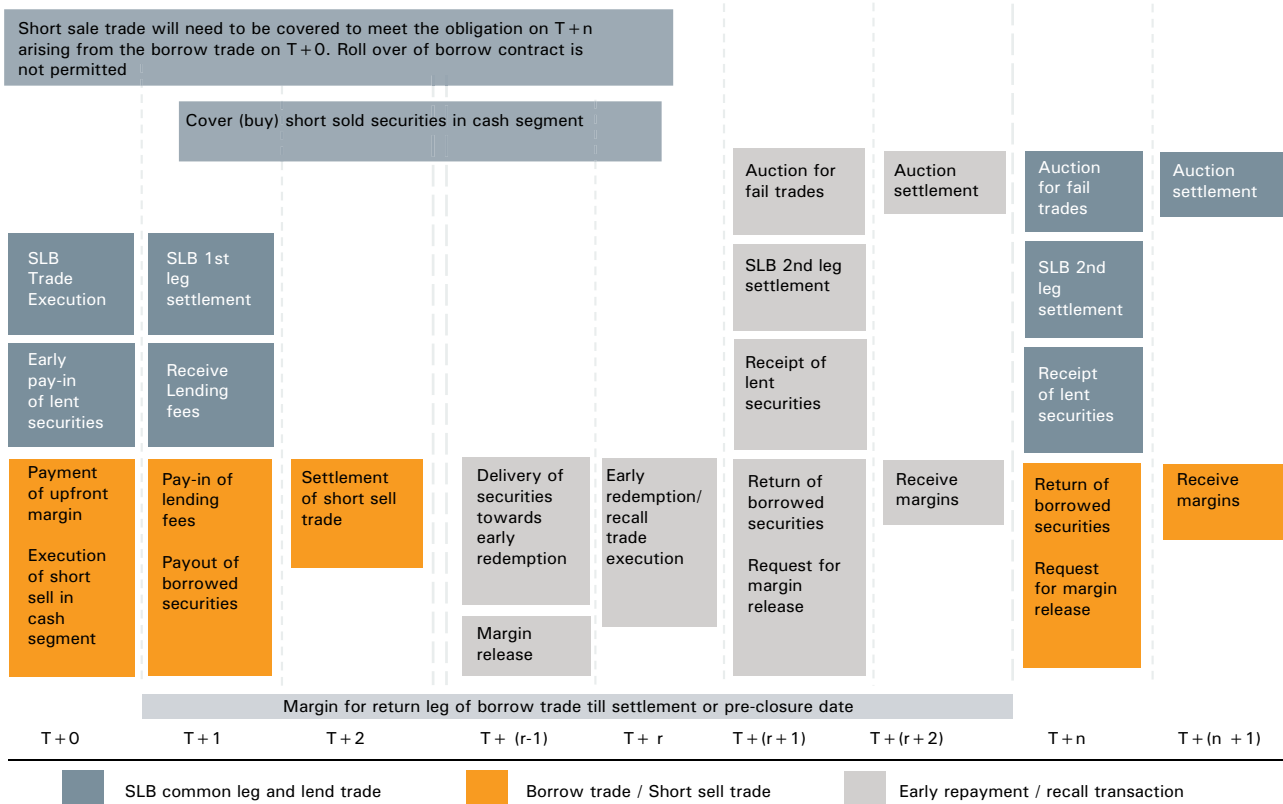
All Clearing Members of the Authorised Intermediary clearing house (NSCCL/ ICCL) including Banks and Custodians referred to as 'Participant' are eligible to participate in SLB. In order to participate in SLB, clearing members have to register as Participants in SLB. Participants desirous of lending or borrowing securities can do so either on their own account or on behalf of their clients.

### NSCCL Charges

Slab* (Value of Total lending fees in INR)	Effective Rate
Upto INR 1 million	2.00%
Above INR 1 million - less than INR 5 million	1.75%
Above INR 5 million - INR 10 million	1.25%
Above INR 10 million	0.50%

\*Slabs would be based on value of total lending fees, which would be the monthly aggregate of lending fee pertaining to both borrow and lend transactions executed by a Participant

### SLB Trade Flow – Operational Model



## 11.6. Risk Management - Overview

The regulator/ exchanges have developed a comprehensive risk management system encompassing capital adequacy of members, adequate margin requirements, limits on exposure and turnover, indemnity insurance, on-line position monitoring and automatic disablement, etc. They also administer an efficient market surveillance system to curb excessive volatility, detect and prevent price manipulations.

**Margin** - key part of the risk management system is Margin, with uncertainty in stock price movement leading to risk which is addressed by margining system of stock markets.

Daily margin comprises as below:

- Value-at-Risk (VaR) Margins
- Extreme Loss Margins
- Mark to Market (MTM)

From April 21, 2008, transactions done by all institutional investors including FPIs are margined from T+1 day subsequent to confirmation of the transactions by the custodians.

Note: FPIs that are corporate bodies, individuals or family offices are margined on an upfront basis (i.e. T+0), as per the extant margining framework for the non-institutional trades.

**Capital Adequacy Requirements:** The core of risk management is Liquid assets deposited by members with the exchange/ clearing corporation. Members are required to provide liquid assets which adequately cover various margins and base minimum capital requirements.

**Core Settlement Guarantee Fund (CSGF):** SEBI has prescribed norms for Core Settlement Guarantee Fund (Core SGF), Default Waterfall and Stress Testing, aimed at enhancing the robustness of the present risk management systems of the Clearing Corporations for dealing with defaults of the clearing members in an effective manner. In the event of failure of a trading member, the Fund is utilised for successful completion of the settlement which eliminates counter-party risk of trading on the Exchange. Accordingly the exchanges have set up CSGF

wherein the clearing corporations contribute upto 50% of Minimum Required Capital (MRC) of each segment. The Exchange contributes upto 25% of the MRC and the remaining 25% is contributed by the clearing members under each segment.

These norms are aimed at achieving mainly the following objectives:

- Create a core fund (called core settlement guarantee fund), within the SGF, against which no exposure is given and which is readily and unconditionally available to meet settlement obligations of clearing corporation in case of clearing member(s) failing to honour settlement obligation
- Align stress testing practices of clearing corporations with Financial Market Infrastructure principles (FMI) (norms for stress testing for credit risk, stress testing for liquidity risk and reverse stress testing including frequency and scenarios)
- Capture in stress testing, the risk due to possible default in institutional trades
- Harmonise default waterfalls across clearing corporations
- Limit the liability of non-defaulting members in view of the Basel capital adequacy requirements for exposure towards Central Counterparties (CCPs)
- Ring-fence each segment of clearing corporation from defaults in other segments, and
- Bring in uniformity in the stress testing and the risk management practices of different clearing corporations especially with regard to the default of members

### Contribution to Core SGF

At any point of time, the contributions of various contributors to Core SGF of any segment shall be as follows:

- Clearing Corporation (CC) contribution: CC contribution to Core SGF shall be at least 50% of the Minimum Required Capital (MRC). CC shall make this contribution from its own funds. CC contribution to core SGFs shall be considered as part of its net worth
- Stock Exchange contribution: Stock Exchange contribution to Core SGF shall be at least 25% of the MRC (can be adjusted against transfer of profit by Stock Exchange as per Regulation 33 of SECC Regulations, which may be reviewed in view of these guidelines)
- Clearing Member primary contribution: If the CC wishes, it can seek risk based contribution from Clearing Members (CMs) of the segment (including custodial clearing members) to the Core SGF subject to the following conditions:
  - That total contribution from CMs shall not be more than 25% of the MRC
  - That no exposure shall be available on Core SGF contribution of any CM (exposure-free collateral of CM available with CC can be considered towards Core SGF contribution of CM), and
  - That required contributions of individual CMs shall be pro-rata based on the risk they bring to the system

CC shall have the flexibility to collect CM primary contribution either upfront or staggered over a period of time. In case of staggered contribution, the remaining balance shall be met by CC to ensure adequacy of total Core SGF corpus at all times. Such CC contribution shall be available to CC for withdrawal as and when further contributions from CMs are received.

The above prescribed limits of contribution by CC, SE and CMs may be reviewed by SEBI from time to time considering the prevailing market conditions.

Any penalties levied by CC (as per Regulation 34 of SECC Regulations) shall be credited to Core SGF corpus.

Interest on cash contribution to Core SGF shall also accrue to the Core SGF and pro-rata attributed to the contributors in proportion to their cash contribution.

CC shall ordinarily accept cash collateral for Core SGF contribution. However, CC may accept CM contribution in the form of bank FDs too. CC shall adhere to specific guidance which may be issued by SEBI from time to time in this regard.

### Access to Core SGF

CC may utilise the Core SGF in the event of a failure of member(s) to honour settlement commitment.

### Default Waterfall

The default waterfall of CC for any segment shall generally follow the following order:

- Monies of defaulting member (including defaulting member's primary contribution to Core SGF(s) and excess monies of defaulter in other segments)
- Insurance, if any
- CC resources (equal to 5% of the segment MRC)
- Core SGF of the segment in the following order:
  - Penalties
  - CC contribution to the extent of at least 25% of the segment MRC
  - Remaining Core SGF: CC contribution, Stock Exchange contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis
- Proportion of remaining CC resources (excluding CC contribution to core SGFs of other segments and INR 1 Billion) equal to ratio of segment MRC to sum of MRCs of all segments.\*
- CC/ SE contribution to Core SGFs of other segments (after meeting obligations of those segments) and remaining CC resources to that extent as approved by SEBI
- Capped additional contribution by non-defaulting members of the segment.\*\*
- Any remaining loss to be covered by way of pro-rata haircut to payouts.\*\*\*

\*INR 1 billion to be excluded only when remaining CC resources (excluding CC contribution to core SGFs of other segments) are more than INR 1 billion

\*\*CC shall limit the liability of non-defaulting members towards additional contribution to a multiple of their required primary contribution to Core SGF and the framework regarding the same should be disclosed. In case of shortfall in recovery of assessed amounts from non-defaulting members, further loss can be allocated to layer 'VI' with approval of SEBI.

\*\*\*In case loss allocation is effected through haircut to payouts, any subsequent usage of funds shall be with prior SEBI approval. Further, any exit by CC post using this layer shall be as per the terms decided by SEBI in public interest.

**SPAN (Standardised Portfolio Analysis of Risk) monitoring:** the objective is to identify overall risk in a portfolio of futures and options contracts for each member. The system treats futures and options contracts uniformly, while at the same time recognizing the unique exposures associated with options portfolios like extremely deep out-of-the-money short positions, inter-month risk and inter-commodity risk.

**Collateral Deposits:** Participants may deposit collaterals in the form of cash equivalents i.e. cash, fixed deposit receipts and bank guarantee, Government Securities and Foreign Securities. The collateral deposited by the participant is utilised towards margin requirement of the participant

**Graded Surveillance Measure:** The stock exchanges have introduced Graded Surveillance Measure (GSM), to ensure market safety and safeguard interest of investors. The GSM will be introduced on securities witnessing an abnormal price rise not commensurate with financial health and fundamentals like earnings, book value, fixed assets, Net-worth, P/E multiple etc.

Key highlights of GSM are as follows:

- The list of securities identified under GSM will be informed separately and made available on exchanges website. The GSM framework shall come into action within a week after publication of this list
- Market participants dealing in such identified securities will have to exercise caution and diligence as the exchanges and SEBI may place additional restrictions on these securities, such as:
  - Placing/ continuing the securities in trade to trade category
  - Requiring deposit of additional amount as surveillance deposit, which shall be retained for an extended period
  - Permit trading in such securities only once in a week or once in a month
  - Freezing upper limit on the trading price
- The measures would be triggered, based on certain criteria and made effective on short notice



Members trading in such securities either on their own account or on behalf of clients would be kept under close scrutiny by the exchange. Any misconduct would be viewed seriously

The exchanges have issued a set of FAQs to explain the GSM mechanism. The FAQs can be accessed using the below attached link:

<http://www.bseindia.com/markets/MarketInfo/DispNewNoticesCirculars.aspx?page=20170321-13>

[https://www.nseindia.com/invest/content/FAQs\\_Graded\\_Surveillance\\_Measure.pdf](https://www.nseindia.com/invest/content/FAQs_Graded_Surveillance_Measure.pdf)

## 11.7. Margins

Institutional equity trades are margined on trade date+1 (T+1) day. Margins are computed and levied at a client level and collected from the custodians for all confirmed trades. Custodians in turn, collect margins from the clients. Margins for unconfirmed institutional transactions are levied on the broker who has executed the transaction

### Types of margins levied

The following margins are being levied on institutional trades from April 21, 2008 on a T+1 basis

- Value-at-Risk (VaR) Margins
- Extreme Loss Margins (ELM)
- Mark To Market (MTM)

### 11.7.1. Margins in Cash Market

Transaction Type	Obligation	Payable By	Mode	Payment on
Buy	<ul style="list-style-type: none"> <li>– VAR and ELM Margins: These margins are applied by the stock exchanges at end of day on T+1 on the custodian. The custodian is required to collect these margins in turn from the clients</li> <li>– MTM Margins: as applicable at the end of T+1 day are also payable. MTM margin can be paid by 9:30 a.m. IST on T+2 day</li> </ul>	Buyer	Payable in cash or cash equivalents like bank guarantees, fixed deposits or securities specified by NSCCL or ICCL. However, bank guarantees, fixed deposits cannot be placed as collaterals by FPIs. Early pay-in of funds permitted to avoid margin payment	T+1
Sell	<ul style="list-style-type: none"> <li>– VaR Margin ELM Margins: These margins are applied by the stock exchanges at the end of day on T+1 on the custodian. The custodian is required to collect these margins in turn from clients</li> <li>– MTM Margins: as applicable at the end of T+1 day are also payable. MTM margin can be paid by 9.30am IST on T+2</li> </ul>	Seller	Payable in cash or cash equivalents like bank guarantees, fixed deposits or securities specified by NSCCL or ICCL. However, bank guarantees, fixed deposits cannot be placed as collaterals by FPIs. Early pay-in of securities permitted to avoid margin payment	T+1

- Netting of Margins with settlement proceeds – Netting between the margins paid to the stock exchanges on T+1 and the settlement proceeds to be paid on T+2 is permitted. Under the netting facility, the settlement obligation is determined on a net basis after deducting the cash margins paid by the institutional investor. This benefit will not be available if non-cash margins (Fixed Deposits, Bank Guarantee or approved securities) are placed by the

investor as margin

- Early pay-in – Institutional investors are permitted to make early pay-in of funds and securities to avoid margins on trades. Trades for which early pay-in has been effected, will not be subject to the margins prescribed above
- The trades of FPIs in Category I and II shall be margined on a trade date+1 (T+1) basis in accordance with existing norms
- FPIs in Category III that are corporate bodies, individuals or family offices shall be margined on an upfront basis (i.e. T+0), as per the extant margining framework for the non-institutional trades i.e. Client will have to pre-fund their account to the extent of applicable margins before taking position in the market on T day. Other types of Category III investors shall experience the same margin mechanism as Category I and II

### 11.7.2. Margins in SLB Segment

Transaction Type	Obligation	Payable By	Mode	Payment on	Released on
Borrow Transaction	Lending fee	Borrower	Payable in cash or cash equivalents like bank guarantees, fixed deposits or securities specified by NSCCL or ICCL. However, FPIs must pay margins in cash only	T	T+1
Borrow Transaction - Reverse Leg	<ul style="list-style-type: none"> <li>– VaR Margins</li> <li>– ELM Margins</li> <li>– MTM Margins</li> <li>– Lending price as may be specified by NSCCL/ ICCL</li> </ul>	Borrower	Payable in cash or cash equivalents like bank guarantees, fixed deposits or securities specified by NSCCL or ICCL. However, FPIs must pay margins in cash only	T + 1	Upon return of securities
Lend Transaction	<ul style="list-style-type: none"> <li>– MTM Margins</li> <li>– Fixed percentage (25%) of lending price as may be specified by NSCCL/ ICCL</li> </ul>	Lender	Payable in cash or cash equivalents like bank guarantees, fixed deposits or securities specified by NSCCL or ICCL. However, FPIs must pay margins in cash only. Early pay-in of securities permitted to avoid margin payment	T	Pay-in

- Margin payments can be avoided by executing “Early pay-in” of settlement obligation, either cash or securities, by borrower or lender respectively
- Exact computation formulas for margin calculation may differ slightly across exchanges, and may be modified from time to time

### 11.7.3. Margins in Exchange Debt Segment

For the purpose of risk management in respect of trades settled on DVP-3 basis on the stock exchange, the Clearing Corporation imposes the following margins:

- Initial Margin (IM): Initial margin is based on a worst case loss of a portfolio of an individual client across various scenarios of price changes so as to cover a 99% VaR over one day horizon.
  - The minimum initial margin is 2% for residual maturity up to three years, 2.5% for residual maturity above three years and up to five years; and 3% for maturity above five years
  - The margin is calculated as percentage of traded price of the bond expressed in terms of clean price i.e. without taking accrued interest into account
  - Stock exchanges may follow a VaR estimation model similar to Interest Rate Futures.
  - The Initial Margin shall be deducted upfront from the liquid assets of the member taking into account gross open positions
- Extreme Loss Margin (ELM): The ELM covers the expected loss in situations that go beyond those envisaged in risk estimates used in the initial margins. The ELM for any bond is 2% of the traded price expressed in terms of clean price. It would be deducted upfront from the total liquid assets of the member

No margins are payable for corporate bond deals done in the OTC market that are reported and settled through the exchange clearing corporations.

### 11.7.4. Margins in G-Sec Market

#### Risk Management Process for G-Sec

During the settlement processes, CCIL assumes certain risks which may arise due to a default by a member to honour its obligations. Settlement being on Delivery Versus Payment basis, the risk from a default is the market risk (change in price of the concerned security). CCIL processes are designed to cover the market risk through its margining process

CCIL, the clearing corporation responsible for settling deals in government securities collects Initial Margin and Mark to Market Margin (both Intraday and EOD) from members in respect of their outstanding trades.

Initial Margin is collected to cover the likely risk from future adverse movement of prices of the concerned securities. Mark to Market Margin is collected to cover the notional loss (i.e. the difference between the current market price and the contract price of the security covered by the trade) already incurred by a member. Both the margins are computed trade-wise and then aggregated member-wise.

Members are required to keep balances in Settlement Guarantee Fund (SGF) in such a manner that the same is enough to cover the requirements for both Initial Margin and Mark-to-Market Margin for the trades done by such members. In case of any shortfall, CCIL makes margin call and the concerned member is required to meet the shortfall before the specified period of the next working day. Members' contribution to the SGF is in the form of eligible G-Secs/ T-Bills and cash, with cash being not less than 10% of the total margin requirement at any point of time.

### 11.7.5. Margins in Derivative Segment

The Clearing Corporations of the Exchanges have developed a comprehensive risk containment mechanism for the Futures and Options segment. The most critical component of a risk containment mechanism for the clearing corporations (NSCCL/ ICCL) is the online position monitoring and margining system. Clearing House uses the SPAN® (Standard Portfolio Analysis of Risk) system for the purpose of margining, which is a portfolio based system.

For better understanding on the types of margin that are levied by the clearing corporations, given below is the margin details as levied by NSCCL.

### Initial Margin

Initial margin requirements are based on 99% VaR over a one day time horizon. In the case of futures contracts (on index or individual securities), the initial margin is computed over a two-day time horizon, applying the appropriate statistical formula. The methodology for computing VaR is as per regulatory guidelines. Initial margin requirement for a member:

- Client positions – Is netted at the level of individual client and grossed across all clients, at the Trading/ Clearing Member level, without any setoffs between clients
- Proprietary positions – Is netted at Trading/ Clearing Member level without any setoffs between client and proprietary positions. Initial margin includes SPAN Margin, and, Assignment Margin, Premium Margin. Apart from the Initial Margin, the exchanges also levy Exposure Margin (EM)

For the purpose of SPAN Margin, various parameters are specified from time to time.

### Premium Margin

In addition to Span Margin, Premium Margin is charged to members. The premium margin is the client wise premium amount payable by the buyer of the option and is levied till the completion of pay-in towards the premium settlement.

### Assignment Margin

Assignment Margin is levied on a CM in addition to SPAN margin and Premium Margin. It is levied on assigned positions of CMs towards interim and final exercise settlement obligations for option contracts on index and individual securities till the pay-in towards exercise settlement is complete.

The Assignment Margin is the net exercise settlement value payable by a Clearing Member towards interim and final exercise settlement and is deducted from the effective deposits of the Clearing Member available towards margins.

### Exposure Margin

The exposure margins for options and futures contracts on index are as follows:

- For Index options and Index futures contracts: 3% of the notional value of a futures contract. In case of options it is charged only on short positions and is 3% of the notional value of open positions
- For option contracts and Futures Contract on individual Securities: The higher of 5% or 1.5 standard deviation of the notional value of gross open position in futures on individual securities and gross short open positions in options on individual securities in a particular underlying. The standard deviation of daily logarithmic returns of prices in the underlying stock in the cash market in the last six months is computed on a rolling and monthly basis at the end of each month

For this purpose notional value means:

- For a futures contract – the contract value at last traded price/ closing price
- For an options contract – the value of an equivalent number of shares as conveyed by the options contract, in the underlying market, based on the last available closing price

In case of calendar spread positions in futures contract, exposure margins are levied on one third of the value of open position of the far month futures contract. The calendar spread position is granted calendar spread treatment till the expiry of the near month contract.

### Imposition of additional margins

As a risk containment measure, the relevant authority may require clearing members to make payment of additional margins as may be decided. This shall be in addition to the initial margin and exposure margin, which are or may have been imposed from time to time.

## 11.8. Avenues of Investment

Different avenues are available to investors interested in investing in securities of the company. The Securities Market has two interdependent and inseparable segments, the new issues (primary) market and the stock (secondary) market

### 11.8.1. Primary Market

The Primary market provides the channel for sale of new securities. The issuer of securities sells the securities in the primary market to raise funds for investment and/ or to discharge some obligation

- **Initial Public Offers (IPO):** Initial Public Offer (IPO) is the offer of equity shares by the company to the public and can be availed by any company meeting the listing criteria as specified by SEBI and Stock Exchanges. Participation in IPO is open to all investors including FPIs. IPOs normally have a specific portion that is allocated to Qualified Institutional Buyers (QIBs). IPO can be either through book building process or fixed price process or a combination of both. 100% payment to be blocked through the ASBA route. FPIs can participate in IPOs through their Custodian. However Category III FPI clients cannot apply under the QIB category and can apply under the 'non-institutional' category. QIBs not allowed to withdraw the bids after the issue closing date. However, bids can be revised before the bid closing date. In case of upward revision of bids, the incremental margin amount has to be paid along with the revision. However, in case of a downward revision, the excess margins already paid are refunded only at the time of allotment of shares. Effective January 01, 2016, the time period for listing of public issues has been reduced to 6 working days as against the earlier norm of 12 working days post issue closure
- **Follow on Public Offer (FPO):** Follow on Public Offer (FPO) is a follow on offer of equity shares by an existing company to the public. This is open to all investors and institutional investors, including FPIs who can subscribe to this through their custodian. However Category III FPI clients cannot apply under the QIB category and can apply under the 'non-institutional' category. QIBs are not allowed to withdraw the bids or lower the bids at any stage. However, bids can be revised before the bid closing date. In case of upward revision of bids, the incremental margin amount has to be paid along with the revision. No downward revision is permitted
- **Qualified Institutional Placement (QIP):** Qualified Institutions Placement (QIP) is an additional mode for listed companies to raise funds from Qualified Institutional Buyers (QIBs). While Category I and Category II FPIs can participate in the same through their custodian, Category III FPIs cannot participate as they are not treated as QIBs.
- **Institutional Placement Program (IPP):** FPO of eligible securities by an eligible seller, in which the offer, allocation and allotment of such securities is made only to QIBs. 100% payment to be blocked through the ASBA\* route. Bids cannot be revised downwards or withdrawn. While Category I and Category II FPIs can participate in the same through their custodian, Category III FPIs cannot participate as they are not treated as Qualified Institutional Buyers (QIBs).
- **Offer for Sale (OFS):** Refers to sale of promoters shares through a separate window provided by the stock exchanges for offloading their stake in a transparent manner. Participation in OFS is available to all categories of investor including FPIs. Orders in the OFS window can be placed by institutional investors including FPIs either by paying 100% margin or without paying upfront margin. However orders placed by paying 100% margin can be modified or cancelled at any time during the trading hours. Orders placed without paying margin cannot be modified or cancelled by the investors or brokers, except for making upward revision in the price or quantity.

#### Private placement of corporate bonds through electronic book mechanism

SEBI has introduced Electronic Bidding Platform (EBP) for issuances of corporate bonds through the private placement route. Effective July 2016, it is mandatory for corporates to use EBP for all private placements of corporate bonds in primary market with an issue size of INR 5 bn (approx. USD 75mn) and to be listed on the Stock Exchanges. Participants shall be required to enroll with

EBP before entering bids. Bidding shall be allowed in the bidding time window specified by the issuer. At the end of the bidding time window, EBP shall, on an anonymous basis, disclose the aggregate volume data, including yield, amount including the amount of oversubscription, total bids received, rating(s), category of investor etc. to avoid any speculations. EBP shall upload the allotment data on its website to be made available to the public. The new mechanism is expected to streamline procedures for issuance of debt securities on private placement basis and enhance transparency to discover prices.

\*Application Supported by Blocked Amount (ASBA) means an application for subscribing to a public issue or rights issue, along with an authorisation to Self Certified Syndicate Bank to block the application money in a bank account

### 11.8.2. Secondary Market

This is the market wherein the trading of securities is done. Secondary market consists of both equity as well as debt markets. For the general investor, the secondary market provides an efficient platform for trading of securities

- **Equities:** All secondary market deals in equity needs to be done on recognised Stock Exchange
- **Debt:** All debt deals in corporate bonds, securitised debt can be done on recognised stock exchange as well in the OTC market. However, all deals done on the OTC market needs to be compulsorily reported and settled through the clearing corporation of the Stock Exchange.
- **Tender Offer facility:** SEBI has modified the SEBI (Delisting of Equity Shares) Regulations, 2009 to facilitate tendering and settlement of shares by the shareholders, through the stock exchange mechanism. Under this mechanism, the investors will be able to use the stock exchange platform for tendering shares while participating in open offers, buybacks and delisting offers by companies

### 11.8.3. Government securities:

Secondary market G-Sec deals done in the OTC market needs to be reported and settled on the NDS-OM platform owned by the RBI.

