To,

10th September, 2023

Securities and Exchange Board of India
Via email to: email to afdconsultation@sebi.gov.in , with a copy to Shri Arpit Anand, Assistant General Manager (arpit_anand@sebi.gov.in) and Shri Naveen Kumar, Assistant General Manager (naveenkr@sebi.gov.in).

Sub: Comments on Consultation Paper on permitting increased participation of Non–Resident Indians (NRIs) and Overseas Citizens of India (OCIs) into SEBI-registered Foreign Portfolio Investors (FPIs) based out of International Financial Services Centres (IFSCs) in India and regulated by the International Financial Services Centres Authority (IFSCA).

At the outset, we, at Indian Association of Investment Professionals (IAIP), a member society of the CFA Institute, appreciate the opportunity to submit our comments to the **Consultation Paper on permitting increased participation of Non – Resident Indians (NRIs) and Overseas Citizens of India (OCIs) into SEBI registered Foreign Portfolio Investors (FPIs) based out of International Financial Services Centres (IFSCs) in India and regulated by the International Financial Services Centres Authority (IFSCA)**

IAIP is an association of over 2000 local investment professionals who are CFA charterholders and about 6000+ professionals who have cleared exams, eligible and awaiting charter. The Association consists of valuation professionals, portfolio managers, security analysts, investment advisors, and other financial professionals that promote ethical and professional standards within the investment industry, facilitate the exchange of information and opinions among people within the local investment community and beyond, and work to further the public's understanding of the CFA designation and investment industry.

CFA Institute is a global non-profit association of investment professionals with over 170,000 members in over 165 countries. In India, the community of CFA charterholders is represented by the Indian Association of Investment Professionals (CFA Society India).

Through our global research and outreach efforts, CFA Societies around the world endeavour to provide resources for policy makers, financial services professionals and their customers in order to align their interests. Our members engage with regulators in all major markets.

The recommendations put forth in the consultation paper are a positive step. The relaxation for NRI/OCI investment in FPIs set-up in IFSC will give a big boost to foreign investments in India. Such relaxation should also be considered for resident individuals investing in alternative investment funds based out of IFSC and investing in India. We have some suggestions with regards to that, which we have put forth in our comments.

We would be happy to hear and discuss the merits / demerits of suggestions proposed by other practitioners and request to be included in the deliberation process.

A. **Details of our Organisation:**
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C. Suggestions / Comments:

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Category: Association of Investment Professionals			
Sr. No.	**Paragraph**	**Suggestion/Comments**	**Rationale**
1.	4.1. Over the years, there has been a constant demand for channelling more NRI/ OCI investments in the Indian securities markets by facilitating greater participation of NRIs/ OCIs in the corpus of the FPIs. It is a stated policy decision of the Government to facilitate higher NRI investments into the country. The Hon'ble Finance Minister had also acknowledged in the budget speech in July 2019 that even though India is the world's top remittance recipient, NRI investment in Indian capital markets is comparatively less.	We appreciate and support the SEBI's effort to come up with this proposal to boost NRI/OCI investments through the FPI route. There has been an increasing demand for channelling more NRI/OCI investments in the Indian markets through the FPI route. Such entities currently have the option of using the PIS, or portfolio investment scheme route, but this restricts investment through overseas pooled structures But, we would like to suggest that instead of only allowing this relaxation for IFSC funds, SEBI can look to make this more broad based	We believe that there is a strong case that existing regulated offshore funds should also be provided this relaxation. Such funds are approved FPI Category 1 funds under SEBI FPI regulations (like IFSC funds), and have agreed to abide by various regulations under Section 9A. According to our members, several regulated offshore (overseas) funds (UCITs / Ireland or Luxembourg or US 40 Act etc), with an Indian Investment Manager and / or approvals under Section 9A of the Indian Income tax act continue to face a similar challenge in raising assets for

