Ministry of Finance
Department of Economic Affairs
(Capital Market Division)
PRESS RELEASE

Subject: Rationalization measures in the Qualified Foreign Investors (QFIs) Scheme

In the Budget 2011-12, the Government, for the first time, permitted Qualified Foreign Investors (QFIs), who meet the KYC norms, to directly invest in Indian Equity Mutual fund (MF) schemes and in MF debt schemes that invest in infrastructure.It was for the first time that this new class of investors was allowed to directly participate in the Indian capital market. In January 2012, the Government expanded this scheme to allow QFIs to directly invest in Indian Equity Markets.

2. In the Budget 2012-13, Government announced its intention to permit QFIs to invest in corporate bonds in India.When implemented, the QFI framework would stand extended to all three important segments of the Indian Capital markets, i.e., Mutual Funds, Equity Market and Corporate Bond Market.
3. Government has held wide consultations with RBI, SEBI and various market participants to make the QFI scheme more attractive to potential investors. Accordingly, the following changes are being made in the scheme:

<u>Widening the definition of QFIs</u>

a. The list of countries from where QFIs could invest in the Indian capital market has been expanded. Originally, it was limited to the 34 member countries, which are members of FATF. As only the residents of the above 34 countries were made eligible to qualify as QFIs, several enquiries were received some of the 6 member countries of the Gulf Cooperation Council (GCC) and 27 member countries of the European Commission (EC) requesting for inclusion of their residents as QFIs. In view of the possibility of attracting high net worth entities form the above jurisdictions, the definition of QFIs has now been enlarged. The residents of FATF member countries and those from the countries of the GCC and EC would now be eligible to be considered as QFIs.

<u>Separate limit for investment in Corporate Bond for QFIs</u>

b. Aseparate sub-limit of USD 1 billion has been created for QFIs investment in corporate bonds and mutual fund debt schemes.

<u>Easing of Norms for QFIs</u>

c. Presently, funds remitted by QFIs for investments are required to be transferred to their overseas bank accounts if such funds are not invested as permitted, in five working days of the receipt of funds in their accounts. This restriction was proving to be a dampener for genuine investors in view of the high cost of transfer of funds. This restriction on the number of days that funds could be kept in the individual accounts of QFIs has been dispensed with.
d. Currently, QFIs are not allowed to open individual bank accounts. They can invest only through a common pooled bank account of their Depository Participant (DP). It has now been decided to allow QFIs to open individual non-interest bearing

Rupee Bank Accounts with Authorized Dealers banks in India for receiving funds and making payment for transactions in securities they are eligible to invest.

e. SEBI will be issuing a circular to provide QFIs with a certain amount of operational flexibility for appointing their custodians and brokers to route their investments.

f. Clarifications on tax related issues for QFIs would be issued shortly by CBDT.

4. These measures are expected to make QFI scheme more attractive to potential investors and enhance flow of foreign capital into India.

5. RBI & SEBI are expected to issue relevant circulars incorporating the above changes, and for operationalising the budget announcement relating to QFI investment in Corporate bonds and MF debt schemes within 7 days.

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The Press Information Bureau is requested to give wide publicity to this press release.

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