Mumbai
May 24, 2019

The Chairman
The Securities and Exchange Board of India
Mumbai

Subject: Report of the Working Group on FPI Regulations

Dear Sir:

We are delighted to submit the final report of the Working Group on the regulatory framework for Foreign Portfolio Investors constituted by SEBI in March 2018, inter alia, to undertake extensive review of the SEBI (FPI) Regulations, redraft the Regulations and the operating guidelines for simplification and make other recommendations relevant to the FPI framework. The recommendations of the Working Group and the proposed regulatory and operating framework are included in the report.

We are thankful to you for giving us this opportunity to work on this important assignment. The Group met several times to deliberate on the issues and it also benefited enormously from wide ranging consultations that were held with market participants and other relevant stakeholders including the Ministry of Finance and the Reserve Bank of India. An interim report of the Working Group addressing KYC and other related aspects was submitted in September 2018. The proposals contained in the interim report have been considered by SEBI and appropriate directions have been issued.

The Working Group wishes to convey its sincere gratitude to Shri G. Mahalingam, Whole Time Member, SEBI and Shri Anand Baiwar, Executive Director, SEBI for their policy directions and valuable guidance. The Group would also like to convey its appreciation for the logistical and organizational help provided by SEBI officials, in particular, Shri Rajkumar Patra, AGM and Shri Sanjay Dhakite, AGM. We take this opportunity to thank all the institutions and individuals who have provided their valuable inputs to the Group in its efforts to consolidate, simplify, liberalise and rationalise the FPI regulatory framework in India; their names have been mentioned in the Acknowledgements.

Yours Sincerely,

Harun R. Khan
Former Dy Governor, RBI
Chairman

Achal Singh
GM, SEBI
Member-Secretary

Samir Dhamankar
Director, Deutsche Bank AG
Member

Vijayakrishnan G.
GM, SEBI
Member

Prasanna Jha
Director, Citibank N.A.
Member

Rohit Dubey
DGM, SEBI
Member
Report
of the Working Group on
FPI Regulations

Chairman: Harun R. Khan

May 24, 2019
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1 Acknowledgements

During various deliberations of the Working Group, we benefitted from the inputs and guidance provided by representatives from the Ministry of Finance, Government of India viz. Shri Jithesh John, Director, Department of Economic Affairs; Shri BVRC Purushottam, Deputy Secretary, Department of Revenue, and would like to thank both of them for their inputs and participation.

The Group is grateful to the senior participants from the RBI, Shri Rajeshwar Rao, Executive Director, Shri Rabi Shankar, CGM (FMRD) and Shrimati Nimmi Kaul, GM (FED), who kindly joined the deliberations of the Group and provided their inputs on all matters which touched RBI regulations or debt markets.

The Working Group expresses its sincere gratitude to the following professionals & officials who whole heartedly assisted the committee with their valuable inputs on matters of FPI interest and also extended their support in drafting the report as well as the annexed documents:

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<tr>
<th></th>
<th>Name</th>
<th>Organization</th>
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<tr>
<td>1</td>
<td>Rushabh Maniar</td>
<td>AZB &amp; Partners</td>
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<tr>
<td>2</td>
<td>Ameet Mane</td>
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<td>3</td>
<td>Pradeep Kumar</td>
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<td>4</td>
<td>Karamjeet Singh</td>
<td>Deloitte Haskins &amp; Sells LLP</td>
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<td>5</td>
<td>Sriram Krishnan</td>
<td>Deutsche Bank AG</td>
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<td>6</td>
<td>Deepa Viswanathan</td>
<td>Deutsche Bank AG</td>
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<td>7</td>
<td>Anhaita Kodia</td>
<td>Ernst &amp; Young</td>
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<td>8</td>
<td>Divaspati Singh</td>
<td>Khaitan &amp; Co</td>
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<td>9</td>
<td>Ali Asgar Mithwani</td>
<td>SEBI</td>
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<tr>
<td>10</td>
<td>Shyni Sunil</td>
<td>SEBI</td>
</tr>
<tr>
<td>11</td>
<td>Brij Bhushan</td>
<td>The Hongkong and Shanghai Banking Corporation</td>
</tr>
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2 Preface

As the fastest growing major economy in the world, India has become a very important participant in global investment flows. The regulatory framework for securities markets in India has evolved over time to address wide range of asset classes, investor categories and product requirements. Based on a regulatory framework recommended by the KM Chandrasekhar Committee (“Committee”) on Rationalization of Investment Routes and Monitoring of Foreign Portfolio Investments, the SEBI (Foreign Portfolio Investors) Regulations, 2014 (“FPI Regulations”) were notified on January 07, 2014.

The primary objective of the harmonized model of foreign investments under the FPI route was to reduce the complexity of earlier regime and encourage growth in foreign portfolio flows into India. As a universal model of portfolio investments into India, the FPI regime significantly changed the landscape and brought in several efficiencies in market entry as well as in the investment process. The FPI regime allowed all types of foreign investors to register themselves as a FPI and invest in the Indian stock market, Risk based classification of FPIs into three categories, and category-associated KYC framework and rules fundamentally improved ease of doing business, especially for large global institutional investors.

Over the four years period until April 2018, a number of rule changes, clarifications and guidelines were issued in the form of Circulars, Operational Guidelines, FAQs, etc. A need, therefore, was felt to undertake an extensive review of the FPI regime so as to consolidate and rationalize the FPI framework. This led to the setting up of this Working Group.

2.1 Formation of the Working Group

SEBI vide order dated March 26, 2018, constituted the Working Group under the chairmanship of Harun R. Khan, former Deputy Governor of RBI to revamp and redraft SEBI (Foreign Portfolio Investors) Regulations, 2014 (referred to as FPI Regulations).

The specific terms of reference of the Working Group were as under:-

1. To advise SEBI on redrafting the FPI Regulations with the objective of .
2. To advise SEBI on incorporating the provisions contained in the circulars, FAQs and the Operational Guidelines issued by SEBI in the regulation itself, to the extent possible and
3. To advise on any other issue relevant to FPIs.
### 2.2 The members of Working Group were

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<tr>
<th>Sr.No.</th>
<th>Name of the Member</th>
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<tbody>
<tr>
<td>1</td>
<td>Harun R. Khan</td>
<td>Former Deputy Governor, Reserve Bank of India</td>
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<td></td>
<td>Chairman</td>
<td></td>
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<td>2</td>
<td>Achal Singh</td>
<td>General Manager, SEBI, Division of Foreign Portfolio Investors and Custodians (FPI &amp; C)</td>
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<td>Member -Secretary</td>
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<td>3</td>
<td>Vijayakrishnan G.</td>
<td>General Manager, SEBI, Legal Affairs Department (LAD)</td>
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<td>Member</td>
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<tr>
<td>4</td>
<td>Rohit Dubey</td>
<td>Deputy General Manager SEBI Investigations Department (IVD)</td>
</tr>
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<td>Member</td>
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<tr>
<td>5</td>
<td>Samir S. Dhamankar</td>
<td>Director, Securities Services India, Deutsche Bank A.G.</td>
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<td></td>
<td>Member</td>
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<tr>
<td>6</td>
<td>Prasanna Jha</td>
<td>Director, Markets &amp; Securities Services, Citibank N.A.</td>
</tr>
<tr>
<td></td>
<td>(replacing Aashish K. Mishra)</td>
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</tr>
<tr>
<td></td>
<td>Member</td>
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In order to get wider view on this important topic, the committee invited following experts from the industry:

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<td>1</td>
<td>Zia Mody</td>
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<td>Rajesh H. Gandhi</td>
<td>Deloitte Haskins &amp; Sells LLP</td>
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<td>3</td>
<td>Sameer Gupta</td>
<td>Ernst &amp; Young</td>
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<td>Siddharth Shah</td>
<td>Khaitan &amp; Co</td>
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<tr>
<td>6</td>
<td>Anuj Rathi</td>
<td>The Hongkong and Shanghai Banking Corporation</td>
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3 Objectives and Approach of the Working Group

Flows of overseas funds both through the FPI and the Foreign Direct Investment (FDI) routes have been significant with record inflows into capital markets in India in recent years. As a key source of capital to the Indian economy, it is important to ensure a harmonized and hassle free investment experience for international investors and improve transparency as economic regulations evolve. Against this background, the Group’s primary objectives were consolidation, simplification, rationalisation and liberalisation as described below:

3.1 Consolidation

The FPI regulatory framework and related documentation currently consist of the SEBI (Foreign Portfolio Investors) Regulations, 2014, over 50 circulars issued since then besides the circulars surviving from the erstwhile FII regime and the Operating Guidelines. In addition, several guidance notes have been issued to Designated Depository Participants (DDPs) by SEBI from time to time. Frequently Asked Questions (FAQs) were also published from time to time to facilitate seamless implementation of the new FPI framework. At last count, there were 183 FAQs. As the FPI regime has now completed almost five years it was felt necessary to review the entire regulatory framework and prepare a master document which can serve as a consolidated regulatory reference. The Group, therefore, focused on consolidation of FPI Regulations and various rules, guidelines and FAQs, circulars issued thereunder so as to present a complete and comprehensive framework of regulations.

3.2 Simplification

FPI Regulations have continued to evolve over the last five years, keeping in line with policy changes brought about by SEBI, RBI or the Government of India. These related to disparate subjects, such as, KYC and AML policies, changes in the investment permissions, new asset classes, modification in Government policies related to foreign investments in Indian companies, etc. The resulting circulars, in some instances modified multiple times, have increased complexity of available regulatory material; thus making compliance difficult for foreign investors. The Group embarked on reviewing regulations, redrafting them as required, eliminating redundancies and present a clear simplified version to investor participants. The Group thus, focused on simplification of the regulatory material by redrafting, reducing clutter and improving consistency.
3.3 Rationalization

Incoming investment flows, in the form of both portfolio as well as strategic direct investment, remain an important source of capital for the Indian economy. As our economy and capital markets compete with other emerging markets in attracting portfolio investment flows, any improvement in the consistency of rule-making and ensuring a well-organized regulatory framework will contribute towards making India a preferred investment destination. Towards this end, the Group also focused on presenting a streamlined set of rules, with suitable amendments to Regulations, based on feedback from industry participants and FPIs.

3.4 Liberalization

One of the key objectives behind the design and introduction of the FPI regime was to present a universal model of market entry and investment procedures to all types of foreign investors intending to participate in the Indian securities market. Primary driver of this was the policy desire to present a harmonized and efficient framework available to all classes of investors and at the same time permitting preferential treatment to long-term investors. As policymakers in India continue their efforts to welcome foreign capital, it is important to review the experience gained from implementation of FPI regime and identify areas for improvement, keeping in mind among others, the policies and procedures being followed in competing jurisdictions. The Group therefore focused on selected liberalization themes with a view to improving ease of doing business for FPIs, largely aimed at institutional and well-regulated foreign entities.

3.5 Know Your Client (KYC) and Anti-Money Laundering (AML) measures

Keeping in view the emerging global concerns on the integrity and identity of cross-border investors, it is considered important to continue to focus on sound and stable market polices, with robust anti-money laundering rules, while at the same time ensuring investor-friendly measures to attract and retain long term capital. SEBI requested the Group to examine issues arising out of the SEBI circular dated April 10, 2018 on KYC requirements for FPIs. This led to extensive consultations with the industry and representatives from the FPIs. After detailed deliberations, the Group made several recommendations on the subject and submitted its Interim Report, published on September 08, 2018. The recommendations formed the basis of directions issued by SEBI on September 21, 2018 and December 13, 2018, establishing revised KYC framework for FPIs. Key highlights of this framework were:
• Separation of eligibility and clubbing requirements from beneficial ownership requirements as provided under PMLA.
• Permitting NRIs/ OCIs/ Resident Indians as constituents of an FPI upto prescribed threshold.
• Allowing NRIs/ OCIs/ Resident Indians controlled investment manager to be in control of FPIs.
• Permitting NRIs/ OCIs/ Resident Indians as Senior Managing Officials (SMOs) and doing away with clubbing of investments on the basis of common SMO.

The Interim Report is annexed as Annex III

3.6 Deliberations of the Working Group

Extensive deliberations were held by members of the Working Group and the invitees, with various stakeholders, also taking into account feedback from FPI institutions. Representatives from the Ministry of Finance {Department of Economic Affairs and Department of Revenue} also participated in discussions on certain aspects. A consultation meeting was also held with the Reserve Bank of India, Financial Markets Regulations Department (FMRD) and Foreign Exchange Department (FED), as the policy view from RBI’s perspective, under provisions of FEMA, affects the FPI regime.

The following four sections present details of the recommendations of the Working Group alongwith their rationale:
Section I - FPI Registration process,
Section II - KYC & documentation simplification,
Section III - Investment Permissions and
Section IV – Other Aspects

A summary of recommendations is also provided at the end of these sections.

