

Foreign Investment in India and AMC

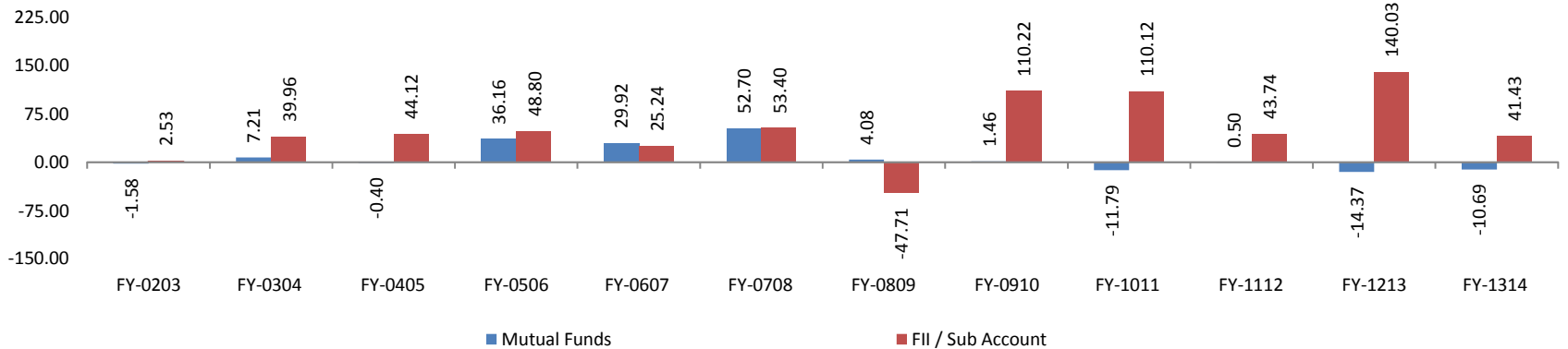
Mr. Saurabh Nanavati, Managing Director and Chief Executive Officer
Religare Invesco Asset Management Company Private Limited

Investment Trends Domestic Vs Foreign

Investment Trends – Net Flows (Equity & Debt)