		1. This should also be available to a section of FPI Cat 1 Offshore Funds that are managed directly from India by SEBI regulated AMCs under 24(b) SEBI regulations and Section 9A of the Indian Income Tax Act. 2. This should also be available to SEBI regulated Mutual Fund Schemes through the launch of a USD / EUR / GBP direct and regular plans in existing mutual fund schemes with full repatriation option.	newly launched funds, due to limited foreign interest. This proposal would enhance assets under management from India, and also allow SEBI regulated managers to compete with globally recognised fund structures available in client markets. The above funds are permitted (passport and registrations done) for marketing/offering in the foreign jurisdiction to accredited and retail clients and such investors may include NRIs based in those countries. Existing SEBI regulated MF schemes already have NRI assets through onshore bank accounts, long performance track record, and strong regulatory supervision of SEBI. It would be much easier to launch additional multi currency direct and regular plans dedicated for NRIs / OCIs and achieve the objectives of this consultation paper for investor KYC, local custody and reducing AML risks.
2.	**6. Current Situation and need for review:** 6.4. During the course of recent investigations as well, SEBI has faced difficulties in seeking details of BOs of FPIs/ investors of FPIs incorporated in jurisdictions which have stringent data privacy	We believe that this problem of seeking details of Bos in FPIs is not being solved even when the fund is domiciled in IFSC. Currently, NRI KYC and Onboarding: Overseas Funds (FPI Cat 1) is done as per the below process: - If NRIs invest directly with the fund entity or through distributors , beneficiary details are available with all offshore	The problem is not solved in the scenario of omnibus investment. For example, Indian or Foreign Banks' branches / subs in overseas markets have license to book trades for such NRI clients (called omnibus investment) from their branches in Bahrain, Singapore (fully regulated locally in such region). The investor in this case (in the funds' books) is the Indian or

	laws or where anti-money laundering rules and guidelines do not require BOs identification as per the thresholds prescribed by Prevention of Money Laundering Act, 2002 ("PMLA") and Prevention of Money Laundering (Maintenance of Records) Rules, 2005 ("PMLR").	funds, as KYC happens at the fund depository (such as a large global bank) - If NRI's invest through private banks or fund platforms, then KYC is the responsibility of the bank (Omnibus investment) and platforms (All Funds etc), and the end beneficiary details may not be available with the fund depository. In the second case, when investment is done through fund platform of bank (omnibus investment), the BO identification detail may still not be available. We may also have data privacy challenges due to individual foreign countries laws.	Foreign Bank. Many countries restrict sharing of end client data from such omnibus trades irrespective of the bank arrangement with the Investment Manager (data secrecy), except under specific regulatory enquiries. Hence, the BO related concerns raised are not solved for such NRI investments in IFSC funds either. Rather, if we Indian Investment Managers (managing overseas funds) to ensure that overseas bank distribution agreements explore client disclosures clause (under specific regulatory request or enquiry), for NRI funds in FPI Cat 1 Offshore or FPI Cat 1 IFSC funds.
3.	**7. Proposal and Rationale:** 7.1. The concerns of market manipulation by NRI/ OCI owned entities stated in the JPC Report exist even today due to possible proximity of persons of Indian origin with Indian companies/ promoters. At the same time, it is also recognized that further investments in the Indian securities markets can be facilitated by channelling NRI/ OCI investments into the country through FPIs that are professionally run by investment managers and whose securities are kept in safe-keeping/custody	We believe that the rationale that only IFSC funds securities are kept in safe keeping/custody by SEBI registered custodians may not be consistent Currently, all FPI Cat 1 overseas funds have their securities in custody (or kept in safe keeping) with SEBI approved custodians in India. Such custodians have back to back agreements with the depository of such fund in the overseas market. Hence, the above argument in 7.1 is possibly not entirely consistent	SEBI approved FPI Cat 1 funds have similar custody arrangements (through contracts between overseas depository and SEBI approved custodian. In most cases the same bank (like Citi, DB, HSBC) would handle depository and India custody. In some cases a global custodian would exist where India security custody may be sub delegated to the SEBI approved Indian custodian.

