

# Namaste India

The comprehensive guide for  
professionals investing in India.

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5 September, 2018

## PREFACE

During the last two years Government has implemented a number of key structural initiatives to build strength across macro-economic parameters for sustainable growth in the Indian economy. Growth momentum is increasing, making India the fastest-growing G20 economy. Investment and exports, supported by efficient implementation of the new Goods and Services Tax (GST), are becoming major growth drivers.

India's financial markets continues to be a significant part of the global investment flow, as India's promising economic outlook is expected to strengthen further in the near term. A robust regulatory framework with strong anti-money laundering rules, ensuring transparent and stable capital markets remains a policy priority.

Fifth edition of the Namaste India reference guide is a commendable effort by Deutsche Bank team in making available a detailed guide to the financial market regulations. I wish the very best to Namaste India - Edition 2018 and hope it contributes to improving ease of doing business in India.

  
(Subhash Chandra Garg)



G. MAHALINGAM  
WHOLE TIME MEMBER

भारतीय प्रतिभूति  
और विनियम बोर्ड  
*Securities and Exchange  
Board of India*

## PREFACE

Indian economy has demonstrated stability and strong growth in a challenging global macroeconomic environment. This has opened up investment opportunities for both domestic and foreign investors, and calls for continued development of the Financial Market infrastructure, providing transparency, safety and stability.

In order to create a strong ecosystem for investor flows, the policy makers (SEBI, RBI and the Government) have been constantly interacting with all the major stakeholders to put in place robust processes, systems, controls and governance mechanisms in the financial markets in India.

I congratulate the Deutsche Bank team for bringing out the Fifth Edition of Namaste India 2018, a comprehensive reference book for foreign portfolio investors, detailing regulatory and structural aspects of financial market in India.

  
21/8/2018

G. MAHALINGAM



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India remains a favorite investment destination given its positive population dynamics, aspirational middle class population and reforms push for increased formalization, transparency and digitization. As one of the growth engines of the world economy, with consistent policies, a stable currency and investment friendly environment has ensured India a top choice for global investment community.

Foreign Direct Investments (FDI) and Foreign Portfolio Investments (FPI) have shown record inflows in recent years.. As a key source of capital to the Indian economy, it is important to ensure a harmonized investment experiences for international investors and improve transparency as economic regulations evolve.

I am pleased to note that the reference guide for foreign portfolio investors Namaste India, has remained a definitive handbook on accessing Indian capital markets since 2014, and congratulate Deutsche Bank team for their efforts in publishing this Fifth Edition 2018.

(M. Rajeshwar Rao)

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

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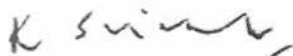
# Foreword

India's financial market remains among the most attractive investment destinations among the large emerging economies. We expect inward investment interest from international investors to continue in this growth market in spite of recent headwinds of high oil prices and consequent currency depreciation.

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.

We are pleased to see the annual Namaste India publication reach its fifth Edition this year, with strong positive feedback from clients. The FPI Regime, having completed four years, is under extensive regulatory review and the Deutsche Bank team has ensured that latest updates to the framework have been covered in detail.

We would like to thank our clients, partners and market intermediaries who have contributed with their views during the preparation of this Edition.



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# 1 Introduction

India continues to be the preferred investment destination among the emerging markets foreign institutional investors. With the April-June quarter GDP growth coming in at 8.2%, India also remains the fastest growing major economy in the world.

Institutional investors remain positive on investment opportunities in India, with attractive valuations in USD terms available across sectors. The Government, having entered the fifth and last year in office before general elections next year, is firmly on the reform path; keeping stable macro picture in spite of global head winds of trade war and rise in oil prices.

Implementation of GST (Goods & Services Tax) has now been completed and the teething issues have been addressed. Early indications on revenue collections are positive and it is expected to contribute to economic growth by reducing geographical fragmentation and broadening the tax base.

## Growth momentum

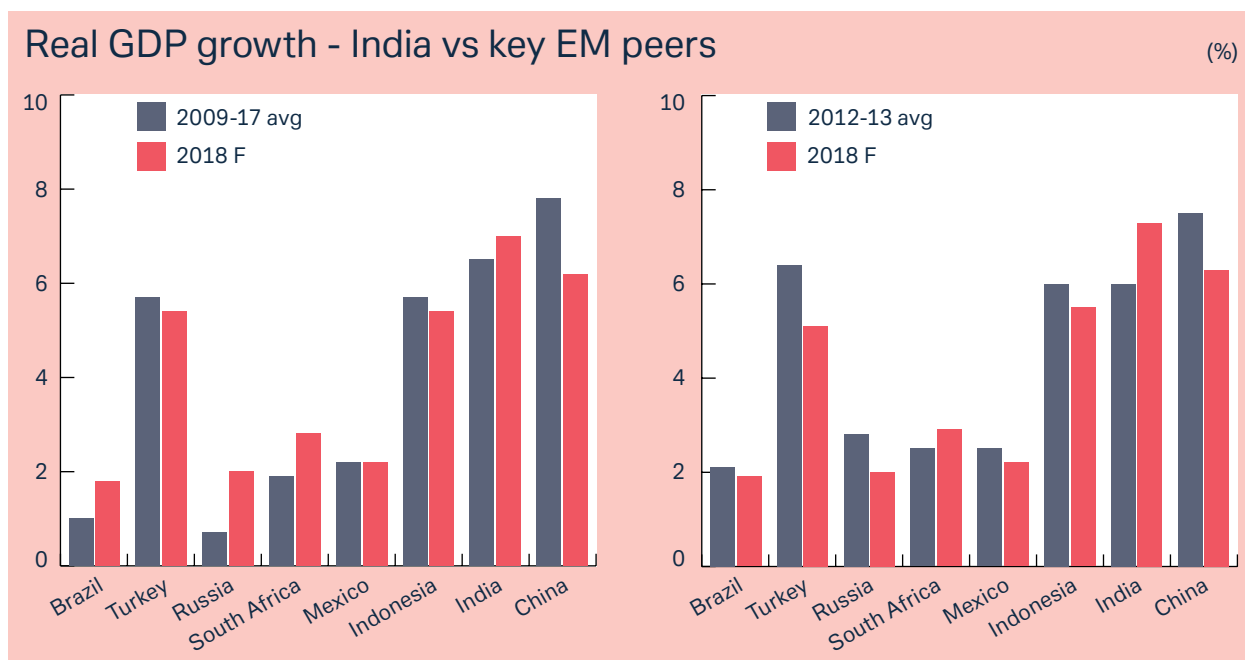
India is experiencing a cyclical upswing in growth, after momentum was impacted last year due to temporary disruptions led by demonetisation and GST. Production momentum remains strong, capacity utilisation has started picking up, and channel checks suggest that some private sector capex activity is likely to come on stream over the next few quarters. The outlook related to earnings recovery has improved and India continues to be a key focus country for medium to long term investors. Higher oil prices and a premature rate hike cycle may slow down the pace of growth recovery to some extent, but even then India's real GDP growth will likely remain 7%+ in FY19, making it the fastest growing major economy in the world.

## Macro Picture

India has seen a sharp improvement in its inflation dynamic, after RBI adopting a flexible inflation targeting framework and CPI inflation has halved in the last four years. While rising oil prices are definitely a net negative for the Indian economy, which is getting reflected in the recent movement in rupee, we think it is unwise to judge India's macro strength only through the prism of the currency performance. In the last four years, India has improved its macro strength considerably through structural and institutional reforms and therefore it is instructive in our view to analyze the Indian economy on a holistic basis by taking a wide array of macro indicators into consideration

The combined force of higher global oil prices and a strong USD have exerted pressure on most EM currencies, including the rupee. It is also worth noting that such depreciation pressure is coming on

the back of a very strong performance in 2017, when USD weakened significantly. To some extent, this therefore should be perceived as a mean reversion of EMFX from last year, led by renewed USD strength. India's reserves adequacy strength remains far stronger today than in 2012-13.



Source: CEIC, Deutsche Bank

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.

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.

## 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 01, 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.

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, alongwith a summary look at the securities market structure in India.

## 1.2. What's new in 2018 Edition

This edition covers all the regulatory and procedural changes notified till September 21, 2018; as well as additional material on key aspects relevant to Foreign Portfolio Investors

Below is the summary of some key revisions in this edition

- Comprehensive changes to the KYC rules, specifically impacting Beneficiary Owner determination and disclosure of additional information have been recently introduced, which have been covered in detail in Chapter 7.
- Chapter 8 on investment guidelines includes significant changes to fixed income investment regulations notified by RBI recently.

## 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 FDI (Foreign Direct Investments) into India, a separate section has been devoted to detailed coverage of FDI & FVCI routes as Chapter 4
- Comprehensive information on the process of FPI market entry is available in Chapter 5
- Comparative tables on key aspects, such as investment permissions across the three foreign investment routes, and impact of Categorisation, 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
- Guidelines related to Banking, remittance rules and currency hedging are covered in Chapter 10
- FPIs experience the same highly developed and stable clearing & settlement structure, as domestic participants in the market. Overview of the clearing & settlement environment in the Indian securities market is available as Chapter 11. 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, covering cross-border treaty changes, international tax administration etc.
- Chapter 13, introduced for the first time last year, is devoted to describing the REITs, InvTs and AIF concepts
- Chapter 14 describes the International Financial Services Centre (IFSC) at GIFT City Ahmedabad
- A list of latest important announcements have been summarised 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 continuous reform initiatives from FY 2000-01 onwards, which has 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/ stocks, bonds, debentures, convertible instruments or other marketable securities of a like nature 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, issued in primary market)

- **Primary market:** Initial issuance of securities to raise capital resources. Corporate entities issue capital instruments (equity shares, debentures, bonds 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' or preferential placement, where the issuance is done to select people/ entities
- **Secondary market:** Securities are traded after being initially offered to the public/privately placed in the primary market and/or listed on the Stock Exchange. Majority of the trading takes place in the secondary market (both equity & debt). The secondary market has further two components:
  - **Over-the-counter (OTC) market:** Markets where securities are negotiated bilaterally 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:** Trades are executed on regulated Stock Exchanges and cleared & settled by a clearing corporation which provides novation and settlement guarantee

Equities market in India is predominantly exchange-driven, while the Debt market although predominantly OTC, exchange-traded models are also available.

Indian securities market also includes a vibrant futures and options market with a variety of derivative products, based on single stocks, stock indices, currency, interest rate etc., available to investors for trading and hedging purposes.

## Derivatives market

The forward or futures market is an important part of secondary market, where assets are traded for future delivery and payment. 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, gives the owner the right to sell a security, but not the obligation, at a predetermined price and at specified time while a call option provides the owner the right to purchase a security, but not the obligation, at a predetermined price.

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 or currency, interest rates etc.

## 2.2. Legal Framework

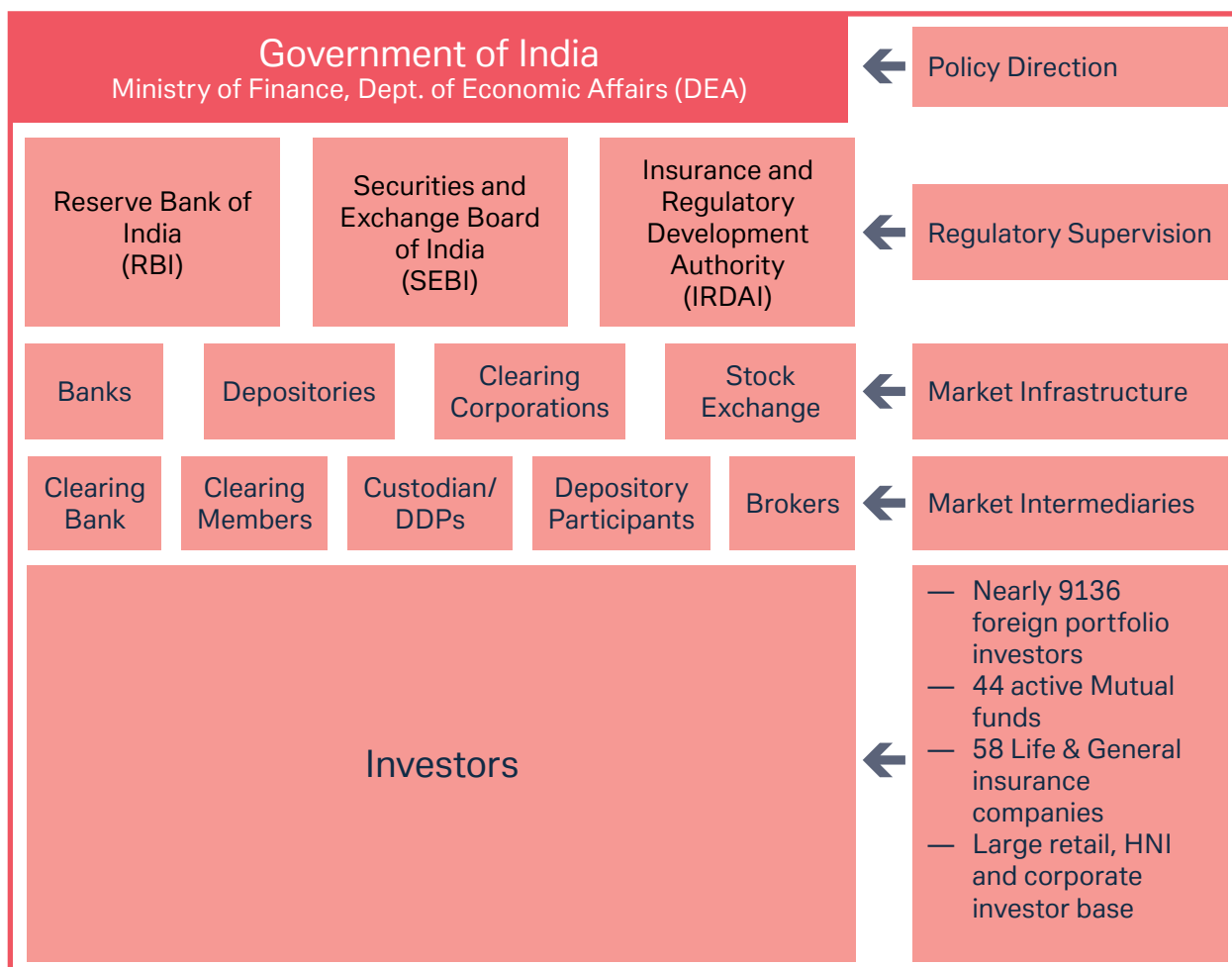
Important legislations governing the securities market in India are:

- **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
- **Securities and Exchange Board of India Act (SEBI Act), 1992:** SEBI was established under this act, to develop & regulate securities market and also to protect investors. 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 there under
- **Securities Contracts (Regulation) Act, 1956 (SCRA):** it provides for regulation of transactions in securities through control over stock exchanges. It gives 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:** It provides for the establishment of depositories in securities market with the objective of ensuring near instant transferability of securities with speed, accuracy and in a safe and secure manner. It ensures electronic maintenance & 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:** It provides a time-bound process to resolve insolvency
- **Foreign Exchange Management Act (FEMA), 1999:** The ECM of RBI stipulated the regulations that governed for foreign exchange transactions in India till May 2000. In May 2000, the regulations under FEMA 1999 came into force and all notifications regarding foreign



- exchange transactions since then, are prescribed under FEMA.
- **Prevention of Money Laundering Act, 2002 (PMLA):** The PMLA provides the basic statutory framework for identification of customers, transaction records, anti-money laundering measures, monitoring & 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 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 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 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 (GoI)

The Ministry of Finance is the apex ministry responsible for the administration of the GoI 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 GoI 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
Web Address	<a href="http://www.finmin.nic.in">http://www.finmin.nic.in</a>

#### 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 & Exchange Board of India (SEBI)

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

+ 91 22 26449000

Web Address                <http://www.sebi.gov.in>

### Reserve Bank of India (RBI)

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
- 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

+ 91 22 2260 1000

Web Address                <http://www.rbi.org.in>

### 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 byelaws 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.

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

\*FPIs are not permitted to invest in Certificates of Deposits and Commercial Papers and other short term corporate debt instruments having residual maturity of less than 1 year. 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.

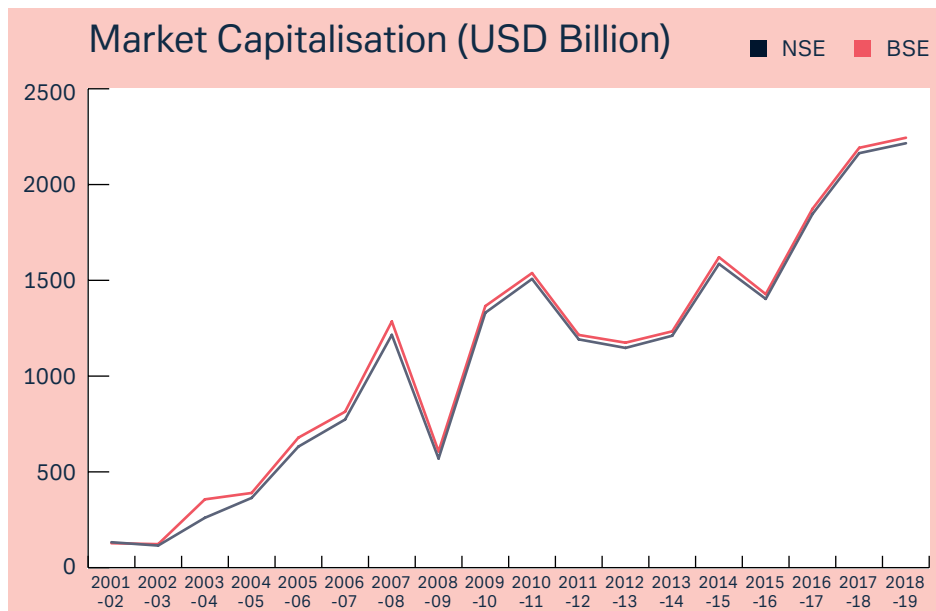
## 2.4. Capital Market Overview

Regulators	<ul style="list-style-type: none"> <li>— Reserve Bank of India (RBI)</li> <li>— Securities and Exchange Board of India (SEBI)</li> </ul>
Stock Exchanges & CCPs	<ul style="list-style-type: none"> <li>— National Stock Exchange (NSE) &amp; National Securities Clearing Corporation Limited (NSCCL)</li> <li>— Bombay Stock Exchange (BSE) &amp; Indian Clearing Corporation Limited (ICCL)</li> <li>— Metropolitan Stock Exchange of India (MSEI) &amp; Metropolitan Clearing Corporation of India Limited (MCCIL)</li> </ul>
G-Sec Market	<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 &amp; settlement</li> </ul>
Depositories	<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</li> </ul>
Market Participants	Brokers, Custodians, Designated Depository Participants, Foreign Portfolio Investors, Domestic Asset Management Companies, Insurance companies, Banks, Financial Institutions, Local corporations & Retail Investors
Market Instruments	Equities, Preference shares, Corporate and Government bonds, Debentures and securitised debt instruments, Mutual funds/ ETF, Derivatives, Indian Depository Receipts, Liquid & Short-term instruments, Treasury bills, Commercial paper, Certificates of deposit

Market Statistics

— Market Capitalisation

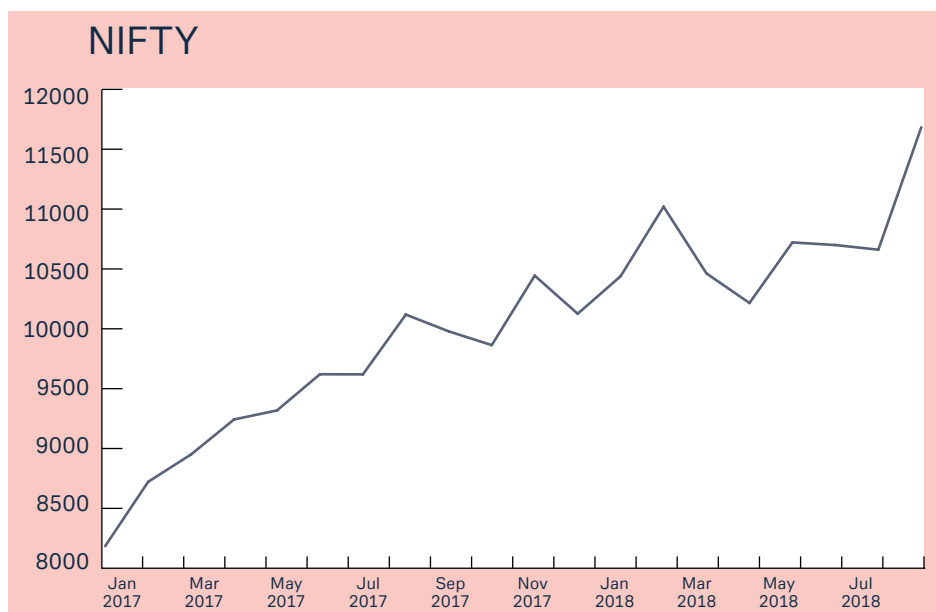
- BSE: USD 2,217 billion (August 2018)
- NSE: USD 2,246 billion (August 2018)



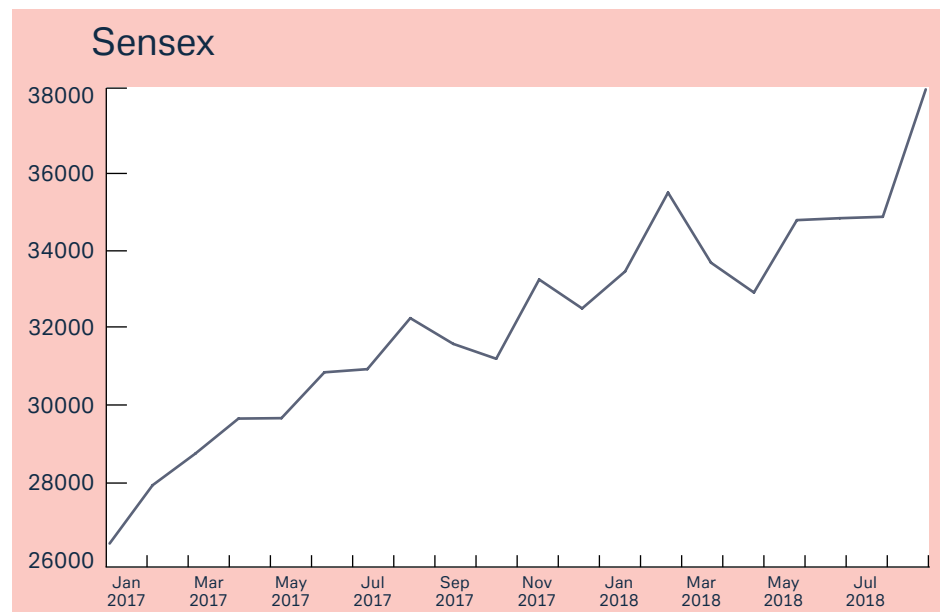
Source: Exchanges

- Total Forex reserves: USD 400 billion (August 2018)
- Debt limits for Foreign Portfolio Investors (October 2018-March 2019)
  - Government securities: INR 3,608 billion (G-Sec and SDL)
  - Corporate Debt: INR 2,891 billion

Stock Indices



Source: NSE



Source: BSE

## 2.5. Trading Guidelines Overview

Settlement Currency	Indian Rupee (INR) – Convertible (on-shore)
Trading Hours	<ul style="list-style-type: none"> <li>— Equity markets operate from Monday – Friday: 9:15 am – 3:30 pm (Pre-open call session – 9:00 am to 9:15 am)</li> <li>— SLB segment for Securities Lending &amp; Borrowing and Debt segment for corporate bonds also follows the same schedule</li> <li>— F&amp;O segment operates from 9:15 am- 3:30 pm*</li> <li>— Currency derivative segment operates from 9:00 am – 5:00 pm</li> <li>— NDS-OM: Government Securities (G-Sec) market – from 9:00 am – 5:00 pm</li> </ul>
Settlement Cycle	T+2 for Equities T+1 for Derivative T+1 for SLB T+1 for Government securities (domestic investors and for trades executed on NDS-OM web where one or both parties are FPIs) T+1 or T+2 for all deals, executed OTC, where one or both parties to the deal is a FPI. In all cases, the G-Sec transactions have to be reported on NDS OM reporting module on T date T to T+2 for Corporate bonds
Account Structure	Segregated Securities Account Segregated Cash Account Segregated Depository Account
Short Selling	Equities – Permitted – for FPIs only against Borrow positions in the SLB (Securities Lending & Borrowing) segment G-Sec – Permitted only for domestic investors
Lock-in Period	None for equities. Specific debt instruments may include lock-in
Trade Pre-matching	Available

Fail Trades	Forced buy-in will be conducted by the exchange. Penalties will be levied
Securities Lending	Available as an exchange-based mechanism Foreign investors can lend securities; however, they can only borrow securities for delivery into short sales

\*Effective 1st Oct 2018, subject to prior approval from SEBI, the exchanges are permitted to extend timing of the Equity Derivatives market from 9:00 am – 11:55pm

## 2.6. 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.

## 2.7. Asset Classes

The asset classes available for Foreign investors are:

- Equity
- Fixed Income
- Derivatives
- IDR

### 2.7.1. 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.

### 2.7.2. 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

Market Segment	Issuer	Instruments
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) issued outside India
	Banks	Debentures, Bonds, Certificate of deposit
	Financial Institutions	Bonds

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 the country
- 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

### 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 1 year
- FPIs have been permitted to invest in unlisted debt securities subject to compliance with 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



## Certificates 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 Certificate of Deposit

### 2.7.3. Derivatives

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

### 2.7.4. 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.

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

An eligible resident entities 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.

### 2.7.6. Other Instruments

- Mutual Fund Units (MFs) – (Liquid and Money market schemes 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)

## 2.8. 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.

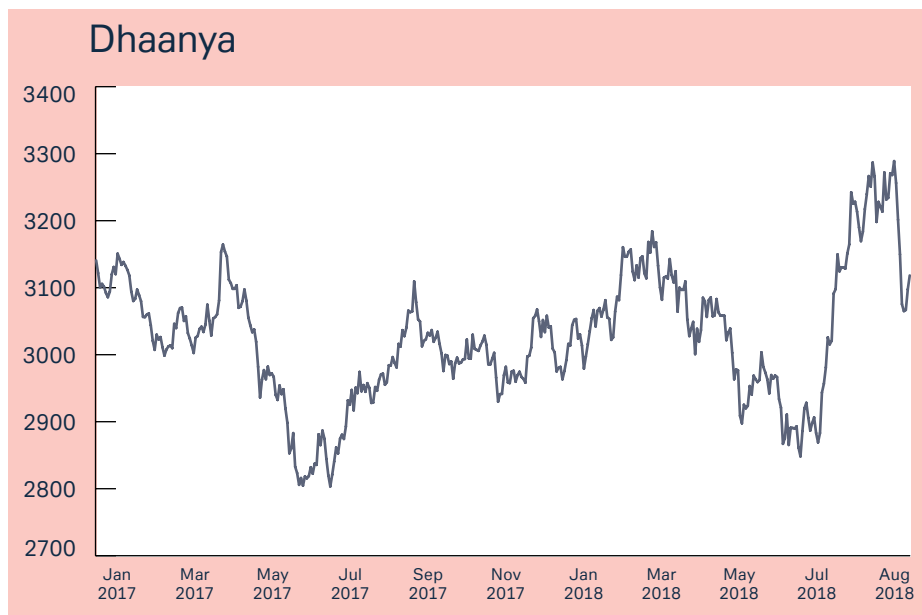
Based on recommendations of Khusro Committee in 1980, government imitated futures trading in some commodities. Based on report of Kabra Committee in 1994, through budget announcement

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.

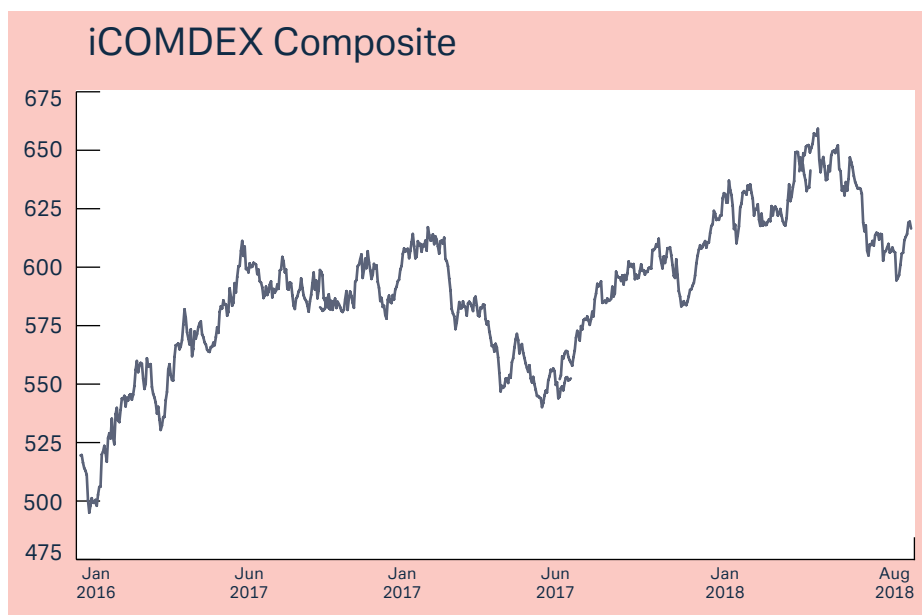
Legal Framework	<ul style="list-style-type: none"> <li>— Securities Contracts (Regulation) Act, 1956</li> <li>— Securities Contracts (Regulation) Rules, 1956</li> </ul>
Regulators	<ul style="list-style-type: none"> <li>— Securities and Exchange Board of India (SEBI)</li> </ul>
Stock Exchanges	<ul style="list-style-type: none"> <li>— National Commodity &amp; Derivatives Exchange Limited (NCDEX)</li> <li>— Multi Commodity Exchange of India Limited (MCX)</li> </ul>
Clearing Corporations	<p>Effective 1st Oct 2018, the following two clearing corporations (granted recognition by SEBI) will be functional:</p> <ul style="list-style-type: none"> <li>— National Commodity Clearing Limited (NCCL) for NCDEX</li> <li>— MCX Clearing Corporation Limited (MCXCCL) for MCX</li> </ul>
Participants	<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>
Traded Commodities	<ul style="list-style-type: none"> <li>— Bullion – Gold &amp; Silver</li> <li>— Metals – Aluminium, Copper, Lead, Nickel, Zinc, Steel</li> <li>— Energy – Crude Oil &amp; Natural Gas</li> <li>— Agro – Cotton, Cardamom, Castor Seed, Rubber, Guar Seeds, Spices, Cereals &amp; Pulses etc.</li> </ul>
Trading Hours	<p>NCDEX</p> <ul style="list-style-type: none"> <li>— Internationally Referenceable Non - Agri Commodities - 10.00 am to 9:00 pm / 9.30 pm (Daylight savings between Nov – March)</li> <li>— Internationally Referencable Agri Commodities - 10.00 am to 9:00 pm / 9.30pm (as notified by SEBI)</li> <li>— Other Agri Commodities - 10.00 am to 5:00 pm</li> </ul> <p>MCX</p> <ul style="list-style-type: none"> <li>— Commodities (Bullions, Metals and Energy ) - 10.00 am to 11:30 pm / 11.55 pm (Daylight savings between Nov – March)</li> <li>— Internationally Referencable Agri Commodities - 10.00 am to 9:00 pm / 9.30pm (as notified by SEBI)</li> <li>— Other Agri Commodities - 10.00 am to 5:00 pm</li> </ul>
Settlement Cycle	Currently all trades are being mark to market at the closing price of contract and mark to market requirement are settled at T+1
Investment restriction	Category III AIFs shall invest not more than ten percent of the investable funds in one underlying commodity
Key Indices	<p>Dhaanya</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, Chana, Coriander, Cotton Seed Oilcake, Guar Seed 10 MT, Jeera, Mustardseed, Soy Bean, Turmeric</li> </ul>

- 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.



