



Foreign Portfolio Investors

June 2024

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Regulatory – SEBI/RBI etc

Consultation paper issued on measures towards ease of doing business for REITs and InvITs

SEBI has released consultation paper where, inter alia, it is proposed to reduce the timeline for distributions to the unit holders from 15 days to 5 working days from the date of declaration.

The above is aimed to bring efficiency in the distribution process and make funds available to the investors within a relatively shorter period. Comments from public were sought by 30 May 2024.

Source: SEBI consultation paper dated 9 May 2024

Expansion of scope for Authorised Dealer to open interest-bearing account for posting and collecting margin money

A person resident outside India can open, hold and maintain an interest-bearing account in Indian Rupees and/or foreign currency with an Authorised Dealer (AD) for the purpose of posting and collecting margin in India for permitted derivative contract.¹

Source: Foreign Exchange Management (Deposit) (Fourth Amendment) Regulations, 2024 F. No. FEMA 5(R)/(4)/2024-RB dated 6 May 2024



Income tax- case laws, notification

New functionality in Annual Information System (AIS)²

In the AIS, taxpayer can provide feedback on transactions displayed. In case of wrong reporting, the same is taken up with the source (such as tax deductor/reporting entities).

Central Board of Direct Taxes (CBDT) has introduced functionality in the AIS to display the status of

information confirmation process – whether the feedback of the taxpayer has been acted upon (partially or fully accepting or rejecting the same). In case of partial or full acceptance, the information is to be corrected by filing a correction statement by the source.

This is an initiative of CBDT towards ease of compliance and enhanced taxpayer service.

Source: Press Release, Ministry of Finance dated 13 May 2024

¹ Generally, persons resident outside India having business interest in India maintain Special Non-Resident Rupee Account (SNRR) which is not interest bearing.

² AIS provides details of a large number of financial transactions undertaken by the taxpayer which may have tax implications. AIS is populated based on the financial data received from multiple information sources.

Guidelines for compulsory selection of returns for complete scrutiny for FY 2024-25

The parameters of the selection of scrutiny assessment, inter alia, are as under:

- cases where notice under section 142(1) of the Act issued, calling for return has been issued and no return has been furnished
- cases involving addition in earlier assessment years on recurring issue of law and/or fact
- cases related to specific information regarding tax evasion.

The cases selected by International Taxation and Central Circle shall be handled by International Taxation and Central Circle charges respectively.

Source: CBDT F. No 225/72/2024 ITA-II dated 3 May 2024

Premium received on redemption of Non-Convertible Debentures (NCDs) is taxable as interest income

The taxpayer, an individual, had purchased zero per cent secured redeemable NCDs which was redeemable at premium. In the return, the taxpayer claimed the difference of proceeds on redemption and purchase as capital gains.

The assessing officer and CIT(A) denied the deduction of capital gains. On appeal, the Income-tax Appellate Tribunal (ITAT), held that the taxpayer did not sell the NCD and had surrendered the NCD to the Issuer Company.

Further, ITAT held that the amount received as premium is nothing, but interest income and the income should be assessable under the head income from other sources.

Source: ITA No. 3679/Mum/2015, Mumbai ITAT dated 14 April 2024



International Financial Services Centres (IFSC)

Facilitating India investments by Non-Resident Indians (NRIs), Overseas Citizens of India (OCIs), Resident Indian (RI) individuals through schemes/funds in an IFSC

With respect to schemes/funds launched by Fund Management Entities (FME) in IFSC which are registered as FPI, NRIs, OCIs, RI individuals may contribute 100 percent in the corpus of such FPIs, subject to following conditions.

- FPIs to submit copies of PAN (or other suitable documents) of all their NRI/OCI/RI individual constituents, along with their economic interests in the FPI, to the Designated Depository Participant (DDP), or
- FME/fund to, inter alia, satisfy conditions:
 - SEBI to specific eligibility of FME for such scheme/fund;
 - FME to independently take investment decisions without being influenced;
 - FME to ensure that the contribution of investors in scheme/fund to be accepted into a single pool without any segregated portfolios;
 - FME to comply with the additional disclosures in case the concentration of investments;

- The scheme/fund to have at least 20 investors with no single investor holding over 25 per cent of the corpus of the fund;

- The scheme/fund to not invest more than 20 per cent of its assets under management in securities of a single investee company.