Negotiated Dealing System-Order Matching (NDS-OM): Deals in the G-Sec happens in the OTC market as well as through the anonymous order matching platform called NDS OM. Bilateral deals done in the OTC market need to be reported and settled through the NDS-OM reporting module by the Primary Members on behalf of clients.

The Reserve Bank of India (RBI) had introduced the NDS-OM in August 2005. NDS-OM is a screen based electronic anonymous order matching system for secondary market trading in Government securities owned by RBI. Presently the membership of the system is open to entities like Banks, Primary Dealers, Insurance Companies, Mutual Funds etc. i.e. entities who maintain SGL accounts with RBI. These are Primary Members (PM) of NDS and are permitted by RBI to become members of NDS-OM. CSGL account holders also execute bilateral trades in the Government Securities. Reporting for such trades is done on the NDS OM reporting module.

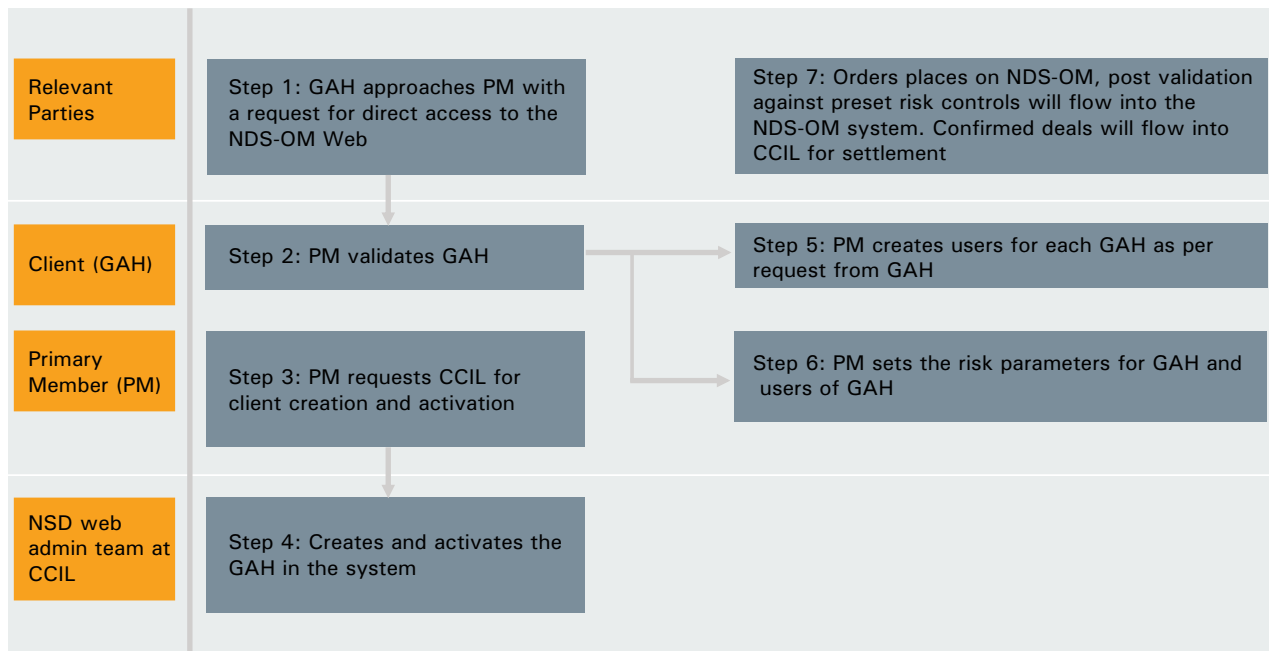
RBI has permitted certain PM Financial Institutions like Banks and PDs to open and maintain Gilt Accounts for their constituents, known as Gilt Account Holders (GAH).

To enhance the access of such GAH to NDS-OM, an internet based web application is provided to such clients who can have direct access to NDS –OM. The internet based utility permits GAH to directly trade (buying and selling) in G-Sec in the secondary market. The access is however, subject to controls by respective PM with whom GAHs have gilt account and current account.

On behalf of GAH, PM needs to submit an access request form to CCIL. The Request would be formally addressed to RBI. However, CCIL has been authorised to directly receive and process Access Request Form from PM for operational convenience. A detailed operation flow is given below:



### Steps in Granting NDS-OM web Access to the Client

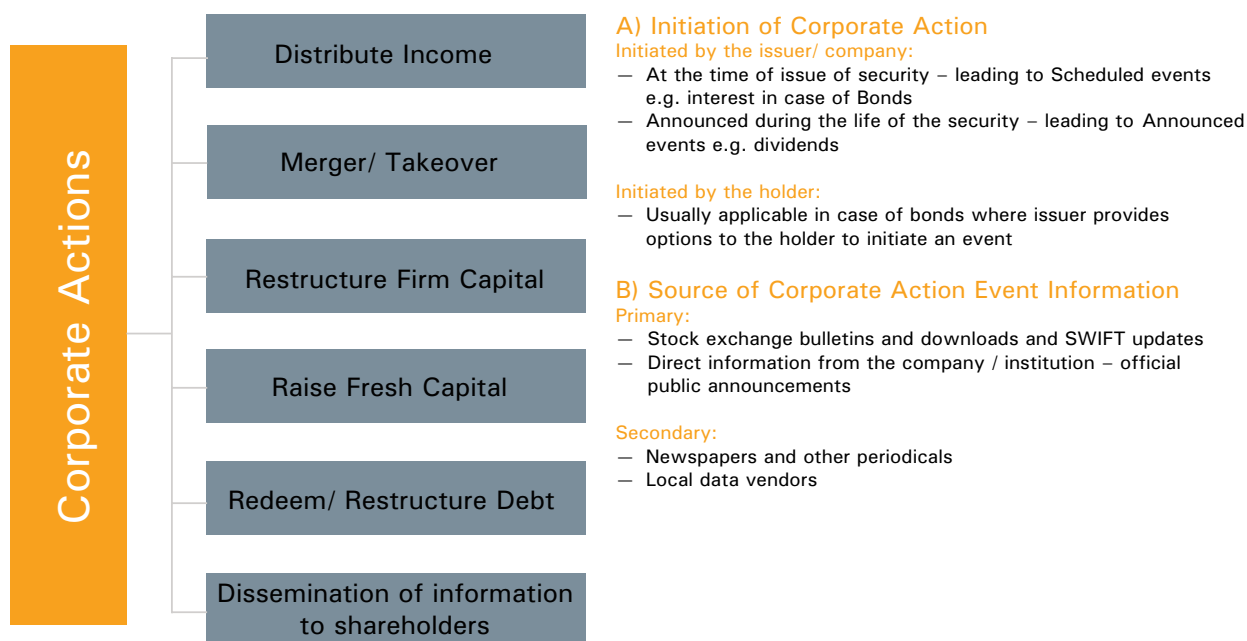


To prevent unauthorised access and to ensure non-repudiation, RBI has stipulated that a digital certificate has to be obtained for each GAH User. The digital certificate has to be installed in an e-token which provides the second layer of security. Before a GAH User is created by the PM, the PM has to ensure that the digital certificate and the e-token have been procured for the GAH User.

## 11.9. Asset Servicing (Overview of Corporate Actions)

A corporate action is an event in the life of a security which effects the existing holding in that security. The purpose of corporate actions is described below

### Asset Servicing





### 11.9.1. Types of Corporate Actions

The most common types of corporate action are:

- Dividends/ interest on equities/ debentures
- Rights issues
- Bonus issues
- Mergers/ amalgamations
- Stock splits
- Buy-backs and stock conversions

### 11.9.2. Notifications

Corporate action notifications are normally published in the financial newspapers and the daily stock exchange bulletins or web sites. There is no centralised data provider of corporate action announcements in India. The sources of corporate action information are:

#### Primary sources

- Exchange bulletins and downloads
- Direct information from the company/ institution/ depository

#### Secondary sources

- Newspapers and other periodicals
- Bloomberg/ Reuters
- Local data vendors
- CRISIL Bond Valuer (supported by CRISIL – a local credit rating agency)

Corporate Action Highlights	
Peak period	April to September
Key Events	Dividends, Stock Splits, Takeovers, Conversions, Redemptions, Right Issues, Buybacks, Tender Offers, Bonus Issues
Source of Information	Primary Source – BSE Ltd and NSE website, Notices from Company and their Registrars/ depository Secondary Source - Daily newspapers, Bloomberg/ Reuters, External local vendors
Entitlement Date	Record Date
Entitlement Computation	On Record Date
Pay Date	There is a concept of pay date but it is not mandatory
Corporate Action Claims	While there is no automatic claiming procedure within the markets, the Agent Bank would contact the respective counterparty to receive corporate action benefits on behalf of the client

#### Important Dates

Announcement Date	Company must notify the relevant stock exchanges at least 21 days before the book close/ record date Companies on whose stocks, derivatives are available or whose stocks form part of an index on which derivatives are available, need to give a notice period of 30 days
Book Close Date	Date on which the company will close its books for the record of its shareholders for disbursement of the entitlement
Record Date	Record date is the cut-off date for determining the number of registered members who are eligible for any corporate action benefits

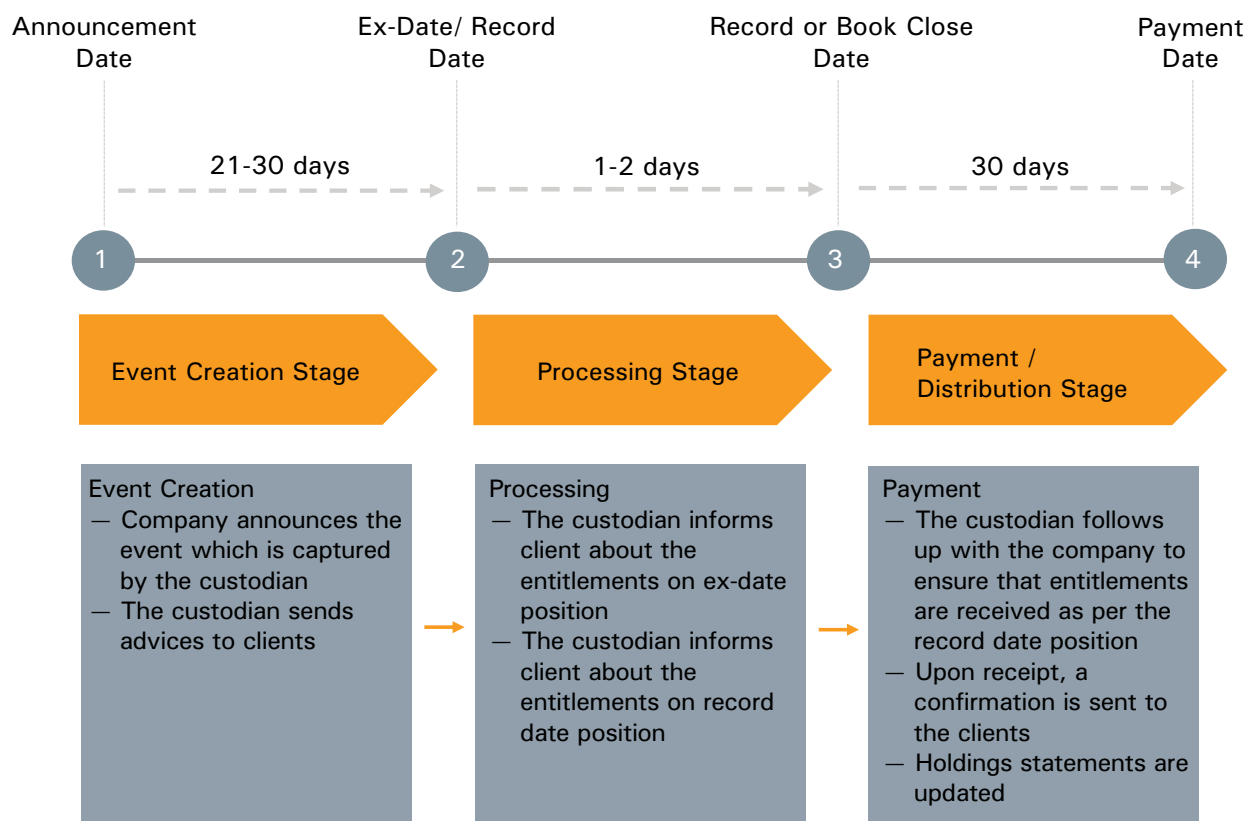
<b>Ex-Date</b>	Date before which, if that particular stock is bought in the market, the buyer is entitled to receive the entitlements (dividend/ bonus). Such a trade is known as a 'cum dividend/ cum bonus', i.e. the trade is executed inclusive of all the entitlements/ benefits
<b>Payment Date</b>	Payment of benefit is to be made within 30 days from the declaration date or AGM date Although there is a requirement for declaration of pay date for dividend, some companies are yet to adopt the practice of announcing pay date prior to providing benefits
<b>Period of Offer</b>	Period from the time when an announcement is made of a proposed or possible offer (with or without terms) until the closing date

### 11.9.3. Life Cycle - Mandatory Corporate Action

Mandatory corporate action events are listed herewith

- Merger/ Takeover
- Stock Split/ Sub-Division/ Consolidation
- Bonus Issue
- Dividend
- Interest
- Redemption/ Partial Redemptions

#### Life Cycle - Mandatory Corporate Action

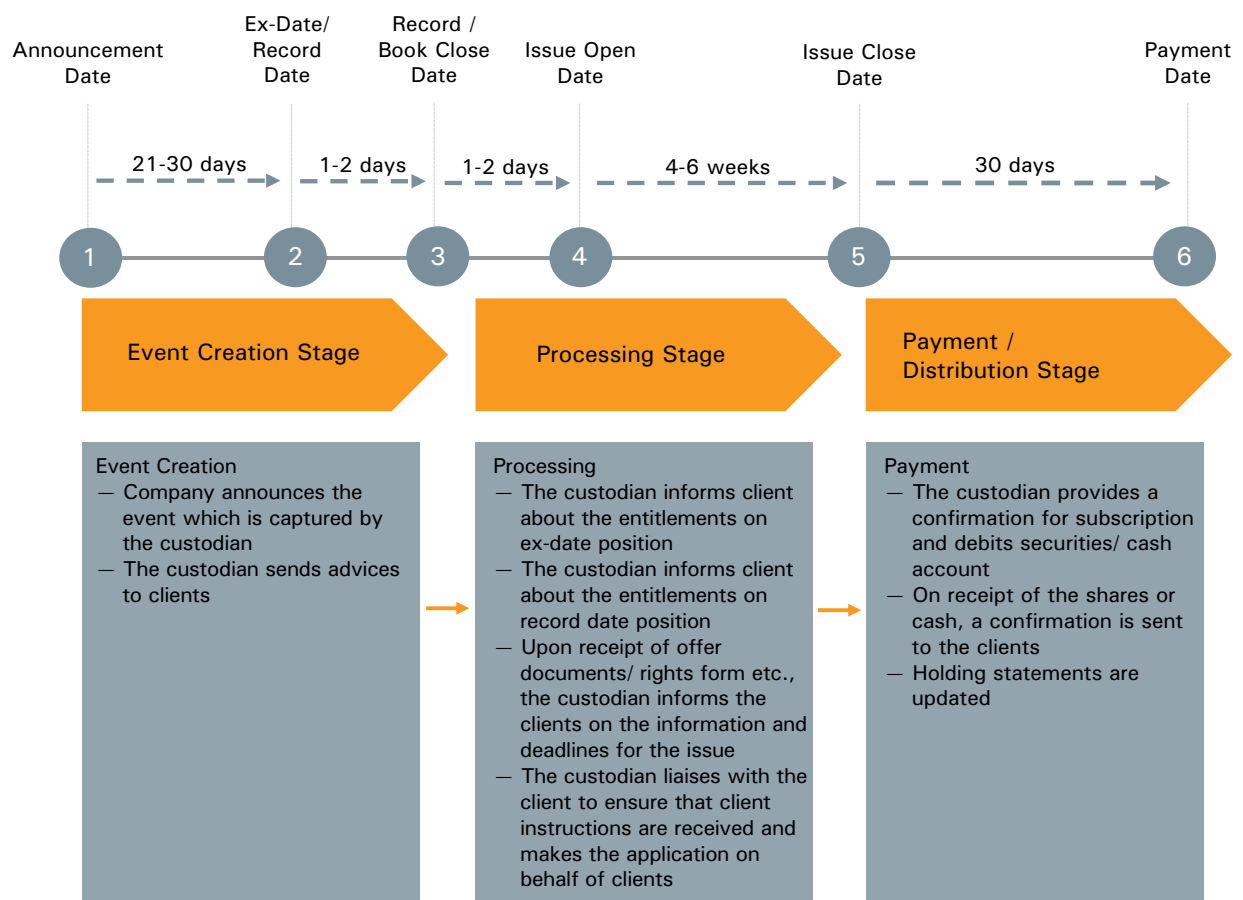


### 11.9.4. Life Cycle - Voluntary Corporate Action Events

Voluntary corporate action events are listed herewith

- Redemption
- Put Option
- Rights Issue
- Open Offer
- Buy Back
- AGM/ EGM
- Warrant Exercise
- Call Payment

#### Life Cycle - Voluntary corporate action events



## 11.10. Voting

Proxy Voting Highlights	
Peak Season – AGM	March to November
Eligible Securities	Equity shares
Notification Source	Primary Source – BSE Ltd and NSE website, Notices from Company and their Registrars Secondary Source – Daily newspapers, Bloomberg/ Reuters, External local vendors
Notice Period	21 days prior to the AGM
Eligibility Date	Record Date
Blocking of Shares	No
Re-Registration	Not Applicable
Voting Method	Physical presence at the meeting, postal ballot, electronic voting
Split Voting	Permitted only in case voting is by poll
Meeting Results	Immediate if voting is held by show of hands, around a week if voting is held by poll or electronically

The FPI can attend and vote in person or appoint a proxy to attend and vote at company meetings.

<b>Salient Features</b>	<ul style="list-style-type: none"> <li>– Section 109 of the Companies Act 2013 states that any member of the company entitled to attend and vote at a meeting shall be entitled to appoint another person as his proxy to attend and vote instead</li> <li>– All shareholders registered in books of company as on the record date/ book closure date are eligible to vote</li> <li>– The share positions are not blocked for proxy voting</li> <li>– Proxy notice is to be lodged with the issuer at least 48 hours before the meeting (96 hours for banks)</li> <li>– Resolutions at company meetings are put to vote by a show of hands. Unless the resolution fails, or a poll is demanded, the matter is decided there at and closed</li> <li>– A proxy cannot exercise voting rights on a show of hands</li> <li>– In the event of a poll, the proxy can vote (for or against or abstain) based on client instructions</li> <li>– In a poll it is possible to split decision and have varied instruction for a single account</li> </ul>
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### 11.10.1. Voting Procedure

- For shares held on the depository the list of beneficial owners is provided by the depository to the company
- The proxy must be authorised by the investor through a power of attorney to be able to represent the investor. Until recently, proxy voting could be carried out only through physical presence at the AGM and postal voting was not possible. However, the Companies Act allows certain resolutions by postal ballot, while in some resolutions, postal ballot has been made mandatory
- Company law requires that the notice appointing a proxy is to be lodged with the issuer at least 48 hours before the meeting (96 hours in the case of a banking institution)
- Normally, the resolutions at company meetings are put to vote by a 'show of hands'. Unless the resolution fails or a poll is demanded, the matter is decided at the AGM and closed. A proxy cannot exercise voting rights by a show of hands, unless the articles of

- association of the company provide for proxy voting by show of hands
- In the event of a poll, the proxy can vote (for or against or abstain) based on instructions. In a poll it is possible to split decision and have varied instruction for a single account
- The share positions are not blocked for proxy voting

### 11.10.2. Notifications

Most of the AGMs generally are convened in June to September on an annual basis. The invitation to the AGM is issued by the company and has to be dispatched by the company as per regulation at least 21 working days prior to the AGM.

### 11.10.3. Publication of Outcome of the Meeting

Outcomes of voted resolutions are notified to the client subsequent to the attendance of the AGM by the proxy.

### 11.10.4. e-Voting

The Companies Act, 2013 has mandated that every listed company as well as companies having at least 1000 shareholders will provide the shareholders the facility of voting at general meetings by electronic means with effect from December 31, 2014.

#### Role of the Scrutiniser

- Board of directors of the company appoints an external person to scrutinise the e-Voting process in a fair and transparent manner
- Scrutiniser, within 3 working days from end date of e-Voting, submits a report of votes cast in favour or against to Chairman
- Scrutiniser maintains a register either manually or electronically to record
  - the assent or dissent received
  - particulars of name, address, folio number or client ID of the shareholders
  - number of shares held
  - nominal value of such shares etc.
- The register and all other papers relating to electronic voting remains in the custody of the scrutiniser until the chairman approves
- After Chairman signs the minutes, register and other related papers are returned to the company

#### e-Voting Features

- The e-Voting process end date should be 3 days prior to the meeting date and e-Votes once exercised cannot be modified
- Shareholders/ members who do not have access to e-voting facility can communicate their assent or dissent through ballot form
- Wherever the company has opted for e-voting, the voting by show of hands has been discontinued
- If E-voting has been done for a client, proxy cannot take part in the polling at the meeting for the given client
- Members/ shareholders exercising e-Voting, can attend the meeting but cannot vote at the meeting
- The results declared along with the scrutiniser's report are placed on the website of the company and on the website of the agency within 2 days of passing of the resolution at the relevant general meeting of members

#### Exceptions

- e-Voting is not available for Court Convened Meeting as well as for meetings held by Public Sector banks

The process flow for e-Voting is as follows:

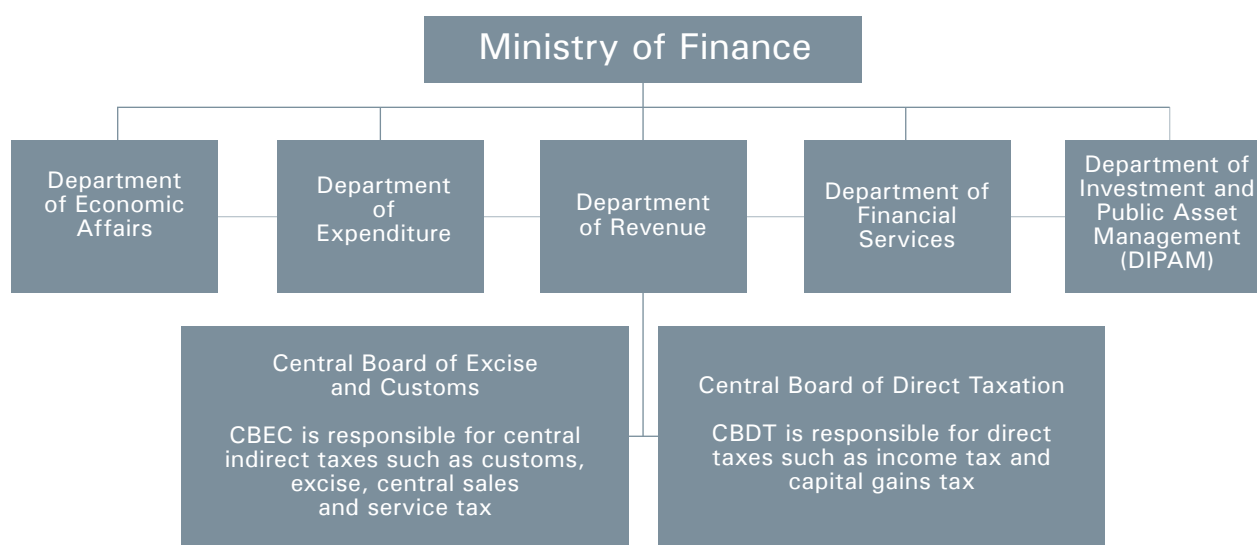
- Clients can directly participate in E-voting by logging on the website
- The custodian can support clients by voting electronically on their behalf. The custodian can register with NSDL for the e-voting facility under the custodian module
- The custodian will register the client in the e-voting system (one time update) which can then be used across companies, registered with NSDL
- The voting instructions once uploaded cannot be modified

- Subject to receipt of sufficient votes, the resolution shall be deemed to be passed on the date of the relevant general meeting
- Majority share-holding of more than 50% in case of ordinary resolutions and more than 75% in case of special resolutions would be based on number of shares for which e-Voting/ ballot voting have been exercised (irrespective of the share capital of the company)
- Demand for Poll is not relevant. Resolutions can be passed based on e-Voting results
- In case of majority being achieved through e-Voting, the resolution will be deemed to have been passed without it being put to vote

# Tax Aspects

## 12.1. Tax Regime in India for FPIs

The Department of Revenue under the Ministry of Finance is the nodal agency responsible for all revenue collection for both direct and indirect taxes of the Central Government. The Department formulates the tax policy and operates through two statutory boards, viz. the Central Board of Direct Taxes (CBDT) and the Central Board of Excise and Customs (CBEC). The CBDT has set up a separate cell for assessment of income earned by foreign investors. The fiscal policy announcements are contained in the Union Budget announcements, which are usually made on the last working day in the month of February. However, this was advanced by a month and presented on February 01, 2017 for the year 2017-18.



Tax Services in India requires a client to appoint a Chartered Accountant/ Tax consultant registered in India to provide such services. The consultant appointed assist the client with procuring a Tax Id (PAN), computation of tax liabilities, facilitating payment of taxes, compiling and filing of tax returns and liaison with the tax authorities. The client need to notify the custodian of their appointed tax consultant in India.

Following taxes are payable by FPIs:

- Withholding Tax
- Capital Gains Tax
- Securities Transaction Tax

FPIs have to ensure that all applicable taxes have been paid prior to any remittance of the proceeds out of India. These taxes can be paid either at the time of remittance or as an advance tax as per schedule provided in Income Tax Act, if there are no remittances out of India.



### 12.1.1. Withholding Tax (WHT)

Withholding Tax is an obligation on the payer to withhold tax at the time of making payment under specified heads. FPIs are subject to WHT in terms of their interest income on their debt securities.

#### Taxation of Interest

FPI is liable to pay tax on the interest income earned in India as per the prevailing tax rates prescribed in the Act or as per the Double Tax Treaty provisions between India and the domicile country of the FPI, whichever is less.