NCDEX for Dhaanya

**TR-MCX iCOMDEX Composite Index**  
 TR-MCX COMDEX India's maiden real-time Composite Commodity Index based on commodity futures prices of an exchange. Each commodity is selected primarily based on its liquidity and physical market size in India. It is made up of 11 commodities, namely, Crude Oil, Natural Gas, Aluminium, Copper, Lead, Nickel, Zinc, Gold, Silver, Crude Palm Oil and Cotton.



MCX for iCOMDEX

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

## 2.9. Foreign Exchange

Indian currency, the rupee (INR), is onshore 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 Authorised 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	RBI permits FPIs to book forward cover up to 100% of their exposure in equity and debt investments. 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  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	Tenor of forward contracts generally extend up to 1 yr
Foreign currency – rupee swaps	FPIs can undertake foreign currency rupee swaps only for hedging the flows relating to the subscription in 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

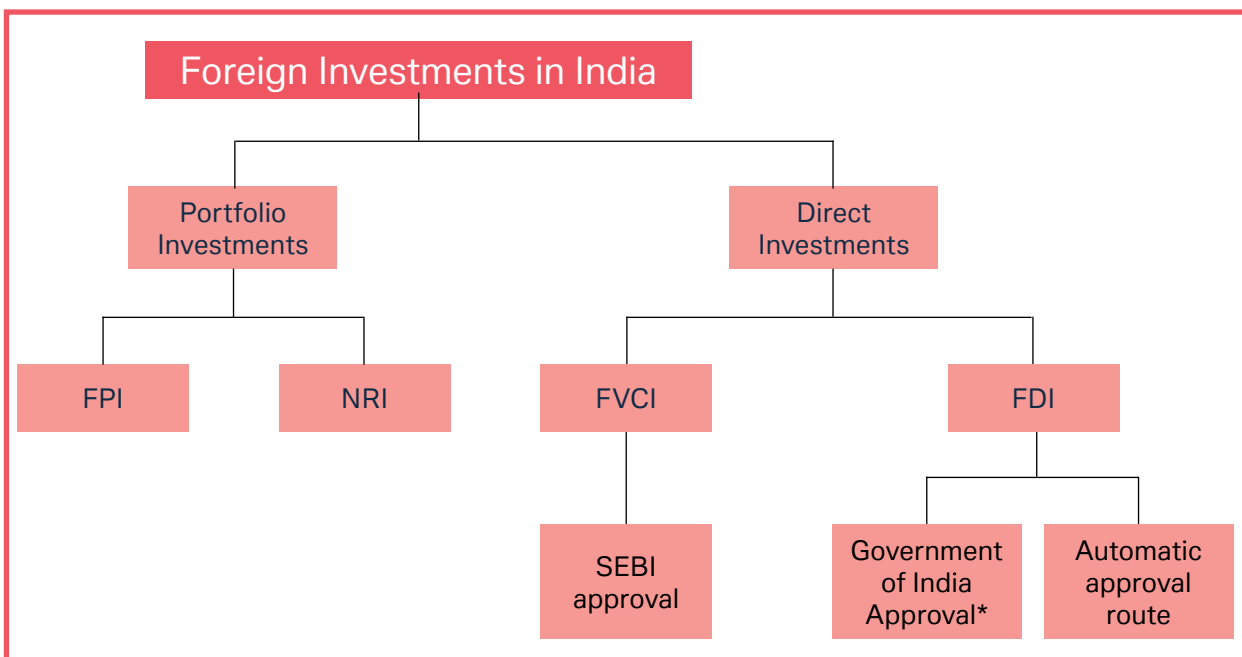
Foreign investors have been permitted to invest in the Indian stock markets from 1992, when the Government of India issued the Guidelines for Foreign Institutional Investments. Subsequently, in November 1995, the SEBI (Foreign Institutional Investors) Regulations, 1995 were notified, which were largely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

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

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

- **Foreign Portfolio Investors (FPIs):** Entities established or incorporated outside India and permitted to invest in listed Indian securities and unlisted debt
- **Non-Resident Indian/ Overseas Citizen of India (NRIs/ OCIs):** 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)/ Government of India. The approvals for Government route would be provided by the respective 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 (FVCIs):** 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:

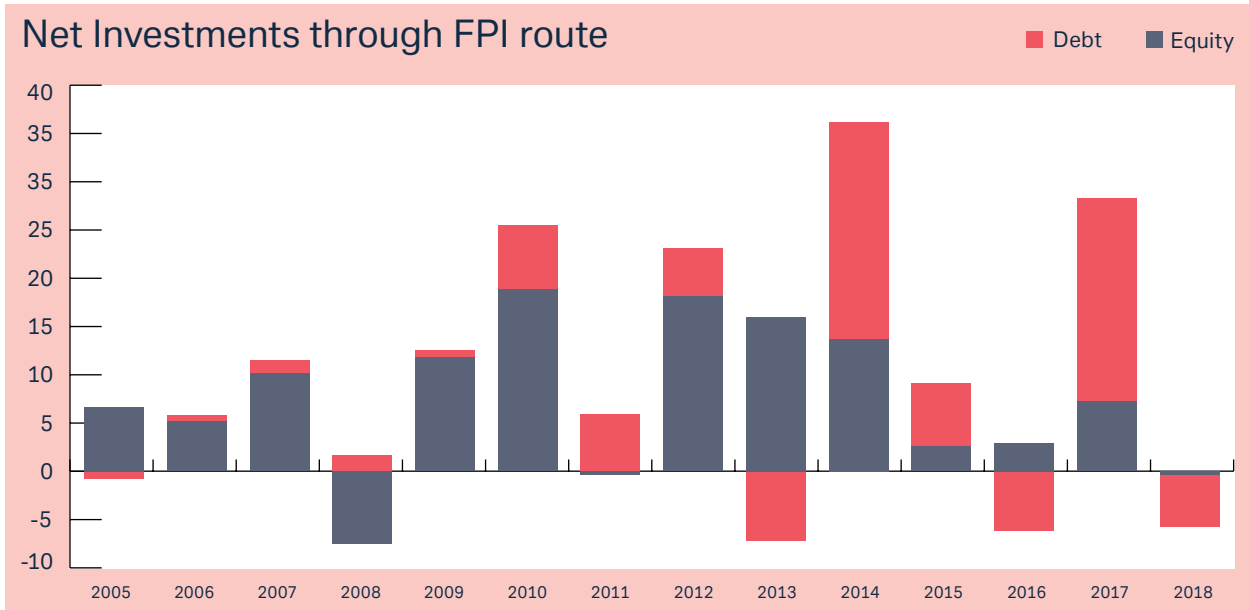


\*The approval would be provided by the respective ministry or department on behalf of the Government of India. Certain sectors would also require inputs from the Ministry of Home Affairs.

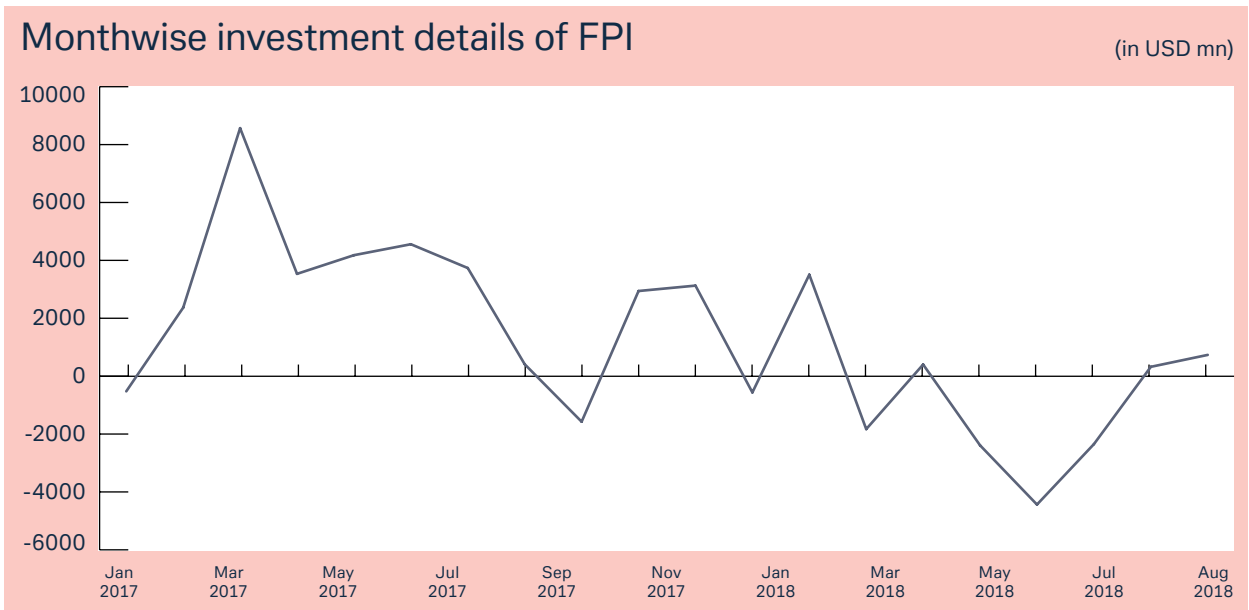
### 3.1.1. Foreign Portfolio Investor (FPI)

- A harmonized 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 performs the 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 and subject to confirmation on KYC and material changes in information if any
- Individual investment limit to be below 10% of paid up capital of equity in any company, and a composite limit of 24% overall which can be increased up to the sectoral cap applicable to the sector

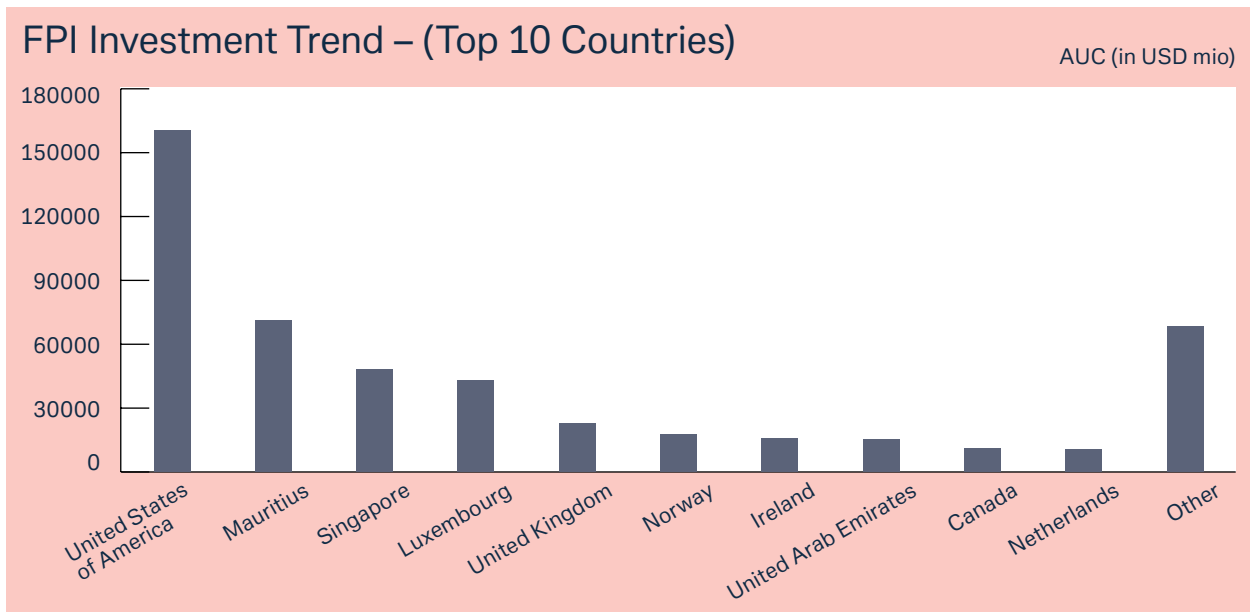
### FPI Investment Statistics:



(Source: NSDL statistics)



(Source: NSDL statistics)



(Source: NSDL statistics)

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

Portfolio Investment route for entities classified as Non-Resident Indians (NRI) and Overseas Citizen of India (OCI)

- Only entities eligible as NRI/ OCI as per Government guideline are eligible under this route. 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:

- Governed by sectoral entry rules, Automatic or Government approval norms. Most of the sectors 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. Registration application to be submitted through online portal
- 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 startup, irrespective of the sector in which it is engaged
- Pricing mutually agreed between the buyer and seller

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 capital through issuance of 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 a negotiable instrument in the form of a certificate denominated in US dollars and is backed by the underlying equity shares in the Indian company issued in India. Such DRs are traded on stock exchanges outside India. The certificates are issued through an overseas depository bank against a specified quantity of underlying Indian stocks/ shares in that respective company. DRs facilitate cross border trading and settlement, minimise transactions costs and broaden the potential base, especially among institutional investors

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#### American Depository Receipt (ADR):

a negotiable U.S. certificate representing ownership of shares in a non-U.S. corporation. ADRs are quoted and traded in U.S. dollars in the U.S. securities market. Also, the dividends are paid to investor in U.S. 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 U.S.

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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, 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

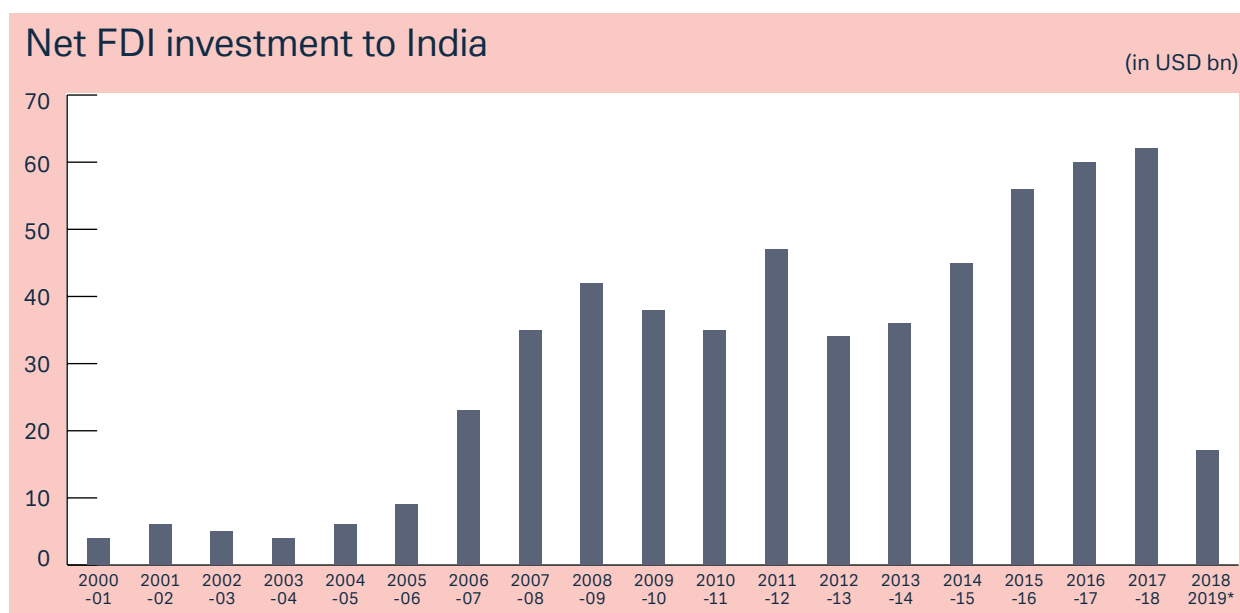
Foreign Direct Investment in India is strategic investment into Indian Companies, existing or newly set-up. Since 2015, the Indian government has taken steps to make the country more attractive for FDI, such as easing regulations and the related regulatory environment through business process re-engineering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

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 Reserve Bank of India, in all activities/ sectors as specified in FDI policy issued by the government of India and RBI from time to time

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

The chart below displays the FDI investment trend into India since 2000



Source: 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% 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 defense sector, where the sectoral cap is 49%, portfolio investment and investment by FVCIs will be allowed up to permitted automatic route level of 49%

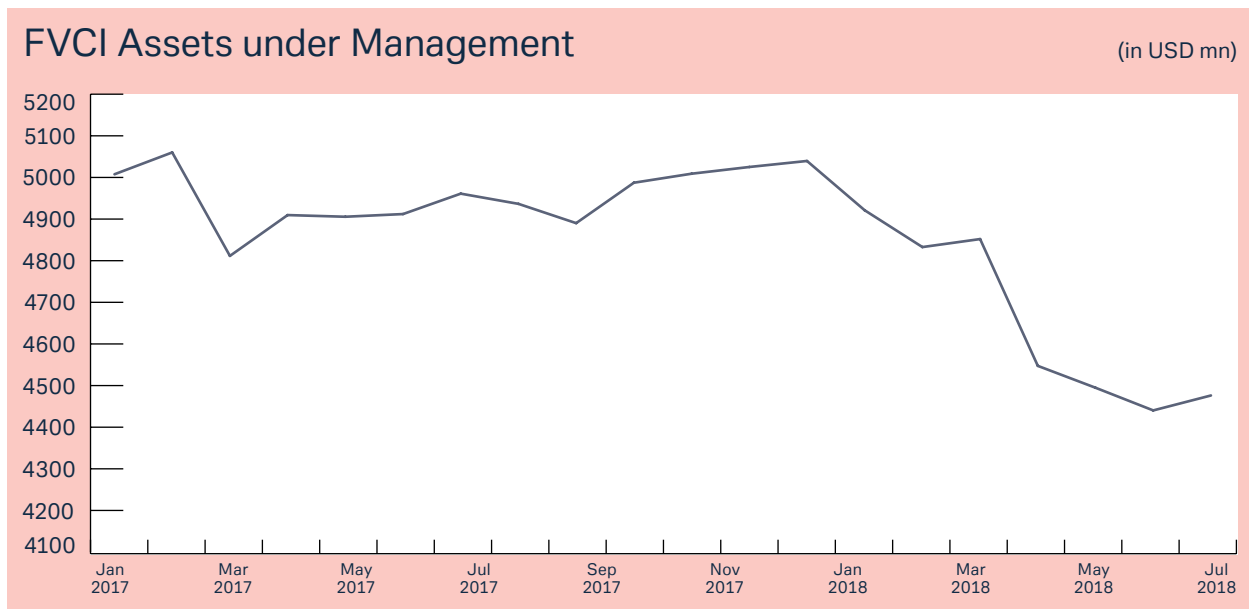
Full fungibility of Foreign Investment in Banking- Private Sector has been permitted.

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

Assets under Management of FVCI entities



Source: NSDL website

### 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.

# 4 | 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) under FEMA 1999. The enabling regulation for investments by foreign investors has been notified vide Notification No. FEMA 20/2000-RB dated May 3, 2000 (as amended from time to time)

### 4.1.1. The regulatory framework governing FDI investments are:

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

Department of Industrial Policy & 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

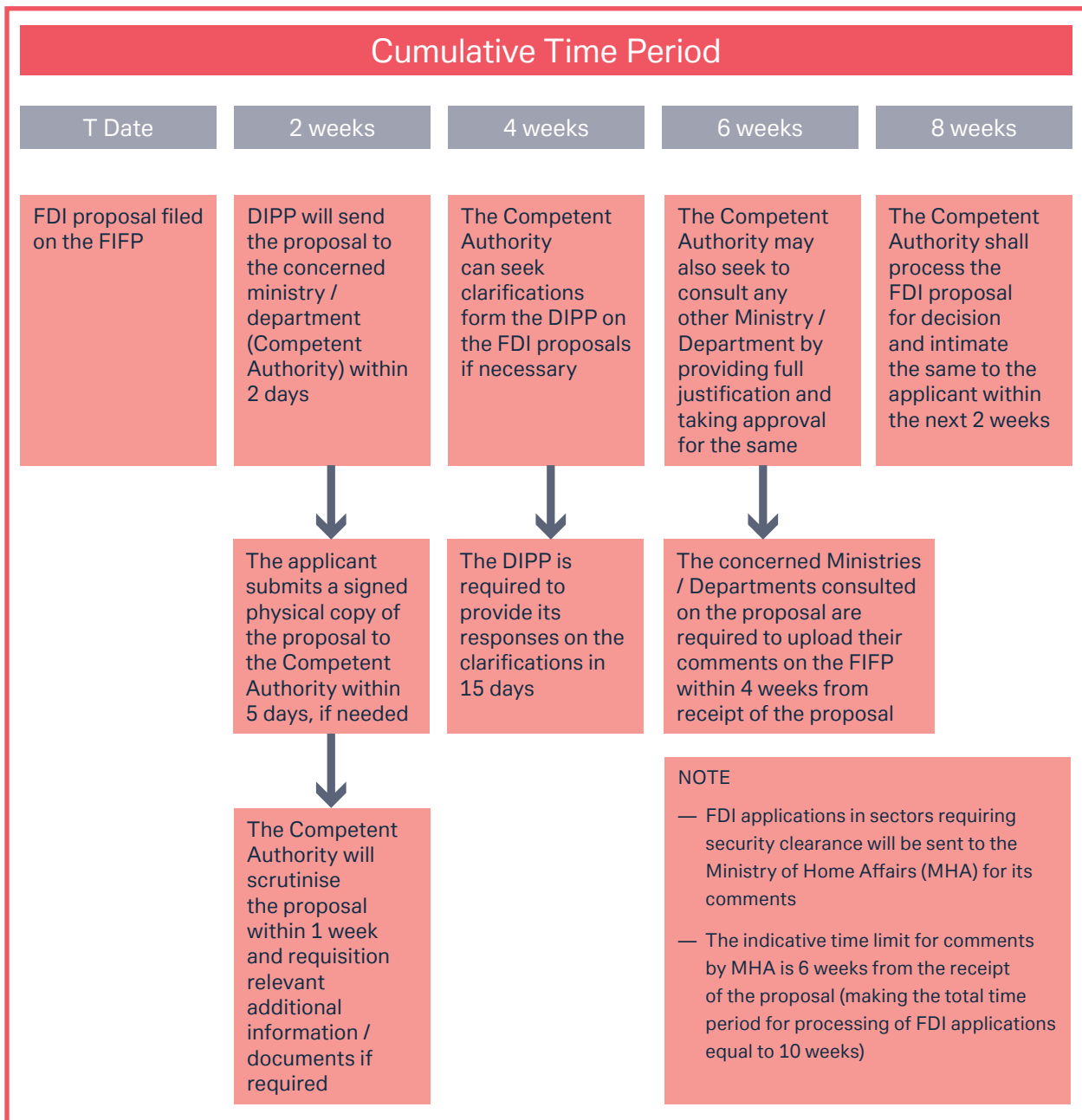
RBI is the central bank of India and regulates the inflows and outflows of foreign investment in India

### 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 respective competent authorities 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 & Promotion (DIPP), Ministry of Commerce & 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/EQUs 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 Fertilizers	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 Standard Operating Procedure (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

## 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 at <http://dipp.nic.in/foreign-direct-investment/foreign-direct-investment-policy>

### Sectors under Automatic route

Sectors allowed under Automatic route, subject to conditions can be accessed at [http://dipp.nic.in/sites/default/files/Sectors\\_Under\\_Automatic\\_Route\\_With\\_Conditions.pdf](http://dipp.nic.in/sites/default/files/Sectors_Under_Automatic_Route_With_Conditions.pdf)

### Sectors under Government approval route

Sector's requiring government approval can be accessed at [http://dipp.nic.in/sites/default/files/Sectors\\_Where\\_Government\\_Approval\\_Is\\_Required.pdf](http://dipp.nic.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 an escrow account for the transaction and need to be closed within 6 months from date of account opening.

## 4.1.5. Caps on investment

Investments by non-residents in any 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) 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 & compulsorily convertible debentures is also freely repatriable without any restrictions (net of applicable taxes)

## Reporting

FDIs Reporting requirement: All the below submissions are to be mandatorily done only through online mode. The reporting will be through the portal <https://firms.rbi.org.in/> as provided by the Reserve Bank of India (RBI).

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>FDIs: 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	Indian company through its AD Category I Bank	
Transfer of Shares (Form FC-TRS)	RBI	To be filed within 60 days from the date of the receipt of consideration	Transferor/ transferee through its AD Category I Banks	

### Monitoring & 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.

FVCI wishing to invest in India is required to register with the capital market regulator SEBI.

### 4.2.2. Definitions

Venture capital fund means a fund registered with SEBI 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 SEBI 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 SEBI 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. SEBI may take into account 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 <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	<ul style="list-style-type: none"> <li>— Information or clarification with respect to the Investment strategy, commitment letters from Investors, life cycle of fund, etc.</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 SEBI registered custodian for purpose of safekeeping of securities</li> <li>— Shall open an operating non-resident rupee and foreign currency account</li> </ul>

### 4.2.3. Documentation Requirements

An 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 no. and email ID
- Details of all the directors along with name, address, contact no and email ID

- Copy of Memorandum and Articles of Association/Constitution Document of the applicant. Please 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 SEBI
- 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 SEBI registered custodian
- Certified copy of Business license (if any), issued by the regulatory agency abroad, with which the applicant is registered
- Confirm that the applicant have 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. Please 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 1 million
- 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 SEBI registered 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 appointed 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 not 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

An 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 25 Crores 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 8 of the Principal Regulations

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 and subsequently if there is a change in the strategy
- 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 per cent of the investible funds has 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 per cent 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, its venture capital activity (investment category wise ie equity, debt or VCF and industry wise) for each calendar quarter through the online portal
- FVCIs are required to report to RBI through its designated AD Category Bank, its venture capital activity monthly in the format as specified by RBI from time to time. 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(s) 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
- FVCI's 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

#### 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 be applicable to FVCI applicants also
- 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

FVCIs- Reporting requirement. All registered FVCIs are required to file their compliance reports, through the online system. The portal can be accessed at <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 10th 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 10th 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

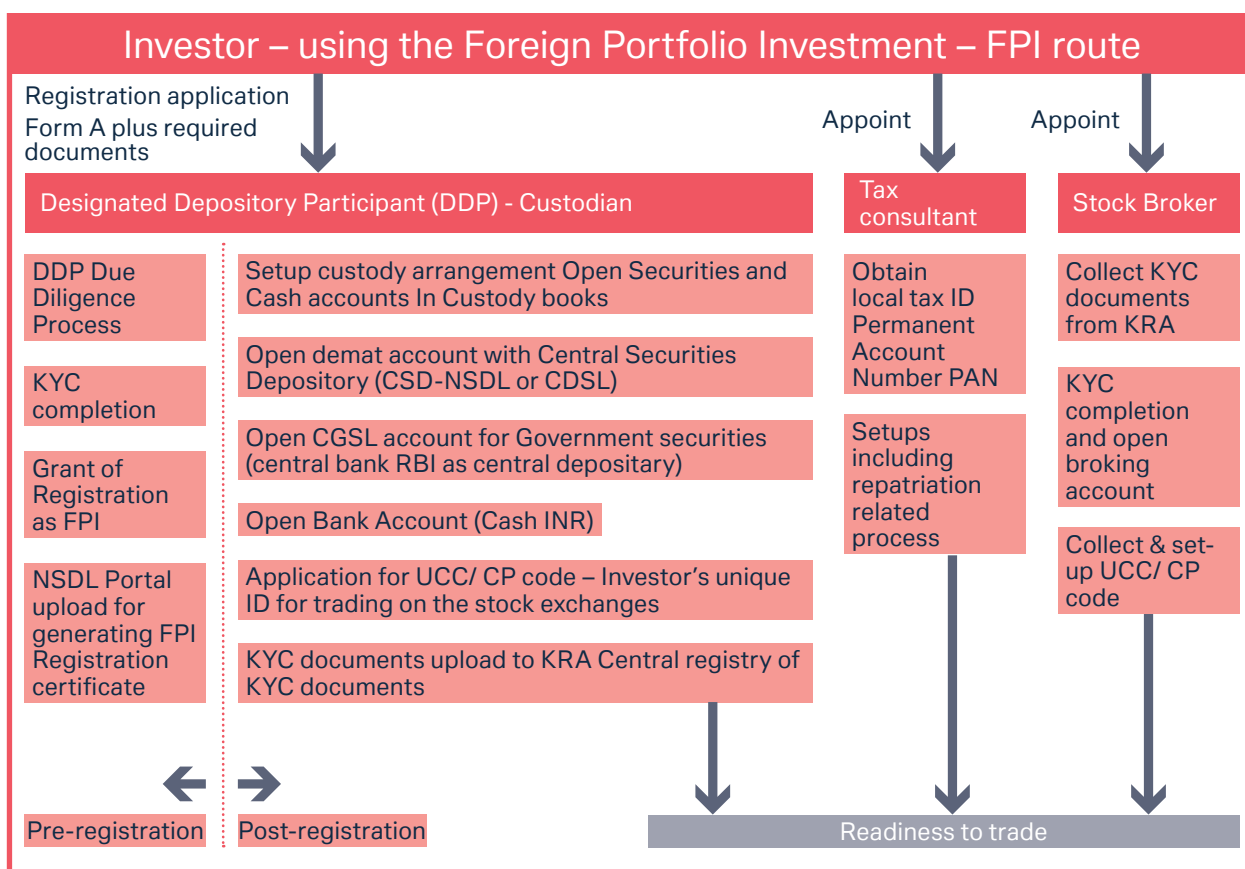
# 5 Foreign Portfolio Investor (FPI) - Market Entry

## 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/ Sub account 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. Role of Designated Depository Participant (DDPs)

Designated Depository Participant (DDP) means a person who has been approved by the SEBI 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 registration process of FII/Sub-account, wherein the due diligence process and issuance of registration, was earlier performed by SEBI. Under the FPI Regulation 2014, this process, is now performed by the DDPs and registration granted to the applicant within a period of 30 days from the date of receipt of completed application, supporting documents and the applicable fees.

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.

## 5.3. FPI 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
- Category I (Cat-I) entities from Non-IOSCO (International Organisation of Securities Commission) jurisdiction are eligible for FPI registration, if they are resident in a country as may be approved by Government of India (GoI). For such entities, the application would be processed in consultation with SEBI and GoI

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

List of countries that have bilateral MOU with SEBI is available at [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 at [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 a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008
- Any other criteria specified by SEBI from time to time

- The below additional eligibility norms are applicable only to Category III FPI applicant:
  - 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

### 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

## 5.4. 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, broker dealer and swap dealers</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. Insurance and reinsurance companies shall be deemed to be appropriately regulated, 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
- **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
  - An FPI is deemed to be broad based if it has a Bank, Sovereign Wealth Fund (SWF), Insurance/ Reinsurance company or a Pension Fund as its institutional investor. Such institutional investors, jointly or separately, should hold more than 50% of the shares or units in the applicant fund at all times
  - In cases where broad based status is achieved on the basis of investor of an underlying fund, then such underlying fund shall also be required to fulfil the extant eligibility requirements as specified for FPI, from time to time
  - Exit of some investors from a broad based fund will not result in immediate loss of Category II status of such fund. Such funds been provided a timeline of 90 day to regain the broad based status. In case of breach of broad based status beyond 90 day period, the fund would have to be re-categorised to Cat III
- **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. 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

## 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

The facility of granting conditional registration shall also be extended to existing funds, proposing to convert as India dedicated funds. However, existing India dedicated funds will be given time of 90 days to achieve broad based status

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

## 5.5. FPI Registration documentation and Fees requirement

### 5.5.1. Registration Documentation

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)
- KYC Documentation
- FATCA/CRS Declaration

Note: In the near future the Form A and Standard Declaration/ Undertaking would be replaced by Common Application Form (CAF) and Annexure A. The registration will be an online process linking FPI registration, PAN Application and KYC & Account opening (Bank & demat).

