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FRAMEWORK



Important legislations governing securities market

- **Key statutes applicable for foreign investors include:**
 - FEMA, 1999
 - SEBI Foreign Portfolio Investors Regulations, 2019
 - SEBI Regulations applicable to key market intermediaries such as Custodians, Stockbrokers and regulations governing investor classes – Mutual Funds /collective investment schemes, Alternative Investment Funds, Portfolio Manager etc.
- Legislations governing securities market in detail is included in **Annexure 1:**

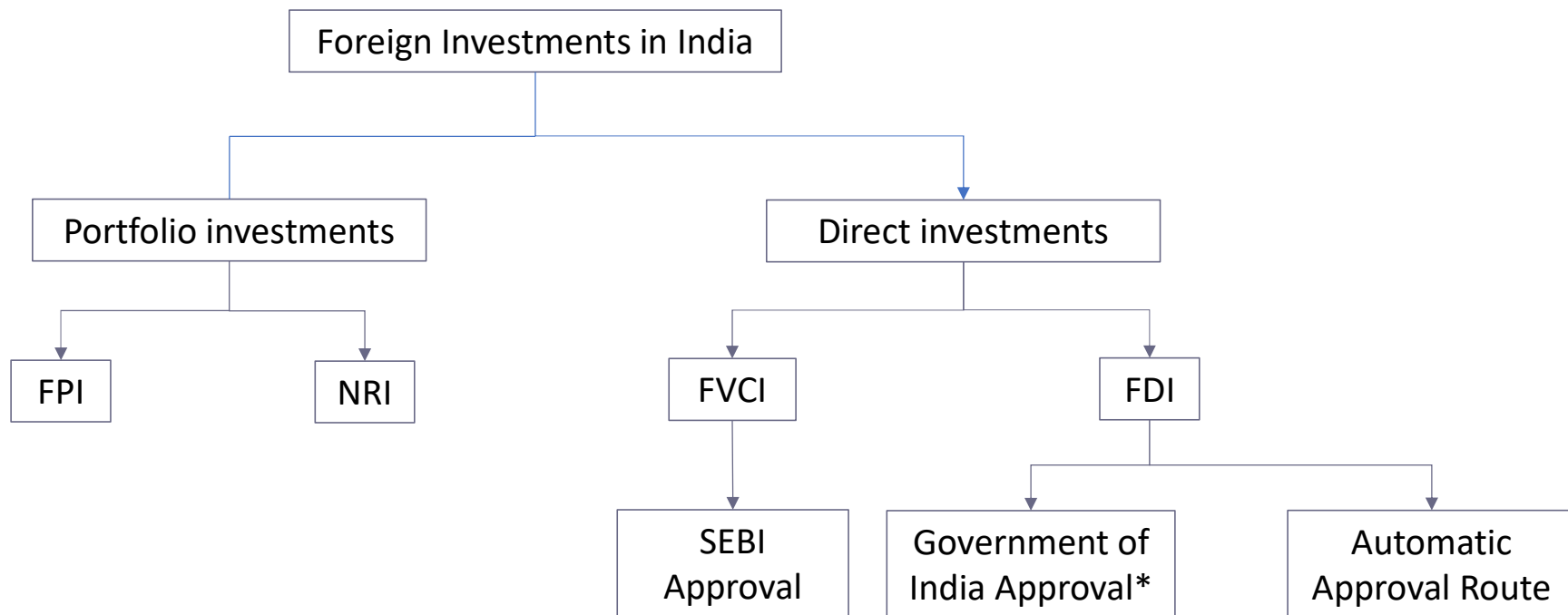


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INVESTMENT ROUTES IN INDIA



Foreign Investment Avenues



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



Foreign Investment Avenues

- **Foreign Portfolio Investors (FPIs):** Entities established or incorporated outside India and permitted to invest in listed Indian securities and unlisted debt. Foreign Portfolio Investment is any investment made by a person resident outside India in capital instruments where such investment is
 - Less than 10 percent of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company or
 - Less than 10 percent of the paid-up value of each series of capital instruments of a listed Indian company.
- **Reporting under (SAST) Regulations, 2011-** On reaching the prescribed threshold of:
 - 5% or more of the shares of the target company. Reporting to be done within 2 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.
 - +/- 2% change in the holding position of the target company. Reporting to be done within 2 working days
- **Non-Resident Indian/ Overseas Citizen of India (NRIs/ OCIs):** An Indian citizen who stays abroad for employment or carries on business or vocation outside India or a non-resident foreign citizen of Indian origin. Portfolio Investment route for entities classified as Non-Resident Indians (NRI) and Overseas Citizen of India (OCI)
 - Only entities eligible as NRI/ OCI as per Government guideline are eligible under this route. Appointment of a custodian is not compulsory
 - Investment in Listed securities and other securities permissible under FEMA
 - Individual Limit of 5% equity in any company, and an overall composite limit of 10%. This limit of 10% can be raised to 24%
 - NRIs have been permitted to access Exchange Traded Currency Derivatives (ETCD) market, subject to certain conditions



Foreign Investment Avenues

Foreign Direct Investments (FDIs) (Strategic investments in Indian companies):

- Investments through this route are considered strategic investments. Foreign Direct Investments (FDI) in India attract provisions of the Foreign Exchange Management Act, 1999 (FEMA) and are subject to the regulations and directions issued by the Government of India (GoI) and Reserve Bank of India (RBI).
- **Entry routes for FDI –**
 - **Automatic Route** - Investment by a person resident outside India does not require the prior approval from GoI or RBI.
 - **Government Approved Route** - Investment by a person resident outside India in certain specified sectors requires prior approval from Government of India. In addition, entities or beneficial owners of the entities (direct or indirect) based in or citizen of countries which share land border with India, should seek prior approval from Government of India
- **Eligibility Norms** - Person resident outside India can invest in Indian companies, subject to the FDI Policy except in those sectors/ activities which are part of the prohibited list. An entity of a country, which shares land border with India or the beneficial owner of an entity (directly or indirectly) seeking to invest into India is situated in or is a citizen of any such country, shall invest only with prior Government approval. Eligible investors need to adhere to uniform KYC as specified by SEBI and RBI from time to time
- Further, there are 8 sectors where investments are prohibited – 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 and activities/sectors not open to private sector investment e.g. (I) Atomic Energy and (II) Railway operations.
- A non-resident entity can invest in India, subject to the FDI Policy except in those sectors/activities which are prohibited. However, an entity of a country, which shares a land border with India or where the beneficial owner of investment into India is situated in or is a citizen of any such country, can invest only under the Government route.



Permitted investments for foreign investors

Market Segment	Instrument Type	FPI	FDI
Equity Market	Listed Equity	✓	✓ *
	Unlisted Equity	✗	✓
	Preference Shares	✓	✓
	Warrants (Listed)	✓	✗
	Warrants (Unlisted)	✗	✓
	Corporate Bonds*	✓	✗
	Partly paid shares	✓	✗
Fixed Income	Dated Government Securities	✓ *	✗
	Treasury Bills	✗	✗
	Certificate of Deposits	✓ **	✗
	Corporate Bonds	✓	✗
	Credit Enhanced Bonds	✓ ***	✗
Mutual Funds	Units of Mutual Funds	✓	✗
	Exchange Traded Funds (ETFs) (excluding gold ETFs)	✓	✗
Derivative Contracts	Index Futures	✓	✗
	Index Options	✓	✗
	Stock Futures	✓	✗
	Stock Options	✓	✗
	Interest Rate Futures	✓	✗
	Currency Derivative (Including Cross Currency)		

Market Segment	Instrument Type	FPI	FDI
Others	Perpetual Debt Instrument as Tier I & Upper Tier II	✓	✗
	Collective Investment Schemes	✓	✗
	Asset Reconstruction Companies (ARC)	✓	✓
	Security Receipts issued by ARC/ Securitization Companies	✓	✗
	Securities Lending & Borrowing (SLB)	✓	✗
	Category I Alternative Investments Fund	✗	✓
	Category II Alternative Investments Fund	✗	✓
	Category III Alternative Investments Fund	✓	✓
	Real Estate Investment Trusts	✓	✓
	Infrastructure Investments Trusts	✓	✓
	Securitized Debt	✓	✗

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

** Unlisted Corporate Bonds are subject to end use restriction

*** Units of short-term investment schemes of mutual funds – FPIs are not permitted to invest in Liquid and Money market mutual funds. Investments in debt mutual funds will be reckoned under the corporate bond limits. Investments in Mutual Funds not permitted under VRR route



