RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2011-12/347
A. P. (DIR Series) Circular No.66 **January 13, 2012**

To

All Category – I Authorised Dealer banks

Madam / Sir,

(I) Scheme for Investment by Qualified Foreign Investors in equity shares
(II) Scheme for Investment by Qualified Foreign Investors in Rupee Denominated Units of Domestic Mutual Funds – Revision

Attention of Authorised Dealers Category – I (AD Category - I) banks is invited to A.P. (DIR Series) Circular No.8 dated August 9, 2011 and A.P. (DIR Series) Circular No. 42 dated November 3, 2011 in terms of which Qualified Foreign Investors (QFIs as defined therein to mean non-resident investors, other than SEBI registered FIIs and SEBI registered FVCIs, who meet the KYC requirements of SEBI) are allowed to invest in rupee denominated units of domestic Mutual Funds subject to the terms and conditions mentioned therein.

(I) Scheme for Investment by Qualified Foreign Investors in equity shares

2. It has now been decided to allow QFIs to purchase on repatriation basis equity shares of Indian companies subject the following terms and conditions :

(i) **Eligible instruments and eligible transactions** – QFIs shall be permitted to invest through SEBI registered Depository Participants (DPs) only in equity shares of listed Indian companies through recognized brokers on recognized stock exchanges in India as well as in equity shares of Indian companies which are offered to public in India in terms of the relevant and applicable SEBI guidelines/regulations. QFIs shall also be permitted to acquire equity shares by way of rights shares, bonus shares or equity shares on account of stock split / consolidation or equity shares on account of amalgamation, demerger or such corporate actions subject to the investment limits as prescribed in para. 2 (iv) below.

QFIs shall be allowed to sell the equity shares so acquired by way of sale

(a) Through recognized brokers on recognized stock exchanges in India; or

(b) In an open offer in accordance with the SEBI (Substantial Acquisition of Shares and Takeovers) Regulations, 2011; or

(c) In an open offer in accordance with the SEBI (Delisting of Securities) Guidelines, 2009; or

(d) Through buyback of shares by a listed Indian company in accordance with the SEBI (Buyback) Regulations, 1998.

(ii) **Mode of payment / repatriation** – For QFI investments under this scheme a separate single rupee pool bank account would be maintained by the DP with an AD Category- I bank in India for QFI investments under this scheme. The DP will purchase equity at the instruction of the respective QFIs within five working days (including the date of credit of funds to the single rupee pool bank account by way of foreign inward remittances through normal banking channels) failing which the funds would be immediately repatriated back to the QFI's designated overseas bank account. The sale proceeds of the equity shares will also be received in this single rupee pool bank account of the DP and shall be repatriated to the designated overseas bank account of the QFI within five working days (including the date of credit of funds to the single rupee pool bank account by way of sale of equity shares) of having been received in the single rupee pool bank account of the DP. Within these five working days, the sale proceeds of the existing investment can be also utilized for fresh purchases of equity shares under this scheme, if so instructed by the QFI. Dividend payments on equity shares held by QFIs can either be directly remitted to the designated overseas bank accounts of the QFIs or credited to the single rupee pool bank account. In case dividend payments are credited to the single rupee pool bank account they shall be remitted to the designated overseas bank accounts of the QFIs within five working days (including the day of credit of such funds to the single rupee pool bank account). Within these five working days, the dividend payments can be also utilized for fresh purchases of equity shares under this scheme, if so instructed by the QFI.

(iii) **Demat accounts -** QFIs would be allowed to open a dedicated demat account with a DP in India for investment in equity shares under the scheme. The QFIs would however not be allowed to open any bank account in India.

(iv) **Limits -** The individual and aggregate investment limits for the QFIs shall be 5% and 10% respectively of the paid up capital of an Indian company. These limits shall be over and above the FII and NRI investment ceilings prescribed under the Portfolio Investment Scheme for foreign investment in India. Further, wherever there are composite sectoral caps under the extant FDI policy, these limits for QFI investment in equity shares shall also be within such overall FDI sectoral caps. The onus of monitoring and compliance of these limits shall remain jointly and severally with the respective QFIs, DPs and the respective Indian companies (receiving such investment).

(v) **Eligibility** - Only QFIs from jurisdictions which are FATF compliant and with which SEBI has signed MOUs under the IOSCO framework will be eligible to invest in equity shares under this scheme.

(vi) **KYC -** DPs will ensure KYC of the QFIs as per the norms prescribed by SEBI.

(vii) **Permissible currencies -** QFIs will remit foreign inward remittance through normal banking channel in any permitted currency (freely convertible) directly into single rupee pool bank account of the DP maintained with AD Category-I bank.

(viii) **Pricing** – The pricing of all eligible transactions and investment in all eligible instruments by QFIs under this scheme shall be in accordance with the relevant and applicable SEBI guidelines only.

(ix) **Reporting** – In addition to the reporting to SEBI as may be prescribed by them, DPs will also ensure reporting to the Reserve Bank of India in a manner and format as prescribed by the Reserve Bank of India from time to time.

(II) Scheme for Investment by Qualified Foreign Investors in Rupee Denominated Units of Domestic Mutual Funds

3. **QFI investment in rupee denominated units of Domestic Mutual Funds under the Direct Route** – On a further review it has been decided to modify the time period for which funds (by way of foreign inward remittance through normal banking channels from QFIs as well as by way of credit of redemption proceeds of the units of domestic Mutual Funds by QFIs in India) can be kept in the single rupee pool bank account of the DP under the scheme for investment by QFIs in units of domestic Mutual Funds (as per the terms and conditions specified in A.P. (DIR Series) Circular No.8 dated August 9, 2011 and A.P. (DIR Series) Circular No.42 dated November 3, 2011) to five working days (including the day of credit of funds received by way of foreign inward remittance through normal banking channels from QFIs as well as by way of credit of redemption proceeds of the units of domestic Mutual Funds by QFIs in India). It has also been decided to allow credit of dividend payments to QFIs on account of units of mutual funds held by them to the single rupee pool bank account subject to the condition that in case dividend payments are credited to the single rupee pool bank account they shall be remitted to the designated overseas bank accounts of the QFIs within five working days (including the day of credit of such funds to the single rupee pool bank account). Within these five working days, the dividend payments can be also utilized for fresh purchases of units of domestic mutual funds under this scheme, if so instructed by the QFI.

4. AD Category - I banks may bring the contents of the circular to the notice of their customers/constituents concerned.

5. Necessary amendments to Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 (Notification No. FEMA 20/2000-RB dated May 3, 2000) and Foreign Exchange Management (Deposit) Regulations, 2000 (Notification No. FEMA 5/2000-RB dated May 3, 2000) are being notified separately.

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Dr. Sujatha Elizabeth Prasad)
Chief General Manager

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