In line with these recommendations, the Group has prepared the following documents which are annexed to the report:
• Annex I- Proposed SEBI (FPI) Regulations with amendments
• Annex II- Proposed FPI Operating Guidelines

In addition, Interim Report submitted in September 2018 is enclosed as Annex III.
Section I

4 FPI Registration Process

The process of market entry for a foreign investor intending to make portfolio investment into India begins with obtaining an FPI registration from a Designated Depository Participant (DDP), which will also be a Custodian to the FPI. The process involves submission of extensive documentation for registration and compliance with KYC requirements, and a due diligence by the Custodian-DDP. It has been observed that various rules pertaining to eligibility, determination of FPI category, evaluation against the broad-based criteria, various declarations/undertakings and required KYC documents add up to a complicated, voluminous and time consuming procedure. Foreign investor community, especially large institutional investors, has consistently given feedback with respect to the difficulty and time delay that they experience before investing.

The Working Group, therefore, focused on proposing changes to bring efficiency to the FPI registration and KYC procedures with emphasis on easing rules for certain types of institutional investors perceived to be low risk. These measures, among others, include fast tracking of registration process with simplified documentation for public retail funds from FATF member countries (at present 36), expanding list of deemed broad-based entities and elimination of the ‘PCC/MCV’ declaration.

Details of these recommendations are as follows –

4.1 Fast Track on-boarding process for select Category II FPIs

In order to bring efficiency in the FPI on-boarding process and speed up the time taken, it would be useful to design a fast track procedure on the basis of a risk based approach for select types of institutional investors like public retail funds, which are diversified in nature and are generally considered as a stable class of investors. As defined in the SEBI (FPI) Regulations, public retail funds mean (i) mutual funds or unit trusts, which are open for subscription to retail investors and do not have specific investor type requirements, e.g. accredited investors, etc., (ii) insurance companies where segregated portfolio with one to one correlation with a single investor is not maintained and (iii) pension funds. Further, there are also non-investing FPIs, acting as investment manager and certain types of FPIs that may be intending to take exposure to low risk government securities / mutual funds only. Benefit of fast track registration and KYC process may
be extended to such applicants along with FPIs investing on long term basis only under voluntary retention route (VRR) notified by RBI.

It is noted that Rule 9(14) of PMLA (Maintenance of Records) Rules 2005 empowers regulators to prescribe simplified measures to verify client's identity taking into consideration the type of client, business relationship, nature and value of transactions based on the overall money laundering and terrorist financing risk involved. Given that FPI applicants from FATF member countries (currently 36) are subject to strict standards of legal, regulatory and operational framework such fast track registration process may be extended to them only. Further, certain documentation requirements around identification of BOs can be relaxed for the purpose of such fast track on-boarding.

**Recommendation 1:**
Fast track registration and KYC process may be introduced for certain set of investors, by providing simplified documentation requirements. These will be for -:

i. Public retail funds coming from countries that are FATF Member; or
ii. Applicants seeking registration as non-investing FPIs from countries that are FATF Member; or
iii. Applicants intending to invest only in Government securities (including Central Government securities, State Development Loans or Municipal Bonds) or units of mutual funds; or.
iv. Applicants seeking to invest only through VRR.

For this purpose, the documentation requirement is suggested as under,

I  **Simplified form Abridged Common Application Form (A/CAF)** – which, inter-alia, exempts

   (a) Broad based investor details
   (b) NRI/RI/OCI related information
   (c) Intermediate material shareholder/owner details and
   (d) Information in respect of authorized signatories/ senior management

(In respect of (a) and (b), DDP may place reliance on existing declaration by the applicants that they shall be in compliance with provisions of SEBI (FPI) Regulations and circulars issued thereunder),

II. Details of relaxations under the proposed fast track registration & KYC process vis-à-vis existing process is below:
<table>
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<td>SEBI Fee</td>
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<td>Y</td>
</tr>
<tr>
<td>3</td>
<td>Standard D&amp;U, Broad based details, PCC/MCV</td>
<td>Y</td>
<td>Exempt</td>
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<tr>
<td>4</td>
<td>Other declarations as applicable e.g. Private bank/Merchant bank, insurance co. or entities under regulation 5(b)(ii)</td>
<td>Y</td>
<td>Exempt</td>
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<tr>
<td>5</td>
<td>Underlying investor fulfils broad based requirement</td>
<td>Y</td>
<td>Exempt</td>
</tr>
<tr>
<td>6</td>
<td>Constitutive Document/Fund Prospectus</td>
<td>Y</td>
<td>Exempt</td>
</tr>
<tr>
<td>7</td>
<td>Investment Management Agreement (MIM structures)</td>
<td>Y</td>
<td>Exempt</td>
</tr>
<tr>
<td>8</td>
<td>BO Declaration</td>
<td>Y</td>
<td>Y – Simplified (please see the note below)</td>
</tr>
<tr>
<td>9</td>
<td>Valid FATCA/CRS self-certification/declaration forms</td>
<td>Y</td>
<td>Proposed to be taken at the time of Account opening</td>
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Note: Unique identity of BO can generally be established using combination of name, date of birth (DOB) and nationality. Therefore, Government issued ID number of BOs of the FPIs may be removed from BO declaration format.

The exempted documents shall, however, be provided by FPI at the time of investigations by regulator or an enforcement agency.

4.2 Simplified Registration for MIM accounts

In case of Multiple Investment Manager (MIM) structures, same legal entity obtains multiple registrations. For incremental FPI registration under the MIM structure, requisite information including KYC details are already available in the system. Also, the PAN remains the same. Therefore it is recommended that the entity need not be required to provide the registration and KYC related details for subsequent registrations. This will substantially reduce registration
timelines for additional accounts under MIM structure if such documentation requirement is eliminated.

Recommendation 2:

In case of MIM structures, if the entity had already furnished registration details to a DDP at the time of its registration as FPI and there is no change, then the entity need not provide these details again for subsequent registrations. However, such FPI need to provide the name of its investment manager at the time of request for new registration.

4.3 Pension Fund be treated Category I FPI

Pension Funds are presently classified as medium risk Category II FPIs. However, Pension funds are generally perceived to be low risk investors with a long term investment horizon. Even the interpretative notes to FATF recommendation number 10 as released by FATF provides low risk status to a pension, superannuation or similar scheme that provides retirement benefits to employees, where contribution are made by way of deduction from wages and the scheme rules do not permit the assignment of a member’s interest under the scheme. Thus, it does not seem justified to categorize Pension Fund along with other more risky investment structures, such as, broad based funds, appropriately regulated persons as banks etc. under Category II.

Recommendation 3:

Pension, superannuation or similar scheme that provides retirement benefit to employees/ contributors should be treated as Category I FPI. However, BO details will have to be provided for such funds on similar lines as per fast track registration

4.4 Review of broad based condition for appropriately regulated entities

In accordance with SEBI (FPI) Regulations, appropriately regulated entities such as banks including private banks and merchant banks, asset management companies, investment managers/ advisors, portfolio managers, broker dealers and swap dealers, etc. are permitted to be registered as Category II FPI. Further, SEBI vide circular dated March 13, 2018 introduced the condition that these regulated entities should take separate registration and also fulfil broad base conditions with common portfolio, if investing on behalf of their clients.
The imposition of broad basing & common portfolio requirement on regulated entities dealing on behalf of clients is restrictive. Also, a common portfolio is not a usual market structure in most such cases, when these entities invest on behalf of their clients.

Further, SEBI had already, vide subsequent circular dated September 21, 2018. strengthened the KYC norms for Category II and III FPIs, the requirement for broad based and common portfolio on such regulated entities to be registered at Category II FPI needs to be reviewed.

**Recommendation 4:-**

In case an appropriately regulated entities such as banks including private banks and merchant banks, asset management companies, investment managers/ advisors, portfolio managers, insurance & reinsurance companies, broker dealers and swap dealers, etc. is investing on behalf of clients and is not fulfilling the conditions of broad based and common portfolio, category III FPI registration shall be granted subject to following condition:

i. Clients of FPI should also be eligible for registration as FPI and should not be dealing on behalf of third party.

ii. KYC of client of FPI should have been done as per home jurisdiction of FPI, if from country that are FATF member,

iii. FPI has to provide complete investor details of clients (if any) on quarterly basis to DDP.

iv. Clubbing of investment limit shall continue to be done for clients of these FPIs dealing through other entities or directly as a FPI.

**4.5 Deemed broad based status for Insurance/Reinsurance entities**

Insurance/reinsurance entities as FPI applicants meeting eligibility requirements are not considered deemed broad based and are required to provide generic investor details to satisfy broad based criteria. A fund with Insurance/Reinsurance entity as institutional investor (with majority holding along with other institutional investor) is, however, deemed to be broad based, as the insurance/ reinsurance entities are expected to manage/represent money of multiple underlying depositors/investors. To bring parity, it is proposed that insurance / reinsurance entities (in addition to companies) as FPI applicants should also be deemed to be broad based.

**Recommendation 5:**

*Insurance/Reinsurance entities may be treated deemed to be broad based for Category II FPI registration provided that Insurance/Reinsurance entity, in its capacity as an applicant or as an*
investor in a FPI with majority stake jointly or separately, directly or indirectly with other institutional investors, shall be deemed to be broad based. Provided further insurance entities shall be deemed broad based only if it does not maintain segregated portfolio with one to one correlation with a single investor.

4.6 Deemed Broad based Status to Category I eligible entities

Currently, FPIs having more than fifty percent holding by institutional investor’s viz. SWFs, Pension Funds, Insurance/ Reinsurance companies or bank at all times, are deemed to be broad based. These entities are essentially Government/ Government related or appropriately regulated entities and expected to manage/represent money of multiple underlying depositors/investors. This deeming provision may also be extended to all other entities eligible for Category I registration viz. foreign central banks, foreign government agencies and international or multilateral organizations or agencies.

Recommendation 6:

In addition to the current provisions, FPIs shall also be deemed to be broad based, if majority of its investors are, directly or indirectly, constituted by Category I eligible entities.

4.7 Entities owned by Category I eligible investors

Presently, foreign government agency having more than 75% of ownership or control held by a foreign government is included as category I FPI. There could be instances where the entities are established by Category I eligible investors for making investments.

Recommendation 7:

In order to provide parity to such entities, it is recommended that the entities which are owned 75%, directly or indirectly or controlled by investors eligible for Category I FPI registration at all times, shall be eligible for Category I FPI registration.

4.8 Entities owned by Category II eligible investors

There could be instances where 100% owned/ subscribed entities are established by bank or insurance / Reinsurance entity or university funds. It is understood that such entities may be
granted Category III FPI registration. Being Category III FPIs, such entities are not only required for detailed KYC but also ineligible for qualified institutional buyer (QIB) status.

**Recommendation 8:**

An entity 100% owned/ subscribed by foreign banks or insurance / reinsurance entities or university funds shall be eligible for registration as Category II FPIs by relying on parent’s regulatory and broad based status. This will be subject to foreign bank or insurance / reinsurance entity giving an undertaking that they shall be responsible for all obligations as applicable to the applicant/ FPI in terms of Indian laws.

**4.9 Non-BIS Central Banks to be eligible for FPI.**

Currently, a bank (including a central bank) resident of a country, whose central bank is not a member of the Bank for International Settlements (BIS), is not eligible for FPI registration. Given that central banks are essentially Government related entities and are perceived to be the low risk and are long term investors, thus non BIS central bank should be allowed to be eligible for FPI registration.

**Recommendation 9:**

Considering that they are relatively long term, low risk investors directly / indirectly managed by the Government, the central banks that are still not member of BIS shall be eligible for FPI registration.

**4.10 University related endowments eligible for Category II FPIs**

Presently, (i) University funds and (ii) universities related endowments already registered with SEBI as foreign institutional investors or sub-accounts are considered for Category II FPI registration. University related endowments represent money that are donated to universities or colleges, they have similar risk as that universities funds. As already mentioned FATF member jurisdiction are subject to strict standards of legal, regulatory and operational framework for combating money laundering and terrorist financing risk.

**Recommendation 10:**

University related endowments from FATF member countries wherein the university has been in existence for more than five years be eligible for Category II registration. Existing university related endowments registered as Category II FPI shall be grandfathered.
4.11 Simplified registration requirement for Category III FPIs

Category III FPIs are required to provide documentation at the time of registration viz. (i) applicant is legally permitted to invest in securities outside its country (Regulation 4(f)), (ii) applicant authorized by memorandum and articles to invest on own behalf and on behalf of clients (Regulation 4(g)), (iii) applicant have sufficient experience, good track record, is professionally competent, financially sound and has a generally good reputation of fairness and integrity (Regulation 4(h)) and (iv) the grant of certificate to the applicant is in the interest of the development of the securities market (Regulation 4(i)). There is no justification for these eligibility requirements for registration as Category III FPI.

Incidentally, all FPIs are required to comply with fit and proper person criteria as specified in schedule II of SEBI (Intermediaries) Regulations, 2008 (Regulation 4(j)). The criteria for fit and proper person is required to be provided for the applicant and/or the intermediary including the details of the principal officer, director, the promoter and key management persons. The key information to be provide are (a) integrity, reputation and character, (b) absence of convictions and restraint orders, (c) competence including financial solvency and networth and (d) absence of categorization as a willful defaulter.

Recommendation 11:

Regulation 4(f), 4(g), 4(h) and 4(i) of SEBI (FPI) Regulations, 2014 be deleted.

4.12 Modification in the criteria of broad based fund

Presently, "broad based fund" shall means a fund established or incorporated outside India, which has at least twenty investors, with no investor holding more than forty nine percent of the shares or units of the fund. It was felt that ownership/ interest should be in any economic form and not be limited to shares or units. Further, the narration of broad based funds be more explicit to include collective investment vehicle in addition to mutual funds, investment trusts and insurance/ reinsurance companies.