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FOREIGN PORTFOLIO INVESTORS



Market entry

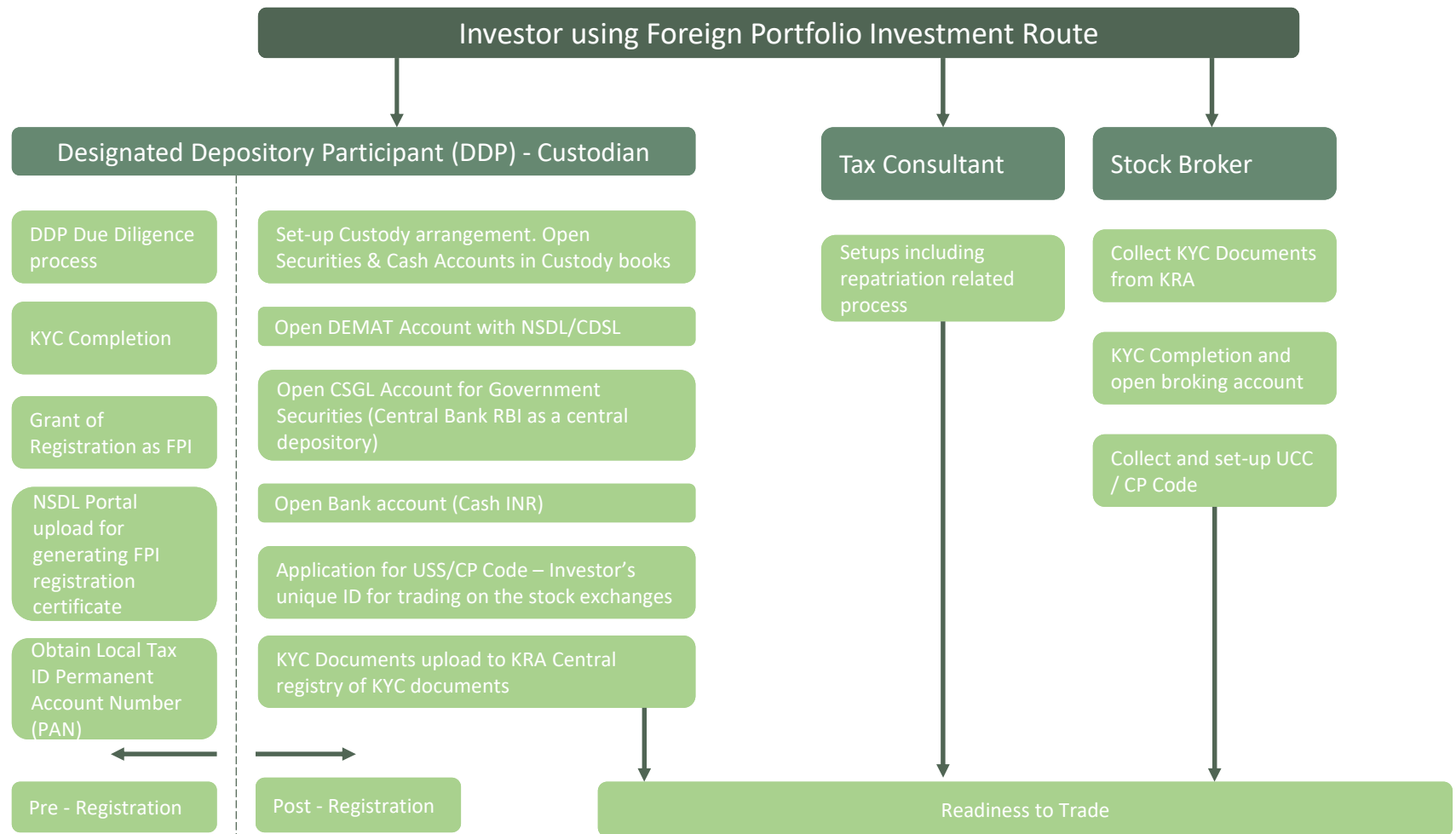
In order to address the requirements of the evolving securities market, the Securities and Exchange Board of India ("SEBI") had constituted a working group under the chairmanship of Dr. Harun R. Khan to review the regulatory framework for foreign portfolio investors ("FPIs"). Based on the recommendations of the working group, SEBI has notified the SEBI (Foreign Portfolio Investors) Regulations, 2019 (the "Regulations") on September 23, 2019, in supersession of the SEBI (Foreign Portfolio Investors) Regulations, 2014.

The erstwhile three categories of FPIs have been merged into two categories FPI regime. This initiative, has also brought about important changes to market mechanisms, aimed at efficiency and global standards in key market processes.

Putting an end to regulatory uncertainty regarding non-resident Indians, overseas citizens of India and resident individuals holding stake in an FPI, the Regulations also expressly permit non-resident Indians or overseas citizens of India or resident Indian individuals to be constituents of the applicant provided they meet conditions specified by the SEBI.



Market entry





Eligibility criteria

- Applicant should not be resident in India.
- the applicant is not a non-resident Indian or an overseas citizen of India;
- Non-resident Indians or overseas citizens of India or resident Indian individuals can be constituents of the applicant provided they meet conditions specified by the Board;
 - Where NRIs or OCI or RIs are constituents of the applicant – the contribution of a single NRI or OCI or RI shall be below twenty-five percent of the total contribution in the corpus of the applicant;
 - the aggregate contribution of NRIs, OCIs and RIs shall be below fifty percent of the total contribution in the corpus of the applicant.
 - the NRIs, OCIs and RIs shall not be in control of the applicant.
- Applicant should be a resident of a country:
 - Whose securities market regulator is a signatory to IOSCO's
 - Multilateral MOU or a signatory to a bilateral MOU with SEBI;
 - Whose central bank is a member of the Bank for International Settlements;
 - Against whom the FATF has not issued any warnings
- Applicant must be a “fit and proper” person as prescribed



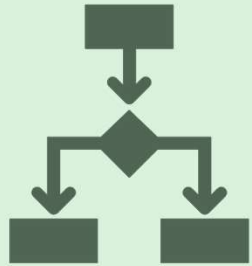
Overview of Restrictions

1. **Accounts** - Each FPI is allowed to open only one SNRR account, Derivative margin account, securities and depository account with a single custodian (Multiple accounts are not allowed) with an exception to VRR accounts
2. **Investment** - A foreign portfolio investor shall invest only in the following securities, namely-
 - (a) shares, debentures and warrants issued by a body corporate; listed or to be listed on a recognized stock exchange in India;
 - (b) Units of:
 - schemes launched by mutual funds
 - units of schemes floated by a Collective Investment Scheme
 - (c) derivatives traded on a recognized stock exchange
 - (d) units of real estate investment trusts, infrastructure investment trusts and units of Category III Alternative Investment Funds registered with the Board
3. **Sectoral Limits** - Up to 24% or to the respective sectoral foreign direct investment (FDI) limits of the paid-up capital on a fully diluted basis, will not require Government approval or compliance of sectoral conditions as the case may be, if such investment does not result in transfer of ownership and control of the resident Indian company from resident Indian citizens or transfer of ownership or control to persons resident outside India.
4. **Naked short selling** - 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 sale
5. **10% Limit** - Each FPI (or FPIs belonging to the same investor group) holding in equity shares should always be below 10% of the post issue paid up capital on a fully diluted basis of a listed company. The 10% limits will be applicable across investments in the same listed company through
 - ADR/ GDR (post conversion to underlying equity shares)
 - FDI, FPI, FVCI
 - Participatory Notes/ODI



Overview of Restrictions

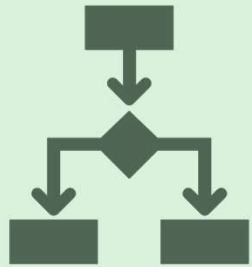
6. **Red Flag List** - A red flag shall be activated whenever the foreign investment is 3% or less than 3% of the aggregate NRI/FPI limits or the sectoral cap which is updated on NSDL's portal on a daily end-of-day basis.
7. **Breach List** - Once the aggregate NRI/FPI investment limits or the sectoral cap for a given company have been breached, the depositories shall inform the exchanges about the breach. The exchanges shall issue the necessary circulars/public notifications on their respective websites and shall halt all further purchases by :
 - FPIs, if the aggregate FPI limit is breached
 - NRIs, if the aggregate NRI limit is breached
 - All foreign investors, if the sectoral cap is breachedIn the event of a breach of the sectoral cap/aggregate FPI limit/aggregate NRI limit, the foreign investors shall divest their excess holding within 5 trading days from the date of settlement of the trades, by selling shares only to domestic investors.
8. **Banks** - In the case of public sector banks, the limit is 20% of the paid-up capital . In case of Private sector banks, acquisition beyond 5% by any investor, foreign or domestic, would require prior approval from the Banking regulator (RBI).
9. **Recognized stock exchange/Clearing corporation** – FPIs can acquire/hold up to 5% of the paid-up equity share capital in a recognized stock exchange or clearing corporation. Any acquisition exceeding 2% of the paid-up equity share capital of a recognized stock exchange or clearing corporation needs to be approved by the SEBI Board within 15 days of such acquisition.
10. At all times (monitored on a day end basis), an FPI's investment in corporate debt securities maturing within 1 year shall not exceed 30 percent of the FPI's total portfolio of corporate debt securities as per "FAR" route.



Categorisation

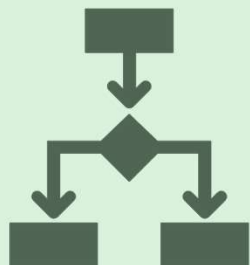
Category	Entities
I	<ul style="list-style-type: none"> ▪ Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s); ▪ Pension funds and university funds; ▪ Appropriately regulated entities such as insurance or reinsurance entities, banks, asset management companies, investment managers, investment advisors, portfolio managers, broker dealers and swap dealers ▪ Entities from the Financial Action Task Force (FATF) member countries which are ; <ul style="list-style-type: none"> ○ appropriately regulated funds; ○ unregulated funds whose investment manager is appropriately regulated and registered as a Category I foreign portfolio investor; ○ university related endowments of such universities that have been in existence for more than five years; ▪ An entity; <ul style="list-style-type: none"> (A) whose investment manager is from the Financial Action Task Force member country and such an investment manager is registered as a Category I foreign portfolio investor; (B) which is at least seventy-five per cent owned, directly or indirectly by another entity, eligible under sub-clause (ii), (iii) and (iv) of clause (a) of this regulation and such an eligible entity is from a Financial Action Task Force member country: Provided that such an investment manager or eligible entity undertakes the responsibility of all the acts of commission or omission of the applicants seeking registration under this sub-clause. <p>In addition to the FATF members, government-notified countries will qualify for Category I registration.</p> <p>The Ministry of Finance (MOF) has notified that the United Arab Emirates (UAE), Mauritius, Cyprus as an "eligible country" enabling its investment entities to register as Category-I Foreign Portfolio Investors (FPIs) under the Securities and Exchange Board of India (SEBI) FPI Regulation 2019.</p>
II	<p>Category II foreign portfolio investor" shall include all the investors not eligible under Category I foreign portfolio investors such as –</p> <ul style="list-style-type: none"> - (i) appropriately regulated** funds not eligible as Category-I foreign portfolio investor; (ii) endowments and foundations; (iii) charitable organisations; (iv) corporate bodies; (v) family offices; (vi) Individuals; (vii) appropriately regulated entities investing on behalf of their client, as per conditions specified by the Board from time to time; (viii) Unregulated funds in the form of limited partnership and trusts;

**An applicant incorporated or established in an International Financial Services Centre shall be deemed to be appropriately regulated.



