Press Information Bureau
Government of India
Ministry of Finance

01-January-2012 16:19 IST

Qualified Foreign Investors (QFIS) Allowed to Directly Invest in Indian Equity Market; Scheme to Help Increase the Depth of the Indian Market and in Combating Volatility Beside Increasing Foreign Inflows into the County

In a major policy decision, the Central Government has decided to allow Qualified Foreign Investors (QFIs) to directly invest in Indian equity market in order to widen the class of investors, attract more foreign funds, and reduce market volatility and to deepen the Indian capital market. QFIs have been already permitted to have direct access to Indian Mutual Funds schemes pursuant to the Budget announcement 2011-12. Today's decision is a next logical step in the direction.

Foreign Capital inflows to India have significantly grown in importance over the years. These flows have been influenced by strong domestic fundamentals and buoyant yields reflecting robust corporate sector performance.

In the present arrangement relating to foreign portfolio investments, only FIIs/sub-accounts and NRIs are allowed to directly invest in Indian equity market. In this arrangement, a large number of Qualified Foreign Investors (QFIs), in particular, a large set of diversified individual foreign nationals who are desirous of investing in Indian equity market do not have direct access to Indian equity market. In the absence of availability of direct route, many QFIs find difficulties in investing in Indian equity market.

As a first step in this direction, QFIs have been permitted direct access to Indian Mutual Funds schemes pursuant to the Budget announcement 2011-12. As a next logical step, it has now been decided to allow QFIs to directly invest in Indian equity market in order to widen the class of investors, attract more foreign funds, and reduce market volatility and to deepen the Indian capital market.

The QFIs shall include individuals, groups or associations, resident in a foreign country which is compliant with FATF and that is a signatory to IOSCO's multilateral MoU. QFIs do not include FII/sub-accounts.

Salient Features of the Scheme:

- RBI would grant general permission to QFIs for investment under Portfolio Investment Scheme (PIS) route similar to FIIs.
- The individual and aggregate investment limit for QFIs shall be 5% and 10% respectively of the paid up capital of Indian company. These limits shall be over and above the FII and NRI investment ceilings prescribed under the PIS route for foreign investment in India.
- QFIs shall be allowed to invest through SEBI registered Qualified Depository Participant (DP). A QFI shall open only one demat account and a trading account with any of the qualified DP. The QFI shall make purchase and sale of equities through that DP only.
- DP shall ensure that QFIs meet all KYC and other regulatory requirements, as per the relevant regulations issued by SEBI from time to time. QFIs shall remit money 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. Upon receipt of instructions from QFI, DP shall carry out the transactions (purchase/sale of equity).
- DP shall be responsible for deduction of applicable tax at source out of the redemption proceeds before making redemption payments to QFIs.
- Risk management, margins and taxation on such trades by QFIs may be on lines similar to the facility available to the other investors.

The scheme is expected to help increase the depth of the Indian market and in combating volatility beside increasing foreign inflows into the county.

SEBI and RBI are expected to issue relevant circulars to operationalise the scheme by January 15, 2012.

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