

Namaste India

The comprehensive guide for
professionals investing in India



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September 10, 2016

Preface

Against a background of weak global growth, India has stood out as the best performing major economy in the world. Consistent policies, stable currency and investment friendly environment has ensured that India remains the top pick among its peers for global investment community.

2. Foreign Portfolio Investors (FPI) Regulations which introduced a universal entry model for portfolio investments into India in 2014, has contributed towards the goal of attracting investments in Indian capital markets by adding process efficiency and a harmonized framework to international investors.

3. The reference guide Namaste India, first published in 2014, is a comprehensive handbook on accessing Indian capital markets. Congratulations to the Deutsche Bank team for their efforts in publishing this Third Edition 2016.

(Praveen Garg)



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September 16, 2016

Preface

Foreign Portfolio Investors (FPI) Regulations 2014, designed to usher in a harmonized and universal entry model for foreign portfolio investments into India, has proved to be an important milestone in the development of Indian capital markets. As India, being the fastest growing economy at this point of time, continues to be the preferred destination for foreign investors, a stable and investor friendly framework of FPI Regulations will play a critical role in facilitating capital inflow in the country.

Deutsche Bank team has been making commendable efforts in providing clarity and insights to global investment community, and supporting the overall policy focus on ease of doing business. The Namaste India publication is making an important and informative contribution by providing an annual comprehensive update to this guide for FPI investors.

Best wishes to the Deutsche Bank team publishing the 2016 Edition of "Namaste India: The comprehensive guide for professionals investing in India".



RAJEEV KUMAR AGARWAL



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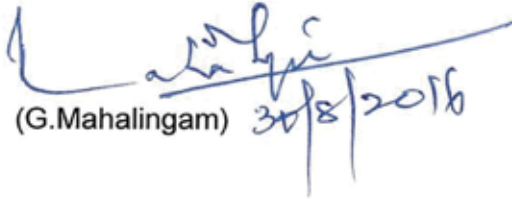
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कार्यपालक निदेशक
Executive Director

As the fastest growing major economy in the world, India remains an outperformer among its peers in emerging markets. As the opportunities in the Indian economy continue to attract global capital, Foreign Direct Investments (FDI) and Foreign Portfolio Investments (FPI) have shown record inflows in recent months.

As we become a significant participant in the global investment flows, the regulatory framework in India has evolved rigorously and is able to address a wide range of asset classes, investor categories and product requirements, "Namaste India" publication is an excellent effort in making available a definitive access guide to Indian capital markets for global investors.

I congratulate the Deutsche Bank team in bringing out this Third Edition of the Namaste India guidebook which, I am sure, will prove to be a popular and useful tool for foreign portfolio investors as the earlier editions.


(G.Mahalingam) 30/8/2016

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हिंदी आसान है, इसका प्रयोग बढ़ाइए

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Foreword

The first two Editions (2014 and 2015) of *Namaste India* have received great feedback from clients and hugely surpassed our own expectations. Given the terrific success, our Team was motivated to work harder and bring out the Third Edition, which is an improvement over the previous Editions in several ways.

We have completed 22 glorious years as a custodian in India, including as a market leading provider for several years now. It gives us immense pleasure to present the Third Edition of *Namaste India* which has come to be recognized as a comprehensive guide for India investments. This edition is not just the latest in terms of being the Guide on all procedural aspects for Foreign Investors to commence their portfolio investments into India, but also has an exciting new segment on "Industry Perspectives", where you can find articles contributed by the leading Tax Agents and Law Firms in India. We have also introduced several new data points in the form of graphs and charts to enhance the user experience.

India continues to be an attractive market for foreign investors as evidenced by the huge inflows into the country relative to most other Emerging Market economies. The policy momentum seen in the last couple of years are motivating many more Global investors to include / increase India exposure to augment their own growth story.

We would like to thank our clients, partners and other intermediaries who continue to provide their valuable feedback and assistance contributing to the contents and printing of this book.



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Foreword

India continues to be one of the preferred investment destinations for foreign investors, and has been so for over two decades now. At this time, India stands out particularly with a big positive in the form of policy momentum on the back of clearly identified themes for growth and development. An increasing number of foreign investors are looking to be a part of the India growth story. The Market Entry regime for Foreign Portfolio Investors (FPI) has stabilized reasonably well, and there is broadly a level playing field across onshore access (FPI route) and the offshore access (ODI route).

Investors into India have long felt the need for a comprehensive handbook particularly for the rules around onshore access via Portfolio Investments. It is a proud moment for us when clients share that Deutsche Bank India, through the [Namaste India](#) series has already bridged this gap quite significantly. Having worked very closely with the Team in India on the first two editions, it gives me great pleasure to see the tradition continue via this Third edition which has more to offer than the previous editions. The team has put together a new segment on "Industry Perspectives", with articles on recent thematic developments from leading Tax and Law Firms.

My congratulations to the India team for having done a great job of putting together this publication which I am sure clients will find useful like the previous editions.



Anand Rengarajan

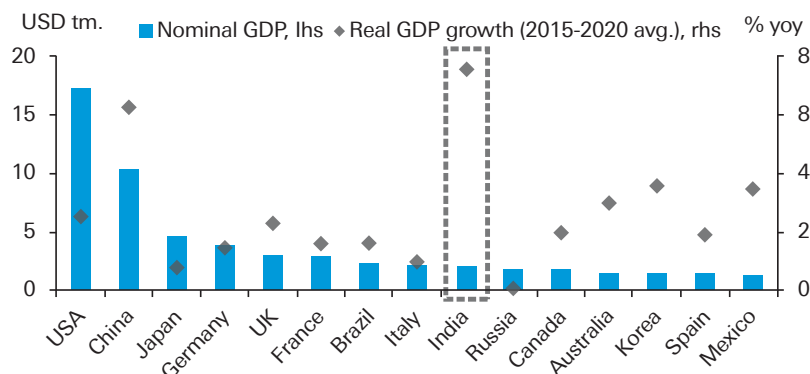
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Chapter 1 Introduction

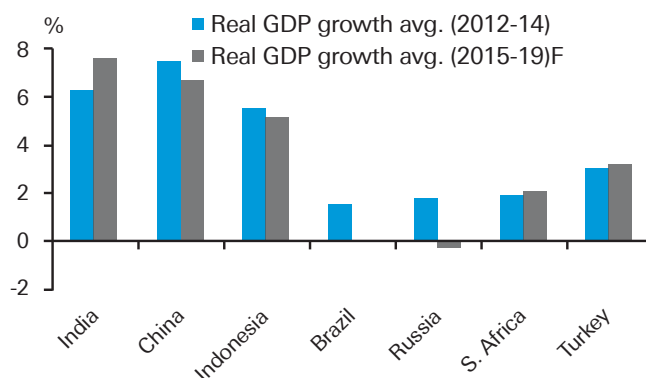
India is expected to remain the fastest growing major economy in the world, against the background of global growth headwinds and prevailing uncertainties. India's equity and debt markets remain the most attractive destination for global investment community. Capital inflows from foreign investors are expected to continue to grow in the medium term.

No country above USD1 trillion GDP is likely to grow as fast as India in the next 5-6 years



Source: IMF, CEIC, Deutsche Bank

We expect India to grow faster than key Emerging Market peers



Source: CEIC, Deutsche Bank

Government initiatives to encourage manufacturing infrastructure, entrepreneurship and develop skill are expected to further boost investor interest. To meet the increased investment demand, and allow foreign investors to participate in this growth, government has also undertaken steps to ease entry and investment for foreign investors, open-up new sectors for investments and make efficient use of IT and emergent technologies. One of the most significant structural reforms - the Goods & Services Tax (GST) bill – is poised to be successfully completed, which is expected to further boost economic growth.

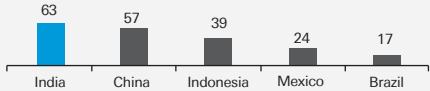
Government: Key initiatives

Key themes

| Make In India | Startup India | Skill India | Jan Dhan Yojna | Digital India |
|---|---|--|--|--|
| Designed to build best-in-class manufacturing infrastructure to facilitate investment and foster innovation | Fostering entrepreneurship & promoting innovation by creating an ecosystem conducive for growth of startups | To help provide an engaging ecosystem to cater to skilling needs of citizens | Financial Inclusion: Ensuring access to various financial services to weaker section and low income groups | Transforming the nation and creating opportunities for all citizens by harnessing digital technologies |
| ~\$2T investment commitment received in 5 key sectors | 2,000 new startups each year by 2020* | 185 million seats (up 22% from 2014) of vocational training | 217 million unbanked people brought under banking ambit | To empower every citizen with access to digital services, knowledge and information |

*NASSCOM estimates

Macro Economic Achievements

| Fastest GDP growth | <ul style="list-style-type: none"> At 7.65% GDP growth in FY16, India leads the world in growth rate In the first quarter of 2016, India's economy grew at 7.9%, 1.2% higher than China's | | | | | | | | | | | | |
|---|--|---------|-------------------|-------|----|-------|----|-----------|----|--------|----|--------|----|
| Top FDI destination | <ul style="list-style-type: none"> In FY16, FDI inflow witnessed a strong YOY growth of 29.32% totaling \$40 billion, vs. 16% contraction in global FDI flows | | | | | | | | | | | | |
| Highest Greenfield investments in 2015 (\$B) |  <table border="1"> <thead> <tr> <th>Country</th> <th>Investments (\$B)</th> </tr> </thead> <tbody> <tr> <td>India</td> <td>63</td> </tr> <tr> <td>China</td> <td>57</td> </tr> <tr> <td>Indonesia</td> <td>39</td> </tr> <tr> <td>Mexico</td> <td>24</td> </tr> <tr> <td>Brazil</td> <td>17</td> </tr> </tbody> </table> | Country | Investments (\$B) | India | 63 | China | 57 | Indonesia | 39 | Mexico | 24 | Brazil | 17 |
| Country | Investments (\$B) | | | | | | | | | | | | |
| India | 63 | | | | | | | | | | | | |
| China | 57 | | | | | | | | | | | | |
| Indonesia | 39 | | | | | | | | | | | | |
| Mexico | 24 | | | | | | | | | | | | |
| Brazil | 17 | | | | | | | | | | | | |
| Improved ease of doing business | Rank improvement of: <ul style="list-style-type: none"> 12 places in ease of doing business (130th rank) 6 places in UNCTAD world investment report 2016 (9th rank) | | | | | | | | | | | | |

Expected future growth drivers

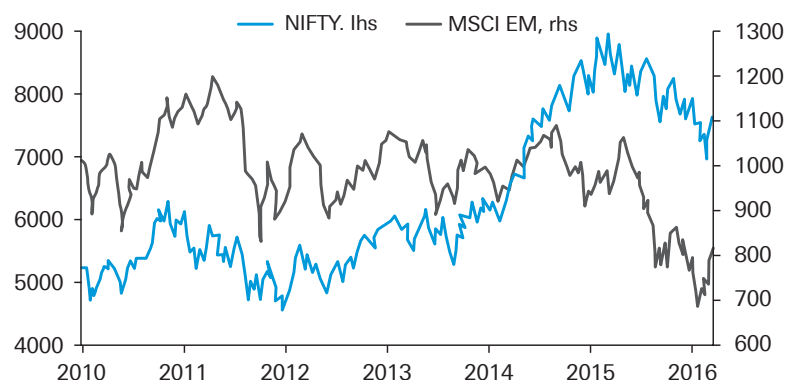
| | |
|---|--|
| Retain 'fastest growing economy' tag | <ul style="list-style-type: none"> Above average monsoons forecast Increased spending and consumption Continued moderate inflation |
| Liberal and transparent FDI policies | <ul style="list-style-type: none"> 20 services integrated with the ebiz portal supporting single window clearance 90% FDI using automatic route |
| Implementation of further structural reforms | <ul style="list-style-type: none"> GST bill passed in the monsoon session; shall enhance efficiencies Land and labor reforms expected to boost productivity |
| Governance | <ul style="list-style-type: none"> Government's drive to introduce transparent policies, e.g. auctions for coal, telecom spectrum etc. Direct benefits transfer for minimal revenue leakage Time bound clearance of projects/ files |

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

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

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

Indian equity markets have been a relative outperformer



Source: Bloomberg Finance LP, 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.

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 1st 2014. The FPI market access model for foreign investors, which evolved from the earlier FII/ sub-account/ QFI model to the harmonized FPI regime, is now stabilized over the last two years and is undergoing a review for further development.

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

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

1.2. What's new in 2016 Edition

This edition covers all the regulatory and procedural changes notified till August 31, 2016 as well as additional material on some key aspects relevant to Foreign Portfolio Investors

Below is the summary of some key revisions in this edition

- Recent Market developments- Ease of doing business
- The Insolvency and Bankruptcy code
- The composition and trends in the fixed income market
- Changes in FDI policy
- One day PAN process
- Process changes applicable to FPI investment in Government Securities
- Changes in corporate debt market mechanism
- Overviews of regulations governing ODI (Overseas Derivative Instrument)
- Additions to cover Asset Servicing
- Expanded chapter on Taxation, with relevant latest updates

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.
- Comprehensive information on the process of market entry is available in Chapter 4, including process for transition from extant FII/ sub-account to the new FPI status.
- Comparative tables on key aspects such as earlier FII model comparison, impact of Categorization and investment permissions across the three foreign investment routes, are included as Chapter 5.
- A detailed note on the risk-based KYC framework, applicable to FPIs is included in Chapter 6. Investment guidelines applicable to the FPI route are described in detail in Chapter 7. 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 8.
- Guidelines related to Banking, remittance rules and currency hedging are covered in Chapter 9.
- Overview of the clearing & settlement environment in the Indian securities market is available as Chapter 10. FPIs experience the same highly developed and stable clearing & settlement structure, as domestic participants in the market. This section provides summary information, designed to convey key aspects. A detailed note on Asset Servicing environment is also included.
- An indicative discussion on the applicable tax structure is provided in Chapter 11. 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.
- Reporting requirements across the three foreign investment routes FPI, FDI & FVCI are covered in Chapter 12
- Chapter 13, 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.

Chapter 2 Securities Market in India - Overview

The securities markets in India have witnessed reform initiatives from FY 2000-01 onwards, which has refined the market micro-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 / scrips / stocks, bonds, debentures, convertible instruments or other marketable securities of a like nature in or of any incorporated company or body corporate
- Government securities
- Rights or interest in securities

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

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

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

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

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

Derivatives market

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

Derivatives are formally defined as

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

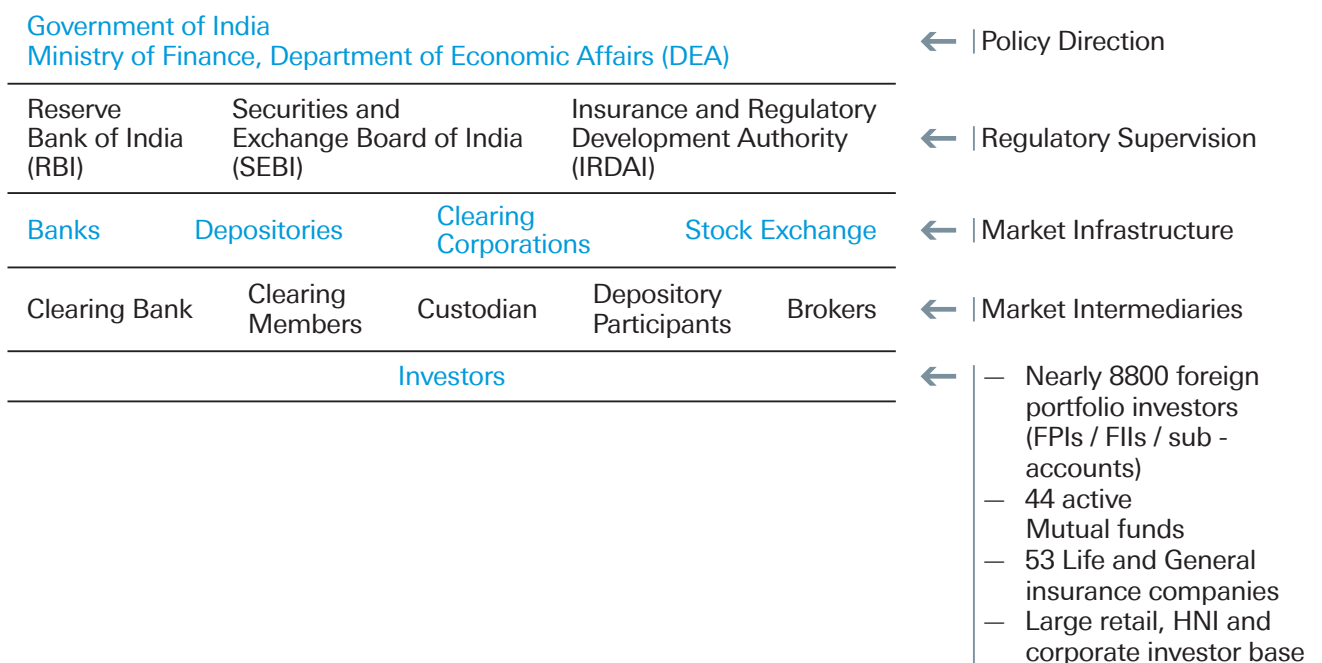
2.2. Legal Framework

Important legislations governing the securities market in India

- **Companies Act 1956 and Companies Act 2013:** provides the framework as well as regulates incorporation of a company, responsibilities of a company, directors, dissolution of a company. It also provides a code of conduct for the corporate sector in relation to issue, allotment and transfer of securities, and disclosures to be made in public issues. The Act also regulates underwriting, the use of premium and discounts on issues, rights and bonus issues, payment of interest and dividends, supply of annual report and other information
- **SEBI Act, 1992:** established SEBI to protect investors and develop & regulate securities market. Regulatory jurisdiction extends over corporate in the issuance of capital and transfer of securities, in addition to all intermediaries and persons associated with securities market. SEBI has powers to conduct enquiries, audits and inspection of all concerned and adjudicate offences under the Act to penalise them in case of violations of the provisions of the Act, Rules and Regulations made 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 free transferability of securities with speed, accuracy and security. It ensures electronic maintenance and transfer of ownership of dematerialised (Demat) securities
 - It provides for all securities held in depository to be dematerialised and in a fungible form
 - It enables the depository to be the registered owner of the securities in the books of the issuer
 - Depository shall maintain a register and index of beneficial owners
 - Depository as the registered owner shall not have any voting rights or any other rights in respect of securities held by it
 - Beneficial owner shall be entitled to all rights and liabilities in respect of his securities held by a depository
- **Exchange Control Manual (ECM) of Reserve Bank of India (RBI) and the 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](#): the PMLA provides the basic statutory framework for identification of customers, transaction records, anti-money laundering measures, monitoring and reporting requirements etc. PMLA defines the broad structure under which KYC and related regulations from SEBI and RBI which are applicable in the securities market are framed
- Rules, regulations and bye-laws of the stock exchanges
- Key statutes applicable for foreign investors
 - 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:

- Department of Economic Affairs (DEA)
- Ministry of Corporate Affairs (MCA)
- Reserve Bank of India (RBI)
- 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 under the Companies Act relating to issue and transfer of securities and non-payment of dividend are administered by SEBI in case of listed public companies and public companies proposing to get their securities listed.

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

2.3. Regulatory Structure

Market Regulators

The various regulatory bodies in the country are:

Ministry of Finance, Government of India (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

Department of Economic Affairs
North Block, New Delhi

Website: <http://www.finmin.nic.in>

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

Securities and Exchange Board of India (SEBI)

SEBI Bhavan, Plot Number C4-A, G Block,
Bandra Kurla Complex, Bandra (E)
Mumbai - 400 051
+ 91 22 26449000

Website: <http://www.sebi.gov.in>

Reserve Bank of India (RBI): The RBI is the Central Bank of India performing various functions

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

Reserve Bank of India (RBI)

Foreign Exchange Department
Central Office Building, 11th Floor
Mumbai - 400 023
+ 91 22 2260 1000

Website: <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.

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

The National Stock Exchange (NSE) and the Bombay Stock Exchange (BSE) are the two 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* | Liquid and short term instruments like Treasury Bills, Cash Management Bills, Certificate of Deposits and Commercial Papers, liquid and money market mutual funds |
| Derivatives | Index Futures, Index Options, Options on individual stocks, Stock futures, Interest Rate Derivatives, Currency Derivatives |
| Others | Mutual Fund Units, Exchange Traded Funds (ETFs), Tier 1 and Upper Tier II capital hybrid instruments issued by banks, Foreign Currency Exchangeable Bonds (FCEBs) and Indian Depository Receipts (IDRs) |

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

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

2.4. Recent Market Developments

2.4.1. Ease of Doing Business

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

Some important changes under the initiative are highlighted below:

| Regulatory changes | Impact to market and investors |
|---|---|
| <ul style="list-style-type: none">– The fund management activity carried-out through an eligible fund manager in India by an eligible investment fund does not constitute business connection in India of the fund and also does not lead to the residence of the fund in India | <ul style="list-style-type: none">– Fund management of foreign funds investing in India can be located in India without giving rise to tax liability for such funds in India. |
| <ul style="list-style-type: none">– SEBI has permitted DDPs to grant registration as FPI to applicants holding registration as FVCIs | <ul style="list-style-type: none">– FVCIs interested in accessing the market through the (Portfolio Investment Scheme) PIS route can seek registration as FPI |
| <ul style="list-style-type: none">– Indian Govt. has set itself the target of climbing into the top 30 of the World Bank's ease of doing business rankings in three years (Ranking jumped up 12 places to 130 in latest World Bank Survey) | <ul style="list-style-type: none">– The necessary reforms will benefit the economy, improve business climate in India and attract more investments |
| <ul style="list-style-type: none">– In May'16, RBI notified revised norms governing the investments by FVCIs under Schedule 6 to FEMA (Transfer or Issue of Securities by a Person Resident outside India) Regulations, 2000, Notification No. 20. | <ul style="list-style-type: none">– The current requirement of obtaining prior approval from RBI for making investments under this Schedule is done away with |

Additional measures by SEBI:

| | |
|---|---|
| <ul style="list-style-type: none">– Simplified Framework announced for Capital Raising by technological start ups and other companies on Institutional Trading Platform (ITP)– Fast Track Issuances for Follow on Public Offerings & Rights Issues– Review of Offer for Sale (OFS) through stock exchange mechanism– Application Supported by Blocked Amount (ASBA) made compulsory for all investors for public issues– Time frame for listing of public issues reduced to 6 working days post issue closure– Stock exchanges to develop systems to facilitate the investors to view the status of their public issue applications on their websites– Online filing of FDI related forms made mandatory by RBI | <ul style="list-style-type: none">– These measures will help companies raise fresh/ incremental capital in a faster and more efficient manner |
|---|---|

2.4.2. Insolvency and Bankruptcy Code

The Insolvency and Bankruptcy Code, 2016 has been passed and assented by the President.

| | New Code 2016 | Old Framework |
|-----------------------|--|---|
| Determination | — Commercial terms to decide bankruptcy | — Judicial terms to decided bankruptcy |
| Time Taken | — Admission up to 14 days + Acceptance of resolution plan or decision to liquidate up to 180 days (extendable to up to 270 days) | — Admission took approximately 2-3 years + Final decision to liquidate takes approximately 6 years. |
| Proof of Debt | — Information maintained by Information Utility is proof of debt. | — Proving debt was a long drawn process |
| Asset Disposal | — Company is restricted for 180/270 days from disposing of assets. | — Specific order was required from the court to restrict disposal of assets |
| Creditors | — All creditors considered — Revival plan also provides for payments of operational debts | — JLF, CDR, SDR did not provide for payments of operational debts |
| Liquidation Waterfall | — Liquidation Waterfall defined | — Not provided for |

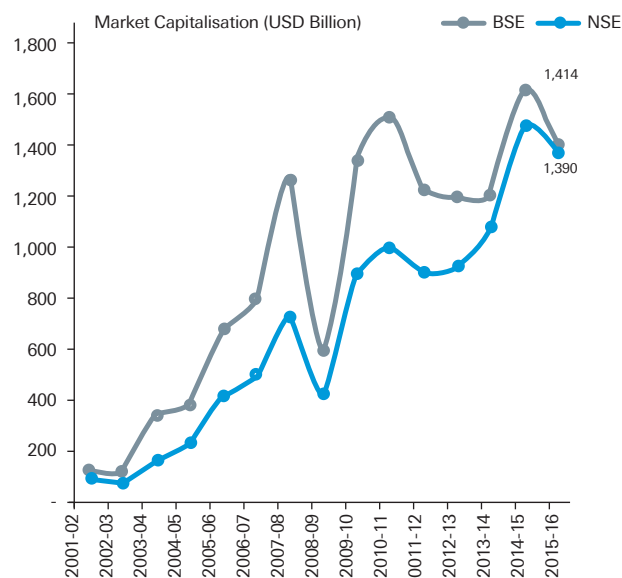
2.5. Capital Market overview

| | |
|------------------------|---|
| Regulators | <ul style="list-style-type: none"> — Reserve Bank of India (RBI) — Securities and Exchange Board of India (SEBI) |
| Stock Exchanges & CCPs | <ul style="list-style-type: none"> — National Stock Exchange (NSE) & National Securities Clearing Corp. Limited (NSCCL) — Bombay Stock Exchange (BSE) & Indian Clearing Corp. Limited (ICCL) — Metropolitan Stock Exchange of India (MSEI) & Metropolitan Clearing Corporation of India Ltd. (MCCIL) |
| G-Sec Market | <ul style="list-style-type: none"> — Negotiated Dealing System- Order Matching (NDS-OM) for trading, reporting — Clearing Corporation of India Ltd. (CCIL) for clearing & settlement |
| Depositories | <ul style="list-style-type: none"> — National Securities Depository Limited (NSDL) — Central Depository Services (India) Limited (CDSL) — Reserve Bank of India |
| Market Participants | Brokers, Custodians, Foreign Portfolio Investors, Domestic Asset Management Companies, Insurance Companies, Banks, Financial Institutions, Local corporations & Retail Investors |
| Market Instruments | <ul style="list-style-type: none"> — Equities — Preference shares — Corporate and Government bonds — Debentures and securitised debt instruments — Mutual funds / ETF |

- Derivatives
- Indian Depository Receipts
- Liquid and Short term instruments
- Treasury bills
- Commercial paper
- Certificates of deposit

Market Statistics

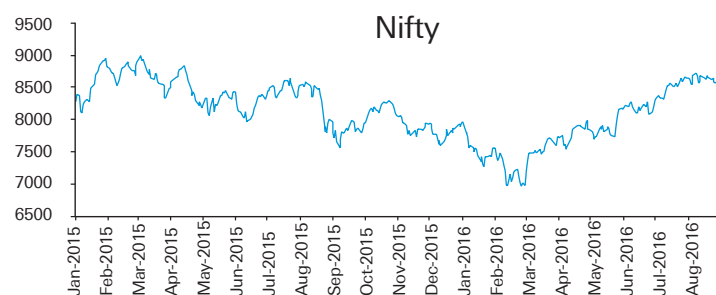
- Market Capitalisation
 - BSE: USD 1581billion (Jul 2016)
 - NSE: USD 1496 billion (Jun 2016)



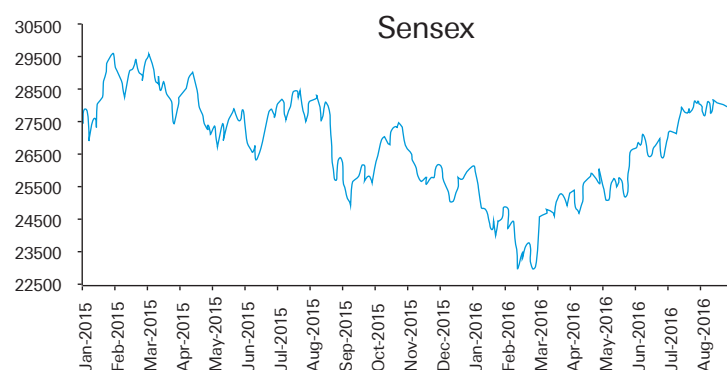
Source: Exchanges

- Total Forex reserves: USD 363 billion (Jul 2016)
- Debt limits for Foreign Portfolio Investors
 - Government securities: INR 2140 billion
 - Corporate Debt: INR 2443 billion

Stock Indices



Source: NSE



Source: BSE

2.6.Trading guidelines overview

| | |
|--------------------------------|---|
| Settlement Currency | Indian Rupee (INR) - Convertible (on-shore) |
| Trading Hours | <ul style="list-style-type: none"> Equity markets operate from Monday - Friday: 9.15am to 3.30pm (Pre-open call session - 9.00am to 9.15am) SLB segment for Securities Lending & Borrowing and Debt segment for corporate bonds also follows the same schedule F&O segment operates from 9.15am to 3.30pm Currency derivative segment operates from 9.00am to 5.00pm NDS-OM: Government Securities (G-Sec) market is available from 9.00am to 5.00pm |
| Settlement Cycle | T+2 for Equities T+1 for Derivative T+1 for SLB T+1 for Government securities for all domestic investors. T+2 for all deals where one or both parties to the deal is a foreign portfolio investor T to T+2 for Corporate bonds |
| Account Structure | Segregated Securities Account Segregated Cash Account |
| Short Selling | Permitted – for FPIs only against Borrow positions in the SLB (Securities Lending & Borrowing) segment |
| 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 & Borrowing | Available as an exchange-based mechanism Foreign investors can lend securities Foreign investors can only borrow securities for delivery into short sales |

2.7.Asset Classes

The asset classes available for Foreign investors

- Equity
- Fixed Income
- Derivatives
- IDR

2.7.1 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.

2.7.2 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.

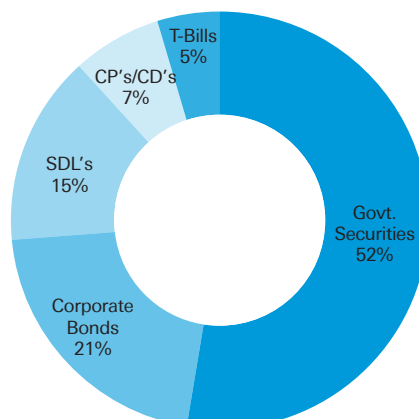
SEBI has mandated that settlement of transactions by foreign investors is to be done in the dematerialised form. SEBI has also mandated that all IPOs will be traded compulsorily in the dematerialised form.