### 5.5.2. Registration Fee

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

The FPIs need to pay the applicable fees as above 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, FPIs being re-categorised from Category III to Category II, would be required to pay the full registration fee applicable for Category II (USD 3000) and not just the difference between Category III and II.

### 5.5.3. Registration process & timelines

In order to minimise delays and improve transparency in the processing of FPI applications, DDPs will issue acknowledgments to FPIs post the receipt of complete documentation & fees. DDPs may raise queries to the compliance officer of the applicant, as per details in the

- application, to resolve any queries arising at the time of processing the registration
- The DDP has 30 days from the receipt of completed documentation & fees and/or / information (on queries raised), to complete the registration of FPI
  - In the absence of a revert from the applicant, or non-receipt of complete documentation/ fees, subsequent to sending 2 communication/ reminders, DDPs may consider closing/ returning the application within a total span of 10 days

#### 5.5.4. Registration Duration and Renewal of registration

The FPI registration is valid for a block of 3 years from the date of initial registration. For continuance of the registration, FPI need to submit the renewal request letter and fees, to Designated Depository Participants (DDPs) at least 15 days prior to expiry of their current registration.

The renewal request letter to specify if there is any change to the information, as previously furnished, by the FPIs, at the time of registration or later. In case of no change to the information, DDPs may rely on the specific declaration from the FPI that there is no change in the information, as previously furnished. However, in case of any change in the information, the same need to be duly notified to the DDP.

### 5.6. 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. opening 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)

Sr. No	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) <ol style="list-style-type: none"> <li>Income from Business/ Profession</li> <li>Income from Capital Gain</li> <li>Income from Other Sources</li> </ol>
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 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

## 5.7. Other Applicable Norms

### 5.7.1. 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 of 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.

### 5.7.2. 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.

### 5.7.3. Change in Material Information

- Under the Regulations, if there is any change in material 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

### 5.7.4. Change in DDP

In case, the FPI or its Global Custodian (GC) wishes to change the local custodian/DDP, the request for such change can be

- Submitted by the FPI or its GC, provided the GC has been explicitly authorised to take such steps by the FPI entity
- Approved by the new/ transferee custodian/DDP on receipt of the no objection letter from the existing / transferor custodian/ DDP
- New/ transferee custodian / DDP may rely on the due diligence carried out by the existing / transferor custodian/ DDP
- The new / transferee custodian / DDP is required to carry out adequate due diligence at the time when the FPI applies for continuance of its registration on an ongoing basis

The new / transferee custodian / DDP to

- Intimate SEBI of such change of custodian / DDP
- Inform Compliance Officer of the concerned FPI regarding the change in their local custodian/ DDP where such request for change has been received from the GC

### 5.7.5. Multi Managed FPI entities

Where an entity engages multiple investment managers (MIM structure), such FPI entity is permitted to obtain multiple registrations with SEBI for each investment manager

- Such FPIs can now appoint different local custodians / DDPs for each registration
- Investments made under such multiple registrations will be clubbed for monitoring of investment limits
- Free of Cost Asset transfers between such Multi Managed FPI entities are permitted if they have the same PAN

### 5.7.6. Private Banks and Merchant Banks

- Private Banks and Merchant Banks seeking category II FPI as “appropriately regulated” by its banking regulator, are now permitted to undertake proprietary investments and also undertake investments on behalf of its investors
  - Private Banks undertaking proprietary investments need to take a separate registration
  - Private Banks undertaking investments on behalf of its investors can take a registration as a Collective Investment Vehicle, provided the private banks/ merchant banks submit a declaration stating:
    - Details of beneficial owners are available and will be provided as and when required by the regulators
    - The banks do not have any secrecy arrangement with the investors and all required legal/ regulatory arrangements have been put in place in order to ensure that any secrecy laws or confidentiality clauses do not impede disclosure of beneficial owner details as and when required by Indian regulators
- The Collective Investment Vehicle (CIV) of private banks/ merchant banks investing on behalf of clients need to ensure the following:
  - The client/ investor should have fulfilled Know Your Client (KYC) norms including identification of Beneficial Owner (BO) of client/investor as per the Prevention of Money Laundering (Maintenance of Records) Rules, 2005
  - The client/ investor or their BO should not be Resident Indian/ Non-Resident Indian (NRI)/ Overseas Citizen of India
  - The client/ investor 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 client/ investor should not have:
    - Opaque structure as defined under Eligibility criteria, or
    - Bearer share structure
    - The CIV of the Bank (other than for Offshore Derivative Instruments (ODIs)) should be broad based and there should be common portfolio for all clients/ investors

### 5.7.7. Insurance and Re-insurance companies

- Appropriately regulated broad based insurance/ reinsurance companies, investing proprietary funds and for unit linked/ investment products subject to following conditions
  - Investment in India by insurance/ reinsurance companies must be maintained as an undivided common portfolio
  - Segregated portfolio or investor/ policy-holder level investment structure is not permitted

### 5.7.8. Appropriately Regulated Asset Management Companies, Investment Managers/Advisers, Portfolio Managers, broker Dealers and Swap dealers

- Appropriately regulated persons permitted as Cat-II FPIs such as Asset Management Companies (AMCs), investment managers/ advisers, Portfolio managers, Broker-dealer and Swap-dealer, are permitted to invest:
  - Proprietary funds
  - Client funds by obtaining separate registration, as
    - An ODI issuing FPI, or
    - after fulfilling broad based condition and having a common portfolio
  - Asset management companies having thematic portfolios can have segregated structure if each theme is broad based

### 5.7.9. Surrender of Registration

Where a 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

### 5.7.10. 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

### 5.7.11. Addition of Share Class

In case of addition of new share class where:

- common portfolio is maintained across all classes of shares/fund/sub-fund, and broad based criteria is fulfilled at the portfolio / fund level after such addition of share class, prior approval from DDP is not required
- segregated portfolio is maintained:
  - FPI needs to separately fulfill the broad based criteria at each share class level
  - FPI is required to obtain prior approval from DDP for such addition of share class

- DDP to obtain declaration and undertaking with respect to PCC / MCV status for such addition of share class

In case of addition of more than one share class which are not broad based, an undertaking may be obtained by DDP that all the newly added share classes shall attain broad based status within 180 days from the date of approval issued by DDP

## 5.8. 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
- comply with fit and proper person criteria specified in SEBI (Intermediaries) Regulations, 2008
- 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

## 5.9. Code of Conduct

A 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
- A FPI shall, at all times, render high standards of service, exercise due diligence and independent professional judgment
- A FPI shall ensure and maintain confidentiality in respect of trades done on its own behalf and/or on behalf of its clients

- A 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
- A 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
- A 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
- A FPI shall ensure that good corporate policies and corporate governance are observed by it.
- A FPI shall ensure that it does not engage in fraudulent and manipulative transactions in the securities listed in any stock exchange in India
- A 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.
- A 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

## 5.10. Account Structure for Foreign Portfolio Investors:

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

## 6 Comparative Tables

### 6.1. Effects of Categorisation:

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

Sr. No.	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, beneficial owner identification	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 or subscribe to ODI  FPIs have been prohibited from issuing ODIs with derivative as underlying, except those derivative positions that are taken for hedging	Not permitted

Sr. No.	Details	Category I	Category II	Category III
			the equity shares held by it, on a one to one basis	
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 – Index Futures and Options	FPIs in Category I shall have position limits - higher of INR 5 bn or 15% of the total open interest in the market in the respective contracts	FPIs in Category II shall have position limits - higher of INR 5 bn or 15% of the total open interest in the market in the respective contracts	FPIs in Category III shall have position limits similar to the Client level position limit, applicable in the derivatives segment.
8	Equity derivatives – Individual securities (Single Stock)	FPIs in Category I shall have position limits – 20% of the applicable market wide position limit	FPIs in Category II shall have position limits – 20% of the applicable market wide position limit	FPIs in Category III shall have position limits similar to the Client level position limit, applicable in the derivatives segment.
9	Interest Rate Futures	FPIs in Category I shall have position limits -higher of I NR 6 bn or 10% of the total open interest in the respective maturity bucket	FPIs in Category II shall have position limits -higher of INR 6 bn or 10% of the total open interest In the respective maturity bucket	FPIs in Category III shall have position limits - higher of INR 6 bn or 10% of the total open interest in the respective maturity bucket
10	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 Government of India.

## 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	No
	Treasury Bills	✓*	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	✓*
	Overseas INR denominated Bond (Masala Bonds)	✓	No	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



Market Segment	Instrument type	FPI	FDI	FVCI
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
	Securities Lending & 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 – FPIs are not permitted to invest in Liquid and Money market mutual funds. Investments in debt mutual funds will be reckoned under the corporate bond limits

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

FPIs are not permitted to invest in partly paid instruments

# 7 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 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 FPI Registration and Account opening by all market intermediaries. 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
Entity Level	Constitutive Docs <sup>1</sup>	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
	PAN Card <sup>2</sup>	Required	Required	Required
	Financials	Exempt *	Exempt *	Required <sup>3</sup>
	SEBI Registration Certificate	Required	Required	Required
	Board Resolution <sup>4</sup>	Exempt*	Required	Required

Document Requirement	Documentation	FPI Category - I	FPI Category - II	FPI Category - III
	Bank letter for satisfactory banking relationship	Not required	Not required	Required
	FATCA / CRS form	Required	Required	Required
	KYC Form	Required	Required	Required
Senior Management (Whole Time Directors/ Partners/ Trustees etc.)	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/ details on letter head
	Photographs	Exempt	Exempt	Exempt*
Authorised Signatories	List & 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 <sup>5</sup>	Exempt*	Exempt*	Required
	Proof of Address	Exempt*	Exempt*	Declaration/ details on Letterhead required.
	Photographs	Exempt	Exempt	Required
Ultimate Beneficial Owner (UBO) <sup>6</sup>	List	Exempt*	Required – UBO to be identified • as per prescribed threshold. • on basis of beneficial ownership as well as on control basis Data points to be provided in specified format	Required - UBO to be identified • as per prescribed threshold. • on basis of beneficial ownership as well as on control basis Data points to be provided in specified format

Document Requirement	Documentation	FPI Category - I	FPI Category - II	FPI Category - III
	Proof Of Identity	Exempt*	Exempt*	Required
	Proof of Address	Exempt*	Exempt*	Declaration/ details on Letterhead required
	Photographs	Exempt	Exempt	Exempt*

Notes to the Table:

\* 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.

<sup>1</sup>Prospectus and information memorandum are acceptable in lieu of an official constitutional document

<sup>2</sup>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

<sup>3</sup> Financial Data required from Cat III FPI:

- Audited Annual financial statement, OR a certificate from auditor certifying networth
- In case of new funds/ companies/ family offices, the audited financial statement of promoter person can be provided

<sup>4</sup> 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.

<sup>5</sup> Persons eligible for Aadhaar (Aadhaar is a Unique Identification Number (UID), issued by the Unique Identification Authority of India (UIDAI)), are required to submit Aadhaar as proof of identity. Person not eligible for Aadhaar, have to submit PAN. Such persons eligible for Aadhaar also need to provide the consent declaration permitting the DDP/ Custodian to authenticate the Aadhaar.

<sup>6</sup> Identification and verification of Ultimate Beneficial Ownership

- Beneficial Owner (BO) is the natural person who ultimately owns or controls an FPI and should be identified in accordance with Rule 9 of the Prevention of Money-Laundering (Maintenance of Records) Rules, 2005 (hereinafter referred as PMLA Rules)
- BOs of FPIs should be identified on controlling ownership interest (also termed as ownership or entitlement) and control basis
- The materiality threshold for identification of BOs of FPIs on controlling ownership interest (or ownership/ entitlement) basis shall be same as prescribed in PMLA Rules:
  - 25% in case of company and
  - 15% in case of partnership firm, trust & unincorporated association of persons
- For FPIs coming from “high risk jurisdictions” a lower materiality threshold of 10% for identification of BO may be applied and also ensure KYC documentation as applicable for Category III (Cat III) FPIs
- The materiality threshold to identify the beneficial owner should be first applied at the level of FPI. Next look through principle to be applied to identify the beneficial owner of the intermediate shareholder/ owner entity
  - Only beneficial owner with holdings equal & above the materiality thresholds in the FPI need to be identified through the look through principle
  - If no material shareholder/owner entity is identified in the FPI using the materiality threshold, BO would be the senior managing official of the FPI
- BO should not be person mentioned in United Nations Security Council’s Sanctions List or from

- jurisdiction, which is identified in the public statement of Financial Action Task Force (FATF):
- 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 FATF to address the deficiencies.
- The BOs thus identified as per above norms, for category II and III FPIs, need to provide the details as per the specified format
- The list should be certified by FPI, specifying that there are no other BO, other than those referred to in the list

Format for providing Data points of UBO

Sl.	Name & Address of the Beneficial Owner (Natural Person)	Date of Birth	Tax Residency Jurisdiction	Nationality	Whether acting alone or together through one or more natural persons as group, with their name & address	BO Group's percentage Shareholding / Capital / Profit ownership in the FPIs	Tax Residency Number/ Social Security Number/ Passport Number of BO No. (Please provide any)
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1

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**NRIs / OCIs / Resident Indians (RIs) as constituents of FPI**

They are permitted till such time:

- Single NRI/OCI/RI contribution including those of NRI/OCI/RI controlled Investment Manager is below 25%
- Aggregate contribution is below 50% of the corpus of FPI

The above restriction is not applicable for FPIs investing only in mutual funds in India.

FPIs can be controlled by Investment Managers (IM) who are in turn controlled / owned by NRI OCI/RI provided:

- IM is appropriately regulated in its home jurisdiction and registers with SEBI as non-investing FPI, or
- IM is incorporated or set up under Indian laws and appropriately registered with SEBI

**Bearer Share Structures are not permitted**

- FPIs or the investors identified on basis of threshold for identification of BO in the FPI, in accordance with PMLA Rules, have not issued any bearer shares
- If the legal constitution of FPIs or their investors identified on basis of threshold for identification of BO in accordance with PMLA Rules and/or applicable home jurisdiction regulations permit issue of bearer shares, then FPIs should certify that:
  - They have not issued and do not maintain any outstanding bearer shares, and
  - They will not issue bearer shares

## KYC Registration Agency (KRA)

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. The KYC review (including change in BOs / their holdings) should be done based on risk categorization of FPIs

- In case of category III and Category II FPIs from High risk jurisdiction, KYC review should be done on yearly basis
- For all other clients, the KYC review should be conducted every 3 years preferably at the time of continuance of FPI registration
- In the event of non-submission of KYC documents, if any, no further purchase transactions shall be permitted to such clients

## 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

Document Type	Document	Corporate	Partnership firm	Trust
	PAN Card	Required	Required	Required
	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
	FATCA / CRS form	Required	Required	Required
	KYC Form – Form 11	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 & Signatures	Required	Required	Required
	Proof of Identity <sup>1</sup>	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
	Proof of Address	Required	Required	Required

<sup>1</sup>Persons eligible for Aadhaar, are required to submit submit Aadhaar as proof of identity. Person not eligible for Aadhaar, have to submit PAN (Aadhaar is a Unique Identification Number (UID), issued by the Unique Identification Authority of India (UIDAI). Such persons eligible for Aadhaar also need to provide the consent declaration permitting the DDP/Custodian to authenticate the Aadhaar

## 8 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 &amp; Treasury Bills<sup>1</sup></li> <li>— Corporate Bonds and Debentures (Listed and Unlisted<sup>2</sup>)</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—

- <sup>1</sup>Dated Government Securities with less than 1 year maturity and Treasury Bills are restricted to less than 20% of the total portfolio in Government Securities
- <sup>2</sup>FPI investments in Unlisted Corporate Bonds is subject to end use restriction

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

- Certificates of Deposit
- Commercial Papers
- Corporate bonds having residual maturity of less than 1 year
- Units of liquid mutual funds and money market mutual funds
- Overnight and term money markets
- Category III AIFs investing in commodities market



## 8.1. 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

### 8.1.1. Primary Market

The Primary market provides the issuer with a channel for sale of new securities to raise funds. Some of the key primary market venues are:

- **Initial Public Offers (IPO):** Initial Public Offer (IPO) is the first time offer of equity shares by the issuer company to the public. Such companies need to meet the listing criteria as specified by SEBI and Stock Exchanges. Some of the key features of the IPO are:
  - Follow either a book building process or fixed price process or a combination of both
  - 100% payment to be blocked through the ASBA\* route
  - FPIs are permitted to participate in the IPO through their custodian/broker and can apply as:
    - Cat I and Cat II FPIs can apply under the Qualified Institutional Buyer (QIB)
    - Cat III FPI can apply under the non-institutional category
  - Bids once submitted are not allowed to be withdrawn after the issue closing date
  - Revision of bids before bid closing date is permitted
    - In case of upward revision of bids, the incremental margin amount has to be paid and blocked under ASBA at the time of revised bid submission
    - In case of a downward revision, the excess margins already paid are refunded only at the time of allotment of shares
  - Time period for allotment and listing of public issues is 6 working days from the issue closure date
- **Follow on Public Offer (FPO):** Follow on Public Offer (FPO) is a follow-on offer of equity shares, to the public, by an existing listed company
  - Open to all investors, including FPIs who can subscribe to this through their custodian/broker
  - Withdrawal or downward revision of bids once submitted is not permitted
  - In case of upward revision of bids, the incremental margin amount has to be paid along with the revision
- **Qualified Institutional Placement (QIP):** 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 equity shares of same class as listed on stock exchange, by listed issuer or promoter / promoter group of issuer
  - The offer, allocation and allotment of such securities is made only to QIBs
  - The program can be made only after a special resolution is passed by the shareholders of the issuer
  - Issue is open for a minimum 1 day and maximum 2 days
  - 100% payment to be blocked through the ASBA\* route
  - Downward revision or withdrawal of bids not permitted
  - Category I and Category II FPIs can participate in the same through their custodian, while Category III FPIs cannot participate as they are not treated as Qualified Institutional Buyers (QIBs)
- **Offer for Sale (OFS):** Separate window provided by Exchange for facilitating sale of shares held by the promoters/promoter group entities of companies eligible for trading, in order to dilute/offload their holding in listed companies
  - 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% upfront margin, - Modification or cancellation permitted anytime during the trading hours of the offer period  
OR
  - Without payment of upfront margin - cannot be cancelled or modified by the investors or brokers. Upward revision in the price or quantity permitted
- \* 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

### 8.1.2. 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
- **Corporate 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
- **Government Securities -** Secondary market G-Sec deals are executed through the anonymous order matching platform i.e. Negotiated Dealing system-Order matching (NDS-OM) as well as in the OTC market. Deals executed in the OTC market needs to be reported and settled on the NDS-OM reporting module by the primary members on behalf of the client  
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 accountholders 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)
- **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

## 8.2. Overview of Restrictions

- Each FPI is allowed to open only one cash, securities and depository account with a single custodian (Multiple accounts are not allowed)
- Transfer of shares can only be made in dematerialised form
- Total FPI portfolio investment in equity shares of a company is capped at 24% of the total paid up capital, which can be raised upto sectoral limit
- All secondary market transactions in
  - Equity have to be executed through a registered stock broker on the floor of the exchange
  - corporate bonds can be purchased directly from counterparties (however category III FPIs have to execute the trades through a registered stock broker)
  - Government securities can be purchased directly from counterparties
- FPIs to maintain sufficient funds in their account to meet payment obligations to the exchanges

- or other counterparties on the scheduled early pay-in date/settlement date
- Derivatives trading by FPIs are subject to the position limits as specified
- 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
- Securities lending and borrowing transactions will be subject to limits
- 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 between FPIs are permitted only if they are registered as Multi Investment Manager Structure and have the same PAN

## 8.3. Equity

### 8.3.1. Foreign Ownership Limit

Investment by FPIs in the shares of companies listed on any stock exchange in India is subject to the following ownership limits:

- Each FPI (or FPIs belonging to the same investor group) holding in equity shares should always be below 10% of the post issue paid up capital on a fully diluted basis of a listed company. The 10% limits will be applicable across investments in the same listed company through
  - ADR/ GDR (post conversion to underlying equity shares)
  - FDI, FPI, FVCI
  - Participatory Notes/ODI
- 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 or upto the sectoral cap, subject to shareholder approval and 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 approval from the Banking regulator (RBI)
  - 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/hold upto 5% of the paid up equity share capital in a recognised stock exchange or clearing corporation. Any acquisition exceeding 2% of the paid up equity share capital of a recognised stock exchange or clearing corporation needs to be approved by the SEBI Board within 15 days of such acquisition
- 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
- The investment by foreign Government agencies shall be clubbed with the investment by the foreign Government/ its related entities for the purpose of calculation of 10% limit for FPI investments in a single company, if they form part of an investor group
- Such FPIs, set up as separate investment funds with distinct beneficial ownership constituted with objective suitable for respective states or provinces and have separate source of financing and no management, administrative or statutory commonality - The investment by foreign Government/ its related entities from provinces/ states of countries with federal structure shall not be clubbed if the said foreign entities have different BO identified in accordance with PMLA Rules, 2005
- Treatment of investment by World Bank group entities like IBRP, IDA, MIGA and IFC- Government of India, vide letter dated January 06, 2016 (Letter No. 10/06/2010/ECB) has

exempted clubbing of investment limits for these entities for the purpose of application of 10% limit for FPI investment in single company

### 8.3.2. Monitoring of investment limits

- The Depositories will monitor holdings of FPIs at an entity level as well as of the FPIs belong to the same investor group as per the approved limits. The investment limits of all such FPIs belonging to the same investor group shall be clubbed at the investment limit as applicable to a single FPI. The DDP shall report the details of investor group(s) to the depositories
- In case of FPIs applying through primary market, the Registrar and Transfer Agent (RTA) would have to validate, the details related to the investor group, with Depositories, before determining basis of allotment, to ensure that a single FPI or as part of investor group, does not breach the investment limit of 10%. In case of breach of the limit:
  - FPI can either divest their holdings in 5 trading days from date of settlement of trades, or
  - FPI has the option of converting such investment as investment under Foreign Direct Investment (FDI)

### 8.3.3. Limit Monitoring Mechanism implemented by Depositories

**Tracking of limit for single FPIs and investor group:** Transactions undertaken by FPIs, is reported to the regulator as well as to the depositories on a daily basis, by the custodians on T+1 basis. The depositories then track the investment limits of FPIs belonging to same investor group to ensure it remains below 10% of the post issue paid up capital of the investee company on a fully diluted basis, at any time

In cases of primary market allotment, the RTA would have to validate the details with Depository to ensure compliance with the limit

#### Tracking of aggregate Investment by FPIs

- The system is implemented by Depositories- NSDL and CDSL, and the details are hosted on the Depository websites, in addition to websites of BSE and NSE
- Custodians to report confirmed trades of their FPI clients to the depositories on a T+1 basis
- The monitoring of foreign investment limits is based on paid-up equity capital of the company, on fully diluted basis
- A red flag is activated whenever the foreign investment is within 3% or less than 3% of the aggregate FPI limits or sectoral cap
  - The depositories and exchanges would display the available investment headroom, in terms of available shares, for all companies for which the red flag has been activated
  - The data on the available investment headroom shall be updated on a daily end-of-day basis as long as the red flag is activated
- In case of a breach:
  - Exchanges would issue public notification on their website and halt further purchases by:
    - FPIs, if the aggregate FPI limit is breached
    - All foreign investors including FPIs and NRIs, if the sectoral cap is breached
      - The foreign investors should divest their excess holding within 5 trading days from the date of settlement of the trades, by selling shares only to domestic investors
    - A proportionate disinvestment methodology would be followed for disinvestment of the excess shares so as to bring the foreign investment in a company within permissible limits (refer an indicative calculation below)
    - In this method, depending on the limit being breached, the disinvestment of the breached quantity shall be uniformly spread across all foreign investors / FPIs / NRIs, who are net buyers in that particular security on the date of the breach.
    - The investors which are required to disinvest are identified and informed of the excess quantity that they are required to disinvest. In the case of FPIs which have been identified for disinvestment of excess holding, the depositories would issue the

necessary instructions to the custodians of these FPIs for disinvestment of the excess holding

- As the breach of investment limits would be detected at the end of T+1 day (based on custodial confirmation data) and the announcement pertaining to the breach would be made at the end of T+1 day (T being the Trade Date), the foreign investors who have purchased the shares during the trading hours on T+1 day would also be given a time period of 5 trading days from the date of settlement of such trades, to disinvest the holding accrued from the aforesaid purchase of shares
- If foreign shareholding in a company comes within permissible limit during the time period for disinvestment, on account of sale by other FPIs, the original FPIs (which have been advised to disinvest) would still have to disinvest within the disinvestment time period. This would be irrespective of fresh availability of an investment headroom during the disinvestment time period.
- There would be no annulment of the trades which have been executed on the trading platform of the stock exchanges and which are in breach of the sectoral/FPI/NRI limit
- Failure to disinvest within the disinvestment period would attract necessary action from SEBI

Calculation of shares to be divested in case of breach

Available limit – 600 shares

Purchase orders by Foreign Investors (FPI and/or NRI as the case maybe\*) executed on day of breach- 1000 shares

Excess shares, to be divested in 5 working days- 400 shares (i.e. 40% of the purchases executed on day of breach)

Each purchaser (Foreign Investor belonging to category of the breach) on day of breach will divest 40% of the shares purchased on day of breach

\* FPI in case breach is of limit available to FPIs, NRIs in case of limit available for NRI, and both, where combined or sectoral limit is breached

Time	Investor	Shares Purchased	Cumulative purchase	To be divested	Shares retained
1000 hrs	A	100	100	40	60
1100 hrs	B	150	250	60	90
1200 hrs	C	250	500	100	150
1300 hrs	D	180	680	72	108
1400 hrs	E	80	760	32	48
1430 hrs	F	240	1000	96	144
Total		1000		400	600

## 8.4. Debt Investments

Foreign Portfolio Investors (FPIs) are permitted to invest in Debt (Government Securities, State Development Loans, Corporate Debt and Interest Rate Derivatives) under Foreign Exchange Management Act (FEMA) and Foreign Portfolio Investor (FPI) regulations. The investment in G-Sec and SDL is governed by specified investments limits and conditions as notified from time to time by Reserve Bank of India (RBI) and Securities and Exchange Board of India (SEBI).

RBI, reviewed the Debt investment framework, applicable for FPIs and provided revised norms applicable for both Government Securities and Corporate Debt. Broad overview of the overall limits are as provided below:

- Central Government Securities (G-Secs): The limit for FPI investment in G-Secs would be increased by 0.5% each year to 5.5% of outstanding stock of securities in 2018-19 and 6% of outstanding stock of securities in 2019-20
- State Development Loans: There is no change to limit for this category of Debt
- Corporate Debt: An overall single limit for corporate bonds applicable for all types of bonds. This limit has now been fixed at 9% of outstanding stock of corporate bonds
- Interest Rate Futures: A separate limit of INR 50 billion has been introduced, for undertaking long position in Interest Rate Futures

The overall limits for investment by FPIs in Government securities and corporate bond for Half Year October 2018 –March 2019 is as given below:

Security Category	Investor Category	Revised Limits (INR Billion)
Central Government Securities	All Categories	2233*
	Long Term FPIs	923
State Development Loans	All Categories	381
	Long Term FPIs	71
Corporate Debt	All Categories	2891
Interest Rate Futures	All Categories	50

\* Includes INR 47.6 billion one-time addition to limit to provide for inclusion of coupon investment amount in utilisation

CCIL monitors utilisation of G-sec and SDL limits at <https://www.ccilindia.com/FPIHome.aspx>

The depositories, NSDL and CDSL monitor the utilisation of Corporate Bond limits at <https://www.fpi.nsdl.co.in/web/Reports/ReportDetail.aspx?RepID=1>

<https://www.cdslindia.com/publications/FIIs.aspx>

### 8.4.1. Government Debt

FPIs are permitted to invest in Government Securities and State Developments under the specified conditions and the applicable limits. The conditions and the limits are detailed below:

- Investment by any FPI (including investments by related FPIs) are subject to the Concentration limits as prescribed by RBI & SEBI from time to time (Refer 8.4.1.1 below for details)
- FPI investment in any Government Security is no longer subject to the requirement of minimum residual maturity and are permitted to invest in short term investments with below conditions:
  - Short term investments means investments in less than 1 year residual maturity securities
  - FPIs should ensure that holding in Government Securities and State Development Loans, in short term maturity investments (residual maturity of less than 1 year), does not exceed 20% of the FPIs total investment in that specified category (G-sec or SDL)
  - The 20% limit will be reckoned on end of day basis. At the end of any day, all investments with residual maturity of up to one year will be reckoned for the 20% limit
  - If short term investments consist entirely of investments made on or before April 27, 2018, the short term investments can exceed 20% limit
- The aggregate foreign ownership limit in each central government debt security is 30% of the outstanding stock of that security

- Coupon reinvestment by FPIs in G-secs, which was previously outside the investment limit, is now reckoned within the G-sec limits. At the time of periodic re-setting of limits, coupon investments would be added to the amount of utilisation
- FPIs will not be permitted to invest in partly paid instruments
- RBI has introduced a separate limit of INR 50 billion for undertaking long position in Interest Rate Futures. The limits prescribed for investment by FPIs in government securities would be exclusively available for acquiring government securities
- The monitoring of limit utilisation and security-wise limits in G-secs and SDL will be done by CCIL on Real Time basis, on the Negotiated Dealing System - Order Matching (NDS-OM). Consequently, auction of limits in G-sec and SDL has been discontinued

#### 8.4.1.1. Concentration limit

- Investment by any FPI (including investments by related FPIs), in each investment category (G-Sec, SDL, Corporate Bond) shall be subject to the following concentration limits:
  - 15% of prevailing investment limit for that category for Long Term FPIs
  - 10% of prevailing investment limit for that category for Other FPIs
- In case FPI has investments in excess of the concentration limit on the effective date (2nd May 2018 - date on which the concentration limits came into existence), it will be allowed following relaxations, subject to availability of overall category limits, as a one-time measure:
  - FPI, with investments exceeding the concentration limits, can undertake additional investments such that its portfolio size at any point in time does not exceed the current investment plus 2.5% of investment limit for the category on the effective date
  - FPI, with investments within the concentration limit, but in excess of 7.5% (or 12.5% in case of Long Term FPIs), can undertake additional investments such that its portfolio size at any point in time does not exceed the current investment plus 2.5% of investment limit for the category on the effective date
  - All other FPIs will be allowed to invest up to the applicable concentration limit.

