



CIRCULAR

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**All SEBI registered Mutual Funds/ approved Asset management Companies (AMCs) / Depository participants/ Custodians.**

**Sir / Madam,**

**Sub: Investment by Foreign Investors in Mutual Fund Schemes.**

1. In the budget speech of 2011, Hon'ble Finance Minister announced the following:  
*"Currently, only FIIs and sub-accounts registered with the SEBI and NRIs are allowed to invest in mutual fund schemes. To liberalise the portfolio investment route, it has been decided to permit SEBI registered Mutual Funds to accept subscriptions from foreign investors who meet the KYC requirements for equity schemes. This would enable Indian Mutual Funds to have direct access to foreign investors and widen the class of foreign investors in Indian equity market."*
2. In order to facilitate the above and in consultation with the Government and RBI, it has been decided that foreign investors (termed as Qualified Foreign Investors/ QFIs) who meet KYC requirement may invest in equity and debt schemes of Mutual Funds (MF) through the following two routes:
  - 2.1. Direct route - Holding MF units in demat account through a SEBI registered depository participant (DP).
  - 2.2. Indirect route- Holding MF units via Unit Confirmation Receipt (UCR).
3. The investment through the above mentioned routes shall be subject to the following conditions :
  - 3.1. Qualified Foreign Investor (QFI) shall mean a person resident in a country that is compliant with Financial Action Task Force (FATF) standards and that is a signatory to International Organization of Securities Commission's (IOSCO's ) Multilateral Memorandum of Understanding,

Provided that such person is not resident in India,



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

Explanation- For the purposes of this clause:

- (1) the term "Person" shall carry the same meaning under Section 2(31) of the Income Tax Act, 1961
- (2) the phrase "resident in India" shall carry the same meaning as in the Income Tax Act, 1961
- (3) "resident" in a country, other than India, shall mean resident as per the direct tax laws of that country.

- 3.2. MF shall ensure that only QFIs who comply with para 3.1 are allowed to invest under these routes.
- 3.3. MF shall ensure that QFIs meet the KYC requirements as per the FATF standards, Prevention of Money Laundering Act, 2002(PMLA) rules and regulations made thereunder, and SEBI circulars issued in this regard before accepting subscriptions from QFIs.
- 3.4. The aggregate investments by QFIs under both the routes shall be subject to a total overall ceiling of US \$10 billion for equity schemes.
- 3.5. In addition to the above, the aggregate investments by QFIs under both the routes for debt schemes which invest in infrastructure ("Infrastructure" as defined under the extant ECB guidelines issued by RBI) debt of minimum residual maturity of 5 years, shall be subject to a total overall ceiling of US \$3 billion within the existing ceiling of USD 25 billion for FII investment in corporate bonds issued by infrastructure companies.
- 3.6. MF can accept subscriptions from QFIs till such time the investments by QFIs under both the routes reaches US \$ 8 billion in equity schemes and US\$ 2.5 billion in debt schemes and the remaining limit of US \$ 2 billion in equity



schemes and US\$ 0.5 billion in debt schemes shall be auctioned by SEBI through bidding process.

- 3.7. MF shall file with SEBI a report about the total subscription and redemption by QFIs on a daily basis as per the format at annexure. MF shall prepare such report on actual receipt and payment basis. SEBI will disseminate on an aggregate basis the total amount of investments by QFIs in equity and debt schemes of the MF on SEBI's website. When the total investment reaches US \$ 8 billion in equity schemes or US\$ 2.5 billion in debt schemes, MF shall stop accepting fresh investment from QFIs unless they get allotment of limits out of the remaining limit of US \$ 2 billion in equity schemes or US\$ 0.5 billion in debt schemes respectively in the auction process referred in para 3.6.
- 3.8. MF/ DP shall ensure that the units held by QFIs by way of UCR/demat holding are non transferable and non tradable.
- 3.9. MF/ DP shall capture the bank account details of the QFIs designated overseas bank account and shall ensure that all subscriptions are received from that overseas account and redemption proceeds are also transferred into the same overseas account. MF/ DP shall also ensure that the overseas bank account which QFIs has designated for the purpose is based in countries which are compliant with FATF standards and are signatory to MMOU of IOSCO.
- 3.10. In case of subscription, MF shall allot units based on the NAV of the day on which funds are realized in the MF's scheme bank account in India and in case of redemption, units shall be redeemed on the day on which transaction slip/instruction is received and time stamped by MF, as per the applicable cut off time. The Scheme information documents of the MF shall clearly mention the applicable cut off time for QFIs and the other requirements / applicable guidelines for QFIs.
- 3.11. MF shall ensure that Systematic Investments/ transfer/ withdrawals and switches are not available to the QFIs. QFIs can only subscribe or redeem.



