# Regulatory framework for FPI in India:

## Various modes and routes of Foreign Portfolio Investments in India

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# Coverage

- Foreign Portfolio Investment
- Regulators & Regulations
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- Investment in Equity & Debt Instrument
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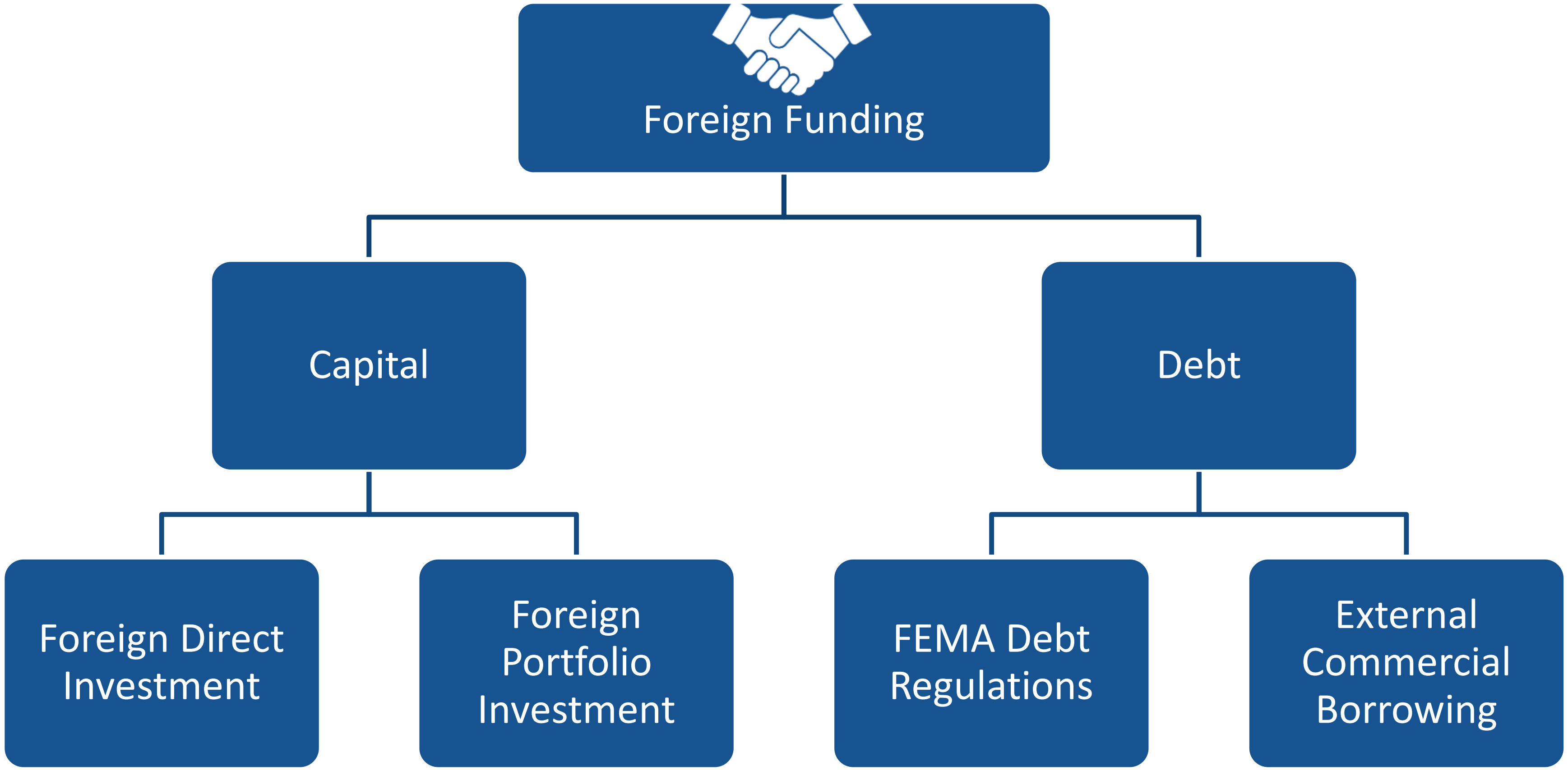


**Foreign Investment** - Any investment made by a person resident outside India on a repatriable basis in equity instruments of an Indian company or to the capital of a LLP

**Foreign Direct Investment** - Investment through equity instruments by a person resident outside India in an unlisted Indian company; or in 10% or more of the post issue paid-up equity capital on a fully diluted basis of a listed Indian company