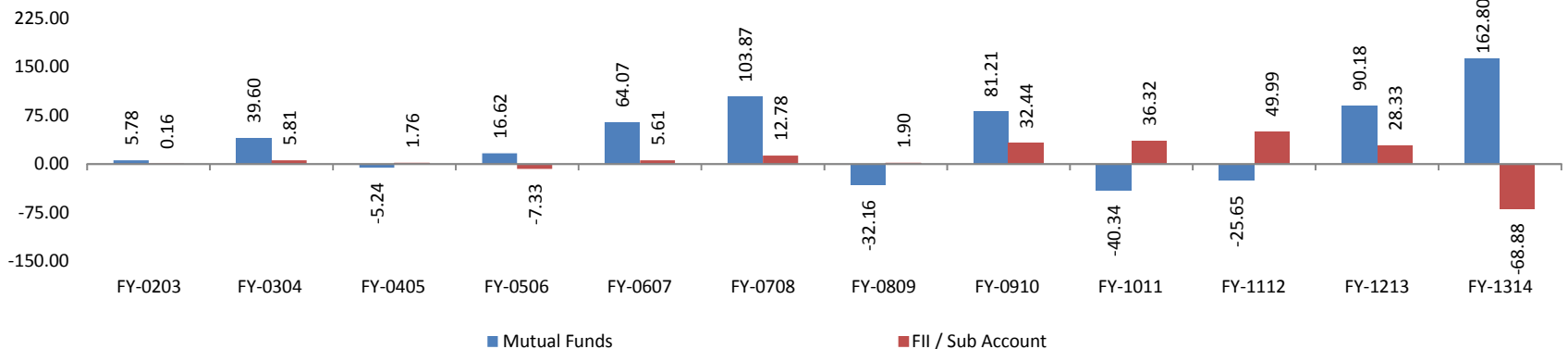
Equity Investment Trends

Amount in INR 000 Crs

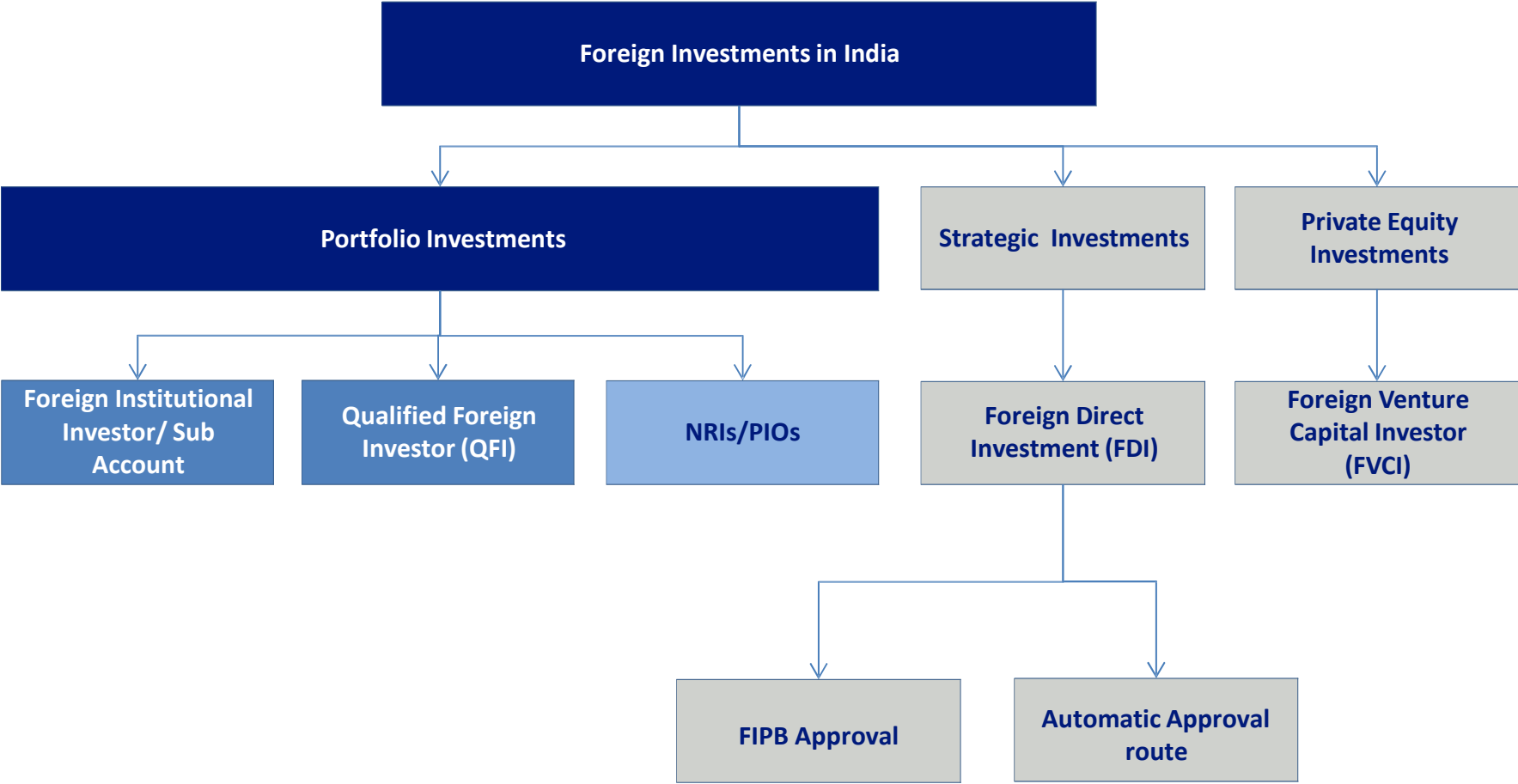


Debt Investment Trends

Amount in INR 000 Crs



Foreign Investment in India: Existing Routes



Regulatory Requirements and Investment Guidelines Summary

	Foreign Institutional Investors (FII)	Qualified Foreign Investor (QFI)	Foreign Direct Investment (FDI)	Foreign Venture Capital Investor (FVCI)
Nature of Investments	Portfolio Investments	Portfolio Investments	Strategic Investments (Long Term)	Venture Capital /Private Equity Investments (Long Term)
Registration	SEBI	Qualified Depository Participant (QDP)	No registration required.	SEBI & RBI
Eligible Instruments	Equity (Primary and Secondary Markets) / Listed Corporate Debt / Exchange Traded Equity Derivatives / Interest Rate Futures / Security Receipts / Government Securities/ Commercial Paper / Units of Mutual Funds / IDRs	Equity (listed/to be listed) / Corporate Debt (listed/to be listed) / Units of Mutual Funds / G-Sec & T-Bills / Commercial Papers	Equity / Compulsorily Convertible Debts	Equity / Compulsorily Convertible Debts
Short Selling	Allowed within the Stock Lending Borrowing (SLB)	Not Allowed	Not Allowed	Not Allowed
FX Forward Cover	Yes to the extent of the market value of their debt / equity portfolio	Not Applicable	Yes to the extent of their investments /dividend receivable in India	Yes, to the extent of total Inward remittance. In case of outward remittance, the amount will be reduced from the eligible cover
Investment Restrictions	Investment up to 10% of paid up equity capital of Investee company; Foreign Corporate/Individual– Investment up to 5% of paid-up equity capital of investee company	Investment up to 5% of paid-up equity capital of investee Company. All QFIs cannot hold more than 10% of paid up equity capital of investee Company	Investment up to sectoral Limits prescribed by RBI	At least 66.67% of the investible funds shall be invested in unlisted equity shares or equity Linked instruments.

Data Source: www.sebi.gov.in, Report of the Committee on 'Rationalisation of Investment Routes and Monitoring of Foreign Portfolio Investments'

Historical evolution of the FII/ Sub Account policy

Year / Month	Event
September 1992	FII's allowed to invest in securities (primary and secondary markets) & schemes floated by mutual funds. FII's allowed to invest 24 % of a company's issued capital.
April 1997	Aggregated limit for all FII's increased to 30 % of a company's issued capital.
April 1998	FII's permitted to invest in dated government securities subject to a ceiling of US \$ 1 billion.
June 1998	Forward cover allowed in equity.
February 2000	Foreign firms and high net worth individuals permitted to invest as sub-accounts of FII's. Domestic portfolio manager allowed to be registered as FII's to manage the funds of subaccounts.
March 2001	Aggregated limit for all FII's increased to 49 % of a company's issued capital.
December 2003	FII dual approval process (SEBI and RBI) changed to a single approval process of the SEBI.
April 2006 / June 2008 / October 2008	The limit on investments in Government Debt and Corporate debt limit increased
October 2008	Removal of regulation for FII's pertaining to the restriction of a 70:30 ratio of investment in equity and debt. Removal of restrictions on Overseas Derivatives Instruments (ODIs).
March 2009	E-bids platform for debt limit introduced for FII's.
August 2009	FII's allowed to participate in interest rate futures.
April 2010	FII's allowed to offer domestic government securities and foreign sovereign securities with AAA rating as collateral
November 2010 / March 2011	The limit on investments in Government Debt and Corporate debt limit increased
August 2011	Qualified Foreign Investor allowed access to India
April 2013	Corporate Debt made available on Tap till the overall limit reaches 90% of the overall limit
September 2013	Government Debt made available on Tap till the overall limit reaches 90% of the overall limit

