

Investment in Domestic Mutual funds now opened to Qualified Foreign Investors too....

Until now a SEBI registered Foreign Institutional Investor (FII) and Non Resident Indian (NRI) could purchase, on repatriation basis, units of domestic Mutual Funds (MFs), subject to such terms and conditions mentioned therein and limits prescribed for the same by the Reserve Bank of India and Securities Board of Exchange of India (SEBI), from time to time. However as promised by the Finance Minister in the Union budget 2011 the government has allowed qualified foreign investors to invest in domestic Mutual Funds, thus creating a new class of investors called Qualified Financial Investors(QFIs). To facilitate the same circulars were issued by SEBI and RBI in consultation with the Government of India on 9th August 2011 prescribing guidelines on investment by such foreign investors in equity and debt schemes of domestic Mutual funds.

Important features of the said circulars are summarized as below:-

Who can invest: Qualified Foreign Investors

- Qualified Institutional Investors could be individuals and bodies including pension funds.
- QFIs has been defined as a person resident in a country, other than India, that is compliant with Financial Action Task Force (FATF) and that is signatory to International Organization of Securities Commission's Multilateral Memorandum of Understanding.
- Qualified Institutional Investors should not have being registered with SEBI as a FII or a sub account of FII.

Routes of Investment

Investment could be made by QFI in equity and debt schemes of Mutual Funds under the following routes:-

- a) Direct Route: Holding MF units in a securities account through a SEBI registered depository participant (DP).
- b) Indirect Route: Holding MF units via Unit Confirmation Receipt (UCR).

Limits on Investment

There is certain cap on investment in mutual funds as follows:-

- a) Aggregate investment by QFIs under both the routes would be subject to USD 10 billion for equity schemes.

- b) Aggregate ceiling for debt schemes which invest in infrastructure debt with minimum residual maturity of 5 years shall be USD 3 billion, within the existing ceiling of USD 5 billion for FII investment in corporate bonds of Infrastructure Company.
- c) MFs are permitted to accept subscriptions from QFIs till such time the investments by QFIs under both the schemes reaches USD 8 billion in equity scheme and US \$ 2.5 billion in debt schemes and the remaining limit of USD 2 billion in equity schemes and USD 0.5 billion in debt schemes shall be auctioned by SEBI through bidding process.

Other Conditions

There are some other conditions on such investment in mutual funds which are as follows:-

- a) The investment under both the routes by the QFIs will be in the units issued by the domestic MFs and no secondary purchases would be allowed.
- b) DP will ensure KYC of the QFIs as per the norms prescribed by SEBI.
- c) Domestic MFs would also undertake KYC of QFIs.
- d) Units and UCR issued under this scheme would be non-tradable and non-transferable.
- e) MF/DP shall require QFIs to submit necessary information for the purpose of obtaining PAN.

Operational Mechanism

Following is the Operational mechanism under Direct Route:-

- a) The DP route will be operated through separate single rupee pool bank account maintained by the DP with an Authorized Dealer (AD) Category I Bank in India.
- b) The funds received from the QFIs into the account shall be remitted to the domestic MF either on the same day of the receipt of the funds or by next business day in case money is received after business hours.
- c) The redemption proceeds of the units will also be received from the domestic MF into this account and shall be repatriated to the overseas bank account of the QFI within 2 working days of the same having received in the rupee pool account of the DP.
- d) The above proceeds could be utilized in another scheme within those 2 working days.
- e) The foreign inward remittances in to the single rupee pool bank account of DPs shall be received only in permissible currency.
- f) Dividend payments on units held by QFIs would have to be directly remitted to the overseas accounts of the QFIs and dividend payments to QFIs would not be allowed as eligible credit to the single rupee pool bank account.

- g) QFIs would open a single demat account with a DP in India for investment in rupee denominated units of different domestic MFs equity scheme. However the QFIs would not be allowed to open bank account in India.

Following is the Operational mechanism under Indirect Route:-

- a) MF shall appoint a UCR issuing agents overseas and a SEBI registered custodian.
- b) QFIs can subscribe/redeem only through the UCR issuer
- c) The rupee denominated units of the MF would be held as underlying by the custodian in India in demat mode against which the UCR issuer will issue the UCR to be held by the QFIs
- d) UCR issuer to comply with requirements for KYC, customer due diligence process and documents and information to be collected from the QFIs
- e) Units purchased and redeemed through the UCR issuer shall be settled on gross basis and shall not be netted against other investors of the UCR issuer.
- f) MF shall receive money from UCR issuer either in foreign currency by opening bank account overseas or in Indian rupees in the respective MF scheme account held in India.

The guidelines which are issued by SEBI & RBI are to facilitate Indian Mutual Funds to have direct access to foreign investors and widen the class of foreign investors in Indian capital market. This would be beneficial to Indian markets as it would yield huge capital market inflows into India.

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