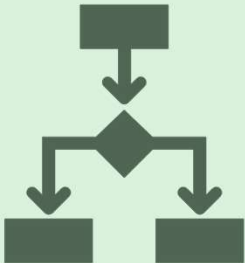
Categorisation

Sr. No	Details	Category I	Category II
1	Fees (Registration as well as Renewal)	US \$3000 every block of three years	US \$300 every block of three years
2	KYC	Simplified documentation requirement (Low risk @ 25%) (High risk, UBO @ 10%) For FPI Category - I coming from high-risk jurisdiction, the KYC documentation equivalent to FPI Category II shall apply.	Simplified documentation requirement except for those coming from high-risk jurisdiction. (High risk, UBO @ 10%)
3	Qualified Institutional buyer (QIB) status	QIB status granted	For other than Individuals, family offices and corporate bodies – QIB status granted For Individuals, family offices and corporate bodies – No QIB status
4	Margins on Equity trades	No margins will apply on Day T. Margins apply on T+1 unless early payin is made	Upfront margins on Day T will apply to FPIs who are corporate, individuals and family offices. All other Category II FPIs are subject to same requirements as Category I FPIs.
5	Equity derivatives – Index Futures and Options	Position limits a. Short positions in index derivatives (short futures, short calls and long puts) shall not exceed (in notional value) the Mutual Funds' / FPIs' / Trading Members' (Proprietary) / Clients' holding of stocks. b. Long positions in index derivatives (long futures, long calls and short puts) shall not exceed (in notional value) the Mutual Funds' / FPIs' holding of cash, government securities, T-Bills and similar instrument. Further to above, additional position limits mentioned hereunder shall be available to Trading Members (Proprietary) / FPIs / Mutual Funds / Clients: a. Equity Index Futures Contracts: Rs. 500 Crores. b. Equity Index Options Contracts: Rs. 500 Crores.	



Categorisation

Sr. No	Details	Category I	Category II
6	Equity derivatives – Individual securities (Single Stock)	Position limits – 20% of the applicable market wide position limit.	Position limits (a) Position limits available to Category II FPIs (other than FPIs in sub-category individuals, family offices, corporates) shall have 10% of MWPL. (b) Position limits for individuals, family offices, and corporates shall be 5% of MWPL.
7	Trading through brokers	Transactions in Corporate Bond Market permitted without broker	(a) Transactions in Corporate Bond Market permitted without broker to Cat II FPIs (other than FPIs in sub-category individuals, family offices, corporates) (b) Transactions in Corporate Bond Market permitted only through broker for individuals, family offices, and corporates
8	Issue of Offshore derivative instruments (ODIs)	FPIs have been prohibited from issuing ODIs except through a separate FPI registration of an ODI issuing FPI under Category I, with derivative as underlying except those derivative positions that are taken on stock exchanges for hedging the equity shares held by it, on a one-to-one basis.	Prohibited
9	Interest Rate Futures (Government)	Trading member level Position limits <ul style="list-style-type: none"> 8-11 years maturity bucket — Higher of : 10% of Open Interest or INR 12 billion 4-8 and 11-15 year maturity bucket — Higher of : 10% of Open Interest or INR 6 billion 	For entities other than individuals, family offices & corporates: Same as FPI Cat 1 For individuals, family offices & corporates: Client level position limits <ul style="list-style-type: none"> 8-11 years maturity bucket – Higher of 3% of Open Interest or INR 4 billion 4-8 and 11-15 year maturity bucket — Higher of 3% of Open Interest or INR 2 billion



Categorisation

Sr. No	Details	Category I	Category II										
10	Position limit on Currency Derivative segment	Gross open position across all contracts shall not exceed 15% of the total open interest or the specified limit, whichever is higher for each currency pair	<p>For entities other than individuals, family offices and corporates: Gross open position across all contracts shall not exceed 15% of the total open interest or the specified limit, whichever is higher for each currency pair.</p> <p>For individuals, family offices and corporates:</p> <table><tr><th>Currency Pair</th><th>Position limits</th></tr><tr><td>USD-INR</td><td>Gross open position across all contracts shall not exceed 6% of the total open interest or USD 20 million, whichever is higher.</td></tr><tr><td>EUR-INR</td><td>Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher.</td></tr><tr><td>GBP-INR</td><td>Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 10 million, whichever is higher.</td></tr><tr><td>JPY-INR</td><td>Gross open position across all contracts shall not exceed 6% of the total open interest or JPY 400 million, whichever is higher.</td></tr></table>	Currency Pair	Position limits	USD-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or USD 20 million, whichever is higher.	EUR-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or EUR 10 million, whichever is higher.	GBP-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or GBP 10 million, whichever is higher.	JPY-INR	Gross open position across all contracts shall not exceed 6% of the total open interest or JPY 400 million, whichever is higher.
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Know Your Client (KYC)

FPIs are required to provide KYC related documents based on the category under which it is registered. FPIs are required to provide KYC related documents based on the category under which it is registered

Document Type	Documentation	FPI Category I	FPI Category II
Applicant Level	Constitutive Documents (Memorandum and Articles of Association, Certificate of Incorporation etc.) ¹	Mandatory	Mandatory
	Proof of Address	Mandatory (Power of Attorney {PAO} having address provided to Custodian is accepted as address proof)	Mandatory (Power of Attorney having address provided to Custodian is accepted as address proof)
	Permanent Account Number (PAN) ²	Mandatory	Mandatory
	Board Resolution ³	Exempted*	Mandatory
	FATCA / CRS form	Mandatory	Mandatory
	Form/ KYC Form	Mandatory	Mandatory

1. Prospectus and information memorandum are acceptable in lieu of an official constitutional document
2. CBDT has introduced Electronic Permanent Account Number (E-PAN) card. FPIs can share the E-PAN card with market intermediaries at the time of account opening thus ensuring compliance with the Know Your Client (KYC) norms
3. Alternate documents in lieu of Board Resolution for KYC purposes
Power of Attorney granted to Global custodian/ local custodian is accepted in lieu of Board Resolution (BR). BR and the authorized signatory list (ASL) is not required if SWIFT is used as a medium of instruction.

*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.



Know Your Client (KYC)

Document Type	Documentation	FPI Category I	FPI Category II
Authorized Signatories	List and Signatures	Mandatory – list of Global Custodian signatories can be given in case of PoA to Global Custodian	Mandatory – list of Global Custodian signatories can be given in case of PoA to Global Custodian
	Proof of Identity ⁵	Exempted*	Exempted*
	Proof of Address	Exempted*	Exempted*
	Photographs	Exempted*	Exempted*
Ultimate Beneficial Owner (UBO)⁶	List	Exempted*	Mandatory (can declare “no UBO over 25%”)
	Proof of Identity	Exempted*	Required
	Proof of Address	Exempted*	Exempted* (Required as per UBO circular)
	Photographs	Exempted*	Exempted*

*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.

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

6. Refer to Annexure 2 regarding identification and verification of UBO



Avenues of Investments – Primary Market

Primary Market	Category I	Category II
Initial Public Offer (IPO)	Apply under QIB	Cat II FPIs (except Individuals, Corporates and Family Offices) - under the Qualified Institutional Buyer (QIB) Cat II FPI (Individuals, Corporates and Family Offices) - under the non-institutional category
Follow on Public Offers (FPO)	Can subscribe through their custodian/broker	Can subscribe through their custodian/broker
Qualified Institutional Placement (QIP) route	Can participate	Can participate (except Individuals, Corporates and Family Offices)
Institutional Placement Program (IPP)	Can participate	Can participate (except Individuals, Corporates and Family Offices)
Offer for Sale (OFS)	100% upfront margin OR 0% margin	Cat II FPIs (except Individuals, Corporates and Family Offices) - 100% upfront margin OR 0% margin Cat II FPI (Individuals, Corporates and Family Offices) - 0% margin
Real Estate Investment Trust (REIT)	Permitted to invest in units of - Real Estate Investment Trusts (REITs), Investment Infrastructure Trusts (InvITs) and Category III Alternative Investment Funds (AIFs) except those investing in Commodities derivatives market. — FPIs have been permitted to hold up to 25% stake in a category III AIF - Investments in REITs and InvITs shall be captured under the category “Hybrid Security”	



Government Debt

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

- Investment by any FPI (including investments by related FPIs) are subject to the Concentration limits as prescribed by RBI & SEBI from time to time
 - 15% of prevailing investment limit for that category for Long Term FPIs
 - 10% of prevailing investment limit for that category for Other FPIs
- FPI investment in any Government Security is no longer subject to the requirement of minimum residual maturity and are permitted to invest in short term investments with below conditions:
 - Short term investments means investments in less than 1 year residual maturity securities
 - Aggregate foreign ownership limit in each central government debt security is 30% of the outstanding stock of that security
 - Coupon reinvestment by FPIs in G-secs, which was previously outside the investment limit, is now reckoned within the G-sec limits. At the time of periodic re-setting of limits, coupon investments would be added to the amount of utilisation
 - FPIs will not be permitted to invest in partly paid instruments
- RBI has introduced a separate limit of INR 50 billion for undertaking long position in Interest Rate Futures. The limits prescribed for investment by FPIs in government securities would be exclusively available for acquiring government securities.

RBI has rolled out a new route 'FAR' to attract foreign investments in specified long dated Central Government securities.

Through certain specified categories of Central Government securities would be opened fully for non-resident investors without any restrictions.

Key features:

Any non-resident can make investments in specified Government securities under this route.

In addition to specified government securities all new issuances of Government securities of 5-year, 10-year and 30-year tenors from the financial year 2020-21, will be eligible for investment under FAR as 'specified securities'.

Investments under FAR will be free from all investment limits. Further, restrictions applicable on FPI investments in Government securities under the General Investment route (e.g. Residual maturity condition, security-wise limit, concentration limit) will not apply to investments made under FAR.



