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# *Foreign Portfolio Investor Survey 2016-17*

India moving in the  
right direction



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**Gautam Mehra**  
India Tax Leader,  
PricewaterhouseCoopers  
Private Limited

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## *Preface*

It is a pleasure to launch the first edition of the Foreign Portfolio Investor Survey, which summarises feedback from a section of foreign investors with respect to India's investment climate in general and its tax and regulatory environment, in particular.

Buoyed by relatively positive growth rates, India continues to be an attractive investment destination, specifically among emerging markets. Programmes like Make in India, Skill India, Digital India, Smart Cities, as well as the JAM trinity (Jan Dhan Yojana for financial inclusion, Aadhaar for Direct Benefit Transfer and use of mobile technology for the delivery of last-mile services), have been launched by the Indian government to promote all-round growth.

India ranks 130 in the World Bank Report of Doing Business in India 2016. The government has expressed its commitment to improving India's world ranking. Tax has emerged as an important area of reform, with the last Indian Budget laid out in the Parliament including it as one of the nine distinct pillars of transformation. The government has provided impetus to put in place a long-term, stable, predictable and non-adversarial tax regime, one outcome of which would be an improvement in the above ranking. The results of this survey indicate that the needle on tax appears to be moving in the right direction.

The survey also indicates that, on the whole, the investors were satisfied with Indian income-tax rates on capital gains, the outcome of the MAT controversy and tax audits, the regulator's response to queries, and the trade and settlement process.

GAAR, offshore transfer tax provisions, fund manager safe harbour provisions and developments around the India-Mauritius tax treaty, however, continue to be areas which have engaged attention, and need ongoing discussion and clarity—efforts that are, to some extent, already in progress. The first edition of this survey explores these insights and challenges.

I do hope you enjoy reading this report, and look forward to your comments and suggestions.



**Suresh Swamy**  
Partner, PricewaterhouseCoopers  
Private Limited

## Overview

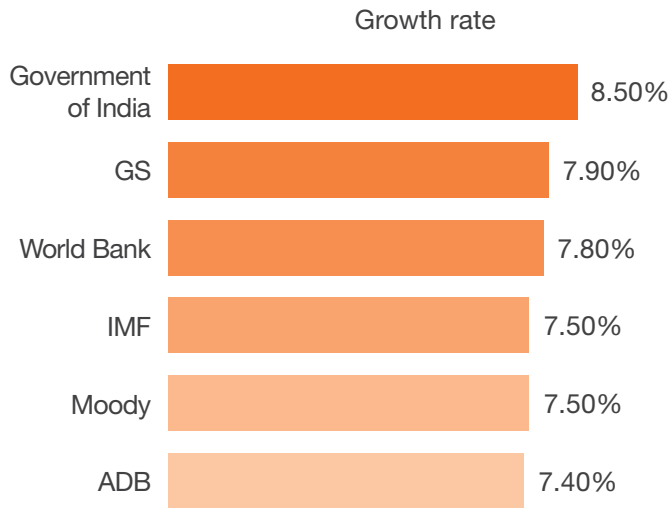
India is one of the fastest growing large economies in the world. While the world economy is expected to grow at 3.2% in 2016, India's growth is projected to range between 7.4% and 8.5% (Graph 1). An acceptable range of fiscal and revenue deficits (Graph 2), along with easing prices and a good monsoon, is supporting growth. Overall, the Indian economy is performing relatively better than its counterparts—a position that is evident in the results of our survey as well. Market indices also reflect this (Graphs 3 and 4).

The views gathered from over 200 participants from across the globe suggest that India is one of the most attractive destinations for FPIs, with a favourable trade and settlement cycle, moderate tax rates and adequate investment limits.

However, the FPI community expects a lot more. There still exists a significant minority (45%) that feels that the cost of trading is high. It is a known fact that STT, transaction fees, statutory compliances, etc., add to the operating cost, and a lot more can be done to bring down the cost of trading. Interoperability between CCs, allowing offset of positions across exchanges and taxing dollar gains as against rupee gains are some of the potential solutions. A future where controversies that shake investor confidence, like the MAT controversy, should be avoided. FPIs' experience in dealing with the Indian Revenue Department needs to be improved. Standard, non-customised and repetitive questions year after year must stop. One should, however, acknowledge that a humble beginning to go paperless has been made, and things can only improve as time progresses.