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

The aggregate foreign ownership limit in each central government debt security is 30% of the outstanding stock of that security. The security in which aggregate FPI investment has reached 30% of amount outstanding would be placed in negative list and no additional purchases of the security are permitted until the total foreign ownership in that issue falls below 30%

Limit monitoring for 30% limit on individual securities is done through NDS-OM system on real time basis. As a result, any reporting of purchase transactions in the specified Government securities on NDS-OM, in which the aggregate FPI investment reaches 30% of the amount outstanding, will be restricted by NDS-OM system. Hence, for securities which are very close to the 30% limit, it will be 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 by other FPIs on NDS-OM. It is advisable for clients to send the deal instructions as soon as the deal is executed

These limits are reported on the CCIL website, under the sub-heading "Security wise Holding" and "Negative Investment List" under the tab – "FPI Debt (G-Sec) Utilisation Status"

<https://www.ccilindia.com/FPIHome.aspx>

### 8.4.1.3. Re-investment in Government Securities

- FPIs are permitted to re-invest in additional G-Sec or SDL to the extent of the limit released, as a result of Sale / Maturity of their existing investment and also on the coupon earned on the investment
- All the other existing conditions for investments by FPIs in Government Securities will remain unchanged for this additional facility as well
- Sale / Maturity of the Existing investment:
  - 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 2 working days
- Coupon Re-investment:
  - FPIs have been permitted to reinvest the coupons earned on their existing investments in Government Securities, even when the limits are fully utilised
  - These investments by FPIs in Government Securities has been kept outside the applicable limits till the next reset of limits, when it shall be reckoned with in the utilised limit
  - FPIs will have an investment period of 2 working days from the date of receipt of the coupon

### 8.4.1.4. 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

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

FPIs are permitted to invest in corporate bonds under specified conditions and the applicable limits. The conditions and the limits are detailed below:

- The overall limit for FPI investment in corporate bonds, at 9% of outstanding stock of corporate bonds
- All investments in INR denominated bonds/debentures issued onshore by Indian Corporates, Security Receipts, Credit Enhanced Bonds, Debt oriented Mutual Funds will be reckoned under the Corporate Debt Limit
- FPIs are permitted to invest in Corporate Bonds freely until the overall limit utilisation reaches 95%. Post this threshold, auction would be conducted for the Corporate Bond limit (Refer 8.4.2.7)
- Investment by any FPI (including investments by related FPIs) are subject to the Concentration limits as prescribed by RBI & SEBI from time to time (Refer 8.4.1.1 for details)
- FPIs are governed by the various exposure norms like subscription/purchase of a single issuance, single corporate including related entities (Refer 8.4.2.2 below for details)
- FPIs are permitted to invest in Corporate Bonds with a residual maturity of above 1 year
- FPI holding of short-term investments in corporate bonds is governed by:
  - Short term investments means investments in less than 1 year residual maturity securities
  - FPIs should ensure that holding in Corporate Bonds, in short term maturity investments (residual maturity of less than 1 year), does not exceed 20% of the FPIs total investment in that specified category (Corporate Debt)



- The 20% limit will be reckoned on end of day basis. At the end of any day, all investments with residual maturity of up to one year will be reckoned for the 20% limit
- If short term investments consist entirely of investments made on or before April 27, 2018, the short term investments can exceed 20% limit
- These stipulations would not apply to investments in SRs by FPIs
- FPI investment limits (overall basis) and at Investor group levels are tracked by the Depositories (NSDL / CDSL) based on the trades reported by the custodian at an end of day basis
- FPI investment limit status are published on the websites of NSDL and CDSL  
<https://www.fpi.nsd1.co.in/web/Reports/ReportDetail.aspx?RepID=1>  
<https://www.cdslindia.com/publications/FIIs.aspx>

#### 8.4.2.1. Exposure Norms

- Investment by any FPI, including investments by related FPIs, shall not exceed 50% of any issue of a corporate bond
    - In case an FPI, including related FPIs, has invested in more than 50% of any single issue, it shall not make further investments in that issue until this stipulation is met
    - Single issue is considered at an ISIN of the corporate bond
  - No FPI shall have an exposure of more than 20% of its corporate bond portfolio, to a single corporate or entities related to the corporate
    - In case an FPI has exposure in excess of 20% to any corporate, as on April 27, 2018, it shall not make further investments in that corporate until this stipulation is met
    - New investment (made after April 27, 2018), other than investments mentioned above, would be exempted from this requirement till March 31, 2019. These investment will, however, have to comply with this requirement thereafter
    - Newly registered FPIs (registered after April 27, 2018) shall be required to adhere to this stipulation by March 31, 2019 or within 6 months from the date of registration, whichever is later
- These provisions would not apply to
- Investments by Multilateral Financial Institutions
  - FPI investments in Security Receipts
  - Pipeline investments

#### Pipeline Investment

Investment transactions by FPIs in corporate bonds that were under process but had not materialized as on April 27, 2018 are pipeline investments (The revised debt framework was released by RBI as of April 27th 2018). The exemption is subject to the Custodian of the FPI to reasonably assess based on following conditions and satisfying itself that:

- Major parameters such as price/rate, tenor and amount of investment have been agreed upon between the FPI and the issuer on or before April 27, 2018
- Actual Investment will commence by December 31, 2018
- Investment is conformity with extant regulations governing FPI investment in corporate bonds prior to April 27, 2018

#### 8.4.2.2. 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, in 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 1 year 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

#### 8.4.2.3. 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 above 1 year
- 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.

#### 8.4.2.4. 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 1-year residual maturity requirement

#### 8.4.2.5. 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.

##### Use of EBP

**Mandatory:** All private placement of Debt Securities and Non-Convertible Redeemable Preference Shares (NCRPS) as per the provisions of SEBI (Issue and Listing of Debt Securities) (ILDS) Regulations, 2008 and SEBI (NCRPS) Regulations, 2013, respectively, shall be required to be made through EBP Platform if it is:

- A single issue, inclusive of green shoe option, if any, of INR 2 billion or more;
- A shelf issue, consisting of multiple tranches, which cumulatively amounts to INR 2 billion or more, in a financial year;
- A subsequent issue, where aggregate of all previous issues by an issuer in a financial year equals or exceeds INR 2 billion

**Optional:** An issuer, irrespective of issue size, if desires, may choose to access EBP platform for private placement of:

- Debt securities as per provisions of SEBI (Issue and Listing of Debt Securities by Municipalities) (ILDM) Regulations, 2015
- Commercial Paper; and
- Certificate of Deposits

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

#### 8.4.2.6. 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 honor 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.

#### 8.4.2.7. Auction Mechanism for Corporate Debt Limit

Although the auction mechanism has been done away for G-Sec, it still continues 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

## Summarised Auction Mechanism for obtaining Limits in Corporate Debt

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

### 8.4.2.8. Security Receipts issued by Securitisation Companies

Foreign Portfolio Investors (FPIs) and long term FPIs (Sovereign Wealth Funds, Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks) are permitted to invest in Security receipts issued by Asset Reconstruction Companies.

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

Masala Bonds are INR denominated bonds issued offshore. 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.

The framework for issuance of Rupee denominated bonds overseas under External Commercial Borrowing (ECBs) 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 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 per cent 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

## 8.5. REITs, Invlts 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

Refer to Chapter 13 for details related to this category of investments.

## 8.6. 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 & 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 futures and options	Stock options & futures
FPI Level (Cat I & II)	<p>The HIGHER of:</p> <p>(a) 15% of the Open Interest of all derivative contracts on a particular underlying index</p> <p>(b) OR INR 5 bn</p> <p>II. In addition to the above:</p> <p>(a) The FPI can have LONG positions to the extent of its underlying holding of cash and near-cash securities like cash, government securities, T-Bills, money market mutual funds and gilt funds and similar instruments</p>	The FPI / MF can have SHORT positions to the extent of its underlying holding of stocks

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 [https://www.nseindia.com/products/content/derivatives/equities/position\\_limits.htm](https://www.nseindia.com/products/content/derivatives/equities/position_limits.htm)

### 8.6.1. Interest Rate Futures (IRFs) and Interest Rate Options (IROs)

FPIs can also invest in Exchange traded cash settled Interest Rate Futures. A separate limit of INR 50bn has been allocated for FPIs investing in IRFs. The IRFs in which the FPI can invest are:

- 91 day Treasury Bills
- 6 year Government of India security
- 10 year Government of India security
- 13 year Government of India security

The separate limit of INR 50 billion for IRFs will be calculated as follows:

- For each IRF instrument, position of FPIs with a net long position will be aggregated. FPIs with a net short position in the instrument will not be reckoned
- No FPI can acquire net long position in excess of INR 18 billion at any point of time

### Monitoring Mechanism

- Aggregate limits of all FPIs taken together at the end of the day will be published on a daily basis by the stock exchanges on their website
- Once 90% of the limit is utilised, stock exchanges shall put in place necessary mechanism to get alerts and publish on their websites the available limit, on a daily basis
- In case of breach of the threshold limit, the FPI whose investment caused the breach will have to square off their excess position within 5 trading days or by expiry of contract, whichever is earlier

## 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.

### 8.6.2. Currency Derivatives

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

## 8.7. 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

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
- AIs act as counterparty to every trade
- Contracts ranging from 1 day to 12 months
- 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, stock splits and AGM/EGM, foreclosure is executed by clearing house. In case of AGM/EGM, SLB product provides options to execute contracts with foreclosure or without foreclosure
- 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:

- The total duration of the contract after taking into account rollovers shall not exceed 12 months from the date of the original contract
- 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

## Treatment of Corporate Actions during the contract tenure

- Corporate actions such as bonus / merger/ amalgamation / open offer, etc: The contracts would be foreclosed on the Ex-date
- Annual General Meeting (AGM) / Extra-ordinary General Meeting (EGM): The AIs shall provide the following option to the market participants:
  - Contracts which shall continue to be mandatorily foreclosed
  - Contracts which shall not be foreclosed in the event of AGM / EGM

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

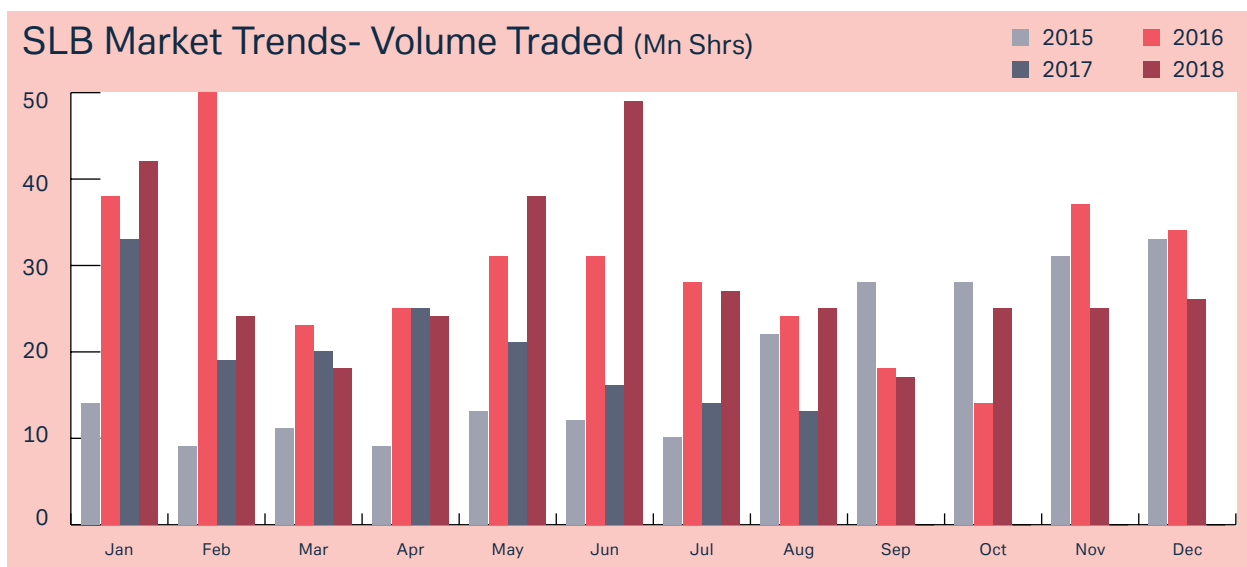
Deutsche Bank Securities Services (custody team) is a registered participant with NSCCL and ICCL which allow us to offer execution services in the SLB segment. Our lend product offering in SLB segment is called "SLB Plus" where we offer "spot the opportunity and execution" services for our clients in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

## Position Limit

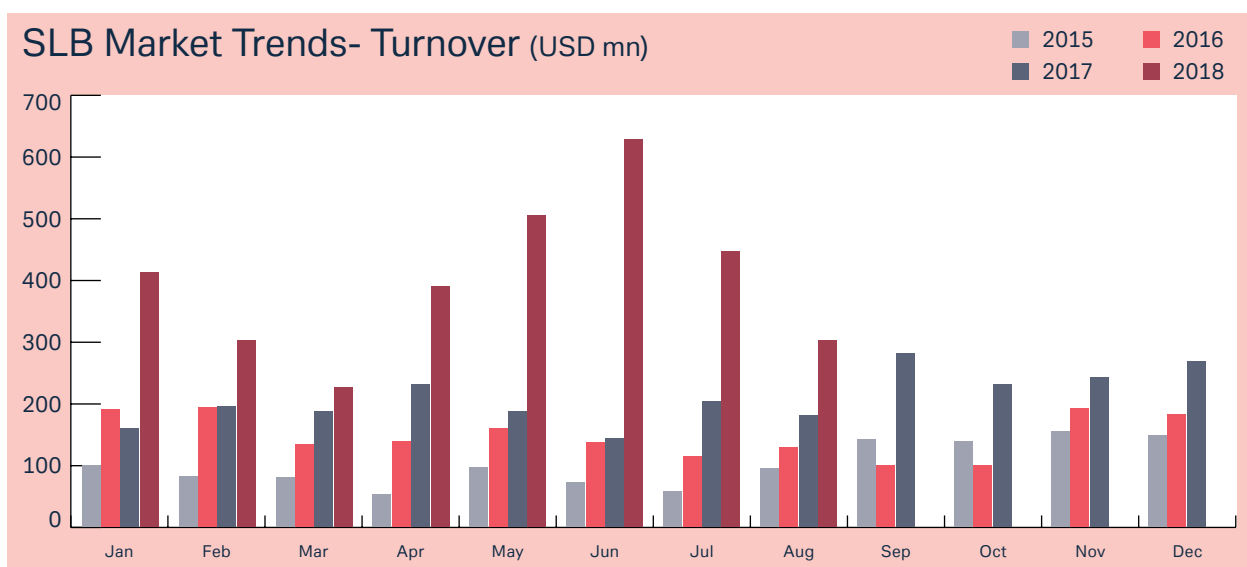
The following position limits will be applicable to SLB transactions

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	To be computed by the clearing member/ participant
FPIs	Open position restricted to 10% of the market-wide position limits	This limit is applicable at the FPI level

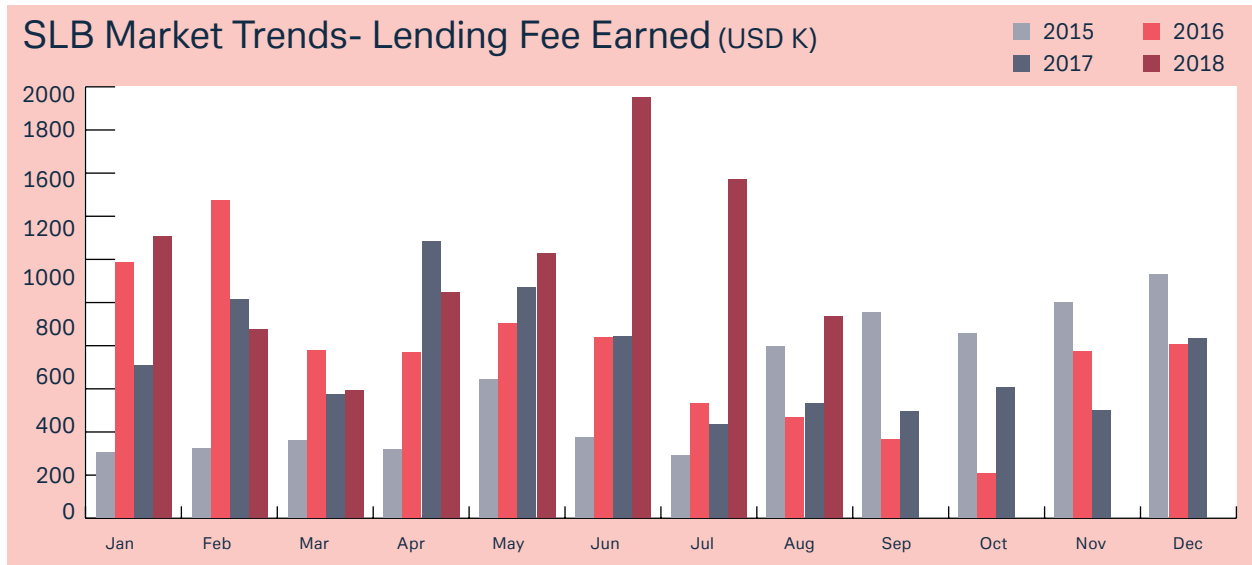
Below are some key statistics with respect to trading volumes, yields, lending fees earned by investors etc. for the SLB market in India.



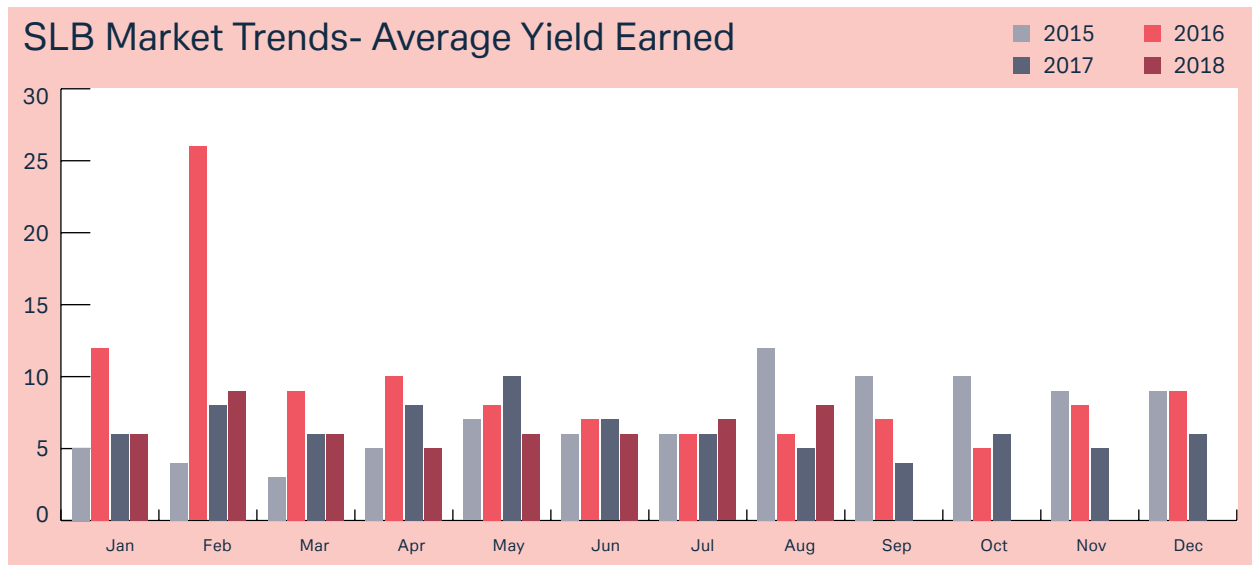
Source - NSE



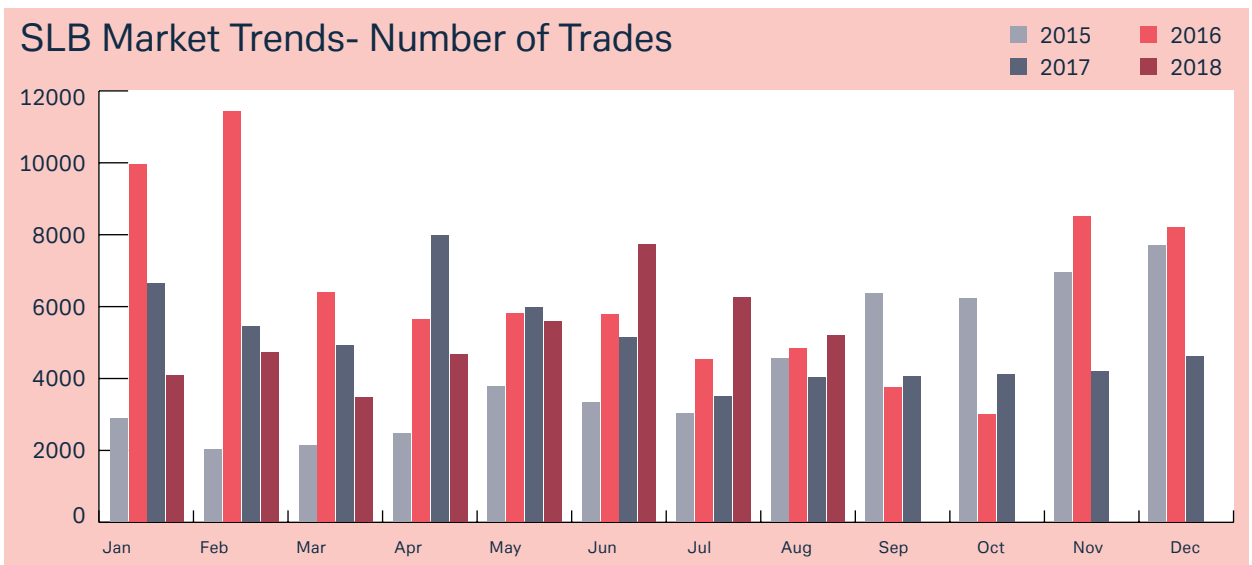
Source - NSE



Source - NSE



Source - NSE



Source - NSE

## 8.8. Reporting requirements

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

Report	Reporting to	Frequency	Responsibility	Remarks
<b>FPIs:</b>				
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 (Corporate Bonds)	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	RBI	Daily, weekly and monthly	AD Category I Bank	

Report	Reporting to	Frequency	Responsibility	Remarks
details				
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	
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</li> </ul>	SEBI	Monthly	FPIs issuing the ODIs	

Report	Reporting to	Frequency	Responsibility	Remarks
complete transfer trails of ODIs — Summary Report (As per the prescribed format)				
— 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	

### Substantial acquisition of shares of voting rights

- 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

# 9 | Offshore Derivative Instruments – ODIs

Offshore Derivative Instrument/ Participatory Notes (P-Notes) is issued overseas by a SEBI registered Category I or Category II Foreign Portfolio Investor (FPI), 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 as Category II FPI, 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. The criteria has been aligned in line with Regulation 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 (Appendix A Signatories) or a signatory to bilateral Memorandum of Understanding (MoU) with SEBI
- 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
- Issuance of ODIs shall be made only to the eligible subscribers subject to the compliance with the SEBI (Foreign Portfolio Investors) Regulations, 2014 and other applicable norms,/ circulars as may be amended from time to time
- 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



- Provided that the ODI subscriber satisfying the following criteria shall not be treated as having opaque structure:
  - The applicant is regulated in its home jurisdiction
  - Each fund or sub fund in the applicant satisfies broad based criteria, and
  - The applicant gives an undertaking to provide information regarding its beneficial owners as and when SEBI seeks this information
- Clubbing of investment limits for 'ODIs'
  - 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:
  - A entity holding position as a FPI as well as ODI subscriber, such investments 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 requirements for issuing ODIs

## 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 endeavor 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
- 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 is defined as:

- Beneficial Owners (BOs) are the natural persons who ultimately own or control an FPI and should be identified in accordance with Rule 9 of the Prevention of Money - laundering (Maintenance of Records) Rules, 2005
- 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 fifteen per cent. of capital or profits of the partnership. BOs of FPIs having General Partner/Limited Partnership structure shall be identified on ownership or entitlement basis and control basis
- 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 fifteen per cent. 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; and
- 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 fifteen per cent. 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

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](mailto: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

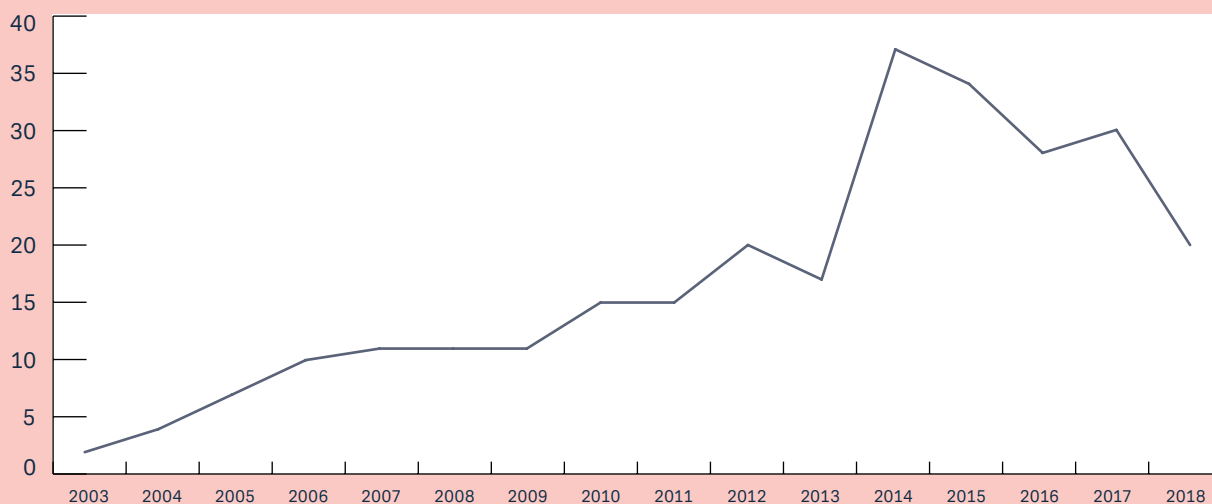
SEBI has issued the following clarification regarding grandfathering of ODIs Issuers and Subscribers, effective from August 1, 2016

- 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 shrinking over the years. From a high of 55.7% in June 2007, the investments through ODI fell to 10% of the total FPI flows as of March 2016. This has come down further and as of August 2018, stands at 3% of the total FPI inflows.

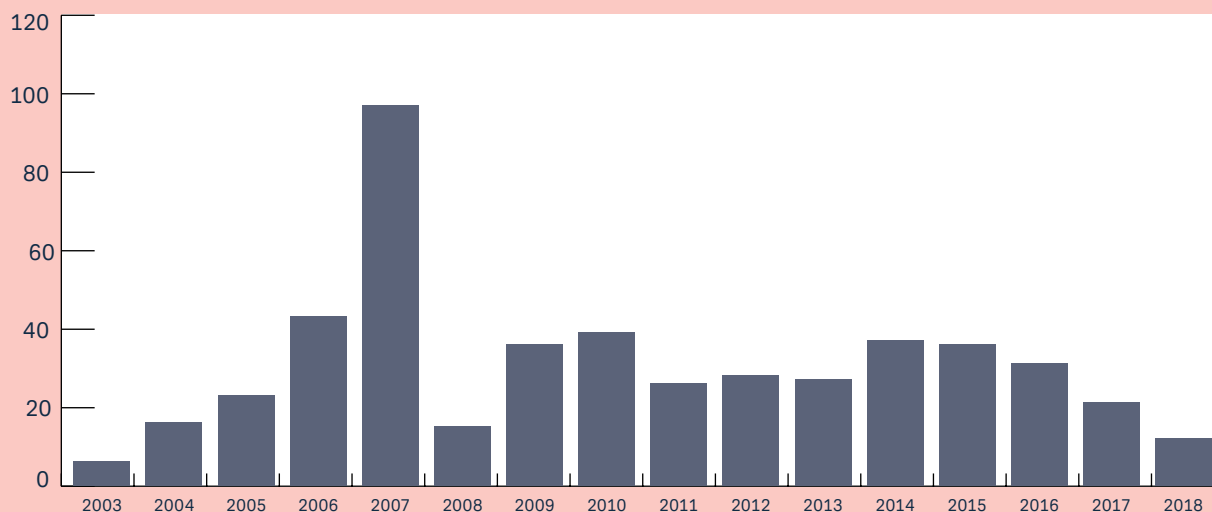
### ODI as percent of FPI



(Source: SEBI) Data as of August 2018

### Total notional value of ODIs

(in USD bn)



(Source: SEBI) Data as of August 2018

# Banking and Currency Hedging Guidelines

## 10.1. Permissible banking facilities

The Foreign Exchange Management Act allows a FPI to open a single special non-resident rupee account and foreign currency denominated account in permitted currencies with the designated 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:

- Open a single special non-resident rupee (SNRR) account with designated 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 market rates of exchange
- Transfer funds from the rupee account to the foreign currency account(s) at 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 forward 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:

- (i) To hedge currency risk on the market value of entire investment in equity and/ or debt in India as on a particular date
- (ii) To hedge the coupon receipts arising out of investments in debt securities falling due during the following twelve months

- (iii) 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 3rd party Authorised Dealer (AD) Category – I banks and Standalone primary dealers 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 upto 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 Special Non-Resident Rupee account maintained with the designated AD bank through the normal 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 (IPO) 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, without having to establish underlying exposure, up to a single limit of USD 100 million, across all currency pairs involving INR, put together and combined across all exchanges
- Exchanges have been permitted to prescribe position limits for the contracts in currencies other than USD such that these limits are within the equivalent of USD 5 million
- 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
  - An FPI cannot take a short position beyond USD 100 million across all currency pairs involving INR, all put together at any point of time and combined across exchanges. In case an FPI breaches the short position limit, stock exchanges would restrict the FPI from increasing its existing short positions or creating new short positions in the currency pair, till such time the FPI complies with the requirements
- 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

Currency Pair	Position limits
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 exchanges have introduced trading in cross currency futures and options contract.
- 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 & 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 10 million, whichever is higher
USD-JPY	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 10 million, whichever is higher.