In case where broad based status is achieved on the basis of investor(s) of an underlying fund, presently there is no minimum holding criteria. For example, in a fund having two investors with each having 49% holding and one broad based fund holding 2% stake. Then such fund achieve broad based status on basis of such underlying fund holding mere 2% stake. It was felt that to
obviate such cases, minimum shareholding criteria of 25% be introduced. The rationale for 25% is that it is sufficiently large to justify broad based status on basis of underlying fund(s).

Recommendation 12:

**Broad based funds shall include entities set up as collective investment vehicles.** Further, the broad basing should be on basis of economic ownership interest either by way of holding units / shares or other instruments. Further, in order to rely on an investor fund for satisfying broad based criterion, such investor fund(s) singly or together should at least be 25% in order to achieve broad based status for the fund. Existing FPIs not meeting this condition will be grandfathered for a period of three years from the date of notification of this change.

4.13 Conditional Registration as Category II FPI

The facility of granting conditional registration is available only to the regulated funds and not to unregulated funds seeking registration under Category II but whose Investment Manager is registered as category II.

It is also observed that presently a time period of 180 days is allowed for complying with broad based criterion only to newly established funds but not to existing funds. Only 90 days are available to existing FPIs or FPI applicants which are well established in their home jurisdictions, Time-frame to achieve broad based due to exit of some investors is 90 days.

There is also a need to bring parity to both set of applicants in this regard. Such parity will provide greater flexibility to this group of FPI and FPI applicants.

Recommendation 13:

It is suggested that:

i. 180 day validity of conditional registration should be extended for Category II FPI applicants who are well established in home jurisdiction.

ii. 90 days conditional registration be also granted to unregulated funds seeking registration under Category II, whose IM is registered as Category II FPI or for regulated Category III funds.

Subject to above that during the period of “conditional” registration, FPIs are not permitted to issue or subscribe to ODIs.
In case, these FPIs with conditional registration failed to fulfil the conditions for registration within the timelines, they shall be recategorised as Category III FPI on submission of necessary KYC documents. Till these funds fail to provide necessary KYC documents, fresh buying shall not be permitted and SEBI may initiate appropriate action, as deemed fit.

4.14 Removal of opaque structure condition
Regulation 32(1)(f) of SEBI (FPI) Regulations prescribes an obligation on Designated Depository Participant at time of registration to ensure that FPIs does not have opaque structure. The objective of restriction on opaque structure was to prohibit those entities where beneficial owner (BO) information is not available or accessible. Subsequent to SEBI circular dated 21st September 2018, all Category II and III FPIs are required to provide BO information (including intermediate investor details) in the prescribed format.

Also, structure where BOs are known but are ring fenced against each other either because of regulatory requirement or contractual arrangement, cannot be considered as "opaque". Ring fencing is common amongst funds across many jurisdiction. Even in India, the assets / liabilities of one scheme are ring fenced against the other scheme of a Mutual Fund / Alternative Investment Fund (AIF).

Considering this, there is no need to collect separate opaque structure declaration as all FPIs are providing BO information. This change would not only simplify the regulation but it would also eliminate the need for additional declaration / undertaking taken from the FPI at present. It is necessary to remove “opaque structure” clause in the FPI regulations and condition related to related to bearer shares structure to be included under eligibility conditions.

Recommendation 14:

All FPIs need to provide BO details and those who failed to provide BO details including on account of bearer shares cannot deal in securities market in India. Thus, there is no need for separate definition of “opaque structure”. The “opaque structure” clause may therefore be removed from FPI Regulations.

4.15 Doing away with PCC/MCV D&U

Currently all FPI applicants are required to submit PCC/ MCV declaration and undertaking. With the requirement for applicable FPIs to provide BO details and proposed deletion of opaque structure clause from FPI regulations, no separate PCC/ MCV declaration is considered necessary. Removing such requirement will reduce an additional document for FPIs.
Recommendation 15:
There should be no requirement of submitting a PCC/MCV D&U at the time of seeking fresh FPI registration. FPI shall ensure compliance with all the eligibility requirements of the FPI Regulations and DDP shall rely on applicant’s declaration in this regard.

4.16 Separate registration for sub-funds of a fund with segregated portfolio

Funds investing in India include those with sub-funds or separate class of investors with segregated portfolio wherein their assets & liabilities are normally ring fenced including PCC & MCV structure. Though, SEBI had prescribed that broad based should be maintained at each sub-fund level having segregated portfolio. They may have same registration and Income Tax permanent account number (PAN). There were concerns raised on taxation of such entities where for example, entity X investing in India on behalf of its two sub-funds A and B with separate investors and segregated portfolio may set off profit of sub-fund A against the loss of sub-fund B, thereby lowering the tax liability of X.

From regulatory perspective also, there is no justification to give same registration to these sub-funds when they invest independently. It may however be added that in case the sub-funds maintains common portfolio there is no need for separate registration.

From fund perspective also, this will bring transparency and will ease determination of assets and liabilities of each sub-fund. Presently, a fund is given Category II registration if all sub-funds are broad based in case of segregated portfolio. In the proposed mechanism, each sub-fund can get registration independently. For example, if sub-fund A and B of X fund has 20 and 10 investors respectively, then, sub-fund A shall be eligible for Category II registration and sub-fund B for Category III registration. In such cases, for check for appropriately regulated status, regulatory status of the main fund shall be relied on.

Recommendation 16:
There should be separate registration for each sub-fund/ share class having segregated portfolio investing in India. Also, the matter be taken up with Income Tax department for separate PAN for each sub-fund of fund In consultation with Income-tax. Existing FPIs shall be provided one year to comply with the new provisions.
4.17 Easing No Objection Certificate from SEBI/RBI for Bank applicant

Under the current regulations, an FPI which is seeking registration as a “Bank” or if the applicant is a subsidiary of the Bank, DDPs are required to seek No Objection certificate (NOC) from SEBI/RBI prior to providing registration and at the time of renewal of registration every three years. In order to reduce the registration timeline, it was felt that FPI applicants in the capacity of a Bank or is a subsidiary of a Bank, which does not have any presence in India, should be exempted from seeking the NOC. This will be in line with the current practice, where SEBI forwards only such application to RBI that have a local presence in India.

As FPI certificate is perpetual in nature and not conditional upon SEBI/RBI comments every three years, no such applications to be forward for RBI comments. This will help existing FPIs to manage their continuance application better. This change will help applicants reduce their registration timelines.

Recommendation 17:
To reduce time taken for registration and renewals the current practice of DDPs seeking No Objection Certificate from SEBI / RBI in respect of applicants which are banks / subsidiaries of banks and do not have local presence should be dispensed with.
Section II

5 KYC and Simplification of documentation

5.1 KYC Reliance on same group regulated entity of custodian for non-PAN documents

Global Custodian (GC) is an international financial institution that provides its clients with custody services in respect of securities traded and settled in several financial markets around the world. GCs are typically large international banks, which are subject to KYC laws and regulations in their home jurisdictions. GCs typically appoint one or more local custodians to service their client accounts in India. The local-market servicing arrangements operate under an agreement that runs between the GC and the local custodian, subject to KYC undertaken by the local custodian on the GC. GCs follow KYC-related global procedures, including use of a risk-based approach to customer due diligence under which enhanced due diligence is conducted for customers that fall into high risk categories. Presently, around 80% of FPIs in India are coming through GCs. Some GCs have their group entities operating as local custodians in India. However, there are also GCs, which does not have group entities as local custodians.

FPI investment in India are part of their global allocation of funds. FPIs have already undergone KYC with their GC, there is need to avoid duplicity of KYC process in India. Rule 9(2)(f) of the PMLA (Maintenance of Records) Rules (PMLA Rules) also provide relaxation where a reporting entity relies on a third party that is part of the same financial group.

Further under Rule 9(14) of the PMLA Rules, the regulator may prescribe simplified measures to verify the client’s identity taking into account the type of client, business relationship, nature and value of transactions based on the overall money laundering and terrorist financing risks involved. CBDT vide its notification F.No. 504/090/2007-FTD-I dated February 19, 2016 provided clarification for implementation of FATCA and CRS. In the said clarifications, it was mentioned that “for carrying out due diligence, the Local Sub-custodian may rely on the KYC/FATCA/CRS documentation done by GC for the account holders including the self-certification.”

Recommendation 18:

For non-PAN related KYC documents, SEBI may consider permitting a local custodian to rely on KYC carried out by its group entity which is regulated and is from an FATF member country. Where such a reliance is placed, the group entity/ FPI should provide an undertaking to the effect that the relevant KYC documents, as applicable in India, would be submitted to the DDP/ Local
Custodian when required by regulator/law enforcement agency/ government departments/ tax authority, etc.

5.2 Simplifying certification process for KYC documents

An FPI seeking to invest in India, is required to submit supporting KYC documents that are self-certified and attested by Notary Public or officials of multinational foreign banks or officers of scheduled banks in India. This requirement of self-attestation delays the overall account onboarding. Further, an attestation by Notary Public or officials of multinational foreign banks / scheduled banks is expected to be based on appropriate verification and should be sufficient in itself.

Recommendation 19:
The KYC documents should be appropriately certified by the Notary Public, officials of Multinational Foreign Banks, or any bank regulated by Reserve Bank of India. Self-certification of the supporting documents is optional and such self-certification will not invalidate KYC documents.

5.3 Modification in FPI registration certificate

For purpose of PAN issuance (form 49AA), documents towards proof of identity and address are either (a) duly “apostilled” (in respect of the countries which are signatories to the Hague Convention of 1961) or attested by the Indian Embassy or Consulate or High Commission in the country where the applicant is located or authorized officials of overseas branches of scheduled banks registered in India, or (b) copy of registration certificate issued in India or of approval granted to set up office in India by Indian authorities. The Group noted that the verification process for PAN documents as referred at (a) above is more time-consuming and costly as compared to verification process (as referred in previous point) for KYC documents for the same set of documents. Thus, FPI have to opt for option (b) above. We understand that need for easing the verification process for PAN has already been taken up with Government.

As a document issued by Indian authorities, the FPI registration certificate issued by the DDPs on behalf of SEBI should serve as an Identity and address proof for the issuance of the PAN.

Recommendation 20:
FPI certificate issued by the DDPs should be accepted as identity and address proof for issuance of PAN. For the same, FPI Certificate format should be revised to include address details and
signature of the DDP officials. Further, SEBI may issue circular permitting issuance of such certificates for registration of FPIs.

5.4 Simplified verification of PAN for KYC

Currently FPIs are required to provide self-certified copy of the PAN card for the account opening. Such PAN card copy need to be verified from the Income Tax department authorized website, by the custodian/DDP. As the PAN card issuance takes about two weeks and additional two to three weeks for the courier to reach the foreign address of the FPI, there is a delay in the account opening process.

In order to reduce this timeline and reduce the time taken to access the market for trading, the custodian/DDP should be permitted to open accounts once the PAN details are available and can be verified on the Income-Tax website.

Recommendation 21:

i. For opening of accounts with Local Custodians in a quick time verification of PAN on the specified website of the Income tax authorities should be sufficient and there should be no need to provide/ receive PAN Cards.;

ii. alternatively, e-PAN issued by CBDT can also be produced by FPI for KYC compliance without requiring any certifications.

5.5 Power of Attorney as valid address proof for Category III FPI

Currently Category III FPIs are required to provide address proof document like utility bills (not more than two months old), bank statement or letter from the bank or registration certificate issued by the Company registry etc. In order to ease the documentation requirements, there was a suggestion to consider Power of Attorney (PoA) document provided by the FPIs for operations of the account. PoA is already a valid proof of address for Category-II and the same can be extended to Category-III FPIs. The PoA is a notarized and apostilled (as per the Hague Convention for legalization of documents) or consularised and, thus, has legal acceptance and much stronger document than the utility bills or letter from the bank, which may be available without any authorized verification in many jurisdictions.

Recommendation 22:

Power of Attorney duly legalized (apostilled/ consularised and notarized) may be considered as valid address proof document for Category III FPI applicants from non-high risk jurisdictions.
5.6 Submission of additional details for enquiry/ investigations

Category III FPIs are perceived to be high risk and accordingly, higher due-diligence is required. Information related to investors is currently limited to the identification of BO for Category II and III FPIs. Given the risk, additional details may be asked for from Category III FPIs and those Category II FPIs from high risk jurisdictions, if required.

Recommendation 23
The regulator may ask for additional document/information including complete investor details as required at the time of enquiry/investigations or enforcement proceedings for Category III FPIs and those Category II FPIs from high risk jurisdictions.

5.7 Simplified Documentation - Miscellaneous

There are multiple documents with same set of information and/or details taken from FPIs to satisfy some of the regulatory requirements. In order to ease the documentation requirements, it is suggested to leverage on already provided details in the documents and not to duplicate the requirements. At the same time it is imperative to exempt certain documents if the FPIs use a Global Custodian (GC) route or use SWIFT as a medium of instruction. It may be mentioned that globally SWIFT is considered as a secured and authorized mode of instruction.