WHT of 20% is applicable for interest income. The Finance Act, 2013 had provided for a concessional rate of 5% on interest earned on investment in rupee denominated corporate bonds or Government securities earned by FPI for the interest payable on or after June 01, 2013 but before June 01, 2015. This has currently been extended till June 30, 2020. This benefit of lower WHT is also extended to INR denominated (Masala) Bonds issued overseas.

#### Taxation of Dividend

Indian companies are liable to pay dividend distribution tax at the rate of 15% (plus applicable surcharge and education cess) on the dividends distributed to the shareholder. Such dividends are exempt in the hands of shareholder.

### 12.1.2. Capital Gains Tax

#### Taxation of gain on sale of securities

The Union Budget 2014-15 had clarified that the income arising to FPIs from transactions in securities will be treated as capital gains so as to bring clarity to classification of income earned through portfolio investments irrespective of their fund managers operating from India or outside India.

Accordingly, an amendment has been made in the Act vide Finance Act, 2014 to include securities issued to FPIs (in accordance with the applicable SEBI regulations) under the definition of capital asset. The income earned by FPIs arising from transaction in such securities would be taxed as 'Capital Gains'.

Further, where shares are held for less than twelve months, such gain is regarded as short term capital gain; otherwise it is regarded as long term capital gain.

FPI is liable to pay tax on the capital gains earned on sale of shares in India at the rates prescribed in the Act. However, FPI can opt for the provisions of tax treaty, if the same are beneficial.

### 12.1.3. Securities Transaction Tax (STT)

STT is levied on every purchase or sale of securities that are listed on the Indian Stock Exchanges. This would include shares, derivatives or equity-oriented mutual fund units.

## Securities Transaction Tax for the F.Y. 2017-18

Transaction	Rates	Payable by
Purchase/ Sale of equity shares (delivery based)	0.1%	Purchaser/ Seller
Purchase of units of equity oriented mutual (delivery based)	Nil	Purchaser
Sale of units of equity oriented mutual fund (delivery based)	0.001%	Seller
Sale of equity shares, units of equity oriented mutual fund (non-delivery based)	0.025%	Seller
Sale of an option in securities	0.05%	Seller
Sale of an option in securities, where option is exercised	0.125%	Purchaser
Sale of futures in securities	0.010%	Seller
Sale of unit of an equity oriented fund to the mutual fund	0.001%	Seller

## 12.1.4. Tax Rates

Given below are the indicative tax rates as applicable to FPIs and should not be construed as the final tax rates as these may vary from client to client depending on the type of entity and the country of incorporation. FPIs are required to consult their tax consultants before making investments in the capital markets on the taxation laws in India.

Tax Rates applicable to FPIs investing in India

Assessment Year: 2018-2019

Previous Year: April1, 2017 till March 31, 2018 (including surcharge and cess as applicable)

Nature of Income	Corporate FPIs			Non-Corporate FPIs (e.g.Trust)	
	Net Taxable Income < 10,000,000	Net Taxable Income > 10,000,000 but < 100,000,000	If net taxable income > 100,000,000	If net taxable income does not exceed INR 10 million	As per Finance Bill 2015, if net taxable income exceeds INR 10 million
Dividends	NIL	NIL	NIL	NIL	NIL
Interest u/s 194 LD	5.15%	5.253%	5.4075%	5.15%	5.9225%
Interest other than u/s 194 LD of the Act	20.6%	21.012%	21.63%	20.6%	23.69%
Short-term capital gains on equity shares and units of equity oriented funds where STT is applied	15.45%	15.759%	16.2225%	15.45%	17.7675%

Nature of Income	Corporate FPIs			Non-Corporate FPIs (e.g.Trust)	
	Net Taxable Income < 10,000,000	Net Taxable Income > 10,000,000 but < 100,000,000	If net taxable income > 100,000,000	If net taxable income does not exceed INR 10 million	As per Finance Bill 2015, if net taxable income exceeds INR 10 million
Long-term capital gains on equity shares and units of equity oriented funds where STT is applied. (Ref Note 1)	NIL	NIL	NIL	NIL	NIL
Short-term capital gains on securities where no STT is applied	30.9%	31.518%	32.445%	30.9%	35.535%
Long-term capital gains on securities where no STT is applied	10.3%	10.506%	10.815%	10.3%	11.845%

The above rates are inclusive of surcharge and education cess, wherever applicable.

Note: FPIs/ Institutional Investors are required to discharge their income tax liabilities in line with the applicable laws in India. Clients are requested to seek the opinion of their tax consultants on all tax related matters.

Note 1 - Exemption of tax on long term capital gains arising from the transfer of shares, acquired on or after October 01, 2004, will be available only if the acquisition was chargeable to Securities Transaction Tax (STT). The Income Tax department has notified the list of acquisitions where these provision will apply. In order to protect the exemption for genuine cases, where the STT could not have been paid, it has also listed acquisitions which will be eligible for long term capital gains tax exemption, on transfer of such shares, even if no STT was paid at the time of its acquisition.

### 12.1.5. Advance Tax

Investors who do not wish to repatriate their funds within the financial year, the tax liabilities on capital gains have to be discharged in the form of advance tax payable in installments during the financial year. The tax thus paid is adjusted against the total tax assessable for the respective assessment year. Liability to pay advance tax arises when such tax payable is INR 10,000 or more, effective from FY 2009-10. The Finance Act, 2016, has rationalised the advance tax payment schedule for non-corporate taxpayers, to bring it in line with advance tax payment schedule for corporate taxpayers. Accordingly, the advance tax deadline of June 15, which was earlier not applicable to non-corporate entities will now apply to these entities.

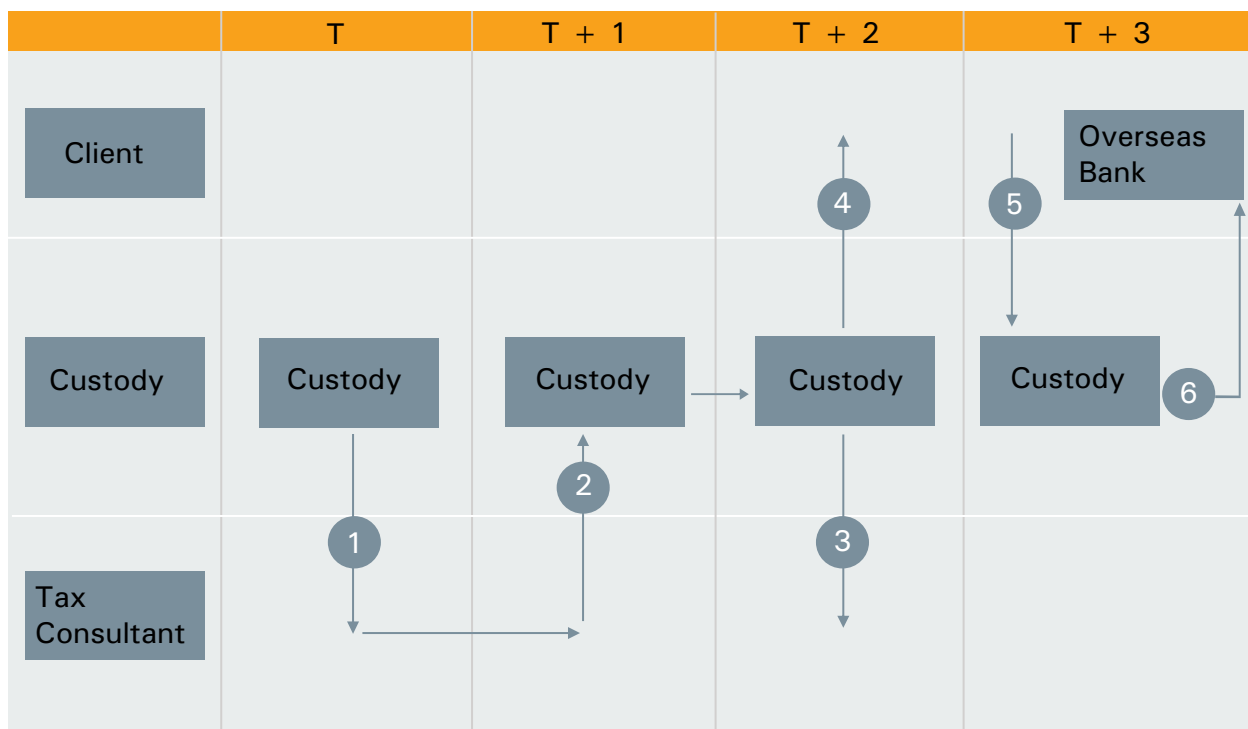
The advance tax rates and the intervals at which they are paid are provided below (applicable for corporate and non-corporate entities):

Due Dates	Advance Tax Payable by corporate and Non-corporate entities
By June 15	15% of advance tax
By September 15	45% of advance tax
By December 15	75% of advance tax
By March 15	100% of advance tax
By March 31 (for 15 days from March 15 to March 31)	100% Tax on Income (capital gains and dividend/ interest)

- Taxes are calculated based on traded position and not settlement basis. Therefore all trades executed up to and including the deadlines specified above will be included in the calculation
- At the end of the financial year (March 31), if the tax authorities find that taxes were not paid in accordance with the above schedule, interest @ 1% per month will be charged on such deficiency
- The due dates for filing income tax returns for a financial year are October 31st and July 31st of the following financial year for corporate and non-corporates respectively. If the returns are not filed on or before the due dates, interest @ 1% per month (or part of the month) will be charged on the difference of the tax payable and the advance tax and tax deducted at source. Interest will be charged till the Return of Income for the relevant financial year is filed

## 12.2. Taxation Flow

Below is an illustrative flow of the taxation process followed prior to remittance of funds and the actual flow may differ.



Legend:

1. Custodian reports trade and corporate action transactions to the Tax Consultant (TC) appointed by the client
2. The TC provides tax computation giving the tax position on the trades. It may be a payable position or that "Nil" tax needs to be deducted from the sale proceeds
3. Where the tax is payable, the custodian will discharge the tax liability on the basis of the client instruction through the "Tax paying Bank" and submit the E-Challan to the TC
4. Credit the net sale proceeds/ corporate action receipts to the client's cash account
5. Custodian receives instructions for repatriation of sale proceeds
6. Repatriate proceeds net of tax to the client's overseas banker

### 12.3. Double Taxation Avoidance

The Government of India has entered into Double Tax Avoidance Agreements (DTAA) with several countries. This treaty determines the taxability of various incomes (incl. Capital gains, dividend and interest income) earned in India, by the resident entity of the country with which India has entered into a DTAA. The entity may avail the benefits of the DTAA provisions wherever such provisions are more beneficial vis-à-vis provisions of the income tax.

DTAA entered into, by Government of India can be accessed at <http://www.incometaxindia.gov.in/Pages/international-taxation/dtaa.aspx>

### 12.4. Minimum Alternate Tax (MAT)

The President of India has passed the Finance Bill 2015 on May 14, 2015. One of the proposal passed in the Act pertains to MAT wherein it has been clarified that Capital gains from sale of securities as well as interest income, royalties, fees on technical services earned by foreign companies will be exempt from MAT, if the normal tax rate on such income is lower than 18.5%.

Further, the Central Board of Direct Taxes (CBDT) has notified that it will make appropriate amendment to the Income-tax act clarifying the inapplicability of MAT provisions to FPIs not having Permanent Establishment (PE)/ place of business in India, for the period prior to April 01, 2015.

The Government of India has clarified the inapplicability of MAT provisions under Section 115JB to foreign companies with effect from April 01, 2001 if:

- The foreign company is a resident of a country having Double Taxation Avoidance Agreement (DTAA) with India and such foreign company does not have a permanent establishment within the definition of the term in the relevant DTAA, or
- The foreign company is a resident of a country which does not have a DTAA with India and such foreign company is not required to seek registration under Section 592 of the Companies Act 1956 or Section 380 of the Companies Act 2013

### 12.5. General Anti Avoidance Rule (GAAR)

The General Anti Avoidance Rule (GAAR) will apply prospectively to transfer of investments made on or after April 01, 2017 or on any tax benefits availed on or after April 01, 2017, irrespective of date of arrangement, when GAAR is implemented.

The necessary procedures for application of GAAR and conditions under which it shall not apply, have been enumerated in Rules 10U to 10UC of the Income Tax Rules, 1962

The Central Board of Direct Taxes (CBDT) has issued a set of FAQs to clarify implementation of GAAR. The FAQs can be accessed using the below link:

[http://www.incometaxindia.gov.in/communications/circular/circular7\\_2017.pdf](http://www.incometaxindia.gov.in/communications/circular/circular7_2017.pdf)

## 12.6. Foreign Account Tax Compliance Act (FATCA)/ Common Reporting Standard (CRS)

### 12.6.1. FATCA

In 2010, USA enacted a law known as “Foreign Account Tax Compliance Act” (FATCA) with the objective of tackling tax evasion through obtaining information in respect of offshore financial accounts maintained by US residents and citizens. USA has entered into an Inter-Governmental Agreement (IGA) with various countries including India. The IGA between India and USA was signed on July 09, 2015. It provides that the Indian Financial Institutions will provide necessary information to the Indian tax authorities, which will then be transmitted to USA periodically.

### 12.6.2. CRS

To combat the problem of offshore tax evasion and avoidance of unaccounted money abroad requiring cooperation amongst tax authorities. The G20 and OECD countries working together developed a Common Reporting Standard (CRS) on Automatic Exchange of Information (AEOI). The CRS on AEOI requires the financial institutions of the source jurisdiction to collect and report information to their tax authorities about account holders resident in other countries, such information having to be transmitted automatically on yearly basis. The information to be exchanged relates not only to individuals but also to shell companies and trusts having beneficial ownership or interest in the resident countries. Further, the reporting needs to be done for a wide range of financial products, by a wide variety of financial institutions including banks, depository institutions, collective investment vehicles and insurance companies.

### 12.6.3. Reporting requirements for a Reporting Financial Institution (RFI)

As per Rule 114G(9) of Income Tax Act, the statement in respect of each reportable account needs to be filed by the RFIs through online transmission of electronic data to a server designated for this purpose under digital signature in accordance with the data structure specified by the Principal Director General of Income Tax (Systems). The RFIs are required to submit Form 61B or NIL statement under “e-File” menu.

## 12.7. Goods and Services Tax (GST)

The Goods and Services Tax (GST) regime has become operational in India, July 01, 2017 onwards, replacing the Excise Duty, Service Tax and Sales Tax, among various other indirect taxes. The GST consists of Central Goods and Services Tax (CGST), State Goods and Services Tax (SGST), Integrated Goods and Services Tax (IGST) and Union Territory Goods and Services Tax (UTGST). This is necessitated by the federal structure of governance in India which requires all the intra state supply of goods or services to be charged CGST for Central government and SGST for state government. Any inter-state supply of goods or services is chargeable to IGST.

The Government of India, Press Information Bureau has published a set of FAQs, which provide information on the GST Bill provisions and its economic benefits. The FAQs can be accessed using the below link:

<http://pib.nic.in/newsite/PrintRelease.aspx?relid=148240>

## 12.8. Onshoring Fund Management to India

The provision of business connection in India, in Income Tax Act, to determine tax residency, required FPIs to carry out fund management activity from outside India. This was due to apprehension that presence of Fund Manager in India would make the FPI tax resident in India. To enable on-shoring of Fund management to India, the Finance Act 2015, inserted section 9A to Income Tax Act. This encapsulates safe harbour provisions. The fund management activity carried on through an Eligible Fund Manager (EFM) located in India, for an Eligible Investment Fund (EIF) would not constitute business connection India and therefore not lead to tax residence in India. These benefits are available, subject to compliance of certain conditions.

Of the prescribed conditions, Category I and II FPIs would be exempted from the below requirements prescribed under section 9A of Income Tax Act, 1961, to qualify as EIF:

- The fund has a minimum of 25 members who are, directly or indirectly, not connected persons
- Any member of the fund along with connected persons shall not have any participation interest, directly or indirectly, in the fund exceeding 10%
- The aggregate participation interest, directly or indirectly, of 10 or less members along with their connected persons in the fund, shall be less than 50%
- Sub-section 3(b) of Section 9A of the Income-tax Act, requires that the fund is a resident of a country or a specified territory with which an agreement has been entered into or notified by the Central Government in this behalf. The Government of India has now notified the list of such countries/ territories, whose resident funds would be able to qualify as EIF. The list of countries/ specified territories is attached herewith or can be accessed using the below link:

<http://www.egazette.nic.in/WriteReadData/2017/177815.pdf>

## 12.9. Taxation for Indirect Transfer

The Indian income tax law provides for taxing income from transfer of shares of overseas entity where the value of such shares or interest is substantially derived from assets located in India. The value of assets located in India should exceed the amount of INR 100 million and represent at least 50% of the value of all the assets owned by the company situated outside India. The provisions exempt investors who are holding no right of management or control of such company and holding less than 5% of the total voting power/ share capital/ interest of the company that directly or indirectly owns the assets situated in India.

- The Provisions would be applicable upon breach of stated threshold to, subject to exemption provided for small investors:
  - Master Feeder fund structures
  - Nominee-distributor fund structures
  - India focused sub-Fund and listed Funds
- Other provisions in the income-tax law such as withholding obligation on the payer apply as per law
- The provisions apply to investors at the time of merger of offshore funds and internal restructuring of such funds.
- The threshold of INR 100 million has been deemed to be reasonable and there would not be any need to increase the same to INR 1 billion
- The application of provisions is subject to exemptions provided in the Income Tax Act

Union Budget for the fiscal year 2017-2018 clarified that Category I and Category II FPIs will be exempted from indirect transfer provisions. Indirect transfer provision shall not apply in case of redemption of shares or interests outside India as a result of or arising out of redemption or sale of investment in India which is chargeable to tax in India.



# REITs, InvITs and AIFs

## 13.1. Real Estate Investment Trusts (REITs)

The concept of collective Real Estate Investment was first introduced in the form of Real Estate Mutual Funds, in 2008. However, the Real Estate Mutual Funds (REMFs) failed to catch market fancy. On September 26, 2014, the Securities and Exchange Board of India (SEBI), notified new regulations for introduction of Real Estate Investment Trusts (REITs). As REITs are different from REMFs, SEBI has also kept Real Estate Mutual Fund regulations operational.

### 13.1.1. What are REITs?

REITs are special Trusts formed to serve as Collective Investment Vehicle, intending to invest the bulk of its money in Real Estate, in order to provide returns to the investors of such Trusts.

#### Investment conditions

- The Investment by a REIT shall only be in holding company (holdco) and/ or SPVs or properties or securities or Transferable Development Rights (TDR) in India,
- REITs cannot invest in:
  - vacant land
  - agricultural land
  - mortgages other than mortgage backed securities
 This does not apply to any land which is extension of an existing project being implemented in stages
- REITs are allowed to invest in properties through holdco or SPVs subject to the following:
  - In case of investment through holdco, ultimate holding interest of the REIT in underlying SPV is at least 26%
  - No other shareholder or partner of the holdco or SPV to have any rights that prevents the REIT from complying with the provisions of REITs regulations. An agreement entered into with such shareholders or partners to this effect prior to investment in the holdco or SPVs
  - The manager, in consultation with the trustee, should appoint the majority of the Board of Directors or Governing Board of such holdco and/ or SPVs
  - The manager to ensure that in every meeting including annual general meeting of the holdco and/or SPV, the voting of the REIT is exercised
- At least 80% REIT assets shall be invested in completed and rent generating properties subject to the following:
  - if the investment has been made through a holdco and/or SPV, whether by way of equity or debt or equity linked instruments or partnership interest, only the portion of direct investments in properties by such holdco and/or SPVs will be considered
  - In case of project implemented in stages, the part of the project which is completed and rent-generating will be considered
- 20% of the REIT assets can be invested in assets provided below:
  - properties, which are:
    - under-construction properties which should be held by REIT for at least 3 years post completion
    - under-construction properties which are a part of the existing income

- generating properties owned by the REIT which shall be held by the REIT for at least 3 years after completion
  - completed and not rent generating properties which should be held by the REIT for at least 3 years from date of purchase
- Listed or unlisted debt of companies or body corporate in real estate sector. This shall not include any investment made in debt of the holdco and/ or SPVs
- Mortgage backed securities
- Equity shares of companies listed on a recognised stock exchange in India, which derive not less than 75% of their operating income from real estate activity as per the audited accounts of the previous financial year
  - Government securities
  - Unutilised FSI of a project where it has already made investment
  - TDR acquired for the purpose of utilisation with respect to a project where it has already made investment
  - Money market instruments or cash equivalents
- At least 51% of revenues of REIT, holdco or SPV, other than gains arising from disposal of properties, should be, from rental, leasing and letting real estate assets or any other income incidental to the leasing of such assets
- At least 75% of REITs assets should be rent generating
- REIT should hold at least 2 projects. Value of assets in any single project should not exceed 60%
- REITs are permitted to enter into certain Related party Transactions, subject to the transaction being at arms length
- Any sale of property – by REIT, Holdco or the SPV, or sale of share or interest in SPV by Holdco or REIT, which exceeds 10% of value of REITs assets would be require unit holder approval
- REIT cannot lend. This does not apply to investment in debt securities
- REIT cannot invest in units of other REITs

### 13.1.2. Issue and Allotment of Units

- A REIT shall make an initial offer of its units by way of public issue only
- A public offer can be made, only if:
  - The value of assets owned by REIT is at least INR 5 billion
  - The minimum number of unit holders forming part of public is 200. Sponsor, it's related party and associates would not be included in this count. If the count is below 200, all subscription amount should be refunded
- No initial offer of units by the REIT shall be made unless:
  - the REIT is registered with the Board under these regulations
  - Value of all the assets owned by REIT is not less than INR 5 billion
- The units proposed to be offered to the public through initial offer:
  - Will be at least 25% of the total outstanding units and units being offered, if the post issue capital at offer price is less than INR 16 billion
  - Will be at least INR 4 billion if post issue capital is more than or equal to INR 16 billion and less than INR 40 billion.
  - Will be at least 10% of the total outstanding units and units being offered, if the post issue capital at offer price is more than INR 40 billion
- REIT should refund money to all applicants in case it fails to collect subscription amount exceeding 90% of the issue size as specified in the offer document
- Minimum subscription amount from an applicant to be INR 0.2 million
- Maximum permissible period for subscription to be open is 30 days
- Allotment or refund, should be within 12 working days from date of closure of issue
- Units can be issued only in demat form
- Price of REIT units would be determined using book building, or any other process specified by SEBI
- Failure to allot or list the unit, or refund the money, would make the manager liable to interest of 15% per annum till the allotment, listing or refund is completed

### 13.1.3. Listing and Trading of Units

- After the initial offer it shall be mandatory for all units of REITs to be listed on a recognised stock exchange having nationwide trading terminals within a period of twelve working days from the date of closure of the offer

- The listing of the units of the REIT shall be in accordance with the listing agreement entered into between the REIT and the designated stock exchange
- In the event of non-receipt of listing permission from the stock exchange(s) or withdrawal of Observation Letter issued by the Board, wherever applicable, the units shall not be eligible for listing and the REIT shall be liable to refund the subscription monies, if any, to the respective allottees immediately
- The units of the REIT listed in recognised stock exchanges shall be traded, cleared and settled in accordance with the bye-laws of concerned stock exchanges and such conditions as may be specified by the Board
- Trading lot for the purpose of trading of units of the REIT shall be INR 0.1 million
- The REIT shall redeem units only by way of a buy-back or at the time of delisting of units
- The units of REIT shall be remain listed on the designated stock exchange unless delisted
- The minimum public holding for the units of the listed REIT shall be in accordance with the Regulation, failing which action may be taken as may be specified by the Board and by the designated stock exchange including delisting of units
- Any person other than the sponsor(s) holding units of the REIT prior to initial offer shall hold the units for a period of not less than one year from the date of listing of the units subject to circulars or guidelines as may be specified by the Board

#### 13.1.4. Valuation

- The valuer should not be an associate of the sponsor or manager or trustee and should have at least 5 years of experience in valuation of real estate
- Full valuation includes a detailed valuation of all assets by the valuer including physical inspection of every property by the valuer
- A full valuation to be conducted by the valuer at least once in every financial year, at the end of financial year within 3 months from end of the financial year
- Half yearly valuation of the REIT assets to be conducted by the valuer for the half year ending on September 30, for incorporating any key changes in the previous 6 months and this half yearly valuation report to be prepared within forty five 45 days from the date of end of the half year
- No valuer shall undertake valuation of the same property for more than four years consecutively
- In case of any material development that may have an impact on the valuation of the REIT assets, manager would require the valuer to undertake full valuation of the property under consideration within not more than two months from the date of such event and disclose the same to the trustee, investors and the Designated Stock Exchanges within 15 days of such valuation
- The valuer shall not value any assets in which it has either been involved with the acquisition or disposal within the last 12 months other than such cases where valuer was engaged by the REIT for such acquisition or disposal
- For any transaction of purchase or sale of properties involving non related party transaction shall require full valuation, and additionally require unit holder approval, if:
  - Property purchased at value greater than 110% of assessed value
  - Property sold at value less than 90% of the assessed value

## 13.2. Infrastructure Investment Trusts (InvITs)

InvIT is a mechanism that enables developers of infrastructure assets to monetise their assets by pooling multiple projects under a single entity (trust structure). They work like mutual funds and are designed to pool small sums of money from a number of investors to invest in portfolio of infrastructure assets that give cash flow over a period of time. Part of this cash flow would be distributed as dividend back to investors. The objective of InvITs is to facilitate investment in the infrastructure sector. SEBI introduced InvIT Regulations for infrastructure projects keeping in mind the huge infrastructure needs of the country.

InvITs are special Trusts formed to serve as Collective Investment Vehicle, intending to invest the bulk of its money in Infrastructure projects, which would increase public participation in infrastructure projects, reduce debt cost for the infrastructure development company, and allow investors access to a different class of portfolio to invest in.