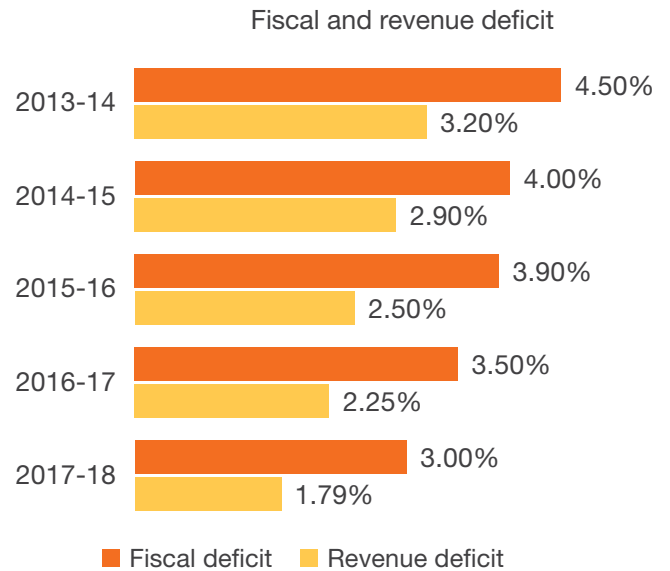
This report captures the insights from our survey, and we hope that you will find it interesting and useful. The aim of our survey is to bring investor feedback to the fore and, in some manner, act as a bridge between investors and various government agencies. Do send us your feedback.

**Graph 1: GDP growth rate estimate for FY 2016-17 by various agencies**



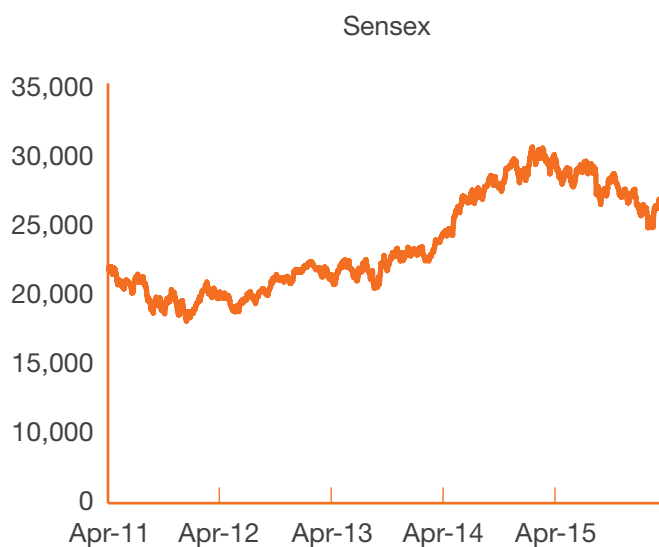
Source: ADB website, World Economic Outlook April 2016 by IMF, Moody's website, India Development Update report by World Bank, Annual outlook report by Goldman Sachs

**Graph 2: Fiscal and revenue deficit as a % of GDP**



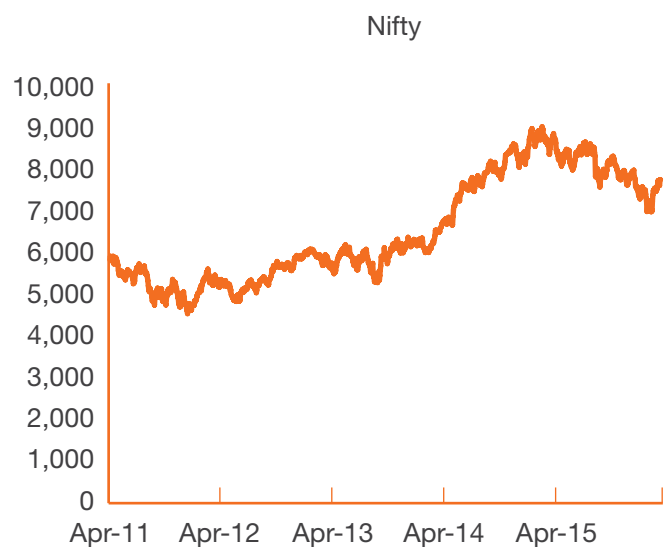
Source: Press Information Bureau, Government of India, Ministry of Finance