Recommendation 24:
To cut down the need for obtaining similar details from multiple documents it is recommended to exempt submission of following documents:

a) investment management agreement for MIM structures for FPIs where name of investment manager is already provided as part of the application.

b) photograph of the authorized signatory of category III FPI, as identity document with photograph is already provided as part of KYC;

c) Board Resolution and the authorized signatory list (ASL) if SWIFT is used as a medium of instruction between custodian and FPI or its authorized representative being regulated bank or custodian in FATF member country. However, the FPI has to provide the ASL if they use any other mode of communication.

SEBI may also take up with RBI for similar exemption for opening of bank accounts.
Section III

6 Investment Restrictions

6.1 Liberalized investment cap

An important determinant of attracting cross-border investments is availability of investible stock to the FPIs. This issue assumes greater significance in view of the gradual shift, from stock targeted investments, towards passive investment whereby funds track global indices composition which depends up on available floating stock.

Extant regulatory framework under (FEMA) allows FPIs to collectively invest up to 24% in a listed Indian company. Indian companies are allowed to increase this aggregate limit up to the sectoral cap/ statutory ceiling, as applicable, with the approval of its Board of Directors and its General Body through a resolution and a special resolution, respectively. It is observed that many listed companies have not taken any initiative to increase the cap or they do so in small incremental portions (fixing limit somewhere between 24% and the sectoral cap). The result is a very limited and fragmented investment head room available to FPIs in a large number of stocks.

Availability of investible stock to FPIs can be improved by setting the default FPI aggregate investment limit to the sectoral cap and permitting companies to reduce the same, to certain prescribed thresholds of say 74%, 49% or 24%, by way of Board Resolution if they desire so. This will significantly improve aggregate investment head room for FPIs and contribute towards achieving higher weightage for India in widely followed international indices.

FEMA 20(R) (para 16 (A)(3)) mentions that aggregate Foreign Portfolio Investment up to 49% of the paid-up capital or the sectoral/ statutory cap, whichever is lower, will not require Government approval or compliance of sectoral conditions. Other investments will be subject to conditions of Government approval and compliance of sectoral conditions. Since, Government has already introduced composite cap, thus there is no need for government approval if aggregate FPI investment exceed 49% of paid up capital of a company wherein sectoral cap is higher.

Recommendation 25

i. FPIs may be allowed to invest up to applicable sectoral in an aggregate basis after adjusting for investments made directly or indirectly under FDI route, if any.

ii. Indian companies may be allowed to decrease the aggregate limit to 24% or 49% or 74%, as they deemed fit, with the approval of their Board of Directors and its General Body through a resolution.
SEBI may take up this proposal for consideration of the Government and the RBI.

6.2 Review of prohibited sector for foreign investment for FPIs

In accordance Regulation 15 of FEMA 20 (R)/2017-RB dated 07 November 2017, certain prohibited activities have been prescribed for investment by a person resident outside India. Prior to notification of FEMA 20(R), only FDI was prohibited in these sectors. Since FPIs can only acquire less than 10% stake in such companies as portfolio investment and do not take strategic interest, there is no case to equate them with FDI and restrict their investment in India.

Recommendation 26
Given that FPIs do not exercise any control or influence, it is proposed that prohibition relating to foreign investments in certain sectors should be limited to FDI and not be extended to FPIs. However, such FPIs existing investments, including ADR and GDR, may not exceed 49%.

6.3 Separate limit for Investment in Security Receipts (SRs)

Indian economy is faced with the problem of large stressed assets estimated to be in excess of USD 200 billion, redressal of which requires conducive regulatory framework, technical expertise and capital. According to the December 2018 Financial Stability Report released by RBI, Gross Non-performing asset ratio of the scheduled commercial banks stood at 10.8 per cent in September 2018. Further, there are stress in the NBFIs sector too. This situation has restricted lending activities in our growing economy.

While many measures are being taken / planned by the authorities to address the stressed assets situation, FPI investments into security receipts (SRs) can be a source of much needed additional capital to alleviate the problem. Therefore, the same should be encouraged through various policy measures including instituting a separate limit for such investments outside the corporate debt limit available to FPIs. Besides improving capital flow into distressed assets, this can also help promote the growth of securitization market that will augur well with the economy in the long run.

Recommendation 27:
SEBI, in consultation with RBI, may review and look at feasibility of a separate limit, outside the corporate debt investment limit, for FPI investments into SRs, more so when the utilization of the current limits increases substantially.
6.4 Harmonisation between investment restrictions in FPI Regulations and FEMA 20(R)

FPI investments Regulations are concurrently governed by SEBI and RBI under various acts, rules and regulations and directions issued thereunder. In order to present a simplified and consistent framework which reduces operational and compliance burden and helps in easing the cross border investments, it is imperative that the guidelines are in sync with each other. It is noted that over time, a few inconsistencies have crept up in various regulations / guidelines. Keeping the aforesaid objective in mind, it is recommended that the various elements of these regulatory frameworks are harmonized.

Recommendation 28:

i. FPI Regulations should be updated to provide that paid-up equity capital on a fully diluted basis is in line with FEMA.

ii. Since FPIs are now permitted to invest in both listed and unlisted debt securities, additional requirement of to be listed debt securities can be removed. For monitoring of limit, investment in to be listed debt may be considered under unlisted securities till it is listed on the exchange.

iii. It may be clarified by way of circular whether or not perpetual debt instruments will be reckoned as a part of corporate debt limit considering the nature of such instruments. They will be equity and come under 10% limit?

iv. Permission for FPIs to invest in units of REITS, INVITS, AIF may be included in regulations. Currently, this is enabled by way of circular from SEBI.

v. Current requirement under the regulations is that FPIs can invest in ‘Shares, debentures and warrants of companies, listed or to be listed on a recognized stock exchange in India, through primary and secondary markets. The word “Company” may be replaced by “Body Corporate” to include instruments issued by statutory bodies like NHAI. Further, Since as FPIs are recommended to sell ‘off market’, reference of primary and secondary markets from FPI Regulations be deleted.

vi. Transfer of rights entitlements shall be at ruling market price or fair market value, as applicable.

vii. Credit of unlisted shares through voluntary corporate actions should be allowed. However, such unlisted investment shall be treated as FDI

viii. A provision may be included in the FPI regulations that FPI will be allowed to invest in any debt securities permitted by RBI from time to time so that all future changes can be accounted without need for amendment the regulations.
6.5 Review of restriction on Sovereign Wealth Funds for investment in corporate debt securities

SEBI and RBI in accordance with circular dated June 15, 2018 had placed restrictions on FPI investment in corporate debt securities viz. restriction in a corporate bond issue to 50% and restriction of bond portfolio to a single corporate at 20%. Out of these, RBI and SEBI had, after review, withdrawn the restriction that no FPI shall have an exposure of more than 20% of its corporate bond portfolio to a single corporate. The said circular provide an exemption to multilateral financial institutions wherein Government of India has membership from any restrictions. It is proposed that exemptions from corporate bond restrictions should be extended to Sovereign Wealth Funds (SWFs) as they are generally investing in bonds issues of body corporates in socially and environmentally relevant sectors or in infrastructure sectors wherein other FPIs are reluctant to invest.

Recommendation 29:
In consultation with the RBI and the Government, Sovereign Wealth Funds be exempted from investment limit restrictions under SEBI and RBI circular dated June 15, 2018 on corporate bonds.

6.6 Strengthening of clubbing restrictions

As per extant rules, two or more FPIs having direct or indirect common ownership of 50% or more, or common control, such FPIs are treated as forming part of an investor group and the investment limits of all such entities is clubbed for monitoring of investment limit i.e., below 10% of the paid-up capital of the company. Concerns have been raised about a possible situation where one foreign investor group entity acquires shares under FPI route and another group company acquires shares of same company under FDI route.

Recommendation 30

The investor group should consist of all associate entities of FPI who are investing in Indian securities and identified on basis of common ownership of more than 50% or common control.

FPI need to ensure that holding of all their group entities in shares of a company shall be below 10%. In case the limit is breached, either all entities of investor group are re-categorised as FDI in accordance with the procedure prescribed by SEBI & RBI or divestment is made within 5 trading days from date of settlement of the trades causing the breach. SEBI may take this up with RBI and Government to frame further rules in this regard.
6.7 Clarity on “to be listed” share

FPIs are allowed to invest in to be listed shares. There has been some feedback on lack of clarity on what should be considered as “to be listed” share and whether a security will be considered ‘to be listed’ if a draft Red Herring document is filed with Registrar of Companies or the Board.

Recommendation 31

FPIs shall be permitted to acquire “to be listed” securities only in case of initial public offer (IPO) i.e. when the offer of specified securities by an unlisted issuer has being issued to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in an unlisted issuer;
Section IV

7 Other Aspects

7.1 Liberalization for regulated Category III FPIs

Regulated entities are perceived to be lower risk as compared to unregulated entities as they are already subject to well established KYC & AML related standards and conduct their business activities under defined regulatory framework. Therefore, there is a case for applying less stringent KYC standards for regulated Category III FPIs.

Recommendation 32:

KYC requirement for regulated Category III entities, coming from non high-risk jurisdictions, shall be equivalent to KYC requirement applicable to Category II FPIs. All other applicable Category III restrictions shall continue to apply for such FPIs.

7.2 Off-market Transactions

FPIs, who wish to sell their holding but cannot be sold on exchange, due to liquidity or credit of unlisted shares get stuck with the situation. There is a case to allow such FPIs to sell such holdings.

Recommendation 33:

FPIs should also be permitted off-market transfer of securities which are unlisted, suspended or illiquid, to a domestic investor.

7.3 Harmonization of FPI and FDI rules

As the FDI policy has been liberalized in a significant way, the differences between the FDI and FPI routes in terms of investment destination has gradually narrowed. Developments such as expansion in automatic route sectors, introduction of composite sectoral caps for foreign investors across categories, etc. have further strengthened the case of harmonization of regulations governing FPI and FDI investment routes.

Recommendation 34:

- For harmonization of KYC requirements the existing RBI and SEBI risk based KYC norms applicable to FPIs should also be applied to the securities account opened by a registered FPI for holding its investments under the FDI route.
• Re-use of cash balances from FPI account for FDI purpose may be considered. FPIs are permitted to open onshore INR bank account in India for purposes of investments, under the provisions of FEMA and with free repatriation (subject to payment of applicable taxes). A non-resident investor registered as FPI should be permitted to utilize sale proceeds or monetary corporate benefits credited to its SNRR accounts to fund its FDI investments provided both FPI and FDI accounts pertain to the same legal entity with the same PAN number.

• The above relaxations may also be extended to FVCI, DR conversion and FCCB conversion accounts of registered FPIs.

During deliberations of Group with the RBI, the RBI officials advised that the general principle has been to not permit non-residents to maintain repatriable INR balances in India as this would be a step forward towards full capital account convertibility. The downside is that it will allow non-residents to wait for the exchange rate to be favorable for repatriation. When INR appreciates, it may lead to bulk selling thereby driving down the price of INR. It can be used for speculation measure. Therefore, the recommendation with respect to reuse of cash balances may be implemented only after ensuring that necessary safeguards / controls are in place in consultation with RBI.

7.4 Reclassification of investment from FPI to FDI

In term of point 3(f) of SEBI circular no. SEBI/HO/IMD/FPIC/CIR/P/2018/150 dated 13 December 2018 and point 2 in schedule 2 of FEMA 20 (R)/2017- RB dated 07 November 2017, it is noted in case total holdings of an FPI taken together with the investor group increases to 10% or more of the total paid-up capital in listed equity, the FPIs shall have the following options:

a) The said investments shall be treated as Foreign Direct Investment (FDI) from the date of breach, or,

b) FPI in breach shall have to divest its holding within five trading days from the date of settlement of trades to bring its shareholding below 10% of the paid up capital of the company.

This classification of FDI is in contradiction with the other FEMA guidelines which permit FDI purchase of a listed stock on the floor of exchange only if the entity has already acquired control of such company (as per SEBI (SAST) regulations 2011), and continues to hold such control. In the circumstances, the procedure relating to transition from FPI to FDI regimen need to be clearly defined. To provide a workable framework for FPIs to migrate to FDI regime in a transparent manner, it may be necessary to provide a framework under which FPI will declare its intention to
become a strategic FDI investor to the DDP who in turn will inform SEBI & RBI accordingly. Reclassification will be deemed to be effective from the date of declaration of such intent.