Corporate debt

FPIs are permitted to invest in corporate bonds under specified conditions and the applicable limits. FPI corporate debt investments are subject to Corporate Debt Investment Limits (CDIL) as announced by RBI from time to time. The conditions and the limits are detailed below:

- The overall limit for FPI investment in corporate bonds, at 15% of outstanding stock of corporate bonds
- All investments in INR denominated bonds/debentures issued onshore by Indian Corporates, Security Receipts, Credit Enhanced Bonds, Debt oriented Mutual Funds will be reckoned under the Corporate Debt Limit
- FPIs are permitted to invest in Corporate Bonds freely until the overall limit utilization reaches 95%. Post this threshold, auction would be conducted for the Corporate Bond limit
- FPIs are governed by the various exposure norms like subscription/purchase of a single issuance, single corporate including related entities (Refer Annexure 3)
- FPIs are permitted to invest in Corporate Bonds with a residual maturity of above 1 year
- FPI holding of short term investments in corporate bonds is governed by:
 - Short term investments means investments in less than 1 year residual maturity securities
 - Short-term investments can now be 30 per cent of their total investment in corporate bonds
 - These stipulations would not apply to investments in SRs by FPIs

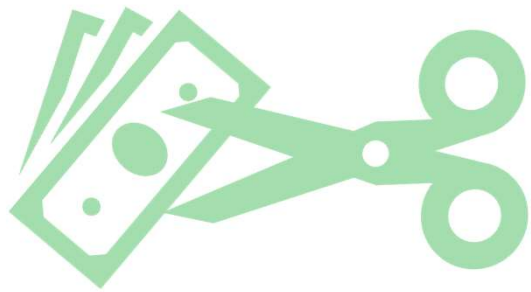


Voluntary Retention Route (VRR)

Voluntary Retention Route (VRR) to encourage Foreign Portfolio Investors (FPIs) to undertake long term investments in Indian debt markets. Under this scheme, FPIs have been given greater operational flexibility in terms of instrument choices besides exemptions from certain regulatory requirements.

It increased the FPI limit under the voluntary retention route (VRR) to ₹1.5-lakh crore from ₹75,000 crore.

- Investment under the VRR scheme have been open for allotment from March 11, 2019. The details are as under:
 - The minimum retention period shall be 3 years. During this period, FPIs shall maintain a minimum of 75% of the allocated amount in India.
 - Investment limits shall be available on tap for investments and shall be allotted by Clearing Corporation of India Ltd. (CCIL) on 'first come first served' basis.
 - Each FPI (including related FPIs) will be allotted a maximum of 50% of the amount offered for each tranche, if the total demand is more than 100% of the amount offered. (The CCIL system currently limits to the maximum 50% and the FPIs have to multiple bids if the demand is less than 100%). FPIs desirous of investing may apply online to CCIL through their respective custodians.
 - CCIL will separately notify the operational details of application and allotment.
 - FPIs can also undertake repo and reverse repo transactions under this route
 - An FPI can participate in repos for its cash management, provided the amount borrowed or lent under repo does not exceed 10 percent of their investment under VRR
 - 30% investment in a single ISIN of the G-Sec, SDL and T-Bills as applicable in General investment will also apply to investments in VRR
- FPIs investing under this route will be eligible to use any currency or interest rate derivative instrument, over-the-counter (OTC) or exchange traded, to manage their interest rate risk or currency risk under VRR with Authorized dealers. Guidelines for same are mentioned in Annexure 4.



Dovetail

TAX REGIME IN INDIA



Taxation and STT rates

Taxable Securities Transaction	STT Rate	Payable by
Purchase or Sale of equity shares	0.1%	Purchaser and Seller
Sale of Futures	0.01%	Seller
Sale of Option	0.05%	Seller
Sale of an Option, where exercised	0.125%	Purchaser
Sale of a unit of equity oriented fund to the mutual fund	0.001%	Seller

No STT on transactions on IFSC stock exchanges

Nature of Income	Tax Rate*	
Capital Gains	Listed Equity/ Units of equity oriented Mutual Fund (Subject to STT)	Futures & Options
- Long Term	10%	NA
- Short Term	15%	30%
Dividend Income	20%	NA
Interest Income	Government bonds - 5%**	
	Rupee denominated corporate bonds - 5%**	
	Other securities - 20%	
	Other interest income - 40%	

** In addition, a nominal surcharge and cess is leviable*

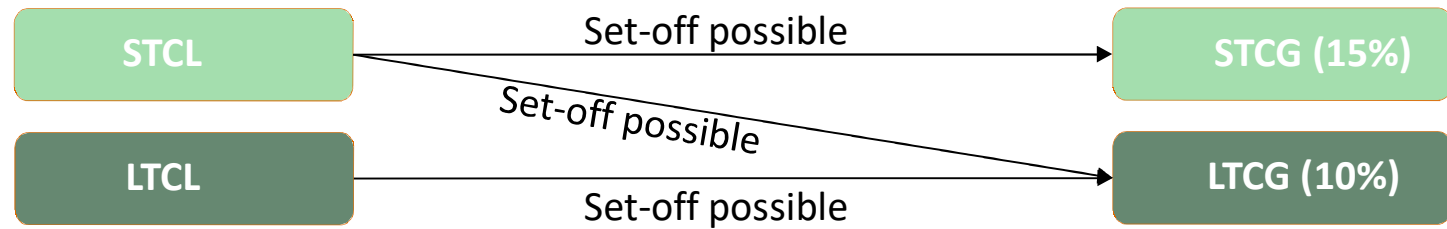
***This concessional rate is valid until June 30, 2023*



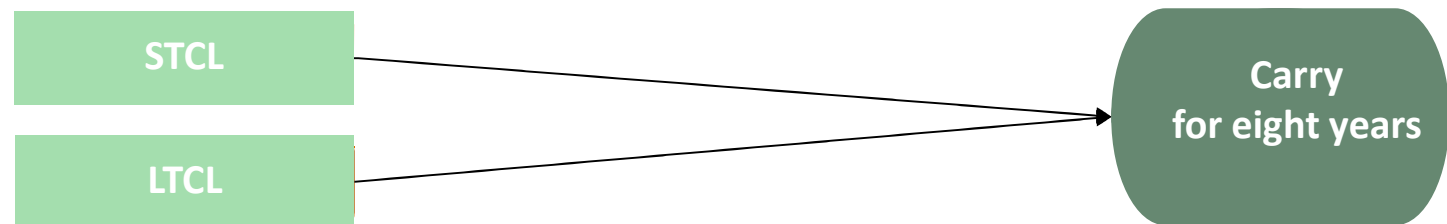


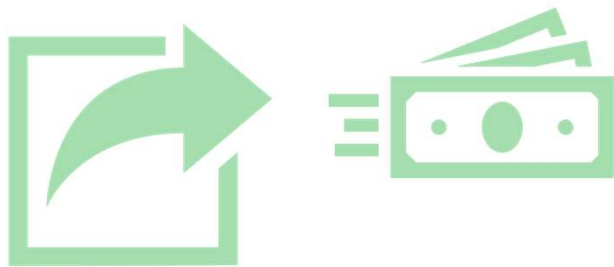
Carry forward/set-off of losses

Short term vs Long term



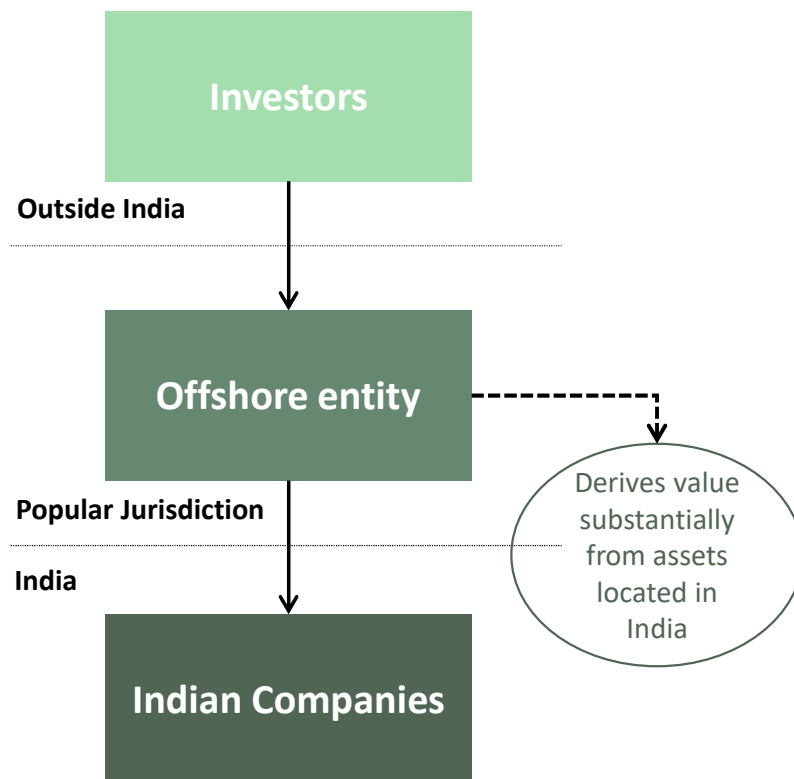
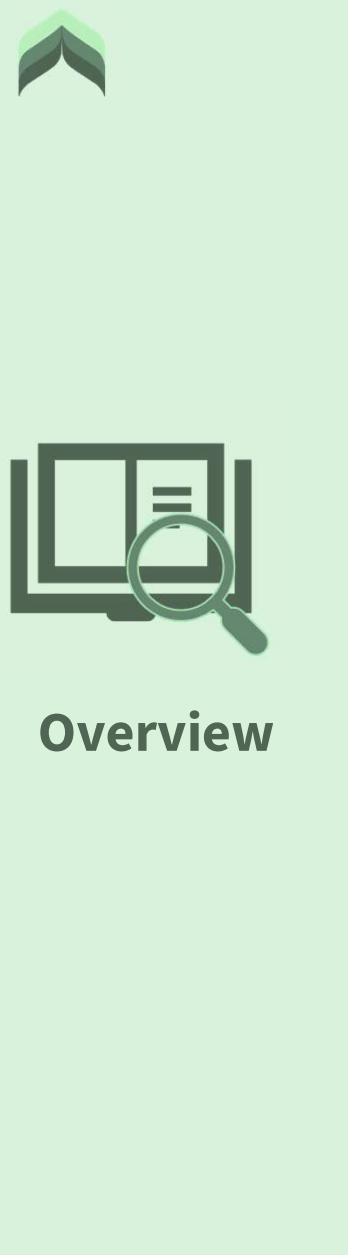
Carry forward of losses





Dovetail

INDIRECT TRANSFER PROVISIONS



Background of indirect transfer provisions

- Provisions introduced in 2012 after Government lost the tax case against Vodafone in the Supreme Court
- Although introduced in 2012, applicable retrospectively from 1 April 1962
- As per amended law, gains of non-resident from transfer of share / interest in an overseas company / entity taxable in India **if such share / interest derives its value substantially from assets located in India**
- The value of the overseas company / entity deemed to derive its value substantially from Indian assets if on the specified date:
 - Value of assets in India exceeds INR 100million (approx. 1.47million USD); and
 - Value of Indian assets is 50% or more of value of all assets owned by overseas entity
- Category I FPIs (under SEBI (FPI) Regulations 2019) are exempt from indirect transfer provisions. Indirect transfer provision shall not apply in case of redemption of shares or interests outside India as a result of or arising out of redemption or sale of investment in India which is chargeable to tax in India.