2.7.3 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 |
| Public Sector Bonds | Government Agencies / Statutory Bodies | Govt. Guaranteed Bonds, Debentures |
| | Public Sector Units | PSU Bonds, Debentures |
| Private Sector Bonds | Corporates | Debentures, Bonds, Floating Rate Bonds, Zero Coupon Bonds, Commercial Papers, Inter-Corporate Deposits, Foreign Currency Exchangeable Bonds (FCEBs) Foreign Currency Convertible Bonds (FCCBs) |
| | Banks | Debentures, Bonds, Certificate of deposit |
| | Financial Institutions | Bonds |

The composition and trends of the fixed income market are illustrated herewith



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 key features of the various fixed income instruments are detailed below.

Government Securities (G-Secs)

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

The composition & trends in Government securities market

| Parameter | Govt. Bonds On The Run | Govt. Bonds Off The Run | T-bills | SDL |
|--------------------------------------|---------------------------------------|------------------------------------|-----------------------------------|-----------------------------------|
| O/S Bonds (INR Bn.) | 43,010 | | 4,014 | 14,046 |
| Indicative Yields | 5Y, 10Y, 15Y 7.75% – 7.95% s.a. | 2Y – 40Y 7.40 % – 8.10% s.a. | 3M – 1Y 7.15% – 7.25% annl. | 5Y – 10Y 8.12% - 8.25% s.a. |
| Avg. Daily Trading Volumes | INR 300 Bn | INR 32 Bn | INR 36 Bn | INR 7 Bn |
| Avg. Bid-Ask | 0.25 - 0.50 bps | 2 – 4 bps | 3 – 5 bps | 4 – 5 bps |
| Avg. Trade Size | INR 94 Mn | INR 96 Mn | INR 464 Mn | INR 89 Mn |
| No. of Securities Traded Daily | 3-5 | 20-23 | 18-20 | 25-27 |

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. FII / 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 three years

The composition & trends in Corporate Bonds market

| Parameter | PSU / FI (Quasi Sovereign) | Banks | Pvt. Corporate | NBFC / HFC |
|---------------------------------------|--|--------------------------------------|--|---|
| Top Issuers | REC, PFC, NABARD, PGC, Exim Bank, IOC | SBI, PNB, IDBI, ICICI | Reliance Group, Tata Group, L&T Group | HDFC, LIC Hsg, Tata Fin, Sundaram Fin, L&T Fin, Bajaj Fin |
| Majority Shareholding | 67% – 100% Govt. | 55% -75% Govt. for Govt. Banks | Pvt. Promoter Groups & Institutions | |
| O/S Bonds (INR Bn) | 8,661 | 4,034 | 5,965 | |
| Indicative AAA Yields | 2Y – 10Y 8.20% - 8.33% | 5Y – 10Y 8.30% - 8.50% | 5Y – 10Y 8.45% - 8.50% | 2Y – 3Y AA+ 8.75% - 8.85% |
| Avg. Daily Trading Volumes | INR 8-15 Bn | INR 0.5-1.5 Bn | INR 4-6 Bn | |
| Avg. Bid-Ask (on / off the Run) | 3-5 bps / 5-10 bps | 3-6 bps / 7-10 bps | 3-7 bps (depending on issuer) / 10-20 bps | |
| Avg. Trade Size | INR 180 Mn | | INR 180 Mn | |
| No. of Securities Traded Daily | 10 - 12 | 1 - 2 | 6 - 8 | |

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/ FIIIs/ sub-accounts 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)
- FIIIs/ FPIs are not allowed to invest in Certificates of Deposit

2.7.4 Derivatives

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

2.7.5 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.

2.7.6 Other Instruments

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

2.8. Foreign Exchange

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

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

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

Chapter 3 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.

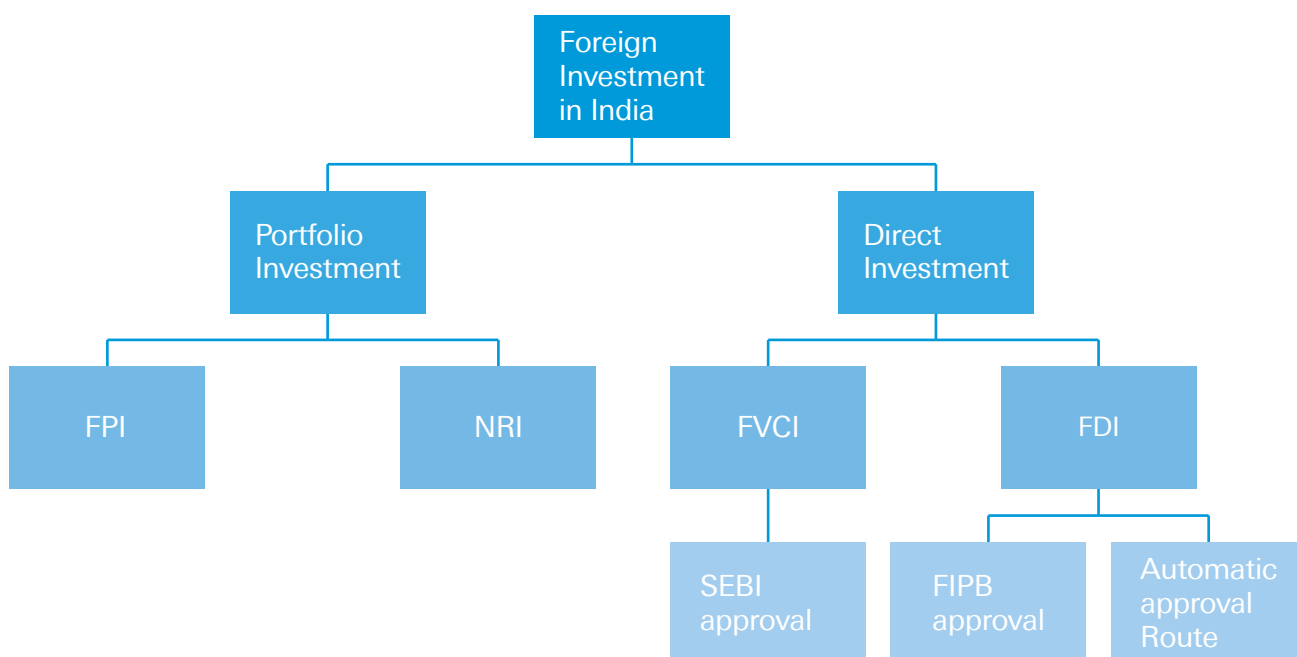
In 2014, SEBI established a new harmonized framework for foreign investment in India called Foreign Portfolio Investor (FPI). Key features of FPI are detailed in subsequent parts of this section.

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

- Foreign Portfolio Investors (FPIs): Entities established or incorporated outside India and permitted to invest in listed Indian securities.
- Non-Resident Indian/ Person of Indian Origin (NRIs/ PIOs): An Indian citizen who stays abroad for employment or carries on business or vocation outside India or a non-resident foreign citizen of Indian origin.
- Foreign Direct Investments (FDIs) (Strategic investments in Indian companies): Investments can be made either directly through the automatic investment route or prior approval from the Reserve Bank of India (RBI)/ Foreign Investment Promotion Board – Commerce Ministry (FIPB) as mandated by the Government of India (GoI) from time to time.
- Foreign Venture Capital Investors (FVCIs): Investments in venture capital undertakings in specified sectors. Prior approval required from SEBI

FPIs and NRIs have direct access to securities traded on the Indian domestic markets.

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



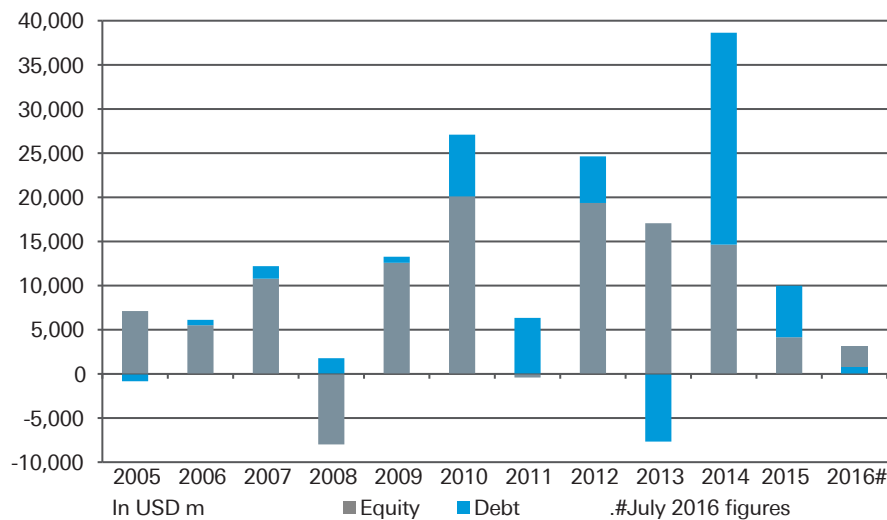
3.2. Foreign Portfolio Investor (FPI)

- 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 executes market registration process on behalf of SEBI
- The DDP engaged by the FPI will also act as the Custodian to the FPI
- Categorisation model for client registration and risk based KYC
- Auto-renewal of registration with payment of fee every 3 years
- One-time Conversion Fee for existing FIIs and sub-accounts moving to FPI
- Risk based KYC applicable
- Individual investment limit to be below 10 % equity in any company, and a composite limit of 24% overall which can be increased upto the sectoral cap applicable to the sector.

FPI Investment Statistics

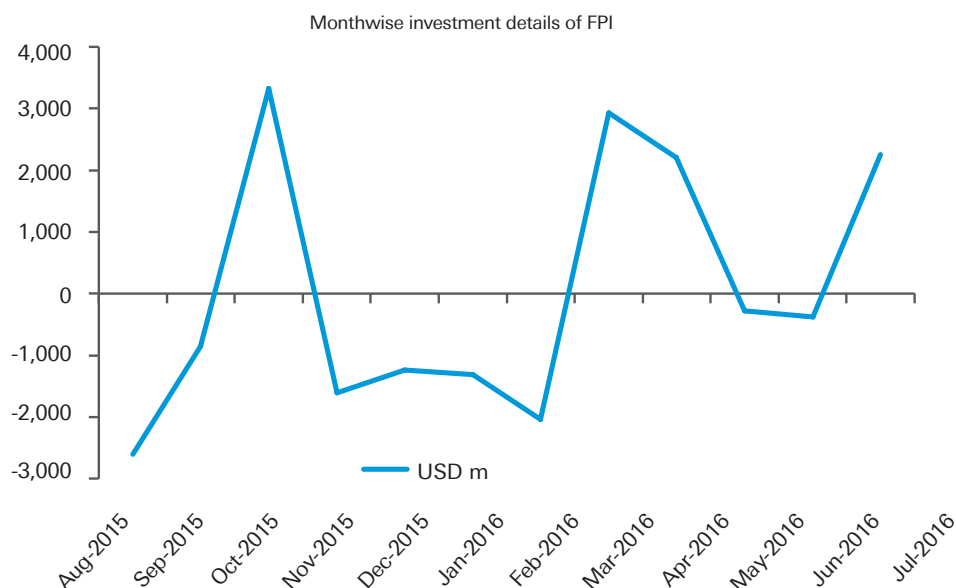
Net Investments through FII/ FPI route

(Source: NSDL statistics)



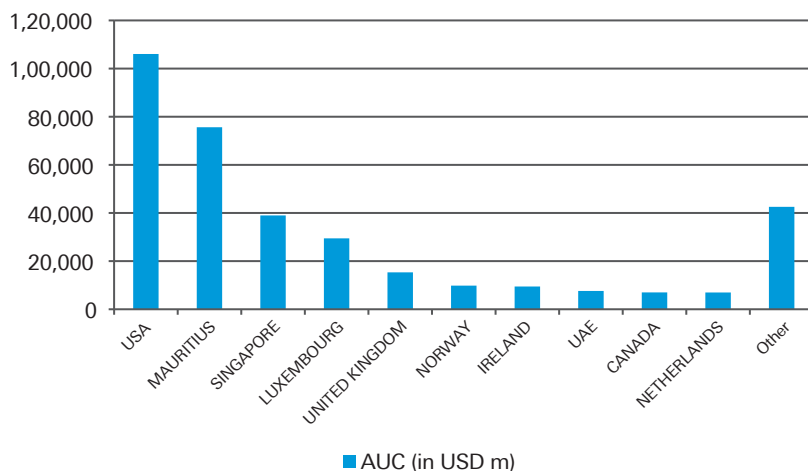
FPI Investment Trend - Aug 2015 to Jul 2016

Source: NSDL website



FPI Investment Trend (Top 10 countries)

Source: NSDL website



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

- Only entities eligible as NRI/ PIO as per Government guideline are eligible under this route. Overseas Citizens of India (OCIs) are also included in the definition of NRIs
- Custodian not compulsory
- Investment in Listed securities and other permissible options
- Individual Limit of 5% equity in any company, and an overall composite limit of 10%
- Uniform KYC guidelines applicable

Foreign Direct Investment (FDI): for strategic investments

- Sectoral entry rules; Automatic or Foreign Investment Promotion Board- Commerce Ministry (FIPB) approval
- 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
- 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

Foreign Venture Capital Investment (FVCI): for attracting foreign investment in selected ventures/ industries identified by Government to encourage certain sectors of the economy

- SEBI Registration required along with payment of fees
- Custodian compulsory
- Investment through IPO permitted (Qualified Institutional Buyer -QIB status)
- Investments restricted to 10 sectors. However FVCI have been permitted to invest in equity or equity linked instruments or debt instruments issued by a startup, irrespective of the sector in which it is engaged
- No pricing guidelines

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

Depository Receipts

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

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

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

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

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

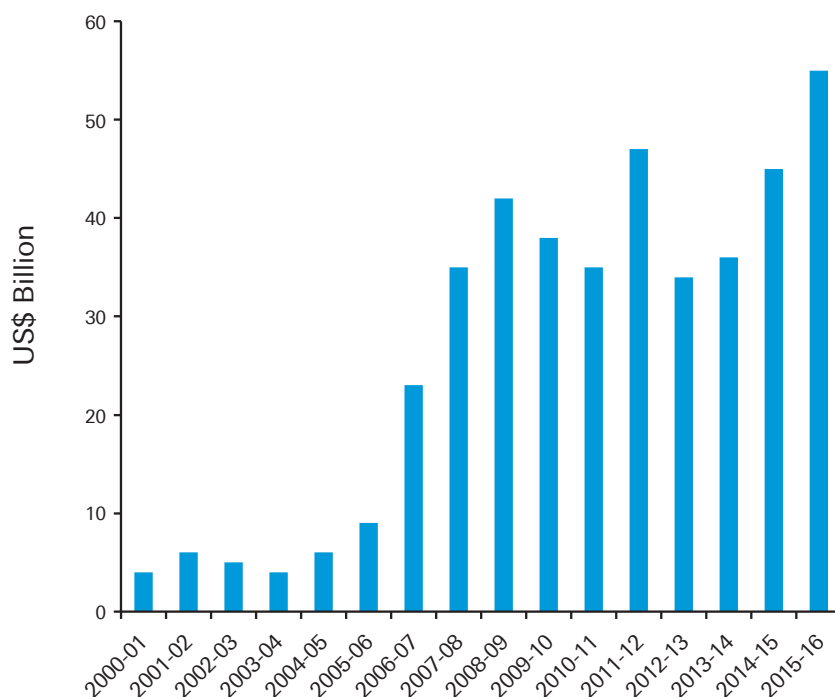
3.3. FDI Overview

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). An Indian entity cannot issue any security to a person resident outside India or record in its books any transfer of securities except as provided under these regulations or with specific permission of the RBI.

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

Net FDI to India

Source: RBI Annual Report 2015-16



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: FDI is allowed under the automatic route without prior approval either of the Government or the Reserve Bank of India in all activities/ sectors as specified in the consolidated FDI Policy, issued by the Government of India from time to time.

— Government Route: FDI in activities not covered under the automatic route requires prior approval of the Government which are considered by the Foreign Investment Promotion Board (FIPB), Department of Economic Affairs, Ministry of Finance. Plain paper applications carrying all relevant details are also accepted. No fee is payable.

3.3.1 General Conditions

- Non-resident entity can invest in India subject to FDI Policy. Citizen/ Entity incorporated in Pakistan or Bangladesh can invest only under the Government route.
- 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.
- Authorized 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:
 - Minimum lock-in period of 1 year which shall be effective from the date of allotment of such capital instruments.
 - 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

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.

3.3.2 Composite caps

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

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

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

Highlights of the Composite Cap include:

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

3.3.3 Prohibited Sectors for FDI

FDI is prohibited in:

- 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. Atomic Energy and Railway operations

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

3.3.4 Permitted Sectors for FDI

The sectors/ activities in which foreign investment up to the limit indicated against each sector/ activity is allowed can be accessed by visiting this link:

http://www.dipp.gov.in/English/Policies/FDI_Circular_2016.pdf

Investments in these sectors will be subject to the conditions of the extant policy on specified sectors and applicable laws/ regulations; security and other conditionalities. In the sectors/ activities not listed therein, foreign investment is permitted up to 100% on the automatic route, subject to applicable laws/ regulations; security and other conditionalities.

Government of India is taking measures to attract more investments, opening further avenues. A glimpse of recent changes in FDI policy

- 100 % FDI allowed in:
 - Medical devices
 - Telecom sector
 - Single-brand retail
 - Construction, operation and maintenance of specified activities of Railway sector
 - Asset Reconstruction Companies (ARCs) through Automatic Route
- Increase in FDI cap:
 - Insurance (49% from earlier 26%)
 - Defense (More than 49% (Subjected to approval) from earlier 26%)
 - Civil Aviation (100% in Brown Field Projects)
- Sectors included in Automatic route - Commodity, stock & power exchanges, petroleum refining by PSUs, courier services, Insurance

Recent amendments in FDI



- Defense**
- Under the automatic route up to 49%
 - Beyond 49% approval from FIPB permitted as long as access to modern technology provided Indian Parties



- Pharmaceuticals**
- Greenfield-All forms of Investments into pharma automatically about 100%
 - Brownfield up to 74% automatic beyond 74% approval



- Duty Free Shops**
- 100% permitted under automatic route in duty free shops located/ operated in the custom bonded area
 - Indian brands are eligible too
 - Retail trade through ecommerce permitted
 - Sourcing requirement has to be reckoned from the opening of first store



- Civil Aviation**
- 100% under automatic route in scheduled air transport service/ domestic scheduled passenger airline & regional air transport service for brownfield & greenfield projects
 - Foreign airlines barred from holding equity stake in Indian carriers above 49 percent



- Manufacturing and Ecommerce**
- Manufacturers permitted to sell product through ecommerce as well as under automatic route
 - Ecommerce: buy & sale of goods including digital products over digital & electronic network
 - FDI prohibited in inventory ecommerce model
 - 100% FDI in ecommerce marketplace model subject to specified conditions



- Construction Development Sector**
- Min area & capitalisation requirements removed
 - Exit & repatriate invests prior to the completion of project subjected to lock-in period of 3 years
 - Transfer of stake from NR to NR without repatriation of investment not subjected to any lock-in period or governmental approval
 - Real estate business now not to include earning of rental income on lease of property



- Wholesale Trade**
- Allowed to undertake single brand retail trading subject to FDI policy and maintenance of separate books of accounts



- Broadcasting Carriage**
- 100% permitted in teleports, direct to home, cable network and mobile TV under the automatic route.



- Food Marketing**
- 100% under the government approval route for trading, including through e-commerce, for food products manufactured or produced in India



- Private Security Agencies**
- Up to 49% automatic; beyond 49% up to 74% approval

3.4. FVCI overview

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

3.4.1 Market Entry

SEBI has invited foreign investors to make investments in venture capital funds and venture capital undertakings in India and has issued detailed regulations, known as the SEBI (Foreign Venture Capital Investors) Regulations 2000. The RBI has also permitted FVCI to invest in India subject to compliance with FEMA regulations and sector specific caps of FDI

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

| | |
|--|---|
| Eligibility Criteria | <ul style="list-style-type: none"> — Professional Competence, Financial soundness, Experience, General reputation of fairness, Integrity — 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 — Applicant is authorized to invest in venture capital fund or carry on activity as a FVCI or Alternative Investment Fund |
| Furnishing of information, clarification | <ul style="list-style-type: none"> — Other relevant information or clarification with respect to the registration process such as Investment strategy, commitment letters from Investors, life cycle of funds, etc. |
| Consideration of application | <ul style="list-style-type: none"> — All the rejected application to get 30 days time period to revert with appropriate requirements |
| Procedure for grant of certificate | <ul style="list-style-type: none"> — Regulators to send intimation if application is approved to grant certificate — The registration fee USD 2500 at the time of application and balance of USD 10000 to be paid post receipt of in-principle approval |
| Conditions of certificate | <p>Certificate granted to the foreign venture capital subject to these conditions</p> <ul style="list-style-type: none"> — Abide by the provisions of the Act, and these regulations; — Appoint a domestic custodian for purpose of securities; — Shall open an operating non-resident rupee and foreign currency account |

3.4.2 Investment Restrictions

All investments to be made by an FVCI would be subject to these restrictions

- Disclose their investment strategy (and any subsequent changes) to SEBI
- They can invest its total funds committed in one venture capital fund/ Alternative Investment Fund
- Not allowed to invest in Venture Capital undertakings engaged in activities which are under the negative list of the SEBI FVCI Regulations 2000

The following investment limits are applicable to FVCI investments

- At least 66.67% of the investible funds* have to be invested in unlisted equity shares or equity linked instruments
- Not more than 33.33% of the investible funds can be invested by way of:
 - subscription to initial public offer of a venture capital undertaking or investee company as defined in the Alternative Investment Funds Regulations whose shares are proposed to be listed or
 - debt or debt instrument of a venture capital undertaking or investee company as defined in the Alternative Investment Funds Regulations in which the foreign venture capital investor has already made an investment by way of equity
 - preferential allotment of equity shares of a listed company subject to lock in period of one year
 - the equity shares or equity linked instruments of a financially weak company or a sick industrial company whose shares are listed
 - special purpose vehicles which are created for the purpose of facilitating or promoting investment in accordance with these Regulations

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

- FX transactions of FVCI investors can be executed with any Authorised Dealer (AD) Bank
- 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 income generated from investment already made as stated earlier
- The actual inflow/ outflow on account of remittances in USD and investments made by an FVCI should be reported to the RBI by the designated bank within 10th of the next month for the previous month in which the transaction has taken place.
- 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.

3.4.3 FVCI as FPI

The Securities and Exchange Board of India (SEBI) has permitted Designated Depository Participants (DDPs) 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
- Investment limit of below 10% of the total issued capital of the company shall be applicable across FPI and FVCI investment clubbed together

3.4.4 Access Products: (Details about the same are covered in Chapter 8)

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 categorized as Category II by virtue of their regulated investment manager are prohibited from issuing ODIs.

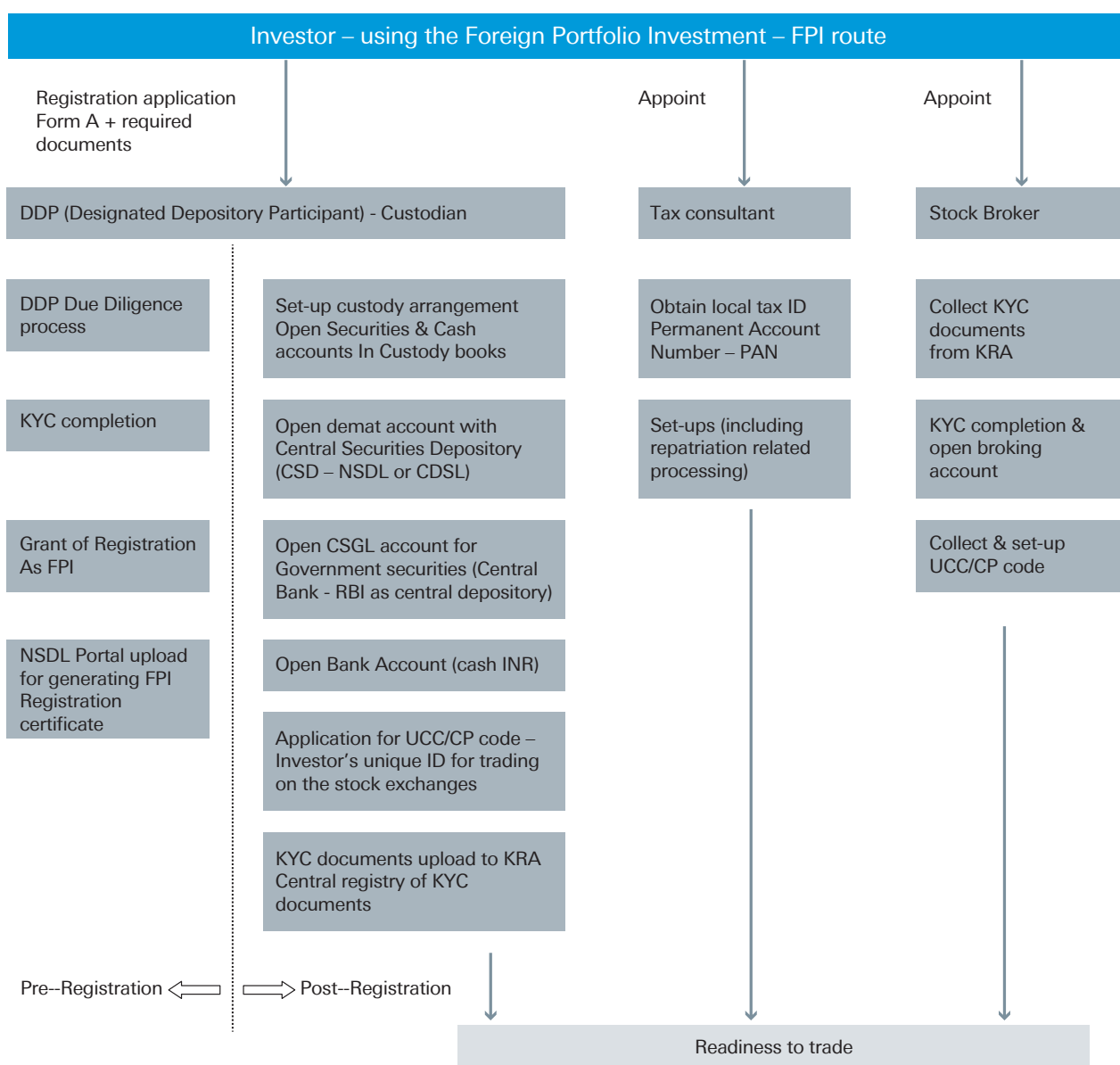
Chapter 4 Foreign Portfolio Investor (FPI) – Market Entry

4.1. Introduction

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

The erstwhile FII and QFI regimes have been merged into the FPI regime. This initiative, has also brought about important changes to market mechanisms, aimed at efficiency and global standards in key market processes. Existing FII and sub-accounts are now recognised and operate as deemed FPIs.

Foreign Portfolio Investors – Market entry flowchart



4.2. Eligibility Criteria

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

- The applicant is a person not resident in India
- Non Resident Indians (NRIs) cannot access this route for investments into India
- The applicant is resident of a country whose securities market regulator is a signatory to International Organization of Securities Commission's (IOSCOs) Multilateral Memorandum of Understanding (MMoU) (Appendix-A Signatories) or a signatory to bilateral Memorandum of Understanding (MOU) with SEBI.

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

- In case of banks, applicant 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

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

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

- The applicant is legally permitted to invest in securities outside the country of its incorporation or establishment or place of business
- The applicant is authorised by its Memorandum of Association and Articles of Association or equivalent document(s) or the agreement to invest on its own behalf or on behalf of its clients
- The applicant has sufficient experience, a good track record, is professionally competent, financially sound and has a generally good reputation of fairness and integrity
- The grant of certificate to the applicant is in the interest of the development of the securities market
- The applicant is a fit and proper person based on the criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008
- Any other criteria specified by SEBI from time to time

Opaque structures not permitted as FPI

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

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

- The applicant is regulated in its home jurisdiction

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

4.3. Categorisation

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

| Category | Entities |
|----------|---|
| I | Government and Government related investors such as central banks, Governmental agencies, sovereign wealth funds and international or multilateral organizations or agencies |
| II | <ul style="list-style-type: none"> — appropriately regulated broad based funds such as mutual funds, investment trusts, insurance / reinsurance companies; — appropriately regulated persons such as banks, asset management companies, investment managers / advisors, portfolio managers; — broad based funds that are not appropriately regulated but whose investment manager is appropriately regulated, provided that <ul style="list-style-type: none"> — The investment manager of such broad based fund is itself registered as Category II FPI and — 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 — University funds and pension funds; and — University related endowments already registered with the Board as FII or sub-accounts |
| III | Shall include all others not eligible under Category I and II FPIs such as endowments, charitable societies, charitable trusts, foundations, corporate bodies, trusts, individuals and family offices |

Notes to categorisation table

- Appropriately regulated: an applicant seeking registration as a FPI shall be considered to be 'appropriately regulated' if it is regulated or supervised by the securities market regulator or the banking regulator of the concerned foreign jurisdiction, in the same capacity in which it proposes to make investments in India
- Broad Based Fund: a fund, established or incorporated outside India, which has at least 20 investors, with no investor holding more than 49% of the shares or units of the fund:
 - Provided that if the broad based fund has an institutional investor who holds more than 49% of the shares or units in the fund, then such institutional investor must itself be a broad based fund
 - To determine whether an entity qualifies for the broad based criteria, for ascertaining the number of investors in a fund, direct investors as well as underlying investors shall be considered. However, only investors of entities which have been set up for the sole purpose of pooling funds and making investments shall be considered for the purpose of determining underlying investors
- Insurance and Re-insurance companies: it is clarified that insurance and reinsurance companies shall be deemed to be appropriately regulated for the purpose of the Regulations, if they are regulated or supervised by the relevant regulator in their concerned foreign jurisdiction in the same capacity in which they propose to make investments in India
- Investment manager: the Investment manager shall mean an entity performing the role of investment management, investment advisory, trustee or any equivalent role and is responsible for investment related compliance of the FPI

4.4. Registration process and documentation requirement

An application for the grant of certificate as FPI shall be made to the 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)

4.5. Role of Designated Depository Participant (DDPs)

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

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

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

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

Change of DDP

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

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

4.6. Registration duration and fees

Conversion Fee

An FII / Sub account that has been granted registration by SEBI prior to the commencement of the FPI regulations will be required to pay conversion fees of USD 1000 to SEBI on or before the expiry of its FII / sub-account registration

Registration Fee

The registration as a FPI is valid for a block of 3 years. Category II and Category III investors need to pay USD 3000 and USD 300 respectively to the DDP, who are responsible to transfer the funds to the designated bank account of SEBI.