Recommendation 35:

The following process to operationalize the provisions of classifying the FPI acquisition of greater than 10% as FDI is proposed. For consideration of the RBI and the Government.

i. Option to reclassify FPI investment to FDI is applicable for all current and future breaches of 10% limit from the date circular i.e. with effect from 13 December 2018.

ii. FPIs should be given five trading days from the date of settlement of trades to either sell or reclassify investments into FDI.

iii. The FPI, through its designated custodian, shall bring the choice of reclassification of investment as FDI same to the notice of the depositories who in turn will notify the FPI as well as the concerned company for effecting necessary changes in their records, within seven business trading days from the date of settlement of the trades causing the breach.

iv. The breach of 10% the aggregate or sectoral limit on account of such acquisition for the period between the acquisition and sale or conversion to FDI within the prescribed time, shall not be reckoned as a contravention under FEMA and SEBI regulations.

v. Following operating guidelines for reclassification of Investments into FDI may also be considered:
   a. FPIs will have to declare its intention to become a strategic FDI investor to the DDP who in turn will inform SEBI and RBI accordingly. Reclassification will be deemed to be effective from the date of declaration of such intent.
   b. The holding will have to be marked as FDI in custodian and depository records for all reporting purposes and the custodians/depositories may be given an option to open a new/separate account. This will ensure explicit compliance instead of waiting for a new account to be opened and related documentation, etc. No additional documentation, including any KYC related documentation or approval is required for such reclassification, even if a new depository account needs to be opened for holding such FDI assets.
   c. If the 10% breach takes places on account FPI and FPI investor group collectively breaching 10% limit, then such security holding of all FPIs in the investor group be considered to be FDI. An investor group may be permitted to hold either FDI (upto applicable sectoral limit) or FPI (below 10%) investment in a particular Indian company, but not both.
   d. Credit of sale proceeds of such ‘FDI’ shares and related reporting (e.g. FCTRS) may follow usual FDI process. Optionally, such ‘FDI’ shares can continue to follow
FPI process for sale proceeds and reporting while still being categorized as FDI for issuer. Transactions in other scrips will continue to be in FPI account. LEC reporting to close the existing FPI position (which got converted to FDI) may be required. Also alternative of FC-TRS for future transactions may be. Any reduction of holding below 10% in a scrip due to such sale will not result in reclassification of the holding as FPI and will continue to be treated as FDI investment.

7.5 Continuance of Registration

At present the regulations do not prescribe any time period by which FPIs should make payment of fees and provide additional declaration / information that may be required by DDP to process continuance of registration. In order to provide DDPs sufficient time to process continuance application and related KYC review, FPI should provide application in advance.

Recommendation 36:

FPIs should convey their intent to the DDP to undergo continuance of registration process alongwith applicable documents and requisite registration fees at least one month prior to the expiry of the existing three year block.

7.6 Review of process of divestment

Presently, FPIs that no longer have valid registrations are required to seek approval for divestment of securities. The approval is granted by DDP to divest holdings within six months and there is a regulatory provision to extend this period by additional six months. While regulations do clarify that the FPIs cannot make any further purchases there is no specific guidance with respect to derivative positions and corporate benefits. Also, in the present mechanism the FPI continues to be in system with expired account and there is no time frame for exit. Some interested FPIs cannot exit as their securities holding could not be sold, being illiquid or suspended. There is, thus, need to review the process as no KYC is done of foreign investors with expired FPI registration increasing the risk in the system. There is a separate proposal that off market transactions shall be permitted for FPIs for unlisted, suspended or illiquid securities, which the FPI is unable to dispose.

Recommendation 37:
- FPI need to have registration as long as it is having securities or derivative position in India. To discourage FPIs from not meeting this requirement, SEBI may levy appropriate fees.

- Existing FPIs whose registration is not valid but are holding securities or derivatives position should be allowed one year to sell securities or time till expiry of their open derivatives position before exit.

7.7 Surrender of FPI license

FPIs not wishing to continue investments in India are required to apply for surrender of registration. The requirement to formally apply for surrender of registration is also applicable for FPIs that has no cash or security holding and did not pay fees for continuance of its registration. It is proposed that surrender process for such FPIs be eased.

Recommendation 38:
When an FPI does not pay the fees for continuance of registration within the prescribed due date and such FPI does not have any cash or security balance, such FPI shall be deemed to have applied for surrender of its registration.

7.8 Definition of Long Term Investor

FPI Category I investor types consists of Sovereign Wealth Funds, Multilateral Agencies, Central Banks and Governmental Agencies all of which are considered as low risk and long term investors. However ‘Long Term’ investors defined in RBI and SEBI circulars (in context of debt limits) do not include all Cat I investor types. The group was of the view that all investor types under FPI Cat I may be included in the definition of ‘Long Term’ investors.

Recommendation 39:

All investor types, including Governmental Agencies, under FPI Category I may be included in the definition of ‘Long Term’ investors for the purpose of debt investment limits related rules. SEBI may take this up appropriately with RBI.

7.9 Amendment in FPI regulation with respect to payment of fees

There is a difference in practice followed by DDPs currently in the market with respect to payment of fees by FPIs. While Regulation 3(2) requires fees to be paid along with application, Regulation
7(3) requires fees to be collected upon grant of certificate of registration. Hence, there is a need to remove regulatory ambiguity in this regards.

Recommendation 40:

Regulation 3 and 7 of FPI Regulation with respect to payment of fees by FPIs be synchronized and the fees should be collected along with application.

Further, SEBI may review registration fee structure for FPIs commensurate to their risk category.

7.10 Legal Entity Identifier - LEI

Global Legal Entity Identifier Foundation was established by the Financial Stability Board (a body endorsed by G20 countries including India) with the purpose of developing and managing global Legal Entity Identifier (LEI) system. An LEI helps in bringing transparency about legal entity operating globally. Entities that have or acquire an LEI would also report their “ultimate accounting consolidated parent” as well as “direct accounting consolidating parent”. From SEBI perspective, these details shall be helpful in monitoring investment by foreign entities that are part of same group. Further, LEI details can also help in KYC & AML compliance.

RBI has also made Legal Entity Identifier (LEI) code mandatory for all participants (other than individuals) undertaking transactions in the markets regulated by RBI viz., Government securities markets, money markets (markets for any instrument with a maturity of one year or less) and non-derivative forex markets (transactions that settle on or before the spot date). The other countries are also adopting LEI. For example, MIFID II (European Union directive for trading compliance) requires that every financial trade to have LEI. In USA CFTC and SEC has also prescribed for LEI. Even common application for FPIs notified by the Government of India on August 21, 2018 require submission of LEI. There is however need to prescribe LEI for existing FPIs and ODI subscribers.

Recommendation 41:

All FPIs and ODI subscribers need to provide their LEI in a time bound manner coinciding with RBI requirements in this regard. Further, SEBI may consider utilizing LEIs for monitoring purposes including compliance with clubbing requirements. Further, in due course, SEBI may consider lowering the documentary requirements to verify identity of legal entity for KYC purpose once use of LEI becomes a common practice.
7.11 IFSC (international financial services centre) related recommendations

IFSC Gift City is evolving as an offshore hub for cross border flows into India. There is therefore a need to introduce appropriate enabling changes in regulations to operationalize entities operating in IFSC Gift City which are desiring to seek FPI registration.

**Recommendation 42:**

i. **Entities established/incorporated in the IFSC may be permitted to use their IFSC location to be deemed to have met the jurisdiction criteria under Eligibility Rule 4**

ii. **All other FPI eligibility conditions under Rule 4 have to be fully met for both the applicant entities as well as their beneficial owners. This is necessary to ensure that incorporation of a subsidiary in the IFSC does not offer regulatory arbitrage to entities who are otherwise unable to fulfill eligibility criteria**

iii. **Funds set up in IFSC by Indian SEBI Registered asset management companies – mutual funds, AIFs, PMS – should be deemed as appropriately regulated under Eligibility Rule 4. Banks, Broker dealers, AMCs, IMs/IAs operating in IFSC shall be permitted to seek FPI registration, subject to fulfilment of all eligibility conditions.**

iv. **DDP due diligence requirements and procedure should remain the same. DDP should report IFSC applicants under country “IFSC, India”. SEBI Portal should make required changes to accommodate the new location.**

7.12 Offshore Fund to invest only through FPI route

Offshore funds floated by Indian Mutual funds invest in India on the basis of no-objection certificate issued by SEBI in terms of SEBI (Mutual Funds) Regulations, 1996. Given that investments by these funds are portfolio investments in Indian capital markets, the same may also be covered under the ambit of FPI regulations to prevent possible regulatory arbitrage and for rationalization of overall regulatory framework. The investment outside India by these offshore funds may continue as being undertaken now.

**Recommendation 43:**

*Offshore funds floated by Indian mutual funds can invest in India only after seeking registration as FPI. Existing offshore funds investing in India shall obtain registration within 180 days from the notification of this change. The offshore fund and domestic scheme through which its investment is routed should invest in securities by ensuring compliance with SEBI (FPI) Regulations, 2014.*
7.13 Alignment between FPI and AIF routes

(i) FPI investment in AIF

In accordance with SEBI circular dated March 15, 2016, FPI can invest only in Category III AIFs and shall not hold more than 25% stake in a category III AIF. The intent of this restriction was to make AIF holding broad. In line with this intent, the limit of 25% shall be on the “investor group”.

(ii) Review of Downstream investment

RBI vide Notification No. FEMA. 355/2015-RB, dated November 16, 2015 (Para 4 of schedule 11) had mentioned that downstream investment by an Investment Vehicle shall be regarded as foreign investment if neither the Sponsor nor the Manager nor the Investment Manager is Indian ‘owned and controlled’ as defined in Regulation 14 of the principal Regulations. In view of the same, investment by FPIs in AIF (having Indian investment manager) shall be reckoned as domestic investment. By virtue of this clause, FPIs can avoid their investment being reckoned in sectoral cap.

(iii) Investment as qualified institutional buyer

In accordance with Regulation 2(1) (ss) of SEBI (Issue of capital and Disclosure requirements) Regulations, 2018, qualified institutional buyer (QIB), *inter-alia*, includes alternative investment fund (AIF) and FPI other than category III registered with SEBI. While non-broad based FPIs eligible for category III registration cannot be QIB, there is no such broad based requirement for AIFs to be eligible for QIB status. Since FPIs can be an investor in Category III AIFs, Category III FPIs could circumvent the restriction by becoming investor in Category III AIFs. For example, four category III FPIs (who are ineligible for QIB status) holding 25% stake in an category III AIF and are also part of same group become eligible for QIB status in AIF

**Recommendation 44:**

*In order to ensure that the requirements under AIF route is followed in letter and spirit by FPIs, it is suggested that*

*(i) the limit of 25% shall be on “investor group”,*
(ii) FPI (including investor group) investment in AIFs shall always be in compliance with restrictions imposed by RBI & SEBI. Also, investment by FPIs in AIF (even having Indian investment manager) shall be reckoned as foreign investment provided the overall FPI investment is more than 50%. However, this aspect may be examined further for all foreign investors in consultation with RBI and GOI.

(iii) There is need for parity between FPI and AIF requirements to be eligible for QIB. Those who are not in compliance may be provided additional timeline for compliance.

7.14 Strengthening of ODI Framework

(i) Compliance with SEBI circular dated July 07, 2017

SEBI vide circular dated July 07, 2017 inter-alia prescribe “The ODI issuing FPIs shall not be allowed to issue ODIs with derivative as underlying, with the exception of those derivative positions that are taken by the ODI issuing FPI for hedging the equity shares held by it, on a one to one basis.”

There is lack of clarity in the market on the term “ODI with derivative as underlying”. The reason is that underlying can be interpreted either as “securities linked to ODI” or “securities with which ODI is hedged in India”.

SEBI’s concern for introducing said restriction was to discourage build-up in derivative segment in India by ODI issuing FPIs on the back of ODIs issued overseas. Thus, intend is to restrict acquiring derivative position in India with the objective of issuing ODIs

The table below illustrates the intended objective of these restrictions:-

<table>
<thead>
<tr>
<th>The underlying of ODI</th>
<th>Type of securities with which ODI is hedged directly or indirectly in India</th>
<th>Whether permitted or not</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>Equity</td>
<td>Equity</td>
<td>Yes</td>
<td>No restriction has been placed</td>
</tr>
<tr>
<td>Derivative</td>
<td>Derivative</td>
<td>No</td>
<td>In accordance with circular dated July 07, 2017, fresh ODI with derivative is not permitted. Only those derivative position taken for hedging equity shares held are allowed.</td>
</tr>
<tr>
<td>Equity</td>
<td>Derivative</td>
<td>No</td>
<td>Allowing such transactions will defeat the objective of proposed restriction issued vide circular dated July 07, 2017.</td>
</tr>
<tr>
<td>--------</td>
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<td>------</td>
<td>-------------------------------------------------------------------------------------------------</td>
</tr>
<tr>
<td>Derivative</td>
<td>Equity</td>
<td>Yes</td>
<td>FPI is however least likely to hedge ODI underlying derivative with corresponding equity shares. The rationale is that cost of buying equity shares is much more than cost of derivative of said equity shares.</td>
</tr>
</tbody>
</table>

**Recommendation 45:**

“ODIs with derivative as underlying” (as referred in clause 2.1 of SEBI circular dated July 07, 2017) shall mean ODIs hedged directly or indirectly on a one to one basis or portfolio basis in derivatives listed in India.

**(ii) Reporting of Portfolio hedging**

ODI report format was designed in way to enable SEBI the full visibility of the onshore and offshore transactions/position and the linkage between the onshore and offshore transaction/position. Presently, portfolio hedging is also not included in the monthly ODI statement uploaded on SEBI website. Thus present disclosure actually portrays an incomplete picture of the ODI positions.

Portfolio hedging is a strategy adopted by ODI issuing FPI wherein portfolio may be across a number of stocks or it may be for a single stock with multiple client ODI positions. It is felt that portfolio hedging strategy could be used to circumvent the restrictions on ODIs with derivatives as underlying introduced by SEBI vide circular of July 7, 2017. Therefore it is pertinent to source the complete information on ODIs hedged on portfolio basis.