### 13.2.1. Key Features of an InvIT

- InvITs are set up as trust and registered with SEBI
- It consists of 4 participants
  - Sponsors: Any company or LLP or body corporate which sets up the InvIT and is designated as such at the time of application made to the Board
  - Trustee: means a person who holds the InvIT assets in trust for the benefit of the unit holders, in accordance with these regulations
  - Investment Manager: means a company or LLP or body corporate which manages assets and investments of the InvIT and undertakes activities of the InvIT as specified in the regulation
  - Project Manager: Responsible for execution of the project
- InvITs have to be listed on the stock exchange
- InvITs shall invest in infrastructure projects, either directly, through SPV or through holding company, except in case of Public-Private Partnership (“PPP”) projects, where investments shall only be through holding company or SPV
- An InvIT shall hold controlling interest and more than 50% of the equity share capital or interest in the SPV, except where the same is not feasible because of a regulatory requirement or requirement emanating from the concession agreement. In such cases the Sponsor shall enter into an agreement with the InvIT, to ensure that no decision taken by the Sponsor, including voting decisions with respect to the SPV, are against the interest of InvIT/ its unit holders
- InvITs have to ensure that they distribute 90% of their net cashflow to the investors

### 13.2.2. Investment Conditions: Key Highlights

- The Investment by an InvIT shall only be in holding company holdco and/ or SPVs or infrastructure projects or securities or TDR in India, according to InvIT regulations and the investment strategy as detailed in the offer document or placement memorandum
- In case of PPP projects, the InvIT shall mandatorily invest in the infrastructure projects through holdco and/ or SPV
- InvIT are allowed to invest in infrastructure projects through holdco/ SPVs subject to the following:
  - In case of investment through holdco, ultimate holding interest of the InvIT in underlying SPV is at least 26%
  - No other shareholder or partner of the holdco or SPV to have any rights that prevents the InvIT from complying with the provisions of InvIT regulations. An agreement entered into with such shareholders or partners to this effect prior to investment in the holdco and/ or SPVs
  - The investment manager, in consultation with the trustee, should appoint the majority of the Board of Directors or Governing Board of such holdco and/ or SPVs
- In case of InvITs raising funds through private placement:
  - The InvIT should invest at least 80% of the value of the InvITs assets in eligible infrastructure projects, either directly or through holdco or SPV
  - Uninvested funds may be invested in following instruments:
    - Listed or unlisted debt of companies or body corporate in infrastructure sector. This does not include investment in debt of holdco or SPV
    - Equity shares of companies listed on a recognised stock exchange in India which derive at least 80% of their operating income from infrastructure sector as per the audited accounts of the previous financial year
    - Government securities
    - Money market instruments, liquid mutual funds or cash equivalents
- In case of InvITs raising funds through public offer

- At least 80% of the value of InvIT assets to be invested, proportionate to the holding of the InvITs, in completed and revenue generating infrastructure projects subject to the following:
  - If the investment has been made through a holdco and/ or SPV, whether by way of equity or debt or equity linked instruments or partnership interest, only the portion of direct investments in completed and revenue generating projects by such holdco and/ or SPV to be considered for this purpose
  - If any project is implemented in stages, the part of the project which can be categorised as completed and revenue generating project would be considered for this purpose
- Maximum 20% of value of the InvIT assets, can be invested in:
  - Under-construction infrastructure projects, whether directly or through holdco and/ or SPV. Investment in such assets not to exceed 10% of the value of the InvIT assets
  - Listed or unlisted debt of companies or body corporate in infrastructure sector. This does not include investment in debt of holdco or SPV
  - Equity shares of companies listed on a recognised stock exchange in India which derive at least 80% of their operating income from infrastructure sector as per the audited accounts of the previous financial year
  - Government securities
  - Money market instruments, liquid mutual funds or cash equivalents

If the above conditions are breached on account of market movements of the price of the underlying assets or securities, the investment manager should inform the same to the trustee and ensure that the conditions are satisfied within six months of such breach. The period may be extended to one year subject to approval from investors.

- If any infrastructure asset is sold by the InvIT or holdco or SPV or if the equity shares or interest in the holdco/ SPV are sold by the InvIT:
  - If the InvIT proposes to re-invest the sale proceeds into another infrastructure asset, it is not required to distribute any sales proceeds to the InvIT or to the investors
  - If the InvIT proposes not to invest the sales proceeds into any other infrastructure asset within 1 year, it is to distribute the same
- InvIT cannot invest in units of other InvITs
- InvIT cannot undertake lending to any person, except the holdco/ SPV in which the InvIT has invested in. Investment in debt securities not to be considered as lending
- An InvIT should hold an infrastructure asset for a period of at least 3 years from the date of purchase of such asset by the InvIT. This does not apply to investment in securities of companies in infrastructure sector, except SPVs
- In case of any co-investment with any person(s) in any transaction:
  - The investment by the other person should not be at terms more favourable than those to the InvIT
  - The investment cannot provide any right to the person which prevents the InvIT from complying with the provisions of InvITs regulations
  - The agreement with such person should include:
    - The minimum percentage of distributable cash flows that will be distributed
    - Entitlement of the InvIT to receive distributions, proportionate to its holdings at minimum
    - Mode for resolution of any disputes between the InvIT and the other person
- No schemes to be launched under the InvIT
- SEBI may specify any additional conditions for investments by the InvIT as deemed fit

### 13.2.3. Issue and allotment of units

- No initial offer of units by the INVIT shall be made unless:
  - The InvIT is registered with the Board under these regulations
  - Value of all the assets owned by INVIT is not less than INR 5 billion

### 13.2.4. Listing and Trading of Units

- It shall be mandatory for units of all InvITs to be listed on a recognised stock exchange having nationwide trading terminals. The listing of the units shall be in accordance with the listing agreement entered into between the InvIT and the designated stock exchanges. In the event of non-receipt of listing permission from the stock exchange(s) or withdrawal of Observation Letter issued by SEBI, wherever applicable, the units shall not be eligible for listing and the InvIT shall be liable to refund the subscription monies, if any, to the respective allottees immediately along with interest at the rate of 15% per annum from the date of allotment.
- With respect to listing of privately placed units, its units shall be mandatorily listed on the designated stock exchange(s) within thirty working days from the date of allotment. With respect to listing of publicly offered units, its units shall be mandatorily listed on the designated stock exchange(s) within twelve working days from the date of closure of the initial public offer
- The minimum number of unit holders in an InvIT other than the sponsor(s)
  - In case of privately placed InvIT, shall be five, each holding not more than 25% of the units of the InvIT
  - Forming part of public shall be twenty, each holding not more than 25% of the units of the InvIT, at all times post listing of the units
- Trading lot for the purpose of trading of units on the designated stock exchange shall be INR 1,00,00,000
- Any person other than the sponsor(s) holding units of the InvIT prior to initial offer shall hold the units for a period of not less than one year from the date of listing of the units
- The Board and designated stock exchanges may specify any other requirements pertaining to listing and trading of units of the InvIT by issuance of guidelines or circulars



### 13.2.5. Norms notified by Exchanges relating to trading and settlement in Units of InvITs

Topic	Details
Segment	Capital Market Segment
Eligible Members	All members eligible to trade in Capital Market (CM) segment can trade in units of InvITs
Clearing Member	All clearing members in CM segment shall be eligible for InvIT settlement
Market Sessions	Units will be available for trading in Pre-Open, Continuous and Closing session
Price bands	+ / - 20% (IPO > INR 2.5 billion) + / -5% (IPO < INR 2.5 billion)
Ticket Size	INR 0.01
Permitted lot size (Market Lot)	Number of units equivalent to minimum INR 0.5 million based on the price at the time of introduction. BSE: The lot size shall be revised every 6 months or on any corporate action whichever is earlier NSE: The Lot size shall be revised /reviewed by Exchange from time to time
Single Order Value Limit for Normal Window	BSE: INR 100 million. NSE has not specified anything separately
Order matching	Anonymous order book Continuous matching with Price – Time priority
Margin	Margining framework for InvITs shall be as applicable to other securities in CM Segment
Transaction Charges	BSE: Transactions charges will be levied on Transaction Value. Transaction Charges will be INR 275 per 10 million for Normal, ODD Lot trades as well as Auction trade each
Series	For NSE: – Rolling settlement with series as IV (EQ equivalent) – Trade for Trade with series as ID (BE equivalent) – Institutional segment with series as IA (IL equivalent) For BSE: – “IF” group for normal/rolling settlement – “IT” group for trade to trade settlement
Settlement of Securities	– Settlement guarantee shall be provided for trades and settlement shall be compulsorily done in dematerialised mode – Trades executed in InvIT shall be settled on a T+2 rolling basis – Trades executed in normal/ rolling series will be cleared and settled on a net obligations basis within series – Trades executed and settled on a trade for trade basis will be cleared and settled (on gross basis). There will be no netting of transactions
Auction of Securities	– Settlement shortages in case of the securities traded in normal/rolling series will be via auction mechanism – Settlement shortages in case of the securities traded in trade for trade basis will be directly closed out
Block Deal	The units of InvITs shall also be available in block deal trading window. Order entry in block trading window shall be in multiples of applicable lot size



### 13.2.6. Registration

Both REITs and InvITs are regulated by SEBI and need to seek registration as under:

REITs	InvITs
The Trust needs to be registered with the SEBI as Real Estate Trust under the REITs regulations	InvITs are required to obtain certificate of registration from SEBI

All new applications for REITs and InvITs will be accepted online only, through the SEBI Intermediary Portal.

## 13.3. Alternative Investment Funds (AIFs)

The need for Alternative Investment Funds (AIFs) in India was boosted with the surge in venture capital investments. In 2012, SEBI took steps to completely overhaul the regulatory framework for domestic funds in India and introduced the SEBI (Alternative Investment Funds) Regulations, 2012. Among the main reasons cited by SEBI to highlight its rationale behind introducing the AIF Regulations was to recognise AIFs as a distinct asset class; promote start-ups and early stage companies; to permit investment strategies in the secondary markets; and to tie concessions and incentives to investment restrictions.

### 13.3.1. Definition

Alternative Investment Fund (AIF) means any fund established or incorporated in India in the form of:

- a Trust or
- a Company or
- a Limited Liability Partnership (LLP) or
- a Body corporate
- It is a privately pooled investment vehicle which collects funds from investors, whether Indian or foreign, for investing it in accordance with a defined investment policy for the benefit of its investors; and
- It is not covered under the SEBI (Mutual Funds) Regulations, 1996, SEBI (Collective Investment Schemes) Regulations, 1999 or any other regulations of SEBI to regulate fund management activities

The following shall not be considered as AIF:

- Family trusts set up for the benefit of relatives as defined under Companies Act, 1956
- ESOP Trusts set up under the SEBI (Employee Stock Option Scheme and Employee Stock Purchase Scheme), Guidelines, 1999 or as permitted under Companies Act, 1956
- Employee welfare trusts or gratuity trusts set up for the benefit of employees
- Holding companies within the meaning of Section 4 of the Companies Act, 1956
- Other special purpose vehicles not established by fund managers, including securitisation trusts, regulated under a specific regulatory framework
- Funds managed by securitisation company or reconstruction company which is registered with the RBI under Section 3 of the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- Any such pool of funds which is directly regulated by any other regulator in India

### 13.3.2. Private Placement

An AIF cannot solicit or collect funds except by way of private placement.

### 13.3.3. Registration of Alternative Investment Funds

An entity or person can act as an AIF only upon it has obtained a certificate of registration from SEBI.

Alternative Investment Funds shall seek registration in one of the categories mentioned hereunder

Category I	Category II	Category III
<p>AIF which invests in start-up or early stage ventures or social ventures or SMEs or infrastructure or other sectors or areas which the government or regulators consider as socially or economically desirable and shall include:</p> <ul style="list-style-type: none"> <li>– venture capital funds, including angel fund</li> <li>– SME Funds</li> <li>– social venture funds</li> <li>– infrastructure funds</li> <li>– and such other AIF as may be specified</li> </ul>	<p>AIF which does not fall in Category I and III and which does not undertake leverage or borrowing other than to meet day-to-day operational requirements and as permitted in these regulations</p>	<p>AIF which employs diverse or complex trading strategies and may employ leverage including through investment in listed or unlisted derivatives</p>

### 13.3.4. Investment Restrictions and Conditions for AIFs

- Category I AIFs**
- Category I AIFs shall invest in investee companies or venture capital undertakings or in special purpose vehicles or in LLP or in units of other AIFs specified in the Regulations
  - Category I AIF of a particular sub-category may invest in the units of the same sub-category of Category I AIFs. However, this investment condition is subject to the further restriction that Category I AIFs are not allowed to invest in the units of Fund of Funds
  - Category I AIFs shall not borrow funds directly or indirectly or engage in leverage except for meeting temporary funding requirements for more than thirty days, on not more than four occasions in a year and not more than 10% of its investible funds
- In addition to these investment conditions, the AIF Regulations also prescribe a set of investment conditions in respect of each sub-category of Category I AIFs

- Category II AIFs**
- Category II AIFs shall invest primarily in unlisted investee companies or in units of other AIFs as may be specified in the placement memorandum
  - Category II AIFs may invest in the units of Category I and Category II AIFs. This is subject to the restriction that Category II AIFs cannot invest in the units of Fund of Funds
  - Category II AIFs shall not borrow funds directly or indirectly or engage in leverage except for meeting temporary funding requirements for more than thirty days, on not more than four occasions in a year and not more than 10% of its investible funds
  - Category II AIFs may enter into an agreement with a merchant banker to subscribe to the unsubscribed portion of the issue or to receive or deliver securities in the process of market making under the ICDR Regulations
  - Category II AIFs shall be exempt from Regulations 3 and 3A of the Insider Trading Regulations in respect of investments in companies listed on SME exchange or SME segment of an exchange pursuant to due diligence of such companies. This is subject to the further conditions that the AIF must disclose any acquisition/ dealing within 2 days to the stock exchanges where the investee company is listed and such investment will be locked in for a period of 1 year from the date of investment

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- Category III AIFs**
- Category III AIFs may invest in securities of listed or unlisted investee companies or derivatives or complex or structured products
  - Category III AIFs may invest in the units of Category I, Category II and Category III AIFs. Category III AIFs cannot invest in the units of Fund of Funds
  - Category III AIFs engage in leverage or borrow subject to consent from investors in the fund and subject to a maximum limit as may be specified by SEBI; and
  - Category III AIFs shall be regulated through issuance of directions by SEBI regarding areas such as operational standards, conduct of business rules, prudential requirements, restrictions on redemption and conflict of interest
  - Category III AIFs have been permitted to participate in Commodity Derivatives Exchanges as 'clients', subject to fulfilment of certain conditions
- 

### 13.3.5. General Investment Conditions

Investments by all categories of Alternative Investment Funds (AIFs) shall be subject to the following conditions:

- AIF may invest in securities of companies incorporated outside India subject to such conditions or guidelines that may be stipulated or issued by RBI and SEBI from time to time
- Co-investment in an investee company by a Manager or Sponsor shall not be on terms more favorable than those offered to the Alternative Investment Fund
- Category I and II AIF shall invest not more than 25% of the investable funds in 1 Investee Company
- Category III AIF shall invest not more than 10% of the investable funds in 1 Investee Company
- AIF shall not invest in associates except with the approval of 75% of investors by value of their investment in the AIF
- Uninvested portion of the investable funds may be invested in liquid mutual funds or bank deposits or other liquid assets of higher quality such as Treasury bills, CBLOs, CP, CD, etc. till deployment of funds as per the investment objective
- Investment by Category I and Category II Alternative Investment Funds in the shares of entities listed on institutional trading platform after the commencement of SEBI (ICDR) Regulations, 2015 shall be deemed to be investment in unlisted securities' for the purpose of these regulations
- Category III AIFs can participate in all commodity derivatives products that are being traded on the commodity derivatives exchanges as 'clients' and shall be subjected to all the rules, regulations and instructions, position limit norms as may be applicable to clients, issued by SEBI and Exchanges from time to time
  - Cannot invest more than 10% of the investable funds in one underlying commodity
  - May engage in leverage or borrow, subject to consent from the investors in the fund and subject to any maximum limit specified by SEBI
  - They should provide disclosure in private placement memorandum issued to the investors about investment in commodity derivatives. Category III AIF intending to invest in commodity derivatives should obtain consent of existing investors and provide an exit opportunity to dissenting investors
  - Under extant regulations, FPIs are not allowed to invest in commodities derivatives. This will limit participation of FPIs as investors in Category III AIFs which invest in commodity derivatives

### 13.3.6. Valuation

- The Alternative Investment Fund shall provide to its investors, a description of its valuation procedure and of the methodology for valuing assets.
- Category I and Category II AIF shall undertake valuation of their investments, atleast once in every 6 months, by an independent valuer appointed by the Alternative Investment Fund
  - Provided that such period may be enhanced to 1 year on approval of atleast 75% of the investors by value of their investment in the Alternative Investment Fund
- Category III AIF shall ensure that calculation of the Net Asset Value (NAV) is independent from the fund management function of the AIF and such NAV shall be disclosed to the investors at intervals not longer than a quarter for close ended Funds and at intervals not longer than a month for open ended funds

### 13.3.7. Listing

- Units of close ended AIF may be listed on stock exchange subject to a minimum tradable lot of INR 10 million
- Listing of Alternative Investment Fund units shall be permitted only after final close of the fund or scheme

### 13.3.8. Eligible Investors

The below mentioned investors may acquire, purchase, hold, sell or transfer units of an AIF

- AIF may raise funds from any investor whether Indian, foreign or non-resident Indians by way of issue of units
  - A person resident outside India (other than an individual who is citizen of or any other entity which is registered/ incorporated in Pakistan or Bangladesh)
  - A Non-Resident Indian (NRI)
  - A Registered Foreign Portfolio Investor (FPI)
- Category III Alternative Investment Funds
- A FPI shall not hold more than 25% stake in a Category III AIF

# Gujarat International Finance Tec-City (GIFT)

## 14.1. Background

The Finance Minister of India, Mr. Arun Jaitley, in the Union Budget 2015 announcement designated Gujarat state for setting up India's first International Financial Services Centre (IFSC). It is envisaged that the IFSC will become as good an International Finance Centre as Singapore or Dubai.

GIFT is developed as a global financial and IT Services hub, a first of its kind in India, designed to be at or above par with globally benchmarked financial centres. The purpose of setting up the GIFT City is to develop a world class smart city that becomes a global financial hub with the development of an IFSC. GIFT City is central business hub with state-of-the-art infrastructure and a first of its kind development in India.

To develop and implement the Project, the Government of Gujarat through its undertaking Gujarat Urban Development Company Limited (GUDCL) and Infrastructure Leasing and Financial Services Limited (IL&FS) have established a 50:50 Joint Venture Company, "Gujarat International Finance Tec-City Company Limited" (GIFTCL)

## 14.2. GIFT's Positioning

GIFT aspires to cater to India's large financial services potential by offering global firms a world-class infrastructure and facilities. It aims to attract the top talent in the country by providing the finest quality of life. It is estimated that GIFT would provide 500,000 direct and an equal number of indirect jobs which would require 5.76 million square meter of real estate office and residential space

## 14.3. International Financial Services Centre

An IFSC is a jurisdiction that provides financial services to non-residents and residents, to the extent permissible under the current regulations, in any currency except Indian Rupee.

The IFSC in GIFT seeks to bring to the Indian shores, those financial services transactions that are currently carried on outside India by overseas financial institutions and overseas branches/subsidiaries of Indian financial institutions to a center which has been designated for all practical purposes as a location having the same eco system as their present offshore location, which is physically on Indian soil.

## 14.4. Benefits of setting up operations in GIFT-IFSC

The IFSC in GIFT will provide numerous benefits to the entities setting up operations there. Some of them are mentioned below:

- State-of-the-art infrastructure at par with other global financial centres
- Liberal tax regime for 10 years
- Strong regulatory and legal environment
- A wholly transparent operating environment, complying with global best practices and

- internationally accepted laws and regulatory processes
- Pool of skilled professionals
- A modern transport, communications and internet infrastructure
- Only place in India which allows offshore transactions

## 14.5. Regulations that govern IFSC

The regulatory framework for facilitating and regulating financial services relating to securities market in an IFSC will be governed by the below regulations/guidelines and Acts.

- SEBI – IFSC Guidelines, 2015
- Insurance Regulatory and Development Authority of India (International Financial Services Centre) Regulations, 2015
- RBI – Foreign Exchange Management (International Financial Services Centre) Regulations, 2015
- Special Economic Zones Act, 2005

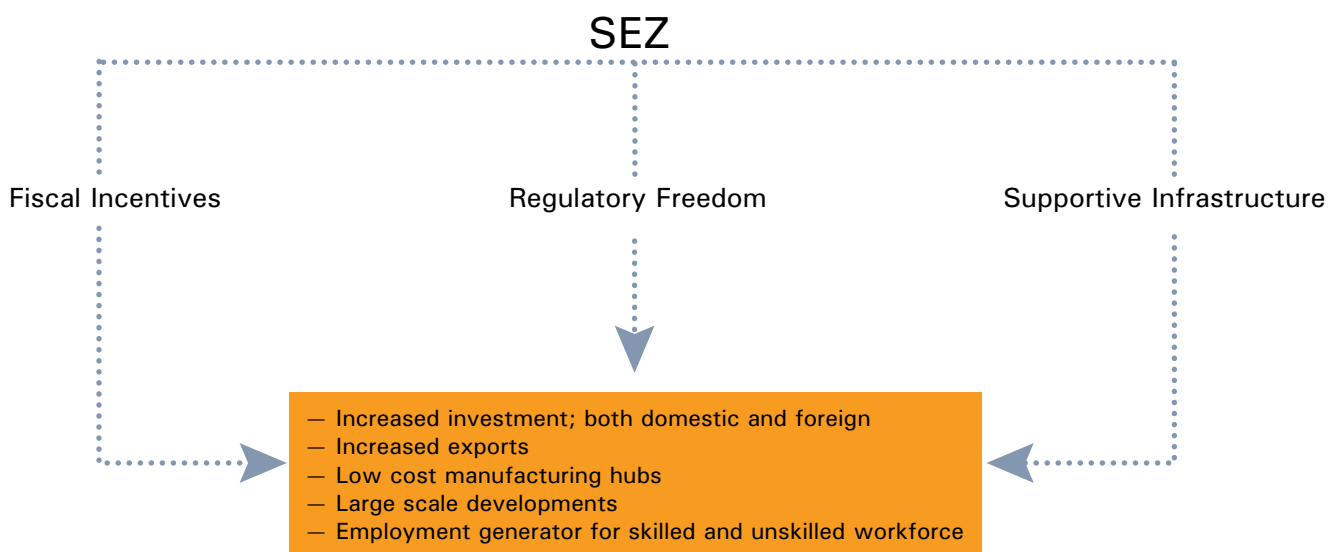
## 14.6. Products/ Permissible Securities in IFSC

The stock exchanges operating in IFSC may permit dealing in following types of securities and products in such securities in any currency other than Indian rupee, with a specified trading lot size on their trading platform subject to prior approval from SEBI:

- Equity shares of a company incorporated outside India
- Depository receipt(s)
- Debt securities issued by eligible issuers and are listed in IFSC
  - Debt securities which are issued outside IFSC are permitted to be listed on the stock exchanges in IFSC, provided such debt securities are issued in and by residents of those jurisdiction which are member of Financial Action Task Force (FATF)
  - Over-the-counter (OTC) trading of debt securities in IFSC is permitted
- Currency and interest rate derivatives
- Index based derivatives
- Commodity Derivatives
- Such other securities as may be specified by the Board

Stock exchanges shall impose appropriate penalties for violation of position limits by eligible market participants.

### Business Structure at IFSC



Source: [www.giftgujarat.in](http://www.giftgujarat.in)

## 14.7. Intermediaries permitted to operate in IFSC

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 SEBI.

“Intermediary” means and includes a stock broker, a merchant banker, a banker to an issue, a trustee of trust deed, a registrar to an issue, a share transfer agent, an underwriter, an investment adviser, a portfolio manager, a depository participant, a custodian of securities, a credit rating agency, or any other intermediary or any person associated with the securities market, as may be specified by SEBI.

- IFSC Banking Unit (IBU) set up in IFSC shall be permitted to act as a Trading Member of an exchange or a Professional Clearing Member of a clearing corporation in IFSC
- Any intermediary permitted by SEBI for operating within the IFSC shall provide financial services to the following categories of clients:
  - a person not resident in India
  - a non-resident Indian
  - a financial institution resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted
  - a person resident in India who is eligible under FEMA, to invest funds offshore, to the extent allowed under the Liberalised Remittance Scheme of RBI, subject to a minimum investment as specified by SEBI
- Any intermediary permitted by the SEBI for operating within the IFSC shall, for the purpose of enforcing compliance with regulatory requirements, appoint a senior management person as “Designated Officer”
- In order to avail investment advisory or portfolio management services in IFSC, the client shall be:
  - a person resident outside India
  - a non-resident Indian
  - a financial institution resident in India who is eligible under FEMA to invest funds offshore, to the extent of outward investment permitted
  - a person resident in India having a net worth of at least USD 1 million during the preceding financial year who is eligible under FEMA to invest funds offshore, to the extent allowed in the Liberalised Remittance Scheme of RBI

## 14.8. Who can open IFSC unit in GIFT IFSC

Following are the entities which can open an IFSC unit:

### 14.8.1. Banking Sector

Regulated by Reserve Bank of India (RBI)

- Indian banks (viz. banks in the public sector and the private sector authorised to deal in foreign exchange)
- Foreign banks already having presence in India

### 14.8.2. Insurance Sector

Regulated by Insurance Regulatory and Development Authority of India (IRDAI)

- Indian Insurer
- Indian Reinsurer
- Indian Broker
- Foreign Insurer
- Foreign Reinsurer



### 14.8.3. Capital Market

Regulated by Securities and Exchange Board of India (SEBI)

- Stock Exchanges/ Commodity Exchanges
- Clearing Corporation
- Depository
- Broker
- Investment Adviser
- Portfolio Manager
- Alternate Investment Fund
- Mutual Fund

### 14.8.4. Foreign Investors

Eligible Foreign Investors (EFI) and FPIs are permitted to operate in IFSC:

- SEBI registered FPIs, seeking to operate in IFSC, can do so without undergoing any additional documentation or prior approval process
- In case of participation of FPIs in IFSC, a trading member of the recognised stock exchange in IFSC, may rely upon either the due diligence process already carried out by a SEBI registered intermediary during the course of registration and account opening process in India
- In case of participation of an EFI, not registered as an FPI, a trading member of the recognised stock exchange in IFSC, may either rely upon the due diligence carried out by a bank, which is permitted by RBI to operate in IFSC, during the account opening process of the EFI or may carry out the due diligence on its own
- FPIs, presently operating in Indian securities market and seeking to operate in IFSC as well, are required to ensure clear segregation of funds and securities. Custodians to monitor compliance of this provision for their respective FPI clients. FPIs to keep their respective custodians informed about their participation in IFSC

### 14.8.5. A Portfolio Manager, AIF or Mutual Fund

Operating In IFSC shall be permitted to invest in the following:

- Securities which are listed in IFSC
- Securities issued by companies incorporated in IFSC
- Securities issued by companies incorporated in India or companies belonging to foreign jurisdiction
- A portfolio manager, AIF or mutual fund shall invest in India through the FPI route

## 14.9. Entities that have started operations from GIFT-IFSC

- **Stock Exchanges:** National Stock Exchange, Bombay Stock Exchange, MCX, NCDEX and DMCC (while NSE and BSE are already operational, the other exchanges are expected to commence operations soon)
- **Banks:** IDBI Bank, ICICI Bank, Yes Bank, IndusInd Bank, Federal Bank, Kotak Mahindra Bank, State Bank of India
- **Insurance:** New India Assurance (Direct Insurance), GIC Re (Reinsurance) will commence their operations shortly and Xperitus (Reinsurance Broker) will commence operations soon
- **Capital Market:** Reliance AIF Management Ltd
- **IT/ ITeS, Consultancy Units:** Accvella Technologies, QX Corporate Advisors, iShip Design, Exemplary Consultants

## 14.10. Tax Framework in the GIFT-IFSC

- Minimum Alternate Tax (MAT) – 9% for IFSC units
- Security Transaction Tax (STT) – NIL
- Commodity Transaction Tax (STT) – NIL
- Dividend Distribution Tax (DDT) – NIL
- Long Term Capital Gain (LTCG) - NIL
- Tax Holiday (10 years)

## 14.11. Currency Permitted

The settlement of all the contracts traded under INDIA INX and NSE IFSC would be in cash in USD.