The fee structure is summarised below.

| Category | Fees | Validity of Registration |
|----------|---------------------------|--------------------------|
| I | Exempt (refer note below) | Three years |
| II | USD 3,000 | Three years |
| III | USD 300 | Three 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.

4.6.1 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 validity of its conditional registration i.e. within 180 days
- In order to assess the compliance with the broad based criteria, the FPI shall provide details of investors to the DDP. The DDP may, after, appropriate due-diligence, issue acknowledgement regarding fulfillment of broad based criteria, if it is satisfied
- In case the DDP issues acknowledgement regarding fulfillment of broad based criteria, the conditional registration shall be treated as registration, henceforth

If the FPI fails to satisfy the DDP that it has attained broad based status within 180 days, it shall be reclassified as Category III. The accounts of such entities would be blocked until the balance KYC documents as applicable under Category III are regularized. 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

4.6.2 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.

4.6.3 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

4.6.4 Procedure for Sale of Securities after Expiry of Registration (FII / FPI)

- 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 six 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 six 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

4.7. Other applicable norms

4.7.1 Home jurisdiction compliance – change in status

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

4.7.2 Change in Material Information

- Under the Regulations, if there is any material change in the information previously furnished by the FPI to the DDP and/or SEBI, which has a bearing on the certificate granted by the DDP on behalf of the Board, 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

4.7.3 Name Change

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

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

Upon receipt of the request for name change along with above mentioned 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 penal 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.

4.8. Migration from FII / sub-accounts to FPI

Interim process for converting into FPI will require the FII / sub-accounts (FII / SAs) to submit the registration as well as KYC documents as required for a new FPI accessing the market.

The existing FIIs / SAs may continue to buy, sell or deal in securities till the expiry of their current registration. Such FII / SAs shall be required to pay conversion fees on or before the expiry of their current registration. At the time of conversion, the FII must return the certificate of registration in original to the DDP.

In case the FIIs / SAs convert to FPI before the expiry of registration as FII / SA, the original registration will continue to be valid till expiry of their current registration.

If an FII or any of its proprietary SAs chooses to convert as FPI, then all of its SAs shall be required to convert as FPI. However, if any SA other than proprietary SA chooses to convert as FPI, then the respective FII and its other SAs whether proprietary or broad based need not convert as FPI till the validity of their registrations

Post the completion of registration process, the client also needs to comply with the applicable KYC norms as prescribed by SEBI and RBI for opening of securities, depository and cash account of the FPI applicant before the applicant can commence investment in the capital market.

Documentation Required for Conversion and Renewal of registration as FPI

| | |
|--|---|
| Renewal and Conversion letter | For Each Entity (Combined is also fine) |
| Form A (For each of the entity intending to convert to FPI). | For Each Entity |
| Standard Declaration and Undertaking (SEBI SDU) | For Each Entity |
| Conversion fees of USD 1000 for each client. | For Each Entity |
| Renewal fees as applicable | For Each Entity |
| Original Certificate of registration granted to the FII. | Only for FII |
| KYC documents | In the name reflected on PAN |

4.9. Requirement of Permanent Account Number (PAN)

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

Procedure for obtaining PAN card

For the purpose 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 Permanent Account Number 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 new PAN application process

- CBDT has announced a new procedure for applying for PAN whereby the PAN would be allotted within 24 hours. Initially the focus is on servicing corporate applicants and individuals, under the new procedure.
- 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/ consularized) to the Indian authorities. The process of obtaining the DSC is likely to take around a week.
- Supporting documents (duly apostilled/ consularized) 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 |

| Sr No | Details required for application |
|-------|--|
| 8 | Detail of sources of income (Source of income is mandatory) a. Income from Business / Profession b. Income from Capital Gain c. Income from Other Sources |
| 9 | Know Your Customer (KYC) requirements as prescribed |

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

4.10. General Obligations and Responsibilities of Foreign Portfolio Investors

- A 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
 - 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 and
 - provide any additional information or documents as may be required by the DDP to ensure compliance with the Prevention of Money Laundering Act, 2002 and rules and regulations prescribed thereunder, Financial Action Task Force standards and circulars issued from time to time by SEBI
- In case of jointly held depository accounts, each of the joint holders shall meet the requirements specified for FPI and each shall be deemed to be holding a depository account as a FPI. In case the same set of ultimate beneficial owner(s) invest through multiple entities, such entities shall be treated as part of same investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single FPI. In case of any direct or indirect change in structure or beneficial ownership of the FPI, it shall bring the same to the notice of its DDP

4.11. Code of Conduct

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

- A 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 FPI 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

4.12. Account Structure for Foreign Investors investing in India

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

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

Chapter 5 Comparative Tables

5.1. Comparison with the erstwhile FII model

The table below captures the key differences between the erstwhile FII regime and the FPI regime that has replaced the FII regime.

| Sr. No | Details | FII/ sub-accounts | FPI |
|--------|--|--|---|
| 1 | Registration | Required to be registered with SEBI | To be registered with DDPs |
| 2 | Fees (Registration as well as Renewal): | <ul style="list-style-type: none"> — USD 5000 for FII registration and renewal — USD 1000 for sub account registration and renewal | Fees to be paid as per categorization every 3 years Category-I: No fees Category-II: USD 3000 Category-III: USD 300 |
| 3 | Conversion fee | Not applicable | One time conversion fee of USD 1000 to be paid for converting to FPI |
| 4 | Need to be a resident in a country where securities market regulator is a signatory to IOSCO's MMOU or a signatory to bilateral MMOU with SEBI | Not applicable for Sub-accounts | Applicable to all |
| 5 | KYC Norms | Documentation as per the type of entity | Documentation as per the Categorisation ranging from Category-I: Simplified documentation requirement to Category-III: detailed documentation requirement |
| 6 | Qualified Institutional buyer (QIB) status | QIB status granted to FII/ sub-accounts | <ul style="list-style-type: none"> — QIB status granted to Category-I and Category-II investors — No QIB status to Category-III investors |
| 7 | Investment limits | <ul style="list-style-type: none"> — Foreign corporates under the erstwhile FII regime were permitted to invest only upto 5% of issued capital — All the other categories of investors were permitted to invest upto 10% of issued capital | Investments by all investor categories shall be below 10% of issued capital |

| Sr. No | Details | FII/ sub-accounts | FPI |
|--------|--|--|---|
| 8 | Investment in unlisted securities | Permitted | Not permitted. However investments in unlisted securities made prior to June 2014 are grandfathered |
| 9 | Issue of Offshore Derivative Instruments(ODIs) | Permitted only to all FIIs. Sub-accounts were not permitted to issue ODIs. | Permitted to Category-I and Category-II investors. Not permitted to Category-III investors as well as investors categorised as Category-II by virtue of their investment manager being regulated |
| 10 | Margins on Equity trades | Margin required on purchase and sale transactions on T+1 unless early pay-in of cash or securities is made | <ul style="list-style-type: none"> Category I & II: Margins required on purchase and sale transactions on T+1 unless early pay-in of cash or securities is made Category III: upfront margins on both purchase and sale transactions on trade date apply to foreign corporate, individuals and family offices. All other Category III FPIs subject to same requirements as Category I & II FPIs |
| 11 | Derivative Segment | FII and sub- accounts had different position limits | <ul style="list-style-type: none"> FPIs in Category I & II shall have position limits as applicable to FIIs in the derivatives segment. FPIs in Category III shall have position limits similar to the Client level position limit, applicable in the derivatives segment |
| 12 | Participation in Exchange traded currency derivative segment | Participation not allowed | Participation allowed |

5.2.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 rationalized documentation | Exhaustive documentation requirement at entity level and beneficial owner level |

| Sr. No. | Details | Category I | Category II | Category III |
|---------|--|--|---|---|
| 3 | Qualified Institutional buyer (QIB) status | QIB status granted | QIB status granted | No QIB status |
| 4 | Issue of Offshore Derivative Instruments(ODIs) | Permitted | Permitted. However investors categorized as Category-II by virtue of their investment manager being regulated not permitted to issue ODI | Not permitted |
| 5 | Margins on Equity trades | No margins will apply on Day T. Margins apply on T+1 unless early payin is made | No margins will apply on Day T. Margins apply on T+1 unless early payin is made | In Category III, upfront margins on Day T will apply to FPIs who are corporate, individuals and family offices. All other Category III FPIs are subject to same requirements as Category I and Category II FPIs |
| 6 | Position limit on Currency Derivative segment | FPIs in Category I have a higher position limit: Gross open position across all contracts shall not exceed 15% of the total open interest or maximum limit as specified for each currency pair whichever is higher | FPIs in Category II have a higher position limit: Gross open position across all contracts shall not exceed 15% of the total open interest or maximum limit as specified for each currency pair whichever is higher | FPIs in Category III have a lesser position limit: Gross open position across all contracts shall not exceed 6% of the total open interest or maximum limit as specified for each currency pair whichever is higher |
| 7 | Equity derivatives and Interest Rate Futures | FPIs in Category I shall have position limits as applicable to FPIs in the derivatives segment | FPIs in Category II shall have position limits as applicable to FPIs in the derivatives segment | FPIs in Category III shall have position limits similar to the Client level position limit, applicable in the derivatives segment |

5.3. 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 |
| | T-Bills | No | No | No |
| | Commercial Paper | No | No | No |
| | Certificate of Deposits | No | No | No |
| | Corporate Bonds – Non Convertible | ✓ | No | ✓* |
| | Corporate Bonds – Convertible | ✓* | ✓ | ✓ |
| | Corporate Bonds under default | ✓ | No | No |
| | Overseas INR denominated Bond | ✓ | 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/ Securitization 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 |

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

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

Chapter 6 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 followed by the supporting documents as mentioned in the list below according to the Categories.

| Document Requirement | Documentation | Category I | Category II | Category III |
|---|---|---|---|---|
| Entity Level | Constitutive Docs | Required | Required | Required |
| | Proof of Address | Required | Required | Required |
| | | — Power of Attorney (POA), mentioning the address, is acceptable as address proof | — Power of Attorney, mentioning the address, is acceptable as address proof | — Address proof other than Power of Attorney to be provided |
| | PAN Card | Required | Required | Required |
| | Financials | Exempt* | Exempt* | Risk based — Financial data sufficient. |
| | SEBI Registration Certificate | Required | Required | Required |
| | Board Resolution# | Exempt* | Required | Required |
| | Bank letter for satisfactory banking relationship | Not required | Not 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 on letter head* |
| | Photographs | Exempt | Exempt | Exempt* |

| Document Requirement | Documentation | Category I | Category II | Category III |
|---------------------------------|-------------------|---|---|---|
| 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 | Exempt* | Exempt* | Required |
| | Proof of Address | Exempt* | Exempt* | Declaration / details on Letterhead required* |
| | Photographs | Exempt | Exempt | Required / Exempt (for RBI KYC)* |
| Ultimate Beneficial Owner (UBO) | List | Exempt* | Required - or declaration of no UBO holding over 25% in case of multi-investor entities | Required |
| | Proof of Identity | Exempt* | Exempt* | Required |
| | Proof of Address | Exempt* | Exempt* | Declaration / Details on Letterhead required* |
| | Photographs | Exempt | Exempt | Exempt* |

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

#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

SEBI has further segregated investors into two categories as highlighted below for the purposes of KYC

| Category | Criteria |
|------------------|--|
| New clients | All eligible foreign investors (Foreign Institutional Investors / Qualified Foreign Investors) – deemed Foreign Portfolio Investors (FPIs) – registered with SEBI after September 12, 2013 |
| Existing clients | All eligible foreign investors registered with SEBI up to September 12, 2013 |

New clients

New 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.

Existing clients

Existing clients will have to comply with KYC requirements at the time of conversion to FPI, or at the time of any change in information such as name change, address change, or appointment of a new intermediary such as broker and provide the necessary documentation.

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 Organizations, 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 authorized 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), authorized 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 3 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.

Chapter 7 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"> — Listed Equity Shares — Partly Paid Equity Shares — Preference Shares — Warrants — Units of Mutual Funds | <ul style="list-style-type: none"> — Dated Government Securities having residual maturity of more than three year. — Corporate Bonds and Debentures — Non Convertible Debentures (NCDs)/ bonds which are under default — Public Sector Undertaking (PSU) Bonds — Credit Enhanced Bonds — Security Receipts — Overseas Rupee (INR) Denominated Bonds | <ul style="list-style-type: none"> — Index Futures — Index Options — Stock Futures — Stock Options — Interest Rate Futures — Currency Derivatives | <ul style="list-style-type: none"> — Perpetual Debt instruments such as Tier I and Upper Tier II instruments of banks — Collective Investment Schemes — Indian Depository Receipts — Asset Reconstruction companies — Securities Lending and Borrowing — Real Estate Investment Trusts — Infrastructure Investment Trusts — Category III Alternative Investment Funds |

Notes

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

- Certificates of Deposit,
- Commercial Papers,
- Treasury Bills,
- Corporate bonds and Government Securities having residual maturity of less than 3 year,
- Units of liquid mutual funds and money market mutual funds
- Overnight and term money markets.
- Unlisted securities except for debt instrument issued by companies engaged in the infrastructure sector. Budget 2016-17 carried an announcement on expansion of Investment basket of FPIs to include unlisted debt securities and pass through securities issued by securitisation Special Purpose Vehicles. This is currently under consideration by RBI.

7.1. Equity

7.1.1 Foreign Ownership Limit

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

- Each FPI (investing on its own) holding in equity shares should always be below 10% of the paid-up capital of a company. The 10% investment limits will be applicable across investments of ADR/ GDR, FDI, FPI, FVCI, in addition to Participatory Notes/ ODI where the beneficial owner is common. However in case of ADR/ GDR, if the investor holding the ADR/ GDR has converted them into underlying equity shares, such converted shares only will be taken into account for computation of 10% investment limits
- The Depositories will monitor holdings of FPIs at an entity level. Where multiple FPIs belong to the same investor group, (as defined below in section 7.1.2) the investment limits of all such FPIs shall be clubbed at the investment limit as applicable to a single FPI. This shall be the responsibility of the depositories. The DDP shall report the details of investor group(s) to the depositories.

- The maximum permissible investment in the shares of a company, jointly by all FPIs together is 24% of the paid-up capital of that company
- This limit of 24% can be raised up to the FDI limits specified for that particular sector, subject to approval from the shareholders and the RBI
- In the case of public sector banks, the foreign ownership limit is 20%. In case of Private sector banks, acquisition beyond 5% by any investor, foreign or domestic, would require prior RBI approval.
- Any acquisition in excess of 1% by FPIs in Credit Information Companies (CICs) will have to be reported to RBI as a mandatory requirement;
- FPIs can acquire or hold not more than 5% of the paid up equity share capital in a recognised stock exchange or recognised clearing corporation. Any acquisition exceeding 2% of the paid up equity share capital of a recognised stock exchange or recognised clearing corporation needs to be approved by the SEBI Board within 15 days of the acquisition
- Foreign Portfolio Investors (FPIs) have been permitted to acquire shares in stock exchanges through initial allotment. The existing regulation permits FPIs to purchase shares of a recognized stock exchange only through the secondary market.

7.1.2 Monitoring of investment limits

- The RBI will monitor FPI investments under PIS only at 24% or at the applicable sectoral cap/ statutory ceiling only. A company, which has fixed an intermediate foreign ownership ceiling (i.e. between 24% and the overall FDI cap for that sector), have been delegated the responsibility of ensuring that the intermediate ceiling is not breached by an FPI.
- It is mandatory for all foreign investors (FPIs/ NRIs) to declare their holdings to the RBI. The AD Category-I Bank is responsible for reporting the details of foreign investments to the RBI daily.
- This reporting ensures that the RBI monitors the investment limits by foreign entities in the Indian companies.
- If a company reaches the caution limits specified above, the FPI wanting to buy these stocks should inform the DDP who in turn will approach the RBI for seeking permission to buy these shares.
- Approval for investments in stocks which have reached the trigger limits is given by RBI on a case to case basis and the FPI is expected to purchase the shares within 3 days of receipt of the RBI approval beyond which the approval stands cancelled.
- Only inter-FPI trades can be entered into if the overall ownership limit is reached. Such trades need to be reported separately to the RBI.
- Clubbing of limits: Investor Group
 - The investment limits of all FPIs belonging to the same investor group needs to be below 10% of the issued capital of the investee company at all times. The depositories shall club the investment limits and ensure that combined holdings of all these FPIs does not exceed 10% of the issued capital of the investee company at any time.
 - For the purpose of ascertaining investor group, the concerned DDPs shall consider all such entities having direct or indirect common shareholding/ beneficial ownership/ beneficial interest of more than 50%, as belonging to same investor group. The DDP shall report the details of investor group(s) to the depositories.
 - FPIs shall provide details of all entities having direct or indirect common shareholding/ beneficial ownership/ beneficial interest, of more than 50%, as a part of their group, for submitting this data. The common beneficiary owner(s) shall be identified on the basis of (a) shareholding, (b) voting rights (c) any other forms of control, in excess of 50%, across FPIs, if any.
 - In case the same set of ultimate beneficial owner(s) invest through multiple entities, such entities shall be treated as part of same investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single portfolio investor.
- Tracking of the limits by depository: transactions undertaken by FPIs will be reported to the regulator as well as to the depositories on a daily basis in the form and manner as prescribed

from time to time. The depositories shall club the investment limits of FPIs belonging to same investor group to ensure that combined holdings of all FPIs belonging to the same investor group remains below 10% of the issued capital of the investee company at any time

7.2. Debt Investments

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

The Fourth bi-monthly monetary policy statement for the year 2015-16 had announced that the limits for FPI investment in debt securities will henceforth be fixed in INR terms. Accordingly, the existing limit of USD 81 billion, of which USD 51 billion is allocated for investment in corporate debt and the remaining USD 30 billion allocated for investment in Government Securities has been reset in INR terms. The limits as on August 31, 2016 are as given below:

| Type of Limit | | Current Limit (INR Billion) |
|-------------------------------|----------------|-----------------------------|
| Central Government Securities | All Categories | 1440 |
| | Long Term FPIs | 560 |
| State Development Loans | All Categories | 140 |
| Corporate Debt | All Categories | 2443.32* |

*Corporate debt limit of INR 2443.32 billion for FPIs has been redefined as combined corporate debt limit for all foreign investments in INR denominated bonds, issued onshore and offshore by Indian corporate. This includes the credit enhanced bond limit of INR 239.53 billion.

RBI had announced that the limit in central government securities would be raised to 5% of the total outstanding securities, by March 2018. To this end, the limits are being gradually raised every quarter, with the announcement being made every half year; i.e. March and September. The announcement for the release of the next tranche of limits for investment in government securities is expected by September 2016. Any limit remaining un-utilised by the long term investors at the end of a half-year would be made available as additional limit to the investors in the open category to all FPIs for the following half-year. Accordingly, the limits for the long term investors remaining unutilized at the end of half year ending Sept 30, 2016 will be released for investment under the open category in October, 2016. Separate limit has been announced for State Development Loans (SDLs), with the limit being gradually raised to 2% of outstanding securities, by March 2018. Effective October 12, 2015, a security-wise limit of 20% of the amount outstanding under each Central Government security has been set with regard to FPI investments in Central Government securities on a prospective basis.

7.2.1 Government Securities Limit auctions

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

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

- If the limit utilisation as displayed on the depository website is below 90%, the FPIs are required to ensure that no trade is executed/ agreed which may potentially breach the 90% limit.
- The custodian has to ensure that any trade executed either by a single FPI or multiple FPIs serviced by it are confirmed only to the extent that the limit of 90% is not breached. Accordingly, custodians will not be confirming trades in Government Debt on behalf of the FPIs if it is likely to breach the threshold limit.

- In case of receipt of multiple buy trade instructions potentially breaching the 90% threshold limit, custodian shall prioritize the confirmation based on trade settlement instructions received from their FPI clients or global custodian, on a First in First Out basis (FIFO) basis.
- Only buy deals will be considered for the limit monitoring process described above.

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

- The Depositories - National Securities and Depository Limited (NSDL) and Central Depository Services (India) Limited (CDSL), shall direct the DDPs to halt all FPI purchases in Government Securities where the 90% trigger limit is breached.
- The Depositories shall also inform stock exchanges regarding the unutilized debt limits for conducting the auction. Upon receipt of information from the depositories, the stock exchanges shall conduct an auction for the allocation of unutilized debt limits on the following working day.
- Auctions are held alternately on the National Stock Exchange (NSE) and Bombay Stock Exchange (BSE).
- The auction would be held only if the free limit is greater than or equal to INR 1 billion.
- The auction mechanism shall be discontinued and the limits shall once again be available for investment on tap when the debt limit utilization falls below 85%.

Auction mechanism

| Particulars | Details |
|---------------------------------------|--|
| Duration of bidding | 2 hours (15.30pm to 17.30pm) |
| Access to Platform | Trading Members |
| 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 1,000 or bid price whichever is higher |
| Time period for utilisation of limits | 15 days from the date of allocation |
| Auction Platform | Alternately on NSE and BSE |

- Utilisation Period: Time period for investing in debt securities using the allotted limits will be 15 days. Limits not utilized within 15 days would come back to the pool of free limits
- Re-investment period in case of Sale/ Redemption: upon sale or redemption of debt, the FPI will have a re-investment period of five working days. If reinvestment is not made within five working days, then the limits will be clubbed in the pool of free limits
- Subsequent Auctions: subsequent auctions would be held 20 days from the date of the last auction, subject to the condition that the free limit is greater than or equal to INR 1 billion and the debt limit utilisation continues to be above 85%
- No Investment Restrictions: In order to provide operational flexibility to FPIs, it is clarified that there would be no other re-investment restrictions

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

Details of FPI debt utilization can be accessed on a daily basis on the depository's website at the below mentioned link:

- National Securities Depository Limited (NSDL):
<https://www.fpi.nsdl.co.in/web/Reports/ReportDetail.aspx?RepID=1>
- Central Depository Securities (India) Limited:
[http://www.cdslindia.com/ under 'publications'](http://www.cdslindia.com/under%20publications)

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

Security wise limit monitoring on NDS-OM for FPI investment in Government Securities:

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

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

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

Re-investment of Government Securities bought on tap:

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

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

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

Re-investment of coupons in Government Securities

- FPIs have been permitted to reinvest the coupons earned on their existing investments in Government Securities, even when the limits are fully utilised. FPIs will have an investment period of 5 working days from the date of receipt of the coupon.
- These investments by FPIs in Government Securities has been kept outside the applicable limits reset in INR. Any proceeds arising out of sale/ redemption of Government Securities acquired in this manner from coupon receipts, shall be eligible for a re-investment period of 5 working days.
- Further coupons earned on government securities acquired in this manner shall also have the same facility.
- All the other existing conditions for investments by FPIs in Government Securities will remain unchanged for this additional facility as well.
- The coupons invested in purchasing Government securities shall be classified into a separate investment category which is over and above the allocated Government debt limit.
- The depositories shall be responsible for disseminating the coupon investment data along with the daily debt utilization data on the basis of daily transactions reported by the custodians of the FPIs.

7.2.2. Corporate Debt (INR denominated bonds issued onshore and offshore by Indian Corporates)

The limits for Foreign Portfolio Investment (FPI) in Corporate Debt Securities have been reset to INR 2443.23 billion as against the existing limit of USD 51 billion

Corporate debt limit of INR 2443.23 billion for Foreign Portfolio Investors (FPIs) shall be redefined as combined corporate debt limit for all foreign investments in INR denominated bonds, issued onshore and offshore by Indian corporates

Entire combined corporate debt limit of INR 2443.23 billion shall be available 'on-tap' for investment thus doing away with the auction mechanism currently in place for corporate bonds once the overall utilization reaches 90%

Though investments made overseas in INR denominated bonds will be reckoned against the combined corporate debt limit, these investments shall be outside the purview of the SEBI (Foreign Portfolio Investor), Regulations, 2014

Criteria for foreign investments in Overseas INR denominated bond shall be as defined by RBI. The RBI has notified the following norms with respect to investment in INR denominated bonds issued overseas:

- The maximum amount which can be borrowed by an entity by issuance of INR denominated bonds overseas in a financial year under the automatic route has been reset at INR 50 billion as against the existing limit of USD 750 million per annum
- Proposals to borrow beyond INR 50 billion in a financial year will require prior approval of the Reserve Bank
- The INR denominated bonds can only be issued in a country and can only be subscribed by a resident of a country
 - that is a member of Financial Action Task Force (FATF) or a member of a FATF- Style Regional Body; and
 - whose securities market regulator is a signatory to the International Organization 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
- The minimum maturity period for INR denominated bonds issued overseas has been reduced to 3 years from 5 years in order to align with the maturity prescription regarding foreign investment in corporate bonds through the Foreign Portfolio Investment (FPI) route
- 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

The depositories (National Securities Depository Limited - NSDL and Central Depository Services (India) Ltd - CDSL) have been mandated to capture details on foreign investments in Overseas INR denominated bonds on the basis of data received from the Reserve Bank of India (RBI) on a periodic basis

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 3 years or more.

The FPI which propose to acquire such NCDs/ bonds should disclose to the Debenture Trustees, the terms of their offer to the existing debenture holders/ beneficial owners from whom they are acquiring.

Such investment will be within the overall limit prescribed for corporate debt from time to time

REITs, InvIts and AIFs

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

- Real Estate Investment Trusts (REITs),
- Investment Infrastructure Trusts (InvITs) and
- Category III Alternative Investment Funds(AIFs)
- A FPI shall not hold more than 25% stake in a category III AIF

Investment Norms:

- Trades in securitized debt and in corporate bonds between specified entities (including FPIs/ sub-accounts/ FPIs), settle through the National Securities Clearing Corporation Ltd (NSCCL) or the Indian Clearing Corporation Limited (ICCL) on a DVP1 basis
- Investments by FPIs are restricted to only listed corporate debt securities. However, FPIs can invest in primary issues of NCDs/ bonds, provided listing is committed to be done within 15 days of investment, else the instrument must be divested
- SEBI and RBI have permitted FPIs to invest in listed and unlisted bonds issued by companies in the infrastructure sector, where 'infrastructure' is defined in terms of the extant external commercial borrowing (ECB) guidelines
- In case the NCDs/ bonds are not listed within 15 days of issuance to FPIs, the FPI shall immediately dispose off the instruments, either by way of sale to a third party or to the issuer. Further, the terms of offer to FPIs should contain a clause that the issuer shall immediately redeem/ buyback the securities from the FPIs

- FPIs are not permitted to make any further investments in debt instruments having an optionality clause exercisable in less than 3 years, even if the initial/ residual maturity of the instrument is 3 years or more
- FPIs are permitted to invest in amortised debt instruments provided the duration of the instrument is 3 years and above

Regulators are working on the following measures to further strengthen the Debt Market:

The proposal to withdraw the auction mechanism for government securities, is under consideration at RBI and a formal notification is expected soon.

Foreign Portfolio Investors (FPIs) will soon be permitted to trade on Negotiated Dealing System-order matching (NDS-OM) through primary members. Guidelines in this regard shall be issued shortly.

FPIs have been allowed to transact in corporate bonds directly without involving brokers. Necessary changes to the Foreign Exchange Management Act 1999 (FEMA) regulations shall be made shortly.

7.3. Other Permitted Instruments

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.

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

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

- The depositories shall also inform the custodians and stock exchanges when aggregate investments of all the FIIs/ FPIs fall below 90% of the investment limits.
- The custodians-DDPs shall obtain necessary authorization from the FII/ FPIs at the time of account opening for divestment of such excess holdings

Security Receipts issued by Securitization Companies

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

7.4. General Investment Restriction

- Total FPI portfolio investment in a company is capped at 24% of the FDI limit specified for the particular sector.
- All secondary market operations can be done only at the prevailing prices through the recognized brokers on the stock exchanges except for government securities and corporate bonds which can be bought directly from the secondary market without the involvement of a broker.
- Prevailing regulations do not permit FPIs to avail overdraft facilities. FPIs have to fund their account or maintain adequate cash balances to meet payment obligations to the exchanges or other counterparties.
- Derivatives trading by FPIs are subject to the position limits specified for FPIs.
- Securities lending and borrowing transactions will be subject to limits.
- Existing investments in unlisted companies purchased under the erstwhile FII route and still held by FPI after an Initial Public Offer (IPO)/ listing of the issuer company will be subject to a lock-in for the same period as applicable to a FDI holding such shares, under the existing FDI policy of the Government.
- FPIs are not allowed to engage in naked short selling. FPIs may short sell equity shares, provided they have borrowed securities under the SEBI securities borrowing and lending scheme and deliver the shares to the clearing corporation on settlement date. Further, FPIs are permitted to borrow securities only for delivery into short sales.
- Free of Payment Asset Transfer/ Cash Transfer is not allowed in India without approval from SEBI/ RBI respectively. As per experience, such request is approved only in case of Same Beneficial Owner (MIM Structures).
- Each FPI is allowed to open only one cash, securities and depository account with a single custodian (Multiple accounts are not allowed).