In this regard, SEBI may consider amending the circular dated June 15, 2011 wherein it is mentioned that “The ODI Issuers shall link hedges to the extent that such a link can be made”

**Recommendation 46:**

Complete information on ODIs hedged on portfolio basis should be included in ODI monthly statement and should establish one to one hedge on ODIs issued by FPIs (throughout the life of the ODIs). SEBI may also amend its circular dated June 15, 2011 in this regard suitably.
Since, SEBI circular dated July 07, 2017 has given time till December 31, 2020 for transition, the existing ODIs may be grandfathered subject to sunset clause of December 31, 2020.

(iii) Review of ODI reporting format


<table>
<thead>
<tr>
<th>Sl. No.</th>
<th>Changes in ODI report</th>
<th>Rationale</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>The heading of MSR be changed from “Statement of Outstanding positions of Offshore Derivative Instrument (ISIN-wise) as on (last day of previous month)” to as under:- “Statement of Outstanding Positions of Offshore Derivative Instrument and hedge with Indian securities as on (last day of previous month)”</td>
<td>The changes in MSR will give an overview of ODIs issued overseas and out of same how much is hedged with Indian securities as on month end.</td>
</tr>
<tr>
<td>2</td>
<td>In MSR, the column narration be changed from “Type of reference instrument” to “Type of reference securities”. Further, type of reference instrument shall be “equity”, “debt”, “derivative” and “hybrid securities”.</td>
<td>This will give better clarity.</td>
</tr>
<tr>
<td>3</td>
<td>In MSR, column “Reference ISIN No” be replaced with “Reference securities ISIN No. / other available code” The explanation given in MSR be revised as under:- Reference Securities ISIN No – ISIN of the underlying Indian Security (Kindly use ISINs issued by NSDL for Indian underlying). In Derivative contract, separate available code be provided for contract for each strike price and each expiry.</td>
<td>While, equity can be identified on ISIN basis, derivatives including indices (eg. Bank Nifty) does not have ISIN. Thus, where there is no ISIN, ODI Issuing FPI need to be give separate available code for security.</td>
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<tr>
<td>4</td>
<td>A Column in MSR be added “whether hedged with securities held in India” (yes or no)”</td>
<td>This will give visibility of ODIs that are hedged with securities held in India.</td>
</tr>
<tr>
<td>5</td>
<td>In MSR, a column be added “Whether ODI hedged with securities held in India is equity/ debt/ derivative/ hybrid securities”.</td>
<td>The column will give information on how ODI is hedged with securities held in India.</td>
</tr>
<tr>
<td>6</td>
<td>In MSR, another column be added “ISIN No./ other available code for hedged securities held in India”.</td>
<td>This column give specific security that is hedged in India.</td>
</tr>
<tr>
<td>7</td>
<td>A Column be added in MSR “Whether the derivative position in India, taken by FPI for issuing ODI, is hedged with equity shares of same Indian company on one to one basis (yes or no)”.</td>
<td>This will help in monitoring compliance with SEBI circular dated July 07, 2017.</td>
</tr>
<tr>
<td>8</td>
<td>Last column in MSR “AUM referenced to ODI” be rephrased as “AUM used as a hedge for ODI”.</td>
<td>This will determine AUM at end of month of ODIs hedged with securities held in India.</td>
</tr>
<tr>
<td>9</td>
<td>In Annexure A, following declaration is given:– “Any netting done by ODI issuing FPI for its ODI subscriber clients are disclosed by a separate series of serial number. There is no other instance of netting”.</td>
<td>This will enable determination of netting done.</td>
</tr>
<tr>
<td>10</td>
<td>The heading of Annexure B be changed from “Details of Underlying Trade(s) in Indian Market” to “Details of trades in securities for hedging of ODIs in India”</td>
<td>Since ODIs also include those issued against unlisted debt securities, there is need for change in heading of Annexure B.</td>
</tr>
<tr>
<td>11</td>
<td>In Annexure A (Column L) where in type of reference instrument is mentioned, we include “Hybrid Securities” may be included.</td>
<td>These changes are needed to reflect</td>
</tr>
</tbody>
</table>
12. In Annexure B, another sheet be added for Hybrid Securities.

13. In Annexure C, another sheet be added for Hybrid Securities.

Recommendation 47

Monthly ODI reporting format in which ODI issuing FPIs provide their reports to SEBI need to be appropriately amended.

(iv) Review of monthly ODI statement disseminated on SEBI website

SEBI has been uploading data of outstanding value of ODIs vs. AUC of FPIs on SEBI website on a monthly basis. It is felt that changes can be made in the format for monthly statement as under:

a) The monthly statement shall mention that data is for ODI hedged with securities in India.

b) The reference of deemed FPI should be deleted.

c) The footnote mentioning exclusion of portfolio hedging from monthly statement should be omitted.

d) There shall be appropriate inclusion of “hybrid securities”.

e) Since, AUC of FPIs does not include derivative, comparing ODIs issued on ODIs with AUC of FPIs is not justified.

Recommendation 48

Monthly ODI statement disseminated on SEBI website should be amended.

7.15 Modification in SEBI circular on eligibility conditions for FPIs

In accordance with the recommendation of group’s interim report, SEBI issued circular on eligibility conditions for FPIs on September 21, 2018. Para 2.7 of SEBI circular states that “Existing FPIs and new applicants shall be given a time period of two years from the date of coming into force of the amended regulations or from the date of registration, whichever is later in order to satisfy these eligibility conditions.”
On a review, it is noted that time frame of two years can be misused by ever-greening of Indian investment in FPIs beyond the eligibility conditions prescribed. Moreover, FPIs have been given 180 days for achieving broad based status by conditional registration. SEBI may thus consider amending the eligibility condition.

Recommendation 49

The clause 2.7 of the SEBI circular dated September 21, 2018 be modified as under:-

“The FPI applicant shall be given a time of 180 days from the date of registration to satisfy these eligibility conditions. The existing FPIs (as on notification of amended clause) shall be given a time upto December 2020 to ensure compliance with eligibility conditions.”

DDPs should monitor all FPIs owned or controlled by Indians and submit a monthly report to SEBI.
8 Other issues discussed but required more deliberations:

8.1 Merger of FPI and Portfolio Investment Scheme (NRI-PIS route)

NRIs / OCIs are permitted to make portfolio investments into India under Schedule 3 and Schedule 5 of FEMA Notification No. FEMA 20(R)/ 2017-RB (herein after referred as NRI-PIS route). Incidentally, NRI / OCI controlled entities (earlier known as Overseas Corporate Bodies (OCBs) were prohibited from making fresh investment in accordance with RBI circular dated September 16, 2003 pursuant to review of activities of OCB carried out on recommendations of Joint Parliamentary Committee (JPC). Since there is separate route for NRIs/ OCIs, they are not permitted register themselves as a Foreign Portfolio Investor (FPI). Further, an entity which is majority (more than 50%) owned by NRIs / OCIs is also not permitted to be registered as a FPI. Though, NRI/ OCI can be minority constituents of an FPI.

There has been demand from same sections of the market for permitting NRI owned/ controlled entities to invest in Indian securities market in view of strengthening of KYC norms in India. Further, NRIs are presently permitted to purchase and sales of securities through designated branch of Category I AD banks. Since the core expertise of a bank is banking and not dealing in securities, thus they may not be able to pull NRI investment in securities market as effectively as a broker. Presently, transactions of NRIs are pre-funded which implies that acquisition of shares through financing is not permitted. Also, no netting of transactions is permitted. Further, NRIs are allowed to invest in futures & options segment of the exchange out of Rupee funds held in India on non-repatriation basis. This restrict their ability to hedge their portfolio. These restrictions increase the cost of investment by NRIs. There has been demand for merger of FPI and NRI-PIS route through which all artificial restrictions imposed by AD Banks can be reviewed. Also, the requirement of transactions only through AD banks be done away with. This will enable brokers & other SEBI registered intermediaries to bring more NRI flows in Indian securities market.

In the proposal, it was submitted that a new FPI category could be created for individual NRIs / OCIs (with grandfathering of existing benefits under NRI-PIS route as well as possibility for exemption from maintaining account with Custodian with proforma registration without any SEBI registration fees) whereas entities majorly owned by NRIs / OCIs could be granted the registration under Category II or Category III depending upon their regulatory and broad based status.

The key benefits in support of this proposal include creation of a single route for all types of portfolio investments into India resulting in simplification, permitting NRIs / OCIs to freely invest through the FPI route without any concerns relating to use of multiple routes, ease of doing
business for NRIs/OCIs as they could leverage upon the investment management platform and efficient regulatory and tax framework available to FPIs. Presently a NRI is permitted to invest upto 5% in a scrip as against 10% for an FPI. Further, NRIs as a class are permitted to invest upto 10% in a scrip, which is 24% for FPIs that can be increased upto sectoral cap by company.

The key challenges of the proposal include there are large number NRI-PIS accounts (close to two lakhs) and many of these NRIs are availing of various facilities from AD banks with whom they are presently maintaining the account. Also, many AD banks which currently offer NRI-PIS accounts services are not registered with SEBI. Further, this route has been in operation for a long time and NRI/OCI are quite familiar with the scheme.

The proposal was also discussed with the officials of the RBI who were specifically invited by the working group to discuss matters involving FEMA regulations.

8.2 FPI investment in unlisted shares

Foreign Institutional Investors (FIIs) were permitted to invest in securities in the primary and secondary market including shares, debentures and warrants of companies unlisted, listed or to be listed on a recognized stock exchange in India. (Regulation 15 of SEBI (FII) Regulations, 1995). Subsequently, report of the ‘Dr. Arvind Mayaram Committee On rationalizing the FDI/ FII definition’ in June 2014, inter-alia, recommended that any investment by way of equity shares, compulsorily convertible preference shares/debentures less than 10 percent of the post-issue paid up equity capital of a company or less than 10 percent of the post-issue paid up value of each series of convertible debentures of a listed / to be listed Indian investee company by eligible foreign investors shall be treated as Foreign Portfolio Investment (FPI).

Thus after notification of SEBI (FPI) Regulations, 2014, FPI were permitted to invest only in shares, debentures and warrants, listed or to be listed on recognized stock exchange in India, through primary and secondary markets (Regulation 21(1)(a) of SEBI (FPI) Regulations, 2014). Only unlisted non-convertible debentures/ bonds issued by an Indian company in the infrastructure sector were permitted. (Regulation 21 (1)(j) of SEBI (FPI) Regulations, 2014). Subsequently, SEBI (FPI) Regulations, 2014 was amended in February 2017 and FPIs were permitted to invest in unlisted non-convertible debentures/ bonds issued by an Indian company. (Regulation 21 (1)(n) of SEBI (FPI) Regulations, 2014).

It is felt that in order to encourage small companies, entrepreneurs, start-up firms get an easier access to capital at competitive pricing, FPIs may be permitted to invest in shares of unlisted
companies. From FPI perspective, they will provide an opportunity to invest in early stage of development of a company. However, in order to ensure that there is no money laundering risk, holding of such investment should only be in demat form.

Further, monitoring of 10% investment limits for individual FPIs, clubbing limits across common ownership of more than 50% or common control, monitoring sectoral foreign investment caps etc. will be similar as in case of listed companies. Central securities depositories (NSDL, CDSL) can also exercise any monitoring required by regulatory/statutory authorities. Of course this suggestion has to be balanced with the well established FDI route for investment in unlisted shares more so in the context of further liberalization made in terms of sectoral caps, etc. to facilitate FDI flows.

Hence for FPI investment in shares of unlisted companies involve higher risk and require more deliberations may be made involving SEBI, RBI and the Government.

8.3 FPI Investment in mutual fund

Mutual Funds are investment vehicles meant for retail investors. Generally, institutional investors does not invest through mutual funds route. Being sophisticated investors, the institutional investors have flexibility and also lower their cost by investing directly.

Presently, there are some restrictions on FPI investment in mutual funds. In accordance with SEBI circular dated February 03, 2015, FPI are not permitted to invest in liquid and money market mutual fund schemes. Further, in accordance with SEBI circular dated January 31, 2008, FPIs’ investment in debt oriented mutual funds consume corporate debt limit; though there are GILT funds which invest only in government securities (G-SEC).

RBI & SEBI had placed some restrictions on FPIs investment in Government and corporate debt securities. Since debt securities are generally part of mutual fund schemes including equity oriented schemes, these schemes should also be in compliance with debt restrictions. Also, as the mutual fund investment is domestic investment thus FPI investment in equity oriented mutual funds schemes are not part of sectoral cap restrictions. Thus, there was a concern raised that mutual funds may provide exposure to FPIs for investments which FPIs otherwise would not be allowed to make. It is noted that FPI investment in mutual funds is not large and during periods of stress outflow from mutual funds only followed the exits from specific shares being diversified investments. Thus, there is need for further deliberations whether such restrictions should be placed.
9 Suggested Regulations and Operating Guidelines

The regulatory framework applicable to FPIs consists of the SEBI (FPI) Regulations 2014, an extensive Operating Guideline document, 57 Circulars and 183 FAQs— a very large and complex set for reference of any prospective investor or intermediary when investing in India. While the development of regulations and rules have followed international best practices in terms of consultations, issue of circulars and FAQs, over a period of five years, the large number of changes and clarifications issued have made the regulatory reference material voluminous and very complex, to the point where FPIs and intermediaries find it difficult to study and comply with.