Equity Limit – FII / Sub Account/ QFI

Investment Limit for FII in Shares and Convertible Debenture

Total Holding by each FII / Sub Account	10% of the paid-up equity capital or paid-up value of each series of debentures
Total holding by all FII / Sub Account	24% of the paid-up equity capital or paid-up value of each series of debentures (the limit can be increased to the FDI sectoral cap by a special resolution at the general body meeting of the investee company)
Foreign Corporate and Individuals registered as Sub Account	5% of the total paid-up equity capital or 5% of the paid-up value of each series of convertible debentures subject to an overall ceiling of 24%

Eligible Securities

- Equity Shares - Unlisted, Listed or To Be Listed
- Derivatives traded on a recognized stock exchange
- Warrants of companies
- Units of Domestic Equity Oriented Mutual Fund Schemes

Limits for Qualified Foreign Investors

- QFI are permitted to invest in listed equity shares up to an individual limit of 5% of the paid-up capital of the company (overall limit of 10% of the paid-up capital of the company).

Debt Limit – FII / Sub Account / QFI

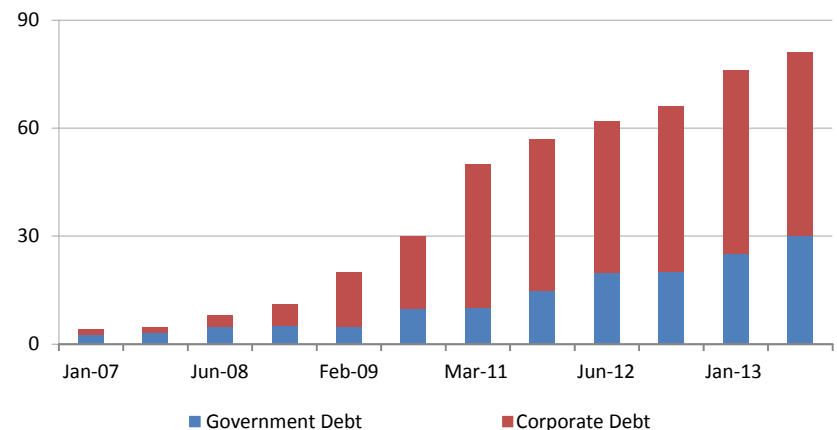
Security Type	Eligible Securities	Aggregate Limit (USD bn)
Government Debt Securities	<ul style="list-style-type: none"> – Dated Government Securities – Treasury Bills (Sub limit of USD 5.5 bn) – FIIs are not permitted to invest in Bank Certificate of Deposits 	30 ¹
Corporate Debt Securities	<ul style="list-style-type: none"> – Debentures - Listed or To Be Listed – Unlisted Infrastructure Sector Bonds – Commercial Papers (Sub Limit of USD 3.5 bn) – Units of Domestic Fixed Income Oriented Mutual Fund Schemes – Units of Infrastructure Debt Fund Schemes 	51

¹ Out of USD 30 Bn, USD 5 Bn available for Investments by FIIs registered with SEBI under the categories of Sovereign Wealth Funds, Multilateral Agencies, Endowment funds, Insurance funds, pension funds and Foreign Central banks

Recent Policy Action

- Investments in Security Receipts (SRs) issued by Asset Reconstruction Companies (ARC) recently included under the existing limits for corporate bonds
- USD 5 bn Investments by FIIs registered as Sovereign Wealth Funds, Insurance funds and Foreign Central banks
- Auction mechanism replaced by 'on tap' system till overall investment reaches 90%
- Restrictions related to Residual maturity, Re-investment period removed

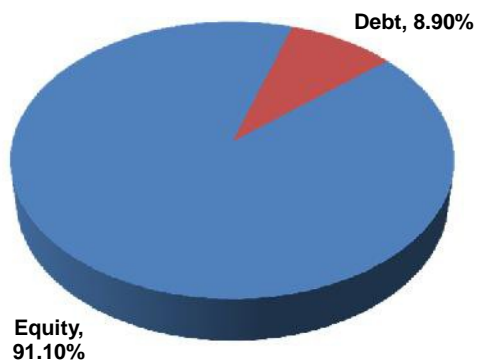
Growth – FII Debt Limits



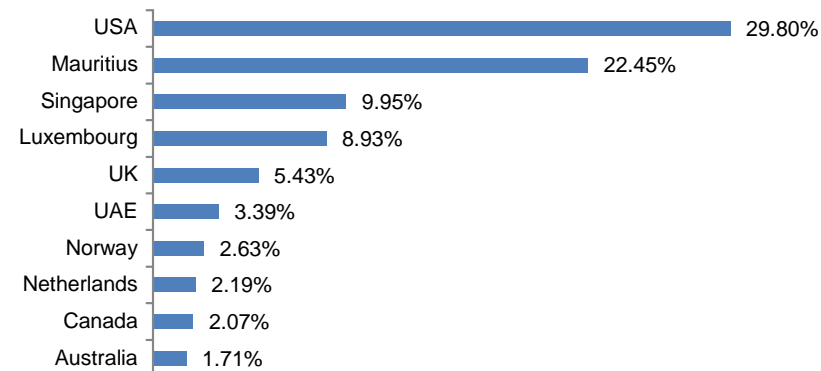
Assets Under Custody – FII / Sub Accounts