	by SEBI registered custodians.		
4.	7.2. In this respect, there is a need to balance the requirement of facilitating and increasing the avenues for investment from NRIs/ OCIs in the country with appropriate risk mitigation measures to address the concerns listed in the JPC report as mentioned above. 7.3. Accordingly, if the aggregate contribution of NRIs/ OCIs beyond 50% of the corpus of the FPI is to be permitted, it is proposed that this may be made applicable only to such FPIs that are based out of International Financial Services Centres (IFSCs) in India and regulated by the International Financial Services Centres Authority (IFSCA). Considering that IFSCA is a domestic regulator, the KYC and due diligence undertaken by an IFSC Fund Management Entity in onboarding an investor for its fund and identifying and verifying its BOs shall broadly be the same as carried out by Indian intermediaries, as entities from both these jurisdictions are governed by the PMLA and PMLR. Similar to domestic financial institutions, the institutions in IFSC are	We recommend that SEBI allow certain FPI Cat 1 offshore funds (managed by SEBI regulated Indian AMCs from India) to also benefit from the removal of 50% rule, along with the guidelines mentioned in clause 7.7.2.3. Further providing the relaxation to only IFSC funds would end up differentiating SEBI regulated FPI Cat 1 funds, despite similar commercial / investor onboarding process by such global banks / intermediaries.	Overseas pooled structures contribute a very large proposition of inflows into India, but remained constrained in accepting NRI/OCI flows. Existing overseas pooled structures are best placed to raise assets from NRIs / OCIs compared to IFSC due to their track record, commercial structure, and regulatory authorisation in client markets. IFSC based Funds may not possibly be able to capture the opportunity as much as the above overseas funds given the growing restrictions on offering or marketing foreign securities in client markets. - Recent circulars from UAE indicate complete restriction on non UAE based funds from being offered to local residents. - Singapore also has rules governing “restricted offering” that require local private banks to take up the offering of such foreign security (omnibus fund structure where investor KYC is the responsibility of the Singapore entity) - EU regulations specify the UCITs requirement and related passport and marketing rules across each country. Foreign funds (IFSC or SEBI MF Schemes) are not approved for such activity.

	also required to take registration with Financial Intelligence Unit (FIU) and file Suspicious Transaction Reports (STRs). …. 7.7.2.3. NRIs/ OCIs identified as BOs of the FPI shall be required to provide passport no. / OCI no. respectively to their DDPs. In case such FPIs fulfil any criteria mentioned in Para 7.7.2.2, they shall provide data in the manner and format specified vide SEBI circular dated August 24, 2023 read with the Standard Operating Procedure (SOP) mentioned therein.		- IFSC funds (or any fund domiciled outside the respective client market) may be considered a foreign security in such jurisdictions and hence, the ability to offer such a fund through organised channels in those regions (especially to NRI individuals, retail) could be very limited.
5.	7.7.2.4. FPIs/ FPI applicants based out of IFSCs in India and regulated by IFSCA, that are desirous of having more than 50% aggregate contribution from NRIs/ OCIs in their corpus, may opt to do so by submitting declaration in this regard to their DDPs. Such declaration may be submitted at the time of seeking registration or anytime during the validity of their registration. Once a FPI submits such declaration, it shall comply with the aforementioned conditions throughout the validity of its registration, irrespective of the actual aggregate NRI/ OCI	We recommend that FPI Cat 1 Offshore Funds that are yet to start operations , and managed or sub managed by SEBI regulated asset management firm (India based entity) under section 9A and that are desirous of having more than 50% aggregate contribution from NRIs / OCIs, may opt to do so by submitting similar declarations for NRIs . We also recommend that Existing SEBI regulated MF schemes to be allowed to launch additional multi-currency direct and regular plans dedicated for NRIs / OCIs (from foreign bank accounts) and achieve the objectives of this consultation paper for investor KYC, local custody and reducing AML risks.	These CAT1 funds are domiciled in client markets and can be legally offered in such markets unlike India domiciled funds. Overseas Funds (FPI Cat 1) are major investors into Indian equity and fixed income markets. These funds comply with the regulations applicable in the home market of the fund, client market and SEBI FPI regulations for investing into India. It is likely that in recent times, there has been some concern in certain cases (para 5 of the circular); however there are ways to minimise such risk through surveillance and regular disclosures.

	contribution in the corpus of the FPI.		Currently, NRIs are able to subscribe overseas Feeder Funds offered by regulated intermediaries and investing into SEBI Mutual Fund Schemes in India. NRIs prefer to invest foreign currency assets through overseas funds. Multi currency regular and direct plans could solve the objectives outlines in the paper.

Thank you again for the opportunity to comment on this important regulatory framework. If you or your staff have questions or seek further clarification, please do not hesitate to contact Mr. Ravi Gautham, CFA at +91 99021 17087 or at advocacy@iaipirc.org.

Sincerely yours,
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