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

7.5. Derivatives

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

Investment Position limits in Equity Derivatives

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

Trading Member-wise Position Limits

| | Index options | Index futures | Stock options & futures |
|----------------|--|--|---|
| FII/ FPI Level | INR 5 billion or 15% of the total open interest of the market in index options, whichever is higher. This limit is applicable on open positions in all options contracts on a particular underlying index. | INR 5 billion or 15% of the total open interest of the market in index futures, whichever is higher. This limit is applicable on open positions in all futures contracts on a particular underlying index. | For Market-wide position limit (MWPL) of INR 5 billion or more, 20% of Market Wide Limit or INR 3 billion, whichever is lower and within which, stock futures position cannot exceed 10% of applicable MWPL subject to INR 1.5 billion ceiling whichever is lower. MWPL less than INR 5 billion, the combined futures and options position limit is 20% of Market Wide Limit, futures position cannot exceed 20% of applicable MWPL subject to INR 0.5 billion ceiling whichever is lower. |

Client Level Position Limits

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 lower

Client level position limits underlying-wise, are available to members on the Exchange website.

7.5.1 Interest Rate Futures (IRFs)

FPIs can also invest in Exchange traded cash settled Interest Rate Futures. Currently available IRFs are:

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

Position Limits for IRF contracts (Government of India security)

- Client/ Category III FPI: the gross open positions of the client across all contracts within respective maturity buckets shall not exceed 3% of the total open interest or INR 2 billion, whichever is higher.
- Trading Member/ Category I and II FPI: the gross open positions of the trading member across all contracts within respective maturity buckets shall not exceed 10% of the total open interest or INR 6 billion, whichever is higher.
- Additional restriction for FPIs: the total gross short (sold) position of each FPI in IRF shall not exceed its long position in the government securities and in Interest Rate Futures, at any point in time. The total gross long (bought) position in cash and IRF markets taken together for all FPIs shall not exceed the aggregate permissible limit for investment in government securities for FPIs.

FPIs are required to ensure compliance with the above limits.

7.5.2 Currency Derivatives

FPIs have been permitted to participate in the Currency derivative segment of the exchanges (refer Chapter 9 for details).

7.6. Securities lending and Borrowing

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

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

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

Some salient features of SLB

- Automated trading on AI provided online platforms
- AIs act as counterparty to every trade
- 12 Monthly contracts available with expiry first Thursday of every month
- Available on all derivative stocks plus few additional scrips
- Recall and Repay facility available
- Corporate actions are adjusted to ensure lender receives all benefits. In the event of corporate actions other than dividends and stock splits, foreclosure is executed by clearing house
- Short selling is the sale of a security that the seller does not own. Naked short selling is prohibited. Accordingly, all investors would be required to mandatorily honour their obligation of delivering the securities at the time of settlement
- Short selling will only be permitted in securities on which derivative products are offered. However, short selling will not be permitted for equity shares which are in RBI's foreign ownership ban list and/ or caution list
- FPIs may purchase shares of companies which are on the foreign ownership ban list/ caution list, without prior RBI approval, for the purpose of meeting SLB repayment obligations, provided the purchase is to the extent of meeting SLB repayment obligations and the company whose shares are being purchased, was not under foreign ownership restrictions (caution or ban) at the time of executing the SLB trade

- All transactions would be grossed for institutional investors at the custodians' level and the institutions would be required to fulfill their obligations on a gross basis. Day trading i.e., intraday square-off of transactions is not permitted
- A screen-based, exchange-traded system, where the exchange's clearing corporation collects the collateral and acts as a central counterparty, has been implemented for SLB. Therefore, unlike other markets, OTC SLB transactions are not permitted
- Borrowing of equity shares by FPIs shall only be for the purpose of delivery into short sale
- SLB contracts have been permitted to have tenure up to a maximum period of 12 months. The approved intermediary, viz. Clearing Corporation/ Clearing House shall have the flexibility to decide the tenure of the contract, subject to the maximum period of 12 months
- The margin/ collateral shall be maintained by FPIs only in the form of cash. No interest shall be paid to the FPI on such margin/ collateral

Institutional investors are required to disclose their intention to short sell upfront before placement of short sale order. Brokers will be required to collect and collate scrip-wise details on short sales and upload it to the stock exchanges before the commencement of trading on the following day. NSE permits rollover in Securities Lending & Borrowing Scheme (SLBS) to facilitate lenders or borrowers who wish to extend an existing lend or borrow position, to roll-over such position. Key highlights are as follows:

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

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

BSE has also introduced the rollover feature in the Securities Lending and Borrowing Segment. (SLBS)

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

Position limit

The following position limits will be applicable to SLB transactions

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

7.7. Reporting requirements

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.

Chapter 8 Offshore Derivative Instruments - ODIs

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

Conditions for issuance of ODI instruments under FPI Regulations 2014

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

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

FPIs registered as Category I and Category II are permitted to issue ODIs/ P-Notes. Unregulated Broad based funds classified under Category II on account of their appropriately regulated investment manager itself registered as Category II FPI, cannot issue, subscribe or deal in ODIs either directly or indirectly.

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

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

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 1, 2016
- 1 year for all other clients from the date of the notification i.e July 1, 2016

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 FPI Regulations, 2014
- 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

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

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-Note 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.

Manner of submission:

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

Suspicious Transactions Report:

ODI issuers shall be required to file suspicious transaction reports with the Indian Financial Intelligence Unit (FIU), if any, in relation to the ODIs issued by it.

Reconfirmation of ODI positions:

Reconfirmation of ODI 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

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

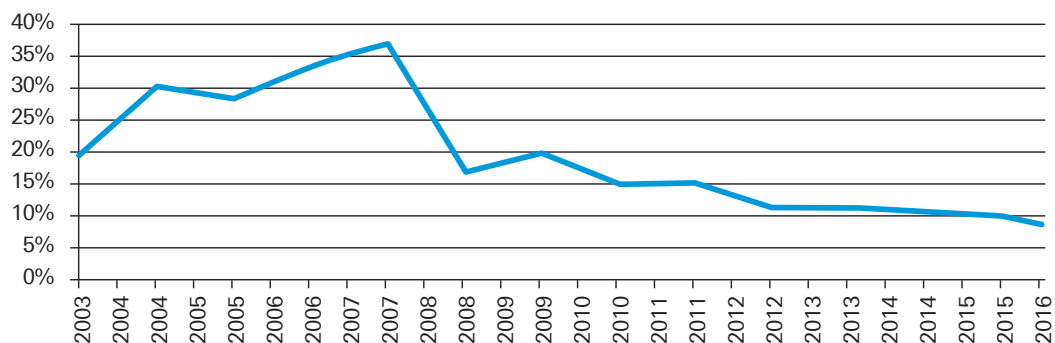
Grandfathering of ODIs:

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

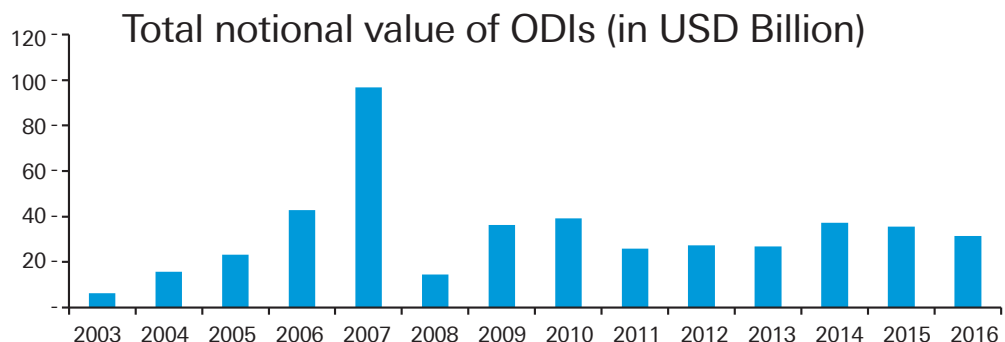
- The ODI subscribers who have subscribed to ODIs under the Foreign Institutional Investor (FII) Regulation are allowed to continue subscribing to ODIs under the Foreign Portfolio Investor (FPI) Regulation, subject to the condition that they:
 - Comply with the Conditions for issuance of Offshore Derivative 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

Evidently, investments via ODIs as a percentage of FPI flows have been falling over the years. Their contribution to total FPI flows in India was at an all-time high of 55.7% in June 2007, and fell to 15.1% in December 2010. As of March 2016, it was a mere 10% of the total FPI flows and it fell further to 8.8% by June 2016.

ODI as percent of FPI



(Source: SEBI)



(Source: SEBI)

Chapter 9 Banking and Currency Hedging Guidelines

9.1. Permissible banking facilities:

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

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

9.2. Currency Hedging

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

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

9.2.1. Facilities permitted for Foreign Portfolio Investors:

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

Forward Foreign Exchange Contracts

RBI has permitted Authorized Dealer (AD) Category – I Banks to offer forward FX contracts to Foreign Portfolios Investors (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 – I 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 – I 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 Category – I Banks other than designated AD Category – I Banks have to be settled through the Special Non-Resident Rupee account maintained with the designated AD Category – I Bank through the banking channels.
 - The cost of any hedge must be met out of repatriable funds and/ or inward remittance through normal banking channel;
 - All outward remittances incidental to the hedge are net of applicable taxes.
 - There is no limit on the tenor of a forward contract for equities. The tenor of a forward contract on debt is restricted to the maturity 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.
- In case an FPI intends to hedge the exposure of one of its sub-account (applicable only in case of sub-accounts which have not yet converted to FPI), it will be required to produce a clear mandate from the sub-account in respect of its intention to enter into the derivative transaction. AD Category – I Banks have to verify the mandate as well as the eligibility of the contract vis-a-vis the market value of the securities held in the relevant sub-account.

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 following 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.

9.3. 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.

9.4. Participation in the Currency Derivative segment of the Exchange

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

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

Position limits for permitted currency pairs per stock exchange

Position limits for Category I and II FPIs are as below

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

Position limits for Category III FPIs

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

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

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

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

Position limits for Category III FPIs

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

Methodology for calculating USD 5 million equivalent in other currency pairs

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

Alerts for client level position

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

9.5. 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.

9.6. 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 Authorized Dealer (AD) banks.
- The designated custodian bank will be monitoring the total position and bring transgressions, if any, to the notice of RBI/ SEBI.
- The limit shall be monitored on end of day position basis. The USD 5 million limit is being considered as separate for short position across the 3 currency pairs and separate for long position across the 3 currency pairs
- The exchange will intimate custodian of the FPIs of the intraday highest position taken during the day by FPIs, through end of day report

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

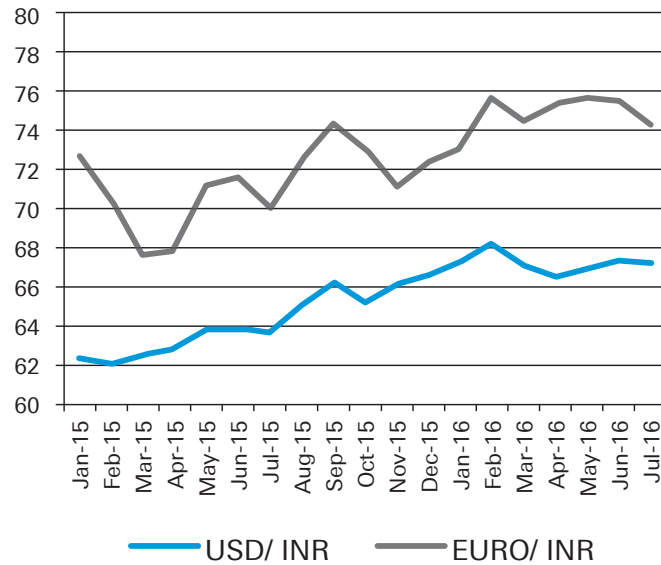
The FAQs can be accessed by clicking on the below link:

http://www.nseindia.com/invest/resources/download/CDS_FAQ_FPI.pdf

9.7. Currency Trend

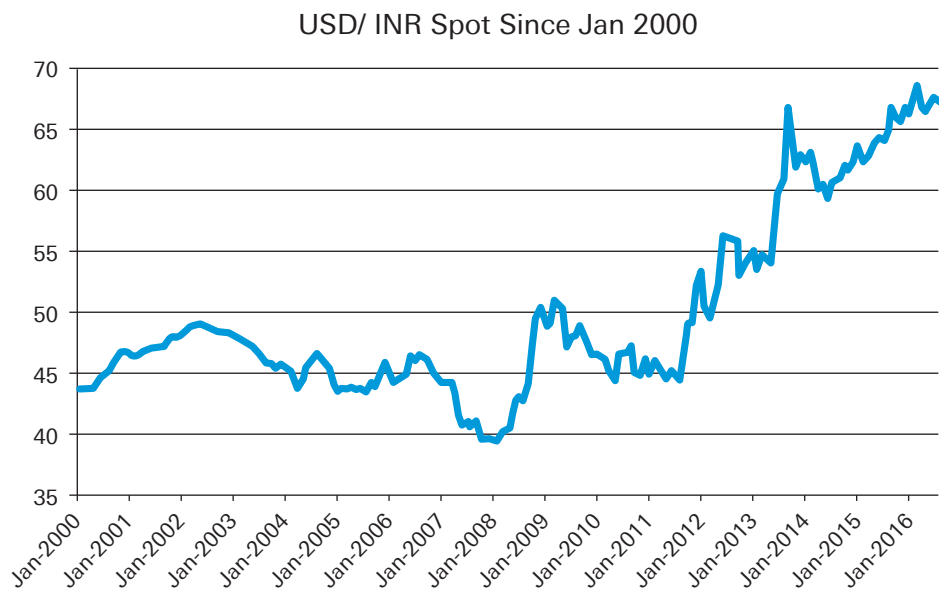
The chart below reflects the currency movement during the period Jan 2015 to July 2016 (USD/ INR & EUR/ INR)

Source: RBI



The graph below reflects the currency trend since January 2000.

Source: Bloomberg



Chapter 10 Clearing & Settlement Environment

10.1. 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
- Dematerialization & 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) provides a trading platform to its trading members; the National Securities Clearing Corporation Ltd. (NSCCL), Indian Clearing Corporation Limited (ICCL) determines the funds/ securities obligations of the trading members and ensures that trading members meet their obligations for Equities. Government securities transaction is 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 Settlements are:

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

10.2. Equities

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

Clearing Corporations like the **National Securities Clearing Corporation Ltd. (NSCCL)**/ **Indian Clearing Corporation Limited (ICCL)**: Clearing and settlement of trades and risk management are its core central functions. They are also responsible for post-trade activities of the stock exchanges.

Trading members: execute trades on the stock exchange and is responsible for trade settlement in case of hand delivery trades.

Clearing Members: are responsible for settling their obligations as determined by the clearing corporations. The clearing members have to make available funds and/ or securities in the designated accounts on the settlement day.

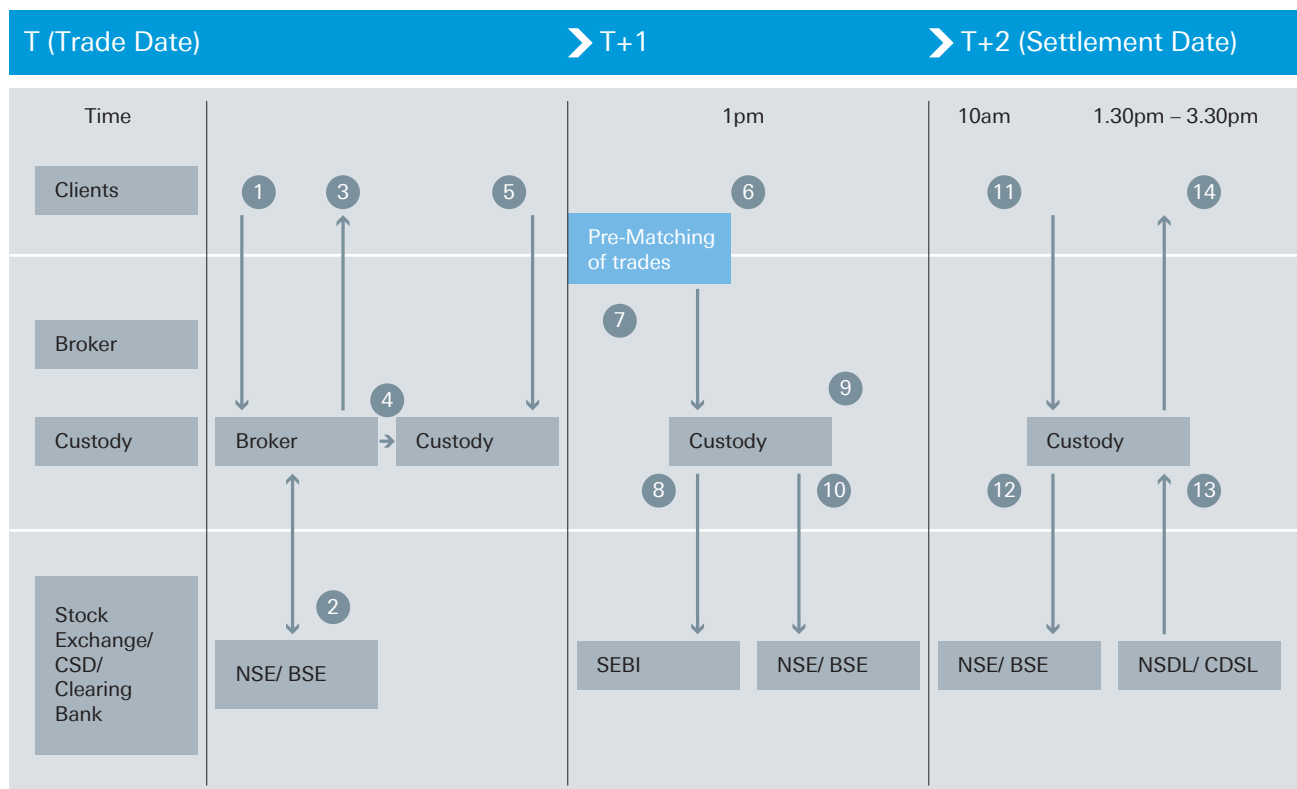
Custodians: Custodian as clearing members settles trades assigned to them by trading members.

Clearing Banks: act as a link between the Clearing Members & the Clearing Corporations for funds settlement.

Depositories: The Depositories (NSDL and CDSL) help in the settlement of the dematerialised securities.

Professional Clearing Member: Special category of members admitted by the clearing corporations may clear and settle trades executed for their clients (individuals, institutions etc.).

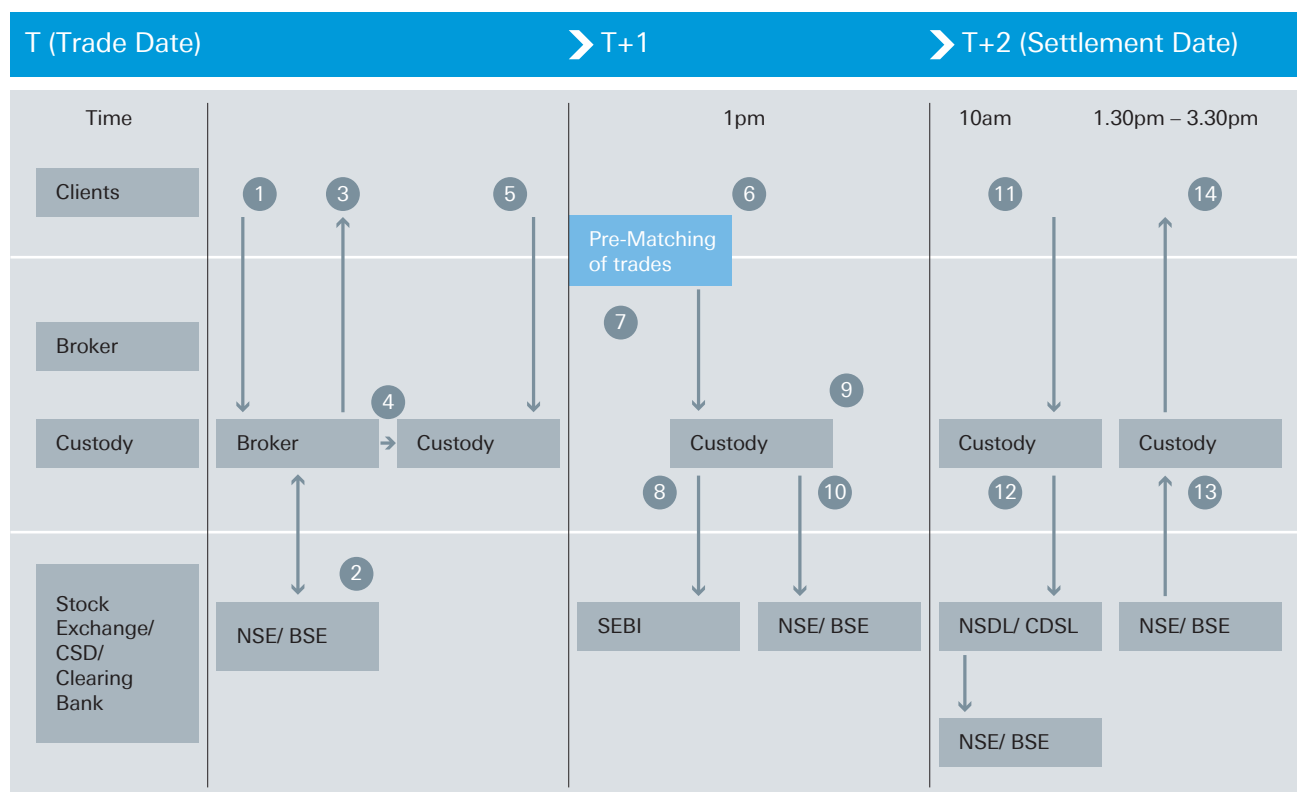
Settlement Flow - Equity Purchase Trade



Legend

1. Client sends trade instruction to broker
2. Trade Executed by broker on the exchange
3. Trade confirmation sent by broker to the client
4. Broker sends Contract Note to custodian via STP gateway on day T
5. Client sends settlement instruction to custodian by EOD on day T
6. Client to arrange for INR funds towards margin/ full Settlement (early pay-in)
7. Pre-matching done and Trade confirmation by 1pm, T+1 by Custody
8. Reporting of transactions to SEBI
9. Client account debited for margin/ early pay-in proceeds
10. Pay margins/ Early pay-in to the exchange through the clearing bank
11. For margin clients debit Net settlement amount 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
14. Settlement confirmation to client

Settlement Flow - Equity Sale 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 on day T
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. Client account debited for margin (unless client has opted for early pay-in of securities)
10. Pay margins/ Early pay-in of securities
11. For margin clients, debit securities from the client's account by T+2, 10am
12. Pay-in of securities by 10 am to the depositories
13. Payout of funds via clearing bank
14. Credit proceeds to the client's account and send settlement confirmation to the client

10.3. Fixed Income

Government Securities

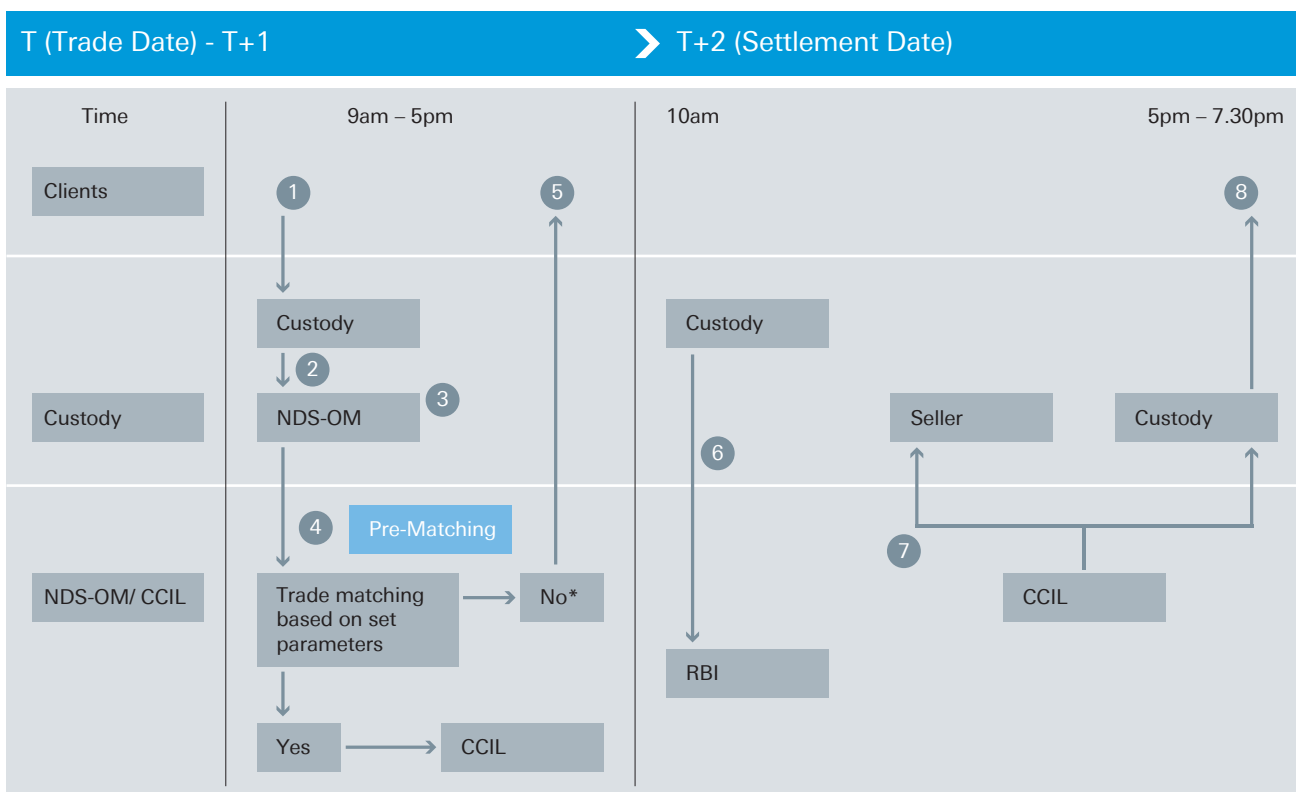
Government Securities (G-Sec) are largely traded through the anonymous order matching platform called Negotiated Dealing System – Order Matching (NDS-OM). G-Secs can also be traded on the exchange. On the NSE, trades in G-Secs are executed under the Negotiated Trade Reporting Platform. On BSE, such securities 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. FPIs have the option to trade directly in the G-Sec market without availing the services of a broker.

Settlement of all outright secondary market transactions in government securities was standardised to T + 1 with the only exception being settlement of trades done by FPIs. RBI has permitted extended reporting timings and settlements of G-Sec transaction executed by FPIs on T + 2 basis. Accordingly all buy and sale transactions in G-Sec, where at least one of the parties is an FPI, will be settled on T + 2 basis. Custodian bank of the FPI selling the security or the counterparty entity selling the security to the FPI will have to report the deal on trade date itself within the prescribed reporting time. Custodian bank of the FPI buying the security can report the deal upto 1pm the next business day (T+1). All the other conditions with respect to settlement shall continue to apply for transactions settled on T + 2 basis.

FPIs have been permitted to trade in government securities directly without availing the services of a broker. FPIs are not allowed to invest in Repo transactions.

Settlement Flow – G-Sec Purchase Transaction



Legend

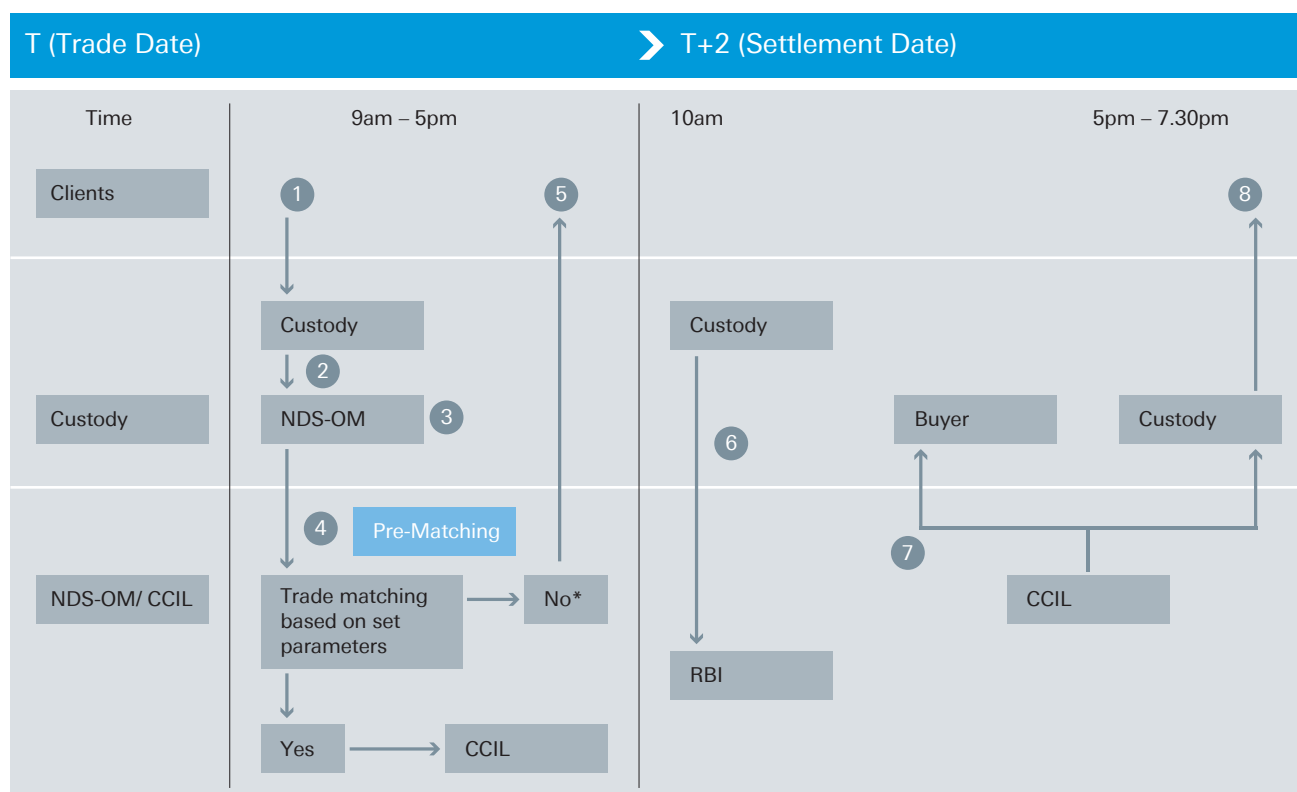
NDS-OM – Negotiated Dealing System Order Matching Platform

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

1. Client sends trade instructions to the custodian
2. Reporting (by buyer and seller) of trades on NDS-OM to be completed within 15 minutes of trade execution
3. Reporting/ confirmation of G-Sec purchase trades can be either on T or T+1 date before 1pm
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
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 Gilt account
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.