Total Assets Under Custody: INR 14,16,560 Crs (USD 230 Bn)

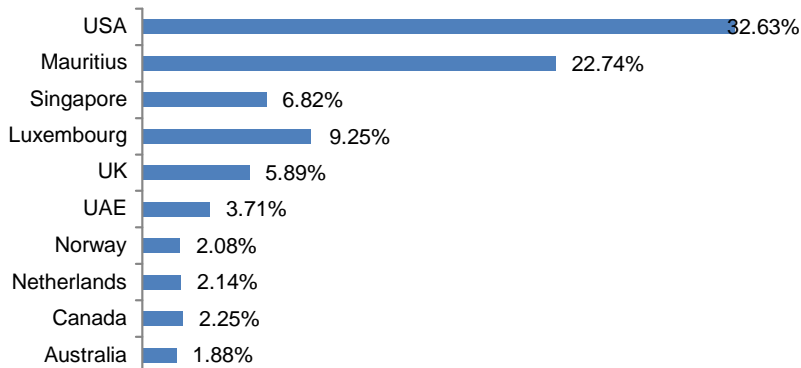
Asset Class Split



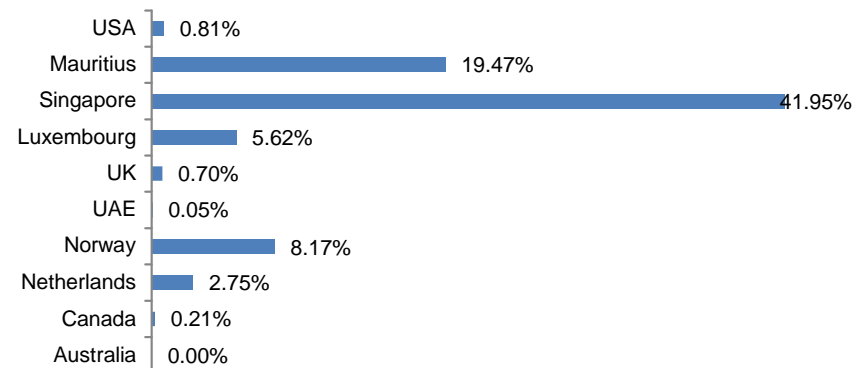
Top 10 Countries (Equity & Debt)



Top 10 Countries (Equity)



Top 10 Countries (Debt)

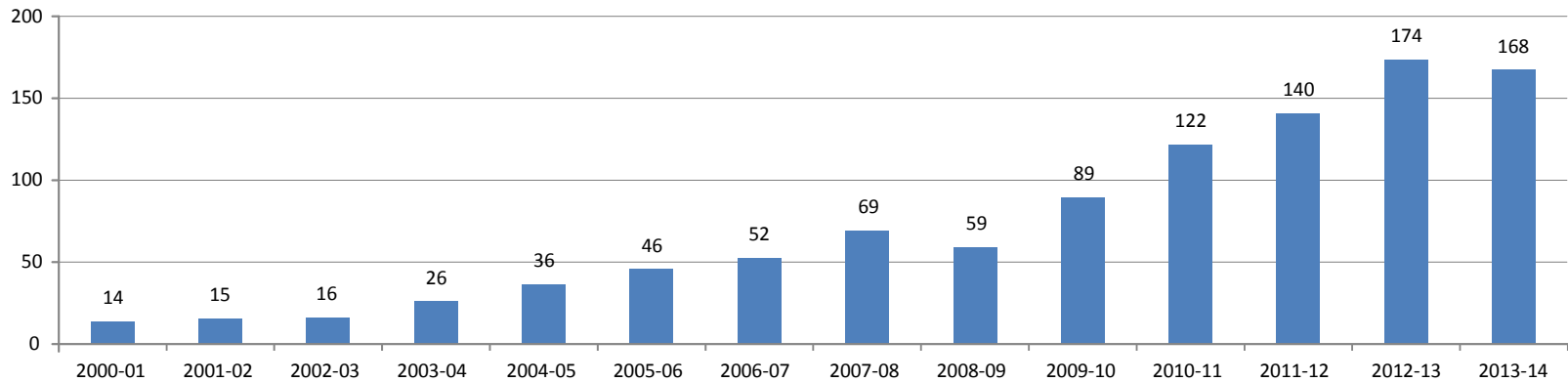


Investment Trends– FII / Sub Accounts

Investment Trends (Equity & Debt)

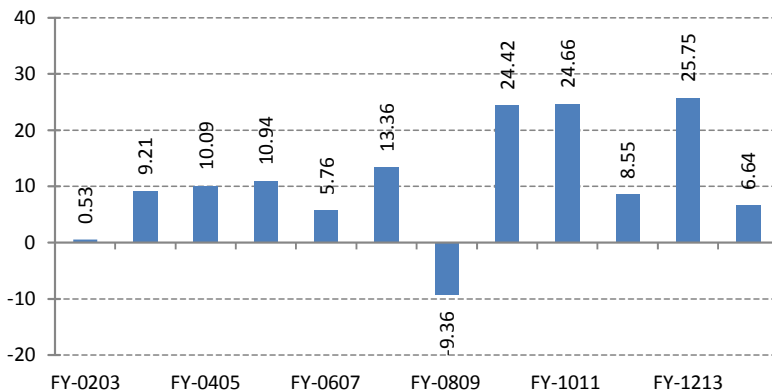
Investment Growth (Financial Year)