## 14.12. Stock Exchanges operating in IFSC

### 14.12.1. India INX

BSE, Asia's oldest stock exchange and now world's fastest exchange with the speed of 6 microseconds, it is also first to establish the country's first International Exchange at the GIFT-IFSC city Gandhinagar.

The International exchange received final approval from Securities and Exchange Board of India (SEBI) on December 30, 2016. India INX is now India's first International Exchange set up at GIFT City and was inaugurated by Honourable Prime Minister, Shri Narendra Modi, on January 09, 2017. India INX commenced trading activities on January 16, 2017.

India INX operates for 22 hours a day to allow international investors and Non Residents Indians to trade from anywhere across the globe.

### 14.12.2. NSE IFSC

NSE IFSC is a fully-owned subsidiary company of National Stock Exchange of India, a stock exchange launched as a global trading platform in the IFSC in Gujarat International Finance Tech (GIFT) city.

NSE IFSC obtained Certificate of Incorporation dated November 29, 2016 issued by the Registrar of Companies, Gujarat situated at Ahmedabad. NSE IFSC commenced trading activities on June 6, 2017.

### 14.12.3. Products currently being offered by the stock exchanges in IFSC

The below products are currently being offered on the stock exchanges in IFSC:

	Index Derivatives	Equity Derivatives	Commodity Derivatives	Currency Derivatives
India INX	✓	✓	✓	✓
NSE IFSC	✓	✓	✓	✓

### 14.12.4. Trading and Settlement

The Clearing and Settlement of trades executed on INDIA INX and NSE IFSC shall be cleared and settled through INDIA ICC and NSE IFSC CLEARING CORPORATION LIMITED (NICCL) respectively as per the guidelines issued by SEBI and as per the provisions of Rules, Byelaws and Regulations of INDIA ICC and INDIA INX as well as any other

circulars/ guidelines that may be issued in respect of the same from time to time.

The Clearing and Settlement shall be done on a multilateral netting basis as per the settlement obligations of the respective clearing members. The Clearing Members shall be responsible for all obligations, inter alia, including the payment of margins, penalties, any other levies and settlement of obligations of the trades entered by them as trading members and also of those trading members and custodial participants, if any, for whom they have undertaken to settle as a Clearing Member.

As a set process all obligations in respect of trades entered by trading members will be transferred to the respective Clearing Members who have undertaken to act as Clearing Members for them.

## 14.13. Important Links

<http://giftgujarat.in/>

<http://www.indiainx.com/>

<https://www.nseifsc.com/>

<http://giftgujarat.in/faq.aspx>

# Important Announcements

## 15.1. Primary Regulations

Attached below are the links to the primary regulations that govern FPI, FDI and FVCI category of investors

### FPI Regulations 2014

[http://www.sebi.gov.in/legal/regulations/jun-2017/sebi-foreign-portfolio-investors-regulations-2014-last-amended-on-july-20-2017-\\_35121.html](http://www.sebi.gov.in/legal/regulations/jun-2017/sebi-foreign-portfolio-investors-regulations-2014-last-amended-on-july-20-2017-_35121.html)

### Consolidated FDI Policy Circular of 2017

[http://dipp.nic.in/sites/default/files/CFPC\\_2017\\_FINAL\\_RELEASED\\_28.8.17.pdf](http://dipp.nic.in/sites/default/files/CFPC_2017_FINAL_RELEASED_28.8.17.pdf)

### FVCI Regulations

[http://www.sebi.gov.in/legal/regulations/sep-2000/sebi-foreign-venture-capital-investors-regulations-2000-last-amended-on-march-6-2017-\\_34636.html](http://www.sebi.gov.in/legal/regulations/sep-2000/sebi-foreign-venture-capital-investors-regulations-2000-last-amended-on-march-6-2017-_34636.html)

## 15.2 Important Circulars

### 15.2.1. Foreign Portfolio Investors

Important Announcements	Details	Category	Impact
Implemented			
Issue of Offshore Derivative Instruments	Frequently Asked Questions (FAQs) on the KYC norms governing Offshore Derivative Instruments (ODIs)	FAQ	These FAQs will provide the ODI issuers and subscribers, the much needed clarity relating to ODIs
	<a href="http://www.sebi.gov.in/sebi_data/attachdocs/1472729299841.pdf">http://www.sebi.gov.in/sebi_data/attachdocs/1472729299841.pdf</a>		
	FPIs prohibited from issuing ODIs with derivatives as underlying except those derivative positions that are taken for hedging the equity shares held by FPIs on a one to one basis	Regulatory	SEBI has tightened the norms relating to ODI issuance by prohibiting FPIs from issuing ODIs with derivatives as underlying except those derivative positions that are taken for hedging the equity shares held by FPIs on a one to one basis

Important Announcements	Details	Category	Impact
	<a href="http://www.sebi.gov.in/legal/circulars/jul-2017/guidelines-for-issuance-of-odis-with-derivative-as-underlying-by-the-odi-issuing-fpis_35266.html">http://www.sebi.gov.in/legal/circulars/jul-2017/guidelines-for-issuance-of-odis-with-derivative-as-underlying-by-the-odi-issuing-fpis_35266.html</a>		
FPIs permitted to invest in unlisted debt and securitised debt	Foreign Portfolio Investors (FPIs) have been permitted to invest in unlisted debt securities and securitised debt instruments	Regulatory	The avenues for investments for FPI clients has been increased to include unlisted debt and securitized debt
	<a href="https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10718&amp;Mode=0">https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10718&amp;Mode=0</a>		
	<a href="http://www.sebi.gov.in/cms/sebi_data/attachdocs/1488197031529.pdf">http://www.sebi.gov.in/cms/sebi_data/attachdocs/1488197031529.pdf</a>		
	<a href="http://www.sebi.gov.in/cms/sebi_data/attachdocs/1488277921324.pdf">http://www.sebi.gov.in/cms/sebi_data/attachdocs/1488277921324.pdf</a>		
RBI permits participation of FPIs in Government securities on NDS-OM platform	FPIs permitted to trade G-Secs in the secondary market through the primary members of Negotiated Dealing System-Order Matching (NDS-OM) including the Web-module	Regulatory	FPIs can obtain web access to NDS-OM system for trading in G-sec in the secondary market. This will give them direct access to the trading system
	<a href="https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI860017E8FEB03A4BDDA965DB1FDBF97775.PDF">https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI860017E8FEB03A4BDDA965DB1FDBF97775.PDF</a>		
Online verification of PAN and use of Electronic PAN	SEBI has permitted intermediaries to verify PAN details online for account opening	Ease of doing business	This announcement is expected to ease the PAN verification process at the time of FPI account opening
	<a href="http://www.sebi.gov.in/cms/sebi_data/attachdocs/1479379448955.pdf">http://www.sebi.gov.in/cms/sebi_data/attachdocs/1479379448955.pdf</a>		
	FPIs to use Electronic PAN for KYC compliance	Ease of doing business	This is expected to ease and expedite the KYC process.
	<a href="http://www.sebi.gov.in/legal/circulars/jun-2017/acceptance-of-e-pan-card-for-kyc-purpose_35210.html">http://www.sebi.gov.in/legal/circulars/jun-2017/acceptance-of-e-pan-card-for-kyc-purpose_35210.html</a>		
Introduction of Interest Rate Options	Foreign Portfolio Investors with underlying interest rate risk can participate as users for hedging their underlying risk	Trading Environment	FPIs are now able hedge their underlying Interest rate risk
	<a href="https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10802&amp;Mode=0">https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10802&amp;Mode=0</a>		

Important Announcements	Details	Category	Impact
SEBI permits FPIs to invest in Clearing Corporations and Depositories through primary market	Foreign Portfolio Investors are permitted to acquire shares of the Indian clearing corporations and the depository through initial allotment /primary market  <a href="http://www.sebi.gov.in/cms/sebi_data/attachdocs/1487247919638.pdf">http://www.sebi.gov.in/cms/sebi_data/attachdocs/1487247919638.pdf</a> <a href="http://www.sebi.gov.in/cms/sebi_data/attachdocs/1487247829651.pdf">http://www.sebi.gov.in/cms/sebi_data/attachdocs/1487247829651.pdf</a>	Regulatory	This will permit FPIs to participate in the IPOs of the clearing corporations and stock exchanges
Position limits for cross-currency futures and options contracts (not involving INR) on exchanges in IFSC	SEBI has notified position limits for cross-currency futures and options contracts (not involving Indian Rupee (INR)) on exchanges in International Financial Services Centre's (IFSC)  <a href="http://www.sebi.gov.in/legal/circulars/may-2017/position-limits-for-cross-currency-futures-and-options-contracts-not-involving-indian-rupee-on-exchanges-in-international-financial-services-centres-ifsc-_34892.html">http://www.sebi.gov.in/legal/circulars/may-2017/position-limits-for-cross-currency-futures-and-options-contracts-not-involving-indian-rupee-on-exchanges-in-international-financial-services-centres-ifsc-_34892.html</a>	Trading Environment	Position limits for cross-currency futures and options contracts (not involving Indian Rupee (INR)) on exchanges in International Financial Services Centre's (IFSC) notified.
RBI introduces Legal Entity Identifier for OTC derivative markets in India	The Reserve Bank of India (RBI) has notified implementation of the Legal Entity Identifier (LEI) to promote transparency and improve risk management in financial markets  <a href="https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10988&amp;Mode=0">https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=10988&amp;Mode=0</a>	Regulatory	The goal of the LEI initiative is to promote transparency and improve risk management in financial markets

Important Announcements	Details	Category	Impact
CBDT exempts Category I and II FPIs from certain requirements under Section 9A of Income-tax Act, 1961	Category I and II, FPIs registered under the Securities and Exchange Board of India (FPI) Regulations, 2014, exempted from certain requirements (such as broad based criteria) prescribed under section 9A of Income Tax Act, 1961, qualify as Eligible Investment Fund (EIF)	Tax	FPIs are exempt from certain requirements prescribed under section 9A to qualify for Eligible Investment Fund and not to be regarded as a tax resident in India merely because the 'fund manager' is located in India
<a href="http://www.egazette.nic.in/WriteReadData/2017/177814.pdf">http://www.egazette.nic.in/WriteReadData/2017/177814.pdf</a>			
Auction mechanism for Combined Corporate Debt Limit for FPIs	SEBI has notified that the Combined Corporate Debt Limit (CCDL) of INR 2443.23 billion for FPIs shall be available on tap for investment by foreign investors till the overall investment reaches 95%, after which, the auction mechanism shall be initiated for allocation of residual limit. The auction mechanism shall be discontinued and the limits shall be once again available for investment on tap when debt limit utilisation falls below 92%	Regulatory	Utilised CCDL for FPIs shall be available on tap for investment by foreign investors till the overall investment reaches 95%, after which, the auction mechanism shall be initiated for allocation of residual limit
<a href="http://www.sebi.gov.in/legal/circulars/jul-2017/investments-by-fpis-in-corporate-debt_35362.html">http://www.sebi.gov.in/legal/circulars/jul-2017/investments-by-fpis-in-corporate-debt_35362.html</a>			



Important Announcements	Details	Category	Impact
Masala Bonds excluded from corporate debt limit for FPIs	INR Denominated Bonds issued overseas (Masala Bonds) are excluded from reckoning against corporate debt limit for FPIs. The freed limit would be made available to FPIs for investment in Corporate Bonds, in 2 quarterly tranches	Regulatory	The limits would be released as follows: October 03, 2017 – INR 270 billion January 01, 2018- INR 170.01 billion INR 95 billion of the limit released in each quarter would be reserved for Long Term FPIs for investment in infrastructure sector
	<a href="https://rbidocs.rbi.org.in/rdocs/notification/PDFs/APDIR622091779F98D3D3A4D45F598AAD850C93EC393.PDF">https://rbidocs.rbi.org.in/rdocs/notification/PDFs/APDIR622091779F98D3D3A4D45F598AAD850C93EC393.PDF</a>		
	<a href="https://rbidocs.rbi.org.in/rdocs/notification/PDFs/APDIR522091746D54E9902984BD593836C5064285D70.PDF">https://rbidocs.rbi.org.in/rdocs/notification/PDFs/APDIR522091746D54E9902984BD593836C5064285D70.PDF</a>		
Under Consideration			

Important Announcements	Details	Category	Impact
Consultation paper on easing of FPI access norms	<p>Proposed easing of access norms for Foreign Portfolio Investors (FPIs) and other related FPI regulatory amendments</p> <p>Highlights of the proposals are as follows:</p> <ul style="list-style-type: none"> <li>– Expansion of eligible jurisdictions for grant of FPI registration to category I FPIs</li> <li>– Simplification of broad based requirement and other related clarifications</li> <li>– Discontinuance of requirements for seeking prior approval from SEBI in case of change in local custodian/ Designated Depository Participant (DDP)</li> <li>– Exemption to FPIs having Multiple Investment Managers (MIM) structure from seeking prior approval from SEBI in case of Free of Cost transfer of assets</li> <li>– Simplification of process for addition of share class</li> <li>– Permitting FPIs operating under the MIM structure or FPIs holding Foreign Venture Capital Investors (FVCI) registration to appoint multiple custodians</li> <li>– Permitting appropriately regulated Private Bank/ Merchant Bank to invest on their behalf and also on behalf of their clients</li> <li>– Definition of “appropriately regulated persons” to be expanded to include additional regulated entities such as broker dealer, swap dealer, etc.</li> </ul>	Ease of doing business	The consultation paper deals with various proposals relating to easing of access norms for FPIs
	<p><a href="http://www.sebi.gov.in/reports/reports/jun-2017/consultation-paper-on-easing-of-access-norms-for-investment-by-fpis_35192.html">http://www.sebi.gov.in/reports/reports/jun-2017/consultation-paper-on-easing-of-access-norms-for-investment-by-fpis_35192.html</a></p>		

Important Announcements	Details	Category	Impact
<p>Consultation paper on growth and development of equity derivatives market in India</p>	<p>SEBI has issued a consultation paper seeking public feedback on matters related to growth and development of equity derivatives market in India.</p> <p>Highlights of the proposals are as follows:</p> <ul style="list-style-type: none"> <li>– Ratio of turnover in derivatives to turnover in cash market is around 15 times. To what extent the drivers of this ratio of turnover in derivatives to turnover in cash market India are comparable with drivers in other markets</li> <li>– The global best practices and experience in international markets to align cash and derivative markets</li> <li>– Measures regarding participant profile, required to create balanced participation in equity derivatives market</li> <li>– The need to introduce a product suitability framework in our market, taking into account trading of individual investors in derivatives, especially options</li> <li>– The guiding principles for setting minimum contract size and open position limits for equity derivatives, considering participants profile, product mix and leverage in equity derivatives</li> </ul>	<p>Growth and development</p>	<p>The consultation paper deals with various proposals relating to development of derivative markets</p>
	<p><a href="http://www.sebi.gov.in/reports/reports/jul-2017/discussion-paper-on-growth-and-development-of-equity-derivative-market-in-india_35295.html">http://www.sebi.gov.in/reports/reports/jul-2017/discussion-paper-on-growth-and-development-of-equity-derivative-market-in-india_35295.html</a></p>		
	<p><a href="http://www.sebi.gov.in/reports/reports/sep-2017/addendum-to-discussion-paper-on-growth-and-development-of-equity-derivative-market-in-india-_35883.html">http://www.sebi.gov.in/reports/reports/sep-2017/addendum-to-discussion-paper-on-growth-and-development-of-equity-derivative-market-in-india-_35883.html</a></p>		

## 15.2.2. Foreign Direct Investment

Important Announcements	Details	Category	Impact
Implemented			
FDI policy on 'Other Financial Services' Derivative	Permit upto 100% foreign investment under automatic route in all 'Other Financial Services' activities which are regulated by at least one financial sector regulator	Ease of doing business	Previously, only specified services were allowed under the automatic route. With This circular, 'Other Financial Services' regulated by any financial sector regulator is permitted under the automatic route
	<a href="https://rbi.org.in/scripts/NotificationUser.aspx?Id=10606&amp;Mode=0">https://rbi.org.in/scripts/NotificationUser.aspx?Id=10606&amp;Mode=0</a>		
FEMA amendments notified - Liberalisation of FDI policy	Liberalisation of FDI policy	Regulatory	This circular simplifies the foreign investment norms by liberalising FDI policy in certain sectors including defence, pharmaceutical and civil aviation sectors
	<a href="http://www.egazette.nic.in/WriteReadData/2016/172979.pdf">http://www.egazette.nic.in/WriteReadData/2016/172979.pdf</a>		
DIPP issues Standard Operating Procedure for processing FDI proposals	DIPP has issued Standard Operating Procedure (SOP) for processing of Foreign Direct Investment (FDI) proposals for foreign investment in sectors requiring government approval. The proposals will be filed online on the revamped Foreign Investment Facilitation Portal	Regulatory	<ul style="list-style-type: none"> <li>– Time-bound approval process</li> <li>– Simplified application process</li> </ul>
	<a href="http://www.dipp.gov.in/whats-new/standard-operating-procedure-sop-processing-fdi-proposals">http://www.dipp.gov.in/whats-new/standard-operating-procedure-sop-processing-fdi-proposals</a>		
Increase in foreign shareholding in Indian stock exchanges	Increase in foreign investment limit from 5% to 15% in Indian stock exchanges will be applicable to the following entities: <ul style="list-style-type: none"> <li>- a foreign stock exchange</li> <li>- a foreign depository</li> <li>- a foreign banking company</li> <li>- a foreign insurance company</li> <li>- a foreign commodity derivative exchange</li> </ul>	Regulatory	Certain specified categories of foreign investors can now invest upto 15% of share capital bringing them at par with domestic counterpart\
	<a href="http://www.sebi.gov.in/sebi_data/attachdocs/1484304686250.pdf">http://www.sebi.gov.in/sebi_data/attachdocs/1484304686250.pdf</a>		
	<a href="http://www.egazette.nic.in/WriteReadData/2017/173574.pdf">http://www.egazette.nic.in/WriteReadData/2017/173574.pdf</a>		

# Industry Perspectives

## India INX: offering unique value proposition to international investors

Authored by  
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Earlier this year, on January 09, 2017, India got its first international exchange, the India International Exchange (IFSC) Ltd. – India INX – which was inaugurated by the Honourable Prime Minister of India, Shri Narendra Modi. The Exchange had been in the making for some time, since Asia’s oldest bourse, the BSE, announced its intention to set up an international exchange at the newly designated International Financial Services Centre at Gujarat International Finance Tec-City (GIFT City).

### GIFT City, host to India’s International Financial Services Centre

GIFT City (<http://giftgujarat.in/>), located near Ahmedabad international airport (approx. 500 kms north of Mumbai) has been conceptualised as a global financial and IT services hub with a master plan that facilitates multi-services SEZ which hosts an International Financial Services Centre (IFSC), a domestic finance centre and associated social infrastructure – all of which are being developed in a continuous parcel of land thereby increasing attractiveness of the infrastructure it proposes for businesses and individuals alike. Financial services undertaken at GIFT includes banking, capital markets and insurance with transaction in global currencies.

Further, to uphold legal rights of global participants efficiently and judiciously, at par with any other global financial centre of repute, GIFT IFSC has tied up with Singapore International Arbitration Centre for dispute resolution.

### IFSC: the India advantage

The International Financial Services Centre set up in India draws upon the spirit of competitive capital markets, at par with the best globally. This was evident when the Prime Minister in his inaugural speech of India INX highlighted, “The concept of an International Financial Services Centre is simple but powerful. It aims to provide onshore talent with an offshore technological and regulatory framework. This is to enable Indian firms to compete on an equal footing with offshore financial centres. Gift City IFSC will be able to provide facilities and regulations comparable to any other leading international finance centres in the world. My vision is that in ten years from now, Gift city should become the price setter for at least a few of the largest traded instruments in the world, whether in commodities, currencies, equities, interest rates or any other financial instrument.”

Given the tremendous potential of India’s talent in capital markets and GIFT IFSC’s ability to change the way global investors and market participants engage with emerging markets i.e. directly rather than indirectly through other global financial hubs like Singapore, Dubai, etc., both government and regulators in India are offering several policy impetus to allow for rapid growth.

Highlights of such policy and regulatory interventions include:

- For Foreign Investors not already registered in India as Foreign Portfolio Investors, a new category of participant called Eligible Foreign Investor (EFI) has been created. EFIs are allowed to participate directly in IFSC by directly wiring margin money into an IFSC broker's client bank account and pay-out will happen directly into EFI's bank account in foreign territory
- Foreign Portfolio Investors (FPIs) can participate in commodities at IFSC exchanges
- Allows Mutual Funds (MFs), Alternative Investment Fund (AIFs), Portfolio Management Services (PMS) at IFSC, to invest in Indian securities listed at domestic bourses in addition to securities listed at IFSC exchanges
- Offers a single segment for all products (cash, equity derivatives, commodity derivatives, currency derivatives). – optimised use of collateral as also reduced cost of doing business
- Offers a liberal tax regime viz. no tax to be paid on dividend distribution, no tax on long term capital gains, no transaction tax, graded tax holiday for 15 years for entities having set up at IFSC and no service tax
- Liberal regulations for debt issuance, listing and trading framework announced allowing both Indian and Foreign issuers to raise funds from International Exchanges at GIFT IFSC in any currency
- Ease of entry of primary market intermediaries from anywhere in the globe – allows any SEBI registered intermediary or its international associate to offer capital market intermediary services (except broking and clearing services) at IFSC with prior approval from SEBI – no separate registration with SEBI for IFSC
- Allows all transactions and settlement at GIFT IFSC to be in foreign currency – no currency risk for doing business through GIFT IFSC

### The India INX edge

The Prime Minister's bold vision to shape a new confident India with strong capital market, resonates deeply with India INX's aspiration to be an exemplary international exchange serving priorities of market participants. The exchange have been quick to respond to each of the regulatory interventions in quick succession.

India INX's unique value proposition caters to need of international investors and intermediaries and takes advantage of the liberalised capital market regime that GIFT IFSC offers. These include:

- Balanced product portfolio across all major asset class – cash equity and equity derivatives, commodities derivatives, currency derivatives, interest rate derivatives either already on offer or in the pipeline to be introduced.
- India INX was the first to launch S&P BSE SENSEX50, an index for top 50 equities in India. The Exchange has been generating the highest daily trading turnover on the S&P BSE SENSEX50 derivatives contracts.
- Ability to invest on Indian market without having to take any currency risk. Top 107 single stock futures and options on Indian Equities available to trade which comprise ~70% of total market capitalization of stocks listed in BSE
- 22 hours non-stop market access – opportunity to react to any change across globe through investment / hedge / arbitrage
- State of the art technology platform of Eurex T7 offering a median response time of 4 micro seconds
- Algo, colo and direct market access available to both members and clients – ability to connect and trade in India INX from anywhere in the globe. Colocation services offered to members include complimentary rack space and standard hardware servers
- Single segment for all products leads to rationalisation of margins, single, net settlement across products thus ensuring optimal use of capital

- Most competitively priced international exchange. The cost of transacting one lot in derivative at India INX is negligible compared to any other global exchange making it the lowest cost trading venue for Indian securities
- Strong risk management practices with twice daily mark to market settlements conducted by the India International Clearing Corporation (IFSC) Ltd. (India ICC) which acts as a Central Counterparty to every derivative transaction done on INX platform and a margin framework which is comparable to the best exchanges/ CCPs in Asia
- A dedicated Default Fund and Default Waterfall with limited liability for non-defaulting members
- Real time price and transaction data feed available from India INX as well as from multiple data service vendors
- Global Securities Market (to be launched soon) proposes to reduce effort for both Indian and foreign issuers to raise funds efficiently from global investor base

Despite it being early days for the exchange, benefit of these value propositions to the participants are already evident. For example, liquidity in commodities at India INX is not restricted to India market hours but spans beyond.

The product portfolio is balanced across asset class.

### Product portfolio at play at India INX

Products Available to Trade	Additional Products in Pipeline
Equity Index Derivatives (F&O): S&P Sensex, S&P Sensex50	Currency Derivatives (Futures): — INR/USD — USD/INR Quanto
Commodity Derivatives (Futures): Gold, Silver, Copper, Aluminium, Zinc, Lead, Nickel, Gold KG	Currency Derivatives (Options): — USD/INR Quanto
Global Single Stock (Futures): Apple INC, Facebook INC, Microsoft, Google, JP Morgan	Commodity Derivatives (Futures): — WTI Crude Oil, Brent Crude Oil, Natural Gas — Gold Quanto, Silver Quanto, Copper Quanto, WTI Crude Oil Quanto, Brent Crude Oil Quanto
Currency Derivatives (F&O): EURUSD, GBPUSD, JPYUSD	Commodity Derivatives (Options): Gold, Gold Quanto, WTI Crude Oil, WTI Crude Oil Quanto
Indian Single Stocks (F&O): 107 Single Stock Derivatives are selected on the basis of their trading activities in domestic exchanges in Futures and Options segment	

The Exchange also recorded rapid increase in volumes in the first few months of its operations across both equity and commodity derivatives touching a peak daily transaction turnover of USD 100 million on 5th May, 2017. Since launch, INX has done a total trading turnover of USD 5.5 billion with volumes spread across both equities and commodities.