**Graph 3: Movement of Sensex index over the last 5 years**



Source: Bombay Stock Exchange

**Graph 4: Movement of Nifty index over the last 5 years**



Source: National Stock Exchange



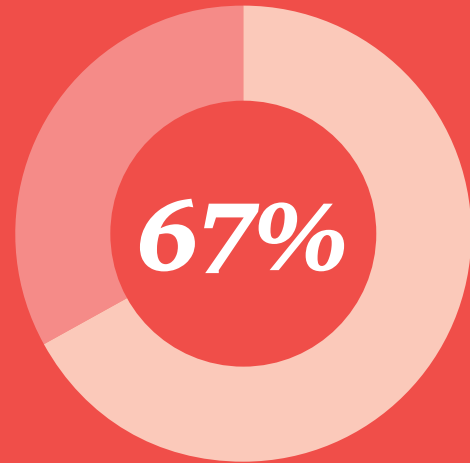
# India: An attractive destination for portfolio investors

FPIs worldwide believe that India is an attractive investment destination among emerging markets.

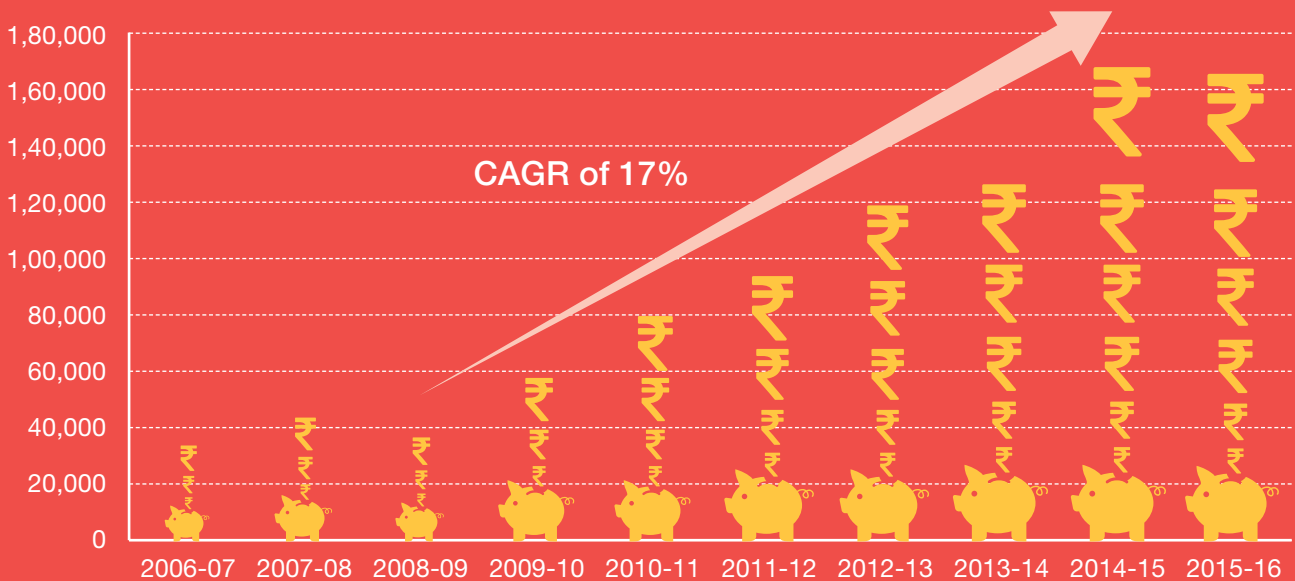
Among respondents with definitive answers,<sup>1</sup> 67% stated that India is a preferred FPI destination among emerging markets. This is in line with the findings of the 19th Annual Global CEO Survey,<sup>2</sup> where 1,409 CEOs from around the world felt that India is the 9th most important market for their overall growth prospects in the next 12 months.

