

**Purchase/Sale of Shares and/or Convertible Debentures by SEBI registered
Foreign Institutional Investors (FIIs) under Portfolio Investment Scheme (PIS)
A.P.(DIR Series) Circular No. 53 (December 17, 2003)**

**Reserve Bank of India
Exchange Control Department
Central Office
Mumbai 400 001**

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December 17, 2003

To
All Authorised Dealers in Foreign Exchange

Madam / Sirs

**Purchase/Sale of Shares and/or Convertible Debentures by SEBI registered
Foreign Institutional Investors (FIIs) under Portfolio Investment Scheme (PIS)**

Attention of Authorised Dealers is invited to Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 issued vide Notification No. FEMA.20/2000-RB dated May 3, 2000. In terms of Regulation 5(2) read with clause 1 (1) of Schedule 2 thereof, a SEBI registered FII may apply to the Reserve Bank for grant of permission to purchase shares or convertible debentures of an Indian company under Portfolio Investment Scheme (PIS).

2. It has now been decided to permit SEBI registered FIIs/ sub- accounts of FIIs to buy/sell equity shares/debentures of Indian companies (excluding companies engaged in the print media sector), units of domestic mutual funds, dated Government Securities and Treasury Bills through stock exchanges in India at the ruling market price, invest / trade in exchange traded derivative contracts, and also to buy/sell shares and debentures etc. of listed/unlisted companies otherwise than on stock exchange at a price approved by SEBI/ Reserve Bank as per terms and conditions prescribed in the [Annexure](#). For the purpose of FII investment, Government Securities would include dated securities of both Government of India and State Governments of all maturities and Treasury Bills of Government of India. Investment in Government dated securities and Treasury Bills by FIIs may be made either in the primary market (at the auction/floatation) or in the secondary market. The

investments will be made subject to SEBI (FIIs) Regulations, 1995 modified by SEBI/Government of India from time to time as published in the official Gazette of India.

3. The permission granted may also be treated as Reserve Bank's permission under Section 6 of the Foreign Exchange Management Act, 1999 to the investee company/ies for (a) registering the transfer of shares / debentures etc., in favour of the SEBI registered FIIs/ sub-accounts of FIIs, and (b) for issue of shares on account of conversion of debentures purchased by the SEBI registered FIIs/sub-accounts of FIIs.

4. Necessary amendments to the Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000 issued vide Notification No. FEMA.20/2000-RB dated May 3, 2000 are being issued separately.

5. Authorised Dealers may bring the contents of this circular to the notice of their constituents concerned.

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

Yours faithfully

F.R.Joseph

Chief General Manager

ANNEXURE

{AP (DIR Series) Circular No. 53
dated December 17, 2003}

1. A SEBI registered FII / approved sub-account is permitted to open a Foreign Currency denominated Account and / or a Special Non-Resident Rupee Account and to transfer sums from the foreign currency account to the rupee account for making genuine investments in the securities in terms of the SEBI (FIIs) Regulations, 1995. The sums may be transferred from foreign currency account to rupee account at the prevailing market rate and the Authorised Dealer may transfer repatriable proceeds (after payment of tax) from the rupee account to the foreign currency account.

2. The Special Non-Resident Rupee Account may be credited with the proceeds of sale of shares / debentures, dated Government securities, Treasury Bills etc., dividend, income received by way of interest, forward contracts booked etc., by compensation received towards sale / renouncements of right offerings of shares and income earned on securities lent under SEBI's Securities Lending Scheme, 1997 after deduction of appropriate tax, if any subject to the condition that the Authorized Dealer should obtain confirmation from the investee company/FII concerned that tax at source, wherever necessary, has been deducted from the gross amount of dividend / interest payable/ approved income to the share / debenture / Government securities holder at the applicable rate, in accordance with the Income Tax Act.

3. The Special Non-Resident Rupee Account may be debited for purchase of shares / debentures, dated Government securities, Treasury Bills etc., and for payment of fees to applicant FIIs' local Chartered Accountant/Tax Consultant where such fees constitute an integral part of their investment process.

4. The SEBI registered FII/sub-account is/are permitted to purchase shares/convertible debentures of an Indian company through offer/private arrangement subject to the applicable ceiling and the Indian company is permitted to issue such shares provided that:
 - (i) in the case of public offer, the price of shares to be issued is not less than the price at which shares are issued to residents and
 - (ii) in the case of issue by private placement, the price is not less than the price arrived at in terms of SEBI guidelines or guidelines issued by the erstwhile Controller of Capital Issues, as applicable. Purchases can also be made of PCDs/FCDs/Right Renunciations/Warrants/Units of Domestic Mutual Fund Schemes.

5. FII shall not engage in short selling and shall take delivery of securities purchased and give delivery of securities sold. There shall be no squaring off of transactions during the no-delivery period of a security.

6. The SEBI registered FII shall restrict allocation of its total investment between equities and debt in the Indian capital market in the ratio of 70:30. The FII may form a 100% debt fund and get such fund registered with SEBI.
7. The purchase of equity shares by a single SEBI registered FII/sub-account in each company shall not exceed 10% (ten percent) of the paid-up equity capital of the company. The purchase of equity shares by each foreign corporate and foreign individual shall not exceed 5% of the paid-up equity capital of the company within the overall aggregate limit of 24% or the sectoral cap / statutory ceiling, as applicable. These limits shall include acquisition of shares in primary / secondary market.
8. SEBI registered FII may trade in all exchange traded derivative contracts on the stock exchanges in India subject to the position limits as prescribed by SEBI from time to time. The SEBI registered FII/sub-account may open a separate sub-account of their Special Non-Resident Rupee Account through which all receipts and payments pertaining to trading/investment in exchange traded derivative contracts including initial margin and mark to market settlement, transaction charges, brokerage etc., will be made. Further transfer between the Special Non-Resident Rupee Account and the sub account maintained for the purpose of trading in exchange traded derivative contracts can be freely effected. However, repatriation of the rupee amount will be effected only through their Special Non-Resident Rupee Account subject to payment of relevant taxes. The Authorised Dealer may keep proper records of the sub account and submit them to Reserve Bank as and when required.
9. SEBI registered FIIs/sub-accounts may keep with the Trading Member/ Clearing Member amount sufficient to cover the margins prescribed by the Exchange / Clearing House and such amounts as may be considered necessary to meet the immediate needs.
10. A daily statement in respect of all transactions (except derivative trade) should be submitted in floppy/soft copy in the prescribed format directly to the Chief General Manager, Exchange Control Department, Reserve Bank of India, Foreign Investment Division, Central Office, Central Office Building, Mumbai 400 001 to monitor the overall ceiling/sectoral cap/statutory

ceiling. When the total holdings of FIIs reach within 2% of the applicable limit, Reserve Bank will issue a notice to all designated branches of Authorised Dealers stating that any further purchases of shares of the said company require prior approval of Reserve Bank. No purchases shall be made once the prescribed overall ceiling/sectoral cap/statutory limit is reached.