**Government of India**
**Ministry of Finance**
**Department of Economic Affairs**

# PRESS RELEASE

In order to further liberalize the portfolio investment route, the Union Finance Minister had announced in the 2011-12 Budget to permit SEBI registered Mutual Funds (MFs) to accept subscriptions for equity schemes from foreign investors who meet the KYC requirements. After due consultations with the Regulators and other stakeholders, the scheme was finalized to be announced in the first week of August 2011.

2. In the meantime, on August 1, 2011, the Finance Minister had an interaction with a select group of the Captains of the Indian industry to exchange ideas on giving further impetus to India's economic growth. One of the important suggestions that came from the industrialists was to make the debt market vibrant for the infrastructure sector.

3. The government accepted this recommendation and held a series of discussions with the regulators to give QFIs access to MF debt schemes investing in infrastructure. The scope of the budget announcement has now been expanded to allow SEBI registered Mutual Funds to accept subscriptions from foreign investors for debt schemes in the infrastructure sector. This is the first recommendation from amongst those that were made during the FM-industry meet to be implemented.

4. SEBI and RBI have issued circulars today to allow Qualified Foreign Investors (QFIs) access to Mutual Funds' equity schemes and debt schemes in the infrastructure sector. Some salient features of the scheme are:

**(1) Who is a qualified foreign investor (QFI)?**

In simple words, a QFI is an individual, group or association, resident in a foreign country that is compliant with Financial Action Task Force (FATF) standard and that is a signatory to International Organization of Securities Commission's Multilateral Memorandum of Understanding. QFIs do not include Foreign Institutional Investors or Sub-accounts as these are already permitted to invest in Equity and Debt markets in India as per the extant guidelines of SEBI and RBI.

**(2) Which investment routes are provided for QFIs?**

Two routes have been prescribed for QFIs investment:

(I) <u>Direct route</u>: QFI would hold MF units in demat account through SEBI registered depository participant (DP). There are three parties under this route - QFIs, qualified DP and MF. A QFI can open only one demat account with any one of the qualified DPs and shall subscribe and redeem through that DP only. The QFI shall place a purchase order of MF scheme with its DP, DP in turn forwards the order to the concerned MF, MF shall process the order and credit units into the demat account of QFIs.

(II) <u>Indirect route:</u> QFI would hold MF units via Unit Confirmation Receipts (UCR). There are four parties under this route - QFIs, UCR issuer (based overseas), SEBI registered Custodian (based in India) and MF. QFIs can subscribe / redeem only through the UCR Issuer. UCR issuer would be appointed by MFs for which MF shall seek no objection from SEBI before appointing any UCR issuer. QFIs shall place a purchase order through UCR issuer. UCR issuer shall forward the order of QFIs to the MF/custodian. The MF shall issue the units to custodian and custodian in turn confirm to UCR issuer to issue UCRs corresponding to MF units held by custodian.

**(3) How much can QFIs invest in Indian MFs?**

(I) As of now, it has been decided that the aggregate investments by QFIs in equity schemes of MFs under both the routes shall be subject to a ceiling of USD 10 billion.

(II) Similarly, QFIs can invest up to an additional amount of USD 3 billion under both the routes in the units of MF debt schemes which invest in infrastructure debt of minimum residual maturity of 5 years in corporate bonds issued by infrastructure companies.

5. The scheme would enable QFIs to have direct access to the Indian Mutual Funds. It would widen the class of investors participating in the Indian capital market, help increase depth and reduce volatility in the market. As the scheme has now been expanded to include debt schemes investing in the infrastructure sector, it is expected to give a new momentum to the debt instruments in this priority sector.

6. The QFI scheme opens another avenue for global investors to participate in the equity markets and the infrastructure debt markets in India through Mutual Funds. This would increase the global investor interest in the Indian economy. The QFI scheme will make it easier for overseas investors to participate in the infrastructure sector projects in India, and therefore would provide an additional source of overseas long term debt funding.

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Press Information Bureau is requested to give wide publicity to this Press Release.

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