## India ICC: prepared for any eventuality

India International Clearing Corporation (IFSC) Ltd. (India ICC) is established to provide clearing & settlement and risk management services. India ICC acts as the Central Counterparty to every transaction and provides clearing & settlement, collateral management and risk management services to India INX at the GIFT City. The CCP has established a robust risk management system to monitor, manage and report risks imbibing CPMI – IOSCO's Principles for Financial Markets Infrastructure.

Following are some of the risk management practices which have been adopted by India ICC (<http://www.indiaicc.com/static/margin.aspx>):

### Minimum Liquid Network

Clearing Members are required to maintain a minimum liquid net worth, after adjusting for the initial margin and exposure margin requirements, at all points of time and no exposure is available in lieu of this

### Initial margin

- Standard Portfolio Analysis of Risk (SPAN®) methodology adopted for real time initial margin computation.
- Margins required to cover risk at 99% confidence level over a 1-day standard margin period of risk.

### Exposure margin

- Charged over and above initial margin to protect against extreme movements in the markets

### Risk Reduction Mode

- Members are put in Risk Reduction Mode (RRM), when collateral/ trading limit utilization of member reaches 90%, and they cannot increase their positions in the markets. Orders can be placed only to reduce open positions.

### Default Fund

- India ICC has created a dedicated Default Fund, which would be readily and unconditionally available to meet settlement obligations in case of default of any Clearing member. India ICC conducts daily stress tests to arrive at the minimum default fund size and has also established a default waterfall for loss allocation. For more details on default fund: <http://www.indiaicc.com/static/static/DefaultFund.aspx>

## Opportunities and way forward

The initial milestones have not been easy to come by for INX. For one, most global investors are still learning the concept and benefits of IFSC in India. Second, developing the market for GIFT IFSC participants with a comprehensive ecosystem is a work in progress. The exchange has received early response from more than 100+ participants – all of whom are at different stages of membership with the exchange.

With an ambition to chase to become the price setter in significant products of interest, these early signs of encouragement offer the possibility of a world with boundless potential. For India INX, the journey has just begun to cater to an opportunity that the global capital markets are looking for and India eager to cater.

Contact [bdn@indiainx.com](mailto:bdn@indiainx.com) for queries or clarifications

For more details, please visit our website [www.indiainx.com](http://www.indiainx.com)

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Mr. Arup Mukherjee is the Managing Director & CEO of the India International Clearing Corporation (IFSC) Limited. He has around 30 years of work experience of which around 27 years has been in the Securities Industry. Mr. Mukherjee has worked previously with the Indian Clearing Corporation Limited ("ICCL"), National Stock Exchange of India Limited ("NSE"), Indian Seamless Financial Services Limited and the Stock Holding Corporation of India Limited ("SHCIL"). He has wide ranging experience in trading operations, equity markets, derivatives, debt markets, surveillance, risk & regulatory, membership, investor services, arbitration, compliance, index services, training and education.

# NCDEX: Unlocking the potential of regulated markets for the farmers

Authored by  
Samir Shah  
Managing Director & CEO, NCDEX

India is one of the largest producers of the most of the agricultural commodities. Despite this, management of the output side of the agricultural system always remained a great challenge due to its complex, diverse and investment-intensive nature. To deal with the same, a newer approach towards strengthening agriculture marketing system is needed where the synergies of different stakeholders are harnessed for the benefit of farmers.

Commodity derivatives market in India has come a long way since its inception. During this journey, NCDEX has emerged as a trade-facilitating institution while creating numerous positive impacts on agricultural ecosystem ranging from better price discovery to bringing in efficiencies to augmenting structural reforms in physical markets. It has also enabled farmers to become more informed about market and pricing information along with catalysing the growth in their farm incomes by increasing market access and offering protection against price volatility.

## Market access: major challenge for the farmer

Indian agriculture is dominated by small and marginal farmers who often struggle to sell their produce. They also face challenges on economies of scale, integration of value chains, vulnerability to market volatility and other risks. The smaller farm sizes also restrict their bargaining power in both inputs as well as output sides of the market. Various research studies show that the income earned from the agriculture was not adequate to keep around 53% of farm households out of poverty, who operated on less than 0.63 hectares of land holdings.

Recognizing the low level of farm income as a crucial factor to address agrarian distress, the Government has initiated numerous reforms to bring competition and efficiency in the agricultural market to ensure remunerative prices for producers and reasonable prices for consumers. Reforms such as implementing electronic National Agriculture Market (eNAM), setting up warehouse registry, the Goods and Services Tax Act (GST), proposed new Agricultural Produce and Livestock Marketing (Promotion and Facilitating) Act, 2017 etc. are at different stages of implementation which could play a crucial role in economic growth of farmers.

## NCDEX: linking farmers to the market

Strong links to markets for smallholders is essential for increasing agricultural production and generating economic growth in rural areas. Improving these links creates a virtuous circle by boosting productivity, increasing incomes and strengthening food security. Better access by small producers to formal regulated markets means that they can reliably sell more produce at higher prices.

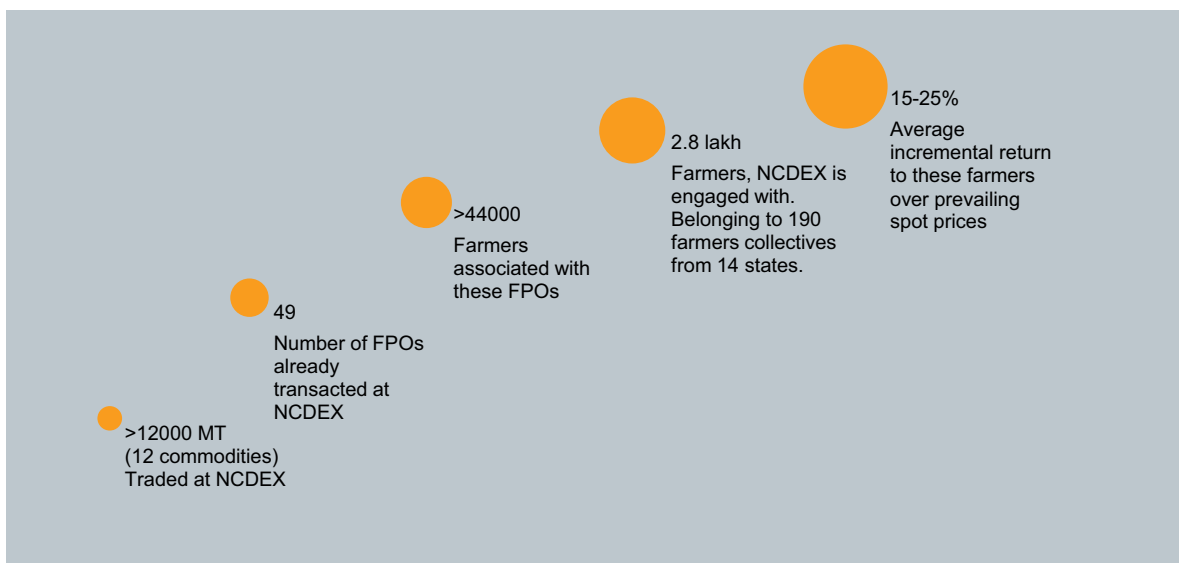
Individual farmers are often not able to participate in the regulated market. Producer companies have emerged as a viable model to help smallholder farmers participate in emerging high-value markets. They integrate smallholders into modern supply networks, minimizing transaction and coordination costs while benefiting from economies of scale. Organization and collective action can help to enhance farmers' competitiveness and increase their advantage in emerging market opportunities.

Being the largest agricultural commodity exchange of the country, NCDEX has always been trying to connect to the farming community through innovative product and services. With

Farmer Producer Companies and cooperatives emerging as viable aggregation vehicles for small and marginal farmers, both of input and output side, the exchange has been able to connect to them to provide a transparent online platform to them so that they can participate directly, realize better prices and manage their price risk through informed judgment.

In just one and half years of its efforts to provide farmers with an access to a national market, NCDEX has reached out to more than 280,000 farmers belonging to over 200 farmer collectives. Further, over 44,000 farmers belonging to 49 FPOs have successfully used the exchange platform to hedge their price risks. They were able to lock in the price of their produce well in advance during the sowing stage of the crop itself. These farmers have realised 15-25% higher net price as compared to the prevailing price at the time of harvest. Additionally, the direct access to regulated market helped them save over 3% in transaction costs as compared to costs involved in selling the produce in the traditional market.

Figure 1: Farmers' direct participation in commodity futures market



Source: NCDEX

The higher income of farmers has become possible through a range of multifaceted developmental activities undertaken by NCDEX to upgrade post-harvest practices, build capacity for marketing, disseminate information, and harness innovative bank credit and trade finance mechanisms.

#### Facilitating post-harvest credit to farmers

Lack of credit at the appropriate time, especially during the post-harvest stage, makes small and marginal farmers vulnerable to distress sale. Strengthening financial muscle of the farmers are required to break the farmer's dependency on intermediaries, and enabling them access better markets. NCDEX has created an efficient ecosystem to address the credit need of stakeholders. Commodities worth over Rs 800 crore are being pledged annually using NCDEX Comtrack system. So far, over Rs 2,000 crore has been disbursed against 6.4 lakh tonnes of commodities, currently valued at around Rs 3,000 crore. Also, farmers have availed the working capital finances against their produce kept in NCDEX accredited warehouses at a rate 3-6% cheaper than market rates.

#### Augmenting reforms in agri-warehousing

Warehousing forms another critical requirement for agricultural growth and development. Not only this helps in creating time and place utility of agricultural goods but also provides working capital finances against the stored goods. All warehouses have to issue a warehouse receipt as proof of material received and stored with quality and quantity mentioned on it. Soon to be launched warehouse repository – National E-Repository Ltd.

(NERL) – will replace the current paper-based receipt system and will keep the records of all warehouses and movement of goods into/from them on real time basis in electronic form which can selectively be provided to all stakeholders concerned. The repository for commodities will catalyse the organic growth in warehouse receipt financing business by providing confidence to financing institutions. It will also serve as the central data source for policymakers, helping shape agri policy decisions. In long run, this system will enhance the integrity of the warehousing market.

### Catalysing primary market reforms

NCDEX has also been at the forefront of driving reforms in the primary agricultural market. The mandi modernization initiative undertaken by NCDEX e-Markets Limited (NeML) in alliance with the government of Karnataka has been a unique example of public private partnership stepping out for market modernization and development on this front. Rashtriya e-Market Services Limited (ReMS) – a joint venture between Karnataka Government and NeML commenced in January 2014 to focus on modernizing APMC markets by introducing a series of measures, viz. electronic auctions, grading of the produce, direct payment to farmers, global best practices, etc.

The new market structure – Unified Market Platform (UMP) model of Karnataka has gained accolades and recognition for setting up a benchmark and for being an inspiration for other states. It has bagged a couple of prestigious awards such as the D.L Shah Platinum Award 2016 at 11th National Quality Conclave (NQC) 2016 by the Quality Council of India, and the 'Gems of Digital India Award 2017' for its successful implementation of agricultural market reforms to increase farmer incomes in Karnataka's APMC markets.

Niti Aayog has also recognized the impact of online marketing through UMP on the income of farmers. After the introduction of UMP, the model prices in mandis in Karnataka increased at a much higher rate than the increase in the wholesale price of the same commodity in the country. The average realization by farmers has increased by 38% in nominal terms and 13% in real terms (after deflating with WPI of respective commodity) in 2015-16 over 2013-14.

Table 1: Impact of unified market platform (UMP) on prices received by farmer

Commodity	Price received by farmers		Per cent increase in 2015-16 over 2013-14	
	2013-14	2015-16	Nominal	Real <sup>^</sup>
Tur	3939	7672	95	16
Urad	3817	7976	109	12
Copra	5189	9325	80	43
Turmeric	5937	7931	34	13
Groundnut	3398	4346	28	14
Chana	3057	4541	49	15
Bajra	1261	1419	13	11
Maize	1257	1356	8	6

<sup>^</sup> Real prices computed after deflating with WPI of the commodity

Source: Policy Paper, Niti Aayog

### The road ahead

NCDEX has the potential to link small-holder agriculture, commodity supply chains, processing industry, finance and government policies in a reliable and transparent way in order to enhance farmer incomes. Government policy support is required to achieve scale and deepen the benefits for small farmers.

There is a need to link the spot market with derivatives market in order to enable farmers with the freedom to sell across time, grade and location for better price realization. NCDEX approved warehouses are capable of serving as modern electronic spot markets and a critical point of integration if considered as submarket yards under the proposed Agricultural Produce and Livestock Marketing (Promotion & Facilitation) Act, 2017. Furthermore, introducing more and more commodities on commodity exchanges and introduction of exchange traded Forwards and farmers friendly Options could provide farmers with appropriate tools to get the best price for their produce and manage price risk efficiently.

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Mr. Shah joined NCDEX on 1 March 2013, initially as the Dy. CEO and has been designated as the Managing Director & CEO. Just before that, Mr. Shah was the Chief Business Officer of the Dubai Gold and Commodities Exchange (DGCX). At DGCX he led the growth of the exchange to make it the one of fastest growing exchange in the world, winning several awards, amongst them were Contract of the Year and the Best Commodity Exchange in 2012. Shah has two decades of experience in building institutions and market infrastructure. Prior to joining DGCX, he was the CEO of Mumbai-based Universal Commodities Exchange (UCX).

# Commodity Derivatives Markets: connecting India to the Global Economy

Authored by

Mrugank Paranjape

MD & CEO, Multi Commodity Exchange of India Ltd (MCX)

India has an old and vibrant history of commodity derivatives trading. Futures trade in cotton country commenced in India as a response to the uncertainties in global cotton market following the outbreak of the US Civil War in 1860s. The Bombay Cotton Trade Association Ltd. was the first to set up, following which The Bombay Cotton Exchange was established in 1893. While derivatives trading in cotton was flourishing, derivatives on other commodities were also launched across various places in the country. Futures trading in Wheat started in 1913, Raw Jute and Jute products in 1919 and Bullion in 1920.

The market experienced rapid growth during the inter-war years. Later, the Forward Markets Commission was set up in 1953 under the Forward Contracts Regulation Act, 1952 to regulate the markets. However, the industry went into oblivion as futures trading in most of the commodities were banned in mid-1960s following war, natural calamities and resultant shortages.

## Beginning of MCX

Cut to the twenty first century, after the Government of India in 2002 permitted electronic commodity exchanges offering futures on multiple commodities, Multi Commodity Exchange of India (MCX) was one of the first to be set up, commencing operations from November 2003. The exchange was basically the response to a long overdue and unmet demand in India for a market-based platform for price discovery and risk management in commodities. The demand was particularly accentuated after India began rapidly globalising her economy in the nineties, culminating with the ratification of the WTO Agreement, of which India was a founder member.

Over the next decade and half, MCX has grown from strength to strength, attaining an undisputable position as the market leader in India with nearly 90 percent of market share by turnover and the seventh rank among global exchanges by the number of futures contracts traded (as per Futures Industry Association, or FIA). In terms of the number of contracts traded, MCX occupies the global second position in silver and third in aluminium. Such a stellar position of MCX is hardly surprising considering that the exchange operates from over 1,200 towns and cities in India with over 670 members and more than 51,000 Authorised Persons facilitating its connectivity to the grassroots.

## An environment of innovation

The other vehicle that MCX has been riding in travelling to the top has been the environment of innovation that characterizes its products, practices, operations and strategies. With a finger on the pulse of the stakeholders and their needs, MCX was the first exchange in the world to launch futures contracts in commodities as diverse as mentha oil, plastic, iron ore, coriander and almond and the first exchange in India to introduce futures in heating oil, gasoline and potato. It is the first Indian exchange to be listed and the first commodity exchange in India to be granted membership of the prestigious International Organization of Securities Commission (IOSCO) and the FIA. It is accredited with ISO 9001:2008 for quality standards, with 14001:2004 Environmental Management System Standards and with 27001:2015 Certification for Information Security Management Systems. Trading in commodity contracts having international benchmarks is offered till almost midnight in order to provide globally referenceable prices to market participants. Perhaps the endeavours of the exchange to develop the market stand out as the best examples of its leadership and



innovation – the institution of Gramin Suvidha Kendra being an icon of frugal innovation in disseminating valuable price information to the lowest tier of the community in otherwise geographically less accessible areas. This complements the regular efforts made by MCX to generate awareness and acceptance among stakeholders through widespread outreach initiatives across the length and breadth of the country, educating them about the commodity derivatives markets and its utility.

### Looking Ahead

Having been in existence for just about fourteen years, MCX has been fulfilling a key necessity of the Indian economy by giving stakeholders an efficient risk mitigating platform for managing risks arising out of commodity price volatility. However, the exchange was till recently constrained to offer only plain vanilla futures as all other derivative products were barred in the Indian commodity market. Likewise, almost all financial institutions are barred from participating in the Indian commodity derivatives market.

This scenario has begun to change after a few landmark structural changes were effected in India's commodity derivatives market in 2015. The erstwhile regulatory body of the commodity derivatives market, the Forward Markets Commission was merged with the Securities and Exchange Board of India (SEBI), commodity derivatives recognized as 'securities' and the six-decade old law governing the market, scrapped.

Apart from strengthening the risk management system in the commodity derivatives market, one of the major effects of this structural change has been the permission being accorded to several new products and institutions in the market. SEBI has already allowed commodity exchanges to launch options contracts on commodity futures and MCX is ready to launch its first options product soon. The introduction of options would go a long way in fulfilling the risk management needs of several categories of stakeholders in the commodity markets, who were otherwise not able to hedge using traditional derivative products. Because of their structure, this type of products are particularly suited to small stakeholders, such as farmers and small businesses, which is why they are particularly relevant in a country like India.

Further, the presence of commodity options also makes the Indian derivatives market more attractive to the investor class. Such an attraction of commodity options may generate a lot more trading interest in the commodity derivatives market, which can bring in high levels (and quality) of liquidity along with the associated benefits that come in from high liquidity, viz. efficient information transmission between derivatives' and underlying markets, low impact cost, reduction in risk of market cornering, etc.

The other major change in the commodity derivatives is the introduction of new participant groups, hitherto excluded from participating in this market. Till recently, the Indian commodity derivatives market was devoid of participation by financial institutions. This has changed with the permission recently accorded to Alternative Investment Funds (AIFs) – an equivalent of hedge funds abroad – to trade in commodity derivatives. Market stakeholders are hopeful that other major institutional traders such as banks, mutual funds, Foreign Portfolio Investors (FPIs), and such other entities would also be allowed in due course. Broad-based participation in the commodity derivatives market would be conducive for the overall development of the market, by way of enhancing liquidity, facilitating hedging and bringing in more depth to the market, thus enhancing confidence in Indian traded prices. This is an important step in making India a price-maker in the global commodities market, a potential the country which is one of the largest consumers/ producers of several commodities, already possesses.

The recent introduction of Goods and Service Tax (GST) is a very significant step in the field of indirect tax reforms in India and can have several positive ramifications for the commodity markets in making the markets more relevant to stakeholders spread across the nation. GST envisages a "One India-One Tax-One Market" and with removal of differential state-specific taxes, a larger pan-India market for commodities is being created. This enables seamless transportation of commodities across state borders, helps in building more efficient linkages between the spot and derivatives markets and enhances the relevance of exchange discovered prices to the entire ecosystem.



In all, several positive policy developments leading to the liberalization in India's commodity derivatives market, together with continued positive macroeconomic outlook for the country, makes investment in India's commodity derivatives an attractive proposition. The process of liberalization described above is expected to further intensify going forward. For instance, the commodities and securities derivative markets can be expected to be further integrated by integration of the participants, intermediaries and operational frameworks of different market segments. This can ease participation of investors and make capital fungible across multiple asset classes, enhancing the market's attraction. Similar integration can also be expected between the spot and derivatives market for commodities, and a framework for operationalizing electronic spot exchanges for specific or multiple commodities are being envisaged now.

These are opportunities that exchanges like MCX are looking forward to reap, and which the investor community can scarcely afford to ignore.

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Mr. Paranjape, an alumnus of IIT Mumbai and IIM Ahmedabad, has over 25 years of experience in diverse roles across various geographies and functions, such as Corporate Banking, Technology, Securities Markets, Investor Services, Asset management, Custodial Services, etc. Prior to joining MCX, Mr. Paranjape was the Managing Director of Deutsche Bank A.G. During the last decade he has held several leadership positions and assignments with senior management roles in various international organisations including Prudential ICICI AMC and Citibank.

# Metropolitan Stock Exchange (MSEI)

Authored by  
Udai Kumar  
Managing Director & CEO, MSE

## Introduction

The Metropolitan Stock Exchange of India (MSE) (formerly known as MCX Stock Exchange Limited or MCX-SX) was recognized by the Securities and Exchange Board of India (SEBI) on September 16, 2008, and began operations on October 07, 2008. Termed as India's youngest and third national stock exchange, it was formulated to address the two most challenging scenarios of wealth creation process - Low and highly concentrated equity penetration and the emphasis on equity. Aimed to encourage broader participation in equity and growing the non-equity segment(s), they unfurled a slew of differentiated products for the market, which intended to reduce operating cost for members, better utilization of their capital and technology upgrade.

MSE has undergone metamorphosis from a promoter-driven entity to a professionally managed one supervised by a Board of Directors. Top public sector banks like State Bank of India, Punjab National Bank, Bank of Baroda, Bank of India, Canara Bank amongst others along with large financial institutions like MCX, IL&FS together hold around 66% stake in the exchange. Marquee investors like Dr. Rakesh Jhunjhunwala, Mr. Radhakishan Damani, Mr. Nemish Shah, Mr. Kalparaj Dharamshi and others have over 30% equity stake in the exchange.

## Current Product Offerings

Metropolitan Stock Exchange of India(MSE) offers a transparent, hi-tech platform for trading in Capital Market, Futures & Options (F&O), Interest Rate Derivatives, Currency Derivatives, ETFs and Debt Market. At present, 245 companies are listed on the exchange. Over 1400 large corporates, forming over 90% of the total market capitalisation, are available for trading in the permitted to trade category. All 53 ETFs in the market are available for trading in MSE.

With a special emphasis on FPI participation, the exchange offers an efficient platform to execute negotiated deals, bulk and block deals. Clients have the flexibility of executing bilateral trades across the day with no slippages on price and quantity. MSE's equity cash segment is almost immune to slippage on execution of large deals. This unique advantage coupled with lower transaction costs, makes MSE's equity cash segment attractive for execution of bulk deals by FPIs. Many FPIs also participate in the currency and interest rate derivative segment of the MSE to make best use of exchange wise position limits applicable in these asset classes.

MSE is focusing on expanding the market, Identifying/filing in the gaps and not competing with other exchange. MSE is currently engaged in enhancing communications, infrastructure and adoption of global practices that will help infrastructure development.

The market potential and general inclination of investors towards equity/equity derivatives, highlights that fixed income and current segments are relatively ignored, primarily due to the perception of small capital gains through these segments offer more stable and consistent gains as compared to equity. MSE will focus on enhancing these segments and is currently in talks with MFs and AMCs to encourage their participation and has created lot of interest with the said fund managers.

MSE already has an IRF (Interest Rate Futures) trading platform. MSE has been steadily focusing on reclaiming the market share in currency derivatives and IRF.MSE's second phase of development which will commence from 2018-19 is focused on debt and SME listing.

### Our Value Proposition

MSE has regrouped itself to journey irreversibly on the path of profitability, has today net worth of more than INRs 100 crore.

Among the stock exchanges, MSE offers the lowest costs to entry, including admission and deposit fees, business incentive schemes, business partnership, competitive transaction charges and good infrastructure support to its members. MSE offers its own unified trading interface "TWS- Trading Work Station"; it also supports CTCL technology that permits members to use customized trading software and hardware for trading on the exchange. For institutional clients, MSE provides support for algorithmic trading through low latency co-location facilities, consisting of rack space for servers inside the exchange premises.

Also, MSE and GMEX Group of London have recently agreed to collaborate in the areas of product development in the existing segments and launching new product categories, technological innovations and market infrastructure development for new products alongside strategic equity investment by GMEX in MSE and subsidiary, MCCIL.

In line with global best practices and regulatory requirements, clearing and settlement of trades done on the Exchange are conducted through its subsidiary Metropolitan Clearing Corporation of India Ltd. (MCCIL), an accredited Qualified Central Counterparty. MCCIL has a unique track record of having completed all settlements without any defaults, since inception.

### Way forward

As a part of its 5 years business plan, MSE eyes to stock up on a blue-ocean strategy that would augment participation in the capital market by launching differentiated products in Equity segment. On equal footing, would focus on building currency and fixed income market as well. MSE is in the process of introducing a platform that provides an electronic book building (EBP) for receiving bids during private placement of corporate debt.

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Prior to joining MSE, Mr. Udai Kumar was the MD of Metropolitan Clearing Corporation of India Limited (MCCIL) and has worked in senior positions at some of the leading organizations in the financial sector like JM Financial, JM Morgan Stanley, Centrum Capital and Fortune Financial. He has over 2 decades of rich and varied experience in stock exchange administration, capital markets, fund raising, restructuring, mergers and acquisition.

# Goods and Services Tax (GST): what to expect

Authored by  
Uday Pimprikar and Nikita Nandwani  
Ernst & Young LLP, Mumbai

Goods and Service Tax ('GST') was implemented with effect from 1 July 2017 in India. This reform evidences a structural shift on several levels. The present article seeks to outline the potential impact of GST.

## Advent of an efficient taxation regime

GST implementation was primarily driven by key objectives of removing the cascading impact of taxes and creation of a unified market. These objectives have in fact been enshrined in the Statement of objects and reasons to the Constitution Amendment Bill that ushered in GST.

GST, has subsumed a plethora of old taxes. A number of these taxes were not either entirely or partially fungible, resulting in embedding of tax costs. This and the consequential supply chain structuring to reduce the non-fungible taxes, in turn created several additional costs. The Chief Economic Advisor ('CEA') has referred to these circumstances as 'the negative protectionism' against the Indian trade. GST has gone a long way in creating a much improved eco-system to mute these negative factors.

