

Working Group on Foreign Investment in India

Presentation by Association of
National Exchanges Members of
India (ANMI)



About ANMI

- Pan-India Trade Body of over 700 capital market intermediaries
- Work for market development to expand markets in a healthy manner for all stakeholders
- In constant dialogue with regulators as well as similar trade bodies across the globe



Review of Existing Policy of Foreign Investment

- Present system of registration of FII with SEBI to be continued, but should be made easier.
- Foreign Nationals, Individuals and Bodies Corporate should be allowed to make direct investment
- Presently only NRIs and PIOs are permitted to invest
 - RBI (Portfolio Investment Scheme) ; need to be a PIO

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Review of Existing Policy - Permit Foreign Citizens to invest directly

- High intermediation costs incurred by those who cannot invest directly (eg. Warren Buffet not permitted to invest directly)
- High attraction to invest in India by foreign residents, but not permitted. Simultaneously, Indians are permitted to invest abroad
- Strict KYC norms applied by SEC can be adopted



Review of Existing Policy – cont'd

- Entities approved by SEC with approval reference may be allowed to invest
- Co-ordination with SEC required to permit investments by US citizens
- Adequate checks and balances may be put in place
- This money tends to be long term in nature

Relax Limits in Debt Investment

- Increase limits in Debt Investments for FIIs
- Large sums of Client Monies that want to invest in capital protection schemes are being kept out
- Such investors need to be allowed to invest in debt



Establishing Offices in India

- FIIs prefer having permanent offices in their country of operation for research and other activities
- Doing so, however, gets them to be treated and taxed as local entities, deterring them from making investments
- Norms need to be re-defined to facilitate ease of business

KYC Norms

- Very cumbersome, and long drawn
- FIIs find it difficult to comply, particularly when people in the Institutions change
- Need to rationalise norms, maybe along the lines of what SEC in the US has



Ease FII Registration

- Give FIIs incentive to come in directly and not opt for the PN route
- Clear proposals in a time bound manner
- Ease norms for FIIs (presently require a minimum of 20 investors for registration)
- Alternatively, create a separate category of foreign investors, who are regulated by strict KYC norms



Ease norms for NRIs

- Presently TDS is required to be deducted on profitable trades of NRIs whenever payments are deposited, also blocking fund flows
- Such TDS doesn't take into account profits / losses for the entire year, thus requiring tax refunds constantly
- TDS may be paid only during the end of the year after accounting for the entire year



Cost of Transactions in India

- Costs like STT, Stamp Duty & Service Tax account for 55% of total charges
- High costs impact liquidity, and thereby, price discovery
- STT ensures no leakage of revenue
- DTC recommends removal of STT, but silent on Long Term Capital Gains, thereby discouraging long term investors



Cost of Transactions in India – Measures required

- Taxes like STT increase the cost of transaction
- Abolish Stamp Duty across the country
- Rationalise Service Tax rates, since large collections are already taking place
- Alternatively, have a single statutory levy, eg. in Korea



Double Taxation Treaty

- Time frames for such treaties need to be defined for a fixed period of time.
- Cannot be made subject to constant review on short notice
- Clear norms are beneficial for Investors as well as Regulators
- Lack of clarity deters long term investment and encourages speculation



Thank You