Amount in USD Bn



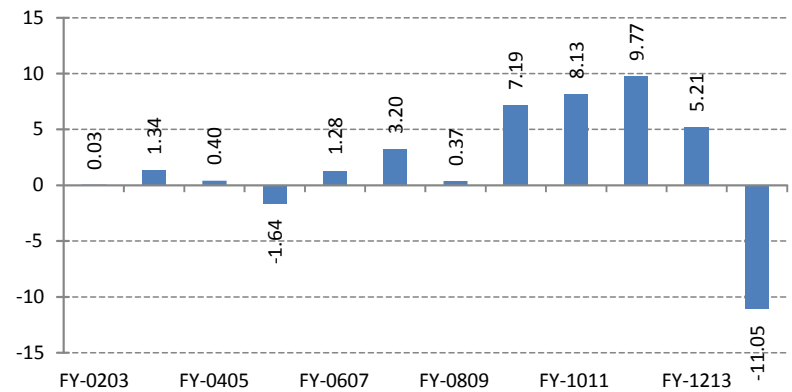
Equity Investment Trends

Amount in USD Bn



Debt Investment Trends

Amount in USD Bn



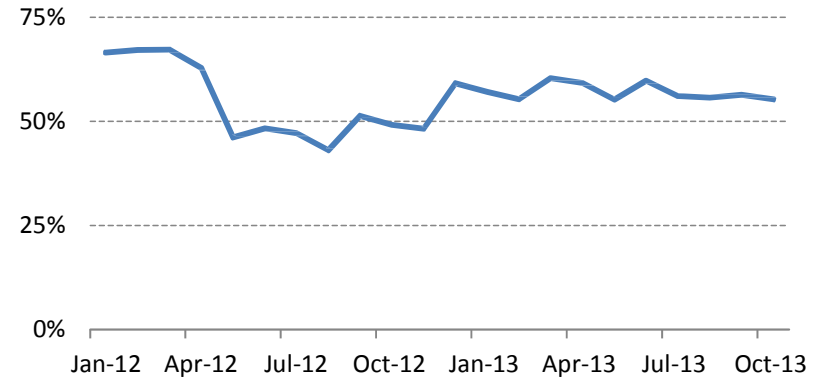
P Notes Investments– FII / Sub Accounts

Investment Trends (Equity & Debt)

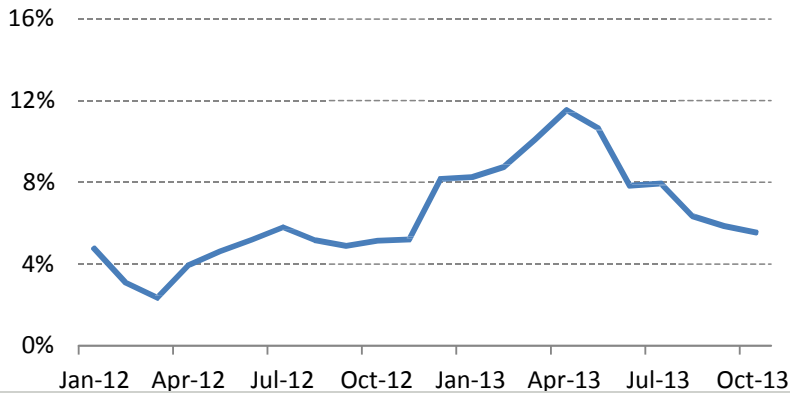
P-Notes (As % of Total FII Assets)



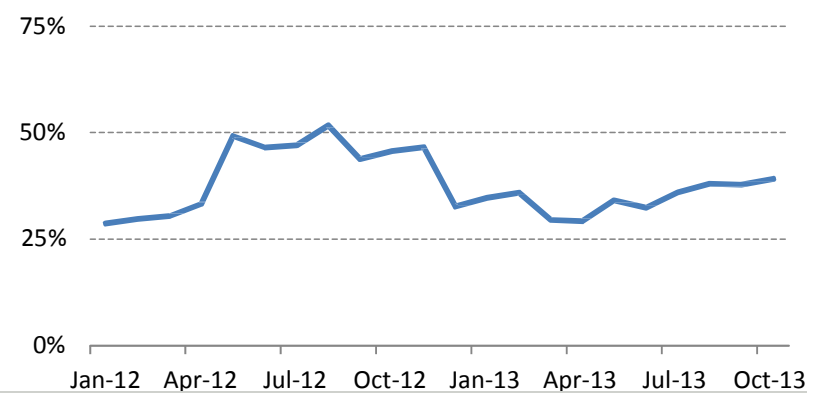
P-Notes on Equity Securities (As % of Total P-Notes)



P-Notes on Debt Securities (As % of Total P-Notes)



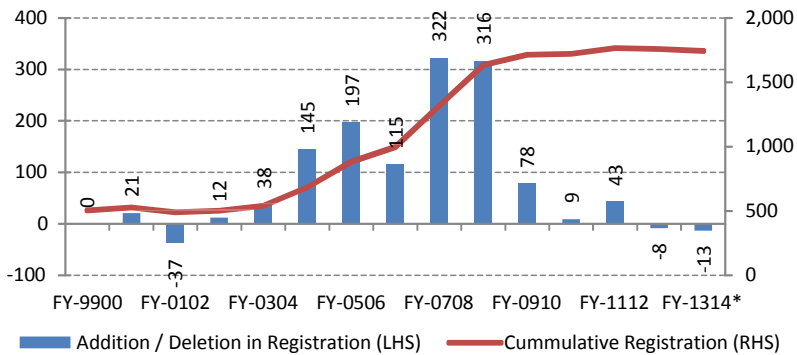
P-Notes on Equity Derivatives (As % of Total P-Notes)



