Citi Online Academy

‘Recommendations of SEBI Foreign Investment Committee’
Key Committee Objectives

- Simplification/ unification of entry norms for different categories of foreign portfolio investors
- Eligibility criteria for Designated Depository Participants
- Approach towards KYC with minimum documentation requirements; Suggest suitable modifications in Rule 9 of PML Rules
- Provide recommendations to a separate committee constituted by the Government of India to examine threshold based classification of foreign investment into FDI and portfolio investment
Existing Foreign Investment Framework

Portfolio Investments

- Foreign Institutional Investor (FII)
  - Registration Required
- FII Sub-Account
  - Registration Required + Sponsor FII
- Qualified Foreign Investor (QFI)
  - No Registration Required

Private Equity

- Foreign Venture Capital Investor (FVCI)
  - Registration Required

Strategic Investments

- Foreign Direct Investment (FDI)
  - No Registration Required

Portfolio Investments

- Non Resident Indian (NRI)/Persons of Indian Origin (PIO)
  - No Registration Required
What is FPI (Foreign Portfolio Investor) ?

- A unified market access route for all portfolio investments in India

- Proposal by SEBI committee – convergence of all portfolio investment routes, including FII, Sub Account and QFI.

- Simplified entry norms - No registration requirement with SEBI

- FPIs to register with Designated Depository Participants (DDPs) – AD Bank Custodian – who will be responsible for due diligence

- Eligibility criteria for an FPI:
  i. Resident in a country whose securities market regulator is a signatory to IOSCO’s MMOU (Appendix A Signatories) or a signatory of a bilateral MOU with SEBI; or In case of a Bank, resident of a country whose central bank is a member of BIS; and
  ii. person is not resident in a country listed in public statements issued by FATF (high risk and non-compliant countries)

- FPIs classified into three main categories based on type of entities and risk profiles.
Proposed Regulatory Framework

Portfolio Investments

Foreign Institutional Investor (FII)

FII Sub-Account

Qualified Foreign Investor (QFI)

Foreign Portfolio Investor (FPI)

Private Equity

Foreign Venture Capital Investor (FVCI)

Strategic Investments

Foreign Direct Investment (FDI)

Portfolio Investments

Non Resident Indian (NRI)/Persons of Indian Origin (PIO)

Foreign Venture Capital Investor (FVCI)

Foreign Direct Investment (FDI)

Non Resident Indian (NRI)/Persons of Indian Origin (PIO)
Impact on existing FIIs / Subaccounts / QFIs

- All existing FIIs, Sub-accounts and QFIs to be deemed to be FPIs as on the effective date. Grandfathering provisions recommended.

- DDP to be the primary point of contact for FPIs – required to ensure prescribed KYC and Due Diligence checks prior to opening the accounts

- Risk based categorization to be done into low/ moderate/ high risk categories for investment guidelines and restrictions.

- Existing clients:
  - FIIs – investing / non-investing
    - Investing FIIs: Will be transitioned to FPI without any re-registration, etc.
    - Non-investing FIIs: No need to transition since no accounts to be opened
  - Sub-accounts
    - Will be transitioned to FPI on a stand alone basis. No need for a sponsor FII
  - QFI
    - Will be transitioned to FPI

- Post transition – current FII investment framework to prevail
## Proposed Categorization

FPIs classified into 3 categories based on risk profiles

<table>
<thead>
<tr>
<th>Category of FPI</th>
<th>Type of Investors</th>
<th>Privileges &amp; Restrictions</th>
</tr>
</thead>
</table>
| Category I      | (Low Risk)                                                                                                                                         | • Permitted to issue ODI  
• Exclusive G-Sec. investment limit                                                                                                           |
|                 | Government and related entities such as foreign central banks, Government agencies, SWFs, multilateral organizations etc.                                                                                               |                                                                                                              |
| Category II     | (Moderate Risk)                                                                                                                                     | • Permitted to issue ODI;                                                                                     |
|                 | a. Regulated entities: banks, AMCs, investment managers/advisors, portfolio managers  
 b. Regulated broad based funds such as mutual funds, investment trusts, insurance/reinsurance companies  
 c. Broad based funds whose investment manager is appropriately regulated  
 d. University funds, pension funds  
 e. University related endowments already registered with SEBI                                                                                       |                                                                                                              |
| Category III    | (High Risk)                                                                                                                                         | • Not permitted to issue ODIs                                                                              |
|                 | All other investors not eligible in Category I and II. Examples include non-broad based funds, endowments, charitable societies/trust, foundations, corporate, trusts, individuals, family offices, etc. |                                                                                                              |
# QFI vs. FII vs. FPI: A Comparative Summary