**Foreign Portfolio Investment** - any investment made by a person resident outside India through equity instruments where such investment is less than 10% of the post issue paid-up share capital on a fully diluted basis of a listed Indian company or less than 10% of the paid-up value of each series of equity instrument of a listed Indian company

# Regulators & Regulations

SEBI (Foreign Portfolio Investors) Regulations, 2019

Foreign Exchange Management (Non-debt Instruments) Rules, 2019

Foreign Exchange Management (Debt Instruments) Regulations, 2019

# Who can register as Foreign Portfolio Investor?

- Non-resident Indian;
- Not a non-resident Indian or an overseas citizen of India;
- NRI/OCI/RI may be constituents of the applicant:
  - In case of resident Indians other than individuals, they can be the constituents of the applicant if such a person is a fund manager and the applicant is an eligible investment fund under I-T Act.
  - In case resident Indian other than individuals, may also be constituents of the applicant, if the applicant is an AIF setup in IFSC and such person is a sponsor/manager of AIF & the person' contribution shall be max

    Cat I & II AIF – 2.5% of corpus or US $ 0.75 m (wel)

    Cat III - 5% of corpus or US $ 1.5 m (wel)

- applicant is a resident of the country whose securities market regulator is a signatory to the IOSCO's Multilateral MoU or a signatory to the bilateral MoU with SEBI;
- applicant being a bank is a resident of a country whose central bank is a member of Bank for International Settlements (If central bank is applicant it need not be member)
- applicant or its underlying investors contributing 25% or more in the corpus of the applicant or identified on the basis of control, shall not be the person(s) mentioned in the Sanctions List by the UNSC and is not a resident in the country identified in the public statement of FATF as jurisdictions with weak measures to combat money laundering and terrorist financing

# Types of Foreign Portfolio Investor

Category I Foreign Portfolio Investor

Category II Foreign Portfolio Investor

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| Cat I - 9134 (85%) | Cat II - 1660 (15%) |
|---|---|

*Source – NSDL FPI monitor as on 07th August, 2022*

# Category I Foreign Portfolio Investor

- ✓ Government and Government related investors such as central banks, sovereign wealth funds, or agencies including entities controlled or at least 75% owned by such Government and Government related investor

- ✓ Entities from the FATF member countries or from any country specified by the CG which are
  - ✓ Appropriately regulated funds;
  - ✓ Unregulated funds whose IM is appropriately regulated and registered as a Category I foreign portfolio investor (IM to be responsible for all the acts of commission or omission of such unregulated fund);
  - ✓ University related endowments of such universities that have been in existence for more than 5 years;

# Category I Foreign Portfolio Investor

- ✓ Pension funds and university funds;
- ✓ Appropriately regulated entities (banks/PM/IA/AMC)
- ✓ An entity
  - ✓ whose IM is from the FATF member country and such an IM is registered as a Category I FPI; or
  - ✓ which is at least 75% owned by another entity as listed above except for government, and such an eligible entity is from a FATF member country.

    (IM or eligible entity to be responsible for all the acts of commission or omission of such applicants)

# Category II Foreign Portfolio Investor

- ✓ appropriately regulated funds not eligible as Category-I foreign portfolio investor;
- ✓ endowments and foundations;
- ✓ charitable organisations;
- ✓ corporate bodies;
- ✓ family offices;
- ✓ Individuals;
- ✓ appropriately regulated entities investing on behalf of their client, as per conditions specified by SEBI;
- ✓ Unregulated funds in the form of limited partnership and trusts;

# Investment avenue for Foreign Portfolio Investor


Shares, debentures and warrants issued by a body corporate; listed or to be listed on a recognized stock exchange in India;


Units of mutual funds, real estate mutual fund schemes and infrastructure debt fund;

Units of schemes floated by a CIS;

Derivatives traded on a recognized stock exchange;


Units of REIT, InVIT and units of Category III AIF;

