

## **INVESTMENTS BY QUALIFIED FOREIGN INVESTORS IN INDIAN EQUITY MARKET**

In a major policy decision, the Central Government has decided to allow Qualified Foreign Investors (“QFIs”) to directly invest in Indian equity market in order to widen the class of investors, attract more foreign funds, and reduce market volatility and to deepen the Indian capital market. QFIs have been already permitted to have direct access to Indian Mutual Funds (“IMFs”) schemes pursuant to the Budget announcement 2011-12. This decision of the Central Government is a next logical step in the direction.

Foreign capital inflows to India have significantly grown in importance over the years. These flows have been influenced by strong domestic fundamentals and buoyant yields reflecting robust corporate sector performance.

In the previous regime relating to foreign portfolio investments, only Foreign Institutional Investors (“FIIs”)/sub-accounts and Non Resident Indians (“NRIs”) were allowed to directly invest in Indian equity market. Therefore, a large number of QFIs, in particular, a large set of diversified individual foreign nationals who were desirous of investing in Indian equity market did not have direct access to Indian equity market. In the absence of availability of direct route, many QFIs found difficulties in investing in Indian equity market.

As a first step towards Central Government’s shift in policy, QFIs had been permitted direct access to IMFs schemes pursuant to the budget announcement 2011-12. As a next logical step, it has now been decided to allow QFIs to directly invest in Indian equity market to provide stimulus to the market.

The QFIs shall include individuals, groups or associations, resident in a foreign country which is compliant with Financial Action Task Force/ FATF ([www.fatf-gafi.org](http://www.fatf-gafi.org)) and that is a signatory to the International Organization of Securities Commissions/IOSCO ([www.iosco.org](http://www.iosco.org)) multilateral Memorandum of Understanding. QFIs do not include FII/sub-accounts.

### **Salient Features of the Scheme:**

- A. Reserve Bank of India (“RBI”) would grant general permission to QFIs for investment under Portfolio Investment Scheme (PIS) route similar to FIIs.
- B. The individual and aggregate investment limit for QFIs shall be 5% and 10% respectively of the paid up capital of Indian company. These limits shall be over and above the FII and NRI investment ceilings prescribed under the PIS route for foreign investment in India.
- C. QFIs shall be allowed to invest through Securities and Exchange Board of India (“SEBI”) registered Qualified Depository Participant (“DP”). A QFI shall open only one demat account and a trading account with any of the DP. The QFI shall make purchase and sale of equities through that DP only.
- D. DP shall ensure that QFIs meet all Know Your Customer (“KYC”) and other regulatory requirements, as per the relevant regulations issued by SEBI from time to time. QFIs shall remit money through normal banking channel in any permitted currency (freely convertible) directly to the single rupee pool bank account of the DP maintained with a designated Authorised Dealer category - I bank. Upon receipt of instructions from QFI, DP shall carry out the transactions (purchase/sale of equity).
- E. DP shall be responsible for deduction of applicable tax at source out of the redemption proceeds before making redemption payments to QFIs.
- F. Risk management, margins and taxation on such trades by QFIs may be on lines similar to the facility available to the other investors.

SEBI and RBI are expected to issue relevant circulars to operationalise the scheme by 15<sup>th</sup> January 2012.



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