<table>
<thead>
<tr>
<th></th>
<th>Foreign Institutional Investor (FII)</th>
<th>Qualified Foreign Investor (QFI)</th>
<th>Foreign Portfolio Investor (FPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Eligibility</strong></td>
<td>• Specified categories of institutional and retail investors, meeting predefined conditions</td>
<td>• All investor categories – Retail &amp; Institutional</td>
<td>• All investor categories – Retail &amp; Institutional</td>
</tr>
<tr>
<td></td>
<td>• FII to be regulated by Securities regulator that is signatory to IOSCO MMOU / SEBI MOU</td>
<td>• Only investors from jurisdictions that are</td>
<td>• Only investors from jurisdictions that are</td>
</tr>
<tr>
<td></td>
<td>• One year track record prior for FII registration</td>
<td>1. FATF compliant and including member countries of GCC and EC; and</td>
<td>1. Not in FATF (high risk and non-compliant countries)</td>
</tr>
<tr>
<td></td>
<td></td>
<td>2. Signatory to IOSCO MMOU / SEBI MOU</td>
<td>2. Signatory to IOSCO MMOU / SEBI MOU</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td>3. For banks – central bank is member of BIS</td>
</tr>
<tr>
<td><strong>Registration</strong></td>
<td>• SEBI registration</td>
<td>• No SEBI registration</td>
<td>• No SEBI registration</td>
</tr>
<tr>
<td></td>
<td>• Access fee every 3 years</td>
<td>• No access fees</td>
<td>• Access fees</td>
</tr>
<tr>
<td><strong>KYC</strong></td>
<td>• Uniform KYC</td>
<td>• Uniform KYC</td>
<td>• Risk based KYC</td>
</tr>
<tr>
<td><strong>Accounts</strong></td>
<td>• A securities account; One INR &amp; FCY cash accounts</td>
<td>• A securities account &amp; one INR Cash account</td>
<td>• Same as FII</td>
</tr>
</tbody>
</table>
# QFI vs. FII vs. FPI: A Comparative Summary

<table>
<thead>
<tr>
<th>Permit Investments</th>
<th>Foreign Institutional Investor (FII)</th>
<th>Qualified Foreign Investor (QFI)</th>
<th>Foreign Portfolio Investor (FPI)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>• Equity, Government Bonds, Corporate Debt, MFs</td>
<td>• Equity, Government Bonds, Corporate Debt, MFs</td>
<td>• Same as FII</td>
</tr>
<tr>
<td></td>
<td>• Listed equity derivatives, SLB, Interest Rate Futures, IDRs, SRs</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Order Placement</td>
<td>• Directly with brokers</td>
<td>• Brokers via QDP</td>
<td>• Same as FII</td>
</tr>
<tr>
<td>Investment Limits/Restrictions</td>
<td>• Up to 10% of paid up capital of the company</td>
<td>• Up to 5% of paid up capital of the company</td>
<td>• Same as FII</td>
</tr>
<tr>
<td></td>
<td>• Aggregate FII investment limit of 24% (extendable)</td>
<td>• Aggregate QFI investment limit of 10%</td>
<td></td>
</tr>
<tr>
<td>ODI</td>
<td>• FIIs can issue ODIs (subaccounts can’t issue ODIs)</td>
<td>• QFIs cannot issue ODIs</td>
<td>• Cat 1 &amp; Cat 2 FPIs can issue ODIs (excluding unregulated broad based fund)</td>
</tr>
</tbody>
</table>
Foreign Portfolio Investment vs. FDI

Threshold based classification of foreign investment into FDI and portfolio investment

**Portfolio Investment**

- Equity investment below 10 per cent
- Equity: Only listed securities permitted
- Participation in Initial Public Offer, Qualified Institutional Placement, Institutional Placement Program, private placement, tendering shares in an open offer, buyback of listed companies
- Fixed Income: Gov’t Securities, Listed Corporate, Mutual Funds, Infrastructure bonds

**Foreign Direct Investment (FDI)**

- Equity Investment above 10 per cent
- Investments in equity of unlisted companies
- Once classified as an FDI investment, holding in that security would always be an FDI investment
  - Investor initially acquiring less than 10 per cent equity and later acquires additional equity taking aggregate holding over 10 per cent ➢ All of investor’s holdings in that security classified as FDI
  - Investor has FDI holdings in excess of 10 per cent, and subsequently dilutes holding to below 10 per cent ➢ investment will retain its FDI classification
- Fixed Income: Not permitted; only fully convertible bonds permitted