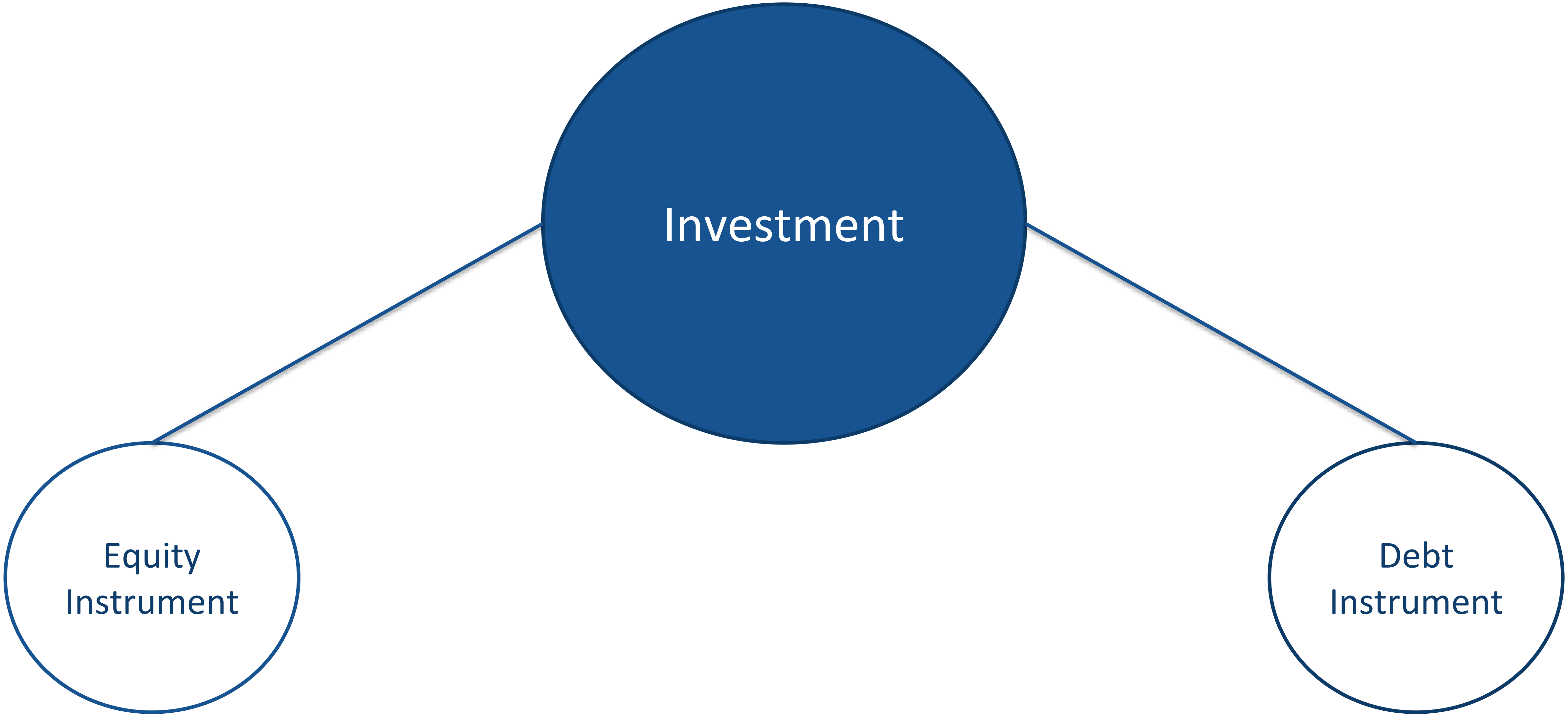
Indian Depository Receipts;

Any debt securities or other instruments as permitted by the RBI; and

Such other instruments as specified by the SEBI from time to time.

# Investment avenue for Foreign Portfolio Investor

- ✓ Government securities/ treasury bills;
- ✓ NCDs/ bonds issued by an Indian company;
- ✓ Commercial papers issued by an Indian company;
- ✓ Units of domestic MFs or ETFs which invest less than or equal to 50 % in equity;
- ✓ Security Receipts (SRs) issued by ARC;
- ✓ Debt instruments issued by banks, eligible for inclusion in regulatory capital;
- ✓ Credit enhanced bonds;
- ✓ Listed non-convertible/ redeemable preference shares or debentures issued in terms of Regulation 6 of FEM (DI) Regulations, 2019;
- ✓ Securitised debt instruments, including any certificate or instrument issued by a SPV set up for securitisation of asset/s with banks, FI or NBFCs as originators;
- ✓ Rupee denominated bonds/ units issued by Infrastructure Debt Funds;
- ✓ Municipal Bonds


Investment
Equity Instrument
Debt Instrument

# Investment in Equity Instruments

**Equity Instruments** - equity shares, convertible debentures, fully & mandatorily convertible preference shares and share warrants issued by an Indian company

- FPI can purchase/sell equity instruments of an Indian company listed or to be listed
- **Investment Limit** –
  - Individual – Less than 10%,
  - Aggregate limit – sectoral cap (in case FDI prohibited, 24%)
- If FPI breach the limit, divest within 5 trading days or else FPI will be considered FDI.
- Clubbing of investment in investor group
- **Pricing** –
  - In case of public issue, issue price for FPI shall not be less than issue price to residents.
  - In case of private placement – SEBI guidelines or valuation report
- **Reporting** –
  - Custodian shall report the transaction on daily basis to depositories and SEBI about transactions entered by FPI.