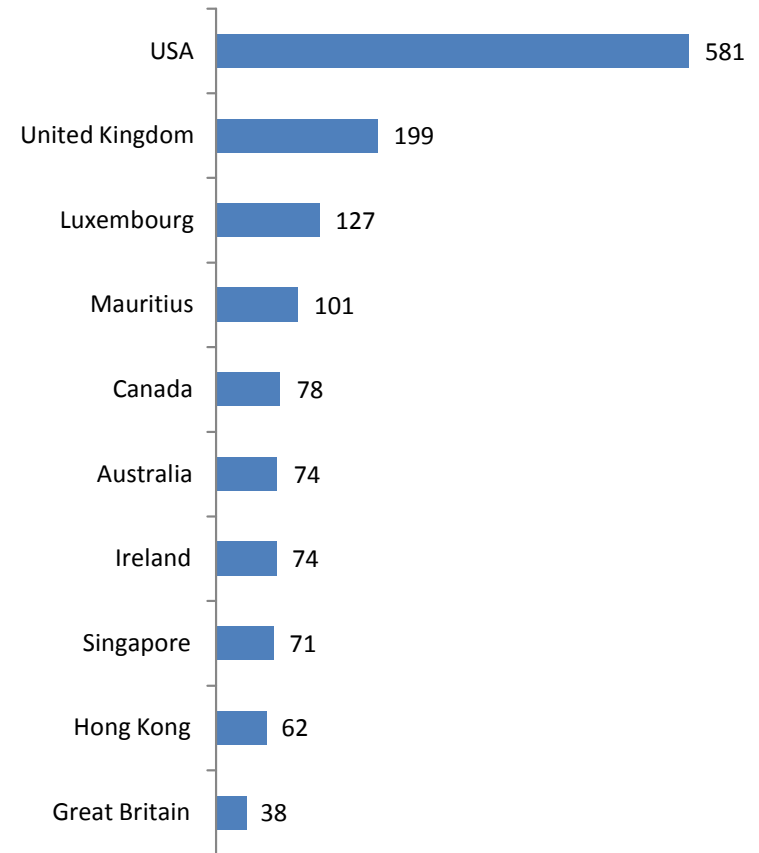
FII / Sub Account Registrations

Foreign Institutional Investors / Sub Accounts

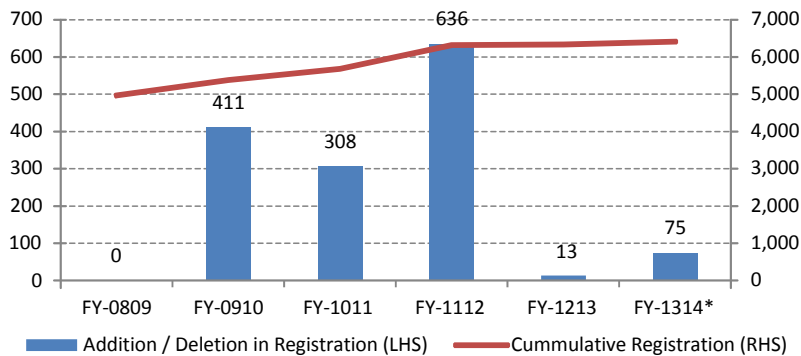
FII Registrations Growth



Top 10 Countries – FII Registrations



Sub Account Registration Growth



Other Regulations & Conditions

▪ Cash Accounts

- One INR account per FII
- Additional INR account to be maintained for derivatives trades
- No credit or overdraft facilities permitted
- No returns permitted on cash account balances
- FX may be routed through a foreign currency account

▪ Hedging FII portfolios

- Forward cover can not exceed value of underlying portfolio
- Can be early-utilised, settled or rolled over

▪ Remittances and Repatriations

- Should be linked to securities transactions
- Repatriations are subject to withholding tax

▪ Taxation

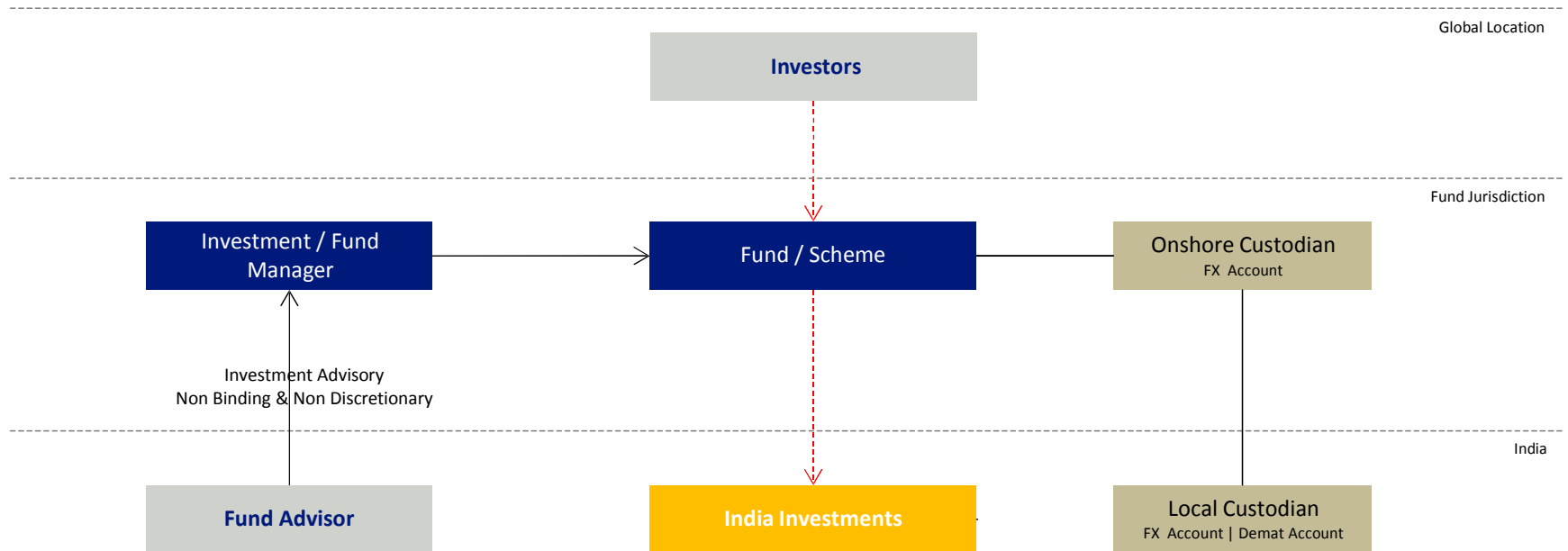
- FII / Sub-Account is required to file tax return in India.
- The investment made through the FII/ Sub-Account route is freely repatriable, subject to payment of applicable taxes in India.