## Methodology for calculating USD 10 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 FPI

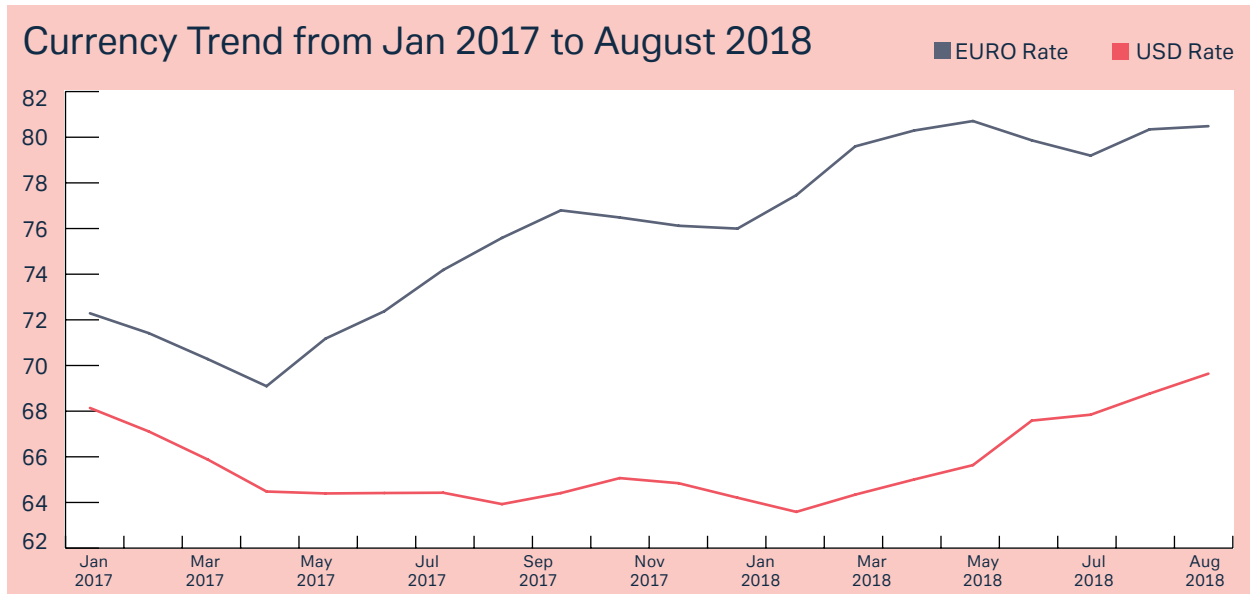
- FPI is responsible to ensure that for any contracts in excess of the limits booked, it is supported by an equivalent underlying exposure in equity/debt security
- If the total value of the contracts exceeds the market value of the holdings on any day, the concerned FPI shall be liable for penal actions 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 position

- 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

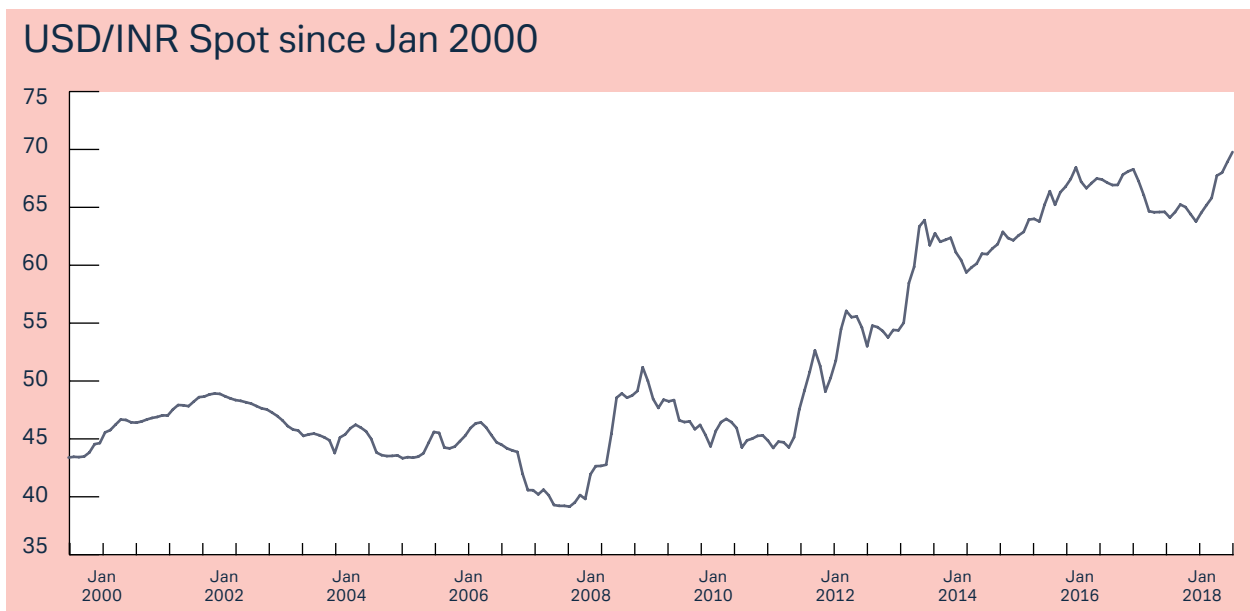
## 10.7. Currency Trend

The chart below reflects the currency movement during the period Jan 2017 to August 2018 (USD/ INR & EUR/ INR)



Source: RBI

The graph below reflects the currency trend since January 2000.



Source: RBI

# Clearing & 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 & 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 & Settlement

Stock Exchanges like National Stock Exchange (NSE), Bombay Stock Exchange (BSE) & Metropolitan Stock Exchange (MSE) provides a trading platform to its trading members; NSE Clearing Limited (NCL), 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:

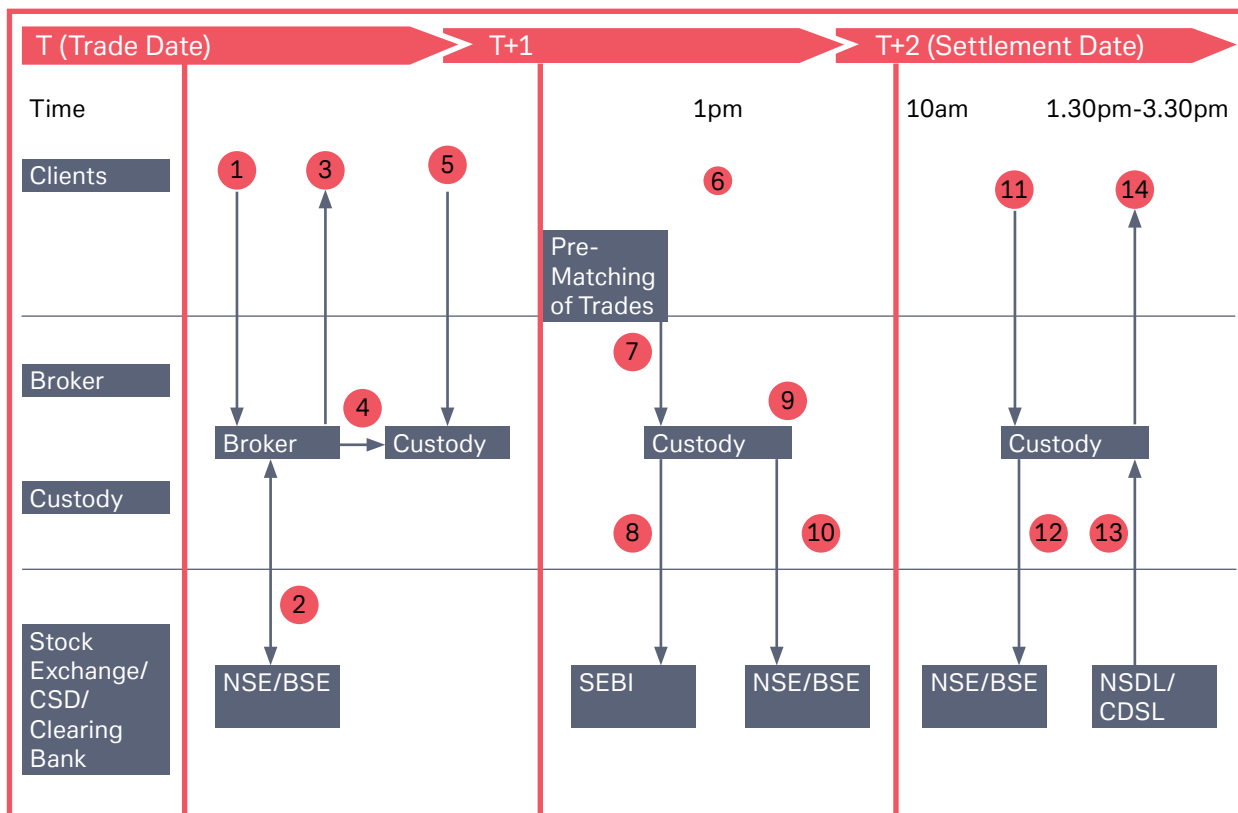
- Trade recording
- Trade confirmation
- Determination of obligation
- Pay-in of funds & securities
- Pay-out of funds & securities
- Risk management

## 11.2. Equities

The equity stock market in India transitioned to T+2 rolling settlements effective from April 2003. The market will move to 100% settlement of shares by book transfer and eliminate physical shares, effective December 2018. Only in case of transmission or transposition of shares, where transfers of physical shares is permitted. Clearing participants in the settlement of an equity transaction along with Intermediaries perform the following functions:

- **Clearing Corporations** like the National Securities Clearing Corporation Ltd. (NSCCL)/ Indian Clearing Corporation Limited (ICCL)/ Metropolitan Clearing Corporation of India Ltd. (MCCIL) are responsible for post trade activities of the stock exchange; Clearing and settlement of trades and risk management are its core central functions
- **Trading members:** execute trades on the stock exchange and has the primary responsibility of settlement of trades. They have the option to give up the trades to custodian clearing members for settlement
- **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 settle trades assigned to them by trading members
- **Clearing Banks:** act as a link between the Clearing Members & the Clearing Corporations for funds settlement
- **Depositories:** The Depositories (NSDL and CDSL) help in 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.)

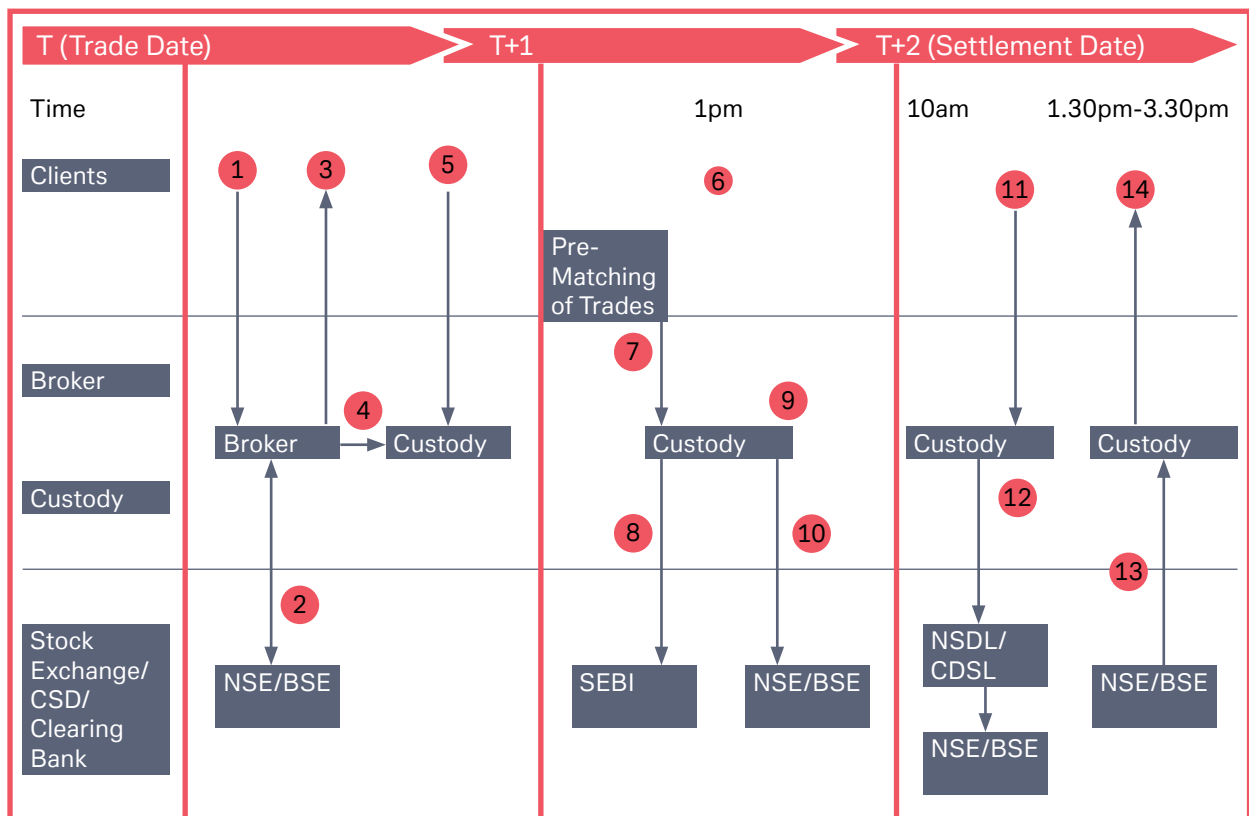
### Settlement Flow - Equity Purchase Trade



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 1pm, 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, 10am
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 am
12. Pay-in of securities by 10 am 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.

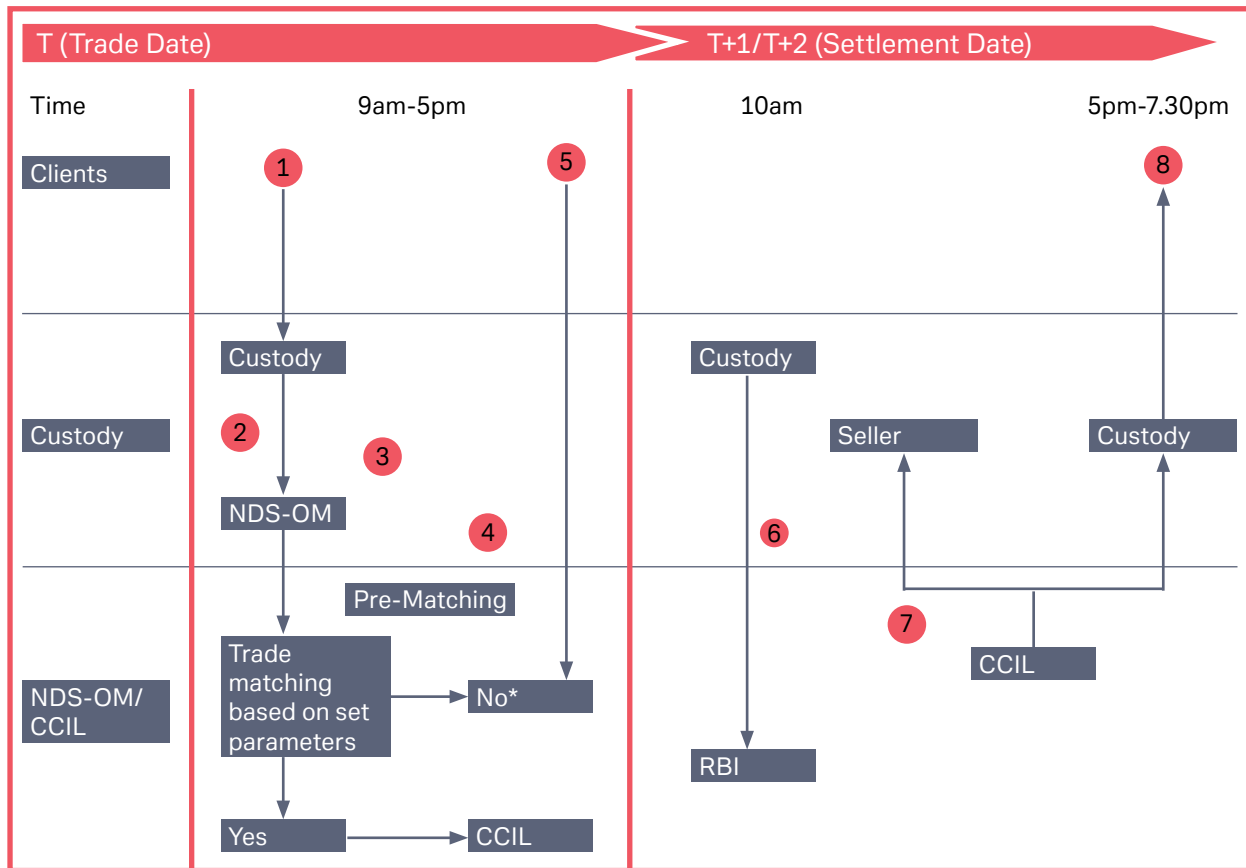
### RBI as depository

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 (predominantly Banks, Primary Dealers and large financial institutions) who can maintain their securities in SGL accounts held 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 who are 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) in their books.

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. Over the Counter (OTC) transactions in Government Securities (G-Secs) by Foreign Portfolio Investors (FPIs) can be settled on either T+1 or T+2 basis as mutually agreed between the counterparties. However, all such transactions should be reported on NDS-OM reporting platform on Trade Date itself. All the other conditions with respect to settlement shall continue to apply for transactions settled on T + 2 basis. Transactions executed through the NDS-OM web based platform by FPIs will settle on T+1 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



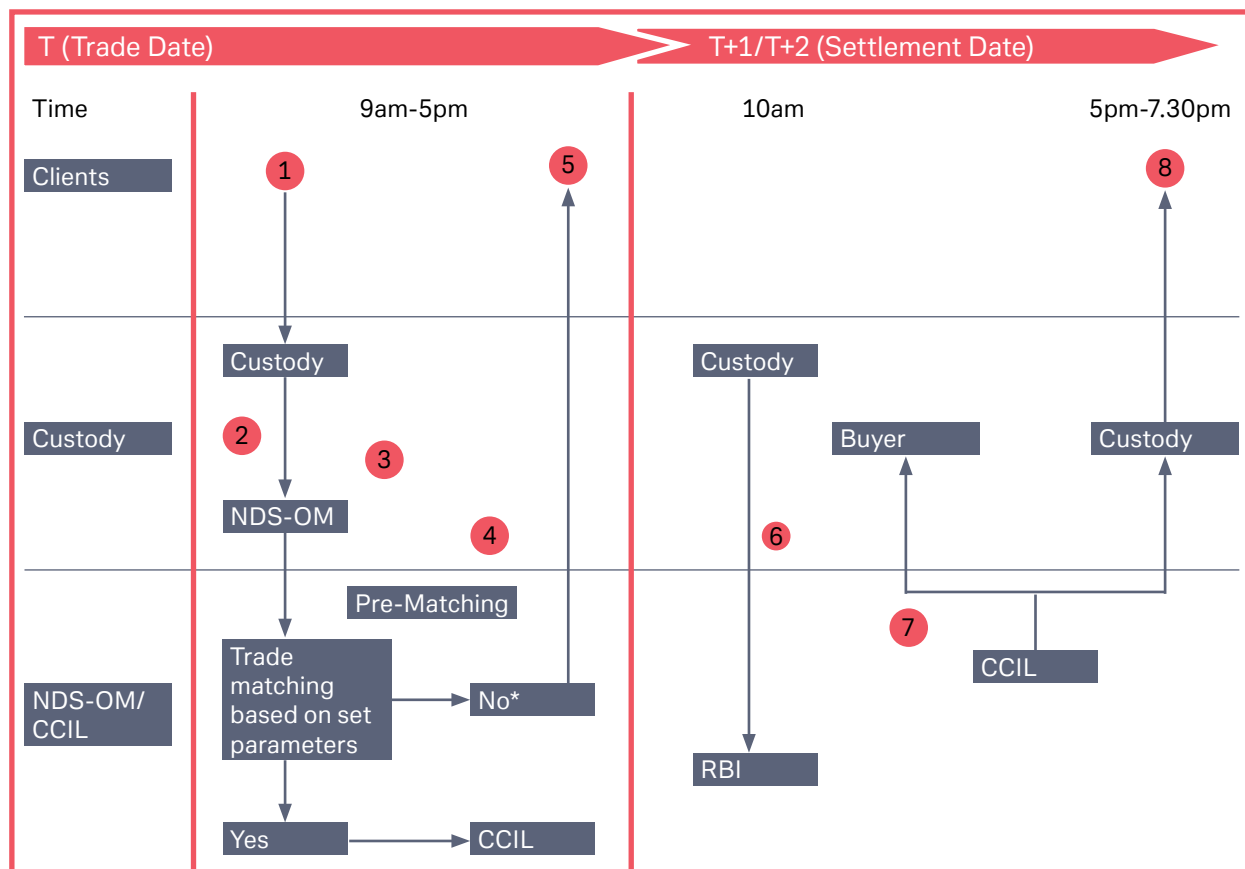
**Legend:**

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 to be completed by T date before 5pm
  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 10am on settlement date (T+1 or T+2)
  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 5pm
  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

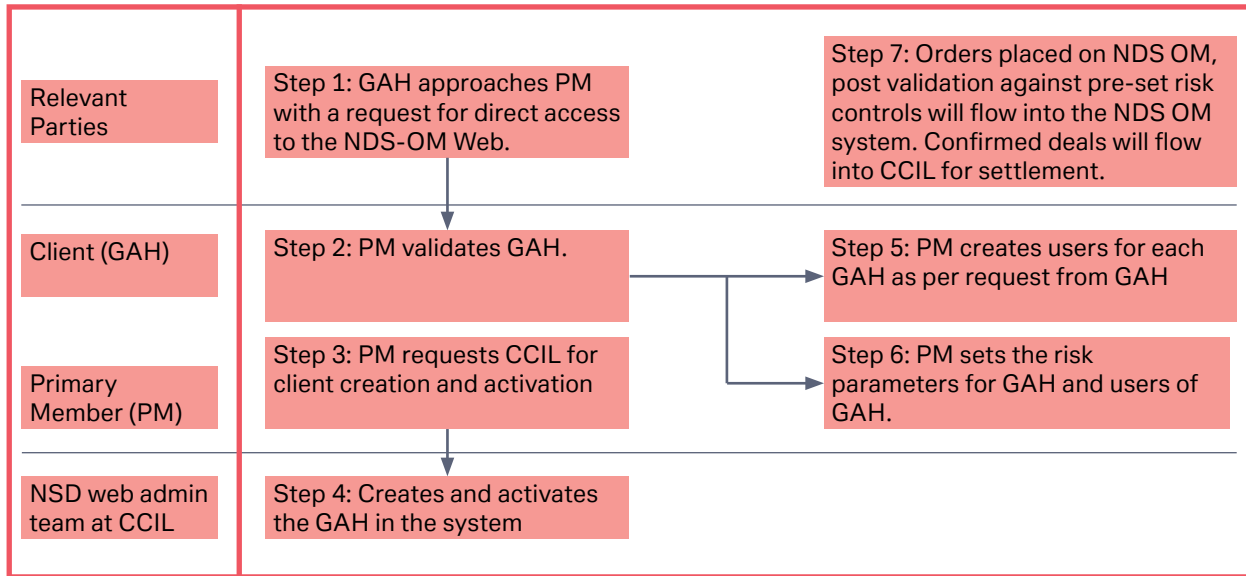
### NDS-OM web module

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:



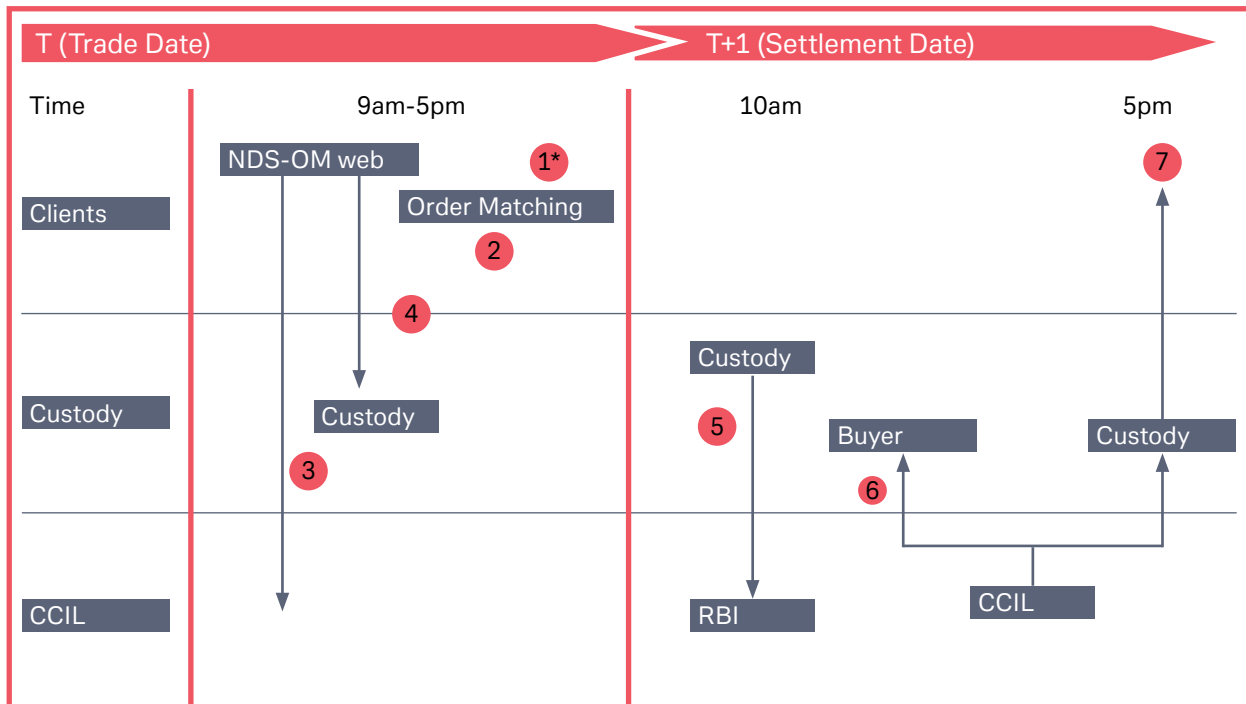
## Steps in Granting NDS-OM web Access to the Client



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.

The facility of NDS-OM web module has been made available to FPIs. 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



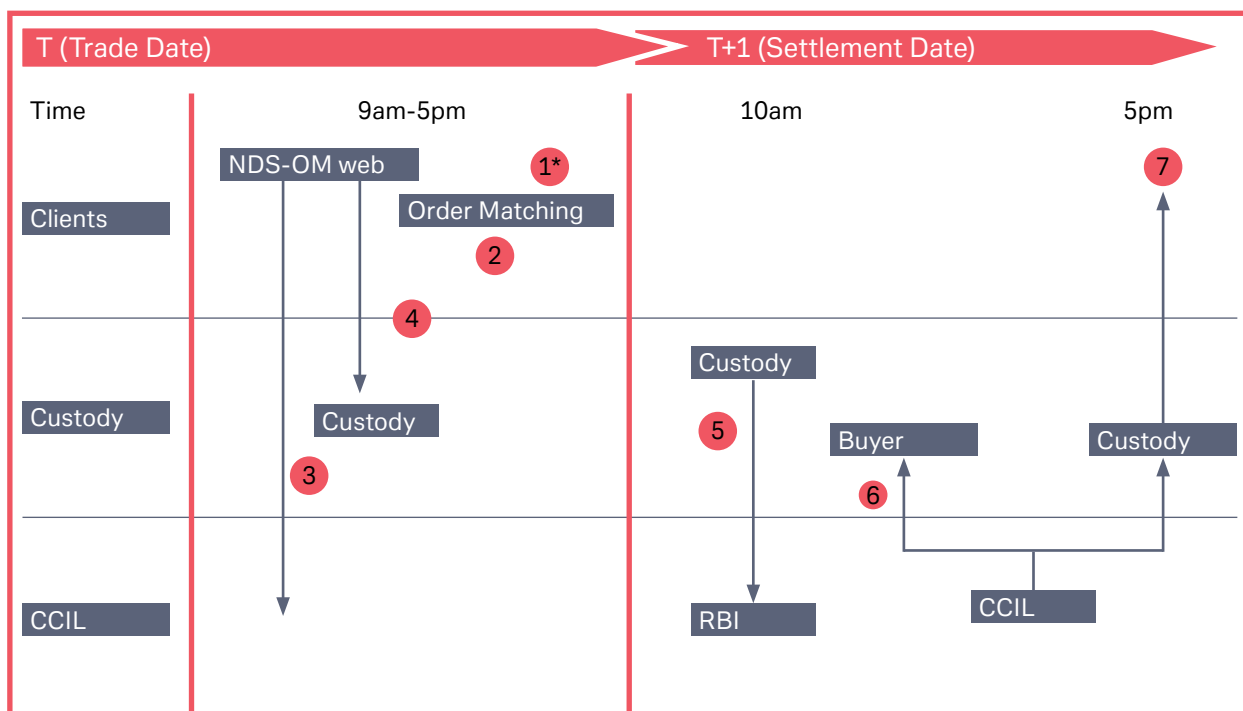
Legend:

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 and 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 & 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. Category I and II FPIs have the option to trade directly in the corporate market without availing the services of a broker, while category III FPI have to execute corporate bond trades through a Stock broker. In cases of primary deals through the Electronic Book Provider (EBP) platform of the Stock Exchange, all the three categories of the FPI can access the platform and submit the bids directly without using the broker

FPIs are also permitted to invest in unlisted Corporate Bonds, subject to certain restrictions, as covered under Chapter 8.

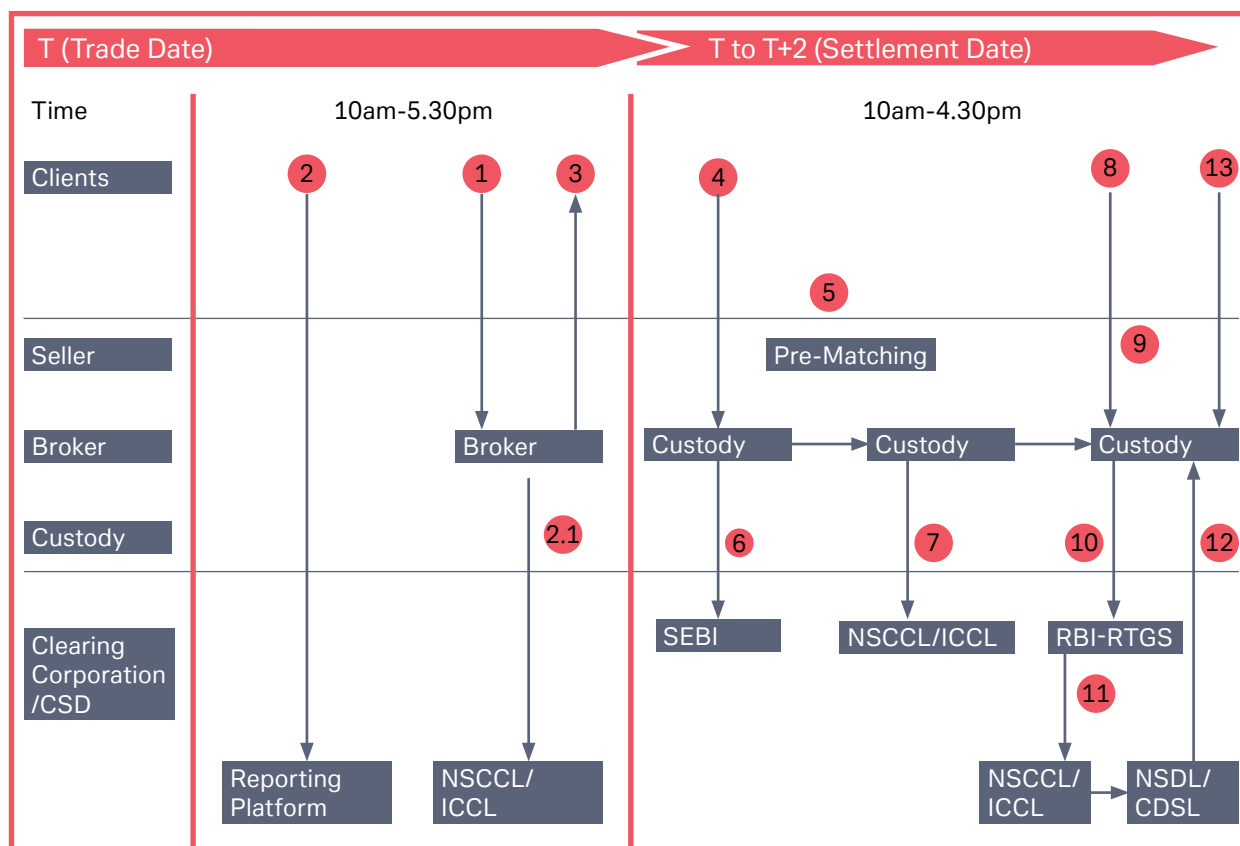
The bond reporting platform offered by NSE is known as CBRICS (Corporate Bond Reporting and Integrated Clearing and Settlement platform). The NSE has introduced Two Factor Authentication (2FA) for users of its bond reporting platform to further enhance security of this application.