Recommendation

- In order to provide a single consolidated set of regulatory reference material, covering all aspects of FPI Regulations, rules and guidelines thereunder, it is suggested to adopt the following approach-
  
  i. Identify rules, guidelines and FAQ responses which are in the nature of a policy statement and which can then be added to the FPI Regulations itself
  
  ii. Process the FPI Operating Guidelines, all relevant Circulars issued till date, and FAQs and prepare a master FPI Operating Guideline – which would not only serve as a compendium all applicable rules and guidelines,

The Working Group has drafted a master Operating Guideline designed to cover all the instructions/guidelines framed by the SEBI for FPI Investment in India on registration and related activity, KYC, investment permissions, ODI rules, etc.

- In future, the Operating Guideline can be updated suitably and simultaneously whenever there is a change in the rules/regulations or there is a change in the policy. All the changes should get reflected in the Operating Guideline available on the SEBI website on near real time basis along with the dates on which changes are made.

- The existing circulars, Operating Guidelines, FAQs, e-mail guidance, etc. issued on various subjects should cease to exist with the issue of the Circular on the subject.

- The Working Group has also accordingly drafted master Operating Guideline 2019, covering FPI Registration, KYC, ODI, and Investment Restrictions. The various FPI related
circulars have been consolidated, and suitable amendments have also been incorporated to capture the recommendations of this Working Group. (Appendix -

The Working Group has also prepared draft amendments to the SEBI (FPI) Regulations to give effect to the suggested recommendations accordingly. (Annexure 1).
10 Summary of Recommendations

Section I:

<table>
<thead>
<tr>
<th>Serial Number</th>
<th>Subject</th>
<th>Recommendation</th>
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</thead>
<tbody>
<tr>
<td>1.</td>
<td>Fast Track on-boarding process for select Category II FPIs</td>
<td>Fast track registration and KYC process may be introduced for certain set of investors, by providing simplified documentation requirements. These will be for:</td>
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<td>i. Public retail funds coming from countries that are FATF Member; or</td>
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<td></td>
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<td>ii. Applicants seeking registration as non-investing FPIs from countries that are FATF Member; or</td>
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<td></td>
<td>iii. Applicants intending to invest only in Government securities (including Central Government securities, State Development Loans or Municipal Bonds) or units of mutual funds; or.</td>
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<td>iv. Applicants seeking to invest only through VRR.</td>
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For this purpose, the documentation requirement is suggested as under,

I Simplified form A/CAF – which inter-alia exempts

<table>
<thead>
<tr>
<th>Sr. No.</th>
<th>List of Documents</th>
<th>Existing</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Form A / CAF</td>
<td>Y (Yes)</td>
<td>Y - Abridged</td>
</tr>
<tr>
<td>2</td>
<td>SEBI Fee</td>
<td>Y</td>
<td>Y</td>
</tr>
<tr>
<td>3</td>
<td>Standard D&amp;U, Broad based details, PCC/ MCV D&amp;U</td>
<td>Y</td>
<td>Exempt</td>
</tr>
<tr>
<td>4</td>
<td>Other declarations as applicable e.g. Private bank/Merchant bank, insurance co. or entities under regulation 5(b)(ii)</td>
<td>Y</td>
<td>Exempt</td>
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<tr>
<td>5</td>
<td>Underlying investor fulfils broad based requirement</td>
<td>Y</td>
<td>Exempt</td>
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<tr>
<td>6</td>
<td>Constitutive Document/Fund Prospectus</td>
<td>Y</td>
<td>Exempt</td>
</tr>
<tr>
<td>7</td>
<td>Investment Management Agreement (MIM structures)</td>
<td>Y</td>
<td>Exempt</td>
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<tr>
<td>8</td>
<td>BO Declaration</td>
<td>Y</td>
<td>Y – Simplified (please see the note below)</td>
</tr>
<tr>
<td>9</td>
<td>Valid FATCA/CRS self-certification/declaration forms</td>
<td>Y</td>
<td>Proposed to be taken at the time of Account opening</td>
</tr>
</tbody>
</table>

(a) Broad based investor details  
(b) NRI/RI/OCI related information  
(c) Intermediate material shareholder/owner details and  
(d) Information in respect of authorized signatories/senior management  

(In respect of (a) and (b), DDP may place reliance on existing declaration by the applicants that they shall be in compliance with provisions of SEBI (FPI) Regulations and circulars issued thereunder),

II. Details of relaxations under the proposed fast track registration & KYC process vis-à-vis existing process is below:

Note: Unique identity of BO can generally be established using combination of name, date of birth (DOB) and nationality. Therefore, Government issued ID number of
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<td></td>
<td><strong>BOs of the FPIs may be removed from BO declaration format.</strong></td>
<td>The exempted documents shall, however, be provided by FPI at the time of investigations by regulator or an enforcement agency.</td>
</tr>
<tr>
<td>2.</td>
<td><strong>Simplified Registration for MIM accounts</strong></td>
<td><em>In case of MIM structures, if the entity had already furnished registration details to a DDP at the time of its registration as FPI and there is no change, then the entity need not provide these details again for subsequent registrations. However, such FPI need to provide the name of its investment manager at the time of request for new registration.</em></td>
</tr>
<tr>
<td>3.</td>
<td><strong>Pension Fund be treated Category I FPI</strong></td>
<td><em>Pension, superannuation or similar scheme that provides retirement benefit to employees/ contributors should be treated as Category I FPI. However, BO details will have to be provided for such funds on similar lines as per fast track registration.</em></td>
</tr>
</tbody>
</table>
| 4. | **Review of broad based condition for appropriately regulated entities** | *In case an appropriately regulated entities such as banks including private banks and merchant banks, asset management companies, investment managers/advisors, portfolio managers, insurance & reinsurance companies, broker dealers and swap dealers, etc. is investing on behalf of clients and is not fulfilling the conditions of broad based and common portfolio, category III FPI registration shall be granted subject to following condition:*  
  
i. Clients of FPI should also be eligible for registration as FPI and should not be dealing on behalf of third party.  
  
ii. KYC of client of FPI should have been done as per home jurisdiction of FPI, if from country that are FATF member, |
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<td>iii.</td>
<td>FPI has to provide complete investor details of clients (if any) on quarterly basis to DDP.</td>
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<td>iv.</td>
<td>Clubbing of investment limit shall continue to be done for clients of these FPIs dealing through other entities or directly as a FPI.</td>
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<td>5.</td>
<td>Deemed broad based status for Insurance/Reinsurance entities</td>
<td>Insurance/Reinsurance entities may be treated deemed to be broad based for Category II FPI registration provided that Insurance/Reinsurance entity, in its capacity as an applicant or as an investor in a FPI with majority stake jointly or separately, directly or indirectly with other institutional investors, shall be deemed to be broad based. Provided further insurance entities shall be deemed broad based only if it does not maintain segregated portfolio with one to one correlation with a single investor.</td>
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<td>6.</td>
<td>Deemed Broad based Status to Category I eligible entities</td>
<td>In addition to the current provisions, FPIs shall also be deemed to be broad based, if majority of its investors are, directly or indirectly, constituted by Category I eligible entities.</td>
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<td>7.</td>
<td>Entities owned by Category I eligible investors</td>
<td>In order to provide parity to such entities, it is recommended that the entities which are owned 75%, directly or indirectly or controlled by investors eligible for Category I FPI registration at all times, shall be eligible for Category I FPI registration.</td>
</tr>
<tr>
<td>8.</td>
<td>Entities owned by Category II eligible investors</td>
<td>An entity 100% owned/ subscribed by foreign banks or insurance / reinsurance entities or university funds shall be eligible for registration as Category II FPIs by relying on parent’s regulatory and broad based status. This will be subject to foreign bank or insurance / reinsurance entity giving an undertaking that they shall be responsible for all obligations as applicable to the applicant/ FPI in terms of Indian laws.</td>
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<td>9.</td>
<td>Non-BIS Central Banks to be eligible for FPI</td>
<td>Considering that they are relatively long term, low risk investors directly / indirectly managed by the Government, the central banks that are still not member of BIS shall be eligible for FPI registration.</td>
</tr>
<tr>
<td>10.</td>
<td>University related endowments eligible for Category II FPIs</td>
<td>University related endowments from FATF member countries wherein the university has been in existence for more than five years be eligible for Category II registration. Existing university related endowments registered as Category II FPI shall be grandfathered.</td>
</tr>
<tr>
<td>11.</td>
<td>Simplified registration requirement for Category III FPIs</td>
<td>Regulation 4(f), 4(g), 4(h) and 4(i) of SEBI (FPI) Regulations, 2014 be deleted.</td>
</tr>
<tr>
<td>12.</td>
<td>Modification in the criteria of broad based fund</td>
<td>Broad based funds shall include entities set up as collective investment vehicles. Further, the broad basing should be on basis of economic ownership interest either by way of holding units / shares or other instruments. Further, in order to rely on an investor fund for broad based, such investor fund(s) singly or together should at least be 25% in order to achieve broad based status for the fund. Existing FPIs not meeting this condition will be grandfathered for a period of three years from the date of notification of this change.</td>
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</table>
| 13. | Conditional Registration as Category II FPI | It is suggested that:  
  i. 180 day validity of conditional registration should be extended for Category II FPI applicants who are well established in home jurisdiction.  
  ii. 90 days conditional registration be also granted to unregulated funds seeking registration under Category II, whose IM is registered as Category II FPI or for regulated Category III funds... |
Subject to above that during the period of “conditional” registration, FPIs are not permitted to issue or subscribe to ODIs.

In case, these FPIs with conditional registration failed to fulfil the conditions for registration within the timelines, they shall be recategorised as Category III FPI on submission of necessary KYC documents. Till these funds fail to provide necessary KYC documents, fresh buying shall not be permitted and SEBI may initiate appropriate action, as deemed fit.

| 14. | Removal of opaque structure condition | All FPIs need to provide BO details and those who failed to provide BO details including on account of bearer shares cannot deal in securities market in India. Thus, there is no need for separate definition of opaque structure. The “opaque structure” clause may be removed from FPI Regulations. |
| 15. | Doing away with PCC/MCV D&U | There should be no requirement of submitting a PCC/MCV D&U at the time of seeking fresh FPI registration. FPI shall ensure compliance with all the eligibility requirements of the FPI Regulations and DDP shall rely on applicant’s declaration in this regard. |
| 16. | Separate registration for sub-funds of a fund with segregated portfolio | There should be separate registration for each sub-fund/share class having segregated portfolio investing in India. Also, the matter be taken up with Income Tax department for separate PAN for each sub-fund of fund in consultation with Income-tax. Existing FPIs shall be provided one year to comply with the new provisions. |
| 17. | Easing No Objection Certificate from SEBI/RBI for Bank applicant | To reduce time taken for registration and renewals the current practice of DDPs seeking No Objection Certificate from SEBI / RBI in respect of applicants which are banks / subsidiaries of banks and do not have local presence should be dispensed with. |
### Section II:

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<tr>
<td>18.</td>
<td>KYC Reliance on same group regulated entity of custodian for non-PAN documents</td>
<td><em>For non-PAN related KYC documents, SEBI may consider permitting a local custodian to rely on KYC carried out by its group entity which is regulated and is from an FATF member country. Where such a reliance is placed, the group entity/ FPI should provide an undertaking to the effect that the relevant KYC documents, as applicable in India, would be submitted to the DDP/ Local Custodian when required by regulator/law enforcement agency/ government departments/ tax authority, etc.</em></td>
</tr>
<tr>
<td>19.</td>
<td>Simplifying certification process for KYC documents</td>
<td><em>The KYC documents should be appropriately certified by the Notary Public, officials of Multinational Foreign Banks, or any bank regulated by Reserve Bank of India. Self-certification of the supporting documents is optional and such self-certification will not invalidate KYC documents.</em></td>
</tr>
<tr>
<td>20.</td>
<td>Modification in FPI registration certificate</td>
<td><em>FPI certificate issued by the DDPs should be accepted as identity and address proof for issuance of PAN. For the same, FPI Certificate format should be revised to include address details and signature of the DDP officials. Further, SEBI may issue circular permitting issuance of such certificates for registration of FPIs.</em></td>
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</table>
| 21. | Simplified verification of PAN for KYC | *i. For opening of accounts with Local Custodians in a quick time verification of PAN on the specified website of the Income tax authorities should be sufficient and there should be no need to provide/ receive PAN Cards.;  
ii. alternatively, e-PAN issued by CBDT can also be produced by FPI for KYC compliance without requiring any certifications.* |
| 22. | Power of Attorney as valid address proof for Category III FPI | Power of Attorney duly legalized (appostiled/consularised and notarized) may be considered as valid address proof document for Category III FPI applicants from non-high risk jurisdictions. |
| 23. | Submission of additional details for enquiry/investigations | The regulator may ask for additional document/information including complete investor details as required at the time of enquiry/investigations or enforcement proceedings for Category III FPIs and those Category II FPIs from high risk jurisdictions. |
| 24. | Simplified Documentation - Miscellaneous | To cut down the need for obtaining similar details from multiple documents it is recommended to exempt submission of following documents:  