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

Corporate Bonds

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. The settlements of corporate bond trades shall be carried out between Monday to Friday for three settlement cycles viz., T+0, T+1 and T+2. FPIs have the option to trade directly in the corporate market without availing the services of a broker. Necessary changes to the Foreign Exchange Management Act 1999 (FEMA) regulations are expected to be made shortly.

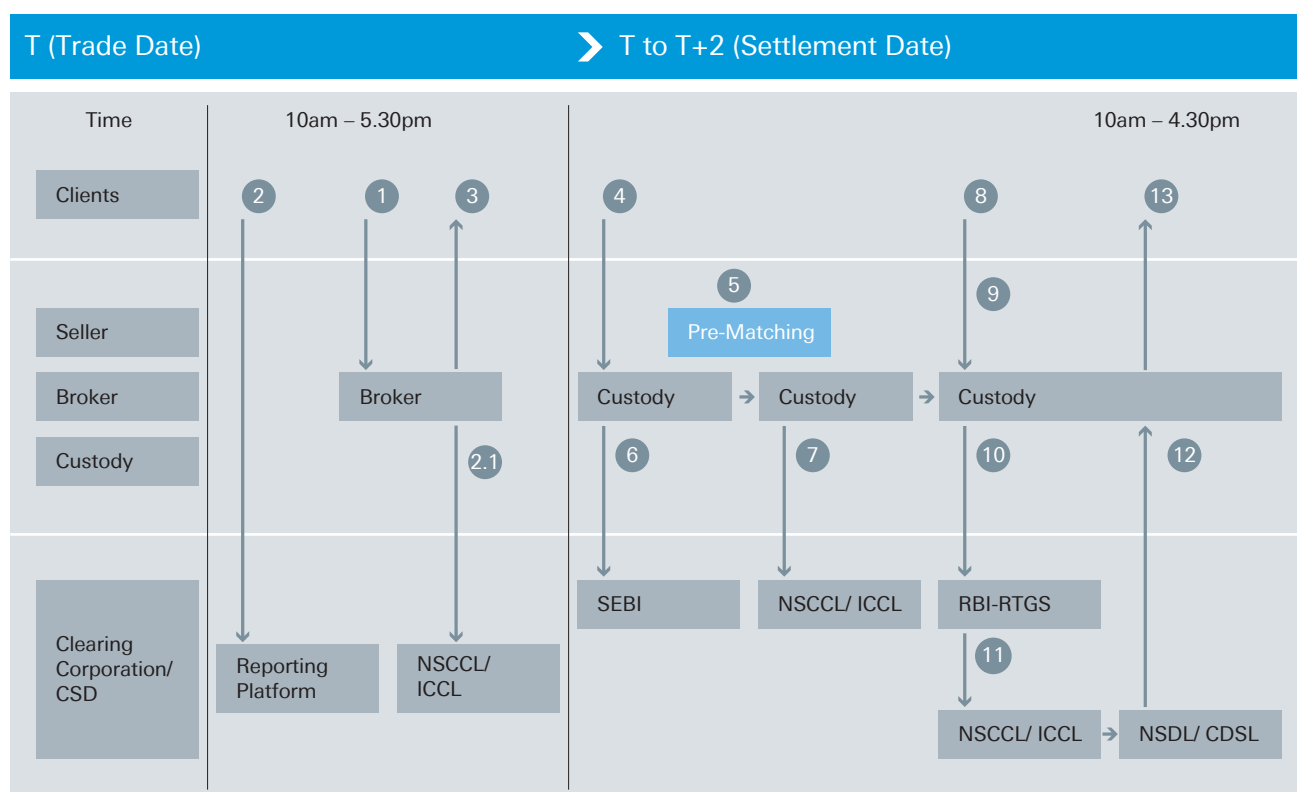
The bond reporting platform offered by NSE is known as CBRICS (Corporate Bond Reporting and Integrated Clearing and Settlement platform). NSE has introduced Two Factor Authentication (2FA) for users of its bond reporting platform to further enhance security of this application.

BSE has recently launched a New Debt Reporting and Settlement Platform - Indian Corporate Debt Market (ICDM), from July 14, 2016. The new platform will incorporate 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



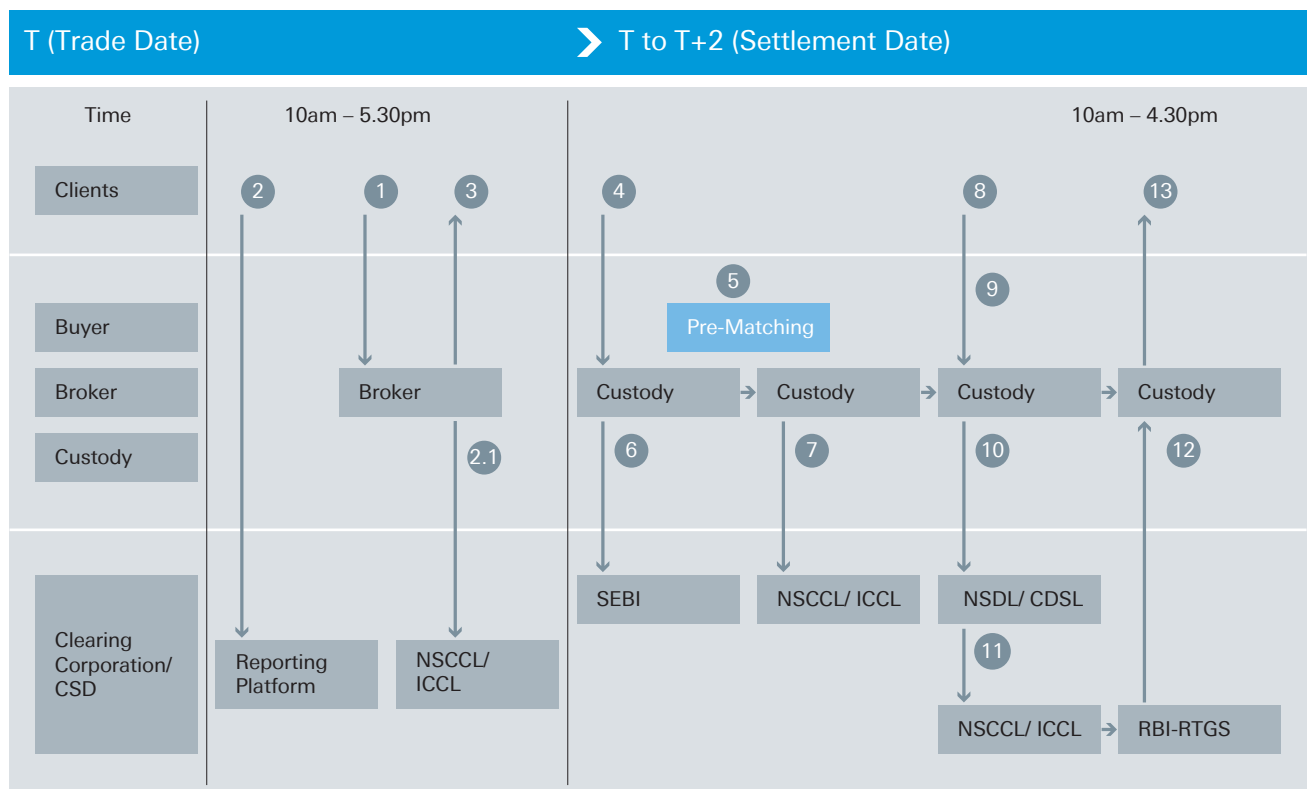
Legend

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 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

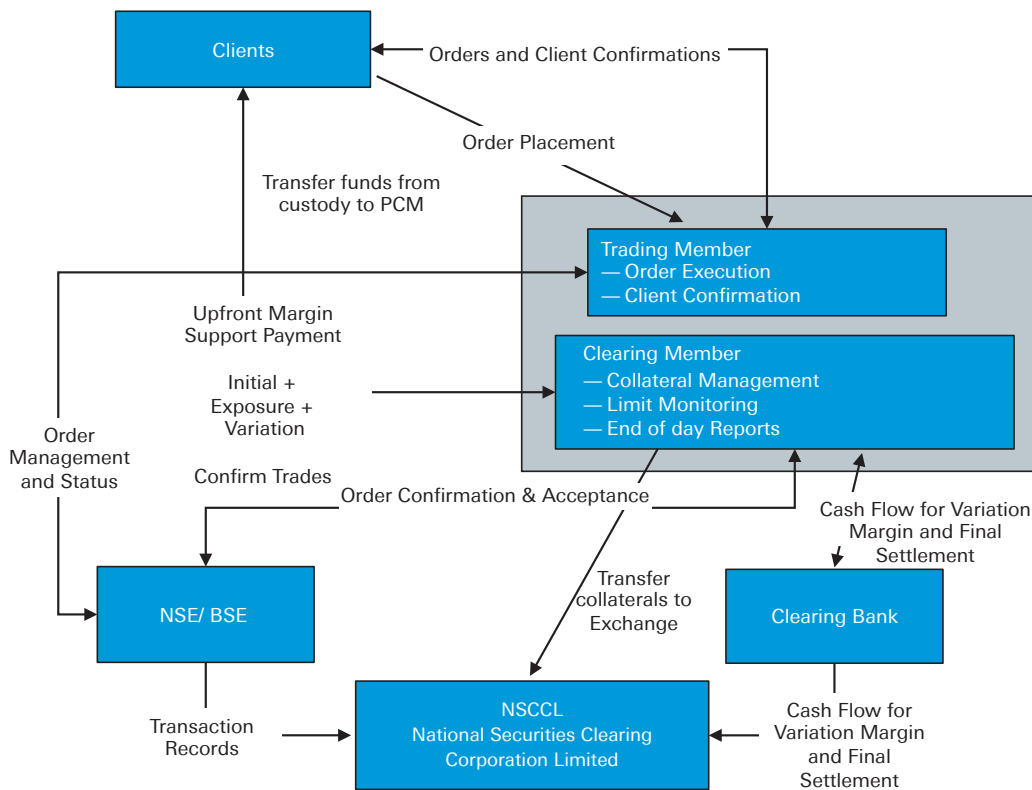
ICCL – Indian Clearing Corporation Limited

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

10.4. 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.

10.5. Securities Lending & Borrowing

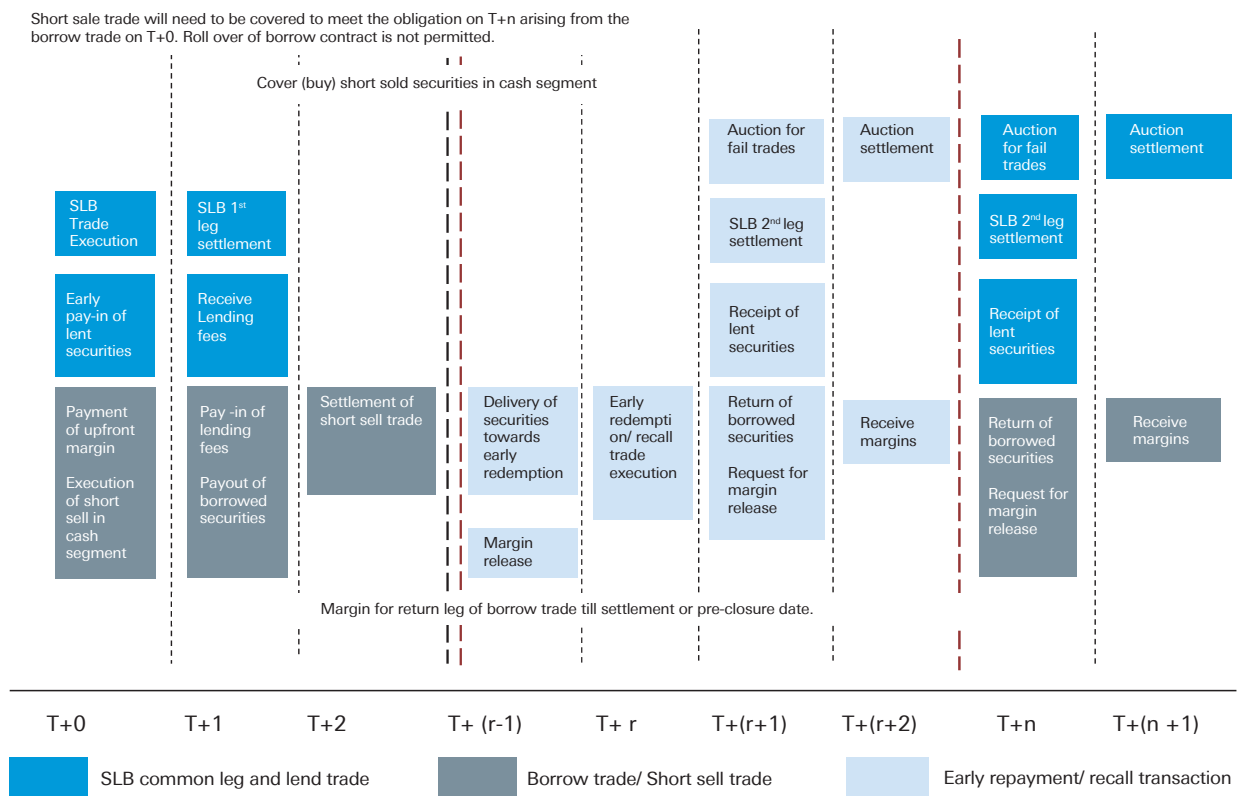
SEBI and RBI have permitted onshore short selling and Securities Lending and Borrowing (SLB) for all classes of investors. Therefore, all institutional investors as regulated by SEBI are eligible to short sell. Naked short selling is not permitted in the Indian securities market and investors will be 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 ICCL, the clearing corporations, are current Approved Intermediaries (AI) for SLB transactions.

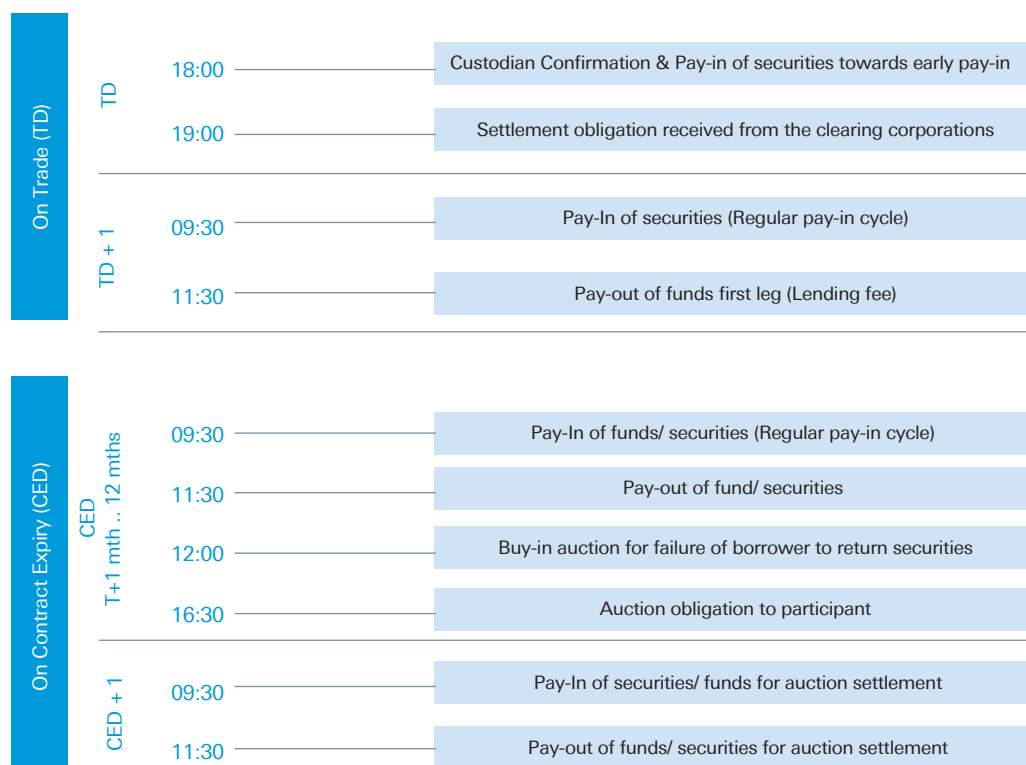
The borrowers and lenders do not have direct access to the trade on the SLB platform of the Als and must therefore execute trades through existing NSE and BSE clearing members (including banks and custodians) who become SLB Participants. The clearing and settlement of the SLB trades by investors will 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 SLBs. In order to participate in SLBs, clearing members have to register as Participants in SLBs. Participants desirous of lending or borrowing securities can do so either on their own account or on behalf of their clients.

SLB Trade Flow – Operational Model



Settlement Schedule for a Lend Trade



SLB contracts vary from 30 days to 12 months

10.6. Risk Management - Overview

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

Margin - key part of the risk management system is Margin, with uncertainty in stock price movement leading to risk which is addressed by margining system of stock markets. Daily margin comprises as below:

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

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

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

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

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

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

10.7. 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)

10.7.1 Margins in cash market

| Transaction Type | Obligation | Payable By | Mode | Payment on |
|------------------|---|------------|--|------------|
| Buy | <ul style="list-style-type: none"> — 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. — 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. | 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 FIIs/ FPIs. Early pay-in of funds permitted to avoid margin payment. | T+1 |
| Sell | <ul style="list-style-type: none"> — 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. — 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 | 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 FIIs/ 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

10.7.2 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, FIIs/ 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, FIIs/ 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, FIIs/ 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.

10.7.3 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.

10.7.4 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-Sec/ T-Bills and cash, with cash being not less than 10 % of the total margin requirement at any point of time.

10.7.5 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.

10.8. Avenues of Investment

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

10.8.1 Primary Market

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

Initial Public Offers (IPO): Initial Public Offer (IPO) is the offer of equity shares by the company to the public and can be availed by any company meeting the listing criteria as specified by SEBI and Stock Exchanges. Participation in IPO is open to all investors including FPIs. IPOs normally have a specific portion that is allocated to Qualified Institutional Buyers (QIBs). IPO can be either through book building process or fixed price process or a combination of both. 100% payment to be blocked through the ASBA route. FPIs can participate in IPOs through their Custodian. However Category III FPI clients cannot apply under the QIB category and can apply under the 'non-institutional' category. QIBs not allowed to withdraw the bids after the issue closing date. However, bids can be revised before the bid closing date. In case of upward revision of bids, the incremental margin amount has to be paid along with the revision. However, in case of a downward revision, the excess margins already paid are refunded only at the time of allotment of shares. Effective January 1, 2016, the time period for listing of public issues has been reduced to 6 working days as against the earlier norm of 12 working days post issue closure.

Follow on Public Offer (FPO): Follow on Public Offer (FPO) is a follow on offer of equity shares by an existing company to the public. This is open to all investors and institutional investors, including FPIs who can subscribe to this through their custodian. However Category III FPI clients cannot apply under the QIB category and can apply under the 'non-institutional' category. QIBs are not allowed to withdraw the bids or lower the bids at any stage. However, bids can be revised before the bid closing date. In case of upward revision of bids, the incremental margin amount has to be paid along with the revision. No downward revision is permitted

Qualified Institutional Placement (QIP): Qualified Institutions Placement (QIP) is an additional mode for listed companies to raise funds from Qualified Institutional Buyers(QIBs).While Category I and Category II FPIs can participate in the same through their custodian, Category III FPIs cannot participate as they are not treated as Qualified Institutional Buyers (QIBs).

Institutional Placement Program (IPP): FPO of eligible securities by an eligible seller, in which the offer, allocation and allotment of such securities is made only to Qualified Institutional Buyers (QIB). 100% payment to be blocked through the ASBA* route. Bids cannot be revised downwards or withdrawn. While Category I and Category II FPIs can participate in the same through their custodian, Category III FPIs cannot participate as they are not treated as Qualified Institutional Buyers (QIBs).

Offer for Sale (OFS): Refers to sale of promoters shares through a separate window provided by the stock exchanges for offloading their stake in a transparent manner. Participation in OFS is available to all categories of investor including FPIs. Orders in the OFS window can be placed by institutional investors including FPIs either by paying 100% margin or without paying upfront margin. However orders placed by paying 100% margin can be modified or cancelled at any time during the trading hours. Orders placed without paying margin cannot be modified or cancelled by the investors or brokers, except for making upward revision in the price or quantity.

Private placement of corporate bonds through Electronic Book Mechanism: SEBI has introduced Electronic Bidding Platform (EBP) for issuances of corporate bonds through the private placement route. Effective July 2016, it is mandatory for corporates to use EBP for all private placements of corporate bonds in primary market with an issue size of INR 5 bn (approx. USD 75mn) and to be listed on the Stock Exchanges. Participants shall be required to enroll with EBP before entering bids. Bidding shall be allowed in the bidding time window specified by the issuer. At the end of the bidding time window, EBP shall on an anonymous basis, disclose the aggregate volume data, including yield, amount including the amount of oversubscription, total bids received, rating(s), category of investor etc. to avoid any speculations. EBP shall upload the allotment data on its website to be made available to the public. The new mechanism is expected to streamline procedures for issuance of debt securities on private placement basis and enhance transparency to discover prices.

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

10.8.2 Secondary Market

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

Equities: All secondary market deals in equity needs to be done on recognized Stock Exchange

Debt: All debt deals in corporate bonds, securitised debt can be done on recognized stock exchange as well in the OTC market. However, all deals done on the OTC market needs to be compulsorily reported and settled through the clearing corporation of the Stock Exchange.

Tender Offer facility: SEBI has modified the SEBI (Delisting of Equity Shares) Regulations, 2009 to facilitate tendering and settlement of shares by the shareholders, through the stock exchange mechanism. Under this mechanism, the investors will be able to use the stock exchange platform for tendering shares while participating in open offers, buybacks and delisting offers by companies

10.8.3 Government securities

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

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

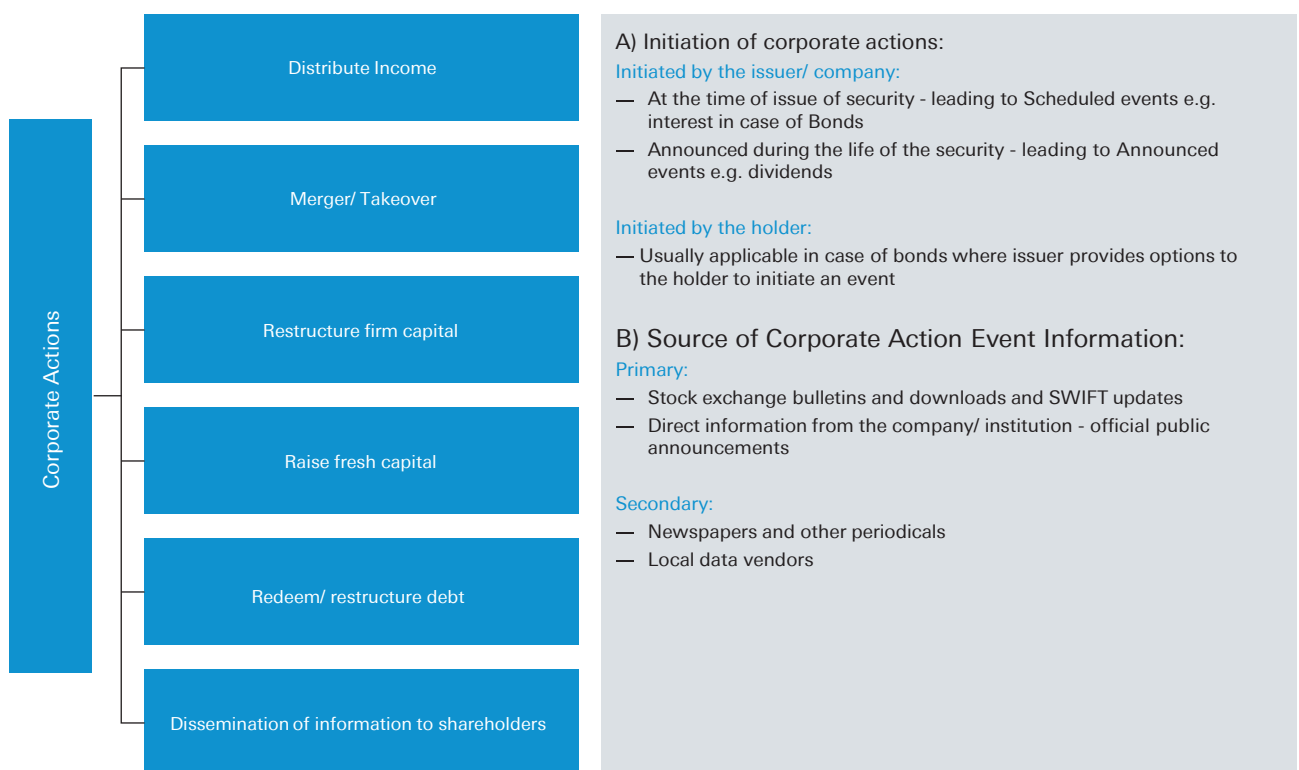
RBI had introduced the NDS-OM in August 2005. NDS-OM is a screen based electronic anonymous order matching system for secondary market trading in Government securities owned by RBI. Presently the membership of the system is open to entities like Banks, Primary Dealers, Insurance Companies, Mutual Funds 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. CSGI accountholders also execute bilateral trades in the Government Securities. Reporting for such trades is done on the NDS-OM reporting module.

RBI has also introduced the NDS-OM web module. To further enhance the access of Gilt Account Holders (herein after referred to as GAHs) to NDS-OM, an internet based web application is provided to such clients who can now have direct access to NDS-OM, the system owned by RBI. The internet based utility permits GAH to directly trade (buying and selling) in Government Securities (G-Sec) in the secondary market. The access is however, subject to controls by respective Primary Member (PM) with whom GAHs maintain gilt account and current account.

10.9. Asset Servicing (Overview of Corporate Actions)

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

Asset Servicing



10.9.1 Types of Corporate Actions

The most common types of corporate action are:

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

10.9.2 Notifications

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

Primary sources

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

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 Secondary Source - Daily newspapers, Bloomberg/ Reuters, External local vendors |
| Entitlement Date | Record Date |
| Entitlement Computation | On Record Date |
| Pay Date | Yes |
| 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. |

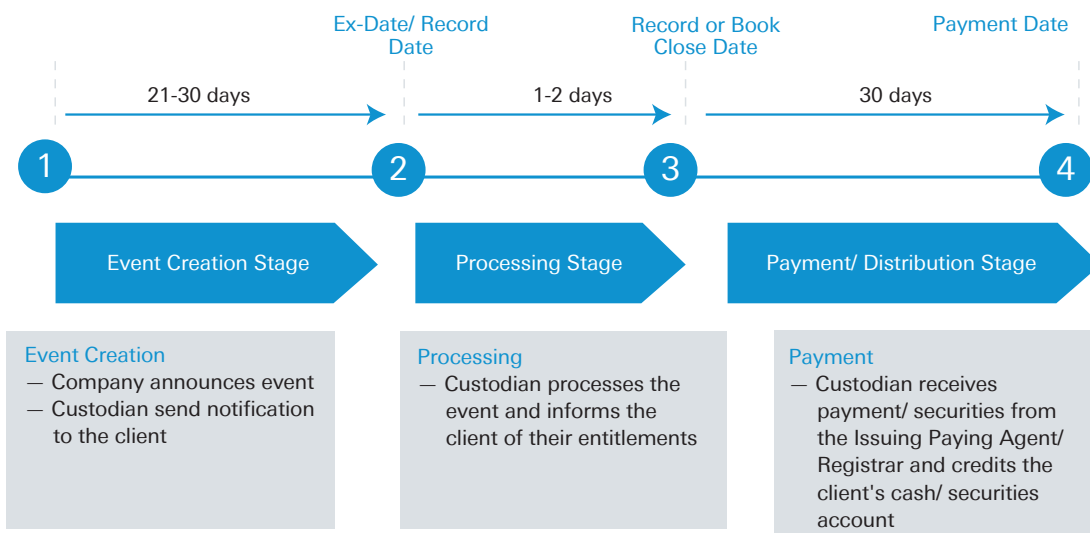
Important Dates

| | |
|-------------------|--|
| Announcement Date | <ul style="list-style-type: none"> — Company must notify the relevant stock exchanges at least 21 days before the book close/ record date — Companies on whose stocks, derivatives are available or whose stocks form part of an index on which derivatives are available, need to give a notice period of 30 days |
| Book close date | <ul style="list-style-type: none"> — Date on which the company will close its books for the record of its shareholders for disbursement of the entitlement |
| Record date | <ul style="list-style-type: none"> — If there is a corporate benefit between two book closures, company may declare a record date for any such announcements made between two book closures for determining the corporate benefit entitlements |
| Ex-date | <ul style="list-style-type: none"> — Date before which, if that particular stock is bought in the market, the buyer is entitled to receive the entitlements (dividend/ bonus) — Such a trade is known as a 'cum dividend/ cum bonus', i.e. the trade is executed inclusive of all the entitlements/ benefits |
| Payment date | <ul style="list-style-type: none"> — Payment of benefit is to be made within 30 days from the declaration date or AGM date — Although there is a requirement for declaration of pay date for dividend, some companies are yet to adopt the practice of announcing pay date prior to providing benefits. |
| Period of Offer | <ul style="list-style-type: none"> — Period from the time when an announcement is made of a proposed or possible offer (with or without terms) until the closing date |

10.9.3 Life Cycle - Mandatory Corporate Action:

Mandatory corporate action events are listed herewith

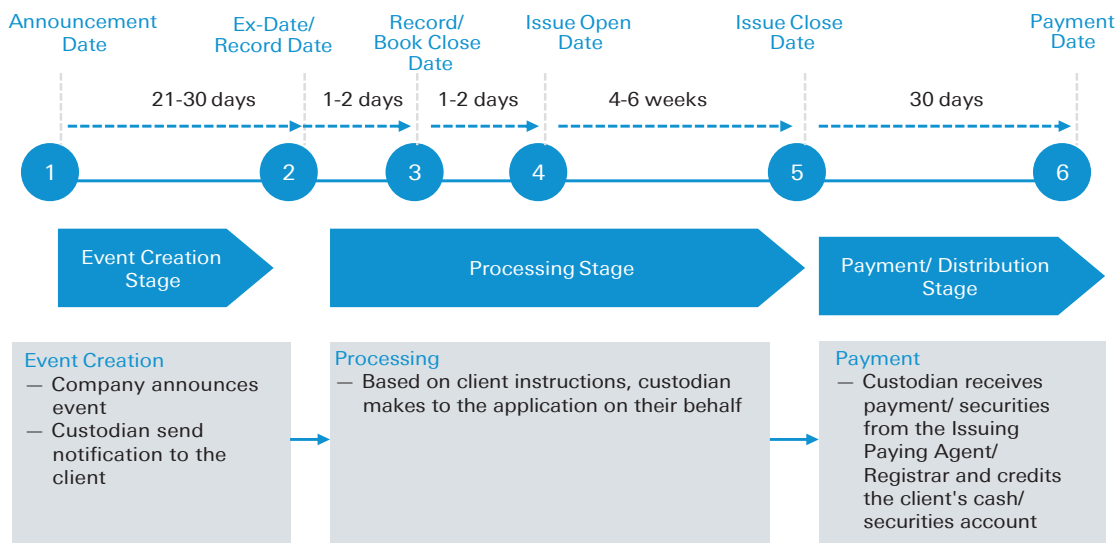
- Merger/ Takeover
- Stock Split/ Sub-Division/ Consolidation
- Bonus Issue
- Dividend
- Interest
- Redemption/ Partial Redemptions



10.9.4 Life Cycle - Voluntary Corporate Action:

Voluntary corporate action events are listed herewith:

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



10.9.5 Corporate Governance (Proxy Voting/ E-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"> — 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 — All shareholders registered in books of company as on the record date/ book closure date are eligible to vote — The share positions are not blocked for proxy voting — Proxy notice is to be lodged with the issuer at least 48 hours before the meeting (96 hours for banks) — 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 — A proxy cannot exercise voting rights on a show of hands |
|------------------|--|

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

Notifications

Most of the AGMs are generally convened in June to September on an annual basis. The instruction deadline for the attendance of the AGM/ exercise of voting rights is advised to client upon receipt of the invitation to the AGM from the issuing company. This has to be despatched by the company as per regulation at least 21 working days prior to the AGM.