Final recommendations to be provided by the Government appointed Committee on FDI
Know Your Client (KYC) Requirements

- Risk based approach to be followed for KYC
- Permit DDPs to place reliance on Global Custodian/ Banks for KYC (PMLA Rule 9 to be amended)
- Updation of KYC documents ➤ Follow 2 year/ 5 year rule based on the risk classification of the investor

<table>
<thead>
<tr>
<th>Document Type</th>
<th>SEBI Uniform KYC</th>
<th>FII Registration</th>
<th>Proposed</th>
</tr>
</thead>
<tbody>
<tr>
<td>KYC Form – Part I &amp; II</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Constitutive Docs</td>
<td>Y</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Proof of Address</td>
<td>Y (POA for FII/SA)</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>PAN Card</td>
<td>Y</td>
<td>-</td>
<td></td>
</tr>
<tr>
<td>Financials</td>
<td>Y - Risk Based</td>
<td>Y</td>
<td>Exempt for Categories I &amp; II</td>
</tr>
<tr>
<td>Board Resolution</td>
<td>- **</td>
<td>-</td>
<td>Exempt for Category I</td>
</tr>
<tr>
<td>SEBI Registration Cert.</td>
<td>Y (for FII/SA)</td>
<td>-</td>
<td>Not Applicable</td>
</tr>
<tr>
<td>SEBI Form A / AA</td>
<td>Y (for FII/SA)</td>
<td>Y</td>
<td></td>
</tr>
<tr>
<td>Declaration &amp; Undertaking</td>
<td>-</td>
<td>Y</td>
<td>To be provided to the DDP</td>
</tr>
<tr>
<td>FII Group Declaration</td>
<td>-</td>
<td>Y</td>
<td></td>
</tr>
</tbody>
</table>

** Entity Level **

** Senior Management (WTD/ Partners/ Trustees/ etc.) **

| List                            | Y / GC Undertaking | - | Exempt for Categories I & II |
| POI                             | Y / GC Undertaking | - | Exempt for all Categories    |
| Photographs                     | Y / GC Undertaking | - | Exempt for all Categories    |
| Proof of Address                | Y / GC Undertaking | - | Exempt for all Categories    |
| FII Group Declaration           | -                | Y | To be provided to the DDP    |

** Authorized Signatories **

| List & Signatures               | Y                | - |          |
| POI                             | - **             | - | Exempt for all Categories |
| Proof of Address                | - **             | - | Exempt for all Categories |
| Photographs                     | Y (KYC form)     | - |          |

** Ultimate Beneficial Owner **

| List                            | Y / GC Undertaking | - |          |
| POI                             | Y / GC Undertaking | - |          |
| Proof of Address                | Y / GC Undertaking | - |          |
| Photographs                     | Y / GC Undertaking | - |          |

** Required as per current RBI regulations. Indian Bankers Association (IBA): Authorized Signatories’ POI & Photo not required for SWIFT based clients **
Next Steps?

- Changes to SEBI, RBI, FDI, PMLA and Tax regulations

- Recommendations include that to avoid too many individual legislative amendments, a provision may be introduced in the respective legislations stating that the term “FII” to mean “FPI registered with DDP”

- Expected Timelines?
  - Government of India guidelines – Q4’13
  - SEBI and RBI implement new framework – Q4’13/ Q1’14

- Citi will continue its efforts on market advance and work with the regulators and industry bodies to expedite the implementation of the proposed regulations in an expedient manner.
Citi India Franchise
### Citi India Overview

A local bank with an international perspective, Citi is unrivalled service provider in India. Recognized as the most innovative & experienced in financial services backed by a wide client base.

**Institutional Clients**
- 42 branches across 30 major cities
- Pioneered Cash Management (1986)
- Launched market-first mobile-banking receivables solution
- 5% share of India’s payment flows (US$900 billion) and 7% share of India’s trade linked flows (US$35 billion)

**Consumer Banking**
- Over 7 million retail customers
- First to offer 24-hour Phone and Internet banking
- First to bring next-generation contactless Credit Card payments based on Near Field Communications technology

**Inorganic**
- Equity investment in National Stock Exchange (NSE)
- Proprietary alternative investments of US$1 billion

---

<table>
<thead>
<tr>
<th>1</th>
<th>31</th>
<th>1,800</th>
<th>110</th>
<th>7,500</th>
</tr>
</thead>
<tbody>
<tr>
<td>Largest Foreign Bank in India</td>
<td>Balance Sheet size of US$ 31 billion</td>
<td>Large local corporate &amp; Multinational clients</td>
<td>Over 110 years in India</td>
<td>Over 7,500 employees</td>
</tr>
</tbody>
</table>