a) investment management agreement for MIM structures for FPIs where name of investment manager is already provided as part of the application.  
b) photograph of the authorized signatory of category III FPI, as identity document with photograph is already provided as part of KYC;  
c) Board Resolution and the authorized signatory list (ASL) if SWIFT is used as a medium of instruction between custodian and FPI or its authorized representative being regulated bank or custodian in FATF member country. However, the FPI has to provide the ASL if they use any other mode of communication.  
SEBI may also take up with RBI for similar exemption for opening of bank accounts. |
### Section III:

| 25. | Liberalized investment cap | I. FPIs may be allowed to invest up to applicable sectoral in an aggregate basis  
II. Indian companies may be allowed to decrease the aggregate limit to 24% or 49% or 74%, as they deemed fit, with the approval of their Board of Directors and its General Body through a resolution.  
SEBI may take up this proposal for consideration of the Government and the RBI. |
| 26. | Review of prohibited sector for foreign investment for FPIs | It is proposed that prohibition relating to foreign investments in certain sectors should be limited to FDI and not be extended to FPIs. |
| 27. | Separate limit for Investment in Security Receipts (SRs) | SEBI, in consultation with RBI, may review and look at feasibility of a separate limit, outside the corporate debt investment limit, for FPI investments into SRs, more so when the utilization of the current limits increases substantially. |
| 28. | Harmonisation between investment restrictions in FPI Regulations and FEMA 20(R) | i. FPI Regulations should be updated to provide that paid-up equity capital on a fully diluted basis is in line with FEMA.  
ii. Since FPIs are now permitted to invest in both listed and unlisted debt securities, additional requirement of to be listed debt securities can be removed. For monitoring of limit, investment in to be listed debt may be considered under unlisted securities till it is listed on the exchange.  
iii. It may be clarified by way of circular whether or not perpetual debt instruments will be reckoned as a part of corporate debt limit considering the nature of such instruments. They will be equity and come under 10% limit? |
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<td>iv.</td>
<td>Permission for FPIs to invest in units of REITS, INVITS, AIF may be included in regulations. Currently, this is enabled by way of circular from SEBI.</td>
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<td>v.</td>
<td>Current requirement under the regulations is that FPIs can invest in ‘Shares, debentures and warrants of companies, listed or to be listed on a recognized stock exchange in India, through primary and secondary markets. The word “Company” may be replaced by “Body Corporate” to include instruments issued by statutory bodies like NHAI. Further, Since as FPIs are recommended to sell ‘off market’, reference of primary and secondary markets from FPI Regulations be deleted. .</td>
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<td>vi.</td>
<td>Transfer of rights entitlements shall be at ruling market price or fair market value, as applicable.</td>
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<td>vii.</td>
<td>Credit of unlisted shares through voluntary corporate actions should be allowed. However, such unlisted investment shall be treated as FDI</td>
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<tr>
<td>viii.</td>
<td>A provision may be included in the FPI regulations that FPI will be allowed to invest in any debt securities permitted by RBI from time to time so that all future changes can be accounted without need for amendment the regulations.</td>
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<tr>
<td>29.</td>
<td>Review of restriction on Sovereign Wealth Funds for investment in corporate debt securities</td>
<td>In consultation with RBI, Sovereign wealth funds be exempted from investment limit restrictions under SEBI and RBI circular dated June 15, 2018 on corporate bonds.</td>
</tr>
<tr>
<td>30.</td>
<td>Strengthening of clubbing restrictions</td>
<td>The investor group should consist of all associate entities of FPI who are investing in Indian securities</td>
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</table>
and identified on basis of common ownership of more than 50% or common control.

FPI need to ensure that holding of all their group entities in shares of a company shall be below 10%. In case the limit is breached, either all entities of investor group are re-categorised as FDI in accordance with the procedure prescribed by SEBI & RBI or divestment is made within 5 trading days from date of settlement of the trades causing the breach. SEBI may take this up with RBI and Government to frame further rules in this regard.

| 31. | Clarity on “to be listed” share | FPIs shall be permitted to acquire “to be listed” securities only in case of initial public offer (IPO) i.e. when the offer of specified securities by an unlisted issuer has being issued to the public for subscription and includes an offer for sale of specified securities to the public by any existing holders of such specified securities in an unlisted issuer; |

| 32. | Liberalization for regulated Category III FPIs | KYC requirement for regulated Category III entities, coming from non high-risk jurisdictions, shall be equivalent to KYC requirement applicable to Category II FPIs. All other applicable Category III restrictions shall continue to apply for such FPIs. |

<p>| 33. | Off-market Transactions | FPIs should also be permitted off-market transfer of securities which are unlisted, suspended or illiquid, to a domestic investor. |</p>
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<th>34.</th>
<th>Harmonization of FPI and FDI rules</th>
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I. For harmonization of KYC requirements the existing RBI and SEBI risk based KYC norms applicable to FPIs should also be applied to the securities account opened by a registered FPI for holding its investments under the FDI route.

II. Re-use of cash balances from FPI account for FDI purpose may be considered. FPIs are permitted to open onshore INR bank account in India for purposes of investments, under the provisions of FEMA and with free repatriation (subject to payment of applicable taxes). A non-resident investor registered as FPI should be permitted to utilize sale proceeds or monetary corporate benefits credited to its SNRR accounts to fund its FDI investments provided both FPI and FDI accounts pertain to the same legal entity with the same PAN number.

III. The above relaxations may also be extended to FVCI, DR conversion and FCCB conversion accounts of registered FPIs.

During deliberations of Group with the RBI, the RBI officials advised that the general principle has been not to permit non-residents to maintain repatriable INR balances in India as this would be a step forward towards full capital account convertibility. The downside is that it will allow non-residents to wait for the exchange rate to be favorable for repatriation. When INR appreciates, it may lead to bulk selling thereby driving down the price of INR. It can be used for speculation measure. Therefore, the recommendation with respect to reuse of cash balances may be implemented only after ensuring that necessary safeguards / controls are in place in consultation with RBI.
| 35. | Reclassification of investment from FPI to FDI | The following process to operationalize the provisions of classifying the FPI acquisition of greater than 10% as FDI is proposed. For consideration of the RBI and the Government.

i. Option to reclassify FPI investment to FDI is applicable for all current and future breaches of 10% limit from the date circular i.e. with effect from 13 December 2018.

ii. FPIs should be given five trading days from the date of settlement of trades to either sell or reclassify investments into FDI.

iii. The FPI, through its designated custodian, shall bring the choice of reclassification of investment as FDI same to the notice of the depositories who in turn will notify the FPI as well as the concerned company for effecting necessary changes in their records, within seven business trading days from the date of settlement of the trades causing the breach.

iv. The breach of 10% the aggregate or sectoral limit on account of such acquisition for the period between the acquisition and sale or conversion to FDI within the prescribed time, shall not be reckoned as a contravention under FEMA and SEBI regulations.

v. Following operating guidelines for reclassification of Investments into FDI may also be considered:

   a. The holding will have to be marked as FDI in custodian and depository records for all reporting purposes and the custodians / depositories may be given an option to open a new / separate account. This will ensure explicit compliance instead of waiting |
for a new account to be opened and related documentation, etc. No additional documentation, including any KYC related documentation or approval is required for such reclassification, even if a new depository account needs to be opened for holding such FDI assets.

b. If the 10% breach takes places on account FPI and FPI investor group collectively breaching 10% limit, then such security holding of all FPIs in the investor group be considered to be FDI. An investor group may be permitted to hold either FDI (upto applicable sectoral limit) or FPI (below 10%) investment in a particular Indian company, but not both.

c. Credit of sale proceeds of such ‘FDI’ shares and related reporting (e.g. FCTRS) may follow usual FDI process. Optionally, such ‘FDI’ shares can continue to follow FPI process for sale proceeds and reporting while still being categorized as FDI for issuer. Transactions in other scrips will continue to be in FPI account.

d. LEC reporting to close the existing FPI position (which got converted to FDI) may be required. Also alternative of FC-TRS for future transactions may

e. Any reduction of holding below 10% in a scrip due to such sale will not result in reclassification of the holding as FPI and will continue to be treated as FDI investment.
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<th>Continuance of Registration</th>
<th>FPIs should convey their intent to the DDP to undergo continuance of registration process along with applicable documents and requisite registration fees at least one month prior to the expiry of the existing three year block.</th>
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</table>
|37. |Review of process of divestment | I. FPI need to have registration as long as it is having securities or derivative position in India. To discourage FPIs from not meeting this requirement, SEBI may levy appropriate fees.  
II. Existing FPIs whose registration is not valid but are holding securities or derivatives position should be allowed one year to sell securities or time till expiry of their open derivatives position before exit. |
|38. |Surrender of FPI license | When an FPI does not pay the fees for continuance of registration within the prescribed due date and such FPI does not have any cash or security balance, such FPI shall be deemed to have applied for surrender of its registration. |
|39. |Definition of Long Term Investor | All investor types, including Governmental Agencies, under FPI Category I may be included in the definition of ‘Long Term’ investors for the purpose of debt investment limits related rules. SEBI may take this up appropriately with RBI. |
|40. |Amendment in FPI regulation with respect to payment of fees | Regulation 3 and 7 of FPI Regulation with respect to payment of fees by FPIs be synchronized and the fees should be collected along with application.  
Further, SEBI may review registration fee structure for FPIs commensurate to their risk category. |
41. **Legal Entity Identifier - LEI**

All FPIs and ODI subscribers need to provide their LEI in a time bound manner coinciding with RBI requirements in this regard. Further, SEBI may consider utilizing LEIs for monitoring purposes including compliance with clubbing requirements. Further, in due course, SEBI may consider lowering the documentary requirements to verify identity of legal entity for KYC purpose once use of LEI becomes a common practice.

42. **IFSC (international financial services centre) related recommendations**

a. Entities established/incorporated in the IFSC may be permitted to use their IFSC location to be deemed to have met the jurisdiction criteria under Eligibility Rule 4

b. All other FPI eligibility conditions under Rule 4 have to be fully met for both the applicant entities as well as their beneficial owners. This is necessary to ensure that incorporation of a subsidiary in the IFSC does not offer regulatory arbitrage to entities who are otherwise unable to fulfill eligibility criteria

c. Funds set up in IFSC by Indian SEBI Registered asset management companies – mutual funds, AIFs, PMS – should be deemed as appropriately regulated under Eligibility Rule 4. Banks, Broker dealers, AMCs, IMs/IAs operating in IFSC shall be permitted to seek FPI registration, subject to fulfilment of all eligibility conditions.

d. DDP due diligence requirements and procedure should remain the same. DDP should report IFSC applicants under country “IFSC, India”. SEBI Portal should make required changes to accommodate the new location.
| 43. | Offshore Fund to invest only through FPI route | Offshore funds floated by Indian mutual funds can invest in India only after seeking registration as FPI. Existing offshore funds investing in India shall obtain registration within 180 days from the notification of this change. The offshore fund and domestic scheme through which its investment is routed should invest in securities by ensuring compliance with SEBI (FPI) Regulations, 2014. |
| 44. | Alignment between FPI and AIF routes | In order to ensure that AIF route is not misused by FPIs, it is suggested that:

(i) the limit of 25% shall be on “investor group”;
(ii) FPI (including investor group) investment in AIFs shall always be in compliance with restrictions imposed by RBI & SEBI. Also, investment by FPIs in AIF (even having Indian investment manager) shall be reckoned as foreign investment provided the overall FPI investment is more than 50%. However, this aspect may be examined further for all foreign investors in consultation with RBI and GOI.
(iii) There is need for parity between FPI and AIF requirements to be eligible for QIB, Those who are not in compliance may be provided additional timeline for compliance. |
<p>| 45. | Strengthening of ODI Framework - Compliance with SEBI circular dated July 07, 2017 | “ODIs with derivative as underlying” (as referred in clause 2.1 of SEBI circular dated July 07, 2017) shall mean ODIs hedged directly or indirectly on a one to one basis or portfolio basis in derivatives listed in India. |
| 46. | Strengthening of ODI Framework - Reporting of Portfolio hedging | Complete information on ODIs hedged on portfolio basis should be included in ODI monthly statement and should establish one to one hedge on ODIs |</p>
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<td>47.</td>
<td>Strengthening of ODI Framework - Review of ODI reporting format</td>
<td>Monthly ODI reporting format in which ODI issuing FPIs provide their reports to SEBI need to be appropriately amended.</td>
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| 49. | Modification in SEBI circular on eligibility conditions for FPIs | The clause 2.7 of the SEBI circular dated September 21, 2018 be modified as under:-  

“The FPI applicant shall be given a time of 180 days from the date of registration to satisfy these eligibility conditions. The existing FPIs (as on notification of amended clause) shall be given a time upto December 2020 to ensure compliance with eligibility conditions.”  

DDPs should monitor all FPIs owned or controlled by Indians and submit a monthly report to SEBI. |
### LIST OF ABBREVIATIONS

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<th>ABBREVIATION</th>
<th>EXPANSION</th>
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<td>Authorized Dealer Category 1 bank</td>
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<td>BIS</td>
<td>Bank for International Settlements</td>
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<td>8</td>
<td>CAF</td>
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Annexure I: SEBI (FPI) Regulations 2019 with amendments proposed

Annexure II: FPI Operating Guidelines 2019

Annexure III: Interim Report submitted – September 08, 2018