Investor group - having common ownership of more than 50% or common control

# Investment in Debt Instruments




Fully Accessible Route

Medium Term Framework

Voluntary Retention Route

# Medium Term Framework (MTF)

- Short-term investment (upto 1 yr) not exceeding 30% of total investment by FPI
  - Not applicable to Exempted securities
- Aggregate FPI investments in any CG security
  - 30% of the outstanding stock of that security.
- Concentration limit for Long-term FPIs
  - 15% of prevailing investment limit for that category
- Concentration limit for other FPIs
  - 10% of prevailing investment limit for that category
- Investment by any FPI, including related FPIs, shall not exceed 50% of any issue of a corporate bond. In case investment is more than 50% of any single issue, it shall not make further investments in that issue until this stipulation is met.
  - Not applicable to investment by MFI & investment in Exempted securities
- No FPI shall invest in partly paid debt instruments

**Exempted securities**

- Security Receipts and debt instruments issued by ARC
- Debt instruments issued by an entity under the resolution plan;
- NCDs/ corporate bonds which are under default, in the case of amortising bond

Long term FPIs include Sovereign Wealth Funds, Multilateral Agencies, Endowment Funds, Insurance Funds and Foreign Central Banks

# Investment Limits for FY 2022-23

| Particulars | Limit for HY Apr 2022-Sept 2022 (Rs. in crores) | Limit for HY Oct 2022-Mar 2023 (Rs. in crores) |
|---|---|---|
| G-Sec General | 2,60,594 | 2,67,890 |
| G-Sec Long-term | 1,29,594 | 1,36,890 |
| SDL General | 89,365 | 92,828 |
| SDL Long-term | 7,100 | 7,100 |
| Corporate Bonds | 6,37,455 | 6,67,871 |
| Total Debt | 11,24,107 | 11,72,578 |

*Source - RBI*

# Voluntary Retention Route (VRR)

- Introduced – March 01, 2019
- Objective - to attract long-term and stable FPI investments into debt markets while providing FPIs with operational flexibility to manage their investments
- Investment Limit - Rs. 2,50,000 cr (limit available for fresh allotment - ₹1,04,800 crore under VRR-Combined)
- Eligible investor – FPI registered with SEBI
- Investment in addition to the General Investment Limit
- No FPI shall be allotted greater than 50% of the amount offered for each allotment in case there is a demand for more than 100% of amount offered.
- Minimum retention period - 3 years
- FPI to invest at least 75% of their CPS within three months from the date of allotment
- FPIs may, at their discretion, transfer their investments made under the General Investment Limit, if any, to the VRR scheme