The optimism towards investing in India is evident from portfolio investments in debt and equity in the country. Though there has been a slowdown in the last year, the CAGR of cumulative investment inflows into India in the last decade (2006-07 to 2015-16) has been 17%.

**Do you think India is the preferred investment destination among emerging markets for FPIs? (percentage of respondents who replied 'Yes')**



## Investments have recovered and performed well after the 2008 financial crisis (cumulative investment, million USD)<sup>3</sup>



Source: National Securities Depository Limited

1. A definitive answer is a 'Yes' or 'No'.
2. PwC's 19th Annual Global CEO Survey – Redefining business purpose in a changing world. Retrieved from <http://www.pwc.in/publications/global-ceo-survey-2016.html>
3. The conversion rate has been taken as 1 USD = 67 INR.

Investment inflows by portfolio investors over the past few years have been volatile. The volatility of FPI investments is reflected in the chart below, where FPI investments increased until 2012-13, followed by a reduction in 2013-14. Again, in the year 2014-15, with the Narendra Modi led BJP government coming into power with a majority, FPI investments saw a steep rise of more than five times compared to the year 2013-14. This was followed by a negative year due to the Fed raising interest rates in the US.

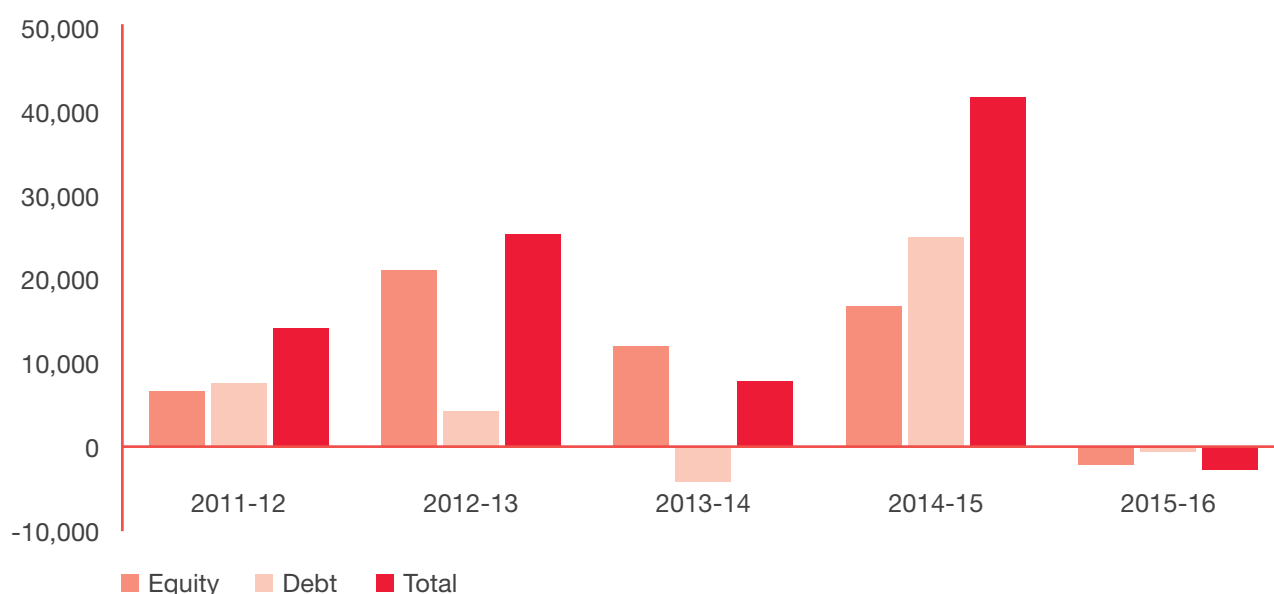
FPI investments are generally a reflection of global trends. Global events, such as the crash of China's stock market and problems in the eurozone, lead to an overall decline.

FPI investments have, however, recovered in 2016-17, with FPIs being net buyers in the Indian stock market. FPI investments till July 2016 this year have been 29,918 crore INR.