Dovetail

GENERAL ANT-AVOIDANCE RULES (GAAR)



What is GAAR?

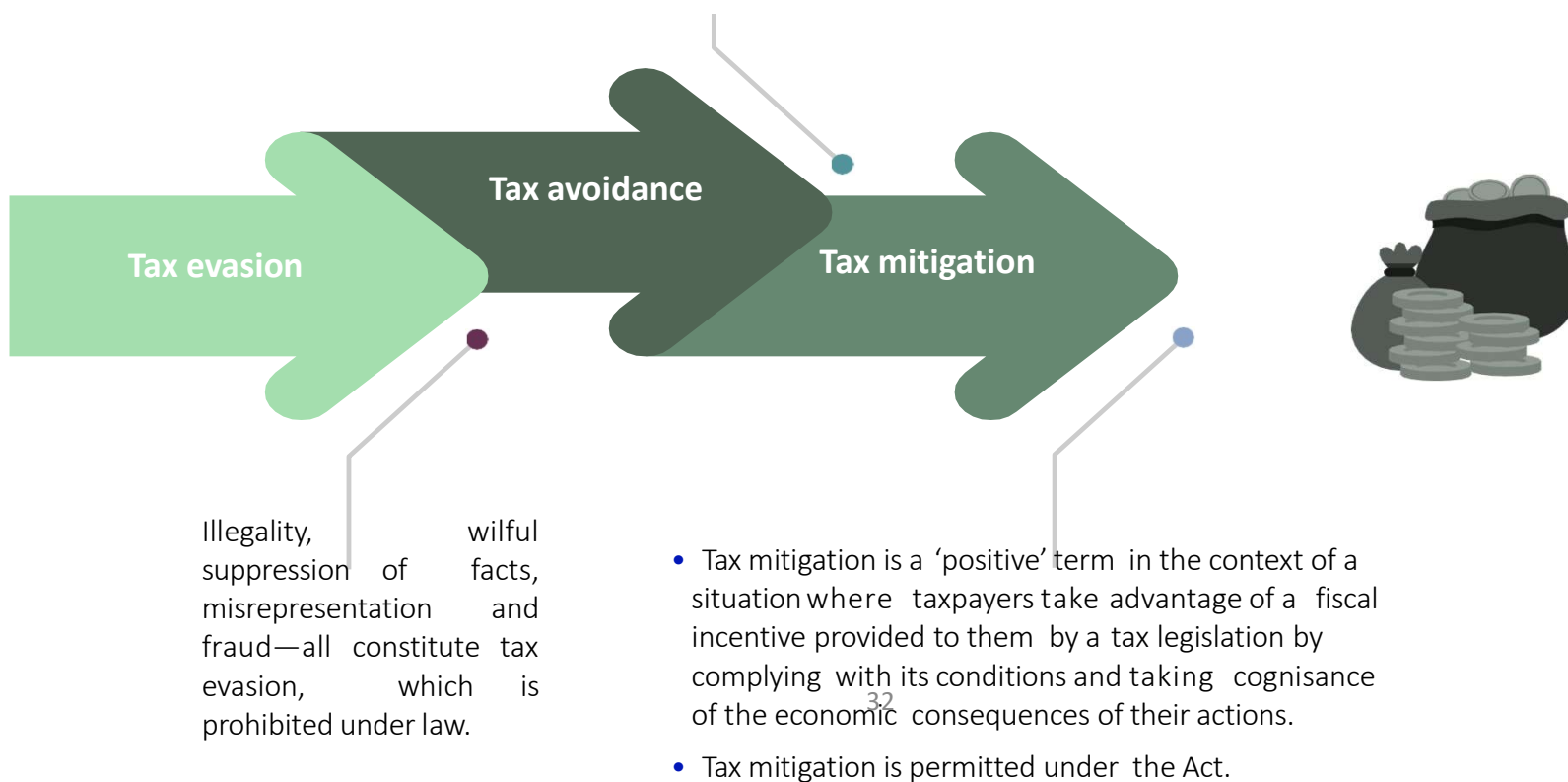
- In simple terms, GAAR codifies the principle of substance over form and brings into the law principles that several landmark cases have dealt with over the years.
- GAAR empowers the Revenue authorities to deal effectively with guard against schemes that are designed for tax avoidance. It strengthens their arms by giving them sweeping powers to disregard or re-characterize transactions and re-determine the resultant tax consequences, if such transactions are designed with the main purpose of availing tax benefit(s) or if they lack commercial substance.
- GAAR applies to any arrangement that is considered an Impermissible Avoidance Arrangement (IAA). Furthermore, under its provisions, certain transactions are deemed to lack commercial substance.
- **Impermissible Avoidance Agreement**
 - Under GAAR, a transaction could be declared an IAA where “the main purpose” is to obtain a tax benefit in addition to satisfaction of at least one of the four tainted elements tests.
 - Where the main purpose of a step or part of an arrangement is to obtain a tax benefit, the provisions of GAAR would apply, regardless of the main purpose of the transaction being commercial in nature.



Conditions to be satisfied for an IAA

Tax avoidance includes actions taken by a taxpayer, none of which are illegal or forbidden by the law.

However, although these are not prohibited by the law, they are considered undesirable and inequitable, since they undermine the objective of effective collection of revenue.



Safe Harbour rules apply to:



A quantum of tax benefits below below a monetary limit of INR 3 crore in aggregate for all parties in a transaction in a particular year



Arrangements entailing income accruing or arising to a person from transfer of an investment made before 1 April 2017



Conditions to be satisfied for an IAA

Main purpose to obtain tax benefit

- Creation of rights or obligations (not ordinarily implemented) between persons dealing at arm's length
- Results, directly or indirectly, in misuse or abuse of the provisions of the Act
- Lacks commercial substance or is deemed to be deficient in commercial substance in whole or in part
- Is entered or carried out in a manner not ordinarily employed for bona fide purposes



Primary Test

Main purpose— dimensions to be examined

Codified GAAR varies materially from judicial GAAR, which focuses on arrangements as a whole, whereas the former examines even individual steps and parts of an arrangement. For example, consolidation of profit- and loss-making businesses may be driven by commercial consideration as a whole, whereas mergers (merging loss-making into profit- making entities, or vice versa) may be guided by tax-related considerations. Codified GAAR makes it possible for the Revenue to examine the individual steps in an arrangement, i.e., the direction of a merger.



Tainted Element Test

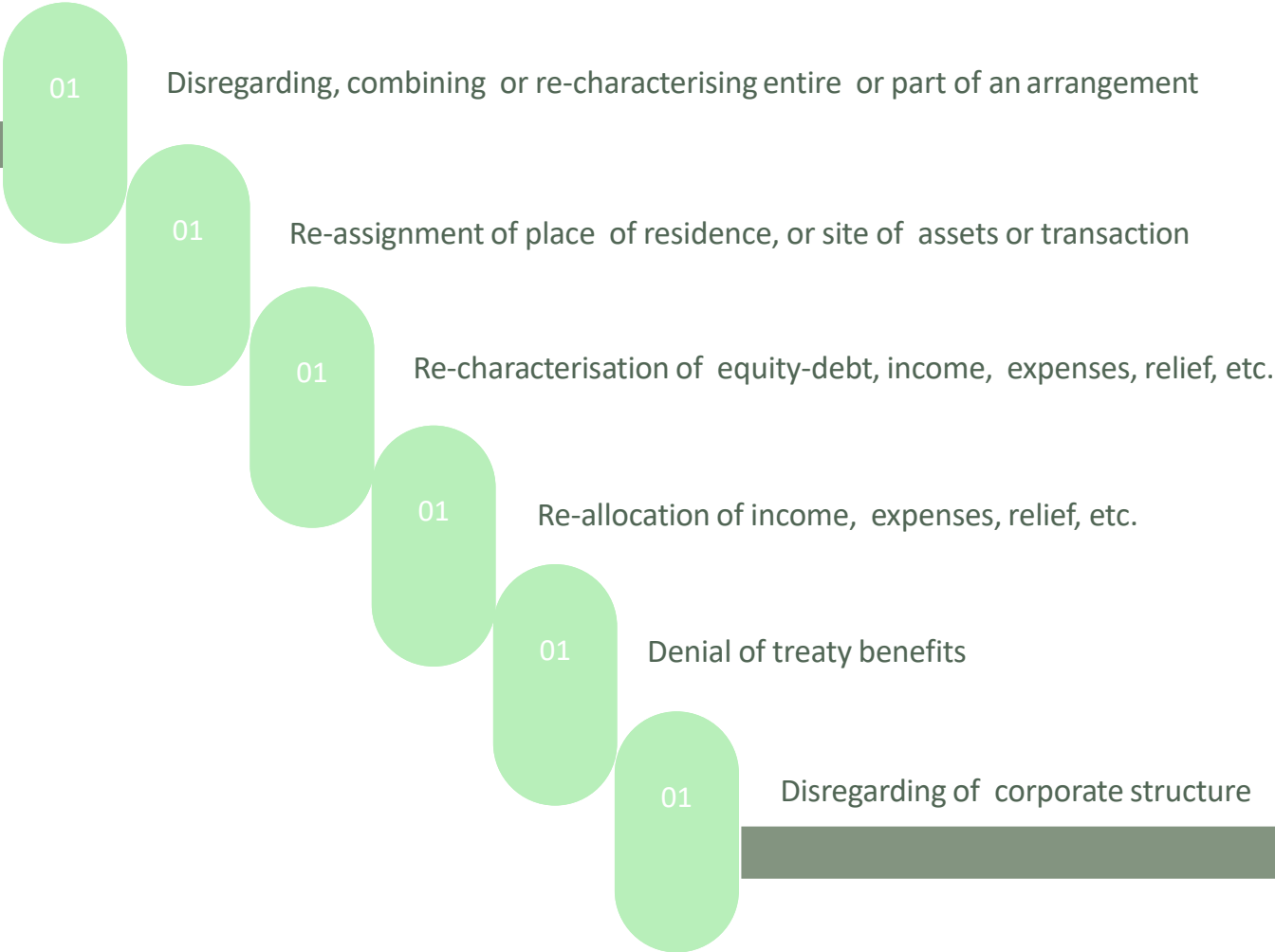
Subjectivity in ascertaining the main purpose of an arrangement:

What would be considered the 'main' purpose of an arrangement—elements or factors relevant for arriving at a conclusion?