BSE uses the New Debt Reporting and Settlement Platform - Indian Corporate Debt Market (ICDM) as its debt reporting platform.. 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



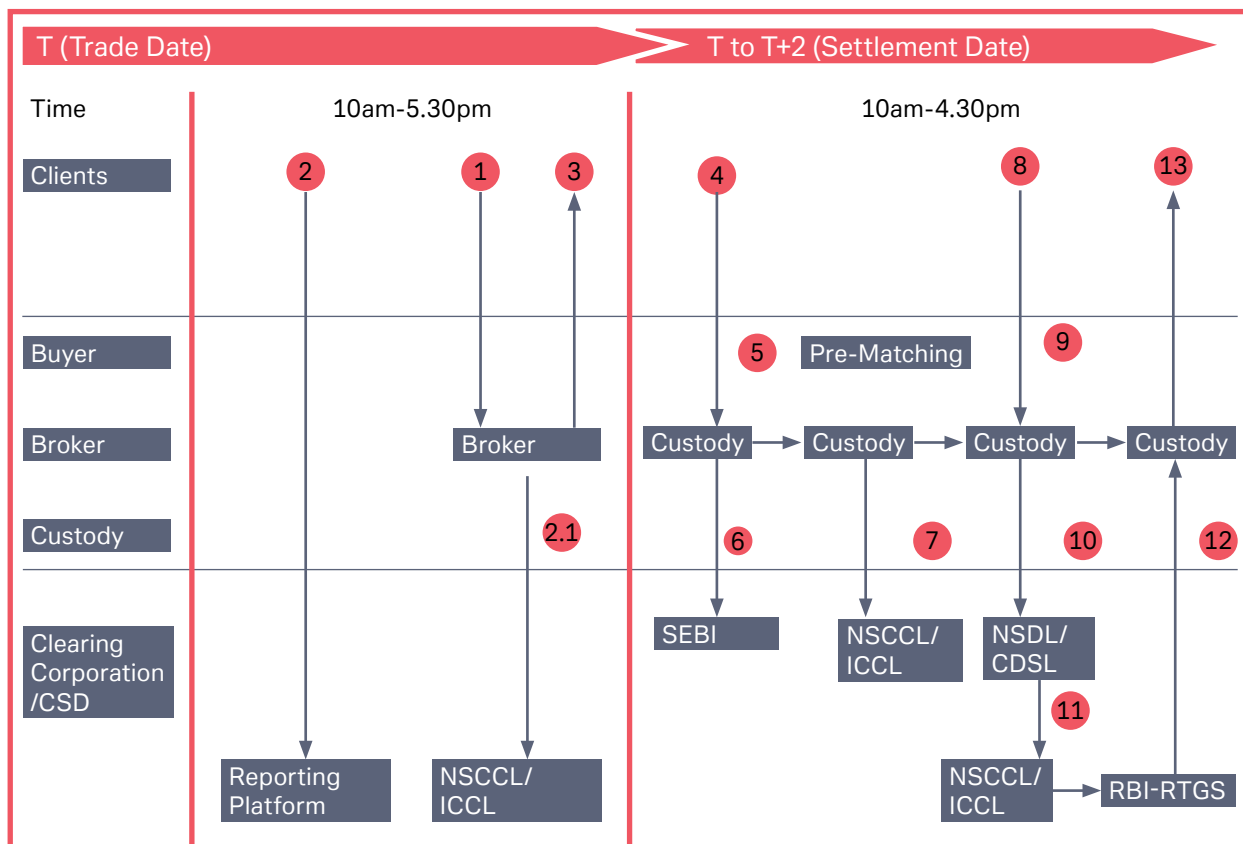
**Legend:**

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
- 2.1. Broker reports trades to the exchange
3. Trade confirmation to the client along with broker contract note
4. Settlement instructions as per agreed timeline
5. Pre-matching between client instructions and entry on bond reporting platform
6. Reporting of trades to SEBI
7. Trades confirmed on NSCCL and ICCL
8. Client to ensure the account is funded
9. Debit client's cash account
10. Payout of funds to the clearing corporations through RBI-RTGS
11. Settlement via the clearing corporations
12. Delivery of bonds and credit to the clients account through the Depository
13. 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  
2.1. Broker reports trades to the exchange
3. Trade confirmation to the client along with broker contract note
4. Settlement instructions as per agreed timeline
5. Pre-matching between client instructions and entry on bond reporting platform
6. Reporting of trades to SEBI
7. Trades confirmed on NSCCL and ICCL
8. Client to ensure there is adequate saleable stock
9. Debit client's security account for pay-in of securities
10. Payin of securities through Depositories
11. Settlement via the clearing corporations
12. Funds received via RBI-RTGS
13. Credit client's cash account and send the settlement confirmation

### Corporate 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:

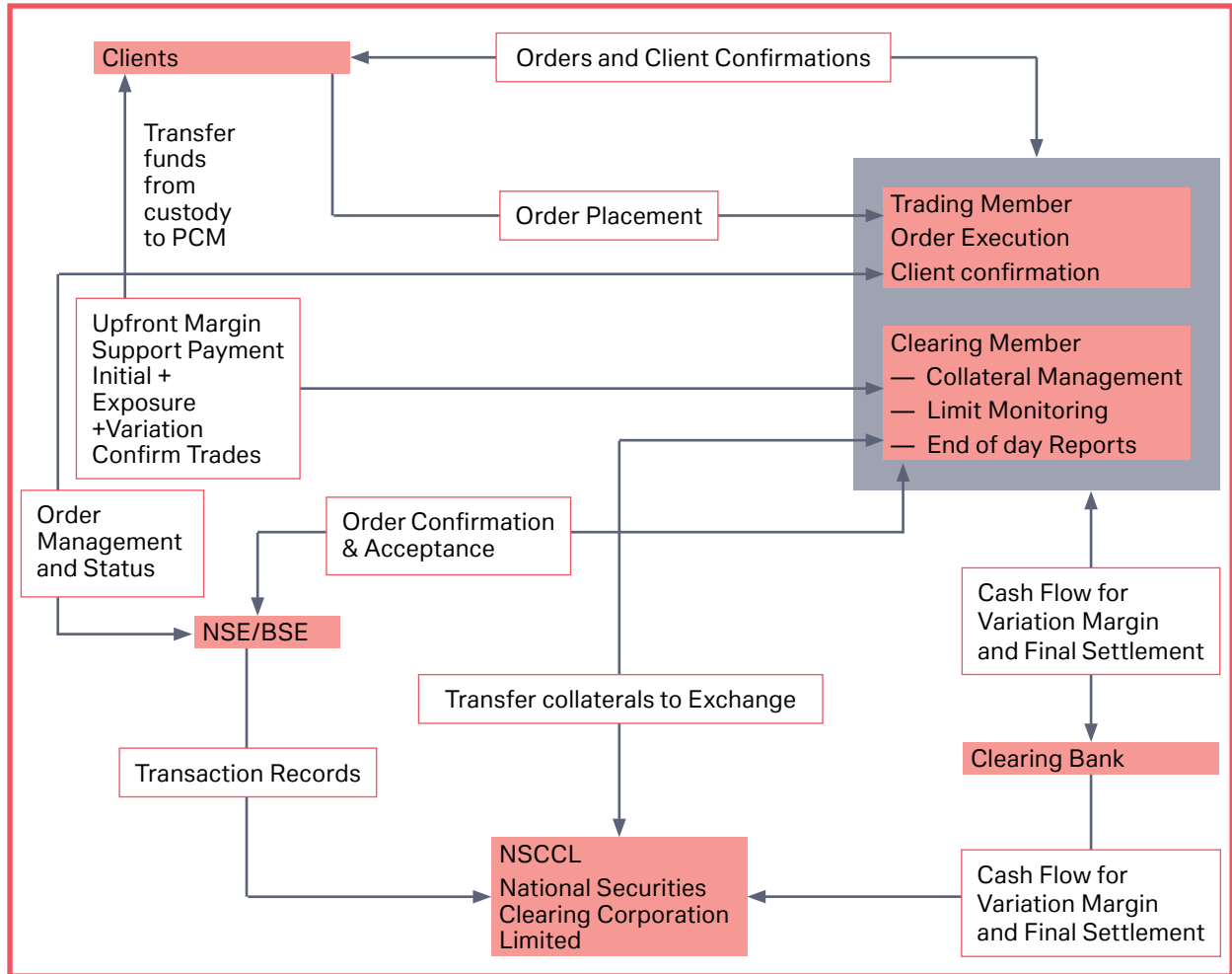
In case of shortage of delivery, stock exchanges/ clearing corporations will conduct financial close-out at the highest price on Trade date (which becomes the trade price) with a 1% mark-up on the same.

- 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 am
  - The auction amount will be charged to the short delivering member
- The valuation price for bonds not delivered on the settlement day, 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 & 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. Enhanced Eligibility criteria for Derivatives

SEBI has introduced enhanced eligibility criteria for introduction of stocks into the derivative segment- A stock, on which option and future contracts are to be introduced, should conform to the following broad eligibility criteria, for a continuous period of 6 months, in addition to the extant eligibility criteria already specified

- The stock should be chosen from the top 500 stocks in terms of average daily market capitalization and average daily traded value in the previous 6 months on a rolling basis
- Median quarter-sigma order size over the last 6 months, on a rolling basis, should be at least

INR 2.5 million

- The market wide position limit in the stock should be at least INR 5 billion on a rolling basis
- Average daily delivery value in the cash market should be at least INR 100 million in the previous 6 months on a rolling basis

#### 11.4.2. Physical settlement of Equity Derivatives

Single stock futures and options contract will follow the physical settlement mechanism effective from July 2018. The cash settlement of the contracts are being shifted to physical settlement by way of delivery of securities/cash, in a phased and calibrated manner.

Stocks which meet the enhanced eligibility criteria will continue to be cash settled and would move to physical settlement in a phased manner.

- Stocks which fail to meet any of the enhanced criteria for a continuous period of 3 months, would move from cash settlement to physical settlement
- After moving to physical settlement if such stock does not meet any of the extant criteria for a continuous period of 3 months, then it would exit out of derivatives segment

Stocks derivatives which complied with the extant eligibility criteria, but fail to meet any of the enhanced criteria, are physically settled. These stock would exit derivatives segment if:

- They fail to meet any of the extant eligibility criteria for a continuous period of 3 months, or
- They fail to meet any of the enhanced eligibility criteria after a period of 1 year, from April 11, 2018

After a period of 1 year from April 11, 2018, only those stocks which meet the enhanced criteria would remain in derivatives segment

#### Settlement Procedure

- The following positions in respect of contracts identified by Exchange shall be physically settled:
  - All open futures positions after close of trading on expiry day
  - All in-the-money contracts which are exercised and assigned
- The facility of do-not-exercise provided for Close to Money (CTM) option contracts remain applicable in respect of stocks which are identified for physical settlement
- The quantity to be delivered / received would be equivalent to the market lot \* number of contracts which result in physical settlement
- The settlement obligation value shall be computed as under
  - Futures – Settlement obligations shall be computed at futures final settlement price of the respective contract.
  - Options – Settlement obligation shall be computed at respective strike prices of the option contracts
- The final deliverable/receivable positions at a clearing member shall be arrived after netting the obligations of all clients/constituent/trading members clearing through the respective clearing member
- Physical settlement of securities shall be done only in dematerialised mode through the depositories
- The physical settlement shall be effected on Expiry+2 day  
The delivery instruction would be completed by 2.00 pm or such cut-off time stipulated by depositories.



## Pay-In and Pay-Out Of Securities

Investors can utilize the facility of early pay-in of funds and securities, as well as direct payout of securities to client's beneficiaries account.

The pay-in and payout of the securities/cash will take place through the clients Professional Clearing Member in the Derivatives segment.

## Shortage Handling

- **Funds settlement:** Non-fulfilment of funds obligation towards physical settlement shall be treated as a violation and action as currently applicable for non-fulfilment of settlement obligation shall be applicable. Securities pay-out due to such clearing members who have not fulfilled funds obligation shall be withheld by the Clearing Corporation.
- **Securities settlement:** Failure of the seller to deliver securities shall result in buy-in auction for the shares by Clearing Corporation. Auction would be conducted on Expiry+3 days and settled on Expiry + 4 days
  - When the Clearing Corporation is satisfied that securities cannot be bought in auction, obligation in such security shall be deemed to be closed out
  - Clearing member who fail to deliver shall be debited by an amount equivalent to the securities not delivered, valued at valuation price, which would closing price of the security in Cash equity segment of exchange, on immediate trading day preceding the pay-in day of securities
  - Close out shall be at the closeout price of the security as determined in Capital Market Segment
  - Auction shall not be conducted for shortages in the securities which are under corporate actions. Such shortages shall be closed out directly
  - Clearing members failing to fulfil their securities deliverable obligations to Clearing Corporation shall be subjected to a penalty charge of 0.05% per day. The valuation amount of the shortage shall be considered as funds shortages where shortage confirmation is not received from the bank and penal action as prescribed for Funds Settlement would apply

## Margin Framework for Derivatives

- Margining framework of F&O segment, as applicable to cash settled securities would be applicable till expiry of derivative contracts
- Post expiry, positions which are converted to physical settlement margins as applicable in Cash equity segment (i.e VAR, Extreme Loss Margins, Mark to Market margins) shall be applicable and levied as delivery margins.
  - **VAR and Extreme Loss Margins:** The VAR and Extreme Loss percentage as computed in the Cash equity segment shall be applied on client level settlement obligations
  - **Mark to Market margins:** End of day mark to market margins shall be computed on expiry day and expiry + 1 day as difference between settlement obligation and value of positions at closing price of the security in the Capital Market segment. Mark to market loss in one security shall be netted against profit of other security for same client.
  - Clearing/trading member are required to collect delivery margin and report the same through the existing client margin reporting mechanism
- Delivery margins blocked shall be released on completion of settlement

### 11.4.3. 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 below link <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 entities regulated by RBI, SEBI, Insurance Regulatory and Development Authority of India (IRDAI), Pension Fund Regulatory and Development Authority (PFRDA) and all corporates participating in OTC market for INR Interest Rate Derivatives, foreign currency derivatives and credit derivatives in India are now mandated to have LEI. RBI is expanding the use of LEI, with introduction of LEI for large corporate borrowers, based on exposure to Scheduled Commercial Banks.

Phase	Total exposure to SCB	Deadline
Phase I	INR 10 billion or above	March 31, 2018
Phase II	Between INR 5 billion and INR 10 billion	June 30, 2018
Phase III	Between INR 1 billion and INR 5 billion	March 31, 2019
Phase IV	Between INR 500 million and 1 billion	December 31, 2019

## 11.5. Securities Lending & 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.

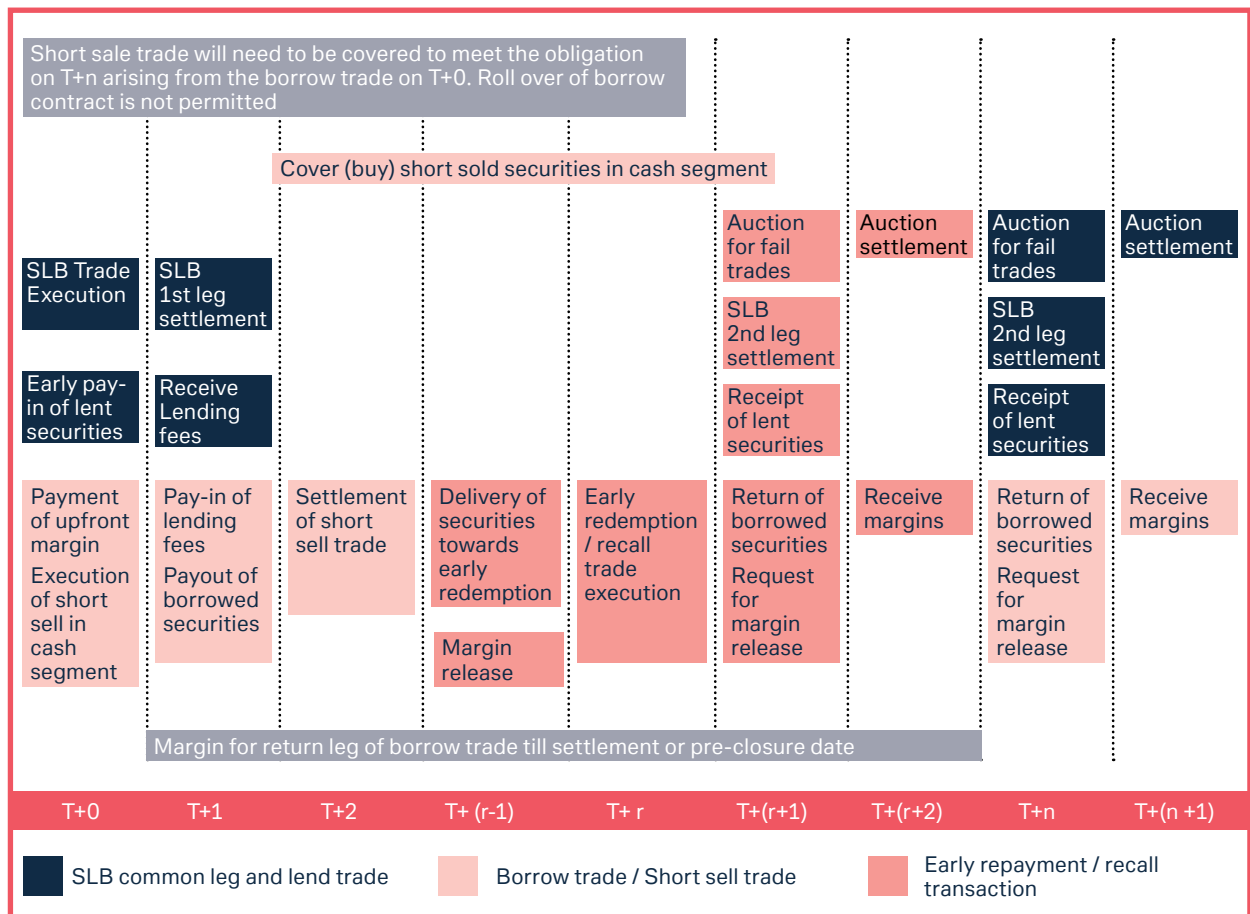
All Clearing Members of the Authorised Intermediary clearing house (NSCCL/ ICCL) including Banks and Custodians referred to as 'Participant' are eligible to participate in SLB. In order to participate in SLB, clearing members have to register as Participants in SLB. Participants desirous of lending or 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 due to volatility in the stock price movement leading to risk which is addressed by margining system of stock markets. Daily margin comprises of:

- 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 & 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:

1. Monies of defaulting member (including defaulting member's primary contribution to Core SGF(s) and excess monies of defaulter in other segments).
2. Insurance, if any.
3. CC resources (equal to 5% of the segment MRC).
4. 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.
5. 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.\*
6. 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.
7. Capped additional contribution by non-defaulting members of the segment.\*\*
8. 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 recognising 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 & 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 & 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:

[https://www.bseindia.com/markets/equity/EQReports/graded\\_surveil\\_measure.aspx?expandable=6](https://www.bseindia.com/markets/equity/EQReports/graded_surveil_measure.aspx?expandable=6)

[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 am 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 & 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 & 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	- VaR Margins - ELM Margins - MTM Margins - Lending price as may be specified by NSCCL / ICCL	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	- MTM Margins - Fixed percentage (25%) of lending price as may be specified by NSCCL / ICCL	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 & 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

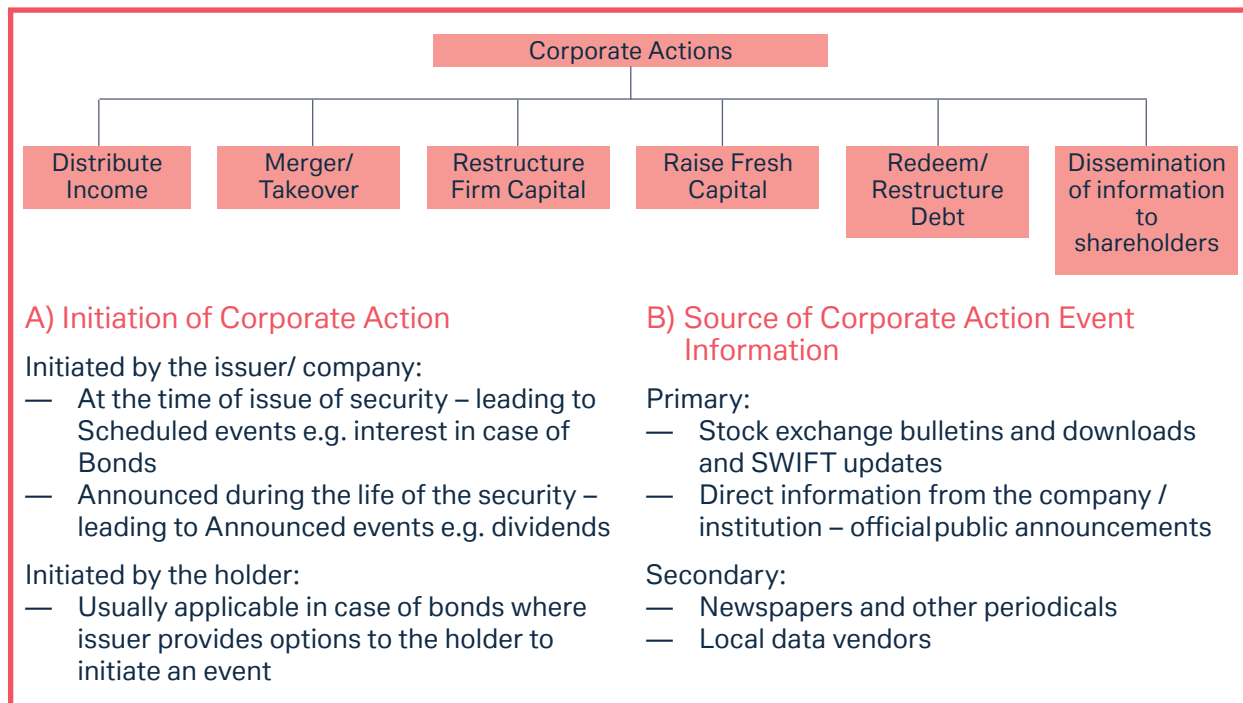
In case of calendar spread positions in futures contract, exposure margins are levied on one third of the value of open position of the far month futures contract. The calendar spread position is granted calendar spread treatment till the expiry of the near month contract

## 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 from time to time. 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. 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:



### 11.8.1. 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

### 11.8.2. 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 source

- 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.

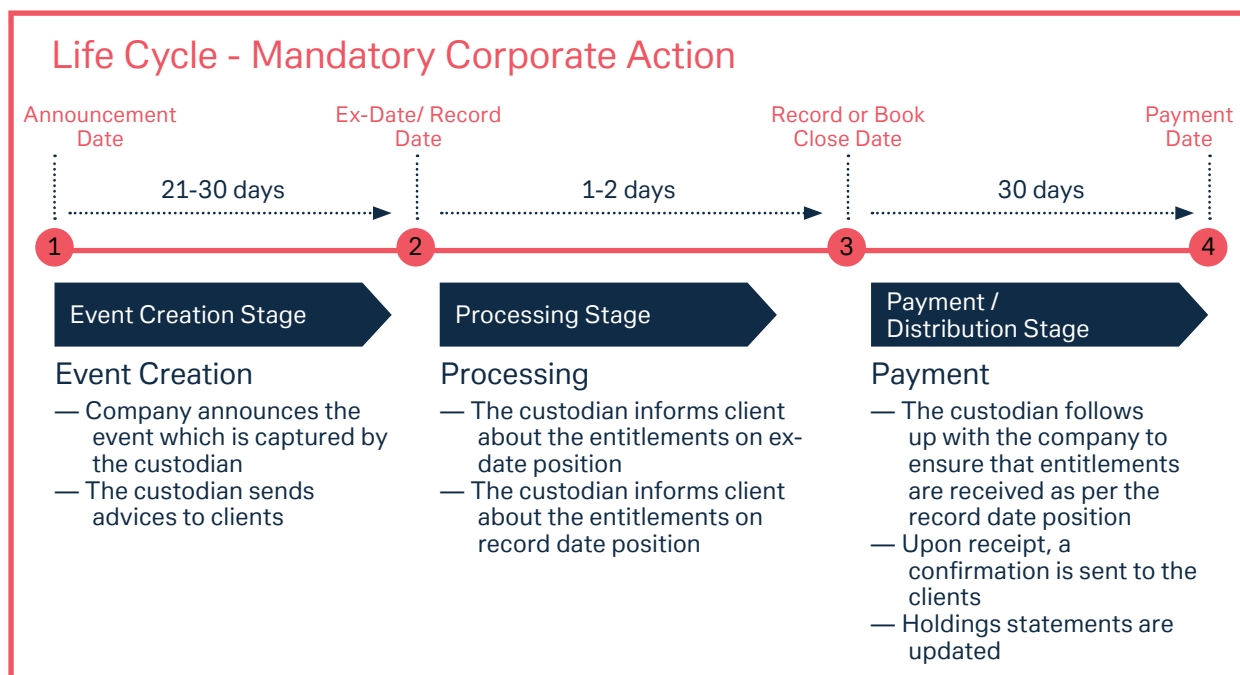
## Important Dates

Announcement Date	<ul style="list-style-type: none"> <li>— Company must notify the relevant stock exchanges at least 21 days before the book close/ record date</li> <li>— 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</li> </ul>
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
Ex-date	<ul style="list-style-type: none"> <li>— Date before which, if that particular stock is bought in the market, the buyer is entitled to receive the entitlements (dividend/ bonus)</li> <li>— Such a trade is known as a 'cum dividend/ cum bonus', i.e. the trade is executed inclusive of all the entitlements / benefits</li> </ul>
Payment date	<ul style="list-style-type: none"> <li>— Payment of benefit is to be made within 30 days from the declaration date or AGM date</li> <li>— Although there is a requirement for declaration of pay date for dividend, companies are yet to adopt the practice of announcing pay date prior to providing benefits</li> </ul>
Period of Offer	— Period from the time when an announcement is made of a proposed or possible offer (with or without terms) until the closing date

### 11.8.3. 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

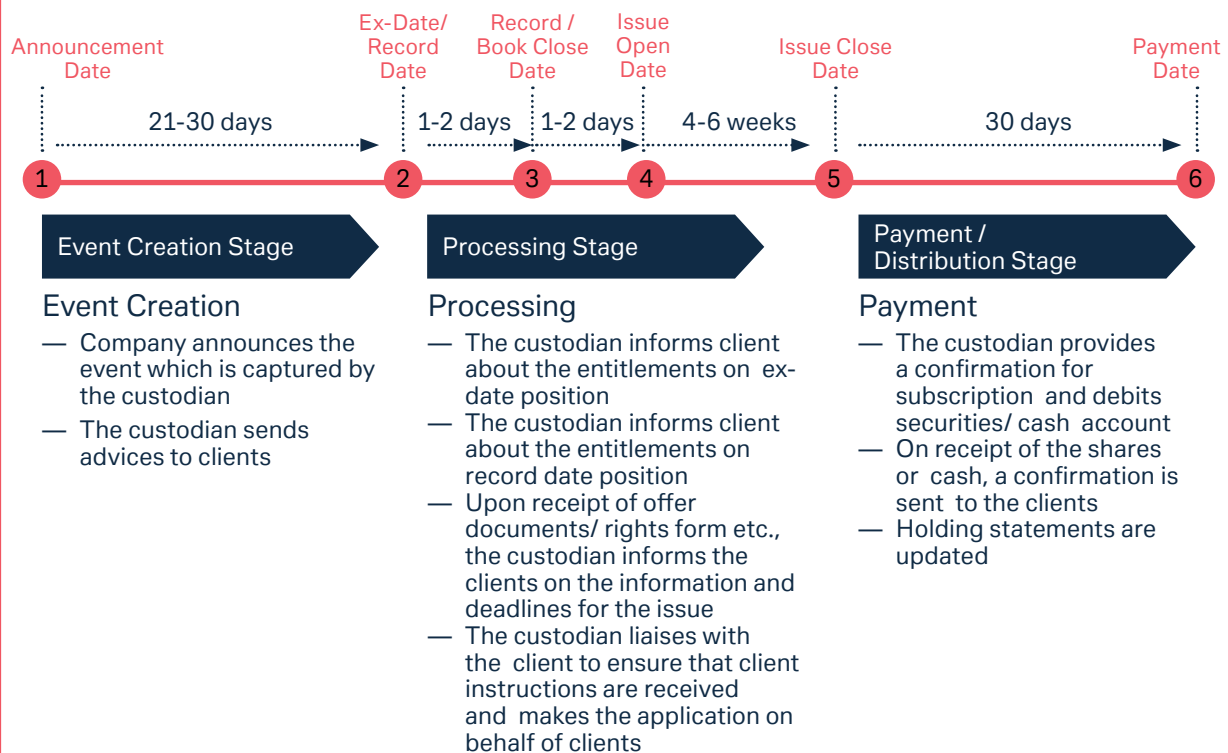


### 11.8.4. Life Cycle - Voluntary corporate action events

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



## 11.9. 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

Salient Features	<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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### 11.9.1. 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

### 11.9.2. 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.

### 11.9.3. 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.

### 11.9.4. 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 & 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 & 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

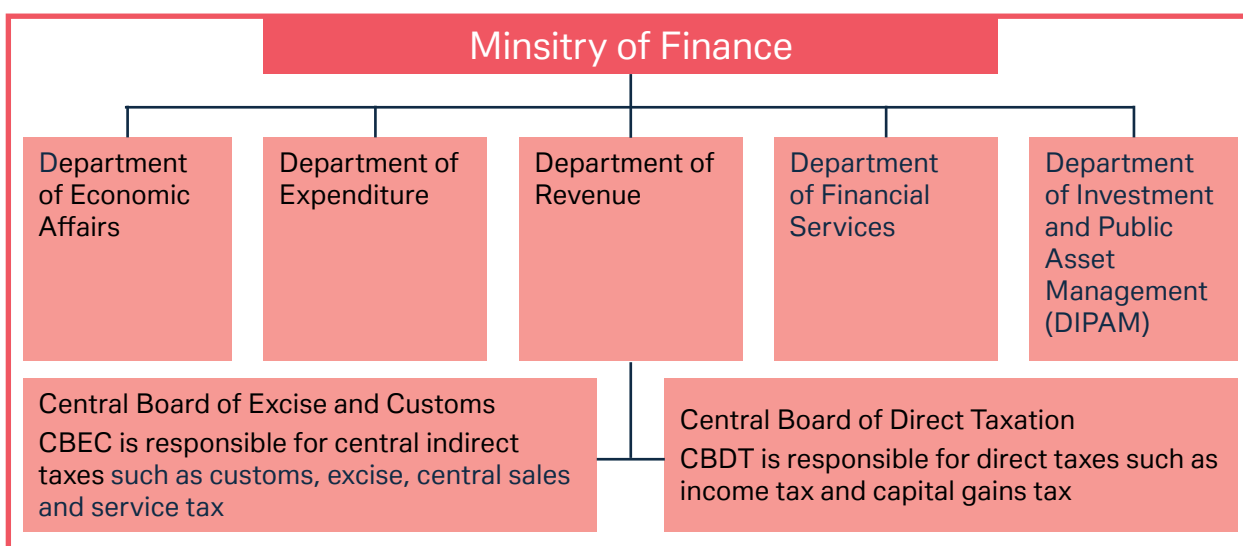
- Clients can directly participate in e-Voting by logging on the website
- The custodian can support clients by voting electronically on their behalf. The custodian can register with NSDL/ CDSL for the e-Voting facility under the custodian module
- The custodian will register the client in the e-Voting 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



# 12 | 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 Indirect Taxes and Customs (CBIC). 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, since 2017 this was advanced by a month and presented on the 1st working day of February



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, under section 194LD, 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. This concessional rate is valid until June 30, 2020. This benefit of lower WHT is also extended to INR denominated (Masala) Bonds issued outside India.

#### 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 from tax 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. The FPI can also avail the provisions of double tax treaty signed between India and various countries, 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. 2018-19

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
Derivative contracts which are subject to physical settlement	0.1%	Purchaser/ 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. Union Budget 2018 has increased the cess from 3% to 4%.

