Matters to be considered by NRIs for equity investment in India

Who is an NRI?

- As per Income Tax, an individual is considered to resident for the financial year if he/she has been in India for
  - 182 in the financial year; or
  - 365 days out of preceding four financial year and 60 days in the current financial year
- If these conditions are not met, then such person is considered to be an NRI

Investment options for NRI

- NRIs can invest in
  - Government securities
  - Non-convertible debentures of Indian companies
  - Equity and convertible debentures of Indian companies, subject a cap as imposed by RBI from time to time
  - Investment in mutual funds
  - Corporate deposits
- NRIs can not invest in
  - Public Provident Fund (PPF) -
  National Savings Certificates

Banking requirements

- Ordinarily every NRI opens two bank accounts in India
  - Non Resident External account (NRE) - Money can be repatriated
  - Non Resident Ordinary account (NRO) - Money can not be repatriated
- These accounts can be used for investment in IPOs, receiving/making gifts, meeting domestic expenses etc.
  - Shares purchased as resident Indian can be sold as under NRO account

Banking requirements for investing in secondary markets

- For investing in secondary markets, i.e. purchase or sale of shares on recognized stock exchanges, Portfolio Investment Scheme (PIS) accounts need to be opened with RBI approved banks

  - NRE PIS account -
  NRO PIS account

PIS account explained

- RBI has investment restrictions on foreign ownership of Indian companies
- Through PIS account RBI is able to monitor these limits
- Currently these limits are
  - 24% of paid up (issued) capital for FIIs
  - 10% of paid up (issued) capital for NRIs/PIOs
  - 20% of paid up (issued) capital for public sector banks

Purpose of PIS account

- All purchase and sale transactions are funded through PIS account
- Bank reports the transactions to RBI on a daily basis through which RBI monitors the investment limits

Banking requirement summarized

- NRIs/PIOs should open four accounts for investment in Indian equities
  - NRE saving account
  - NRE PIS account
  - NRO saving account
  - NRO PIS account
- In case no local money will be used for investments, then NRO accounts are not required

Accounts are linked and funds can not be intermingled

Source of Funds: Abroad

NRE account

NRE PIS account

NRE demat account

Source of Funds: India

NRO account

NRO PIS account

NRO demat account

Additional investment consideration

- One additional requirement for investment is to open a demat account
  - NRE demat account -
  NRO demat account
- All purchases are transferred to the demat account and all sale must be transferred from the demat account

Process flow for account opening

Customer provides KYC documents for opening bank accounts → Bank opens NRE/NRE-PIS, NRO/NRO-PIS accounts → NRE/NRO Demat accounts are opened and linked to respective accounts → Bank branch issues PIS permission letter, based on which broking accounts are opened

Process flow for purchase transactions

Purchase date (T+0)

- Broker executes purchase transaction after checking with RBI negative list
- Broker sends contract notes to client & bank within 24 hours of trade

Payment (T+1)

- Based on contract note and after internal processing by bank, it issues funds to broker from client NRE/NRO account

Share receipt (T+2)

- On receipt of funds, shares are automatically transferred to NRE/NRO demat account of the client
- In case of delivery shortage, shares can come on T+4 day

Process flow for sale transactions

Sale date (T+0)

- Broker executes sale transaction
- Broker sends contract notes to client & bank within 24 hours of trade

Share transfer (T+1)

- DP transfers shares for pay in to the exchange

Fund flow (T+2)

- Bank receives cheque for sale value from the broker
- Sale proceed is credited to NRE/NRO account after deducting capital gains tax (on FIFO basis), if any

Bank sends the TDS certificate to the client annually

Taxation

- Long term capital gain (investment held >1 year) is currently exempt from taxation
- Short term capital gain (investment held <1 year) is currently taxed at 15%
- Financial year runs from April of current year to March of following year
  - Individuals are required to file tax returns by July 31st
- If the tax liability is lower than TDS deducted by bank then the individual is entitled for refund

Other charges

- In addition to brokerage commission, following statutory charges are also levied:
  - Security Transaction Tax (STT) @ 0.125% of transaction value
  - Stamp duty of 0.01% of transaction value
  - Exchange & SEBI charges of 0.004%
  - 10.3% of brokerage commission as service tax and surcharge
  - Depositary charges for pay-in of shares at the time sale, as per DP schedule
- Additionally bank will charge annual fee for maintaining PIS accounts and a transaction fee for each security traded per day

Other things to remember

- PAN card must be obtained to transact in equity markets in India
- NRI/PIO can not purchase shares on RBI negative list
  - List is updated daily and can be viewed at http://rbi.org.in/scripts/BS_FiiUSer.aspx
- No short selling is allowed
- An offsetting transaction (square up) can not be done
  - Same security can not be purchased and sold on same day on the same exchange
- No leverage is permissible for trading
  - No set off of sale with purchases can be made
  - Funds must be available in account before purchases

Documents required to open broking and demat account

- PIS approval letter from bank
- Account opening form duly filed and signed
- Recent passport sized photograph
- Copy of PAN card
- Copy of Passport & Visa (Copy of pages with name, address & photograph)
- Foreign address proof in name of NRI
- Bank standing instruction authorizing broker to debit client's PIS account
- Proof of demat account

Documents required to open broking and demat account (contd.)

- Documents valid as ID proofs
  - PAN card - Mandatory
  - PIO card / OCI card - Mandatory, as applicable
  - Voter id card
  - Passport
  - Driver's license

  At least one of three
- Documents valid as foreign address proof
  - Foreign driver's license
  - Bank statement along with original cancelled cheque
  - Electricity bill (not older than three months)
  - Telephone bill (not older than three months)
  - Leave & License agreement / Agreement for sale
  - PIO Card
  - Resident Permit

  At least two