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.

E-voting

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

Role of the Scrutinizer

- Board of directors of the company appoints an external person to scrutinize the e-voting process in a fair and transparent manner
- Scrutinizer, within 3 working days from end date of E-voting, submits a report of votes cast in favour or against to Chairman
- Scrutinizer 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 scrutinizer 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 scrutinizer's report are placed on the website of company and on the website of the agency within 2 days of passing of the resolution at the relevant general meeting of members

Exceptions

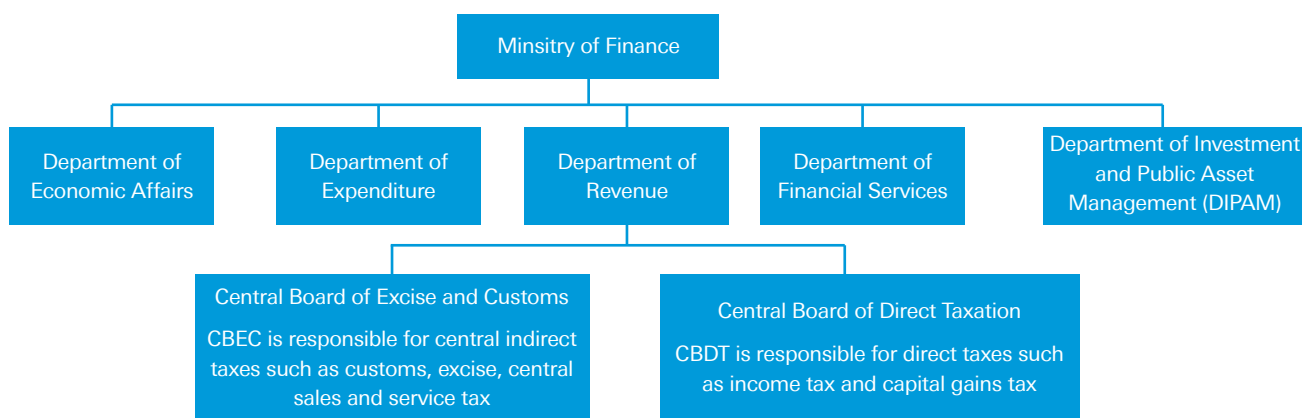
- E-voting is not available for Court Convened Meeting as well as for meetings held by Public Sector banks

The process flow for E-voting is as follows

- Clients can directly participate in E-voting by logging on the website
- The 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

Chapter 11 Tax Aspects

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



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.

11.1. 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.

11.1.1 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 provides for a concessional rate of 5% on interest earned on investment in rupee denominated corporate bonds or Government securities earned by FPI/ FII for the interest payable on or after June 1, 2013 but before June 1, 2015. Since, FII are deemed to be FPI under the Act, the benefits under this provision will be applicable to the FPIs. The Finance Act, 2015 has extended the period for the concessional tax rate to interest received upto 30 June 2017. The lower withholding tax rate has also been extended to interest received by foreign investors on their investment in offshore INR bonds

11.1.2 Taxation of dividend

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

11.2. 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 FIIs/ FPIs (in accordance with the applicable SEBI regulations) under the definition of capital asset. The income earned by an FPI/ FII arising from transaction in such securities would be taxed as 'Capital Gains'.

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

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

11.3. 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. 2016-17

| 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 |

11.4. Tax Rates

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

Tax Rates applicable to FIIs/ FPIs investing in India

Assessment Year: 2017-2018

Previous Year: April1, 2016 till March 31, 2017(including surcharge and cess as applicable)

| | Corporate FPIs | | Non-Corporate FPIs---e.g. trust | | |
|--|---------------------------------|---|-------------------------------------|--|--|
| Nature of Income | Net Taxable Income < 10,000,000 | Net Taxable Income > 10,000,000 but < 100,000,000 | If net taxable income > 100,000,000 | If net taxable income does not exceed INR 10 Million | As per Finance Bill 2015- if net taxable income exceeds INR 10 Million |
| Dividends | Nil | Nil | Nil | Nil | Nil |
| Interest u/s 194 LD | 5.15% | 5.253% | 5.4075% | 5.15% | 5.9225% |
| Interest other than u/ s 194 LD of the Act | 20.6% | 21.012% | 21.63% | 20.6% | 23.69% |

| | Corporate FPIs | | Non-Corporate FPIs---e.g. trust | | |
|--|---------------------------------------|--|--|---|---|
| Nature of Income | Net Taxable Income < 10,000,000 | Net Taxable Income > 10,000,000 but < 100,000,000 | If net taxable income >100,000,000 | If net taxable income does not exceed INR 10 Million | As per Finance Bill 2015- if net taxable income exceeds INR 10 Million |
| Short-term capital gains on equity shares and units of equity oriented funds where STT is applied. | 15.45% | 15.759% | 16.2225% | 15.45% | 17.7675% |
| Long-term capital gains on equity shares and units of equity oriented funds where STT is applied. | Nil | Nil | Nil | Nil | Nil |
| Short-term capital gains on securities where no STT is applied | 30.9% | 31.518% | 32.445% | 30.9% | 35.535% |
| Long-term capital gains on securities where no STT is applied | 10.3% | 10.506% | 10.815% | 10.3% | 11.845% |

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

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

11.5. Advance Tax

Investors who do not wish to repatriate their funds within the financial year, the tax liabilities on capital gains have to be discharged in the form of advance tax payable in installments during the financial year. The tax thus paid is adjusted against the total tax assessable for the respective assessment year.

Liability to pay advance tax arises when such tax payable is INR 10,000 or more, effective from FY 2009-10. The Finance Act, 2016, has rationalised the advance tax payment schedule for non-corporate taxpayers, to bring it in line with advance tax payment schedule for corporate taxpayers. Accordingly, the advance tax deadline of June 15, 2016 which was earlier not applicable to non-corporate entities will now apply to these entities.

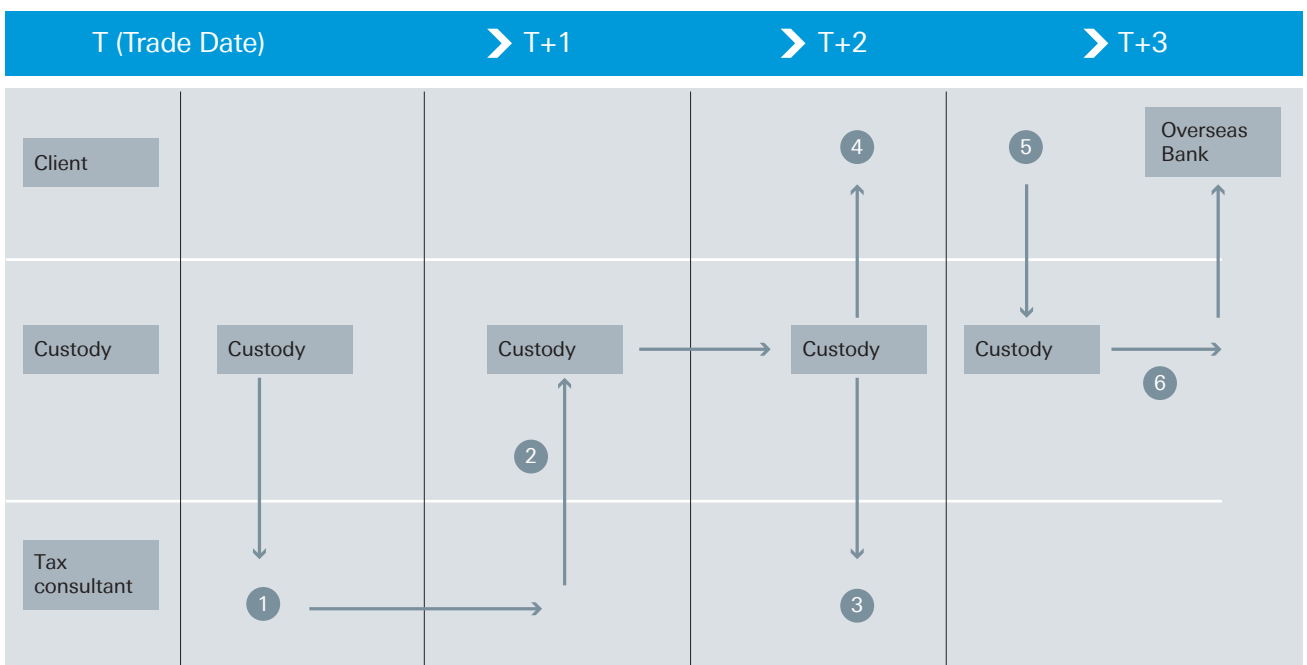
The advance tax rates and the intervals at which they are paid are provided below (applicable for corporate and non-corporate entities):

| Due Dates | Advance Tax Payable by corporate and non-corporate entities |
|--|--|
| By June 15 | 15% of advance tax |
| By September 15 | 45% of advance tax |
| By December 15 | 75% of advance tax |
| By March 15 | 100% of advance tax |
| By March 31 (for 15 days from March 15 to March 31) | 100% Tax on Income (capital gains & 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% p.m. 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.

11.6. 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

11.7. 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.

11.7.1. India Mauritius treaty arrangement

The Protocol for amendment of the Convention for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income and capital gains between India and Mauritius was signed by both countries on 10th May, 2016 at Port Louis, Mauritius.

The key features of the Protocol are as under:

Source-based taxation of capital gains on shares:

- India gets taxation rights on capital gains arising from sale of shares acquired on or after 1st April, 2017, in a company resident in India with effect from financial year 2017-18.
- Investments in shares acquired before 1st April, 2017 have been protected from India domestic taxation.
- A transition period from 1st April, 2017 to 31st March, 2019 has been provided. During the transition period, the tax rate will be limited to 50% of the domestic tax rate of India, subject to fulfillment of conditions in the Limitation of Benefits Article.
- Taxation in India at full domestic tax rate will commence from financial year 2019-20 onwards.

Limitation of Benefits (LOB):

- The benefit of 50% reduction in tax rate during the transition period from 1st April, 2017 to 31st March, 2019 shall be subject to LOB Article, whereby a resident of Mauritius (including a shell/ conduit company) will not be entitled to benefits of 50% reduction in tax rate, if it fails the main purpose test and bonafide business test.
- A resident is deemed to be a shell/ conduit company, if its total expenditure on operations in Mauritius is less than INR 2.7 million (Mauritian Rupees MUR 1.5 million) in the immediately preceding 12 months.

Source-based taxation of interest income of Banks:

- Interest arising in India to Mauritian resident banks will be subject to withholding tax in India at the rate of 7.5% in respect of debt claims or loans made after 31st March, 2017.
- Interest income of Mauritian resident banks in respect of debt-claims existing on or before 31st March, 2017 shall be exempt from tax in India

The revised tax rules will also include information exchange provisions, aimed at tackling treaty abuse, round tripping of funds and improving transparency in tax matters.

Clients are requested to reach out to their tax consultants, should they wish to obtain further details on the same. CBDT has constituted a Working Group to examine the issues arising out of the amendment of the India-Mauritius Double Taxation Avoidance Convention and any other issues related thereto.

11.7.2 India Cyprus treaty arrangement

A revision of Double Taxation Avoidance Agreement (DTAA) with the Government of Cyprus for avoidance of double taxation with respect to taxes on income and on capital has received the cabinet approval and the protocol will soon be signed. Some of the salient features of the agreement are as follows:

- In-principle agreement on all pending issues including taxation of capital gains has been reached.
- Source based taxation of capital gains on transfer of shares to apply
- All investments made prior to April 1, 2017 will be grandfathered and capital gains on such investments will be taxed in the country in which the tax payer is a resident.

The new treaty would also involve rescinding of notification classifying Cyprus as a 'Notified Jurisdictional Area' under Section 94A of Income tax Act 1961. This notification would be rescinded retrospectively from November 1, 2013.

Section 94A was introduced in the Income-tax Act, 1961, through the Finance Act, 2011, in respect of transactions with persons located in notified jurisdictional area as an anti-avoidance measure. As per section 94A, the Central Government may, having regard to the lack of effective exchange of information with any country or territory outside India, specify the said country or territory as a notified jurisdictional area in relation to transactions entered into by any assessee

11.8. Minimum Alternate Tax (MAT)

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

Further, the Central Board of Direct Taxes (CBDT) has notified that it will make appropriate amendment to the Income-tax act clarifying the inapplicability of MAT provisions to FII's/ 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.

11.9. 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) intends to issue guidelines for implementation of GAAR so as to bring more clarity relating to its implementation

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

11.10.1 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.

11.10.2 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.

11.10.3 The important timelines with regards FATCA and CRS

The important timelines with regards FATCA/ CRS are summarized below:

| Particulars | Important Dates |
|--|-----------------|
| FATCA | |
| Cut-off date prior to which accounts are treated as pre-existing account under FATCA | 30.06.2014 |
| Date for considering New Account under FATCA | 01.07.2014 |
| FATCA came into force in India | 31.08.2015 |
| Next reporting (for calendar year 2016) under FATCA | 31.05.2017 |
| CRS | |
| Cut-off date prior to which accounts are treated as Pre-existing account under CRS | 31.12.2015 |
| Date for considering New Account under CRS | 01.01.2016 |
| First reporting (for calendar year 2016) under CRS | 31.05.2017 |

11.10.4 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.

11.11. Goods and Services Tax

Goods and Services Tax (GST) initiative is a key structural reform for the Indian economy which seeks to simplify and harmonize the indirect tax regime across the country. This is one of the most significant events of economic history of India and is going to impact every aspect of business, procurement of goods and services as well as provision of services and supply of goods.

The Goods and Services Tax (GST) was unanimously passed by both the Houses of Parliament. After the Presidential assent, GST Council would be set-up for making recommendations on various aspects of the GST structure.

This bill is an enabling constitutional amendment bill only. The Parliament would be further required to enact a central level GST Act, for levy of Central GST (CGST) and Integrated GST (IGST). Further, individual states would be required to enact State level GST Act for State GST (SGST), before the GST regime becomes operational.

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 from the below mentioned link: <http://pib.nic.in/newsite/PrintRelease.aspx?relid=148240>

Chapter 12 Reporting Requirements

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

| Reports | Reporting to | Frequency | Responsibility | Remarks |
|--|---|-----------------------------|--------------------|--|
| FPIs: | | | | |
| Assets under custody | SEBI | Fortnightly, Monthly | Custodian | |
| Equity and Debt Transaction | SEBI, RBI and Depositories (NSDL, CDSL) | Daily, Monthly | Custodian | |
| CSGL reporting of transaction | RBI | Weekly | Custodian | |
| Original Maturity wise FII/ SA holding in debt | SEBI | Monthly | Custodian | |
| Residual maturity reporting | SEBI RBI | Monthly Weekly | Custodian | |
| Debt limit Reporting | Depositories (NSDL, CDSL) | Daily | Custodian | To facilitate calculation of daily debt utilisation limits of FPIs. The limits are published at EOD by the depositories on their website |
| Ownership pattern of GOI securities by FII/ FPI | RBI | Daily | Custodian | |
| Utilised-unutilised Debt limit | SEBI and RBI | As and when | Custodian | |
| Security-wise consolidated FII/ FPI Investment in G-Sec | RBI | Monthly | Custodian | |
| Client wise debt holding | Depositories (NSDL, CDSL) | Monthly | Custodian | |
| Foreign Exchange inflow and outflow details | RBI | Daily, weekly and monthly | AD Category I Bank | |
| Report for GDR repatriations | RBI | Monthly | AD Category I Bank | |
| Balances for FII/ FPI clients | RBI | Weekly | AD Category I Bank | |
| Details of outstanding forward contracts | RBI | Monthly | AD Category I Bank | |
| Breach of permitted position limits in currency derivative segment | SEBI/ RBI | On occurrence of the breach | Custodian | |

| Reports | Reporting to | Frequency | Responsibility | Remarks |
|---|--|---|---|--|
| Reporting under (SAST) Regulations, 2011 | <ul style="list-style-type: none"> – Stock Exchanges where the shares of the target company are listed – The target company at its registered office | <p>On reaching the prescribed threshold of:</p> <ul style="list-style-type: none"> – 5% or more of the shares of the target company – +/- 2% change in the holding position of the target company <p>Reporting to be done within two working days</p> | FPI/ FII/ Sub Accounts/ FDI/ FVCI | |
| Insider Trading Regulations | – To the Company | Types of disclosures as per provisions of the Act <ul style="list-style-type: none"> – Initial Disclosures – Continual Disclosures – Disclosures by other connected persons | FPI/ FII/ Sub Accounts/ FDI/ FVCI | |
| Issuance of ODIs <ul style="list-style-type: none"> – Transaction Reporting (Equity, Debt and F&O) – Reporting of complete transfer trails of ODIs – Summary Report (As per the prescribed format) | SEBI | Monthly | FPIs issuing the ODIs | |
| – Reconfirmation of ODI positions | SEBI | Semi-Annual | FPI issuing ODI | Exception reporting: Only cases of divergence from reported monthly data |
| – Periodic Operational Evaluation Certificate | SEBI | Annual | CEO or equivalent of the issuer | |
| – Suspicious Transactions Report | Indian Financial Intelligence Unit | Whenever suspicious transaction is observed | ODI Issuers shall be required to file suspicious transaction reports, if any, in relation to the ODIs issued by it. | |

| Reports | Reporting to | Frequency | Responsibility | Remarks |
|---|--------------|--|--|---|
| FDIs: For Fresh issuance of Shares: | | | | |
| Inflow reporting | RBI | Within 30 days of the receipt of consideration | Indian company through its AD Category I Bank | Copy of FIRC and KYC report of the foreign entity also to be provided |
| Issuance of shares (Form FC-GPR) | RBI | To be filed within 30 days from the date of issue of shares | AD Category I Bank of the Indian company receiving funds | |
| Transfer of Shares (Form FC-TRS) | RBI | To be filed within 60 days from the date of the receipt of consideration | Resident transferor/ transferee through its AD Category I Bank | Form FC-TRS needs to be signed by the non-resident |
| FVCIs: | | | | |
| 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 three working days from the end of the previous quarter |

Chapter 13 Industry Perspectives

India Stock Lending and Borrowing

Author – Mr. T. Venkat Rao

Managing Director

The National Securities Clearing Corporation Ltd. (NSCCL)

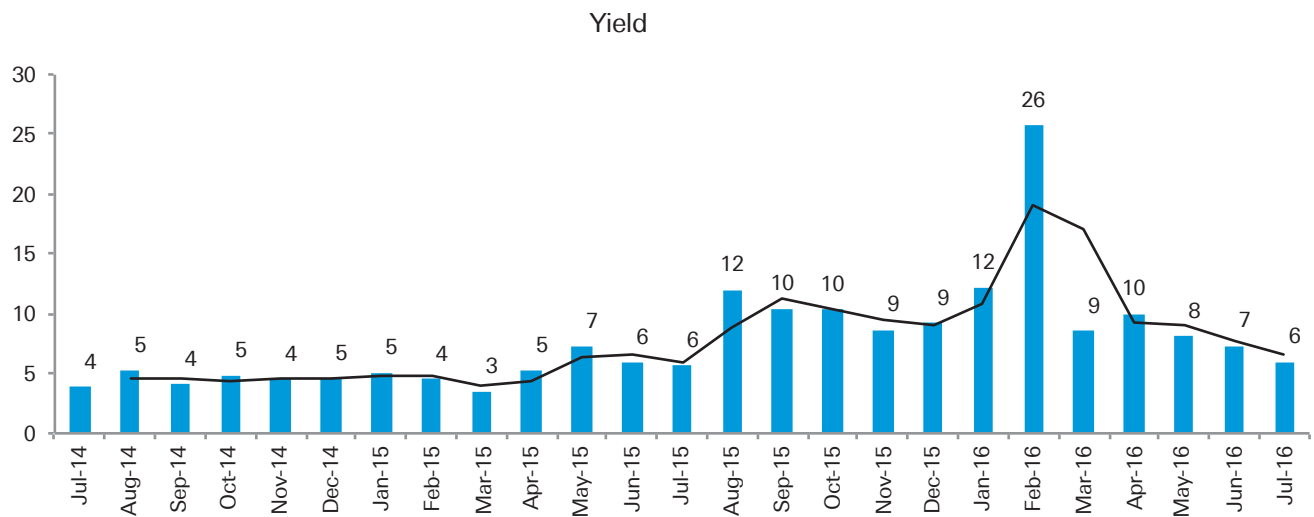
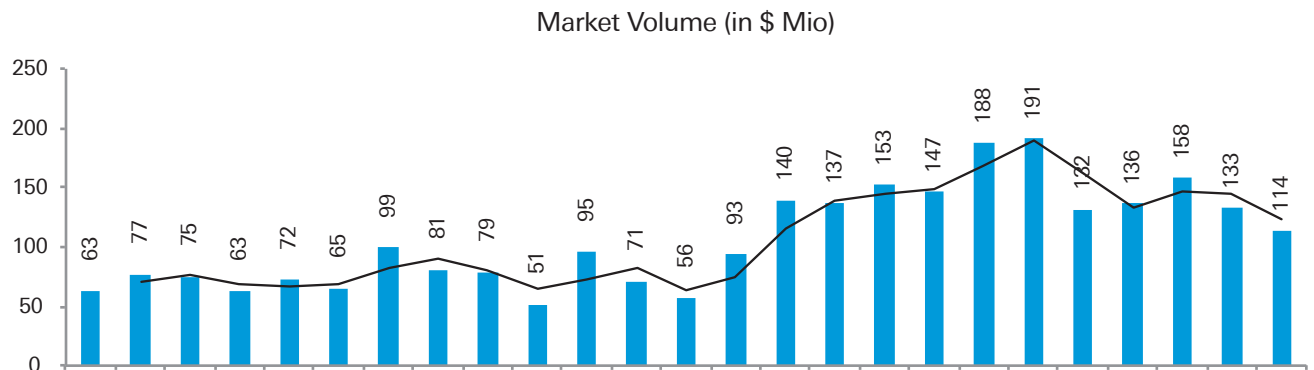
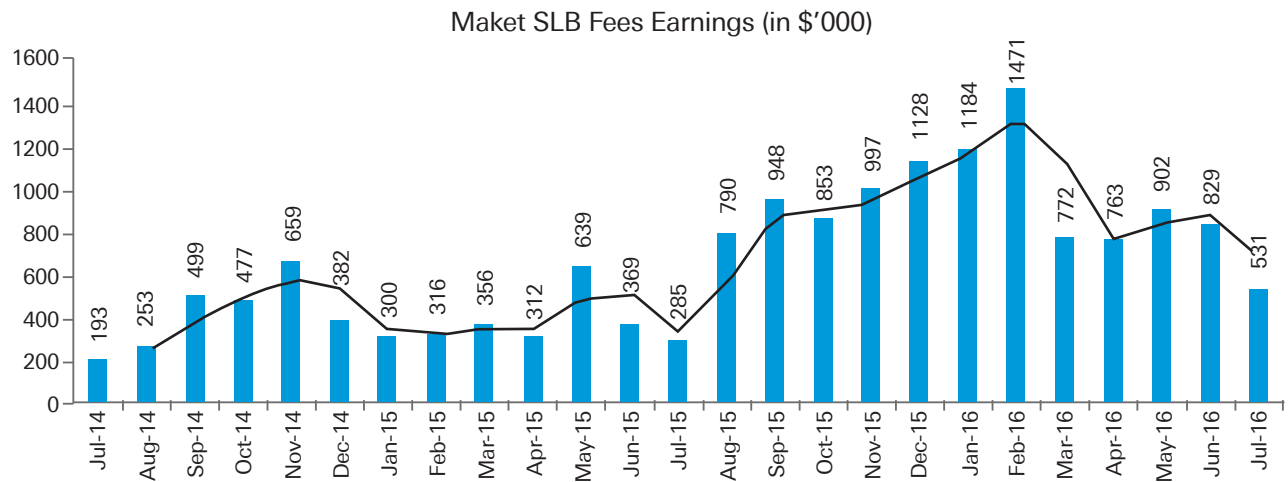
Securities lending is a very popular mechanism globally, providing liquidity to the equity market and thereby increasing the market efficiency. In most countries this product is an OTC (over the counter) product whereby the custodians facilitate the transaction of borrow and lend among institutions. It is a negotiated transaction between two parties and the lender has to deal with counter party risk, collateral adequacy, sufficiency risk, and other related risks.

In India, SEBI has allowed all categories of investors including retail and institutional to borrow as well as lend securities. Unlike other markets, SLB in India is an Exchange traded product having no counterparty risk as National Securities Clearing Corporation of India (NSCCL), the clearing corporation of the National Stock Exchange of India (NSE) acts as an approved Intermediary providing settlement guarantee for all lending and borrowing transactions.

NSE offers an anonymous trading platform and NSCCL provides the advantage of settlement guarantee. It provides the lender and the borrower a secured platform to transact without the worries of counter party default. Clearing house has a robust risk management system in the form of collecting adequate margins & defining the limits for participants to cover counterparty risks and market risk.

SLB product in India offers great benefits to Lenders such as – Risk Free Income for their long only portfolio, Protection of all rights as owner (all the corporate action benefits), Potential to improve the portfolio performance apart from dividend income and market appreciation & most important feature is the settlement guarantee provided by the Clearing corporation- NSCCL. This also has high benefits for borrowers, who look at this segments to cover their short sale positions, reverse arbitrage, pair trading & financing the transaction at low cost.

The SLB Market Earnings, Market Volume & Yields for last 2 years has shown the product is moving towards the growth stage. The average monthly SLB fees earnings for the market has been approximately USD 1 million based on the last 12 month market growth. This is supported by the growth in the market volumes and average Yields earned by the Long only lenders is around 7.5% - 8 % on their portfolio on annualised basis. This clearly shows 100% growth in the market demand and market participation. The growth has been further supported by the Domestic & Foreign Institutional lenders, who have played pivotal role for the growth of this segment. Over the last 12 months, participants such as Deutsche Bank have played a leading role in bringing the Institutional participants in this segment and continue to be a crucial partner for the growth in this segment.



Category III AIF gaining popularity for India investments

Author – Suresh V Swamy,
Partner –Financial Services,
PwC India

Traditional providers of capital like banks and financial institutions have not been able to satiate the ever growing funding need of Indian businesses. Angel investors, VC and PE investors have sought to fill that gap to some extent. Securities and Exchange Board of India ('SEBI') introduced Alternative Investment Funds Regulations to enable set up of Alternative Investment Fund (AIF) and rationalize the regulatory framework for funds set up in India. An AIF is a fund set up in India to privately pool foreign and domestic money. These regulations provide for three different categories:

Category I: Start-ups or early stage ventures or social ventures or small and medium enterprises (SME) Funds, infrastructure funds;

Category III AIF: employing diverse or complex trading strategies, uses leverage including investments in listed or unlisted derivatives;

Category II: Residuary category.

Our discussion here is limited to Category III AIF which is gaining popularity amongst hedge funds. As on 30 June 2016, there are approximately 33 funds registered as Category III and has raised over INR 4,800 crores (US\$ 724 million).