### Tax Rates applicable to FPIs investing in India

Assessment Year: 2019-2020

Previous Year: April 1, 2018 till March 31, 2019 (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 5 Million	Income exceeds INR 5 million but does not exceed INR 10 million	net taxable income exceeds INR 10 Million
Dividends	NIL	NIL	NIL	NIL	NIL	NIL
Interest u/s 194 LD	5.2%	5.304%	5.46%	5.2%	5.72%	5.98%
Interest other than u/s 194 LD of the Act	20.8%	21.216%	21.84%	20.8%	22.88%	23.92%
Short-term capital gains on equity shares and units of	15.60%	15.912%	16.38%	15.60%	17.16%	17.94%

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 5 Million	Income exceeds INR 5 million but does not exceed INR 10 million	net taxable income exceeds INR 10 Million
equity oriented funds where STT is applied.						
Long-term capital gains on equity shares and units of equity oriented funds where STT is applied. (Ref Note 2)	10.4%	10.608%	10.92%	10.4%	11.44%	11.96%
Short-term capital gains on securities where no STT is applied	31.2%	31.824%	32.76%	31.2%	34.32%	35.88%
Long-term capital gains on securities where no STT is applied	10.4%	10.608	10.92%	10.4%	11.44%	11.96%

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

Note 1 : 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 2: Exemption of tax on Long Term Capital Gains (LTCG) arising from transfer of shares is available, if:

— LTCG from transfer of equity shares does not exceed INR 100,000 in a year

— STT was paid at the time of acquisition and transfer of those shares

Tax is payable on LTCG above INR 100,000 without indexation

### 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.

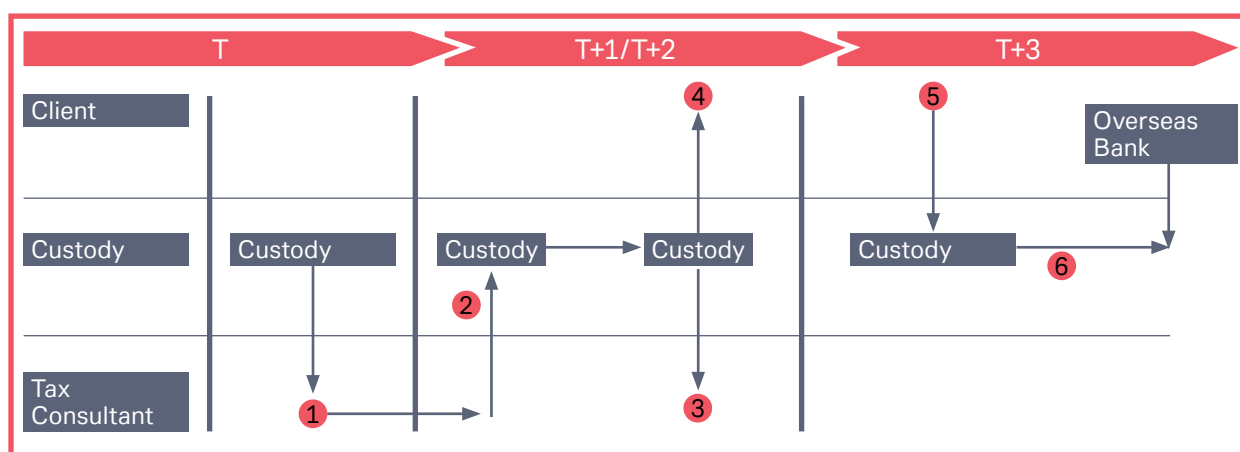
The advance tax rates and the intervals at which they are paid are provided below (applicable for corporate and non-corporate entities):

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 & 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 & 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 as mentioned in client instruction

### 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 & 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 made 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 1, 2015.

The Government of India has clarified the inapplicability of MAT provisions under Section 115JB to foreign companies with effect from April 1, 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 01.04.2017, or on any tax benefits availed on or after 01.04.2017, 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 9th July, 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.

The Securities and Exchange Board of India (SEBI) has instructed Designated Depository Participants to carry out due diligence, including Self-Certification for Foreign Portfolio Investors (FPIs) before granting SEBI FPI registration. In order to carry out due diligence on the accounts held by Global Custodian (GC) end-clients, the Custodians may rely on the FATCA/CRS documentation done by GC, for the account holders including the self-certification.

### 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 the Form 61B or NIL statement under “e-File” menu.

## 12.7. Goods and Services Tax

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

## 13 REITs, InvITs and AIF

### 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.

“REITs asset” includes properties, whether, freehold or leasehold basis, whether directly or through a holdco and/or a SPV

#### 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 shareholder/partnership agreement to have the necessary provisions for dispute resolution between the REIT and other shareholders, or partners in holdco or SPV.
  - 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
  - Consolidated revenues of REIT, holdco, and the SPV from rental, leasing and letting real estate assets or any other income incidental to the leasing of such assets, (other than gains arising from disposal of properties) should be at least 51% at all times.
  - REITs are permitted to enter into certain Related Party Transaction, subject to the transaction being at arms length, and in the best interest of unit holders, consistent with the strategy and investment objectives of REIT, with relevant disclosures as specified in regulations
  - 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 require unit holder approval
  - REIT cannot lend. This does not apply to investment in debt securities
  - REIT cannot invest in units of other REITs
  - REITs are now permitted to invest in unlisted equity shares of companies deriving at least 75% of their operating income from real estate activity as per audited financials of the previous year
  - REITs are required to disclose all pending litigations or regulatory actions, against the REIT, sponsor, manager or any of their associates and sponsor groups, trustees and valuer, in offer document

### 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
- Existing unit holders of REIT are allowed to offer units for sale to public, if such units have been held by them for at least 1 year (up to the date of filing offer document),
- Holding period for compulsorily convertible securities (from the date such securities are fully paid-up) in the Holdco and / or SPV against which the units have been received, is considered for the purpose of calculation of 1 year period. This is in addition to the existing provision for equity shares or partnership interest
- Further, the compulsorily convertible securities, whose holding period has been included for the purpose of calculation for offer for sale, shall be converted to equity shares of the holdco or SPV, prior to filing of offer document

### 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 SEBI

- A REIT whose units are listed on a recognised stock exchange, is permitted to issue debt securities in the manner specified by SEBI. Provided that such debt securities shall be listed on recognised stock exchange.

#### 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, 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 infrastructure developers 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 infrastructure investment trust (InvIT) regulations for infrastructure projects keeping in mind the huge infrastructure needs of the country

InvIT 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 has 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 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
  - Un invested 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 not 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
  - The offer size is not less than INR 2.5 billion
  - The requirement of the value of assets and offer size may be complied at any point of time before allotment of units subject to a binding agreement between relevant parties, disclosures in offer document, and declaration to SEBI and designated stock exchanges.

### 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 fifteen per cent. per annum from the date of allotment

- InvIT will have to file the final placement memorandum with SEBI within 10 working days from date of listing of the units issued therein
- 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 twenty five per cent. of the units of the InvIT
  - Forming part of public shall be twenty, each holding not more than twenty five per cent. 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 rupees one crore
  - 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 Infrastructure Investment Trusts (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 > 2.5 INR Billion), + / -5% (IPO < 2.5 INR Billion)
Tick 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



Topic	Details
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: <ul style="list-style-type: none"> <li>— Rolling settlement with series as IV (EQ equivalent)</li> <li>— Trade for Trade with series as ID (BE equivalent)</li> <li>— Institutional segment with series as IA (IL equivalent)</li> </ul> For BSE: <ul style="list-style-type: none"> <li>— "IF" group for normal/rolling settlement</li> <li>— "IT" group for trade to trade settlement</li> </ul>
Settlement of Securities	<ul style="list-style-type: none"> <li>— Settlement guarantee shall be provided for trades and settlement shall be compulsorily done in dematerialised mode</li> <li>— Trades executed in InvIT shall be settled on a T+2 rolling basis</li> <li>— Trades executed normal/rolling series will be cleared and settled on a net obligations basis within series</li> <li>— 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</li> </ul>
Auction of Securities	<ul style="list-style-type: none"> <li>— Settlement shortages in case of the securities traded in normal /rolling series will be via auction mechanism</li> <li>— Settlement shortages in case of the securities traded in trade for trade basis will be directly closed out</li> </ul>
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. Preferential issue

- A listed InvIT may make preferential issue of units to an institutional investor as defined in the InvIT regulations, if it satisfies the following conditions:
  - A resolution of the unit holders of the InvIT approving the preferential issue has been passed
  - The InvIT is in compliance with the conditions as stipulated in the SEBI (InvIT) Regulations, 2014, for:
    - continuous listing and disclosure obligations
    - minimum public unit holding requirements
  - No preferential issue of units by the InvIT has been made in the 6 months preceding the relevant date (the date of the meeting when it was decided to open the proposed preferential issue by the Board of Directors of the investment manager of the InvIT)

### 13.2.7. 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

### 13.2.8. Strategic Investor REIT/ InvIT:

The term 'Strategic Investor' has been aligned for REITs / InvITs to mean:

- an infrastructure finance company registered with the RBI as a NBFC
- a Scheduled Commercial Bank
- a multilateral and/or bilateral development financial institution
- a systemically important NBFC registered with the RBI
- a FPI

who invest, either jointly or severally, not less than 5% of the total offer size of the REIT or such amount as may be specified by SEBI from time to time, subject to the compliance with the applicable provisions, if any, of the FEMA, 1999 and the rules or regulations or guidelines made thereunder

A REIT or InvIT may invite subscription from strategic investors subject to following condition

- The strategic investors, jointly or severally must invest a minimum of 5% and not more than 25% of the total offer size

- The investment manager / manager of InvIT / REIT should enter into a binding unit subscription agreement with the strategic investor. The unit subscription agreement cannot be terminated except if the issue fails to collect minimum subscription
- Subscription price per unit, payable by the strategic investors should be set out in the unit subscription agreement and entire subscription price should be deposited in a special escrow account, prior to opening of the public issue
- The price at which the strategic investor has agreed to buy units should not be less than the issue price determined in the public issue
  - If the price determined in public issue is higher than the price at which allocation is made to strategic investors, the strategic investor is required to bring in additional amount within 2 working days, from determination of the price in public issue
  - If the price determined in public issue is lower than the price at which allocation is made to strategic investor, the strategic investor would get allotment at the price decided in the unit subscription agreement; i.e. the excess amount, over the price determined in public issue, shall not be refunded
- The draft offer document / offer document, should disclose details of the unit subscription agreement, such as:
  - Name of each strategic investor
  - Number of units proposed to be subscribed/ investment amount
  - Proposed subscription price per unit

Units subscribed by strategic investors under the unit subscription agreement will be locked-in for a period of 180 days from date of listing in public issue

### 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	<ul style="list-style-type: none"> <li>— 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</li> <li>— 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</li> <li>— 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</li> <li>— 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</li> </ul>
Category II AIFs	<ul style="list-style-type: none"> <li>— Category II AIFs shall invest primarily in unlisted investee companies or in units of other AIFs as may be specified in the placement memorandum</li> <li>— 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</li> <li>— 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</li> <li>— 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</li> <li>— Category II AIFs shall be exempt from Regulations 3 and 3A of the Insider</li> </ul>

Category I	Category II	Category III
		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
Category III AIFs		<ul style="list-style-type: none"> <li>— Category III AIFs may invest in securities of listed or unlisted investee companies or derivatives or complex or structured products</li> <li>— 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</li> <li>— 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</li> <li>— 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</li> <li>— Category III AIFs have been permitted to participate in Commodity Derivatives Exchanges as 'clients', subject to fulfilment of certain conditions</li> </ul>

### 13.3.5. General Investment Conditions.

Investments by all categories of Alternative Investment Funds 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 the 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
- Un-invested 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. Cat-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 Cat-III AIFs which invest in commodity derivatives. Category-II and Category-III, AIFs, have been specified as “Qualified Buyer” of Security Receipts (SRs) issued by Asset Reconstruction Companies (ARCs). The permission is subject to following conditions:
    - The AIF which has invested in an ARC shall not invest in the SRs issued by that ARC
    - The AIF shall not invest in the SRs issued on the underlying loans of any of its associate or group company
    - The AIF shall not invest in the SRs backed by non-performing assets of banks which hold equity of more than 10% in that AIF
  - Enhanced limits of USD 750 million have been notified for overseas investments by domestic AIFs and Venture Capital Funds (VCFs)

### 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 (AIFs)
  - 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 & 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 (IFSC)

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 & 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. Regulatory Authority

The Government of India has in budget announcement 2018, on February 01, 2018, proposed setting up of unified regulating Authority for financial services, to provide "a coherent and integrated regulatory framework to fully develop and to compete with other offshore financial centres."

## 14.7. Products/ Permissible securities in IFSC

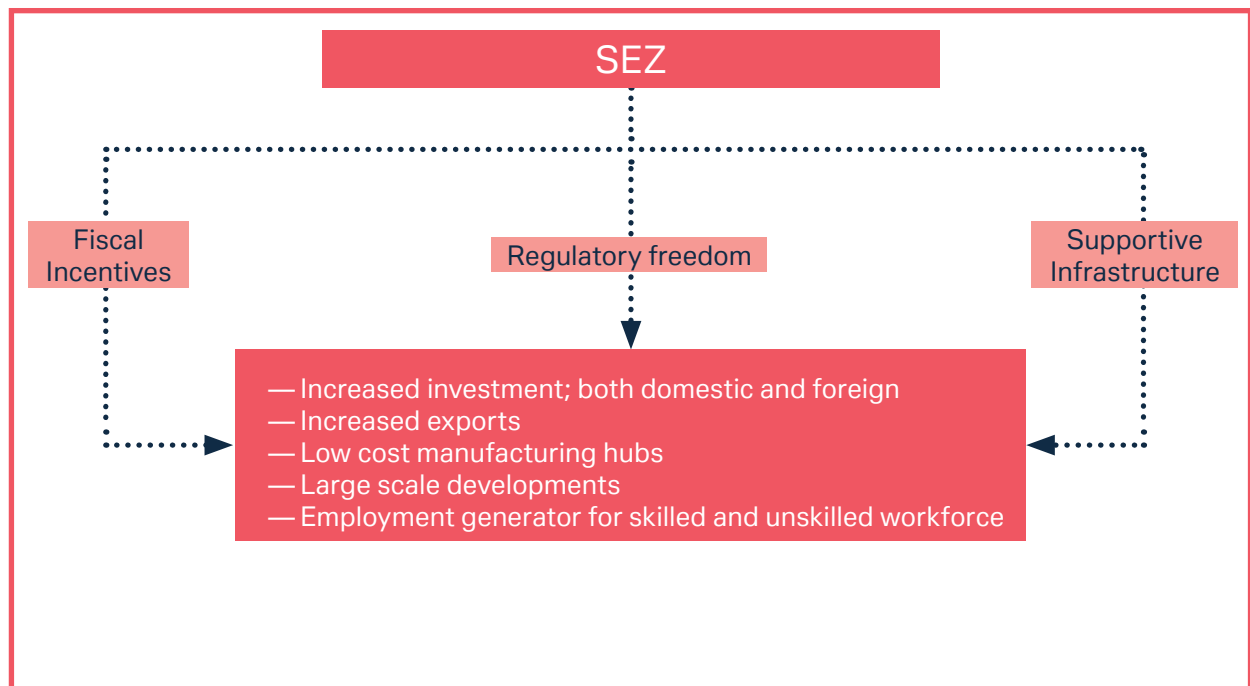
The stock exchanges operating in IFSC may permit dealing in following types of securities and products in such securities in any currency other than Indian rupee, with a specified trading lot size on their trading platform subject to prior approval from SEBI:

- 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 (FPIs are permitted to deal only in contracts of non-agriculture commodities)
- Derivatives on equity shares of a company incorporated in India
- 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)

### 14.8. 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 registrars 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 US Dollar one 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

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

Following are the entities which can open an IFSC unit:

### 14.9.1. 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 subject to necessary regulatory approval from their home regulator

### 14.9.2. Insurance Sector – Regulated by Insurance Regulatory and Development Authority of India (IRDAI)

- Indian - Insurer / Reinsurer
- Foreign - Insurer / Reinsurer
- The entity need to seek registration from IRDAI as International Financial Service Centre Insurance Office (IIO), a branch office of applicant, to transact in direct insurance or re-insurance business
  - IIO may be permitted to transact direct Life insurance business or Direct General insurance business but not both or Reinsurance Business. However, the IIO may be allowed to transact health insurance business as provided under extant Health Insurance Regulations notified by IRDAI

### 14.9.3. Capital Market - Regulated by Securities & Exchange Board of India (SEBI)

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

### 14.9.4. 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 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 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

- 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

#### 14.9.5. 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 (A portfolio manager, AIF or mutual fund shall invest in India through the FPI route)
- Securities issued by companies belonging to foreign jurisdiction

### 14.10. Entities that have started operations from GIFT IFSC

- Stock Exchanges: National Stock Exchange, Bombay Stock Exchange, MCX, NCDEX and DMCC
- 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: Accvell Technologies, QX Corporate Advisors, iShip Design, Exemplary Consultants

### 14.11. 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)
- Bond or Global Depository Receipt, Rupee Denominated Bond of Indian Company, Derivatives have been exempted from capital gains tax

### 14.12. Currency permitted

The settlement of all the contracts traded under INDIA INX and NSE IFSC would be in USD.

### 14.13. Stock Exchanges operating in IFSC

#### 14.13.1. 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 IFSC GIFT 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 9th Jan, 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.

### 14.13.2. 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.

### 14.13.3. 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	✓	✓	✓	✓

### 14.13.4. Trading and Settlement

The Clearing & Settlement of trades executed on INDIA INX and NSE IFSC shall be cleared and settled through their clearing corporations, namely INDIA ICC and NSE IFSC CLEARING CORPORATION LIMITED (NICCL) respectively as per the guidelines issued by SEBI and as per the provisions of Rules, Bye-Laws 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.

#### Acceptance of collateral by Clearing Corporations

Clearing corporations are permitted to accept cash and cash equivalents (which shall include major foreign currencies as may be decided by the clearing corporation from time to time, term deposit receipts and bank guarantees issued by bank branches located in IFSC), Indian securities held with foreign depositories, foreign securities including units of liquid mutual funds and gold, as eligible collateral for trades in all product categories. However, cash and cash equivalents should form at least 50% of the total liquid assets at all times.

## 14.14. Segregated Nominee Account Structure

In order to provide ease of market access for foreign investors, SEBI has permitted Segregated Nominee Account Structure in IFSC. Orders of foreign investors may be routed through eligible Segregated Nominee Account Providers (Providers), for trading on stock exchanges in IFSC.

The broad features of Segregated Nominee Account structure is as below:

Criteria	Details
Entities eligible to offer Segregated Nominee Account Structure	The following entities are permitted to offer Segregated Nominee Account Structure, as Providers: <ul style="list-style-type: none"> <li>— SEBI-registered brokers in IFSC</li> <li>— SEBI registered Category I and II Foreign Portfolio Investors (FPIs)</li> <li>— Trading / Clearing members of international stock exchanges / clearing corporations that are regulated by a member of Financial Action Task Force (FATF)</li> </ul>
Registration of Provider	Providers have to be registered with Stock Exchange / Clearing Corporation in IFSC for providing Segregated Nominee Account services to their end-clients
Know Your Client (KYC) of end-clients	<ul style="list-style-type: none"> <li>— Providers are required to ensure appropriate due diligence of end-clients as per global standards including KYC and Anti Money Laundering (AML) compliance before on-boarding clients for offering Segregated Nominee Accounts</li> <li>— An end-client shall open Segregated Nominee Account with only one Provider. Legal Entity Identifier (LEI) code can be used to ensure this and to ensure trades of an end-client are cleared and settled only through one clearing member</li> <li>— Each end-client will be assigned a Unique Client Code (UCC) by Stock exchange/ Clearing Corporation in IFSC</li> </ul>
Margining	<ul style="list-style-type: none"> <li>— Margins would be computed at the end-client level of Provider</li> <li>— Margins would be grossed up at and collected from Provider</li> </ul>
Monitoring of Position Limits	Position limits would be monitored at end-client level by stock exchanges / clearing corporations
Obligations of stock exchange	<ul style="list-style-type: none"> <li>— The Stock exchanges, brokers and Providers will be required to furnish to SEBI, information relating to trades on stock exchanges in IFSC, originated by/through Providers, including KYC details of their end-clients, as and when requested</li> <li>— The Stock Exchanges shall ensure that the Providers adhere to the provisions of Prevention of Money Laundering Act, 2002 (PMLA) and rules thereunder, including capturing the KYC information for sharing with the Central KYC Registry (CKYCR) to the extent applicable to FPIs</li> </ul>

## 14.15. Important Links

<http://giftgujarat.in/>

<http://www.indiainx.com/>

<https://www.nseifsc.com/>

<http://giftgujarat.in/faq.aspx>

# 15 | Important Announcement

## 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

[https://www.sebi.gov.in/legal/regulations/jun-2017/sebi-foreign-portfolio-investors-regulations-2014-last-amended-on-april-05-2018-\\_35121.html](https://www.sebi.gov.in/legal/regulations/jun-2017/sebi-foreign-portfolio-investors-regulations-2014-last-amended-on-april-05-2018-_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)

### FEMA regulation for investment in Indian Securities

Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017

## 15.2. Important Circulars

### 15.2.1. Foreign Portfolio Investors

Important Announcements	Details	Category	Impact
Amendment to Prevention of Money-Laundering Rules and applicability to Foreign Investor	<p>Custodian banks are required to obtain and update the following documents / information for persons authorized to transact on behalf of the client:</p> <ul style="list-style-type: none"> <li>— Local tax ID called Permanent Account Number (PAN) or a declaration that an individual is not taxable in India in the format prescribed by Income Tax Rules</li> <li>— Aadhaar Number (unique-identity number issued by the Government's Unique Identification Authority of India to "Eligible Individuals" based on their biometric and demographic data) or an undertaking that a person is not eligible to have Aadhaar. Eligible Individuals for an Aadhaar are defined in the laws, and essentially refers to individuals who have resided in India for 182 days or more in the preceding 12 months</li> </ul>	Regulatory	Requires all the market intermediaries (including custodian banks) to obtain the Aadhaar and PAN details of each authorised signatory for accounts opened
<a href="http://www.egazette.nic.in/WriteReadData/2017/176407.pdf">http://www.egazette.nic.in/WriteReadData/2017/176407.pdf</a>			
	<p>Clarification by RBI:</p> <ul style="list-style-type: none"> <li>— The relevant signatories of non-resident foreign entity accounts need to confirm eligibility for Aadhaar / PAN and if not eligible to apply for Aadhaar / PAN, an officially valid document needs to be provided</li> </ul>	Regulatory	The requirement of Aadhaar / PAN is applicable for the signatories of all FPI Cat-III, FDI accounts, including GDR, FCCB and FVCI entities.

Important Announcements	Details	Category	Impact
	<ul style="list-style-type: none"> <li>— The risk based approach applicable for FPIs will continue to apply</li> </ul> <p>Consequently, the requirement of Aadhar / PAN is applicable for the signatories of all FPI Category III (Cat-III), FDI accounts, including Global Depository Receipt (GDR), Foreign Currency Convertible Bonds (FCCB) and FVCI entities</p>		
<a href="https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10292">https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=10292</a>			
Settlement of OTC secondary market transactions in Government Securities by FPIs	<ul style="list-style-type: none"> <li>— OTC transactions in G-Secs by FPIs can be settled on either T+1 or T+2 basis</li> <li>— All such transactions in G-Sec should be reported on the trade date itself</li> </ul>	Regulatory	The Foreign Portfolio Investors (FPIs) have the option of settling the Over the Counter (OTC) secondary market transactions in Government Securities (G-Secs) on T+1 or T+2 basis. FPIs have to mandatorily report all such trades to their custodian on trade date itself within the deadlines agreed
<a href="https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI9769C78154C4364FF295ECD892C9F5AAF4.PDF">https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTI9769C78154C4364FF295ECD892C9F5AAF4.PDF</a>			
Introduction of online limit monitoring for FPIs on NDS-OM	CCIL has introduced online monitoring of G-sec investment limits for FPIs on the NDS-OM platform and the NDS-OM Web based platform	Regulatory	CCIL has introduced a real time online monitoring of G-sec investment limits for FPIs on the NDS-OM platform and the NDS-OM Web based platform and will be applicable to all trades where either of the party to the deal happens to be a FPI
<a href="https://www.ccilindia.com/FPIHome.aspx">https://www.ccilindia.com/FPIHome.aspx</a>			
Easing of Access Norms for investment by FPIs	<p>SEBI has amended the regulatory provisions, to ease market access for FPIs. The amendments include:</p> <ul style="list-style-type: none"> <li>— Change in local custodian/ DDP</li> <li>— Appointment of Custodian and Free of Cost Transfer for FPIs having MIM structure</li> <li>— Private Banks and Merchant Banks permitted to undertake investments on behalf of its investors</li> <li>— Simplification of process</li> </ul>	Ease of Access	This amendment would (a) simplify documentation requirements at the time for new registration, renewal, addition of share class, change of custodian/DDP (b) permit certain category of investors to seek License as FPI for managing client investments, (c) permission for appointing different custodian for MIM structures



Important Announcements	Details	Category	Impact
	<p>for addition of share class</p> <ul style="list-style-type: none"> <li>— Due diligence at the time of change of Custodian /DDP</li> </ul>		
	<p><a href="https://www.sebi.gov.in/legal/circulars/feb-2018/easing-of-access-norms-for-investment-by-fpis_37866.html">https://www.sebi.gov.in/legal/circulars/feb-2018/easing-of-access-norms-for-investment-by-fpis_37866.html</a></p>		
	<p>Clarifications on Operational aspects for the below Category II Investors:</p> <ul style="list-style-type: none"> <li>— Private Bank/ Merchant Bank investing on behalf of clients</li> <li>— Insurance and Re-insurance</li> <li>— Other appropriately regulated persons permitted as Cat-II FPIs such as Asset Management Companies (AMCs), investment managers/ advisers, Portfolio managers, Broker-dealer and Swap-dealer</li> </ul>	Regulatory	SEBI has issued a clarification in respect of investment made by certain Category II (Cat-II) Foreign Portfolio Investors (FPIs). Private Banks/ Merchant banks investing on behalf of clients may invest through Collective Investment Vehicles having common portfolio and satisfying broad based requirement. It should also identify Beneficial Owners (BOs) and such BOs should not be Resident Indian/ Non-Resident Indian/ Overseas Indian citizen
	<p><a href="https://www.sebi.gov.in/legal/circulars/mar-2018/clarifications-in-respect-of-investment-by-certain-category-ii-fpis_38198.html">https://www.sebi.gov.in/legal/circulars/mar-2018/clarifications-in-respect-of-investment-by-certain-category-ii-fpis_38198.html</a></p>		
Separate limit of Interest Rate Futures (IRFs) for Foreign Portfolio Investors	RBI and SEBI have notified separate limit of INR 50 billion for long position in IRFs allocated to FPIs		
	<p><a href="https://rbidocs.rbi.org.in/rdocs/notification/PDFs/IRFFPI3731A951FD904C1E96F7201E2A6DF8ED.PDF">https://rbidocs.rbi.org.in/rdocs/notification/PDFs/IRFFPI3731A951FD904C1E96F7201E2A6DF8ED.PDF</a></p>		
	<p><a href="https://www.sebi.gov.in/legal/circulars/mar-2018/separate-limit-of-interest-rate-futures-irfs-for-foreign-portfolio-investors-fpis-_38127.html">https://www.sebi.gov.in/legal/circulars/mar-2018/separate-limit-of-interest-rate-futures-irfs-for-foreign-portfolio-investors-fpis-_38127.html</a></p>		
SEBI notifies enhanced exposure limit for participation in Exchange Traded Currency Derivatives	<p>SEBI has notified the enhanced exposure limits for participation of domestic clients and FPI in the ETCD.</p> <ul style="list-style-type: none"> <li>— Permitted to take positions (long or short), without having to establish existence of underlying exposure, upto a single limit of USD 100 million equivalent, across all currency pairs involving INR, put together, and combined across all exchanges</li> <li>— FPIs should ensure that their short positions at all</li> </ul>		

Important Announcements	Details	Category	Impact
	stock exchanges across all contracts in currency pairs involving INR do not exceed USD 100 million		
	— To take long positions in excess of USD 100 million in all contracts in currency pairs involving INR, FPIs are required to have an underlying exposure in Indian debt or equity securities, including units of equity/debt mutual funds	Regulatory	A single limit across all currency pairs involving INR and across all exchanges has been introduced. Exposure of upto USD 100 million equivalent is permitted without establishing underlying exposure.
	<a href="https://www.sebi.gov.in/legal/circulars/mar-2018/revision-of-limits-relating-to-requirement-of-underlying-exposure-for-currency-derivatives-contracts_38242.html">https://www.sebi.gov.in/legal/circulars/mar-2018/revision-of-limits-relating-to-requirement-of-underlying-exposure-for-currency-derivatives-contracts_38242.html</a>		
Due diligence and reporting requirement under FATCA / CRS	Reporting Financial Institutions (RFIs) are required to undertake additional steps to carry out due diligence and reporting of FPIs.	Regulatory	In order to carry out due diligence on the accounts held by Global Custodian (GC) end-clients, the Custodians may rely on the FATCA/CRS documentation done by GC, for the account holders including the self-certification.
	<a href="https://www.sebi.gov.in/legal/circulars/mar-2018/due-diligence-and-reporting-requirements-under-foreign-account-tax-compliance-act-fatca-and-common-reporting-standards-crs-_38339.html">https://www.sebi.gov.in/legal/circulars/mar-2018/due-diligence-and-reporting-requirements-under-foreign-account-tax-compliance-act-fatca-and-common-reporting-standards-crs-_38339.html</a>		
Revised limit monitoring mechanism for foreign investment limits in listed Indian Companies	SEBI has notified revised monitoring mechanism for foreign investment in listed Indian companies. The monitoring would be carried out by the depositories.	Regulatory	Depositories would monitor The introduction of red flag mechanism, when the utilization of limit is within 3% of the aggregate limit available and publication of available headroom, efficient tracking and eliminates the existing process of RBI approval. This also provides an exit mechanism for disinvestment in case of any breach.
	<a href="https://www.sebi.gov.in/legal/circulars/apr-2018/monitoring-of-foreign-investment-limits-in-listed-indian-companies_38575.html">https://www.sebi.gov.in/legal/circulars/apr-2018/monitoring-of-foreign-investment-limits-in-listed-indian-companies_38575.html</a>		
SEBI clarification on KYC for FPIs and clubbing of investment limits for foreign government	The Securities and Exchange Board of India (SEBI) has issued clarifications for: 1. Identification of Beneficial Owners (BOs) in Foreign	Regulatory	SEBI has issued clarification for KYC Requirements and identification of BOs for FPIs. In addition, SEBI has also provided a set of FAQs related to clubbing of investment limits