# Voluntary Retention Route (VRR)

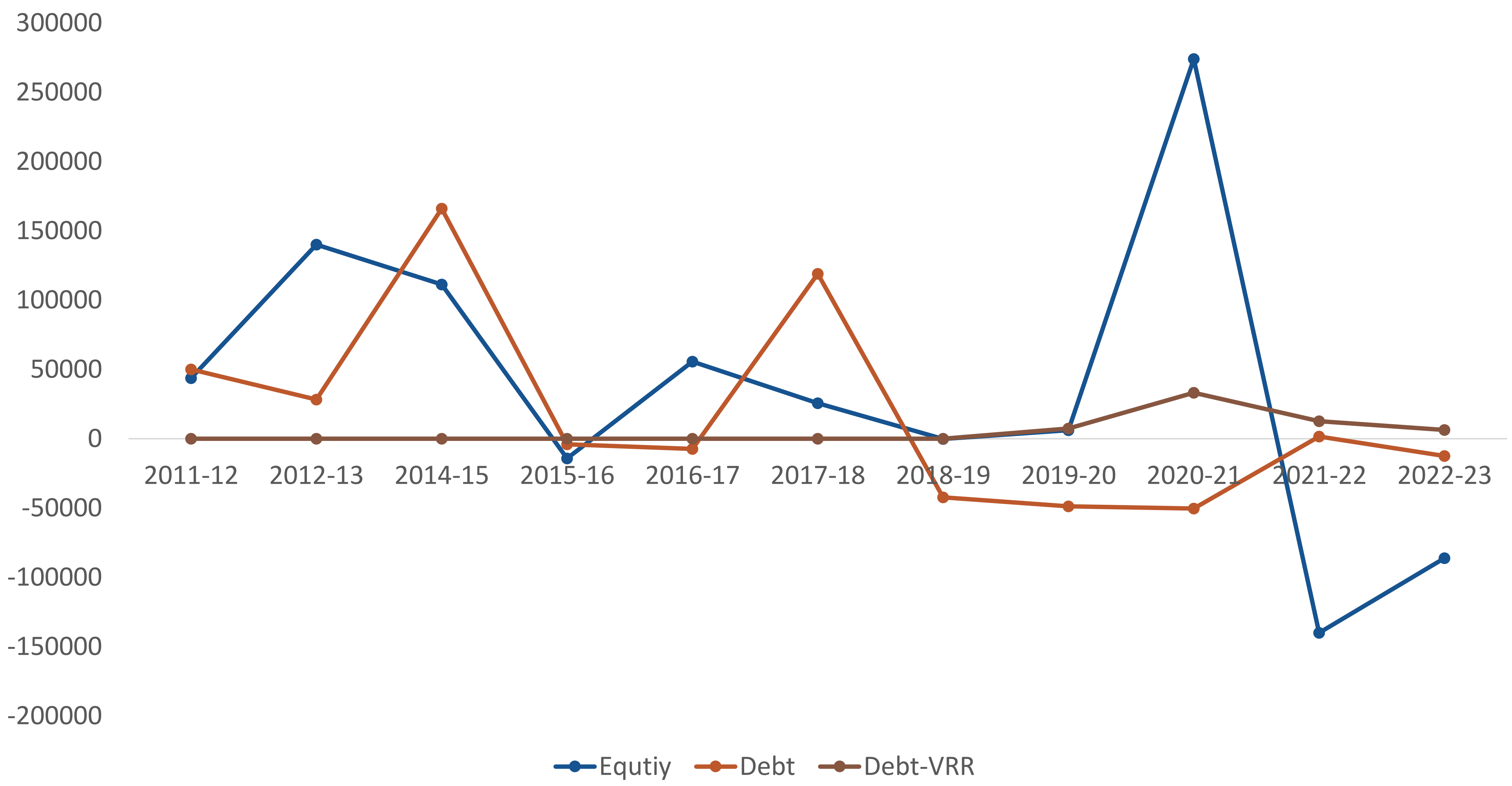
- Prior to the end of the committed retention period, an FPI, may opt to continue investments under this route for an additional identical retention period.
  - Convey this decision to custodian.

- FPI does not to continue under VRR at the end of the retention period, it may:
  - liquidate its portfolio and exit, or
  - shift its investments to the 'General Investment Limit',
  - hold its investments until its date of maturity or until it is sold, whichever in earlier.

- FPIs that wish to exit their investments prior to the end of the retention period may do so by selling their investments to another FPI. The FPI buying such investment shall abide by all the T&C applicable to the selling FPI.

- Investments made through the Route shall not be subject to any minimum residual maturity requirement, concentration limit or single/group investor-wise limits applicable to corporate bonds

# Investments by FPI




*Source – NSDL FPI monitor as on 08th August, 2022*

# Taxation on FPI

- FPI generally earn income from sale of securities, interest income and dividend income.
- Under IT Act, these income fall under income from capital gain and income from other sources.
- Tax in the form of TDS. In case of income from capital gain, TDS is not deducted and therefore FPI will pay advance tax.

| Section | Particulars | Rate |
|---|---|---|
| 194LB | Interest Income from infrastructure debt fund | 5% |
| 194LBA | Income from units of a business trust | 20% |
| 194LBB | Income in respect of units of investment fund | at the rates in force |
| 194LBC | Income in respect of investment in securitization trust | at the rates in force |
| 194LC | Income by way of interest from Indian company | 5% |
| 194LD | Interest Income on certain bonds and Government securities | 5% |
| 115AD | Dividend Income | 20% |
| 115AD | Tax on long term capital gain | 10% |
| 112A | Tax on long term capital gain in certain cases | 10% |
| 115AD | Tax on short term capital gain | 30% |
| 111A | Tax on short term capital gain | 15% |

Thank You