- 3.12. MF/ DP shall ensure that units/ UCRs held by QFIs are free from all encumbrances i.e. pledge or lien cannot be created for such units.
- 3.13. MF shall comply with all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard on an ongoing basis.
- 3.14. MF shall ensure that all the investor related documents/ records of the QFIs are available with them.
- 3.15. MF shall ensure compliance with laws (rules and regulations) of the jurisdictions where the QFIs are based and also ensure that the interest of existing unit holders of the MF schemes are not adversely affected due to the issuance of UCRs/ demat units to the QFIs.
- 3.16. In case of any penalty, pending litigations or proceedings, findings of Inspections or investigations for which action may have been taken or is in the process of being taken by an overseas regulator against MF/ AMC, it shall bring such information to the attention of SEBI and unitholders of the concerned scheme.
- 3.17. MF shall be responsible for the deduction of applicable tax at source out of the redemption proceeds before making redemption payments to QFIs.
- 3.18. MF/DP shall require QFIs to submit necessary information for the purpose of obtaining PAN. MF/DP may use the combined PAN cum KYC form to be notified by CBDT for QFIs. MF/ DP may take any additional information / documents from the QFIs other than those mentioned in the common PAN cum KYC form to ensure compliance with Para 3.3 above.

**4. Other conditions for direct route(demat account).**

- 4.1. There shall be 3 parties under this route - QFIs, qualified DP and MF.



- 4.2. A QFIs can open only one demat account with any one of the qualified DPs and shall subscribe and redeem through that DP only. MF alongwith the DP shall have adequate systems to ensure the compliance of the same.
- 4.3. To become a qualified DP, a SEBI registered DP shall fulfill the following:
- 4.3.1. DP shall have paid up capital of Rs.50 Crore or more,
- 4.3.2. DP shall be either a clearing bank or clearing member of any of the clearing corporations.
- 4.3.3. DP shall have appropriate arrangements for receipt and remittance of money with a designated Authorised Dealer (AD) Category - I bank
- 4.3.4. DP shall demonstrate that it has systems and procedures to comply with the FATF Standards, PMLA and SEBI circulars issued from time to time.
- 4.3.5. DP shall obtain prior approval of SEBI before commencing the activities relating to accepting MF subscription from QFIs.
- 4.4. The qualified DP shall open a demat account for the QFIs after ensuring all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard.
- 4.5. For the purpose of account opening, MF can rely on the KYC done by DPs. Further, MF shall obtain the relevant records of KYC/ other documents from the DP and ensure compliance with para 3.14. However, MF shall comply with PMLA, FATF standards and SEBI circulars issued in this regard from time to time on an ongoing basis.
- 4.6. The qualified DP shall open a separate single rupee pool bank account with a designated AD Category -I bank, exclusively for the purpose of investments by QFIs in India.
- 4.7. **Process flow**
- Subscription**
- 4.7.1. The QFIs shall place a purchase/ subscription order mentioning the name of the scheme/MF with its DP and remit foreign inward remittances



through normal banking channel in any permitted currency (freely convertible) directly to the single rupee pool bank account of the DP maintained with a designated AD category - I bank.