---

**Citi India – Present in major cities across the country**
Citi – Securities & Fund Services in India

**Citi Market Advocacy Efforts – Key Influencer**

- SEBI’s Foreign Investment Committee
- FICCI Capital Markets Committee
- SEBI’s Core Committee of Market Intermediaries
- PASLA and Regulators on Securities Lending
- Advisory committee of NSCCL (NSE Clearing Corporation)
- NSDL (central depository) executive committee

**Citi India SFS Overview**

Citi is the leading provider of custodial services in India

**Market Leadership**
- Dominant market share across FII, QFI & local mutual funds
- Comprehensive suite of services – Custody, QDP, SLB, FX, Futures Clearing (Equity, Interest, FX), Fund Admin, Escrow
- Largest team of 200 people split across two cities

**Client Focused Innovation**
- Most flexible funding and margining solutions – first to enable margin netting and non-cash collateral for equities
- First-to-market FX benchmarking, netting & 3rd party FX
- First custodian QDP to enable QFI
- First & only custodian providing a program based securities lending solution (OpenLend)

**Awards & Recognition**
- Awarded ‘Best Direct Custody Bank’ for India by Asian Investor Magazine for three consecutive years (2010-12)
- ‘Top rated’ by Global Custodian for twelve years

**Citi SFS by numbers**

- 100% Settlement Rate
- >99% STP Rate
- 70% Capacity kept below 70%
- 30% Share of FII trade volumes
- 50% Share of QFI flows (new route)
- 50% Custodian to 50% of Indian asset managers
- 18% No. 1 in USD / INR FX flows
- 12 ‘Top rated’ by Global Custodian for 12 years

- 2 Live processing from two cities
- 110 AUC (USD Billion)
- 850,000 Transactions per year
IRS Circular 230 Disclosure: Citigroup Inc. and its affiliates do not provide tax or legal advice. Any discussion of tax matters in these materials (i) is not intended or written to be used, and cannot be used or relied upon, by you for the purpose of avoiding any tax penalties and (ii) may have been written in connection with the “promotion or marketing” of any transaction contemplated hereby (“Transaction”). Accordingly, you should seek advice based on your particular circumstances from an independent tax advisor.

Any terms set forth herein are intended for discussion purposes only and are subject to the final terms as set forth in separate definitive written agreements. This presentation is not a commitment to lend, syndicate a financing, underwrite or purchase securities, or commit capital nor does it obligate us to enter into such a commitment, nor are we acting as a fiduciary to you. By accepting this presentation, subject to applicable law or regulation, you agree to keep confidential the information contained herein and the existence of and proposed terms for any Transaction.

Prior to entering into any Transaction, you should determine, without reliance upon us or our affiliates, the economic risks and merits (and independently determine that you are able to assume these risks) as well as the legal, tax, and accounting characteristics and consequences of any such Transaction. In this regard, by accepting this presentation, you acknowledge that (a) we are not in the business of providing (and you are not relying on us for) legal, tax or accounting advice, (b) there may be legal, tax or accounting risks associated with any Transaction, (c) you should receive (and rely on) separate and qualified legal, tax and accounting advice and (d) you should apprise senior management in your organization as to such legal, tax and accounting advice (and any risks associated with any Transaction) and our disclaimer as to these matters. By acceptance of these materials, you and we hereby agree that from the commencement of discussions with respect to any Transaction, and notwithstanding any other provision in this presentation, we hereby confirm that no participant in any Transaction shall be limited from disclosing the U.S. tax treatment or U.S. tax structure of such Transaction.

We are required to obtain, verify and record certain information that identifies each entity that enters into a formal business relationship with us. We will ask for your complete name, street address, and taxpayer ID number. We may also request corporate formation documents, or other forms of identification, to verify information provided.

Any prices or levels contained herein are preliminary and indicative only and do not represent bids or offers. These indications are provided solely for your information and consideration, are not subject to change at any time without notice and are not intended as a solicitation with respect to the purchase or sale of any instrument. The information contained in this presentation may include results of analyses from a quantitative model which represent potential future events that may or may not be realized, and is not a complete analysis of every material fact representing any product. Any estimates included herein constitute our judgment as of the date hereof and are subject to change without any notice. We and/or our affiliates may make a market in these instruments for our customers and for your own account. Accordingly, we may have a position in any such instrument at any time.