In the event of breach during the initial 3 months or any passive breach thereafter, the FME to take immediate steps to rectify the same, not later than 3 months of such breach.

Source: IFSCA circular F.No. IFSCA-IF-10PR/2/2024-Capital Markets dated 2 May 2024

Issuance of Offshore Derivative Instruments (ODI) by non-bank entities in GIFT-IFSC

International Financial Services Centre Authority (IFSCA) had permitted registered FPIs, who are non-bank entities, to issue ODI with Indian securities as underlying in GIFT-IFSC.

Earlier, IFSCA had permitted IFSC Banking Units which are registered FPIs to issued ODIs.

Source: IFSCA circular dated 2 May 2024

Committee on positioning GIFT IFSC as Global Commodity Trading Hub

IFSCA has set up an Expert Committee on positioning GIFT IFSC as Global Commodity Trading Hub. The Terms of Reference, inter alia, are as follows:

To explore the potential advantages that could be derived to GIFT IFSC financial ecosystem by positioning GIFT IFSC as a Global Commodity Trading Hub (includes physical trade, Merchanting Trade as well as derivatives – OTC and Exchange-traded)

Source: IFSCA Press Release dated 22 May 2024

Working group recommendation on dividend income

IFSCA had constituted a working group dedicated to the development of Non-Resident (NR) and Non-Resident Indian (NRI) business in GIFT IFSC. Key recommendation of the committee is to exempt income-tax and withholding on dividends received by NR and NRI in relation to securities listed on an IFSC exchange.

Source: Report of the Working Group for the Development of Non-Resident Individual (both Indian as well as Foreign) Business and Ease of Registration dated 15 May 2024



Market watch- press articles- select extracts

FPIs may lose exemption benefits as Sebi issues updated SOPs for custodians

Certain Foreign Portfolio Investors (FPIs), which operate as Pooled Investment Vehicles (PIV), may not be exempt from the additional disclosure mandates by the Securities and Exchange Board of India (Sebi) following an update in the Standard Operating Procedures (SOPs) for custodian. An updated version of the SOPs has specified severable conditions to be met for PIVs to benefit from the exemptions granted.

These include no segregated portfolios, independent investment manager, and investors having pari-passu (equal) rights in the entity.

Source: Business Standard, Khushboo Tiwari, 29 May 2024

Forex settlement next step by Gift to onshore what's offshore

Having a Foreign Currency Settlement System (FCSS) for the IFSC has been a long-standing demand for market participants. Similar systems exist in major IFCs, most notably the Hong Kong Clearing House Automated Transfer System for settling US dollar and euro transactions.

An FCSS system is being set up in the IFSC with the support of the RBI, along similar lines, which, in the first phase shall settle transactions between IBUs (IFSC banking units) in US dollars on a real-time or near-real-time basis.

Source: Economic Times, Bhasker Dutta, 20 May 2024

Sebi's new guidelines on market rumour to help in fair pricing of M&A: Experts

Sebi's new guidelines for managing stock price impact arising from market rumours will ensure that the share price used in the merger and acquisition (M&A), buyback, and other transactions are not artificially influenced by speculative market activities, experts said on Wednesday.

Source: Business Standard, Press Trust of India, 22 May 2024

GIFT City tax sops make FPIs skip Mauritius, Singapore

GIFT City, which is India's first and only International Financial Services Centre (IFSC), is fast emerging as a popular destination for Foreign Portfolio Investors (FPIs) who are choosing the special zone over the much older and traditional routes of investing in India via Mauritius or Singapore.

Source: Moneycontrol, Shrushti Vaidya, 23 May 2024



FPI statistics – FPI portal, NSDL

Parameters	Current month	Earlier month	Changes
Net Equity inflows during May 2024 (in USD million)	(3,083)	(1,045)	
Net Debt inflows during May 2024 (in USD million)	1,572	(926)	
Total FPIs registered as on 31 May 2024	11,338	11,269	69
AUC of FPIs at end of Apr 2024 (in USD million)	862,142	837,830	24,313

Source: FPI portal, NSDL (1 June 2024)

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