- 4.7.2. DP in turn shall forward the purchase order to the concerned MF and remits the money to the MF's scheme account on the same day as the receipt of funds from QFIs. In case of receipt of money after business hours, DP shall remit the funds to MF scheme account by next business day.
- 4.7.3. If for any reasons, the DP is not able to remit the money to the MF scheme account within the stipulated timeframe as mentioned in 4.7.2, the DP shall immediately return the money to the designated overseas bank account of the QFIs.
- 4.7.4. MF shall process the order and credit units into the demat account of the QFIs.
- 4.7.5. If for any reasons the units are not allotted, MF / DP shall ensure that the money is remitted back to the QFI's designated overseas bank account within 3 working days from the date of receipt of subscription of money in the single rupee pool bank account of the DP maintained with a designated AD category I bank.

#### **Redemption**

- 4.7.6. QFIs can redeem, either through Delivery Instruction (physical/ electronic) or any another mode prescribed by the Depositories. On receipt of instruction from QFIs, DP shall process the same and forward the redemption instructions to the MF. Upon receipt of instruction from DP, MF shall process the same and shall credit the single rupee pool bank account of the DP with the redemption proceeds.
- 4.7.7. The DP can make fresh purchase of units of equity and debt schemes of MF (if so instructed by the QFIs) out of the redemption proceeds received



provided that payment is made towards such purchase is made within two working days of receipt of money from MF in the pooled bank account. In case no purchase is made within said period, the money shall be remitted by the DPs to the designated bank overseas account of the QFIs within two working days from the date of receipt of money from the MF in the pooled bank account.

#### **Dividend**

- 4.7.8. In case of dividend payout, the MF shall credit the single rupee pool bank account of the DP with the dividend amount. The DP in turn shall remit the same to the designated bank overseas account of the QFIs within two working days from the date of receipt of money from the MF in the DP's rupee pooled bank account.

#### **5. Other conditions for Indirect route( Unit Confirmation Receipts)**

- 5.1. There shall be four parties involved - QFIs, UCR issuer (based overseas), SEBI registered Custodian (based in India) and MF.
- 5.2. QFIs can subscribe / redeem only through the UCR Issuer.
- 5.3. MF shall appoint one or more UCR issuing agent overseas and one SEBI registered custodian in India.
- 5.4. UCR issuer appointed by MF shall act as agent of the MF.
- 5.5. MF can appoint entities fulfilling the following conditions as UCR issuer:
  - 5.5.1. The entity is able to demonstrate that it has proven track record, expertise and technology in the business of issuance of global depository receipts/ global custody agency.
  - 5.5.2. The entity is registered with an overseas securities market / banking regulator.
- 5.6. MF shall seek no objection from SEBI before appointing any UCR issuer and furnish the details and information sought by SEBI about the UCR issuer. SEBI reserves the right to seek additional information / clarification and direct action, including non appointment / revocation of appointment of that UCR Issuing Agent.



- 5.7. MF shall comply with all the requirements as per the PMLA, FATF standards and SEBI circulars issued in this regard on an ongoing basis.
- 5.8. Custodians appointed by the MF shall comply with the SEBI (Custodian of Securities) Regulations, 1996, circulars and guidelines issued by SEBI.
- 5.9. 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 would issue UCR to be held by QFIs.
- 5.10. MF shall ensure that for every UCR issued by UCR issuer, Custodian in India shall hold corresponding number of units against it i.e., there shall be one unit of MF scheme for every unit of UCR.
- 5.11. MF shall receive money from UCR issuer either in foreign country by opening bank account overseas (in accordance with the relevant extant FEMA regulations) or in Indian rupees in the respective MF scheme account held in India.
- 5.12. MF shall mandate the UCR issuer regarding the requirements for KYC, Customer due diligence process and documents and information to be collected from the QFIs in terms of the requirements mentioned in para 3.13 above
- 5.13. MF shall obtain the relevant records of KYC/ other documents from the UCR issuer in order to comply with FATF standards, PMLA and SEBI circulars issued in this regard and ensure compliance with para 3.14.
- 5.14. Units purchased and redeemed through UCR issuer shall be settled on gross basis and under no circumstances shall be netted against other investors of UCR issuer
- 5.15. **Process flow:**
  - 5.15.1. The QFIs places a purchase/ subscription order through the UCR issuer.