Although this material may contain publicly available information about Citi corporate bond research, fixed income strategy or economic and market analysis, Citi policy (i) prohibits employees from offering, directly or indirectly, a favorable or negative research opinion or offering to change an opinion as a consideration or inducement for the receipt of business or for compensation; and (ii) prohibits analysts from being compensated for specific recommendations or views contained in research reports. So as to reduce the potential for conflicts of interest, as well as to reduce any apparentance of conflicts of interest, Citi has enacted policies and procedures designed to limit communications between its investment banking and research personnel to specifically prescribed circumstances.

Citi believes that sustainability is good business practice. We work closely with our clients, peer financial institutions, NGOs and other partners to finance solutions to climate change, develop industry standards, reduce our own environmental footprint, and engage with stakeholders to advance shared learning and solutions. Highlights of Citi’s unique role in promoting sustainability include: (a) releasing in 2007 a Climate Change Position Statement, the first US financial institution to do so; (b) targeting $50 billion over 10 years to address global climate change: includes significant increases in investment and financing of renewable energy, clean technology, and other carbon-emission reduction activities; (c) committing to an absolute reduction in GHG emissions of all Citi owned and leased properties around the world by 10% by 2011; (d) purchasing more than 234,000 MWh of carbon neutral power for our operations over the last three years; (e) establishing in 2008 the Carbon Principles, a framework for banks and their U.S. power clients to evaluate and address carbon risks in the financing of electric power projects; (f) producing equity research related to climate issues that helps to inform investors on risks and opportunities associated with the issue; and (g) engaging with a broad range of stakeholders on the issue of climate change to help advance understanding and solutions.

efficiency, renewable energy & mitigation
**Background**

- WGFI headed by Mr. U. K. Sinha issued its report in July 2010 for rationalization of Foreign Investment framework.
- SEBI in board meeting dated October 06, 2012 decided to prepare draft guidelines based on WGFI report.
- SEBI formed ‘Committee on Rationalization of Investment Routes and Monitoring of Foreign Portfolio Investment’ headed by Mr. K. M. Chandrasekhar.
- Committee issued its report on June 12, 2013 and submitted to SEBI for consideration.
- SEBI issued Press Release on June 25, 2013 accepting Committee recommendations.
Committee recommendations accepted by SEBI

- Simplified and uniform entry norms for foreign investors
- Existing FIs, Sub Accounts and QFIs merged in new investor class - “Foreign Portfolio Investors” (FPIs)
- No registration with SEBI; KYC through authorized Designated Depository Participants
- Compliance with KYC requirements; Risk based approach for KYC – categorisation into 3 categories
FII – Current tax framework

- Withholding tax exemption available; advance tax
- Settled practice since past several years

Foreign Institutional Investors (subject to treaty protection)

Capital Gains
- Short Term Capital Gains – 15%/30%
- Long Term Capital Gains – Exempt/10%

Interest
- Taxable at 5%*/20%

Dividend
- Exempt in hands of investor

**QFI – Current tax framework**

- **Qualified Foreign Investors (subject to treaty protection)**
  - **Capital Gains**
    - Short Term Capital Gains – 15%/40%
    - Long Term Capital Gains – Exempt/10%/20%
  - **Interest**
    - Taxable at 5%/40%
  - **Dividend**
    - Exempt in hands of investor

- **Withholding tax exemption not available**
- **Past interaction with authorities on change**

*On Rupee denominated Bonds of Indian Company/Government Securities - Introduced vide Finance Act, 2013*
Committee recommendation – GoI to bring clarity and certainty while prescribing the taxation provisions for FPIs

SEBI to refer recommendations to GoI for implementation

Alignment required in the current FII and QFI tax framework

Extend current FII tax framework?

Differential tax framework depending on categorization of FPI?
Thank You
Q & A
Citi India – Key Contacts

Aashish Mishra
Head - Securities and Fund Services, India
Tel.: +91 (22) 6175 7100
aashish.k.mishra@citi.com

Sangeeta Uchil
Client Executive, Securities and Fund Services, India
Tel.: +91 (22) 6175 7102
sangeeta.uchil@citi.com

Vikas Agrawal
Product Head, Securities and Fund Service, India
Tel.: +91 (22) 6175 7105
vikas.agrawal@citi.com

Sriram Krishnan
Head - Market Specialists, Securities and Fund Services, India
Tel.: +91 (22) 6175 7108
sriram.krishnan@citi.com