From a fund setup perspective, Category III AIF requires a minimum corpus of INR 200 million (~US\$ 3m) per scheme and an investment of INR 10 million (~US\$ 155,000) per investor. Sponsor / Manager need to commit lower of 5% of the corpus or INR 100 million (~US\$ 1.5m).

From an investor standpoint, persons resident outside India including a Foreign Portfolio Investor ('FPI') are also now permitted to invest in an AIF subject to maximum of 25%. AIFs with foreign investments can make portfolio investments in only those securities or instruments in which a FPIs are allowed to invest.

Downstream investments by an AIF is regarded as foreign investment if neither the sponsor nor the manager is Indian owned or controlled. Such investments will have to conform to the sectoral caps and restrictions, as applicable to the company in which downstream investment is made as per the policy.

From tax standpoint, a lot more is desired for Category III AIFs. Specific tax pass through status applicable to Categories I and II AIFs has not been extended to Category III AIFs. Hence, taxability of Category III AIFs depends upon the manner in which they are set-up. For various reasons, trust is a popular form of set-up.

General trust taxation principle should apply to such set-ups. Where the trust is set-up as a determinate trust (i.e., its beneficiaries are identifiable with their shares being determinate), the liability to discharge taxes primarily lies with the trustee of the trust. The income of the trust is, however, taxable in 'like manner and to the same extent' as the beneficiaries of the trust.

There is a need for some tax clarity in cases where FPI invests through a Category III FPI, instead of direct investment such that the FPI is not considered to be managed by local Indian fund managers. If tax clarity comes through, Category III AIF may suddenly appear to be a better option compared to the current safe harbor regime for asset managers.

India – an attractive investment destination

Author – Tejas Desai
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Ernst & Young LLP

Buoyed by a strong political mandate in 2014, the Indian economy has continued to be, as the Economic Survey of 2016 put it, 'a refuge of stability and an outpost of opportunity', in an increasingly turbulent global economy. Amidst high and almost unreal expectations, the Narendra Modi-led Government in 2014 set about rebuilding the economy from its somewhat fragile state then.

While the game-changing reforms like GST, land acquisition and labour have not come by easily and immediately, the Government has made steady progress by stabilising the macroeconomic fundamentals like fiscal deficit, inflation and overhaul of public spending. This has been supplemented by reforms through policy action across sectors, each incremental but collectively meaningful. We take a look at some of the policy changes that the Government and regulators have brought in from a policy, regulatory and tax stand point, to the extent it impacts foreign investors – both FDI and FPI.

In a simple yet defining change to boost foreign investment, the Government merged various categories of foreign investment and introduced a composite cap for FDI, FII and other instruments in various sectors. This helps in providing greater clarity around the rules and benefits sectors which had multiple caps such as commodity, power and stock exchanges. This change is of course in addition to relaxed foreign investment rules in more than a dozen sectors including insurance, pensions and railways which have been initiated in the last 2 years.

The Government is focussed on providing an enabling regime for investment vehicles such as AIFs, REITs and InvITs which provide impetus to crucial sectors of the economy. FDI as well as FPI investment into these investment vehicles is permitted under the automatic route. The tax regime for AIFs which was hitherto very uncertain has been substantially placed in line with international best practices by providing a pass through regime for Category I and II AIFs. Some uncertainties continue to remain on the tax regime for Cat III AIFs. Similarly, the tax regime for REITs has been progressively rationalised and we should see the first REIT being launched in India this financial year.

Another area where there has been an alignment of tax and regulatory framework to enable a new regime is the fund manager regime for domestically managing offshore funds – both FPIs and others. First the tax law was amended to provide that the fund would not be regarded as having a business connection or its tax residency in India, simply because the fund is managed in India. The regulatory regime is now being enabled by reducing the minimum capitalisation norms; also SEBI is likely to provide a set of rules to differentially regulate a fund manager who only manages offshore funds. A pragmatic approach in the application of the tax rules will help see this regime take off and add more vibrancy to the Indian asset management sector, with multiplier effects on the financial services sector overall.

The recent announcement to relax capital requirements for foreign investment in the financial services sector is an extremely positive move and will induce foreign investment into new activities such as commodity broking, proprietary trading, etc.

In the 2016 budget, the Government had also proposed that the investment basket of FPIs will be expanded to include unlisted debt securities and pass through securities issued by securitisation special purpose vehicles. Working towards this initiative, RBI has issued a draft circular permitting FPIs to invest in unlisted debt securities and securitized debt instruments. Further, as part of the most recent measures announced by the RBI to deepen the corporate bond market, it is proposed to permit direct trading in corporate bonds by FPIs in the OTC segment and on an electronic platform of a stock exchange, without involving brokers.

The Bankruptcy Code as well as the GST which are now a reality, will improve India's global ranking of ease of doing business, which the Government is very committed to, and should give significant confidence to foreign investors to put more capital into the country.

In a decisive move, the Government renegotiated the 3 decade old India-Mauritius tax treaty (and consequently the India-Singapore treaty) extensively leveraged by foreign investors, to now eliminate the capital gains exemption on sale of shares. While this will require foreign investors to reassess their structures, it does provide certainty of tax outcome and is line with the Government's agenda of tax rationalisation and simplification and moderation of tax rates while phasing out tax exemptions. Significantly, this development also blunts the impact of the much condemned GAAR, which would have conflicted with the capital gains exemptions under the Mauritius and Singapore treaties.

The other clear trend that has emerged is the preference of Government to encourage FPIs to directly invest in Indian markets as against through Offshore Derivative Instruments such as P notes with SEBI imposing increased disclosure requirements and restrictions on transfer. The removal of capital gains exemption under the Mauritius and Singapore treaties casts further shadow on the viability of P-notes.

The Government and the regulators have done credible work in the past 2 years. With significant initiatives that they have taken, the investment landscape in India, aided by strong structural growth story, will certainly get more vibrant and the opportunity for foreign investors higher.

How the India Mauritius treaty change impacts funds

Author – Rajesh H. Gandhi
Partner
Deloitte Haskins & Sells LLP

In a historic development, India & Mauritius signed a Protocol on May 10, 2016 amending their existing tax treaty that dates back to 1982. The protocol gives India the right to tax capital gains arising to Mauritian residents from sale of shares of Indian companies. Industry welcomed the fact that the amendment is effective prospectively from April 2017 onwards coupled with a 2 year period of 50% reduction in tax rate provided the substance conditions stipulated in the protocol are complied with. Further, there's also grandfathering of investments made before April 2017 which effectively means that capital gains arising from sale of those shares which are purchased upto March 31, 2017 will not be taxed irrespective of the date of sale.

This amendment in the tax treaty has come after almost a decade of negotiations between the two countries. The existing tax treaty between the two countries provides that capital gains derived by a person (including companies) are taxable only in the seller's state of residence. Since the domestic tax law in Mauritius exempts capital gains from tax, a Mauritius resident enjoys what is commonly known as 'double non-taxation' i.e. exemption from capital gains tax in India as well as in Mauritius. Given this tax exemption, the liberalized & stable regulatory regime and also the cost efficiency in Mauritius, it has been the most favored route of portfolio as well as strategic investments into India.

In view of the general discomfort on abuse of the Mauritius treaty as well as the allegation that Mauritius was being used for round-tripping of funds into India, the Indian Government has been in discussions with the Mauritius Government for amending the tax treaty. The recent Organization for Economic Co-operation and Development (OECD) base erosion and profit shifting (BEPS) project and the upcoming General Anti-Avoidance Rules in India (slated to be implemented from April 2017) gave further impetus to this dialogue, which ultimately resulted in the signing of the protocol.

It is important to note that the Indian government remains committed to providing a stable and predictable tax regime to foreign investors and therefore chose to avoid making any retroactive changes through the protocol by allowing the "grandfathering" of all investments made before April 1, 2017 and providing for a lower tax rate on capital gains arising from sale of shares during the two transition years ending on March 31, 2019. Also, capital gains from sale of instruments other than shares continue to be exempt in India. Further, the tax rate on interest income has been reduced to 7.5% which is the lowest tax rate on interest income in any of the treaties India has signed till date.

However, the amendment of the treaty does result in certain uncertainties for investors which need to be addressed. Some of the uncertainties include availability of grandfathering provisions to bonus shares received post April 1, 2017, allocation of taxes paid by a Foreign Portfolio Investors (FPI) to the holders of Offshore Derivative Instruments (ODIs), availability of set-off of losses arising from derivative trades to gains arising from sale of shares, passing of foreign tax credit by Mauritius entities to the end investors etc. Acknowledging such concerns, the government has set up a working group comprising of representatives from government, Central Board of Direct Taxes (CBDT), Securities and Exchange Board of India (SEBI) as well as market participants to understand the practical issues and arrive at possible solutions. The working group is expected to submit its recommendations to the Government in September 2016.

Interestingly, the amendment in the Mauritius treaty also results in withdrawal of capital gains exemption for investors based in Singapore. This is because the residence based capital gains taxation in Singapore treaty is available only till such time a similar treatment is available in Mauritius treaty which is set to change from April 2017 onwards. The press reports suggest that India would soon negotiate its tax treaty with Singapore. In another development, the government

issued a press release on July 1, 2016 to announce that it has negotiated its tax treaty with Cyprus whereby capital gains from sale of shares would be taxable in India on investments made from April 1, 2017 onwards.

Overall, the amendments being made by India in its treaties are in line with its commitment to the BEPS initiative - specifically, action 6 (preventing treaty abuse) - and the government's commitment to curbing the potential for double non-taxation. That said, the amendments made in Mauritius and Cyprus tax treaty are only with respect to shares and therefore residents of these countries can continue to claim exemption from capital gains tax on other Indian instruments such as bonds, debentures, derivatives, units of mutual funds etc. Further, apart from Mauritius, Singapore and Cyprus, India has a number of other tax treaties which provide exemption from capital gains tax on shares especially for portfolio investments (less than 10% shareholding). Some of these countries are Belgium Denmark, France, Netherlands, Spain etc. Some of these jurisdictions are popularly used by CIVs. Funds looking at investing into India through these jurisdictions need to consider the local tax law implications including conditions for tax exemption, withholding tax especially on dividend distributions to investors, eligibility to obtain tax residency certificate and cost of setting up and maintaining local presence in such jurisdictions.

In re-aligning their India strategies post the amendment in treaties, investors also need to consider the impact of GAAR slated to go live from April 2017. By invoking GAAR, Indian tax authorities can deny treaty benefits to a foreign entity which have been set up in a country with the main purpose to obtain the treaty benefit and which otherwise lacks commercial substance in such country.

Investments by Foreign Portfolio Investors in Corporate Debt

Author – Aashit Shah
Partner
J. Sagar Associates

In the last few years, several foreign portfolio investors (“FPIs”) have successfully invested billions in non-convertible debentures (“NCDs”) issued by Indian companies. NCDs are rupee denominated debt securities issued by Indian companies which evidence a debt due to the NCD holder and entitle it to the principal amount with a pre-agreed interest and/or premium. NCDs may or may not be secured.

The NCD route provides an additional pool of capital to Indian companies and also enables them to raise funds where traditional avenues are unavailable. It benefits FPIs as they can invest at higher interest rates than they would have earned from investments overseas, and can also obtain security for such debt investments. This article highlights certain key issues that FPIs should note when investing in privately placed NCDs of Indian companies.

Eligibility of the investor: Obtaining an FPI registration is a pre-requisite for foreign investors to subscribe to or purchase NCDs of Indian companies. Each category of FPIs is permitted to purchase corporate debt.

Listing of NCDs: Under Indian law, an FPI can invest only in NCDs that are listed or to be listed on an Indian stock exchange (except for unlisted NCDs issued by infrastructure companies). If an FPI invests in to-be-listed NCDs, they must be mandatorily listed on the stock exchange within 15 days of the allotment. If they are not listed within this time period, then the FPI has to mandatorily dispose the NCDs.

Minimum Tenure: An FPI can invest in NCDs if they have a minimum residual maturity of three years. FPIs can invest in amortised debt instruments provided the duration of the instrument is three years and above. There is, however, no lock-in period and FPIs are free to sell the NCDs to domestic investors. FPI investors can transfer NCDs to another FPI investor if, at the time of transfer, the residual maturity of such NCDs is more than 3 years.

Pricing on the NCDs: Indian law provides flexibility to the issuer and FPI to determine the returns on privately placed NCDs. Returns are usually given in the form of interest, discounts to subscription price or premium on redemption. Market linked NCDs can also be issued subject to certain conditions prescribed by SEBI. Appropriate disclosures on returns must be made in the disclosure document. However, since the NCDs are denominated in Indian Rupees, it is noteworthy that the foreign exchange fluctuation risk lies with the FPI (which the FPI can hedge).

Security creation and perfection: NCDs may be secured or unsecured. Under Indian law, security can be created for the NCD debt in favour of a debenture trustee, which is an entity regulated by SEBI. Indian company law requires a 100% security cover to be provided for secured debentures. Security creation and perfection involve many steps including (a) obtaining board and shareholder approval, (b) executing security documents, (c) payment of stamp duty, and (d) registration of security with relevant bodies. If execution and registration requirements are not complied within stipulated timeframes, it can adversely affect the security interest of FPIs. FPIs should also ensure that rules on financial assistance and security creation for lending transactions where directors may be interested, are adhered to for the security to be valid and enforceable.

Offer Document: The issuer must provide a disclosure document to potential investors. This document will contain certain mandatory disclosures and information required under SEBI regulations and Indian company law, including the terms of the NCD issue and the credit rating on the NCDs. The disclosure document is filed with the stock exchange and the registrar of companies.

Dispute resolution: Documents executed between the debenture trustee / debenture holders and the company are governed by Indian law and subject to the jurisdiction of Indian courts and tribunals. Pursuant to recent legislative amendments, debenture trustees of secured and listed NCDs will be able to enforce security without intervention of courts and also take over the management of the issuer for the purpose of realising the debt.

SEBI and RBI have continuously liberalised foreign investment in corporate debt. With recent legislative changes, including the new Insolvency and Bankruptcy Code, 2016, Indian corporate bond markets are likely to flourish. Registration as an FPI is the first crucial step for foreign investors to participate in Indian bond markets. Once that is achieved, it is imperative for FPIs to obtain sound professional advice to understand the nuances involved for investment in NCDs to ensure that their interests are safeguarded.

GST Update | Constitutional Amendment Bill for GST passed by Upper House of Parliament

Author – Siddharth Shah
Partner
Khaitan & Co

India achieved a significant milestone with the passing of the Constitutional (122nd Amendment) Bill, 2014 for GST (GST Bill) on 8 August 2016.

The Government worked relentlessly towards bringing consensus across the political spectrum. After deletion of the 1% additional tax on all inter-state supply of goods that was proposed in the original GST Bill passed by the Lower House, the Upper House approved the GST Bill unanimously. Other significant amendments in the GST Bill relate to compensation to States and the dispute resolution machinery. Subsequently, Lower House also unanimously approved the amendments made in the Upper House.

GST will create one single unified market by subsuming most of the indirect taxes, currently levied by both Centre and State resulting in a fragmented Indian economy. It will facilitate seamless transfer of goods and services across the supply chain in one of the largest markets in the world. The Government has already released the 'Model GST Law', containing comprehensive provisions with respect to the Central / State Goods and Services Tax (CGST / SGST) and the Integrated Goods and Services Tax (IGST), for public comments in June 2016. The Model GST Law is expected to evolve in several areas in the coming months' after consensus amongst various stakeholders. The road map to GST implementation has been summarised below.

GST implementation in India: Next Steps

1. Ratification of the GST Bill by minimum 50% state legislatures (15 States) before Presidential assent. As on today (30 August 2016), thirteen states (namely Assam, Bihar, Jharkhand, Himachal Pradesh, Chhattisgarh, Gujarat, Madhya Pradesh, Nagaland, Maharashtra, Haryana, Telangana, Sikkim and Mizoram) have ratified the GST Bill.
2. Setting up of GST council, consisting of representatives from the Centre as well as State within 60 days of the Presidential assent. The council will make recommendations to the Union and the States on model Goods & Service Tax laws, the rates including floor rates with bands of goods & service tax, the Place of Supply rules and any other matter relating to GST as the Council may decide.
3. Passage of GST law by Parliament and State legislatures by year end (2016)

The States have reinforced the commitment of the Government to expedite the GST roll out in India as evidenced by rapid ratification of the GST Bill by the states within a month of passage of GST Bill. With the aim to achieve the target date of 1 April 2017, the Government is striving to expedite the finalisation of GST law along with its procedural and administrative aspects.

Government has already started consultations with various stake holders on Model GST Law. Heightened actions are expected in the coming days more so, with the Government hinting at an early Monsoon session of the Parliament for passing of Central GST and Integrated GST legislation. This shall pave way for the Goods and Services Tax implementation by the target date.

Recent Liberalisation of FDI Policy – Steps towards ‘Ache Din’!

Authors – Rajesh Begur | Pooja Chitalia
Founder & Managing Partner | Senior Associate
ARA Law

In 2016 the Government has announced a series of reforms towards further liberalising FDI in various sectors. These announcements have been in line with its objective of attracting foreign investment and providing an impetus to development of infrastructure and ease of doing business in India. Pursuant to this, FDI in most of the sectors is now either allowed under the automatic route, or FDI limits have been done away with, or investment conditions have been relaxed.

In line with its objectives, the Government has opened up FDI in Trading in food products manufactured/ produced in India upto 100% under the approval route. For the first time clarity has been provided in this sector which is expected to provide a major boost to e-commerce players in the niche industry of food products and processing.

Pharmaceutical sector has attracted significant FDI in the past few years. With opening up of 100% FDI in Brownfield projects (upto 74% automatic route and beyond which through government approval) it will certainly benefit the financial investors and promote joint ventures in pharmaceutical industry.

In the Defence sector FDI is permitted up to 100% (up to 49% under automatic route, beyond which through government approval). With this change, the Government has replaced the condition of foreign investors having to provide Indian companies with access to ‘state of the art technology’ with access to ‘modern technology’ which widens the scope of foreign investments.

In Single Brand Retail Trading, the sourcing requirements have been relaxed up to 3 years and for entities having ‘state-of-art’ and cutting edge’ technology the sourcing norms have been relaxed for another 5 years. This relaxation in the local sourcing norms is a welcome move for major multinational brands that can now set out their own single brand retail store in India.

For establishment of branch office, liaison office or project office, clearance form RBI has been done away with where approval is granted by FIPB or concerned regulator. This change simplifies the process of establishment of branch office, liaison office or project office and makes the same less time consuming.

In Greenfield and Brownfield projects on entry route for Airports FDI up to 100% is permitted under the automatic route. Further, the sectoral limit in air transport service has also increased. This will certainly boost infrastructure and passenger services.

FDI in Asset Reconstruction Companies (ARCs) upto 100% under automatic route is permitted. With the current levels of distress, opening up of FDI would entail greater capital inflows in ARCs.

In Broadcasting Carriage services upto 100% FDI under the automatic route is permitted with approval for foreign investments beyond 49% in Indian company (not seeking license/permission from sectoral Ministry) only if it results in change in the ownership pattern.

In Private Security FDI cap has been increased from 49% to 74% subject to FIPB approval. Also, FDI requirements in Animal Husbandry sector has been liberalised by removing the condition of meeting with the ‘controlled conditions requirement’.

No prior approval is required for investment up to 49% in Insurance and pension sector subject to certain conditions.

FDI Policy 2016 issued by Department of Industrial Policy and Promotion has clarified various issues including foreign investments in AIFs, REITs, INVITs, issuance of employee stock options, share swaps, sector specific conditions, condition on B2C e-commerce etc. Thus, FDI liberalisation

along with clarity on the GST bill, Indo-Mauritius Treaty, proposed amendment to Indo-Singapore Treaty and pricing of instruments with optionality clause will have an impetus in making India an increasingly attractive destination for foreign investors.

Disclaimer:

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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

| |
|--|
| |
|--|

1.2 Address of the Applicant:

| | | | |
|---------------|--|---------|--|
| Address | | | |
| | | | |
| | | | |
| Postal Code | | Country | |
| Telephone No. | | Fax No | |
| Web-site | | | |

1.3 Date of Birth/ incorporation/ establishment/ formation:

dd/mm/yyyy

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

| | | | |
|-------|--|---------|--|
| Place | | Country | |
|-------|--|---------|--|

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 Organizations/ Agencies |
| II | <p>a) Appropriately regulated broad based funds such as Mutual Funds, Investment Trusts, Insurance/ Reinsurance Companies.</p> <p>b) Appropriately regulated entities such as Banks, Asset Management Companies, Investment Managers/ Advisors, Portfolio Managers.</p> <p>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:</p> <p>Provided that the investment manager shall be responsible and liable for all acts of commission and omission of all its underlying broad based funds and other deeds and things done by such broad based funds under these regulations.</p> <p>d) University Funds and Pension Funds</p> <p>e) University related Endowments already registered with SEBI as FII/ Sub Account</p> |
| 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 | |

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:

- We are authorized to make investments in India.
- The income and the source of funds of the applicant is from known and legitimate sources.
- The applicant is not a non-resident Indian.
- The applicant did not make any other application for grant of registration as foreign portfolio investor with any other designated depository participant.
- No winding up orders have been passed against the applicant.
- No order suspending or debarring the applicant from permanently carrying on activities in the financial sector has been passed by any regulatory authority.
- 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.
- Any penalty imposed (including monetary penalty) by any regulatory authority has been undergone or paid.
- The information supplied in the application, including the attached sheets, is complete and true.

Undertaking.

We undertake to:

- Notify any change in the information provided in the application promptly.
- Abide by operational instructions/ directives as may be issued by Securities and Exchange Board of India, Reserve Bank of India or any other authority from time to time under provisions of the Act or any other law for the time being in force.

For and on behalf of applicant

| | |
|--|------------|
| Signature of Authorized Signatory | |
| Name | |
| Designation (not applicable to individual persons) | |
| Date | Dd/mm/yyyy |

Annexure 1.2. Guidance Note for completing Form A

This guidance note has been prepared by Deutsche Bank India with a view to facilitate foreign investors to complete the Form A i.e. FPI application form, which is applicable for all new FPI registrations starting from June 1, 2014.

| Section reference | Information required in Form A | Guidance comments |
|-------------------|--|---|
| 1 | Applicant Details | |
| 1.1 | Name of the Applicant | The applicant needs to input the name as captured in the incorporation document. |
| 1.2 | Address of the Applicant | The applicant needs to mention his registered address |
| 1.3 | Date of Birth/ Incorporation/ Establishment/ Formation | The applicant needs to provide the date on which the applicant was incorporated or set up |
| 1.4 | Place and Country of Birth/ incorporation/ establishment/ formation In case of Foreign Individual applicant, please specify the nationality and passport no. of the applicant | The applicant needs to provide the place and country where the applicant is incorporated or set up The individual applicant needs to specify his nationality and passport no. Institutional clients can enter 'N.A.' |
| 1.5 | Legal form of the applicant and the law under which it is incorporated, established or registered (if applicable) | The applicant needs to mention its legal constitution and the law under which it is registered e.g. Limited liability partnership, Public limited company, Private company etc. |
| 1.6 | Brief description of the principal activities | The applicant needs to briefly indicate the nature of business carried out by him (not applicable to individuals) |
| 1.7 | Name and Brief description of the group, if any, to which the applicant belongs (if applicable) | The applicant needs to provide the Name and Brief description of the Group |
| 1.8 | Information pertaining to the Compliance officer | The applicant needs to specify the details of the person who will be responsible for regulatory compliance of the applicant. Compliance officer is the primary contact for any formal communication from local regulatory authorities and/ or DDP |

| Section reference | Information required in Form A | Guidance comments |
|-------------------|---|--|
| 2 | Category of the Applicant | |
| 2.1. | Type of Category (I/ II/ III) | <p>The applicant should select only one category, which is most appropriate for it. If the applicant selects more than one category or selects an incorrect category, the application form shall be deemed to be defective and is liable to be rejected</p> <p>Category determination is important and shall affect subsequent documentation requirements and downstream operating rules. Applicants are requested to consider carefully before applying in selected category. Applicants should indicate the relevant type of entity (from the table provided in Form A) in the box specifying category. e.g. An applicant operating as a Sovereign Wealth Fund should mention, 'Sovereign Wealth Fund' in the Category I box in Form A</p> <p>In case the applicant falls in Category III but wants to claim Category II status based on Category II status of its investment manager (includes investment manager or investment advisor or trustee), then the name and FPI registration number of such investment manager should be mentioned in the space provided opposite Category II in Form A. The required declaration and undertaking from such investment manager, along with a copy of the FPI Registration certificate of the investment manager should be attached with Form A as Annexure</p> |
| 2.2. | Information regarding foreign investor groups | <p>Instructions for providing investor group information:</p> <ul style="list-style-type: none"> — 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 — The common beneficiary owner(s) shall be identified on the basis of <ul style="list-style-type: none"> — shareholding — voting rights — any other forms of control, in excess of 50%, across FPIs, if any (including existing FII/ Sub accounts) |

| Section reference | Information required in Form A | Guidance comments |
|-------------------|--|--|
| 3 | Details of Regulatory authority by which the applicant is regulated (if applicable) | |
| 3.1. | Contact details | The applicant needs to mention the details of the Regulatory authority under which they are governed. For this purpose, appropriate regulatory authority is either Securities Market regulator or Central Bank (in case of a Bank as applicant) |
| 3.2. | Registration Number/ Code (if any) | The applicant needs to mention their registration number with the Regulator |
| 4 | Disciplinary History | |
| 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 | Details of prior association with the Indian securities market | |
| 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 |

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 |

Conversion from FII/ Sub-account to FPI

Existing FIIs have the option of applying for conversion and renewal at the same time or they have the option of converting to FPI prior to expiry of their existing registration

For Conversion from the existing FII/ Sub-account regime to FPI, the applicant will be required to submit:

- Full documentation as mentioned under this section
- Request letter for conversion
- Conversion fees of USD 1,000

Renewal of FPI Registration

| | | |
|---------------------------------|---|------------------|
| Submissions for Renewal | For renewal the FPI will need to submit <ul style="list-style-type: none"> — Covering letter for renewal of FPI registration three month prior to registration expiry date — Fees (as per the category in which it is registered) — The undertaking confirming no changes in any information submitted to SEBI/ DDP will form part of the covering letter — Protected Cell Company (PCC)/ Multi-class Vehicles (MCV) declaration — Common Beneficial Owner (CBO) declaration | |
| Regulatory Approval | To be issued by DDP on behalf of SEBI | |
| Timeframe | FPI Approval - 30 days from the date of receipt of application or after the information called for has been furnished, whichever is later | |
| 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 6 |

Annexure 2.1 Standard Declaration and Undertaking

Declaration cum Undertaking from the Foreign Portfolio Investor to be given to Designated Depository Participant

Date

To

Designated Depository Participant

Dear Sir/ Madam,

[Entity name] ("the Applicant"/ "I"/ "We") is/are applying for registration as Foreign Portfolio Investor ("FPI") in accordance with the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014. In connection with the above, please find attached our FORM A (Application Form) for

- ☐ Grant of Certificate of Registration as FPI **or**
- ☐ Conversion from our existing Foreign Institutional Investor / Sub – Account / Qualified Foreign Investor to FPI

I/We have read and understood the Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2014, its Operating Guidelines, circulars issued thereunder and any other terms and conditions specified by SEBI from time to time ("FPI Regulations") and I/We hereby declare that I/we fulfill the eligibility criteria under the FPI Regulations and I/we am/are eligible to register as a FPI. In compliance with the requirements of the FPI Regulations, the Applicant hereby declares/ undertakes the following:

- 1) I/We am/are a person not resident in India [as per the Indian Income Tax Act, 1961].
- 2) I/We am/are resident in _____ (country name), a country whose
 - ☐ Securities market regulator _____ (name of the regulator) is a signatory to International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding (MMoU) (Appendix A Signatories or a signatory of a bilateral Memorandum of Understanding (MoU) with SEBI (bilateral MoU between SEBI and the overseas regulator that inter alia provides for information sharing arrangements) **or**
 - ☐ Central bank _____ (name of the central bank) is a member of Bank for International Settlements (Applicable only if the applicant is a bank).

- 3) I/We am/are not resident in a country identified in the public statements issued by Financial Action Task Force (FATF) as:-
- (i) a jurisdiction having a strategic Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) deficiencies to which counter measures apply, or
 - (ii) a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the FATF to address the deficiencies.
- 4) I/We am/are legally permitted to invest in securities outside my country of incorporation or establishment or place of business.
- 5) I/We am/are authorized by our Memorandum of Association and Articles of Association or equivalent document(s) or the agreement to invest on my/ our own behalf or on behalf of my/ our clients.
- 6) I/ We have sufficient experience, good (investment) track record, am/ are professionally competent (to invest in India) and financially sound and there are no instances or cases (either with regulators, courts, investors, etc.) where it has been concluded that I/ we have reflected lack of fairness and integrity.
- 7) I/We am/are fit and proper person [as per the Schedule II of the SEBI (Intermediaries) Regulations, 2008].
- 8) I/ We shall forthwith (and not later than six months or such lower period as may be prescribed by SEBI from time) inform SEBI and you in writing:
- a) If any information or particulars previously submitted to SEBI or you are found to be false or misleading, in any material respect.
 - b) If there is any material change in the information previously furnished by me/ us to SEBI or you. Such material change may include but not limited to any direct or indirect change in control, change in regulatory status, merger, demerger or restructuring, change in category, change in structure/ beneficial ownership etc. I/we understand that any such change may result in re-assessment of our FPI registration.
 - c) In case of any penalty, pending litigations or proceedings, findings of inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against me/ us.
- 9) I/ We shall as and when required by SEBI or any other government agency in India, submit any information, record or documents in relation to my/ our activities as a FPI.

