RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2011-12/148

A.P. (DIR Series) Circular No. 08 **August 9, 2011**

To,

All Category – I Authorized Dealer banks

Madam / Sir,

Investment in the units of Domestic Mutual funds

Attention of Authorized Dealers Category – I (AD Category - I) banks is invited to Schedule 5 to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified vide Notification No. FEMA 20 / 2000 -RB dated May 3, 2000 as amended from time to time, in terms of which, a SEBI registered Foreign Institutional Investor (FII) and Non Resident Indian (NRI) may purchase, on repatriation basis, units of domestic Mutual Funds (MFs), subject to such terms and conditions mentioned therein and limits as prescribed for the same by the Reserve Bank and the Securities and Exchange Board of India (SEBI), from time to time.

2. It has now been decided, in consultation with the Government and the SEBI, to allow non- resident investors (other than SEBI registered FIIs and SEBI registered FVCIs) who meet the KYC requirements of SEBI, hereinafter called 'Qualified Foreign Investors' (QFIs), to purchase on repatriation basis rupee denominated units of equity schemes of domestic MFs issued by SEBI registered domestic MFs in accordance with the terms and conditions as stipulated by the SEBI and the RBI from time to time in this regard.

The QFIs may invest in rupee denominated units of equity schemes of domestic MFs issued by the SEBI registered domestic MFs under the two routes, namely:

i) Direct Route – SEBI registered Depository Participant (DP) route

ii) Indirect Route - Unit Confirmation Receipt (UCR) route

3. These investments would be subject to the following terms and conditions:

General conditions

i) Investments by the QFIs would be subject to a ceiling of USD 10 billion under both the routes. For the purpose of this ceiling of USD 10 billion, total amount invested for the purchase of domestic MFs units by all QFIs and the money lying in the single rupee pool bank accounts of DPs would be added. SEBI will monitor the ceiling of USD 10 billion on daily basis through the concerned domestic MFs and DPs.

ii) The investment under both the routes by the QFIs will be in the units which are directly issued by the domestic MFs and no secondary market purchases would be allowed.

iii) Only QFIs from jurisdictions which are compliant with the FATF standards and are signatories to the IOSCO's Multilateral Memorandum of Understanding will be eligible to invest in domestic MFs under this Scheme.

iv) DPs will ensure KYC of the QFIs as per the norms prescribed by SEBI.

v) Domestic MFs would also undertake KYC of the QFIs.

vi) Units and UCRs issued under this scheme to QFIs, would be non-tradable and non-transferable.

Direct Route

vii) The DP route will be operated through separate single rupee pool bank account to be maintained by the DP with a AD Category I Bank in India. The funds received from the QFIs into this account shall be remitted to the domestic MF either on the same day of the receipt of the funds from QFIs or by next business day in case money is received after business hours, failing which the funds would be immediately repatriated back to the QFI's overseas bank account. The redemption proceeds of the units will also be received from the domestic MF into this account and shall be repatriated to the overseas bank account of the QFI within two working days of the same having being received in the rupee pool account of the DP. Within these two working days the redemption proceeds can also be utilized for further investment by the QFI under this scheme. The foreign inward remittances in to the single rupee pool bank account of DPs shall be received only in permissible currency (i.e. freely convertible currency). **Dividend payments on units held by QFIs would have to be directly remitted to the overseas accounts of the QFIs by the domestic MFs and dividend payments to QFIs would not be allowed as an eligible credit to the single rupee pool bank account.**

viii) QFIs would be allowed to open a single demat account with a DP in India for investment in rupee denominated units of different domestic MFs equity schemes. However, the QFIs would not be allowed to open a bank account in India.

Indirect Route

ix) Domestic MFs would be allowed to open foreign currency accounts outside India for the limited purpose of receiving subscriptions from the QFIs as well as for redeeming the UCRs.

x) The UCR will be issued against units of domestic MF equity schemes.

4. It has also been decided to allow QFIs to invest (under both the routes – Direct and Indirect, subject to the terms and conditions mentioned in para 3 above) up to an additional amount of USD 3 billion in units of domestic MF debt schemes which invest in infrastructure ("Infrastructure" as defined under the extant ECB guidelines) debt of minimum residual maturity of 5 years, within the existing ceiling of USD 25 billion for FII investment in corporate bonds issued by infrastructure companies.

5. Investments by QFIs in units of domestic MFs, as above, shall also comply with the provisions of FEMA Notification 1 dated May 3, 2000, as amended from time to time.

6. AD Category - I banks may bring the contents of the circular to the notice of their customers/constituents concerned.

7. Necessary amendments to Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 (Notification No. FEMA 20/2000-RB dated May 3, 2000) and Foreign Exchange Management (Deposit) Regulations, 2000 (Notification No. FEMA 5/2000-RB dated May 3, 2000) are being notified separately.

8. 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) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Meena Hemchandra)
Chief General Manager-in-Charge