



## **FOREIGN INSTITUTIONAL INVESTORS**

### **A BRIEF REGULATORY OVERVIEW**

This document has been prepared by Dewan P.N. Chopra Consultants Private Limited for the limited purpose of providing an overview on the stated subject. The information contained herein is selective and is subject to updations, expansion, revision and amendment.

Dewan P.N. Chopra Consultants Private Limited accepts no liabilities for any loss or damage of any kind arising out of the use of this document. This is a general compilation of information from various sources and while the information contained herein is believed to be accurate we do not make any representations or warranties, express or implied, as to the accuracy or completeness of such information. Readers should conduct and rely upon their own examination, investigation and analysis and are advised to seek their own professional advice on related legal, financial and taxation issues. The information contained herein is not a substitute for the reader's independent evaluation and analysis.



## **A. APPLICABLE REGULATIONS**

Foreign Institutional Investors (hereinafter referred to as “FIIs”), including their applicable eligibility norms, registration requirements and permissible investment avenues and limits, are regulated by the **Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995** (hereinafter referred to as “FII Regulations” – attached as *Annexure I*)

## **B. MEANING OF FOREIGN INSTITUTIONAL INVESTOR**

“**Foreign Institutional Investor**” means an institution established or incorporated outside India, which proposes to make investment in India in securities.

*Regulation 2(f) of the FII Regulations*

## **C. INSTITUTIONS ELIGIBLE TO SEEK REGISTRATION AS FIIs:**

The following entities / funds may apply to SEBI for registration as FIIs:

- Pension Funds
- Mutual Funds
- Insurance/Reinsurance Companies
- Investment Trusts
- Banks
- University Funds
- Endowments
- Foundations
- Charitable Trusts/ Charitable Societies
- Foreign Governmental Agencies
- Foreign Central Banks
- Sovereign Wealth Funds
- International/ Multilateral Organizations/ Agencies
- Broad Based Funds (*refer definition below*)



In addition to the above, the following entities proposing to invest *on behalf of* Broad Based Funds may also apply to SEBI for registration as FIIs:

- Asset Management Companies
- Institutional Portfolio Managers
- Trustees
- Power of Attorney Holders

**Broad Based Funds:**

*Broad Based Fund* means a fund established or incorporated outside India, which has at least twenty investors with no single individual investor holding more than 10% shares or units of the fund.

**D. INDICATIVE EVALUATION PARAMETERS ADOPTED BY SEBI BEFORE GRANTING “CERTIFICATE OF REGISTRATION” AS FII:**

1. Applicant’s track record, professional competence, financial soundness, experience, general reputation of fairness and integrity (the applicant should have been in operation for at least one year)
2. Whether the applicant is registered with, and regulated by, an appropriate Foreign Regulatory Authority, in the same capacity in which the application is filed with SEBI.



3. Whether the applicant has been granted permission under the provisions of the [Foreign Exchange Management Act, 1999](#) by the Reserve Bank of India for making investments in India as a Foreign Institutional Investor.
4. Whether the applicant is a [fit & proper person](#); Criteria specified in Schedule II of the Securities and Exchange Board of India (Intermediaries) Regulations, 2008 (*refer Annexure II attached*).

**E. [Application Procedure:](#)**

Applicants intending to seek registration with SEBI as FII are required to file an application in **Form A** (refer pages 43-48 of *Annexure I*).

**F. [Application Fee:](#)**

Draft of [US\\$ 10,000](#) in favor of 'Securities and Exchange Board of India' payable in New York (payable at the time of submitting the application for registration)

**G. [Validity Period](#)**

Certificate of Registration granted (by SEBI) to FII is valid for a period of [3 years](#), after the expiry of which, an application for renewal of Registration must be made by the FII.



#### **H. GRANT OF CERTIFICATE:**

Where an application is made for grant of certificate under these regulations, the Board shall, as soon as possible but not later than three months after information called for by it is furnished (if satisfied that the application is complete in all respects, and all particulars sought have been furnished) and provided that the applicant is found to be eligible for the grant of certificate, grant a certificate in Form B, subject to payment of fees in accordance with the Second Schedule (refer page 62 of *Annexure I*).

#### **I. INVESTMENT OPPORTUNITIES**

##### **1. Financial instruments available for FII investments:**

- Securities in primary and secondary markets including shares, debentures and warrants of companies, unlisted, listed or to be listed on a recognized stock exchange in India;
- Units of mutual funds;
- Dated Government Securities, other debt instruments;
- Derivatives traded on a recognized stock exchange;
- Commercial papers.
- Security Receipts



## **2. Investment limits on equity investments by FIIs**

- Foreign Institutional Investors (FIIs) registered with SEBI and Non-resident Indians (NRIs) are eligible to purchase shares and convertible debentures issued by Indian companies under the Portfolio Investment Scheme (PIS).
- Total shareholding of each FII under this Scheme **shall not exceed 10 per cent** of the total paid up capital or 10 per cent of the paid up value of each series of convertible debentures issued by the Indian company.
- Total holdings of all FIIs put together **shall not exceed 24 percent** of the paid-up capital or paid-up value of each series of convertible debentures. This limit of 24 per cent can be increased to the sectoral cap / statutory limit, as applicable to the Indian company concerned, by passing a resolution of its Board of Directors followed by a special resolution to that effect by its General Body.
- **Prohibitions on Investments by FIIs:**
  - i. FIIs are not permitted to invest in equity shares issued by an Asset Reconstruction Company.
  - ii. FIIs are also not allowed to invest in any company which is engaged or proposes to engage in the following activities:
    - a. Business of chit fund;
    - b. Nidhi company;



- c. Agricultural or plantation activities;
- d. Real estate business, or construction of farm houses; or
- e. Trading in Transferable Development Rights (TDRs).

**3. Investment limits on debt investments by FIIs:**

- i. Cumulative FII investments limit in **Government debt – US\$ 5 billion**
- ii. Cumulative FII investments limit in **Corporate debt – US\$ 15 billion**

Specific methodologies, for allocation of the above-mentioned overall limits and the time period within which allocated limits should be utilized by FIIs, have been laid down by SEBI and are periodically updated through Circulars and Notifications.