Where there is more than one main purpose for an arrangement, including the purpose of obtaining a tax benefit, the key issue to be considered is whether the Revenue can disregard the other main purposes and only focus on the tax benefit.



Implications of invoking GAAR



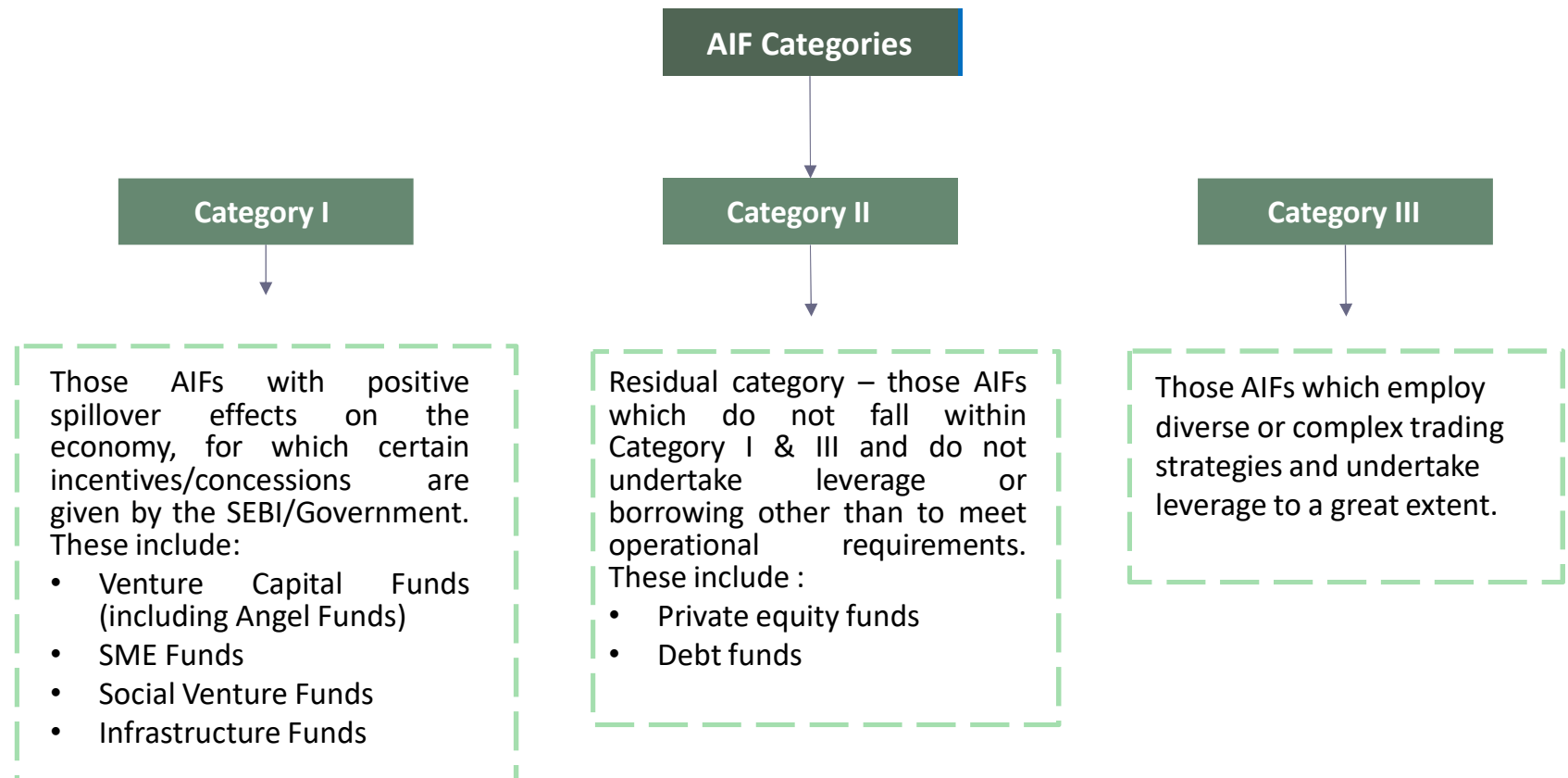
Please note that in the event of a particular consequence being applied in the hands of one of the participants of an IAA, a corresponding adjustment in the hands of another participant will not be allowed.



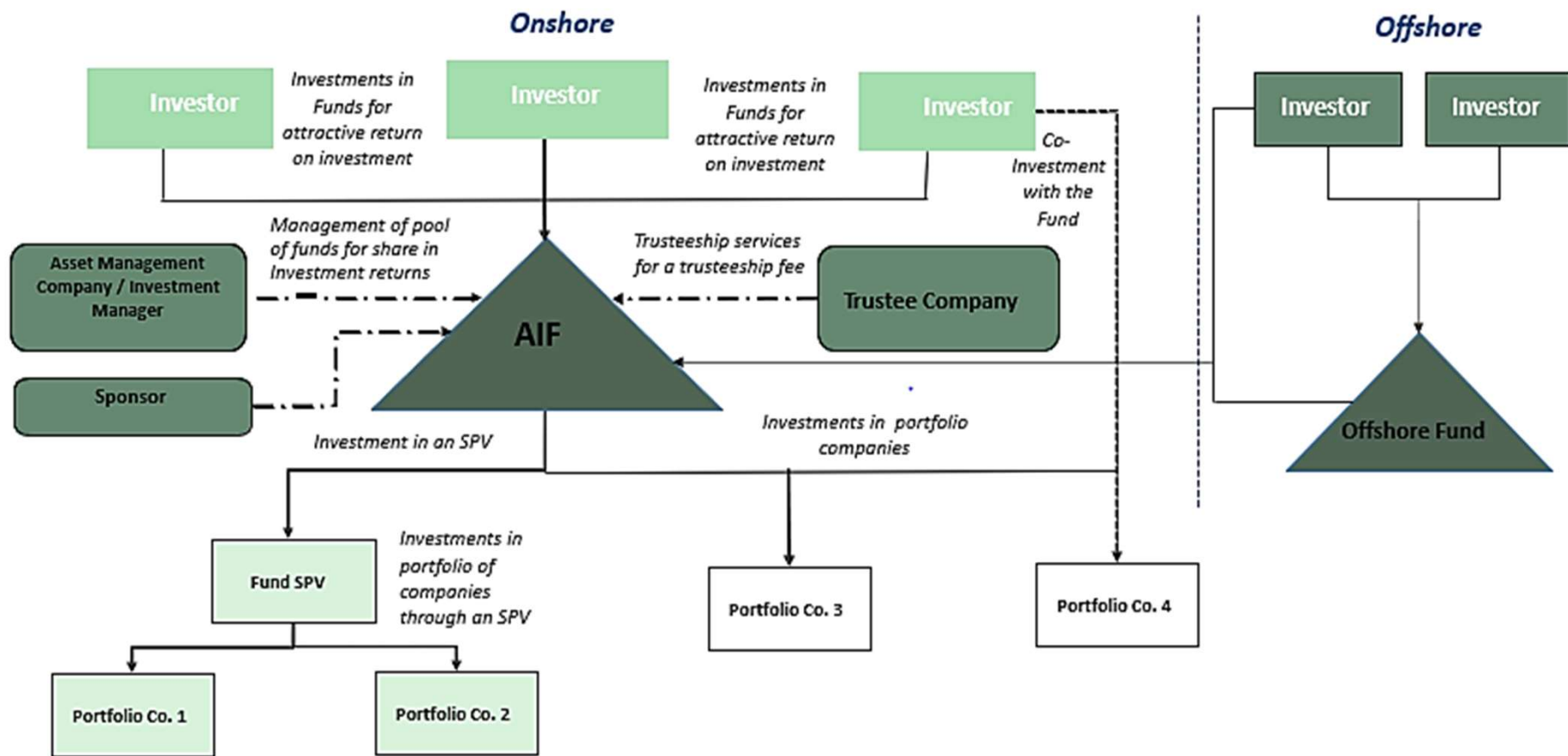
ALTERNATE INVESTMENT FUND (AIF)



The AIF Regulations categorise funds into 3 categories, based on their investment focus and impact on the economy:



Typical structure





Key Provisions and Comparative table

Criteria	Category I	Category II	Category III
Investor requirements	Any investor - Indian, NR or NRI		
Minimum Corpus	Rs. 20 Crore		
Minimum Subscription	Rs. 1 Crore*		
SEBI Registration Fees	Rs.5,00,000 (Rs. 2,00,000 for Angel Fund)	Rs. 10,00,000	Rs. 15,00,000
Continuing Interest by Sponsor/Manager	Lower of the following amounts: - 2.5% of corpus; or - Rs.5 crores (Rs. 50 lakhs for Angel Fund)	Lower of the following amounts: - 2.5% of corpus; or - Rs.5 crores	Lower of the following amounts: - 5% of corpus; or - Rs.10 crores
Maximum no. of investors for each scheme	One Thousand		
Tenure	Close ended – Minimum 3 years Note: Extension of tenure is permitted up to 2 years, subject to the approval of 2/3rds of the unit holders by value of their investment in the AIF. In the absence of the consent of the unit holders, the AIF shall fully liquidate within 1 year following expiration of the fund tenure or extended tenure.		Optional - Open or Close ended
Diversification	Not more than 25% of the Investible Funds can be invested in a single Portfolio Entity.		Not more than 10% of the Investible Funds can be invested in a single Portfolio Entity.