- 10) I/ We confirm that we have not been restricted or constrained by local regulators / court order / etc. from investing in our home country and or in any overseas jurisdiction.
- 11) I/ We shall, in relation to my/ our activities as FPI, at all times, comply with and subject myself/ ourselves to the extant Indian laws, rules, regulations (including FPI and FEMA regulations), circulars, guidelines issued and any other terms and conditions specified by SEBI, RBI or any other regulators from time to time.
- 12) I/ We shall provide any additional information or documents or declarations and undertakings as may be required by you to ensure compliance with the Prevention of Money Laundering Act, 2002 and rules and regulations prescribed thereunder, FATF standards and circulars issued from time to time by SEBI, RBI or any other regulators from time to time.
- 13) I/ We do not have any opaque structure which means and includes structures such as protected cell company, segregated cell company or equivalent, where the details of the ultimate beneficial owners are not accessible or where the beneficial owners are ring fenced from each other or where the beneficial owners are ring fenced with regard to enforcement. In case of change in structure/ constitution/ addition of classes of shares, your prior approval shall be taken. ***(Ultimate beneficial owner shall be as provided under the Master circular on Anti Money Laundering Standards or Combating the Financing of Terrorism, issued by SEBI from time to time).***

OR

We are required by our regulator or pursuant to a law to ring fence our assets and liabilities from other funds/ sub funds and we declare that

- (a) I/ We am/ are regulated in my/ our home jurisdiction and
 - (b) each of my/our fund or sub fund satisfies broad based criteria; and
 - (c) I/ We undertake to provide information regarding my/ our beneficial owners as and when sought by SEBI. In case of change in structure/ constitution/ addition of classes of shares, prior approval of DDP shall be taken.
- 14) I/ We do not have any depository account and shall not open more than one depository account as FPI or as a non-resident Indian.

15) I/We confirm that

☐

a. I /We am/are existing FII/ QFI/ sub-account and our registration number is _____.

☐

b. I/We have never applied for nor had our application rejected anytime as FII/ QFI or sub-account or FPI.

☐

c. I/ We have applied for FII/ QFI/ sub-account/ FPI and our application was rejected for the following reasons:

.....

16) The location where my/ our books of account, records and documents, as required under FPI Regulations, will be kept and maintained is _____ and I/ We shall forthwith inform you of any change to the same.

17) Equity shares held by me/ us are and shall be free from all encumbrances.

18) The aforesaid declarations/undertakings and the information provided in the Form A are true and correct. I/We further understand and agree that I/we shall be solely responsible for all consequences arising out of either the declarations/ undertakings being false or for any breach of the declarations/undertakings and hold the Depository and the Designated Depository Participant harmless for relying on such declarations, undertakings and information and agree to indemnify them for any losses, costs, damages, charges (including reasonable legal fees and disbursements), levies, penalties, taxes or interest that they may incur due to reliance on such information and/ or this declaration/ undertaking.

19) The FPI shall take steps as prescribed by depositories to bring back the holdings within the stipulated investment limit within the prescribed time period, if the aggregate holdings belonging to the investor group of which it is a part exceeds the stipulated limit.

Date:

Place:

(Signature block for Applicant)

Signature(s) of Authorised Person(s)

APPLICABLE ONLY FOR FUNDS SEEKING REGISTRATION UNDER CATEGORY II**A. APPROPRIATELY REGULATED (Please complete either (i) or (ii) and strike off the other)**

(i) We declare that we are appropriately regulated or supervised by the securities market regulator of our jurisdiction in the same capacity in which we propose to make investments in India

OR

(ii) We are not appropriately regulated or supervised by the securities market regulator of our jurisdiction but our investment manager (name and FPI registration number of the investment manager) is appropriately regulated and is registered as a Category II FPI and they provide the below undertaking.

B. BROAD BASED CRITERIA (Please complete either (i) or (ii) and strike off the other)

(i) APPLICANT MEETING THE BROAD BASED CRITERIA We are a Broad Based Fund (as per FPI Regulations) established/ incorporated outside India and have atleast 20 investors (including all direct and underlying investors on a look through basis) (for the purpose of ascertaining the total number of investor in the fund, only those underlying investors which have been set up for the sole purpose of pooling funds and making investments should be considered).

Details of all direct investors in the fund are given below.

| Serial No. | *Generic Type of Investors | No. of Investors | If pooling vehicle, mention number of investors | Percentage of Holding(1) |
|---|----------------------------|------------------|---|--------------------------|
| | | | | |
| | | | | |
| Total Corpus of the Fund (USD / GBP/ EUR) | | | | |

*Generic types of investors include Mutual Funds, Investment Trusts, Pension Funds, Insurance, Collective Investment Schemes, Endowments, Charitable Trusts, Corporates, Individuals, etc.

(1) In case any institutional investor holds more than 49%, then details of the generic type of investors for each such institutional investor needs to be provided in the table below (add additional tables if needed)

| Serial No. | *Generic Type of Investors | No. of Investors | If pooling vehicle, mention number of investors | Percentage of Holding(1) |
|---|----------------------------|------------------|---|--------------------------|
| | | | | |
| | | | | |
| Total Corpus of the Fund (USD / GBP/ EUR) | | | | |

*Generic types of investors include Mutual Funds, Investment Trusts, Pension Funds, Insurance, Collective Investment Schemes, Endowments, Charitable Trusts, Corporates, Individuals, etc.

OR

(ii) APPLICANT NOT MEETING THE BROAD BASED CRITERIA (CONDITIONAL REGISTRATION)

I/ We am/are a newly incorporated/ established entity and seek to register myself/ ourselves as a broad based fund under Category II, however we do not satisfy the broad based criteria at the time of making this application. In compliance with the requirements for grant of conditional registration, we hereby undertake invest at least 5% of the corpus of the fund in to India and we shall comply with the broad based criteria within 180 days of grant of registration.

(Signature block for Applicant)

Signature(s) of Authorised Person(s)

Date:

Place:

We (name of the Investment Manager) having FPI registration No. (FPI registration number) are the investment manager to (name of the Applicant) and we undertake that we shall be responsible and liable for all acts of commission and omission of (name of the Applicant) and other deeds and things done by them under these regulations.

To be signed by Investment Manager if the FPI not appropriately regulated but the investment manager is appropriately regulated and is registered as a Category II FPI and they are responsible and liable for all acts of commission and omission of the FPI and other deeds and things done by them under these regulations.

(Signature block for Investment Manager)

Signature(s) of Authorised Person(s)

Date:

Place:

[On the letterhead of the FPI] (Refer April 2010 Circular of SEBI – PCC/MCV declaration)

Date:

To,

Designated Depository Participant

Dear Sir,

Please refer below for the requisite declarations and undertakings for [Please mention name of the FPI].

Declarations

Please tick (☑) whichever applicable.

- ☐ (a) The applicant declares that it is not a Protected Cell Company (PCC) or Segregated Portfolio Company (SPC) and does not have an equivalent structure by whatever nomenclature.
- ☐ (b) The applicant declares that it is not a Multi Class Share Vehicle (MCV) by constitution and does not have an equivalent structure by whatever nomenclature. It contains only single class of share.
- ☐ (c) The applicant declares that it is a MCV by constitution and has more than one class of shares or has an equivalent structure and that a common portfolio is maintained for all classes of shares and satisfies broad based criteria

OR

- ☐ (c) A segregated portfolio is maintained for separate classes of shares wherein each such class of shares are in turn broad based.

Undertakings

In case the applicant is/ proposed to be a MCV or an equivalent structure and have more than one class of shares.

We undertake that:

- (a) Common portfolios shall be allocated across various share classes and it shall be broad based;

OR

- (a) If portfolios are segregated for each distinct share class, then each such share class shall satisfy the broad based criteria;
- (b) In case of change in structure/ constitution/ addition of classes of shares, prior approval of DDP shall be taken;
- (c) In case of any addition of share classes, it shall follow the criteria at (a) above.

**Signature(s) of Authorized
Person(s)**[Please mention name of
the FPI]

Annexure 2.2 Additional Registration Documents

| Document | Signing Authority |
|---|--|
| Memorandum and Articles of Association or any other equivalent formation document | <ul style="list-style-type: none">— To be certified by the authorised signatory as per ASL along with Company Stamp/ Seal, Name and Date— To be Notarised by a Notary Public OR certified by a Foreign Multi National Bank (Certification should bear the Name, Date and Designation) |
| Copy of FII/ FPI Registration Certificate of Investment Manager (if applicable)* | To be certified by the authorised signatory along with Company Stamp/ Seal, Name and Date |
| Investment Management Agreement (if applicable)* | To be certified by the authorised signatory along with Company Stamp/ Seal, Name and Date |

*Required for unregulated FPI Applicant intending to seek registration under Category II based on the Category II status of its Investment Manager needs to provide the said documents

Annexure 2.3 Standard KYC form

Annexure – K

☐ NEW

☐ MODIFICATION

PART I - KNOW YOUR CLIENT (KYC) APPLICATION FORM (For Non-Individuals)

Photograph

Please affix the recent passport size photograph and sign across it

Please fill this form in ENGLISH and in BLOCK LETTERS

A. IDENTITY DETAILS

| | | | | | | | | | | | | | | | | | | |
|---|----------------------------------|---|---|---|---|---|---|---|---|--------------------------------|---|---|---|---|---|---|---|--|
| 1 | Name of the Applicant | | | | | | | | | | | | | | | | | |
| 2 | Date of incorporation | D | D | M | M | Y | Y | Y | Y | Place of incorporation | | | | | | | | |
| 3 | Date of commencement of business | | | | | | | | | D | D | M | M | Y | Y | Y | Y | |
| 4 | a) PAN | | | | | | | | | b) Registration No. (e.g. CIN) | | | | | | | | |
| 5 | Status (please tick any one): | | | | | | | | | | | | | | | | | |
| <div><div><div><input type="checkbox"/> Private Limited Co.</div><div><input type="checkbox"/> Public Ltd. Co.</div><div><input type="checkbox"/> Body Corporate</div><div><input type="checkbox"/> Trust</div><div><input type="checkbox"/> Charities</div><div><input type="checkbox"/> NGO's</div><div><input type="checkbox"/> FPI – Category I</div><div><input type="checkbox"/> Others (please specify) _____</div></div><div><div><input type="checkbox"/> Bank</div><div><input type="checkbox"/> Government Body</div><div><input type="checkbox"/> Non Government Organization</div><div><input type="checkbox"/> Defense Establishment</div><div><input type="checkbox"/> Society</div><div><input type="checkbox"/> LLP</div><div><input type="checkbox"/> FPI - Category II</div></div><div><div><input type="checkbox"/> Partnership</div><div><input type="checkbox"/> FI</div><div><input type="checkbox"/> FII</div><div><input type="checkbox"/> HUF</div><div><input type="checkbox"/> AOP</div><div><input type="checkbox"/> BOI</div><div><input type="checkbox"/> FPI - Category III</div></div></div> | | | | | | | | | | | | | | | | | | |

B. ADDRESS DETAILS

| | | | | | | | | | | | | | | | | | | |
|---|---|-------------------|--|--|--|--|--|--|--|-------------|--|--|--|--|--|--|--|--|
| 1 | Correspondence Address | | | | | | | | | | | | | | | | | |
| | | City/town/village | | | | | | | | PIN Code | | | | | | | | |
| | | State | | | | | | | | Country | | | | | | | | |
| 2 | Specify the proof of address submitted for correspondence address | | | | | | | | | | | | | | | | | |
| 3 | Contact Details | Tel. (Off.) | | | | | | | | Tel. (Res.) | | | | | | | | |
| | | Fax No. | | | | | | | | Mobile No. | | | | | | | | |
| | | Email ID | | | | | | | | | | | | | | | | |
| 4 | Registered Address (if different from above): | | | | | | | | | | | | | | | | | |
| | | City/town/village | | | | | | | | PIN Code | | | | | | | | |
| | | State | | | | | | | | Country | | | | | | | | |

| | | |
|---|---|--|
| 5 | Specify the proof of address submitted for registered address | |
|---|---|--|

C.OTHER DETAILS

| | | |
|---|---|--|
| 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/UID of Promoters/Partners/Karta and whole time directors: | |

D. DECLARATION

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 |
|---|--|------|---|---|---|---|---|---|---|---|

=====

FOR OFFICE USE ONLY

| | | | | | | | | | | |
|---|--|---|---|---|---|---|---|---|---|--------------------------------|
| <input type="checkbox"/> (Originals verified) True copies of documents received <input type="checkbox"/> (Self-Attested) Self Certified Document copies received | | | | | | | | | | |
| Signature of the Authorised Signatory | | | | | | | | | | Seal/Stamp of the intermediary |
| Date | | D | D | M | M | Y | Y | Y | Y | |

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. | Full Name of Senior Management (Whole Time Directors / Trustees / Partners) | Date of Birth | Nationality | | | | | | | | | |
|--|---|---------------|-------------|------|---|---|---|---|---|---|---|---|
| 1 | | | | | | | | | | | | |
| 2 | | | | | | | | | | | | |
| 3 | | | | | | | | | | | | |
| 4 | | | | | | | | | | | | |
| 5 | | | | | | | | | | | | |
| <div>Name & Signature of the Authorised Signatory(ies)</div> <table><tr><td>Date</td><td>D</td><td>D</td><td>M</td><td>M</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td></tr></table> | | | | Date | D | D | M | M | Y | Y | Y | Y |
| Date | D | D | M | M | Y | Y | Y | Y | | | | |

Annexure – K
PART II – ACCOUNT OPENING FORM (FOR NON-INDIVIDUALS)

| | | | | | | | | | | | | | | | | | | | | | | | |
|--|--|---|--|---|--|---|--|---|--|---|--|--------------|--|--|--|----------|--|----------|--|----------|--|----------|--|
| Participant Name - DEUTSCHE BANK AG DP ID - IN300167 Address - | | | | Client –ID (To be filled by Participant) | | | | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | | | | | | | |
| We request you to open a depository account in our name as per the following details: <i>(Please fill all the details in CAPITAL LETTERS only)</i> | | | | | | | | | | | | | | | | 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"/> Qualified Foreign Investor | | | | <input type="checkbox"/> Mutual Fund | | | | <input type="checkbox"/> Trust | | | | | | | | | | | | | | | |
| <input type="checkbox"/> Bank | | | | <input type="checkbox"/> CM | | | | <input type="checkbox"/> Other (Please specify) | | | | | | | | | | | | | | | |
| C) | | | | | | | | | | | | | | | | | | | | | | | |
| Correspondence Address | | DEUTSCHE BANK AG, DB HOUSE HAZARIMAL SOMANI MARG, P.O.BOX NO. 1142, FORT | | | | | | | | | | | | | | | | | | | | | |
| | | City/town/village | | | | MUMBAI | | | | PIN Code | | 4 | | 0 | | 0 | | 0 | | 0 | | 1 | |
| | | State | | | | MAHARASHTRA | | | | Country | | INDIA | | | | | | | | | | | |
| Contact Details | | Tel. (Off.) | | | | 022 - 7180 3000 | | | | Tel. (Res.) | | | | | | | | | | | | | |
| | | Fax No. | | | | 022 - 7180 3901 | | | | Mobile No. | | | | | | | | | | | | | |
| | | Email ID | | | | | | | | | | | | | | | | | | | | | |
| 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 FIs/Others (as may be applicable) | | | | | | | | | | | | | | | | | | | | | | | |
| RBI Approval Reference Number | | | | | | | | | | | | | | | | | | | | | | | |
| RBI Approval date | | | | | | | | | | | | | | | | | | | | | | | |
| SEBI Registration Number (for FIs) | | | | | | | | | | | | | | | | | | | | | | | |
| F) Bank details | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | | Bank account type | | | | <input type="checkbox"/> Savings Account | | | | <input checked="" type="checkbox"/> Current Account | | | | <input type="checkbox"/> Others (Please specify) _____ | | | | | | | | | |
| 2 | | Bank Account Number | | | | 0190363005 | | | | | | | | | | | | | | | | | |
| 3 | | Bank Name | | | | DEUTSCHE BANK | | | | | | | | | | | | | | | | | |
| 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 | | | | | | | | | | | |
| 5 | | MICR Code | | | | 4 | | 0 | | 0 | | 2 | | 0 | | 0 | | 0 | | 0 | | 2 | |
| G) 6 IFSC | | | | | | | | | | | | | | | | | | | | | | | |
| D E U T 0 7 8 4 D C O | | | | | | | | | | | | | | | | | | | | | | | |
| H) Clearing Member Details (to be filled up by Clearing Members only) | | | | | | | | | | | | | | | | | | | | | | | |
| 1 | | Name of Stock Exchange | | | | | | | | | | | | | | | | | | | | | |
| 2 | | Name of Clearing Corporation/ Clearing House | | | | | | | | | | | | | | | | | | | | | |
| 3 | | Clearing Member ID | | | | | | | | | | | | | | | | | | | | | |

| | | | | |
|--------------------------|---|--|--|--------------------------|
| 4 | SEBI Registration Number | | | |
| 5 | Trade Name | | | |
| 6 | CM-BP-ID (to be filled up by Participant) | | | |
| I) 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"/> |
| I) | 4 | Mode of receiving statement of Account | <input type="checkbox"/> - Physical Form <input type="checkbox"/> - Electronic Form (Email / SWIFT) | |

| | | | | | | | | | |
|------------------|---|---|---|---|---|---|---|---|---|
| I. OTHER DETAILS | | | | | | | | | |
| 1 | Gross Annual Income Details (please specify): Income Range per annum | | | | | | | | |
| | <input type="checkbox"/> Below ` 1 lac <input type="checkbox"/> ` 10- 25 lac <input type="checkbox"/> ` 1- 5 lac <input type="checkbox"/> ` 25 lac- 1 crore <input type="checkbox"/> ` 5- 10 lac <input type="checkbox"/> More than ` 1 crore | | | | | | | | |
| 2 | Networth | | | | | | | | |
| | Amount (`) _____ | | | | | | | | |
| | As on (date) <table><tr><td>D</td><td>D</td><td>M</td><td>M</td><td>Y</td><td>Y</td><td>Y</td><td>Y</td></tr></table> | D | D | M | M | Y | Y | Y | Y |
| D | D | M | M | Y | Y | Y | Y | | |
| | (Networth should not be older than 1 year) | | | | | | | | |

Declaration

The rules and regulations of the Depository and Depository Participants pertaining to an account which are in force now have been read by us and we have understood the same and we agree to abide by and to be bound by the rules as are in force from time to time for such accounts. We hereby declare that the details furnished above are true and correct to the best of our knowledge and belief and we undertake to inform you of any changes therein, immediately. In case any of the above information is found to be false or untrue or misleading or misrepresenting, we are aware that we may be held liable for it.

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 & DP ID

Received the application from M/s _____ as the sole/first holder alongwith _____ and _____ as the second and third holders respectively for opening of a depository account. Please quote the DP ID & Client ID allotted to you (CM-BP-ID in case of Clearing Members) in all your future correspondence.

Date:

| | | | | | | | |
|---|---|---|---|---|---|---|---|
| D | D | M | M | Y | Y | Y | Y |
|---|---|---|---|---|---|---|---|

Participant Stamp & Signature

Annexure 3 List of useful reference links

| | |
|--|---|
| Bank For International Settlement | http://www.bis.org |
| Bombay Stock Exchange (BSE) | http://www.bseindia.com |
| CDSL Ventures Limited (CVL) | https://www.cvlkra.com |
| Central Depository Services Limited (CDSL) | https://www.cdslindia.com |
| Department of Industrial Policy & Promotion | http://dipp.nic.in |
| Financial Action Task Force | http://www.fatf-gafi.org |
| Indian Clearing Corporation Limited (ICCL) | http://www.icclindia.com |
| International Organization of Securities Commissions (IOSCO) | http://www.iosco.org |
| Ministry Of Finance | http://finmin.nic.in |
| National Securities Depository Limited (NSDL) | https://www.nsdl.co.in |
| National Stock Exchange (NSE) | http://www.nseindia.com |
| The National Securities Clearing Corporation Ltd. (NSCCL) | http://www.nscclindia.com/ |
| NSDL Database Management Limited (NDML) | https://kra.ndml.in |
| Press Information Bureau | http://pib.nic.in |
| Reserve Bank Of India (RBI) | http://www.rbi.org.in |
| Security Exchange Board Of India (SEBI) | http://www.sebi.com |

Annexure 4 : Key Contacts in India

Market Infrastructure Entities

| | |
|---|---|
| Bombay Stock Exchange (BSE) | Name: Mr. V. Balasubramaniam Designation: Chief Business Officer, BSE Email: bse.fig@bseindia.com Phone: +91 22 2272 8419/ 39 |
| Central Depository Services Ltd (CDSL) | Name: Ms. Nayana Ovalekar Designation: Senior Vice President Email: nayana@cdslindia.com Phone: +91 22 6634 1855 Name: Mr. Yogesh Kundnani Designation: Vice President Email ID : yogeshk@cdslindia.com Phone: +91 22 2272 8694/ 6634 1857 |
| CDSL Ventures Limited (CVL) | Name: Mr. Cyrus Khambata Designation: Managing Director Email ID: cyrus@cdslindia.com Phone: +91 22 2272 8609 |
| National Securities Depository Limited (NSDL) | Name: Mr. Samar Banvat Designation: Senior Vice President Email : samarb@nsdl.co.in Phone: +91 22 2499 4590 Name: Mr. Prashant Vagal Designation: Senior Vice President Email : prashantv@nsdl.co.in Phone: +91 22 2499 4481 |
| National Stock Exchange (NSE) | Name: Mr. K. Hari Designation: Chief Business Officer- Equity & Equity Derivatives Email: harik@nse.co.in Name: Mr. Nagendra Kumar Designation: Chief Business Officer - Currency & Fixed Income Email: nagendrak@nse.co.in |
| NSDL Database Management Limited (NDML) | Name: Sameer Gupte Designation: Senior Vice President Email:sameerg@nsdl.co.in Phone: +91 22 4914 2505 |

Tax Agents/ Consultants:

| | |
|-------------------------------|--|
| BMR & Associates LLP | Name: Russell Gaitonde Designation: Partner Email: russell.gaitonde@bmradvisors.com Phone: +91 22 6135 7000/ 7045 |
| Deloitte Haskins & Sells LLP | Name: Rajesh H Gandhi Designation: Partner Email: rajegandhi@deloitte.com Phone: +91 22 6185 4380 |
| Ernst & Young LLP | Name: Tejas Desai Designation: Partner Email: tejas.desai@in.ey.com Phone: +91 22 6192 0710/ +91 98204 10278 |
| G.M.Kapadia & Co | Name: Harsh Shah Email: harsh@gmkco.com Phone: +91 22 6611 6611 |
| KPMG | Name: Naresh Makhijani Designation: Partner, Head of Financial Services Email: nareshmakhijani@kpmg.com Phone: +91 22 3090 2120 |
| Manohar Chowdhry & Associates | Name: Ameet Patel Designation: Partner Email: ameen.patel@mca.co.in Phone: +91 22 2444 5064 |
| Minesh Shah & Co | Name: Malav Shah Designation: Partner malav@mineshshah.com Phone: +91 22 4004 4600/ 4603/ +91 98209 09359 |
| PricewaterhouseCoopers | Name: Suresh Swamy Designation: Partner, Financial Services Email: suresh.v.swamy@in.pwc.com Phone: +91 22 4004 4600/ 4603/ +91 98209 09359 |
| SKP & Co | Name: Maulik Doshi Designation: Partner Email: maulik.doshi@skpgroup.com Phone: +91 22 6617 8100 |
| Walker Chandiok & Co LLP | Name: Manoj Purohit Designation: Partner Email: fiigtax@in.gt.com Phone: +91 22 6626 2600 |

Legal contacts

| | |
|---|---|
| ARA Law | Name: Rajesh Begur Designation: Founder & Managing Partner Email: rajesh@aralaw.com Phone: +91 22 6619 9800 |
| AZB & Partners | Name : Rushabh Maniar Designation: Partner Email: rushabh.maniar@azbpartners.com Phone: + 91 22 6639 6880 |
| Indus Law | Name: Nishant Singh Designation: Partner Email: nishant.singh@induslaw.com Phone: +91 22 4920 7215/ +91 22 6149 6215 |
| J. Sagar Associates, Advocates & Solicitors | Name: Aashit Shah Designation: Partner Email: aashit@jsalaw.com Phone: +91 22 4341 8536 |
| Khaitan & Co | Name: Siddharth Shah Designation: Partner Email: Siddharth.Shah@khaitanco.com Phone: +91 22 6636 5000 |
| Nishith Desai Associates | Name: Ms. Pratibha Jain Designation: Partner, Funds Formation & Regulatory practice Email: Pratibha.jain@nishithdesai.com Phone: +91 99101 22443 |
| PDS Legal | Name: Vihang Virkar Designation: Partner Email: Vihang.Virkar@pdslegal.com Phone: +91 22 6192 0320/ +91 98205 30464 |
| Platinum Partners | Name: Ankit Majmudar Designation: Partner Email: ankit.majmudar@platinumpartners.co.in Phone: +91 22 6111 1900 |
| Shardul Amarchand Mangaldas | Name: Jay Gandhi Designation: Partner Email: jay.gandhi@AMSShardul.com Phone: +91 22 4933 5555/ +91 98200 54821 |
| Trilegal | Name: Sabiana Anandaraj Designation: Chief Operating Officer Email: Sabiana.Anandaraj@trilegal.com Phone: +91 11 4259 9319/ +91 11 4163 9393 |
| WADIA GHANDY & CO. Advocates, Solicitors and Notaries | Name: Shabnum Kajiji Designation: Partner shabnum.kajiji@wadiaghandy.com Phone: +91 22 4073 5652 |

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 |
| 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 |
| CCIL | Clearing Corporation of India Ltd. |
| CCP | Central Counterparties |
| CD | Certificate Of Deposit |
| CDR | Corporate Debt Restructuring |
| CDSL | Central Depository Services (India) Limited |
| CFT | Combating the Financing of Terrorism |
| CIS | Collective Investment Scheme |
| CM | Clearing Members |
| CP | Commercial Paper |
| CPI | Consumer Price Index |
| CRS | Common Reporting Standard |
| CSGF | Core Settlement Guarantee Fund |
| CSGL | Constituents' Subsidiary General Ledger Account |
| DDP | Designated Depository Participant |
| DEA | Department of Economic Affairs |
| DII | Domestic Institutional Investor |

| Abbreviation | Full word |
|--------------|--------------------------------------|
| DP | Depository Participant |
| DR | Depository Receipts |
| DSC | Digital Signature Certificate |
| DTAA | Double Taxation Avoidance Agreement |
| ECB | External Commercial Borrowing |
| ECM | Exchange Control Manual |
| EFI | Eligible Foreign Investor |
| EGM | Extraordinary General Meetings |
| ELM | Extreme Loss Margins |
| ETCD | Exchange Traded Currency Derivatives |
| ETF | Exchange Traded Funds |
| F&O | Futures & 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 |
| FII | Foreign Institutional Investors |
| FIPB | Foreign Investment Promotion Board |
| FMI | Financial Market Infrastructures |
| FMP | Fixed Maturity Plan |
| FPI | Foreign Portfolio Investors |
| FPO | Follow On Public Offer |
| FRB | Floating Rate Bonds |

| Abbreviation | Full word |
|--------------|--|
| FVCI | Foreign Venture Capital Investors |
| FX | Forex |
| GAAR | General Anti-Avoidance Rule |
| GAH | Gilt Account Holders |
| GC | Global Custodian |
| GDP | Gross Domestic Product |
| GDR | Global Depository Receipts |
| Gol | Government of India |
| G-Sec | Government Securities |
| ICCL | Indian Clearing Corporation Limited |
| ICDM | Indian Corporate Debt Market |
| IDFI | Indian Development Finance Institutions |
| IDR | Indian Depository Receipts |
| IGA | Intergovernmental Agreements |
| INR | Indian Rupee |
| IOSCO | International Organization of Securities Commissions |
| IPO | Initial Public Offer |
| IPP | Institutional Placement Programme |
| IRF | Interest Rate Future |
| ISIN | International Securities Identification Number |
| ITP | Institutional Trading Platform |
| IVCU | Indian Venture Capital Undertaking |
| JLF | Joint Lenders Forum |
| KMP | Key Managerial Personnel |
| KYC | Know Your Client |
| MAT | Minimum Alternate Tax |
| MCA | Ministry of Corporate Affairs |
| MCCIL | Metropolitan Clearing Corporation of India Ltd |
| MF | Mutual Fund Units |
| MIM | Multiple Investment Managers |

| Abbreviation | Full word |
|--------------|--|
| MMOU | Multilateral Memorandum of Understanding |
| MoF | Ministry of Finance |
| MRC | Minimum Required Capital |
| MSEI | Metropolitan Stock Exchange of India |
| MTM | Mark to Market |
| NCD | Non-Convertible Debentures |
| NDS-OM | Negotiated Dealing System- Order Matching |
| NEFT | National Electronic Funds Transfer |
| NOC | No Objection Certificate |
| NRI | Non-Resident Indian |
| NSCCL | National Securities Clearing Corporation Limited |
| NSDL | National Securities Depository Limited |
| NSE | National Stock Exchange |
| OCI | Overseas Citizen of India |
| OFS | Offer for Sale |
| OTC | Over-the-counter |
| PAN | Permanent Account Number |
| PD | Primary Dealers |
| PDO | Public Debt Office |
| PE | Permanent Establishment |
| PIO | Persons of Indian Origin |
| PIS | Portfolio Investment Scheme |
| PM | Primary Members |
| PMLA | Prevention of Money Laundering Act |
| PSU | Public Sector Undertaking |
| PTC | Pass Through Certificates |
| QFI | Qualified Foreign Investor |
| QIB | Qualified Institutional Buyer |
| QIP | Qualified Institutional Placement |

| Abbreviation | Full word |
|--------------|---|
| RBI | Reserve Bank of India |
| RDM | Retail Debt Market |
| 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 |
| SPAN | Standardised Portfolio Analysis of Risk |
| 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 |

Investor Services, India
Global Securities Services
Global Transaction Banking
Deutsche Bank AG, India

Contact

Sriram Krishnan
Head of Investor Services, India
Global Securities Services
Global Transaction Banking
Deutsche Bank AG

Tel: +91-22-7180-3579
Email: sriram-a.krishnan@db.com

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