Important Announcements	Details	Category	Impact
entities	<p>Portfolio Investors (FPIs), under the Know Your Client (KYC) requirement</p> <p>2. Frequently Asked Questions (FAQs) on limit monitoring and clubbing of investment limits for Foreign Government and related entities</p>		by Foreign Government and its related entities.
	<p><a href="https://www.sebi.gov.in/legal/circulars/apr-2018/clarification-on-clubbing-of-investment-limits-of-foreign-government-foreign-government-related-entities_38616.html">https://www.sebi.gov.in/legal/circulars/apr-2018/clarification-on-clubbing-of-investment-limits-of-foreign-government-foreign-government-related-entities_38616.html</a></p>		
	<p><a href="https://www.sebi.gov.in/legal/circulars/apr-2018/know-your-client-requirements-for-foreign-portfolio-investors-fpis-_38618.html">https://www.sebi.gov.in/legal/circulars/apr-2018/know-your-client-requirements-for-foreign-portfolio-investors-fpis-_38618.html</a></p>		
	<p>SEBI has notified amended Eligibility Conditions and KYC requirement for FPIs. The amended notification supersedes the circular dated April 10, 2018 and has been issued after undertaking consultations with market participants, based on recommendations made by H.R. Khan work group</p>	Regulatory	<p>The amended notification covers the following:</p> <ol style="list-style-type: none"> <li>1. Identification and verification of Beneficial Owner</li> <li>2. Periodic Review of KYC</li> <li>3. Data Security of personal information on KRA</li> <li>4. Eligibility conditions where NRIs/OCI/RI are constituents of FPI</li> <li>5. Timelines for compliance and impact of non-compliance</li> </ol>
	<p><a href="https://www.sebi.gov.in/legal/circulars/sep-2018/know-your-client-requirements-for-foreign-portfolio-investors-fpis-_40408.html">https://www.sebi.gov.in/legal/circulars/sep-2018/know-your-client-requirements-for-foreign-portfolio-investors-fpis-_40408.html</a></p>		
	<p><a href="https://www.sebi.gov.in/legal/circulars/sep-2018/eligibility-conditions-for-foreign-portfolio-investors-fpis-_40409.html">https://www.sebi.gov.in/legal/circulars/sep-2018/eligibility-conditions-for-foreign-portfolio-investors-fpis-_40409.html</a></p>		
SEBI review of framework for stocks in derivatives segment	<p>SEBI has notified revised framework for settlement of equity derivatives to strengthen derivatives market in India:</p> <ul style="list-style-type: none"> <li>— Physical settlement for all stock derivatives shall be made mandatory in a phased and calibrated manner, to facilitate greater alignment of cash and derivatives market</li> <li>— Enhanced eligibility criteria for introduction of stocks into the derivative segment</li> <li>— After a period of 1 year from the date of circular (April 11, 2018), only those stocks which meet the enhanced criteria would</li> </ul>	Regulatory	<p>SEBI has notified that stocks in derivatives segment would be moved to physical settlement in phased manner. It has also introduced a set of enhanced eligibility norms for stocks to be included in derivatives segment. Stocks not confirming to the enhanced eligibility would be moved to physical settlement. SEBI would notify on when the stocks which continue to meet enhanced eligibility criteria, would move to physical settlement.</p>

Important Announcements	Details	Category	Impact
	remain in derivatives segment		
	<a href="https://www.sebi.gov.in/legal/circulars/apr-2018/review-of-framework-for-stocks-in-derivatives-segment-_38629.html">https://www.sebi.gov.in/legal/circulars/apr-2018/review-of-framework-for-stocks-in-derivatives-segment-_38629.html</a>		
Amendments to SEBI (FPI) Regulations, 2014	SEBI has notified amendments to FPI Regulations on following aspects <ul style="list-style-type: none"> <li>— Eligibility criteria of FPI</li> <li>— Category of FPIs</li> <li>— Broad based fund criteria</li> <li>— General obligations and responsibilities of FPI- Compliance with guidelines</li> <li>— Obligations and responsibilities of DDP- Encumbrance on shares</li> </ul>	Ease of doing business	The key amendments include – <ul style="list-style-type: none"> <li>(i) providing deemed broad based status where the institutional investors are Bank, Sovereign Wealth Fund (SWF), Pension Fund and hold more than 50% of shareholding</li> <li>(ii) New categories like Broker Dealer, Swap Dealer have been included as eligible FPI categories</li> <li>(iii) In case of exit of investors from broad based fund, a timeline of 90 days has been provided to meet the broad-based status.</li> </ul>
	<a href="https://www.sebi.gov.in/legal/regulations/apr-2018/securities-and-exchange-board-of-india-foreign-portfolio-investors-amendment-regulations-2018_38626.html">https://www.sebi.gov.in/legal/regulations/apr-2018/securities-and-exchange-board-of-india-foreign-portfolio-investors-amendment-regulations-2018_38626.html</a>		
Investment by FPI in Debt securities – revised framework	RBI and SEBI have revised operational framework FPI Investment in Debt securities on following aspects: <ul style="list-style-type: none"> <li>— Revision of minimum residual maturity requirement</li> <li>— Revision of security-wise limit (Overall FPI Limit) for G-sec to 30%</li> <li>— Online monitoring of utilization of limits in G-Secs</li> <li>— Introduction of Concentration Limit as investment by any FPI in a category to 10% (15% for Long Term FPIs) of prevailing investment limit for that category</li> <li>— Introduction of investor-wise exposure limit to single/group corporate bonds</li> </ul>	Regulatory	The key changes include <ul style="list-style-type: none"> <li>(a) reducing the residual maturity period</li> <li>(b) with online limit monitoring by CCIL of the G-Sec investments, the auction mechanism of acquiring limits prior to investments is discontinued for G-Sec;</li> <li>(c) Introduction of new limits called “Concentration Limits” at each FPI level in each of the categories (i.e. G-Sec, SDL, Corporate Bond) which will be threshold a single FPI can invest in such categories;</li> <li>(d) Limiting of exposure by FPIs to a corporate or participation in any issue of Corporate bonds.</li> </ul>
	<a href="https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11303&amp;Mode=0">https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11303&amp;Mode=0</a>		
	<a href="https://www.sebi.gov.in/legal/circulars/jun-2018/review-of-investment-by-foreign-portfolio-investors-fpi-in-debt_39284.html">https://www.sebi.gov.in/legal/circulars/jun-2018/review-of-investment-by-foreign-portfolio-investors-fpi-in-debt_39284.html</a>		

## 15.2.2. Foreign Direct Investment

Important Announcements	Details	Category	Impact
FEMA amendments notified - Liberalisation of FDI policy	Liberalisation of FDI policy	Regulatory	These are intended to liberalise and simplify the Foreign Direct Investment (FDI) in India so as to provide ease of doing business. The investment norms have been liberalised in sectors such as Single Brand Retail Trading (SBRT), civil aviation, power exchanges, and pharmaceuticals amongst others

<http://www.egazette.nic.in/WriteReadData/2018/184286.pdf>

# India – An Attractive Destination for FPIs

Neeraj Kulshrestha

The global economy is now growing at its fastest pace since 2010. However, India continues to be the fastest growing major economy, powered by various economic reforms and policy initiatives in the last few years.

## India's Global Upsurge

The Indian economy is the third largest in the world, after China and the US, in terms of purchasing power parity (PPP) and the sixth largest in terms of nominal Gross Domestic Product (GDP). It is one of the major G-20 economies with an average growth rate of around 7% over the last two decades. In comparison, the global economy is projected to grow at 4% in 2018 and 2019 from 3.7% in 2017. While India's economy maintained 6.7% GDP growth in FY 2017-18, with a strong 7.7% growth in the last quarter. The recent growth projection of Indian economy by the World Bank and International Monetary Fund (IMF) at 7.4% in FY2018-19, and 7.8% in both FY2019-20 and FY2020-21 cement its place as the world's fastest growing major economy.

The country's industrial activity has now rebounded, and services indicators have shown positive trends. For instance, in June 2018, the index of industrial production (IIP) grew at its fastest pace in five months at 7%, wherein consumer goods grew at a 21-month high of 13.1% in June while capital goods maintained a positive growth rate at 9.6%. Further, due to a series of policy initiatives as detailed later, India moved into the world's Top 100 countries in terms of ease of doing business and now has the potential to become one of the top investment destinations. Buttressing India's stability is its foreign exchange reserve of over US\$ 400 billion. India's global upsurge is reflected in the domestic capital markets witnessing new highs. Since August 2017, the barometer of the capital markets, the S&P BSE Sensex has risen 20% to reach 38,000 levels for the first time.

## Policy Reforms to boost Investment Climate

The policies pursued by the Government of India (GoI), stable macro-economic indicators, structural reforms, improved business climate and liberal FDI regime have resulted in stable foreign capital inflows. The rollout of the Goods & Services Tax (GST), introduction of the Insolvency and Bankruptcy Code (IBC), the large-scale mobilization of Jan Dhan Yojana, etc. are examples of inspired action towards policy reforms. GST has not only streamlined the taxation structure but also benefited businesses in several ways, including easier compliance, input tax credits, savings on logistics costs and higher competitiveness. Introduction of IBC replaces multiple laws and bodies previously dealing with insolvencies. IBC has created a long overdue reform for the resolution of stressed assets of Indian banks. Evidently, the regulators are engaged in providing the most suitable and globally competitive regulatory and dispute resolution ecosystem.

Many policy measures taken by the Government for creating enabling environment for industrial

growth have started showing their impact on increased FDI inflows and better performance of infrastructure sector. The landmark initiatives like Make in India, Start-Up India, Digital India, and Smart Cities, etc. will provide further impetus to new age industries and are expected to be the key driver of economic growth in the country. Rising income levels and economic prosperity is expected to drive demand for infrastructure investment in India over the next 25 years. According to the economic survey 2018, India will need about US\$4.5 trillion in the next 25 years for infrastructure development. This throws a huge investment opportunity for investors. The “Make-in-India” initiative intends to enhance the manufacturing sector’s contribution to 25% of GDP and make India a global manufacturing hub. Recently, Samsung Electronics opened the world’s biggest mobile phone manufacturing facility and number of overall mobile manufacturing units registering a 60-fold increase in the last four years. India also achieved 100% electrification of villages. India has also set a target of achieving 175 GW of renewable energy by 2022 and selling only electric vehicles by 2030.

Demonetization has been another initiative which has had a significant impact on financial services. While it has helped curb the parallel economy it has also promoted increased digitisation of the economy. Demonetisation led to a distinct accentuated shift towards capital market instruments with equity mutual funds receiving exceptional net inflows to the tune of Rs 1.23 trillion in the one year period between November 2016 and October 2017. This has brought in additional depth and liquidity in the capital markets offsetting net outflows of foreign investments. There was also a marked shift in investors’ saving patterns, from physical assets like real estate and gold to financial markets, which augurs well for the capital markets.

Another consequence of demonetisation was the significant thrust to digital transactions in the country. Parameters such as volume of digital transactions and cash-to-GDP ratio indicate increased formalisation of the economy. The Pradhan Mantri Jan-Dhan Yojana (PMJDY), launched in 2014, provides banking services to the unbanked population and brings them under the financial mainstream. With 1.1 billion Indian population getting biometric-identification based Aadhaar cards and the telecom subscriber base crossing the 1.2 billion mark, the delivery of government benefits like direct transfer will be transparent.

## Fillip to Capital Market

Along with the reforms pursued by the Government, the regulators, SEBI and RBI have initiated several policy measures with respect to encouraging investment. The regulators have introduced several new instruments such as Sovereign Gold Bonds, Municipal Bonds, Commodity options, REITs, etc., within a short span of time, giving investors a wide choice of asset classes. Opening up of the commodities market to institutional investors and permitting of FPI investments in unlisted debt securities as well as securitised debt instruments are being actively considered. The recent relaxations for FPI investments in government securities and corporate bonds with regard to reducing residual maturity conditions as well as doing away with auction mechanism are encouraging. This move would further promote FPI participation in Government securities (G-Secs) and the State Development Loans (SDLs). Importantly, FPIs can now invest in Treasury Bills, which was not available since July 2014.

India has also been at the forefront of addressing systemic risks arising from multiple exchanges and clearing venues. Measures like interoperability among depositories, robust risk and default management practices, mandatory CCP clearing for exchange-traded products, among others, are important parameters which make Indian markets secure. Interoperability of clearing corporations is the next reform in the pipeline that would further revolutionise the post-trade structure in India and increase the competitiveness and of India as a safe investment destination.

## Advent of Indian IFSC and India INX

As a part of policy reforms to encourage more foreign investment, in November 2016, the regulator granted an in-principle approval for setting up an International Exchange and International Clearing Corporation in Gujarat International Finance Tech (GIFT) City IFSC. In January 2017, BSE

operationalized India's first International Exchange and Clearing Corporation, India INX and India ICC respectively. India INX currently offers derivatives trading in equities, currency, interest rates and commodities at par with other global financial hubs. Since then the IFSC has witnessed several reforms. Recently in May 2018, the capital market regulator also permitted foreign investors in GIFT City to have 'omnibus trade structure' to ease access. The proposed GIFT City unified regulator would also provide a single window for all regulatory concerns and help expedite decisions on multiple policies.

India INX has delivered an exponentially increasing growth in trading turnover from less than USD 1 million to more than USD 500 million daily trading turnover. India INX is the clear market leader among international exchanges with almost 75% market share for the financial year FY2017-18. Going ahead, the Budget for FY 2018-19 also allows tax exemptions for transfer of derivatives and certain securities by non-residents from capital gains tax.

## Way Forward

A stable macroeconomic environment is a precursor to growth. India has demonstrated a resolve to achieve fiscal consolidation, complemented with conducive policies and infrastructure investment. This offers FPIs an unprecedented opportunity of investing in India and gain from potential benefits as Indian economy grows.

**Neeraj Kulshrestha**

Chief of Business Operations

BSE

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# IBC Changes the Face of Indian Corporate Insolvencies

Aashit Shah

The Insolvency and Bankruptcy Code, 2016 (“IBC”), which came into effect in December 2016 for corporate insolvencies, has brought about a sea change in the insolvency landscape in India. Not only has it been used successfully as a debt recovery tool by several lenders (although its intended purpose may have been different), but it has generated enormous distressed M&A activity.

Once the corporate insolvency resolution process (“CIRP”) of a corporate debtor commences under the IBC, an independent resolution professional (“RP”) takes over of the affairs of the corporate debtor. The existing board of directors stands suspended. The RP is responsible for day to day functioning of the corporate debtor and is required to obtain viable resolution plans for resolution of the debts and turnaround of the entity. At the outset of the CIRP process, a committee of creditors (“COC”) comprising of financial creditors is also formed to approve major decisions during the CIRP and approve or reject the resolution plans. If the COC approves a resolution plan, then it has to be approved by the National Company Law Tribunal (“NCLT”). If the COC does not receive or rejects a resolution plan, or the NCLT rejects a plan, the corporate debtor is ordered to be liquidated. It is noteworthy that under the IBC regime, it is not possible for lenders to directly initiate liquidation proceedings without commencing the CIRP as the thrust of the new law is on a timely revival of the enterprise.

A lot has already been written and spoken about the IBC in various media and fora. Therefore, in this article, I have briefly discussed a few issues that may be of interest to foreign portfolio investors (“FPIs”) and other foreign lenders.

## Participation in the CIRP

FPIs usually invest in debt securities of Indian companies (mainly non-convertible debentures (“NCDs”) or foreign currency convertible bonds (“FCCBs”)) and foreign lenders usually lend money to Indian entities through the external commercial borrowing (“ECB”) route. Such debt may either be secured or unsecured. The good news is that foreign lenders are permitted to initiate a CIRP for an Indian corporate debtor just like their Indian counterparts, if there is a payment default of Rs. 100,000 or more. They also enjoy a seat at the COC as much as Indian financial creditors and are entitled to vote on the COC based on their share of the outstanding debt. Voting is not undertaken per class of financial creditors, but is common amongst all classes of financial creditors, foreign and Indian, secured and unsecured. So, an FPI who is an unsecured NCD holder, a secured ECB lender and a secured / unsecured Indian lender are all part of the same voting pool. Major decisions at the COC are taken by a 66% affirmative vote, and other decisions by a 51% affirmative vote. Therefore, foreign lenders may either be able to positively influence a resolution if they along with their “allies” control 66% or may be able to block a resolution plan if they own more than 34% of the outstanding financial debt.

## Moratorium and impact on guarantees and security

However, once the CIRP commences, there is a moratorium imposed on institution or continuation of legal proceedings against the errant corporate borrower and on enforcement of any security on assets of the borrower. Foreign lenders should note that if the CIRP is commenced based on a claim filed by another financial creditor or an operational creditor or by the corporate debtor's own application, they will not be able to institute proceedings against the borrower or enforce security provided by it. Therefore, foreign lenders should ensure that provisions are built into credit documentation enabling them to accelerate their debt and enforce security before CIRP commences. But commencement of the CIRP does not prohibit them from enforcing guarantees or security given by the promoters or directors of the borrower or any third party. The IBC provides that guarantees for financial debts are also financial debts themselves, and judicial precedents have also clarified that claims can be made against guarantors while the CIRP of the borrower is ongoing. It is noteworthy that where an Indian entity has provided a guarantee for the debt availed by its Indian or overseas subsidiary/affiliate and the CIRP of such Indian guarantor commences due to non-payment of the guarantee or non-payment of some other financial debt, the beneficiaries of the guarantee will be treated as financial creditors and will enjoy a seat and vote on the COC of such guarantor entity. Having said that, it is important to mention that being a mere beneficiary of third party security does not entitle the lender to be part of the COC on commencement of any CIRP of the third-party security provider. This problem could be mitigated if the security provider also provides a guarantee for the underlying financial debt.

## Eligibility to bid in the CIRP

FPIs or foreign funds are also eligible to participate in the bidding process of a corporate debtor. The infamous Section 29A of the IBC provides certain ineligibility criteria for resolution applicants. Amongst them, there is a wide-ranging concept of "connected persons" which includes holding companies, subsidiaries, associate companies and related parties of any person who is a promoter of or in management or control of the resolution applicant, or who will be a promoter of or in management and control of the corporate debtor during implementation of the resolution plan. If any connected person of a resolution applicant meets any of the ineligibility criteria, then the resolution applicant cannot bid for the corporate debtor. Initially, when Section 29A was introduced, it provided very limited carve-outs. The amended Section 29A carve-outs out "holding companies, subsidiaries, associate companies and related parties" from the eligibility test if a resolution applicant is, amongst others, an FPI, a foreign venture capital investor or an entity regulated by a foreign bank or securities or financial market regulator. This enables such overseas entities to bid for Indian targets without the fear that their portfolio entities that they control meet any of the disqualifications listed in Section 29A.

## Distribution of proceeds

The IBC provides a distribution waterfall in case of liquidation, where secured creditors rank above unsecured financial creditors, and unsecured financial creditors rank above other unsecured creditors (including most operational creditors). During liquidation, secured creditors also have the option to enforce their security outside winding up and only claim for their balance amounts as unsecured financial creditors in the liquidation process. However, there is no waterfall prescribed under the CIRP and no security enforcement is permitted during the CIRP. Payments to creditors in a CIRP are based on the approved resolution plan. A resolution plan must provide for payment of CIRP costs on priority, followed by payments of the liquidation value due to operational creditors. Liquidation value is the amount that such creditor would have received in a liquidation of the corporate debtor based on the ranking in the liquidation waterfall. In most cases the liquidation value will be nil for operational creditors, especially where financial creditors are taking a haircut on their debt repayment. After that, any dissenting financial creditor has to be paid its liquidation value before payments to assenting financial creditors. The magnitude of hair-cuts that creditors take will depend on the 66% majority of the COC that approves a plan (and the NCLT). Foreign lenders should bear in mind that if they

dissatisfied with the resolution plan or are likely to get a higher amount if they dissent, they may choose to dissent and get paid out by a successful resolution applicant before the assenting financial creditors.

Once a resolution plan is approved by the NCLT, it is binding on the corporate debtor and its employees, shareholders, creditors, guarantors and any other person entitled to receive any proceeds in a liquidation of the company.

The IBC has emerged as a powerful tool for restructuring and resolution of debts in a time bound fashion. While the originally envisaged timeline of 180 days (extendable upto 270 days) for the CIRP has not been met in most cases, the resolution process is still significantly faster than in the pre-IBC era. Several teething issues are being resolved through amendments to the law and judicial pronouncements. There certainly is tremendous political will to make the IBC a success, and its success will go a long way in improving the Indian credit system.

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# Indian Investors and Commodities

Vikram Dhawan

India is a Commodity deficit country. Besides few bulk commodities like Iron Ore, Bauxite, Manganese etc. India is net importer of most Base Metals, Precious Metals and Oils.

Indian Imports 2017		US\$ Billion	%
1	Crude Oil	82	18%
2	Fuels & Gases	41	9%
3	Gold & Silver	39	9%
4	Coal	21	5%
5	Metals & Minerals	16	4%
6	Rest	245	55%
TOTAL		444	

45% of our Imports are Energy & Metals/Minerals

(Source [www.worldstopexport.com](http://www.worldstopexport.com))

Indian consumes over 20 lac Crores (300 BUS\$) worth of Metals and Energy Commodities annually. A sharp rise in global Commodity prices can have material impact on Indian Economy and subsequently our Capital Markets. Moreover, the consumption growth of most Commodities is outpacing the GDP growth thereby increasing our reliance on imports each year.

Therefore, it is no coincidence that fluctuations in Commodity prices affect our economy and eventually our Equity, Bond and Currency markets.

In some cases, the correlations are extremely profound and can be exploited for diversifying risks. For instance, the Yields of 10 Year Gilts are strongly correlated to global Crude Oil and Base Metals prices. A smart portfolio of Base metals and Oil can provide hedge against rising interest rates.

Correlation with 10 Year GSEC Yield		
1	Crude Oil	0.74
2	Aluminium	0.73
3	Copper	0.84
4	Nickel	0.70
5	Zinc	0.66
6	Lead	0.86
AVERAGE		0.76

Data from Jan-2007 (Source Bloomberg)

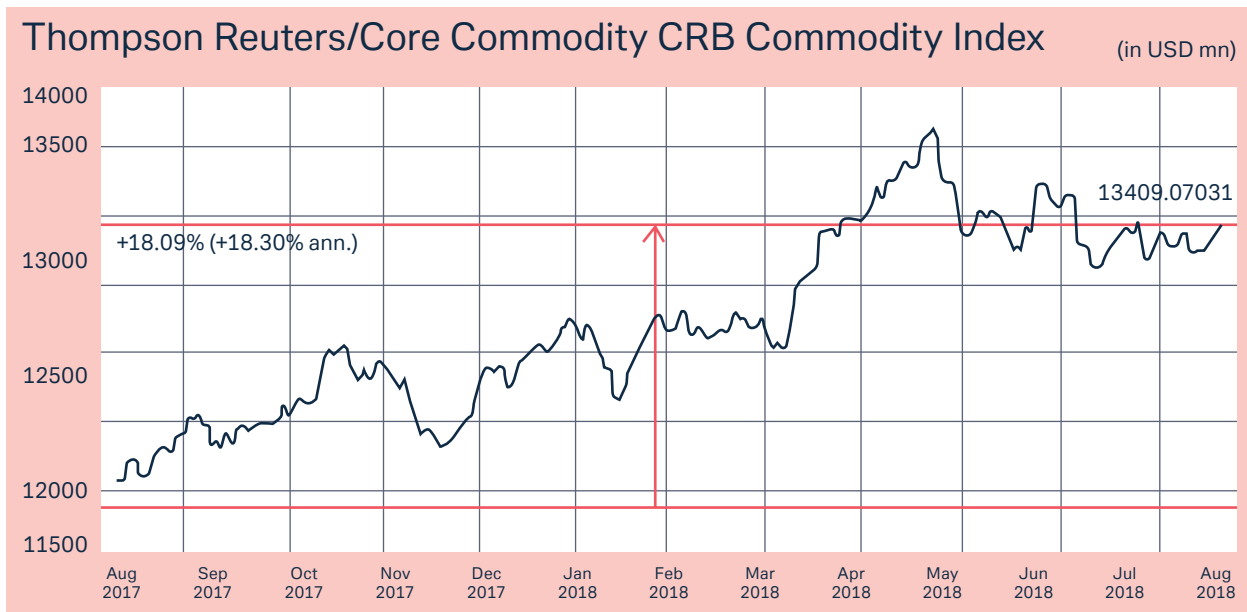
On the other hand, Indian Equities are negatively or poorly correlated with Precious Metals and Agri-Commodities and can be used for portfolio diversification.

All global Commodities like Oil and Metals are priced in US Dollars. Rupee depreciations against the US Dollar increases their prices in Rupees terms. Commodities are one of the few asset classes that provide cover against sharp Rupee depreciation. Rupee has depreciated by almost 9.5% in last 12 months (August 2017 up to August 2018) and a well-diversified Smart Commodity Portfolio may cover most of it.

Correlation with Nifty		
1	Gold	(0.23)
2	Silver	0.37
3	Natural Gas	(0.05)
4	Palm Oil	0.06
5	Soy Bean	0.38
AVERAGE		0.11

Data from Jan-2007 (Source Bloomberg)

A well-diversified Commodity Index like CRB has returned over 18% in Rupee terms in past one year, thanks to uptick in Commodities fundamentals and sharp fall in Rupee.



Commodities are volatile however; a Diversified Smart Portfolio of Commodities can match the risk weighted returns of other asset classes. Moreover, their poor or negative correlation with other asset classes means that they enhance the risk weighted returns of portfolios.

There is a pressing need for Commodities Investment Products in India that diversify the Portfolio, Inflation/Interest and Currency risks.

In India Category III Alternate Invest Funds are permitted to invest into listed Commodity Derivatives in local Commodity Exchanges. As per news reports and public statements of SEBI officials, Mutual Funds may also be permitted to invest into Commodities in the not too distant future.

Reliance Nippon life Asset Management is committed to offering quality Commodity Investment Products to India investors subject to SEBI regulations and approvals.

**Vikram Dhawan**

Head Commodities

Reliance Nippon Life Asset Management Limited

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# 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/yy yy

1.4 Place and Country of Birth/ incorporation/establishment / formation:

Place	Country
-------	---------

In case of Foreign Individual applicant, please specify the nationality and passport no. of the applicant:

Nationality	Passport No.
-------------	--------------

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 Organisations/ 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 other and 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

S 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 authorised 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 Authorised 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 1, 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	The applicant needs to provide the place and country where the applicant is incorporated or set up
1.5	In case of Foreign Individual applicant, please specify the nationality and passport no. of the applicant	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
<b>2</b>	<b>Category of the Applicant</b>	
2.1	Type of Category (I/II/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.  Category determination is important and

Section reference	Information required in Form A	Guidance comments
		<p>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>
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 (1) shareholding, (2) voting rights (3) any other forms of control, in excess of 50%, across FPIs, if any (including existing FII / Sub accounts).</li> </ul>
3	Details of Regulatory authority by which the applicant is regulated (If applicable)	
3.1	Contact details	<p>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)</p>
3.2	Registration Number/Code (If any)	<p>The applicant needs to mention their registration number with the Regulator</p>

Section reference*	Information required in Form A	Guidance comments
4	<b>Disciplinary History</b>	
4.1	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, furnish details in annexure. Please do not mention 'Not Applicable' under this section.
6	<b>Details of prior association with the Indian securities market.</b>	
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, furnish details in the table provided in Form A.  'From' Field in table: Refers to the date of SEBI approval letter for the FII/Sub Account  'To' Field in table: Refers to the date of SEBI cancellation letter for the FII/Sub Account  Please do not mention 'Not Applicable' under this section.

\*This refers to the corresponding Section in Form A provided in Annexure 1.1

## 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

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 Organisation 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 authorised 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:

### C. APPLICANT

(Not appropriately regulated fund) seeking registration under Category II on behalf of appropriately regulated Investment Manager

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 Authorised Person(s)

[Please mention name of the FPI]

## Annexure 2.2: Additional Registration Documents

S No.	Document	Signing Authority
1	Memorandum & Articles of Association or any other equivalent formation document	<ul style="list-style-type: none"> <li>— To be certified by the authorised signer 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>
2	Copy of FPI Registration Certificate (if applicable) *	
3	Investment Management Agreement (if applicable) *	1. To be certified by the authorised signer 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





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:				Details to be completed in the Annexure (Page 3)
2	DIN of whole time directors:				
3	Aadhaar number of Promoters/Partners/Karta				
<b>D. DECLARATION</b>					
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.					
Name & Signature of the Authorised Signatory(ies) _____				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				Seal/ Stamp of the intermediary	
Date					

## 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
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## 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,</b> <b>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
	State	<b>MAHARASHTRA</b>	Country
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(es) 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	<b>0190363005</b>	
3	Bank Name	<b>DEUTSCHE BANK AG</b>	

	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	2
H)	6	IFSC		D	E	U	T	0	7	8
				4	D	C	O			
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 checked="" type="checkbox"/> Yes <input 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)	D	D	M	M	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.

## Acknowledgement

Participant Name, Address &amp; 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 &amp; Signature

## Annexure 3

# List of useful reference links

Bank For International Settlement	<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	<a href="http://dipp.nic.in">http://dipp.nic.in</a>
Financial Action Task Force	<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 Organisation of Securities Commissions (IOSCO)	<a href="http://www.iosco.org">http://www.iosco.org</a>
Ministry Of Finance	<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>
NSE Clearing Limited (NCL)	<a href="http://www.nscclindia.com/">http://www.nscclindia.com/</a>
Press Information Bureau	<a href="http://pib.nic.in">http://pib.nic.in</a>
Reserve Bank Of India (RBI)	<a href="https://www.rbi.org.in">https://www.rbi.org.in</a>
Security Exchange Board Of India (SEBI)	<a href="http://www.sebi.com">http://www.sebi.com</a>

Annexure  
4

## Key Contacts in India

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Indian Clearing Corporation Limited (ICCL)	Name: Ms. Devika Shah Designation: Managing Director & CEO Email: devika.shah@bseindia.com Phone: +91-22-22728040
Central Depository Services Ltd (CDSL)	Name: Ms. Nayana Ovalekar Designation: Chief Operating Officer Email: nayana@cdslindia.com Phone: +91-22-66341855
	Name: Mr. Yogesh Kundnani Designation: Vice President Email ID: yogeshk@cdslindia.com Phone: +91-22-22728694/ 6634 1857
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MCX	Name: Naveen Mathur Designation: Head – Business Development Email: Naveen.Mathur@mcxindia.com Phone: +91-22-6731 9299
	Name: Girish Dev Designation: Head – Strategy Email: Girish.Dev@mcxindia.com Phone: +91-22-6731 9299
Metropolitan Stock Exchange (MSE)	Name: Mr. Ajit Singh Designation: VP- Business Development Email: Ajit.Singh@msei.in Phone: +91-22-6112 9000 Ext: 9169 / +919819887766



National Securities Depository  
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Name: Mr. K. Hari  
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NSE Clearing Limited (NCL)

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Exchange Limited (NCDEX)

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NSDL Database Management Limited  
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Grant Thornton India LLP	Name: Raja Lahiri Designation: Partner Email: Fiigtax@in.gt.com Phone: +91 22 6626 2600

## Legal contacts

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Finsec Law Advisors	Name: Sandeep Parekh Designation: Managing Partner Email: sandeep.parekh@finseclaw.com Phone: +91 22 62363181
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## Annexure 5 | List of Abbreviations used in the book

Abbreviation	Full word
AD	Authorized 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

Abbreviation	Full word
CFT	Combating the Financing of Terrorism
CIS	Collective Investment Scheme
CM	Clearing Members
CP	Commercial Paper
CPI	Consumer Price Index
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

Abbreviation	Full word
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 & 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
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

Abbreviation	Full word
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
GoI	Government of India
G-Sec	Government Securities
Holdco	Holding Company
ICCL	Indian Clearing Corporation Limited
ICDM	Indian Corporate Debt Market
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 Organisation 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

Abbreviation	Full word
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
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 & Derivatives Exchange Limited
NDS-OM	Negotiated Dealing System-Order Matching
NEFT	National Electronic Funds Transfer
NOC	No Objection Certificate
NRI	Non-Resident Indian
NSCCL/NCL	NSE Clearing 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

Abbreviation	Full word
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
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

Abbreviation	Full word
SPAN	Standardised Portfolio Analysis of Risk
SPV	Special Purpose Vehicle
STT	Securities Transaction Tax
TAN	Tax Deduction and Collection Account Number
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

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