Key Provisions and Comparative table

Criteria	Category I	Category II	Category III
Leverage	Only for meeting temporary funding requirements for not more than 30 days, on not more than 4 occasions in a year and not more than 10% of the investible funds	Only for meeting temporary funding requirements for not more than 30 days, on not more than 4 occasions in a year and not more than 10% of the investible funds However, category II funds may engage in hedging subject to guidelines specified by the SEBI.	May engage in leverage or borrow, subject to consent from the investors in the fund and subject to a maximum limit, as may be specified by the SEBI.
Ability to invest in Listed Securities	Limited ability for listed investments. Different norms across sub-categories.	Upto 49.99% investments can technically be done in listed securities.	Investments up to 100% can be made in listed securities.
QIB status	Yes [Also, no lock in for investment made prior to IPO if held for at least one year]		Yes
Valuation	Once every 6 months by an independent valuer appointed by the AIF		Calculation of the net asset value should be independent of the fund management function of the AIF and such net asset value shall be disclosed to the investor at intervals of not longer than a quarter for close ended funds and not longer than a month for open ended funds.



Dovetail

GIFT CITY



- In India, an IFSC is approved and regulated by the Government of India under the Special Economic Zones Act, 2005
- Government of India has approved GIFT City as a Multi Services Special Economic Zone ('GIFT SEZ') and has also notified this zone as India's IFSC
- The launch of the IFSC at GIFT City is the first step towards bringing financial services transactions relatable to India, back to Indian shores
- IFSC unit is treated as a non-resident under extant Foreign Exchange Management regulations
- Unified Regulator for Securities markets, banking, insurance and pension funds.



International Financial Services Centre @ GIFT City



Key activities in IFSC



Capital Markets

- Stock Exchanges
- Trading members
- Segregated Nominee Account Providers
- Clearing Corporations, Depositories, other intermediaries



Offshore Asset Management

- Alternative Investment Funds
- Mutual Funds
- Portfolio Management Services
- Investment Advisors



Ancillary Services

- Legal, Accounting & Audit
- Research & Analytics etc.
- Fund Accounting
- Risk Management etc.



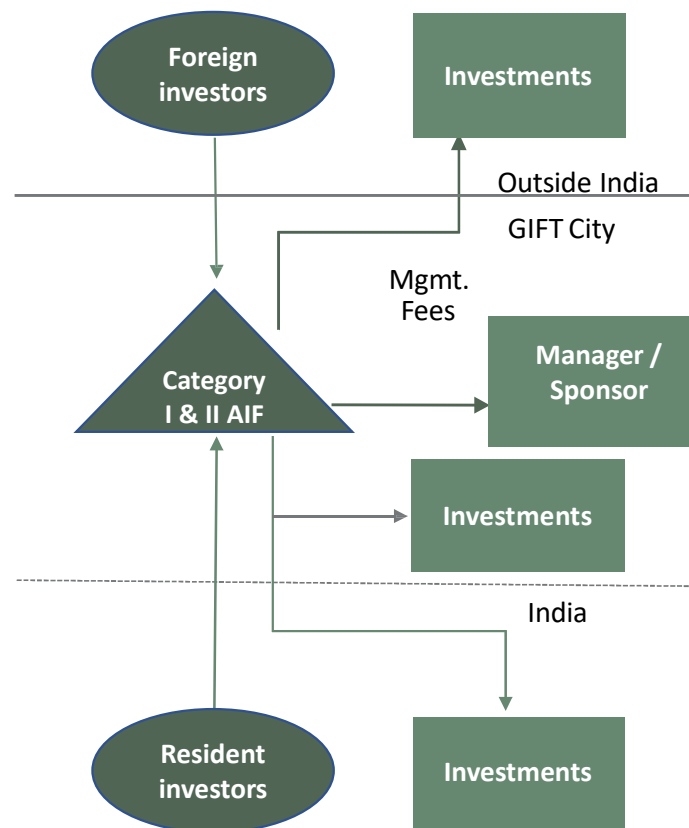
AIF in IFSC

	Category I	Category II	Category III
Fund/Investors	Any entity registered with SEBI or registered or recognized with a regulator of a foreign jurisdiction may set up an AIF in IFSC Regulatory approval needed from SEBI / IFSCA The Fund can be set up as a trust or partnership or firm Minimum corpus of USD 3 mn Investors: – Non-residents Including NRIs – Domestic institutional Investors eligible under FEMA to invest offshore and – Resident individuals with a net worth of at least USD 1 million		
Sponsor/Manager	Either the sponsor or Manager of AIF needs to be in IFSC. The sponsor / manager entity can be: – Newly set up company or LLP in IFSC; or – Branch of existing AIF sponsor / manager		
Sponsor commitment	Lower of 2.5% of corpus or USD 750,000		Lower of Lower of 5% of corpus or USD 1.5 mn
Contribution/investment	Minimum contribution: – From an Investor: Not less than 150,000 USD – From employees or Directors: 40,000 USD		
Investment restrictions:	Maximum 25% of the investible funds in one investee company		Maximum 10% of its investible funds in one investee company
Permitted securities:	Permitted securities: – Securities listed in IFSC – Securities issued by Indian cos. or cos. In IFSC or foreign cos. – Units of an AIF		
Leverage:	<ul style="list-style-type: none"> • Permitted to take leverage provided disclosed in placement memorandum • Must exercise leverage subject to consent of its investors 		
Segregated portfolio	Co-invest in a portfolio company through a segregated portfolio by issuing a separate class of units provided <ul style="list-style-type: none"> • Appropriate disclosures are in the PPM regarding creation of segregated portfolio • Investments by such segregated portfolios must, in no circumstance, be on terms more favourable than those offered to the common portfolio of the AIF 		
Custodian	Mandatory to appoint a custodian if corpus of AIF exceeds USD 70 million		Mandatory appointment of custodian



Category I & II AIF in IFSC

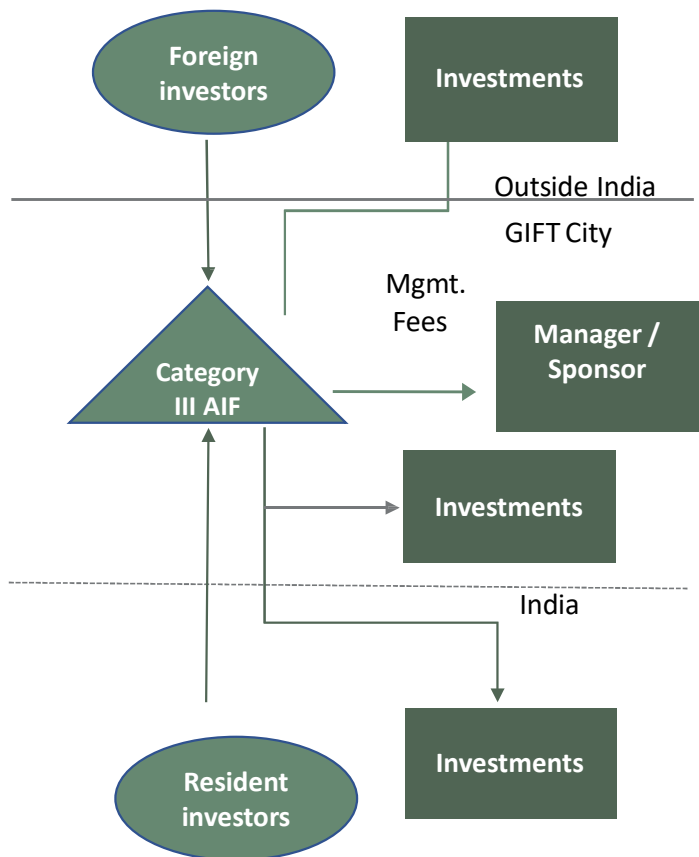
Category I & II AIF in IFSC Inbound & Outbound investments



