

CIRCULAR

CIR/IMD/FPIC/47/2018

March 13, 2018

To,

1. All Foreign Portfolio Investors ("FPIs") through their Designated Depository Participants ("DDPs")/ Custodian of Securities.
2. All Recognized Stock Exchanges
3. The Depositories (NSDL and CDSL)

Sir/ Madam,

Subject: Clarifications in respect of investment by certain Category II FPIs

- I. This is in reference to SEBI circular No. CIR/IMD/FPIC/ 26 /2018 dated February 15, 2018 regarding "*Easing of access norms for investment by FPIs*".
- II. In view of queries from stakeholders, the following clarifications are made in respect of investment by certain category II FPIs:-
 - (1) The collective investment vehicle of private banks/ merchant banks investing on behalf of clients need to ensure the following:-
 - a) The client/ investor should have fulfilled know your client norms. The beneficial owners (BO) of client/ investor of bank should be identified in accordance with Rule 9 of Prevention of Money Laundering (Maintenance of Records) Rules, 2005.
 - b) The client/ investor or their BO should not be Resident Indian/ NRI/ Overseas Citizen of India.
 - c) The client/ investor is not resident in a country identified in the public statement of Financial Action Task Force as:-
 - i. a jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
 - ii. a jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies;
 - d) The client/ investor should not have opaque structure(s), as defined under Explanation 1 of Regulation 32(1)(f) of SEBI (Foreign Portfolio Investors) Regulations, 2014 or Bearer share structure.
 - e) The collective investment vehicle of the Bank (other than for ODIs) should be broad based (more than 20 investors and no investor

having more than 49% stake) and there should be common portfolio for all clients/ investors.

f) The conditions already specified at point (g) of SEBI circular dated February 15, 2018 shall continue to be applicable.

(2) Presently, appropriately regulated broad based insurance/ reinsurance companies are investing proprietary funds and for unit linked/ investment products. In this regard, it is clarified that investment in India by insurance/ reinsurance companies must be maintained as an undivided common portfolio. Segregated portfolio or investor/ policy-holder level investment structure shall not be permitted.

(3) In respect of other appropriately regulated persons permitted as Cat. II FPIs viz. asset management companies, investment managers/ advisers, Portfolio managers, Broker-dealer and Swap-dealer. It is clarified that:-

(a) They are permitted to invest their proprietary funds,

(b) These appropriately regulated persons by taking separate registration can also invest with client funds as an ODI Issuing FPI or after fulfilling the condition of being broad based and having a common portfolio. However, asset management companies having thematic portfolios can also have segregated structure if each theme is broad based.

(4) All other investment restrictions and due diligence requirements as applicable to FPIs shall continue to be applicable on entities referred at (1) to (3) above.

III. This circular is issued in exercise of powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

IV. A copy of this circular is available at the links "Legal Framework→Circulars" and "Info for →F.P.I" on our website www.sebi.gov.in. The DDPs/Custodians are requested to bring the contents of this circular to the notice of their FPI clients.

Yours faithfully,

(Achal Singh)