In case of MF opening bank account overseas (in accordance with the relevant extant FEMA regulations)

5.15.2. UCR issuer shall forward the order of QFIs to the MF/Custodian. Upon receipt and transfer of funds to India; the MF shall issue units to the custodian and custodian in turn confirm to the UCR Issuer to issue UCR to the QFIs.

5.15.3. In case of redemption, UCR issuer shall confirm receipt of redemption request to the MF and Custodian. Upon receipt of instruction, MF shall process the same and shall transfer the redemption proceeds to the MF overseas bank account for making payment to the designated overseas bank account of the QFIs.

5.15.4. In case of dividend payout, the MF shall transfer the dividend amounts to the MF overseas bank account for making payment to the designated overseas bank account of the QFIs.

In case MF receives money in India from UCR issuer.

5.15.5. UCR issuer shall forward the purchase order to MF and Custodian, and remit the funds into MF scheme account (in rupee terms). Upon receipt of funds; the MF shall issue units to the custodian and custodian shall in turn confirm to the UCR Issuer to issue UCR to the QFIs.

5.15.6. In case of redemption, UCR issuer shall confirm receipt of redemption request to the MF & Custodian. Upon receipt of instruction, MF shall process and remit redemption proceeds to the UCR issuer which in turn shall remit redemption proceeds to the designated bank account of the QFIs.

5.15.7. In case of dividend payout, the MF shall remit the dividend amount proceeds to the UCR issuer which in turn shall remit the dividend amount to the designated bank account of the QFIs.



**भारतीय प्रतिभूति और विनिमय बोर्ड**  
**Securities and Exchange Board of India**

6. This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992, read with the provisions of Regulation 77 of SEBI (Mutual Funds) Regulations, 1996, to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.
7. The investment by the QFIs in MF equity and debt schemes under this scheme shall also be subject to the relevant and extant FEMA regulations and guidelines issued by the Reserve Bank of India under FEMA, 1999 from time to time.

Yours faithfully

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**Annexure –1 (Refer paras 3.4, 3.5, 3.6 and 3.7 of the circular)**

Daily data on QFI Investment in Mutual Funds

A) QFI investments in equity schemes

Date	Name of the Mutual Fund	Net Investment at the end of the previous business day (A)		Subscription (B)		Redemption (C )		Net Investment at the end of the business day (A+B-C)	
		Amount in US \$ millions	Amount in Rs Crore	Amount in US \$ millions	Amount in Rs Crore	Amount in US \$ Millions	Amount in Rs Crore	Amount in US \$ Millions	Amount in Rs Crore

B) QFI investments in debt schemes

Date	Name of the Mutual Fund	Net Investment at the end of the previous business day (A)		Subscription (B)		Redemption (C )		Net Investment at the end of the business day (A+B-C)	
		Amount in US \$ millions	Amount in Rs Crore	Amount in US \$ millions	Amount in Rs Crore	Amount in US \$ Millions	Amount in Rs Crore	Amount in US \$ Millions	Amount in Rs Crore

C) Total QFI investments in equity and debt schemes

Date	Name of the Mutual Fund	Net Investment at the end of the previous business day (A)		Subscription (B)		Redemption (C )		Net Investment at the end of the business day (A+B-C)	
		Amount in US \$ millions	Amount in Rs Crore	Amount in US \$ millions	Amount in Rs Crore	Amount in US \$ Millions	Amount in Rs Crore	Amount in US \$ Millions	Amount in Rs Crore

- Mutual Funds shall report on actual receipt and payment basis (cash system)
- Mutual Funds shall aggregate the data received from Custodian and Depositories on a daily basis and report
- The RBI reference rate may used for reporting the amounts in US \$.