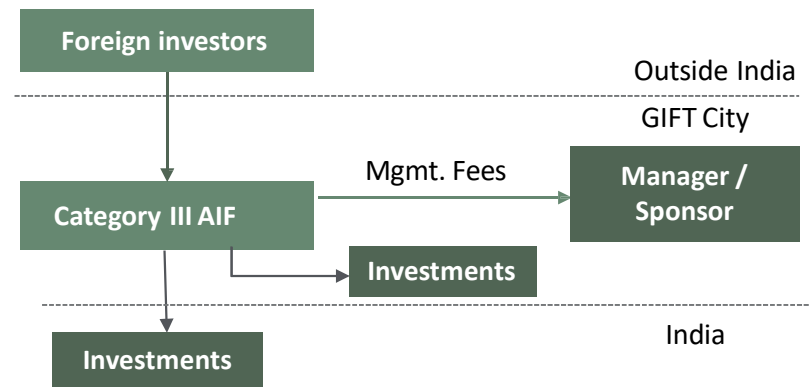
Category III AIF in IFSC

Category III AIF in IFSC Inbound & Outbound investments

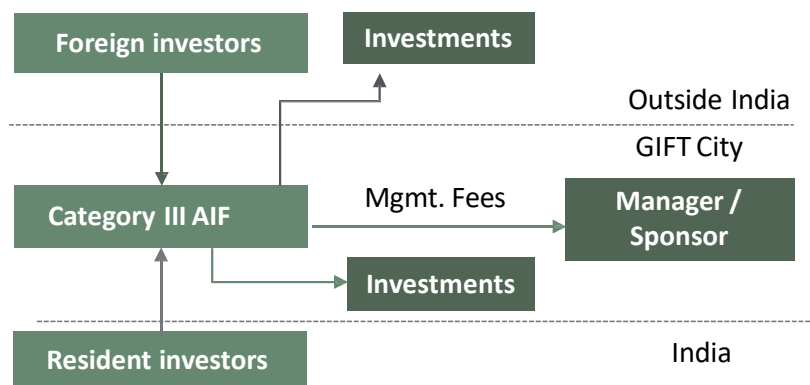
Consolidated structure



Scheme 1 - Inbound investments



Scheme 2 - Outbound investments





Benefits

	Category I & II	Category III	
		Inbound investments	Outbound investments
Management fees	<ul style="list-style-type: none"> No tax on Management fees and also not subject to MAT – beneficial for managerial fee income and carried interest No GST applicable on services rendered in IFSC 	<ul style="list-style-type: none"> No tax on Management fees and also not subject to MAT – beneficial for managerial fee income and carried interest No GST applicable on services rendered in IFSC 	
Tax exemption on income	<ul style="list-style-type: none"> On transfer of any bond, foreign currency denominated equity share, GDR, derivative, units of mutual fund, AIF on IFSC stock exchange 	<ul style="list-style-type: none"> No CGT on transfer of derivatives / bonds / units of AIF / REITs / INVITs and any security other than shares of Indian companies The tax exemption is available to the extent income pertains to non-residents 	<ul style="list-style-type: none"> No tax on income from foreign security to the extent units held by NRs No CGT from transfer of foreign securities to the extent units held by NRs No tax on gains from derivatives on IFSC stock exchange
Other tax incentives	<ul style="list-style-type: none"> 4% tax rate on interest for IFSC exchange listed bond 	<ul style="list-style-type: none"> 10% tax rate on dividend from Indian companies 4% tax rate on interest for IFSC exchange listed bond 	<ul style="list-style-type: none"> NA
Tax exemption to investors		<ul style="list-style-type: none"> Full tax exemption to investors in AIF 	
PAN and TAN Return	<ul style="list-style-type: none"> Foreign investors exempt from obtaining PAN and filing Tax Return 		
Other Aspects	<ul style="list-style-type: none"> No restriction on investment in security of foreign co. (no condition of India connection and no SEBI approval required) All other aspects on inbound investment remain same as compared to domestic AIF 		



Key aspects concerning investments made in India

Cat-III AIF set up in IFSC vs. fund set up in select offshore jurisdictions

Type of income	Luxembourg	Ireland	Singapore	Mauritius	IFSC
Taxability of capital gains on sale of equity shares in India	Taxable	Taxable	Taxable	Taxable	Taxable
Capital gains on sale of other securities in India (including derivatives, bonds, AIF units, mutual fund units etc.)	Taxable (since funds don't get access to treaty)	Exempt under treaty	Exempt under treaty	Exempt under treaty	Exempt under Indian tax law
Set-off of Losses from derivatives with gains from equity shares	Yes	Yes	Yes	Yes	No
Tax on Interest from G-secs and qualifying bonds	5%	5%	5%	5%	10% (section 194LD may not apply to AIFs)
Tax on interest from other securities	20%	10%	15%	7.5%	10%
Dividends	20%	10%	15%	15%	10%
Location of fund manager	Can be outside Luxembourg#	Can be outside Ireland#	Singapore (in case of VCC)	Can be outside Mauritius	Mandatorily in IFSC*

*Law requires either sponsor or manager # in certain jurisdictions

in certain jurisdictions





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ANNEXURES

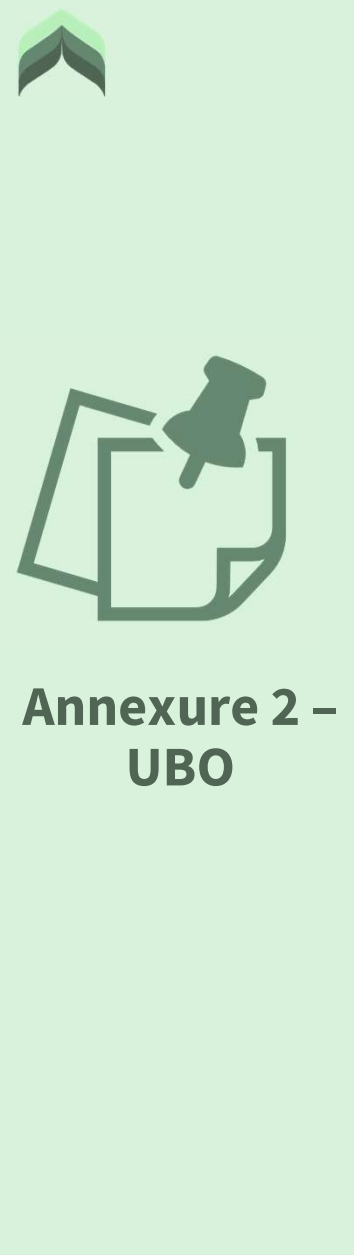


Annexure 1 – Important legislations

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

- 
- 
- **The Insolvency and Bankruptcy Code, 2016:** It provides a time-bound process to resolve insolvency
 - **Foreign Exchange Management Act (FEMA), 1999:** The ECM of RBI stipulated the regulations that governed for foreign exchange transactions in India till May 2000. In May 2000, the regulations under FEMA 1999 came into force and all notifications regarding foreign exchange transactions since then, are prescribed under FEMA.
 - **Prevention of Money Laundering Act, 2002 (PMLA):** The PMLA provides the basic statutory framework for identification of customers, transaction records, anti-money laundering measures, monitoring & reporting requirements etc. PMLA defines the broad structure under which KYC and related regulations from SEBI and RBI which are applicable in the securities market are framed

Annexure 1 – Important legislations



Identification and verification of Ultimate Beneficial Ownership

- Beneficial Owner (BO) is the natural person who ultimately owns or controls an FPI and should be identified in accordance with Rule 9 of the Prevention of Money-Laundering (Maintenance of - Records) Rules, 2005 (hereinafter referred as PMLA Rules)
 - BOs of FPIs should be identified on controlling ownership interest (also termed as ownership or entitlement) and control basis
 - The materiality threshold for identification of BOs of FPIs on controlling ownership interest (or ownership/ entitlement) basis shall be same as prescribed in PMLA Rules:
 - 25% in case of company and
 - 15% in case of partnership firm, trust & unincorporated association of persons
 - In respect of FPIs (other than Category I FPI registered under Regulation 5(a)(i)) coming from “high risk jurisdictions” as identified by intermediary, the intermediaries may apply lower materiality threshold of 10% for identification of BO. The KYC documentation as applicable for category II FPIs need to be collected.
 - Only beneficial owner with holdings equal & above the materiality thresholds in the FPI need to be identified through the look through principle
 - If no material shareholder/owner entity is identified in the FPI using the materiality threshold, BO would be the senior managing official of the FPI.
 - In case of companies/ trusts represented by service providers like lawyers/ accountants, FPIs should provide information of the real owners/ effective controllers of those companies / trusts.
 - BO should not be person mentioned in United Nations Security Council’s Sanctions List or from jurisdiction, which is identified in the public statement of Financial Action Task Force (FATF):
 - A jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply
 - A jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the FATF to address the deficiencies.
 - The BOs thus identified as per above norms, for category II FPIs, need to provide the details as per the specified format
 - The list should be certified by FPI, specifying that there are no other BO, other than those referred to in the list
- Format for providing Data points of UBO are defined in the circular attached





Annexure 3 - Exposure norms for corporate bonds

- Investment by any FPI, including investments by related FPIs, shall not exceed 50% of any issue of a corporate bond.
- In case an FPI, including related FPIs, has invested in more than 50% of any single issue, it shall not make further investments in that issue until this stipulation is met
- Single issue is considered at an ISIN of the corporate bond
- FPIs are not permitted to invest in partly paid debt instruments
- New investment (made after April 27, 2018), other than investments mentioned above, would be exempted from this requirement till March 31, 2019. These investment will, however, have to comply with this requirement thereafter
- Newly registered FPIs (registered after April 27, 2018) shall be required to adhere to this stipulation by March 31, 2019 or within 6 months from the date of registration, whichever is later
- These provisions would not apply to
 - Investments by Multilateral Financial Institutions
 - FPI investments in Security Receipts
 - Pipeline investments
 - The above three restrictions do not apply to FPI investments in following securities:
 - – Security Receipts
 - – Investments in debt instruments issued by Asset Reconstruction Companies
 - – Debt instruments issued by an entity under the Corporate Insolvency Resolution Process as per the resolution plan approved by the National Company Law Tribunal under the Insolvency and Bankruptcy Code, 2016
- FPI investment in non-equity oriented mutual funds (i.e. debt) are subject to following conditions:
 - FPI investments in debt mutual funds included for the purpose of above limits
 - FPIs are not permitted to invest in overnight funds, liquid funds, money market funds, short term debt funds and ultra-short term debt funds



Annexure 4 – Guidelines to hedge exchange rate risk under VRR

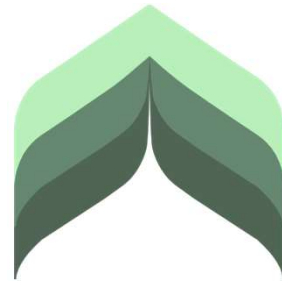
Authorized dealers may offer derivative contracts to eligible users under VRR or to its central treasury (of the group and being a group entity). Authorized dealers shall ensure that:

- The FPI has an exposure to exchange rate risk on account of investments made under VRR.
- The notional and tenor of the contract does not exceed the value and tenor of the exposure.
- The same exposure has not been hedged with any other authorized dealer or on the exchange.
- In cases where the value of the exposure falls below the notional of the derivative, the derivative should be suitably adjusted unless such divergence has occurred on account of change in market value of the exposure, in which case the FPI may, at its discretion, continue with the derivative contract till its original maturity.
- Authorized dealers shall allow FPIs to freely cancel and rebook the derivative contracts.
- Authorized Dealer shall ensure that all payables incidental to the hedge are met by the FPI out of repatriable funds and/or inward remittance through normal banking channels.



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