## Reduction of cascading impact

The pre-GST regime witnessed a large number of areas where the taxes embedded on procurements were not available to be set off as input tax credits to purchasers. As an illustration – State Value Added Taxes ('VAT') on purchases were not available to be set off where the purchasers were service providers (as service providers were only liable to pay a service tax imposed by the Central Government on its supplies). Also traders were not able to set off excise duties charged on goods purchased and traded by them etc. Further, state entry taxes or municipal octroi duties or local body taxes on goods were embedded costs (not set-off able) against any output tax liabilities of purchasers.

These taxes are now subsumed in a single GST and are typically fungible – thereby materially reducing costs. GST has introduced a fairly liberal input tax regime. Now any GST charged on procurements should not be a cost as long as the expense has been incurred 'in the course or furtherance of business'. The said regime is even more liberal than a number of international GST regimes as the other tax regime only grant input tax credits in relation to inputs (goods or services) 'used for the provision of output supplies'. This should herald a significant re-assessment of procurement costs.

## Supply chain re-engineering and revamp of logistics

Most are right now just about getting ready to usher in the new regime – the first cycle of compliances are expected to get done in the next couple of months. It should be expected that the new principles of a far better liberalised and inclusive input tax credit schemes should now prod purchasers and suppliers to reassess their own supply chains. Suppliers will now look at aspects such as logistics costs and in time supplies for structuring supply chains rather than saving non fungible interstate taxes such as Central Sales Tax (applied in the pre-GST era). Newer warehousing and logistics solutions are already being evaluated. A lot of investment is being witnessed by these sections. Newer models such as consolidated logistics hubs, Free Trade and warehousing Zones ('FTWZs') etc. will be used.

### Transportation efficiencies

The pre-GST regime imposed a number of varied compliances such as getting specific state entry and transit permits and also imposition of entry taxes. These compliances evidently lead to humongous waste of time and resources. The GST regime is likely to retain a common e-permit system mandating every consignment above the prescribed threshold limit to be recorded and reported. However, this regime if implemented sensitively would still allow the industry to optimise thereby significant better use of assets and reducing transportation costs.

### Impact on account of the new compliance regime

The nucleus of the GST compliance framework is the GST Network – an IT platform of the government where all GST compliances are to be conducted. The compliances will require some effort from tax payers for getting acclimatised – the eco system mandates furnishing invoice and transaction level information with the authorities and the government should be expected to develop deep capabilities in handling this large data to identify areas of leakages etc. We are already witnessing fairly focussed inquiries from the revenue authorities and the trend should increase. To top it, the framework has a large disincentive against non-compliance by denying credits to organised sector and mandating additional compliances from purchasers. Purchasers would therefore want to deal with only registered and compliant tax payers. These measures should drive the country (which was hitherto low on compliance) to be largely more responsible. This in turn should result in buoyant tax revenues.

Better revenues should also give the confidence to the governments to rationalise the tax structure – reduce tax rates and tax brackets – rationalise some of the compliances and move towards better governance.

### Conclusion

GST is a 'tax reform' that should potentially bring in a fresh wave of quality investments and consumption as also better governance. Initial disruptions should be expected having said this, in a few months as people get more comfortable – the next phase should witness focus on what matters most – efficiencies, better governance and a forward looking economy.

Government, at its end, should also work towards shedding the complexities have inadvertently crept in, clear the ambiguities and make the regime easier to deal with. There is a lot of work to be done and the intent is to move towards making the tax a 'good and simple tax' as it is professed to be.

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Uday Pimprikar is Partner, Indirect Tax, EY India having more than 15 years of experience in advising companies on indirect tax legislations including GST, Service Tax, Excise, Customs, Foreign Trade Policy and Value Added Tax across various industries viz. media and entertainment, financial services, telecom, IT enabled services/ BPO and Power. Uday has been actively involved in making tax policy representations on behalf of various industry forums with particular reference to service tax and GST.

Nikita Nandwani is Senior Consultant, Indirect Tax, EY India. Nikita has been working extensively with telecom and banking sector companies on indirect tax front. She has also been assisting the companies and advising them in undertaking various compliances under service tax and GST.

### Disclaimer:

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# Annexures

## Annexure 1 Application Format for FPI Registration

### Annexure 1.1. Form A

#### FIRST SCHEDULE

#### FORMS

#### FORM A

SECURITIES AND EXCHANGE BOARD OF INDIA (FOREIGN PORTFOLIO INVESTORS) REGULATIONS, 2014

[See regulation 3(2) and regulation 8]

Application Form for Grant of Certificate of Registration as Foreign portfolio investor (FPI)

#### 1.0 Details of the Applicant:

##### 1.1 Name of the applicant

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##### 1.2 Address of the Applicant:

Address			
Postal Code		Country	
Telephone No.		Fax No	
Web-site			

##### 1.3 Date of Birth/ incorporation/establishment/formation:

dd/mm/yyyy

##### 1.4 Place and Country of Birth/ incorporation/establishment / formation:

Place		Country	
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In case of Foreign Individual applicant, please specify the nationality and passport no. of the applicant:

Nationality		Passport No.	
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1.5 Legal form of the applicant and the law under which it is incorporated, established or registered, if any: (not applicable to individuals)

--

1.6 Brief description of the principal activities: (not applicable to individuals):

--

1.7 Name and Brief description of the group, if any, to which the applicant belongs: (not applicable to individuals)(if applicable):

--

1.8 Information pertaining to the Compliance officer (not applicable to individuals):

Name			
Job Title			
Telephone no		Fax No.	
E-mail Id			

2.0 Category of the applicant

2.1 Classification of applicant (please select the most appropriate category) \*

Type of Category	Name of Category (Please select only the most appropriate out of the categories specified)
Category-I	
Category-II **	
Category-III	



\*The applicant should select only one category, which is most appropriate for it. If the applicant selects more than one category or selects an incorrect category, the application form shall be deemed to be defective and is liable to be rejected. The brief description for the above categories is given below for guidance:

\*\*To indicate the name of the investment manager, if the applicant belongs to Category II (proviso to clause c) mentioned in the table below. In such case, the investment manager shall undertake that it shall be responsible and liable for all acts of commission and omission of all its underlying broad based funds and other deeds and things done by such broad based funds under these regulations:

Category	Eligible Foreign Investors
I	Government and Government related investors such as Central Banks, Governmental Agencies, Sovereign Wealth Funds, International/ Multilateral Organizations/ Agencies
II	a) Appropriately regulated broad based funds such as Mutual Funds, Investment Trusts, Insurance/ Reinsurance Companies. b) Appropriately regulated entities such as Banks, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers. c) Not appropriately regulated broad based funds whose investment manager is appropriately regulated and is registered on behalf of the Board by the designated depository participant as Category II foreign portfolio investor: Provided that the investment manager shall be responsible and liable for all acts of commission and omission of all its underlying broad based funds and other deeds and things done by such broad based funds under these regulations. d) University Funds and Pension Funds e) University related Endowments already registered with SEBI as FII/Sub Account
III	All other FPIs not eligible under Category I and II such as Endowments, Charitable Societies/ Trust, Foundations, Corporate Bodies, Trusts, Individuals, Family Offices.

2.2 Information regarding foreign investor groups

Sr No.	Name of the reporting Entity	Registration no. of reporting entity	Name of foreign portfolio investor with whom the applicant shares common end beneficial owners	Registration no. of foreign portfolio investor	Demat Account No. of foreign portfolio investor mentioned at col. C
A	B	C	D	E	F

## 3.0 Details of Regulatory authority by which the applicant is regulated (If applicable)

## 3.1 Contact details:

Name			
Country		Web-site	

## 3.2 Registration Number/Code, If any:

## 4.0 Disciplinary History

Whether there has been any instance of violation or non-adherence to the securities laws, code of ethics conduct, code of business rules, for which the applicant, or its parent / holding company or affiliate may have been subjected to economic or criminal liability or suspended from carrying out its operations or the registration, has been revoked, temporarily or permanently.

 Yes

 No

If yes, please furnish details in annexure

## 5.0 Details of the designated depository participant, custodian of securities and designated bank appointed

## 5.1 Details of the DDP

Name	Deutsche Bank AG
Date of SEBI approval	

## 5.2 Details of Custodian of Securities

Name	Deutsche Bank AG
SEBI Registration number of custodian of securities	CUS003

## 5.3 Details of designated bank:

Name of the Bank and Branch	Deutsche Bank AG, Mumbai Branch
Address	Securities Services, DB House, Hazarimal Somani Marg, Fort, Mumbai – 400 001

## 6.0 Details of prior association with the Indian securities market.

(This section not applicable to individuals)

## 6.1 Whether the applicant was anytime registered as FII or Sub-account with the Securities and Exchange Board Of India

 Yes

 No

If yes, then please provide details:

Name of the entity	Registered as	SEBI Registration No.	Period of registration	
			From	To
			dd/mm/yyyy	dd/mm/yyyy

## 7.0 Declaration and Undertaking.

We declare that:

- a. We are authorized to make investments in India.
- b. The income and the source of funds of the applicant is from known and legitimate sources.
- c. The applicant is not a non-resident Indian.
- d. The applicant did not make any other application for grant of registration as foreign portfolio investor with any other designated depository participant.
- e. No winding up orders have been passed against the applicant.
- f. No order suspending or debaring the applicant from permanently carrying on activities in the financial sector has been passed by any regulatory authority.
- g. No order withdrawing or refusing to grant any license/approval to the applicant which has a bearing on the securities market has been passed by any authority in the preceding five years.
- h. Any penalty imposed (including monetary penalty) by any regulatory authority has been undergone or paid.
- i. The information supplied in the application, including the attached sheets, is complete and true.

Undertaking.

We undertake to:

1. Notify any change in the information provided in the application promptly.
2. Abide by operational instructions/ directives as may be issued by Securities and Exchange Board of India, Reserve Bank of India or any other authority from time to time under provisions of the Act or any other law for the time being in force.

For and on behalf of applicant

Signature of Authorized Signatory	
Name	
Designation (not applicable to individual persons)	
Date	dd/mm/yyyy

## Annexure 1.2. Guidance Note for completing Form A

This guidance note has been prepared by Deutsche Bank India with a view to facilitate foreign investors to complete the Form A i.e. FPI application form, which is applicable for all new FPI registrations starting from June 01, 2014.

Section reference	Information required in Form A	Guidance comments
<b>1</b>	<b>Applicant Details</b>	
1.1	Name of the Applicant	The applicant needs to input the name as captured in the incorporation document
1.2	Address of the Applicant	The applicant needs to mention his registered address
1.3	Date of Birth/ Incorporation/ Establishment/ Formation	The applicant needs to provide the date on which the applicant was incorporated or set up
1.4	Place and Country of Birth/ incorporation/ establishment/ formation  In case of Foreign Individual applicant, please specify the nationality and passport no. of the applicant	The applicant needs to provide the place and country where the applicant is incorporated or set up  The individual applicant needs to specify his nationality and passport no. Institutional clients can enter 'N.A.'
1.5	Legal form of the applicant and the law under which it is incorporated, established or registered (If applicable)	The applicant needs to mention its legal constitution and the law under which it is registered e.g. Limited liability partnership, Public limited company, Private company etc.
1.6	Brief description of the principal activities	The applicant needs to briefly indicate the nature of business carried out by him (not applicable to individuals)
1.7	Name and Brief description of the group, if any, to which the applicant belongs (if applicable)	The applicant needs to provide the Name and Brief description of the Group
1.8	Information pertaining to the Compliance officer	The applicant needs to specify the details of the person who will be responsible for regulatory compliance of the applicant. Compliance officer is the primary contact for any formal communication from local regulatory authorities and/ or DDP

Section reference	Information required in Form A	Guidance comments
2	Category of the Applicant	
2.1	Type of Category (I/II/III)	<p>The applicant should select only one category, which is most appropriate for it. If the applicant selects more than one category or selects an incorrect category, the application form shall be deemed to be defective and is liable to be rejected</p> <p>Category determination is important and shall affect subsequent documentation requirements and downstream operating rules. Applicants are requested to consider carefully before applying in selected category. Applicants should indicate the relevant type of entity (from the table provided in Form A) in the box specifying category. e.g. An applicant operating as a Sovereign Wealth Fund should mention, 'Sovereign Wealth Fund' in the Category-I box in Form A</p> <p>In case the applicant falls in Category-III but wants to claim Category-II status based on Category-II status of its investment manager (includes investment manager or investment advisor or trustee), then the name and FPI registration number of such investment manager should be mentioned in the space provided opposite Category-II in Form A. The required declaration and undertaking from such investment manager, along with a copy of the FPI Registration certificate of the investment manager should be attached with Form A as Annexure</p>

Section reference	Information required in Form A	Guidance comments
2.2	Information regarding foreign investor groups	<p>Instructions for providing investor group information:</p> <ul style="list-style-type: none"> <li>– FPIs shall provide details of all entities having direct or indirect common shareholding/ beneficial ownership/ beneficial interest, of more than 50%, as a part of their group, and also registered or filed their application as FPI</li> <li>– The common beneficiary owner(s) shall be identified on the basis of               <ol style="list-style-type: none"> <li>(1) shareholding</li> <li>(2) voting rights</li> <li>(3) any other forms of control, in excess of 50%, across FPIs, if any (including existing FII/ Sub accounts)</li> </ol> </li> </ul>
<b>3</b>	<b>Details of Regulatory authority by which the applicant is regulated (If applicable)</b>	
3.1	Contact details	The applicant needs to mention the details of the Regulatory authority under which they are governed For this purpose, appropriate regulatory authority is either Securities Market regulator or Central Bank (in case of a Bank as applicant)
3.2	Registration Number/ Code (If any)	The applicant needs to mention their registration number with the Regulator
<b>4</b>	<b>Disciplinary History</b>	
4.1	<p>Whether there has been any instance of violation or non-adherence to the securities laws, code of ethics/ conduct, code of business rules, for which the applicant, or its parent/ holding company or affiliate may have been subjected to economic or criminal liability or suspended from carrying out its operations or the registration, has been revoked, temporarily or permanently</p> <p>(Yes/No)</p>	<p>If Yes, furnish details in annexure</p> <p>Please do not mention 'Not Applicable' under this section</p>

Section reference	Information required in Form A	Guidance comments
5	Details of prior association with the Indian securities market.	
5.1	Whether the applicant was anytime registered as FII or Sub-account with the Securities and Exchange Board Of India. (Yes/No)	<p>If Yes, furnish details in the table provided in Form A</p> <p>'From' Field in table: Refers to the date of SEBI approval letter for the FII/Sub Account</p> <p>'To' Field in table: Refers to the date of SEBI cancellation letter for the FII/Sub Account</p> <p>Please do not mention 'Not Applicable' under this section</p>



## Annexure 2 Documentation Requirements for FPI Registration

### FPI Registration Application Documentation

Application to DDP (Form A)	Original FPI Form A	Ref Annexure 1.1
	Guidance Note for completing the application Form A	Ref Annexure 1.2
Standard Declaration / Undertakings to be submitted to DDP	Original (on the letterhead of the FPI) SEBI has issued standard declaration undertakings that need to be submitted by the FPI	Ref Annexure 2.1
Additional Registration documents	These documents will form part of the FPI Registration application	Ref Annexure 2.2
Renewal of FPI Registration		
Submissions for Renewal	For renewal, the FPI will need to submit <ul style="list-style-type: none"> <li>– Covering letter for renewal of FPI registration three month prior to registration expiry date</li> <li>– Fees (as per the category in which it is registered)</li> <li>– The undertaking confirming no changes in any information submitted to SEBI/ DDP will form part of the covering letter</li> <li>– Protected Cell Company (PCC)/ Multi-class Vehicles (MCV) declaration</li> <li>– Common Beneficial Owner (CBO) declaration</li> </ul>	
Regulatory Approval	To be issued by DDP on behalf of SEBI	
KYC Documentation		
Standard KYC forms	Standard KYC form announced by SEBI.	Ref Annexure 2.3
Other KYC Document Requirements	Supporting documents for completion of KYC and account opening	Ref Chapter 7

## Annexure 2.1. Standard Declaration and Undertaking

Declaration cum Undertaking from the Foreign Portfolio Investor to be given to Designated Depository Participant

Date

To

Designated Depository Participant

Dear Sir/ Madam,

[Entity name] ("the Applicant"/ "I"/ "We") is/are applying for registration as Foreign Portfolio Investor ("FPI") in accordance with the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014. In connection with the above, please find attached our FORM A (Application Form) for

- Grant of Certificate of Registration as FPI or
- Conversion from our existing Foreign Institutional Investor/ Sub – Account/ Qualified Foreign Investor to FPI

I/We have read and understood the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014, its Operating Guidelines, circulars issued thereunder and any other terms and conditions specified by SEBI from time to time ("FPI Regulations") and I/We hereby declare that I/we fulfill the eligibility criteria under the FPI Regulations and I/we am/are eligible to register as a FPI. In compliance with the requirements of the FPI Regulations, the Applicant hereby declares/ undertakes the following:

- 1) I/We am/are a person not resident in India [as per the Indian Income Tax Act, 1961].
- 2) I/We am/are resident in \_\_\_\_\_ (country name), a country whose
  - Securities market regulator \_\_\_\_\_ (name of the regulator) is a signatory to International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding (MMoU) (Appendix A Signatories or a signatory of a bilateral Memorandum of Understanding (MoU) with SEBI (bilateral MoU between SEBI and the overseas regulator that inter alia provides for information sharing arrangements) or
  - Central bank \_\_\_\_\_ (name of the central bank) is a member of Bank for International Settlements (Applicable only if the applicant is a bank).

- 3) I/We am/are not resident in a country identified in the public statements issued by Financial Action Task Force (FATF) as:-
  - (i) a jurisdiction having a strategic Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) deficiencies to which counter measures apply, or
  - (ii) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the FATF to address the deficiencies.
- 4) I/We am/are legally permitted to invest in securities outside my country of incorporation or establishment or place of business.
- 5) I/We am/are authorized by our Memorandum of Association and Articles of Association or equivalent document(s) or the agreement to invest on my/ our own behalf or on behalf of my/ our clients.
- 6) I/ We have sufficient experience, good (investment) track record, am/ are professionally competent (to invest in India) and financially sound and there are no instances or cases (either with regulators, courts, investors, etc.) where it has been concluded that I/ we have reflected lack of fairness and integrity.
- 7) I/We am/are fit and proper person [as per the Schedule II of the SEBI (Intermediaries) Regulations, 2008].
- 8) I/ We shall forthwith (and not later than six months or such lower period as may be prescribed by SEBI from time) inform SEBI and you in writing:
  - a) If any information or particulars previously submitted to SEBI or you are found to be false or misleading, in any material respect.
  - b) If there is any material change in the information previously furnished by me/ us to SEBI or you. Such material change may include but not limited to any direct or indirect change in control, change in regulatory status, merger, demerger or restructuring, change in category, change in structure/ beneficial ownership etc. I/we understand that any such change may result in re-assessment of our FPI registration.
  - c) In case of any penalty, pending litigations or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against me/ us.
- 9) I/ We shall as and when required by SEBI or any other government agency in India, submit any information, record or documents in relation to my/ our activities as a FPI.

- 10) I/ We confirm that we have not been restricted or constrained by local regulators / court order / etc. from investing in our home country and or in any overseas jurisdiction.
- 11) I/ We shall, in relation to my/ our activities as FPI, at all times, comply with and subject myself/ ourselves to the extant Indian laws, rules, regulations (including FPI and FEMA regulations), circulars, guidelines issued and any other terms and conditions specified by SEBI, RBI or any other regulators from time to time.
- 12) I/ We shall provide any additional information or documents or declarations and undertakings as may be required by you to ensure compliance with the Prevention of Money Laundering Act, 2002 and rules and regulations prescribed thereunder, FATF standards and circulars issued from time to time by SEBI, RBI or any other regulators from time to time.
- 13) I/ We do not have any opaque structure which means and includes structures such as protected cell company, segregated cell company or equivalent, where the details of the ultimate beneficial owners are not accessible or where the beneficial owners are ring fenced from each other or where the beneficial owners are ring fenced with regard to enforcement. In case of change in structure/ constitution/ addition of classes of shares, your prior approval shall be taken. (Ultimate beneficial owner shall be as provided under the Master circular on Anti Money Laundering Standards or Combating the Financing of Terrorism, issued by SEBI from time to time).

OR

We are required by our regulator or pursuant to a law to ring fence our assets and liabilities from other funds/ sub funds and we declare that

- (a) I/ We am/ are regulated in my/ our home jurisdiction and
  - (b) each of my/our fund or sub fund satisfies broad based criteria; and
  - (c) I/ We undertake to provide information regarding my/ our beneficial owners as and when sought by SEBI. In case of change in structure/ constitution/ addition of classes of shares, prior approval of DDP shall be taken.
- 14) I/ We do not have any depository account and shall not open more than one depository account as FPI or as a non-resident Indian.

15) I/We confirm that

- a. I /We am/are existing FII/ QFI/ sub-account and our registration number is \_\_\_\_\_.
- b. I/We have never applied for nor had our application rejected anytime as FII/ QFI or sub-account or FPI.
- c. I/ We have applied for FII/ QFI/ sub-account/ FPI and our application was rejected for the following reasons:  
\_\_\_\_\_

16) The location where my/ our books of account, records and documents, as required under FPI Regulations, will be kept and maintained is \_\_\_\_\_ and I/ We shall forthwith inform you of any change to the same.

17) Equity shares held by me/ us are and shall be free from all encumbrances.

18) The aforesaid declarations/undertakings and the information provided in the Form A are true and correct. I/We further understand and agree that I/we shall be solely responsible for all consequences arising out of either the declarations/ undertakings being false or for any breach of the declarations/undertakings and hold the Depository and the Designated Depository Participant harmless for relying on such declarations, undertakings and information and agree to indemnify them for any losses, costs, damages, charges (including reasonable legal fees and disbursements), levies, penalties, taxes or interest that they may incur due to reliance on such information and/ or this declaration/ undertaking.

19) The FPI shall take steps as prescribed by depositories to bring back the holdings within the stipulated investment limit within the prescribed time period, if the aggregate holdings belonging to the investor group of which it is a part exceeds the stipulated limit.

Date:

Place:

(Signature block for Applicant)

Signature(s) of Authorised Person(s)

**APPLICABLE ONLY FOR FUNDS SEEKING REGISTRATION UNDER CATEGORY II**

**A. APPROPRIATELY REGULATED** (Please complete either (i) or (ii) and strike off the other)

(i) We declare that we are appropriately regulated or supervised by the securities market regulator of our jurisdiction in the same capacity in which we propose to make investments in India

OR

(ii) We are not appropriately regulated or supervised by the securities market regulator of our jurisdiction but our investment manager (name and FPI registration number of the investment manager) is appropriately regulated and is registered as a Category II FPI and they provide the below undertaking.

**B. BROAD BASED CRITERIA** (Please complete either (i) or (ii) and strike off the other)

(i) **APPLICANT MEETING THE BROAD BASED CRITERIA** We are a Broad Based Fund (as per FPI Regulations) established/ incorporated outside India and have atleast 20 investors (including all direct and underlying investors on a look through basis) (for the purpose of ascertaining the total number of investor in the fund, only those underlying investors which have been set up for the sole purpose of pooling funds and making investments should be considered).

Details of all direct investors in the fund are given below.

Serial No.	*Generic Type of Investors	No. of Investors	If pooling vehicle, mention number of investors	Percentage of Holding(1)
Total Corpus of the Fund (USD / GBP/ EUR)				

\*Generic types of investors include Mutual Funds, Investment Trusts, Pension Funds, Insurance, Collective Investment Schemes, Endowments, Charitable Trusts, Corporates, Individuals, etc.

(1) In case any institutional investor holds more than 49%, then details of the generic type of investors for each such institutional investor needs to be provided in the table below (add additional tables if needed)

Serial No.	*Generic Type of Investors	No. of Investors	If pooling vehicle, mention number of investors	Percentage of Holding(1)
Total Corpus of the Fund (USD / GBP/ EUR)				

\*Generic types of investors include Mutual Funds, Investment Trusts, Pension Funds, Insurance, Collective Investment Schemes, Endowments, Charitable Trusts, Corporates, Individuals, etc.

OR

**(ii) APPLICANT NOT MEETING THE BROAD BASED CRITERIA (CONDITIONAL REGISTRATION)**

I/ We am/are a newly incorporated/ established entity and seek to register myself/ ourselves as a broad based fund under Category II, however we do not satisfy the broad based criteria at the time of making this application. In compliance with the requirements for grant of conditional registration, we hereby undertake invest at least 5% of the corpus of the fund in to India and we shall comply with the broad based criteria within 180 days of grant of registration.

(Signature block for Applicant)

Signature(s) of Authorised Person(s)

Date:

Place:



We (name of the Investment Manager) having FPI registration No. (FPI registration number) are the investment manager to (name of the Applicant) and we undertake that we shall be responsible and liable for all acts of commission and omission of (name of the Applicant) and other deeds and things done by them under these regulations.

To be signed by Investment Manager if the FPI not appropriately regulated but the investment manager is appropriately regulated and is registered as a Category II FPI and they are responsible and liable for all acts of commission and omission of the FPI and other deeds and things done by them under these regulations.

(Signature block for Investment Manager)

Signature(s) of Authorised Person(s)

Date:

Place:

[On the letterhead of the FPI] (Refer April 2010 Circular of SEBI – PCC/ MCV declaration)

Date:

To,  
Designated Depository Participant

Dear Sir,

Please refer below for the requisite declarations and undertakings for [Please mention name of the FPI].

Declarations

Please tick  whichever applicable.

- (a) The applicant declares that it is not a Protected Cell Company (PCC) or Segregated Portfolio Company (SPC) and does not have an equivalent structure by whatever nomenclature.
- (b) The applicant declares that it is not a Multi Class Share Vehicle (MCV) by constitution and does not have an equivalent structure by whatever nomenclature. It contains only single class of share.
- (c) The applicant declares that it is a MCV by constitution and has more than one class of shares or has an equivalent structure and that a common portfolio is maintained for all classes of shares and satisfies broad based criteria

OR

- (c) A segregated portfolio is maintained for separate classes of shares wherein each such class of shares are in turn broad based.

Undertakings

In case the applicant is/ proposed to be a MCV or an equivalent structure and have more than one class of shares.

We undertake that:

- (a) Common portfolios shall be allocated across various share classes and it shall be broad based;

OR

- (a) If portfolios are segregated for each distinct share class, then each such share class shall satisfy the broad based criteria;
- (b) In case of change in structure/ constitution/ addition of classes of shares, prior approval of DDP shall be taken;
- (c) In case of any addition of share classes, it shall follow the criteria at (a) above.