▪ Others

- Income tax id (PAN) mandatory for depository a/c opening
- Naked short sell not permitted

Fund Structures

Offshore Fund Structure – Direct Access

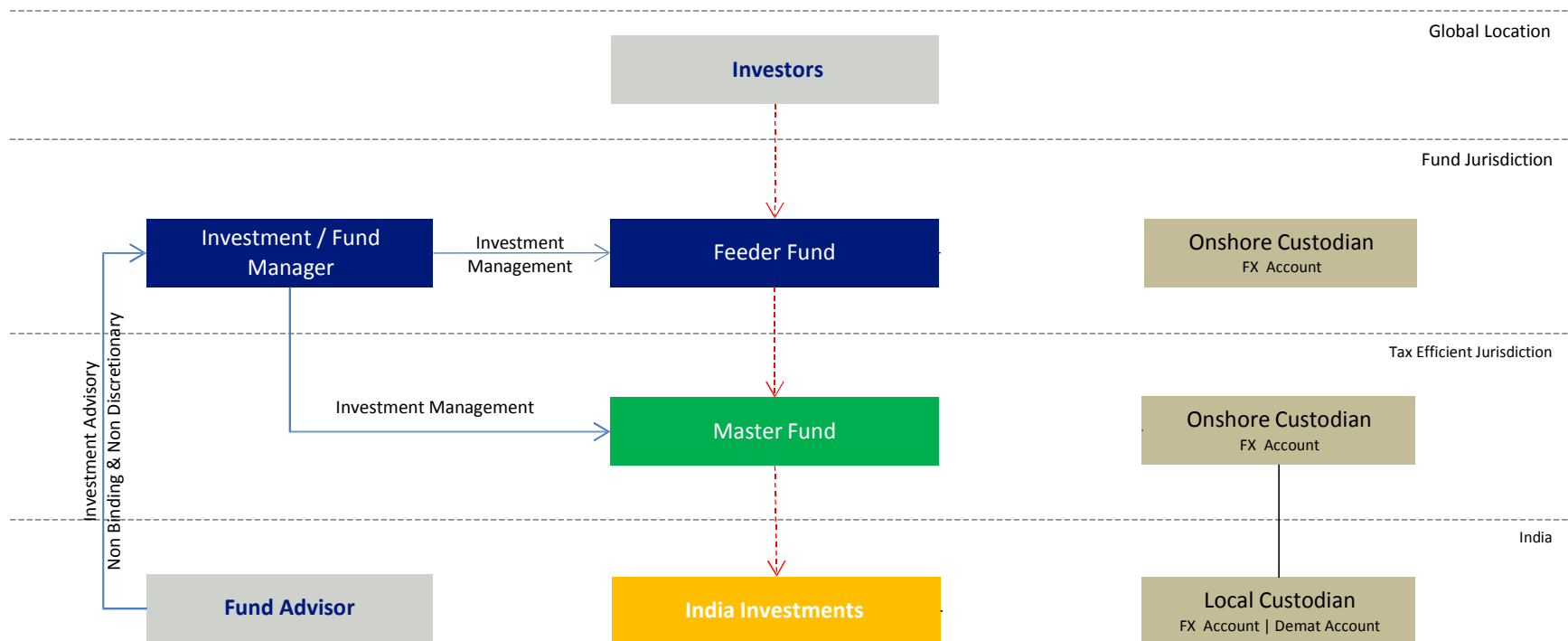


Notes :

1. Investment / Fund Manager are required to register with SEBI , India as Foreign Institutional Investor
2. The Scheme floated by the Investment / Fund Manager are required to register with SEBI, India as Sub Account of the FII.
3. The FII / Sub Account will be required to appoint a local custodian in India

Disclaimer: The proposed structures are based on various information available in public domain. Please check with appropriate consultants to fully understand the legal /tax implications.

