



CIRCULAR

CIR/ IMD/ FII&C/ 13/ 2012

June 07, 2012

All SEBI registered Intermediaries/ Recognized Stock Exchanges/ Depositories/ Mutual Fund/ qualified Depository Participants (DP)

Sir / Madam,

Sub: Revision in framework for Qualified Foreign Investor (QFI) investment in Equity Shares and Mutual Fund schemes

Vide SEBI circulars [Cir/IMD/DF/14/2011](#) and [Cir/IMD/FII&C/3/2012](#) dated August 09, 2011 and January 13, 2012, respectively, Qualified Foreign Investors (QFI) were allowed to invest in schemes of Indian mutual funds and Indian equity shares subject to terms and conditions mentioned therein. Subsequently, vide SEBI circular [CIR/IMD/FII&C/4/2012](#) dated January 25, 2012, the eligibility criteria for a qualified DP was revised.

2. On a review and in consultation with the Government of India (GoI) and RBI, it has been decided to revise the definition of QFI as under:

QFI shall mean a person who fulfils the following criteria:

- (i) Resident in a country that is a member of Financial Action Task Force (FATF) or a member of a group which is a member of FATF; and
- (ii) Resident in a country that is a signatory to IOSCO's MMOU (Appendix A Signatories) or a signatory of a bilateral MOU with SEBI:

Provided that the person is not resident in a country listed in the public statements issued by FATF from time to time on-(i) jurisdictions having a strategic Anti-Money Laundering/ Combating the Financing of Terrorism (AML/CFT) deficiencies to which counter measures apply, (ii) jurisdictions that have not made sufficient progress in addressing the deficiencies or have not committed to an action plan developed with the FATF to address the deficiencies:

Provided further such person is not resident in India:



Provided further that such person is not registered with SEBI as Foreign Institutional Investor or Sub-account or Foreign Venture Capital Investor.

Explanation.-For the purposes of this clause:

- (1)The term "Person" shall carry the same meaning under Foreign Exchange Management Act (**FEMA**), 1999 and section 2(31) of the Income Tax Act, 1961;
- (2) The phrase "resident in India" shall carry the same meaning as in the FEMA 1999, and Income Tax Act, 1961;
- (3) "Resident" in a country, other than India, shall mean resident as per the direct tax laws of that country.
- (4) "Bilateral MoU with SEBI" shall mean a bilateral MoU between SEBI and the overseas regulator that *inter alia* provides for information sharing arrangements.
- (5) Member of FATF shall not mean an Associate member of FATF.

The definition of QFI, as provided in the circulars [Cir/IMD/DF/14/2011](#) and [Cir/IMD/FII&C/3/2012](#) dated August 09, 2011 and January 13, 2012, respectively, stands amended as above.

3. The word "Purchase" used in clause 6.1.4 of circular Cir/IMD/FII&C/3/2012 dated January 13, 2012 shall be substituted with the word "Subscription".

4. Between clauses 8.6 and 8.7 of Circular dated January 13, 2012, clause 8.6.1 is inserted to read as under:

"8.6.1. In case a person invests in the same company through both QFI route and FDI route, the aggregate holding of the person in such company shall not exceed five percent of paid up equity capital of the company at any point of time. This investment limit shall be applicable to each class of equity shares having separate and distinct ISIN. This shall be subject to guidelines on FDI as prescribed by Gol and RBI from time to time ."

5. It has been decided to allow QFIs to make fresh purchases of eligible securities, out of the sale/ redemption/ dividend proceeds of any of the eligible securities. Further, it is clarified that all the eligible securities shall be held in a single demat account of the QFI. Eligible securities shall mean mutual fund units (under both direct and indirect route), equity shares, corporate debt and any other security which is permitted for investment by QFI from time to time by Gol, RBI and SEBI.



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Clause 4.7.7 of circular [Cir/IMD/DF/14/2011](#) dated August 09, 2011 and Clause 9.2.2 of circular [Cir/IMD/FII&C/3/2012](#) dated January 13, 2012 stand amended, accordingly.

6. It has been further decided to extend the option of appointment of custodian of securities by the QFI. The QFI, if it so desires, may appoint a custodian of securities, who would be obligated to perform clearing and settlement of securities on behalf of the QFI client. However, no person shall be appointed as custodian by the QFI unless it is itself the qualified DP of the QFI and is also registered as custodian with SEBI under SEBI (Custodian of Securities) Regulations, 1996.
7. A QFI shall open a single non-interest bearing Rupee Account with an AD Category- I bank in India, for routing the receipt and payment for transactions relating to purchase and sale of eligible securities subject to the conditions as may be prescribed by RBI from time to time. Accordingly, it is clarified that henceforth there is no more requirement for opening and maintenance of a single rupee pool bank account by the qualified DP. QFIs, shall, henceforth invest in all eligible securities through this single non- interest bearing Rupee Account.

Circulars dated August 9, 2011, January 13, 2012, and January 25, 2012 respectively, stand amended as above.

This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

Yours faithfully,

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