---

Signature(s) of Authorized Person(s)

[Please mention name of the FPI]

## Annexure 2.2. Additional Registration Documents

Document	Signing Authority
Memorandum & Articles of Association or any other equivalent formation document	<ul style="list-style-type: none"> <li>— To be certified by the authorised signatory as per ASL along with Company Stamp/ Seal, Name and Date</li> <li>— To be Notarised by a Notary Public OR certified by a Foreign Multi National Bank (Certification should bear the Name, Date and Designation)</li> </ul>
Copy of FPI Registration Certificate (if applicable)*	
Investment Management Agreement (if applicable)*	To be certified by the authorised signatory along with Company Stamp/ Seal, Name and Date

\* Required for unregulated FPI Applicant intending to seek registration under Category II based on the Category II status of its Investment Manager needs to provide the said document

## Annexure 2.3. Standard KYC form

Annexure – K <input type="checkbox"/> NEW <input type="checkbox"/> MODIFICATION																
PART I - Know Your Client (KYC) application form (for non-individuals) [Deutsche Bank AG, DB House, Hazarimal Somani Marg, P.O. Box No. 1142, Fort, Mumbai – 400 001 DP ID – IN300167]																
<table border="1" style="margin: auto; border-collapse: collapse;"> <tr> <td style="text-align: center;">Photograph</td> </tr> <tr> <td style="text-align: center;">Please affix a recent passport size photograph and sign across it</td> </tr> </table>				Photograph	Please affix a recent passport size photograph and sign across it											
Photograph																
Please affix a recent passport size photograph and sign across it																
Please fill this form in ENGLISH and in BLOCK LETTERS																
<b>A. IDENTITY DETAILS</b>																
1	Name of the Applicant															
2	Date of incorporation	<table border="1" style="font-size: 8px;"> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </table>													Place of incorporation	
3	Date of commencement of business	<table border="1" style="font-size: 8px;"> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </table>														
4	a) PAN	<table border="1" style="font-size: 8px;"> <tr><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td><td> </td></tr> </table>													b) Registration No. (e.g. CIN)	
5	Status (please tick any one):															
	<input type="checkbox"/> Private Limited Co.	<input type="checkbox"/> Bank	<input type="checkbox"/> Partnership													
	<input type="checkbox"/> Public Ltd. Co.	<input type="checkbox"/> Government Body	<input type="checkbox"/> FI													
	<input type="checkbox"/> Body Corporate	<input type="checkbox"/> Non Government Organization	<input type="checkbox"/> FII													
	<input type="checkbox"/> Trust	<input type="checkbox"/> Defense Establishment	<input type="checkbox"/> HUF													
	<input type="checkbox"/> Charities	<input type="checkbox"/> Society	<input type="checkbox"/> AOP													
	<input type="checkbox"/> NGO's	<input type="checkbox"/> LLP	<input type="checkbox"/> BOI													
	<input type="checkbox"/> FPI – Category I	<input type="checkbox"/> FPI - Category II	<input type="checkbox"/> FPI - Category III													
	<input type="checkbox"/> Others (please specify) _____															
<b>B. ADDRESS DETAILS</b>																
1	Correspondence Address															
		City/town/village	PIN Code													
		State	Country													
2	Specify the proof of address submitted for correspondence address															
3	Contact Details	Tel. (Off.)	Tel. (Res.)													
		Fax No.	Mobile No.													
		Email ID														
4	Registered Address (if different from above)															
		City/town/village	PIN Code													
		State	Country													

<b>C. OTHER DETAILS</b>										
1	Name, PAN, residential address and photographs of Promoters/Partners/Karta/Trustees and whole time directors:									
2	DIN of whole time directors:									
3	Aadhaar number of Promoters/Partners/Karta									
(Details to be completed in the Annexure (Page 3))										
<b>D. DECLARATION</b>										
<p>I/We hereby declare that the details furnished above are true and correct to the best of my/our knowledge and belief and I/we undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, I am/we are aware that I/we may be held liable for it.</p>										
Name & Signature of the Authorised Signatory(ies) _____										
<table border="1" style="display: inline-table; border-collapse: collapse;"> <tr> <td style="padding: 2px;">Date</td> <td style="padding: 2px;">D</td> <td style="padding: 2px;">D</td> <td style="padding: 2px;">M</td> <td style="padding: 2px;">M</td> <td style="padding: 2px;">Y</td> <td style="padding: 2px;">Y</td> <td style="padding: 2px;">Y</td> <td style="padding: 2px;">Y</td> </tr> </table>		Date	D	D	M	M	Y	Y	Y	Y
Date	D	D	M	M	Y	Y	Y	Y		
<b>FOR OFFICE USE ONLY</b>										
<input type="checkbox"/> Originals verified and Self-Attested Documents copies received										
Signature of the Authorised Signatory										
Date	Seal/ Stamp of the intermediary									

Details of Promoters/ Partners/ Karta/ Trustees and whole time directors forming a part of Know Your Client (KYC) Application Form for Non-Individuals

Sr No.	Name	Relationship with Applicant (i.e. promoters, whole time directors etc.)	PAN	Residential/ Registered Address	DIN of whole time directors/ Aadhar number of Promoters/ Partners/ Karta	Photograph

Name & Signature of the Authorised Signatory(ies) \_\_\_\_\_

Date	D	D	M	M	Y	Y	Y	Y
------	---	---	---	---	---	---	---	---

Annexure – K  
PART II - ACCOUNT OPENING FORM (FOR NON-INDIVIDUALS)

Participant Name - <b>DEUTSCHE BANK AG</b> DP ID - <b>IN300167</b> Address - <b>DB HOUSE, HAZARIMAL SOMANI MARG, P.O. BOX NO. 1142, FORT, MUMBAI – 400 001</b>		Client –ID (To be filled by Participant)	
We request you to open a depository account in our name as per the following details: (Please fill all the details in CAPITAL LETTERS only)		Date	
A) Details of Account holder(s):			
	Name	PAN	
Sole/ First Holder			
Second Holder			
Third Holder			
B) Type of account			
<input type="checkbox"/> Body Corporate <input type="checkbox"/> FI <input type="checkbox"/> FII <input type="checkbox"/> OTHERS (Please specify) _____ <input type="checkbox"/> Qualified Foreign Investor <input type="checkbox"/> Mutual Fund <input type="checkbox"/> Trust <input type="checkbox"/> Bank <input type="checkbox"/> CM <input type="checkbox"/> FPI			
C) Correspondence		<b>DEUTSCHE BANK AG, DB HOUSE, HAZARIMAL SOMANI MARG, P.O. BOX NO. 1142, FORT</b>	
Address	City/town/village	<b>MUMBAI</b>	PIN Code    4    0    0    0    0    1
	State	<b>MAHARASHTRA</b>	Country <b>INDIA</b>
Contact Details	Tel. (Off.)	<b>022-7180-3000</b>	Tel. (Res.)
	Fax No.	<b>022-7180-3901</b>	Mobile No.
	Email ID	<b>dbindia.custody@db.com</b>	
D) For HUF, Partnership Firm, Unregistered Trust, Association of Persons (AOP) etc., although the account is opened in the name of the karta, partner(s), trustee(ies) etc., the name & PAN of the HUF, Partnership Firm, Unregistered Trust, Association of Persons (AOP) etc., should be mentioned below:			
a) Name		b) PAN	
E) In case of FIIs/Others (as may be applicable)			
RBI Approval Reference Number			
RBI Approval date			
SEBI Registration Number (for FIIs)			
F) Bank details			
1	Bank account type	<input type="checkbox"/> Savings Account <input checked="" type="checkbox"/> Current Account <input type="checkbox"/> Others (Please specify)	
2	Bank Account Number	0190363005	
3	Bank Name	DEUTSCHE BANK AG	
4	Branch Address	DB HOUSE, HAZARIMAL SOMANI MARG, FORT	
		City/town/village	MUMBAI    PIN Code    4    0    0    0    0    1
		State	MAHARASHTRA    Country    INDIA
G) 5	MICR Code	4    0    0    2    0    0    0    0    2	
H) 6	IFSC	D E U T 0 7 8 4 D C 0	
I) Please tick, if applicable, for any of your authorized signatories Politically Exposed Person (PEP) /Promoters/Partners/Karta/Trustees/whole time directors: Related to a Politically Exposed Person (PEP)			
J) Clearing Member Details (to be filled up by Clearing Members only)			
1	Name of Stock Exchange	NOT APPLICABLE	
2	Name of Clearing Corporation/ Clearing House	NOT APPLICABLE	



3	Clearing Member ID	NOT APPLICABLE									
4	SEBI Registration Number	NOT APPLICABLE									
5	Trade Name	NOT APPLICABLE									
6	CM-BP-ID (to be filled up by Participant)	NOT APPLICABLE									
K) Standing Instructions											
1	We authorize you to receive credits automatically into our account.	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No								
2	Account to be operated through Power of Attorney (PoA)	<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No								
3	SMS Alert facility										
	Sr. No.	Holder	Yes No								
	1	Sole/First Holder	<input type="checkbox"/> <input type="checkbox"/>								
	2	Second Holder	<input type="checkbox"/> <input type="checkbox"/>								
	3	Third Holder	<input type="checkbox"/> <input type="checkbox"/>								
4	Mode of receiving statement of Account	<input type="checkbox"/> Physical Form <input type="checkbox"/> Electronic Form (Email / SWIFT) [Read Note 3 and ensure that email ID is provided in KYC Application Form]									
L. OTHER DETAILS											
1	Income Details (please specify): Income Range per annum										
	<input type="checkbox"/> Below ` 20 Lac	<input type="checkbox"/> ` 50 Lac - 1 crore									
	<input type="checkbox"/> ` 20 - 50 Lac	<input type="checkbox"/> Above ` 1 crore									
2	Networth										
	Amount ( ` ) _____	As on (date)	<table border="1"> <tr> <td>D</td><td>D</td><td>M</td><td>M</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td> </tr> </table>	D	D	M	M	Y	Y	Y	Y
D	D	M	M	Y	Y	Y	Y				
	(Networth should not be older than 1 year)										

Declaration

The rules and regulations of the Depository and Depository Participants pertaining to an account which are in force now have been read by us and we have understood the same and we agree to abide by and to be bound by the rules as are in force from time to time for such accounts. We hereby declare that the details furnished above are true and correct to the best of our knowledge and belief and we undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, we are aware that we may be held liable for it. I/we acknowledge the receipt of copy of the document, "Rights and Obligations of the Beneficial Owner and Depository Participant".

We undertake that we shall comply with the provisions of the Foreign Exchange Management Act 1999 ("Act"), including any directions, regulations, notifications, circulars etc. issued there under and any amendments made to the Act from time to time.

We confirm that in the event of any requirement/enquiry from law enforcement agencies, exchanges or regulators, copies of the relevant customer documents and KYC details as prescribed/ requested by the applicable Indian regulators shall be provided without delay.

Authorised Signatories (Enclose a Board Resolution for Authorised Signatories)

Sole/First Holder	Name	Signature(s)
First Signatory		X
Second Signatory		X
Third Signatory		X

Other Holders		
Second Holder		X
Third Holder		X

Mode of Operation for Sole/First Holder (In case of joint holdings, all the holders must sign)	
<input type="checkbox"/> Any one singly	
<input type="checkbox"/> Jointly by	
<input type="checkbox"/> As per resolution	
<input type="checkbox"/> Others (please specify	DB POA

Notes:

1. In case of additional signatures, separate annexures should be attached to the application form.
2. Thumb impressions and signatures other than English or Hindi or any of the other language not contained in the 8th Schedule of the Constitution of India must be attested by a Magistrate or a Notary Public or a Special Executive Magistrate.
3. For receiving Statement of Account in electronic form:
  - I. Client must ensure the confidentiality of the password of the email account.
  - II. Client must promptly inform the Participant if the email address has changed.
  - III. Client may opt to terminate this facility by giving 10 days prior notice. Similarly, Participant may also terminate this facility by giving 10 days prior notice.
4. Strike off whichever is not applicable.

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Acknowledgement  
Participant Name, Address & DP ID

Received the application from M/s \_\_\_\_\_ as the sole/first holder alongwith \_\_\_\_\_ and \_\_\_\_\_ as the second and third holders respectively for opening of a depository account. Please quote the DP ID & Client ID allotted to you (CM-BP-ID in case of Clearing Members) in all your future correspondence.

Date:

D	D	M	M	Y	Y	Y	Y
---	---	---	---	---	---	---	---

Participant Stamp & Signature

## Annexure 3 List of useful reference links

Bank for International Settlement (BIS)	<a href="http://www.bis.org">http://www.bis.org</a>
Bombay Stock Exchange (BSE)	<a href="http://www.bseindia.com">http://www.bseindia.com</a>
CDSL Ventures Limited (CVL)	<a href="https://www.cvlkra.com">https://www.cvlkra.com</a>
Central Depository Services Limited (CDSL)	<a href="https://www.cdslindia.com">https://www.cdslindia.com</a>
Department of Industrial Policy & Promotion (DIPP)	<a href="http://dipp.nic.in">http://dipp.nic.in</a>
Financial Action Task Force (FATF)	<a href="http://www.fatf-gafi.org">http://www.fatf-gafi.org</a>
Indian Clearing Corporation Limited (ICCL)	<a href="http://www.icclindia.com">http://www.icclindia.com</a>
International Organization of Securities Commissions (IOSCO)	<a href="http://www.iosco.org">http://www.iosco.org</a>
Ministry of Finance (MoF)	<a href="http://finmin.nic.in">http://finmin.nic.in</a>
National Securities Depository Limited (NSDL)	<a href="https://www.nsdl.co.in">https://www.nsdl.co.in</a>
National Stock Exchange (NSE)	<a href="http://www.nseindia.com">http://www.nseindia.com</a>
NSDL Database Management Limited (NDML)	<a href="https://kra.ndml.in">https://kra.ndml.in</a>
Press Information Bureau (PIB)	<a href="http://pib.nic.in">http://pib.nic.in</a>
Reserve Bank of India (RBI)	<a href="http://www.rbi.org.in">http://www.rbi.org.in</a>
Security Exchange Board of India (SEBI)	<a href="http://www.sebi.com">http://www.sebi.com</a>
National Securities Clearing Corporation Limited (NSCCL)	<a href="http://www.nscclindia.com">http://www.nscclindia.com</a>

## Annexure 4 Key Contacts in India

### Market Infrastructure Entities

Bombay Stock Exchange (BSE)	<p>Name: Mr. Neeraj Kulshrestha          Designation: Chief Business Officer, BSE          Email: neeraj.kulshrestha@bseindia.com          Phone: +91 22 22728484</p>
Central Depository Services Ltd (CDSL)	<p>Name: Ms. Nayana Ovalekar          Designation: Chief Operating Officer          Email: nayana@cdslindia.com          Phone: +91 22 66341855</p> <p>Name: Mr. Yogesh Kundnani          Designation: Vice President          Email: yogeshk@cdslindia.com          Phone: +91 22 22728694/ 6634 1857</p>
CDSL Ventures Limited (CVL)	<p>Name: Mr. Sunil Alvares          Designation: Chief Operating Officer          Email: sunila@cdslindia.com          Phone: +91 22 22728627</p>
MCX	<p>Name: Naveen Mathur          Designation: Head – Business Development          Email: Naveen.Mathur@mcxindia.com          Phone: +91 22 6731 9299</p> <p>Name: Girish Dev          Designation: Head – Strategy          Email: Girish.Dev@mcxindia.com          Phone: +91 22 6731 9299</p>
Metropolitan Stock Exchange (MSE)	<p>Name: Mr. Ajit Singh          Designation: VP – Business Development          Email: Ajit.Singh@msei.in          Phone: +91 22 6112 9000 Ext: 9169/          +91 9819887766</p>

## Market Infrastructure Entities

National Securities Depository Limited (NSDL)	Name: Mr. Samar Banvat Designation: Senior Vice President Email: samarb@nsdl.co.in Phone: +91 22 24994590
	Name: Mr. Prashant Vagal Designation: Senior Vice President Email: prashantv@nsdl.co.in Phone: +91 22 24994481
National Stock Exchange (NSE)	Name: Mr. K. Hari Designation: Chief Business Officer – Equity & Equity Derivatives Email: harik@nse.co.in
	Name: Mr. Nagendra Kumar Designation: Vice President – Product & Data Services Email: nagendrak@nse.co.in
National Commodity and Derivatives Exchange Limited (NCDEX)	Name: Kanupriya Saigal Designation: Executive Vice President, Marketing & Corporate Communications Email: kanupriya.saigal@ncdex.com Phone: +91 11 6611 4803 + 91 11 6611 4848
NSDL Database Management Limited (NDML)	Name: Sameer Gupte Designation: Senior Vice President Email: sameerg@nsdl.co.in Phone: +91 22 49142505

## Tax Agents/ Consultants

BDO	Name: Saumil Shah Designation: Partner – Business Development Email: saumilshah@bdo.in Phone: +91 22 2439 3782
Deloitte, Haskins & Sells LLP	Name: Rajesh H Gandhi Designation: Partner Email: rajegandhi@deloitte.com Phone: +91 22 61854380
Ernst & Young LLP	Name: Tejas Desai Designation: Partner Email: tejas.desai@in.ey.com Phone: +91 22 61920710/ +91 9820 410278
KPMG	Name: Naresh Makhijani Designation: Partner, Head of Financial Services Email: nareshmakhijani@kpmg.com Phone: +91 22 30902120
Manohar Chowdhry & Associates	Name: Ameet Patel Designation: Partner Email: ameen.patel@mca.co.in Phone: +91 22 24445064
Minesh Shah & Co	Name: Malav Shah Designation: Partner Email: malav@mineshshah.com Phone: +91 22 40044600/ 4603/ +91 98209 09359
PricewaterhouseCoopers	Name: Suresh Swamy Designation: Partner, Financial Services Email: suresh.v.swamy@in.pwc.com Phone: +91 22 61198053
SKP & Co	Name: Maulik Doshi Designation: Partner Email: maulik.doshi@skpgroup.com Phone: +91 22 6617 8100
Walker Chandiook & Co LLP	Name: Amit Narayan Kedia Designation: Partner Email: amit.kedia@in.gt.com Phone: +91 22 6626 2600

## Legal contacts

ARA Law	Name: Rajesh Begur Designation: Founder & Managing Partner Email: rajesh@aralaw.com Phone: +91 22 6619 9800
AZB & Partners	Name: Rushabh Maniar Designation: Partner Email: rushabh.maniar@azbpartners.com Phone: + 91 22 6639 6880
Finsec Law Advisors	Name: Sandeep Parekh Designation: Managing Partner Email: sandeep.parekh@finseclaw.com Phone: +91 22 62363181
Indus Law	Name: Nishant Singh Designation: Partner Email: nishant.singh@induslaw.com Phone: +91 22 49207215/ +91 22 61496215
J. Sagar Associates, Advocates & Solicitors	Name: Aashit Shah Designation: Partner Email: aashit@jsalaw.com Phone: +91 22 43418536
Khaitan & Co	Name: Siddharth Shah Designation: Partner Email: Siddharth.Shah@khaitanco.com Phone: +91 22 66365000
Nishith Desai Associates	Name: Pratibha Jain Designation: Partner, Funds Formation & Regulatory practice Email: pratibha.jain@nishithdesai.com Phone: +91 9910122443
Platinum Partners	Name: Ankit Majmudar Designation: Partner Email: ankit.majmudar@platinumpartners.co.in Phone: +91 22 61111900

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Trilegal

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9393/ +91 11 4259 9319

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Wadia Ghandy & Co. Advocates  
Solicitors and Notaries

Name: Shabnum Kajiji  
Designation: Partner  
shabnum.kajiji@wadiaghandy.com  
Phone: +91 22 40735652

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## Annexure 5 List of Abbreviations used in this Guide

Abbreviation	Full Form
AD	Authorised Dealer
ADR	American Depository Receipt
AGM	Annual General Meetings
AI	Approved Intermediaries
AIF	Alternative Investment Funds
ARC	Asset Reconstruction Companies
ASBA	Applications Supported by Blocked Amount
BIS	Bank for International Settlements
BSE	Bombay Stock Exchange
CBDT	Central Board of Direct Taxes
CBEC	Central Board of Excise and Customs
CBRICS	Corporate Bond Reporting and Integrated Clearing System
CC	Clearing Corporation
CCD	Compulsory Convertible Debenture
CCDL	Combined Corporate Debt Limit
CCIL	Clearing Corporation of India Ltd.
CCP	Central Counterparties
CD	Certificate Of Deposit
CDSL	Central Depository Services (India) Limited
CFT	Combating the Financing of Terrorism
CIS	Collective Investment Scheme
CM	Clearing Members
CP	Commercial Paper
CPI	Consumer Price Index

Abbreviation	Full Form
CRS	Common Reporting Standards
CSGF	Core Settlement Guarantee Fund
CSGL	Constituents' Subsidiary General Ledger Account
CTT	Commodities Transaction Tax
DDP	Designated Depository Participant
DEA	Department of Economic Affairs
DII	Domestic Institutional Investor
DIPP	Department of Industrial Policy and Promotion
DoR	Department of Revenue
DP	Depository Participant
DR	Depository Receipts
DSC	Digital Signature Certificate
DTAA	Double Taxation Avoidance Agreement
ECB	External Commercial Borrowing
ECM	Exchange Control Manual
EFI	Eligible Foreign Investor
EGM	Extraordinary General Meetings
ELM	Extreme Loss Margins
ETCD	Exchange Traded Currency Derivatives
ETF	Exchange Traded Funds
F&O	Futures and Options
FAQ	Frequently Asked Questions
FATCA	Foreign Account Tax Compliance Act
FATF	Financial Action Task Force
FCCB	Foreign Currency Convertible Bond
FCEB	Foreign Currency Exchangeable Bonds

Abbreviation	Full Form
FD	Fixed Deposit
FDI	Foreign Direct Investments
FEMA	Foreign Exchange Management Act
FI	Financial Institutions
FIFO	First In, First Out
FIFP	Foreign Investment Facilitation Portal
FIPB	Foreign Investment Promotion Board
FMC	Forward Markets Commission
FMI	Financial Market Infrastructures
FMP	Fixed Maturity Plan
FPI	Foreign Portfolio Investors
FPO	Follow On Public Offer
FRB	Floating Rate Bonds
FVCI	Foreign Venture Capital Investors
FX	Forex
GAAR	General Anti-Avoidance Rule
GAH	Gilt Account Holders
GC	Global Custodian
GDP	Gross Domestic Product
GDR	Global Depository Receipts
GIFT City	Gujarat international Finance Tec-City
Gol	Government of India
G-Sec	Government Securities
Holdco	Holding Company
ICCL	Indian Clearing Corporation Limited
ICDM	Indian Corporate Debt Market

Abbreviation	Full Form
ICDR	Issue of Capital and Disclosure Requirements
IDFI	Indian Development Finance Institutions
IDR	Indian Depository Receipts
IFSC	International Financial Services Centre
IGA	Intergovernmental Agreements
INR	Indian Rupee
InvITs	Infrastructure Investment Trusts
IOSCO	International Organization of Securities Commissions
IPO	Initial Public Offer
IPP	Institutional Placement Programme
IRF	Interest Rate Future
ISIN	International Securities Identification Number
ITP	Institutional Trading Platform
IVCU	Indian Venture Capital Undertaking
JLF	Joint Lenders Forum
KMP	Key Managerial Personnel
KYC	Know Your Client
LLP	Limited Liability Partnership
MAT	Minimum Alternate Tax
MCA	Ministry of Corporate Affairs
MCCIL	Metropolitan Clearing Corporation of India Ltd
MCX	Multi Commodity Exchange of India Limited
MF	Mutual Fund Units
MIM	Multiple Investment Managers
MMOU	Multilateral Memorandum of Understanding
MoF	Ministry of Finance

Abbreviation	Full Form
MRC	Minimum Required Capital
MSEI	Metropolitan Stock Exchange of India
MTM	Mark to Market
NAV	Net Asset Value
NCD	Non-Convertible Debentures
NCDEX	National Commodity and Derivatives Exchange Limited
NDS-OM	Negotiated Dealing System-Order Matching
NEFT	National Electronic Funds Transfer
NOC	No Objection Certificate
NRI	Non-Resident Indian
NSCCL	National Securities Clearing Corporation Limited
NSDL	National Securities Depository Limited
NSE	National Stock Exchange
OCI	Overseas Citizen of India
OCB	Overseas Corporate Bodies
OFS	Offer for Sale
OTC	Over-the-counter
PAN	Permanent Account Number
PD	Primary Dealers
PDO	Public Debt Office
PE	Permanent Establishment
PIO	Persons of Indian Origin
PIS	Portfolio Investment Scheme
PM	Primary Members
PMLA	Prevention of Money Laundering Act

Abbreviation	Full Form
PPP	Public Private Partnership
PSU	Public Sector Undertaking
PTC	Pass Through Certificates
QFI	Qualified Foreign Investor
QIB	Qualified Institutional Buyer
QIP	Qualified Institutional Placement
RBI	Reserve Bank of India
RDM	Retail Debt Market
REITs	Real Estate Investment Trusts
RTGS	Real Time Gross Settlement
SA	Sub Account
SAST	Substantial Acquisition of Shares and Takeovers
SAT	Securities Appellate Tribunal
SCRA	Securities Contracts (Regulation) Act, 1956
SDR	Strategic Debt Restructuring
SEBI	Securities and Exchange Board of India
SGF	Settlement Guarantee Fund
SGL	Subsidiary General Ledger Account
SLB	Securities Lending & Borrowing
SLBS	Security Lending and Borrowing Scheme
SLR	Statutory Liquidity Ratio
SME	Small and Medium Enterprise
SPAN	Standardised Portfolio Analysis of Risk
SPV	Special Purpose Vehicle
STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number

Abbreviation	Full Form
T-Bill	Treasury Bill
TC	Tax Consultant
TDR	Transfer of Development Rights
UPSI	Unpublished Price Sensitivity Information
VaR	Value-at-Risk
VC	Venture Capital
VCF	Venture Capital Funds
WHT	Withholding Tax
ZCB	Zero Coupon Bonds

# Securities Services, India CIB – Global Transaction Banking Deutsche Bank AG, India

Contact

Sriram Krishnan  
Head of Securities Services, India  
CIB – Global Transaction Banking  
Deutsche Bank AG

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