Offshore Fund Structure – Master Feeder



Notes to Direct Access Route:

1. Investment / Fund Manager are required to register with SEBI , India as Foreign Institutional Investor
2. The Scheme floated by the Investment / Fund Manager are required to register with SEBI, India as Sub Account of the FII.
3. The FII / Sub Account will be required to appoint a local custodian in India

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Tax Rates

Nature of income	Indian Tax rates as per the Income-tax Act, 1961 (Act) (%)
Capital Gains on Equity Shares[#]	
Short Term Capital Gains	15
Long Term Capital Gains	Exempt
Capital gains on Debt Securities[@]	
Short Term Capital Gains	30
Long Term Capital Gains	10
Dividends From Indian Companies	
Interest In Respect Of Securities (Period: June 1, 2013 to May 31, 2015)	
Interest received on Government Securities	5
Interest received on Bonds of Indian Companies ¹	5
Interest received on Bonds of Indian Companies ²	20

1. Rate of Interest on bonds is equal /less than rate specified by Government of India. 2. Rate of Interest on bonds greater than rate specified by Government of India

Disclaimer: The data is a compilation of publicly available information. The recipient(s) before acting on any information herein should make his/their own investigation and seek appropriate professional advice. DTAA: Double Taxation Avoidance Agreement. #- Gains arising on the transfer of equity shares and equity oriented mutual fund units on a recognized stock exchange, which are held for less than 12 month and the transaction is chargeable to Securities Transaction Tax would be regarded as Short Term Capital Gains. Gains arising on the transfer of equity shares and equity oriented mutual fund units on a recognized stock exchange, which are held for more than 12 month and the transaction is chargeable to Securities Transaction Tax would be regarded as Long Term Capital Gains. @ - Gains arising on transfer Debt Securities held as capital assets for a period of 36 months (in case of unlisted securities) / 12 months (in case of listed securities) would be regarded as long term capital gains. Gains arising on transfer Debt Securities held as capital assets for a period of less than 36 months (in case of unlisted securities) / less than 12 months (in case of listed securities) would be regarded as short term capital gains. The above tax rates are subject applicable surcharge and education cess.

Taxability Under Select Tax Treaties

Country	Capital Gains on Sale of Shares	Capital Gains on Sale of Debentures	Interest Income
Mauritius	Not Taxable	Not Taxable	Taxable
Singapore	Not Taxable subject to the limitation of benefit clause	Not Taxable subject to the limitation of benefit clause	Taxable
Cyprus	Not Taxable	Not Taxable	Taxable
Netherlands	Not Taxable subject to certain conditions	Not Taxable	Taxable
Luxembourg	Taxable	Not Taxable	Taxable
United State of America	Taxable	Taxable	Taxable
United Kingdom	Taxable	Taxable	Taxable

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Fund Structuring Considerations

Permanent Establishment

- Incidence of Permanent Establishment of an Offshore Fund, can then lead to Offshore Fund Manager or Fund subject to tax / tax filling obligation in India.
- Factors which establish Permanent Establishment of an Offshore Fund:
 - Indian Sub Advisor makes the decision on behalf of the Fund Manager
 - Fund Manager's employee spend significant number of days in India
 - Fund Manager's employee representing as part of Indian Sub Advisor
- Indian AMC and Portfolio Manager provide Non Binding and Non Discretionary Advisory service to offshore Fund Managers

General Anti Avoidance Rule - GAAR

- GAAR Provision to be applicable from April 1, 2015
- GAAR to apply to tax benefit obtained from the arrangement on or after April 1, 2015
- The GAAR provisions shall apply to any arrangement, irrespective of the date on which it has been entered into, in respect of the tax benefit obtained from an arrangement on or after the April 1, 2015, where a part of an arrangement is declared to be an impermissible avoidance arrangement.

New Regime: Foreign Portfolio Investments

Foreign Portfolio Investor -New Route (Proposed)

- Unified route for portfolio investments in India:- The FPI route is a combination of FII (Foreign Institutional Investors), Sub-Accounts and QFI (Qualified Foreign Investors) categories
- No registration with SEBI but registration and Certification by Designated Depository Participant (DDP) on behalf of SEBI.
- FPIs classified into three main categories based on type of entities and risk profiles.
- ALL FII/SA and QFIs already registered with SEBI/QDP will be deemed to be registered as FPI
- All existing investments held by the FPIs acquired through PIS route shall be grandfathered
- QFI has been given one year period from the date of notification of the FPI regulations for conversion into FPI.

A committee headed by former cabinet secretary K M Chandrasekhar has given its recommendations to SEBI on rationalizing various routes meant for portfolio investments in the country

Eligibility Criteria for Foreign Portfolio Investor (Proposed)

- Resident in a country whose securities market regulator is a signatory to IOSCO's MMOU or a signatory of a bilateral MOU with SEBI. (<http://www.iosco.org>)
- In case of Bank, resident of a country whose central bank is a member of Bank for International Settlements (BIS). (<http://www.bis.org/>)

Other Criteria

- The applicant is not a resident of India
- The person is not resident in a country listed in the public statements issued by FATF (high risk and non-compliant countries) from time to time .
- Is legally permissible for applicant to invest outside the country where it has been incorporated
- Authorized by Articles of Memorandum or equivalent document to invest on its own behalf or behalf of its clients
- For at least one year, track record of professional competence, financial soundness, experience and general reputation of fairness and integrity
- Whether the applicant is a fit and proper person

Glossary

ARC	Asset Reconstruction Companies
DDP	Designated Depository Participant
FATF	Financial Action Task Force
FDI	Foreign Direct Investment
FII	Foreign Institutional Investor
FIPB	Foreign Investment Promotion Board
FPI	Foreign Portfolio Investor
FVCI	Foreign Venture Capital Investor
IOSCO	International Organization of Securities Commissions
LHS	Left Hand Side
MMOU	Multilateral Memorandum of Understanding
MOU	Memorandum of Understanding
NRI	Non Resident Indian

ODI	Overseas Derivatives Instruments
PIO	Person of Indian Origin
QDP	Qualified Depository Participant
QFI	Qualified Foreign Investor
RBI	Reserve Bank of India
RHS	Right Hand Side
SA	Sub Account
SEBI	Securities and Exchange Board of India
SR	Security Receipts
UAE	United Arab Emirates
UK	United Kingdom
USA	The United States of America

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