## Founder and CEO of \$2.3 billion India focused fund

“India’s attractiveness for a portfolio investor closely mirrors its attractiveness as a business destination. As the quality of businesses and the business environment have improved over the past 25 years, it has become very tough for serious global investors to ignore India. The continued independence and transparency of RBI and SEBI have also helped bolster investor sentiment towards India. We hope India continues to pursue structural reforms which will improve the well-being of its billion plus citizens, and in turn, further enhance its appeal as a business and investment destination.”

### FPI investments have been volatile over the years (million USD)



Source: National Securities Depository Limited

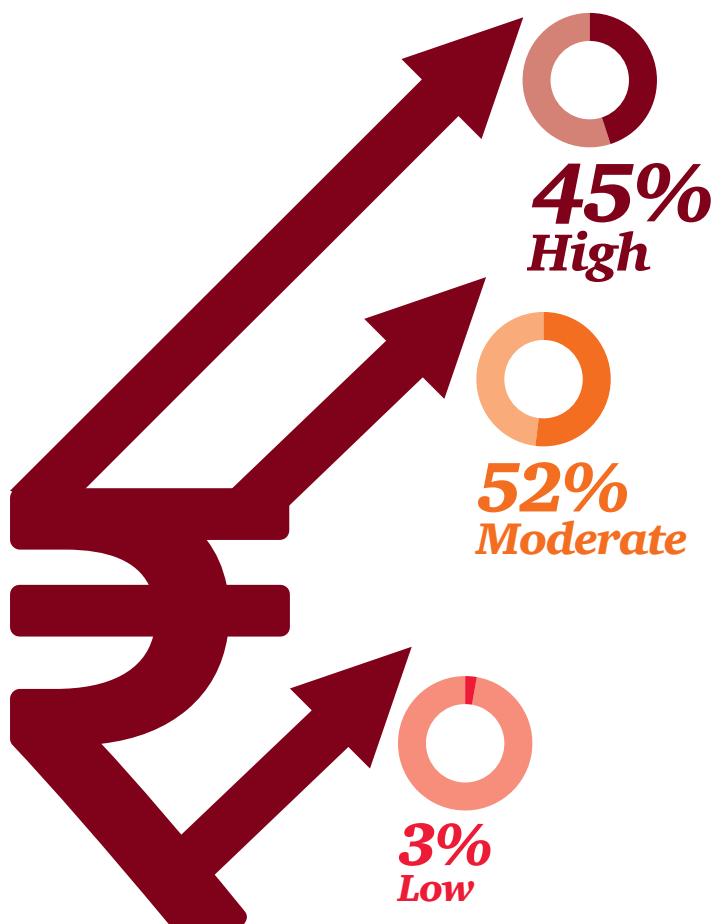
## Cost of trading in India is moderate but can be decreased further

The cost of trading in India is generally considered to be moderate. About 55% of the respondents were found to believe that the cost of trading in India is either moderate or low compared to that in other emerging markets.

However, 45% of the respondents indicated that the cost of trading in India is high. Investors are usually concerned about transaction costs. Though these costs might seem small at first glance, they can have a major impact on investment portfolios, which churn frequently.

Several other factors lead to an overall increase in the cost of trading for investors. For example, currently, interoperability between clearing corporations is not permitted. Interoperability would allow trading members to choose a clearing corporation of their choice. Interoperability may also reduce margining requirements (and thereby cost) for opposite positions taken across exchanges. FPIs do not earn interest on their bank accounts nor do they earn any money on their margins. Setting off margin money against full consideration is not permitted. Additional costs are also incurred in cases where FPIs have to bid to get debt allocation limits.

### How do you rate the cost of trading in the Indian market compared to that in other emerging markets?



### Some measures to reduce the cost of trading can be:

- Abolish STT or reduce STT on delivery-based transactions
- Allow deduction of STT paid while calculating capital gains
- Bring the capital gains tax on derivative transactions to 15%, i.e. on a par with equities

In India, the cost of trading includes several levies like brokerage, service tax, stamp duty, STT, SEBI turnover fees, exchange transaction fees and custody fees.<sup>4</sup> These costs, coupled with high tax administrative and compliance costs and hedging costs, result in the overall cost moving upwards.

4. Appendix 1 provides the rate at which expenses are charged.



# Investors are happy with the regulator's responses to queries and the trade and settlement process

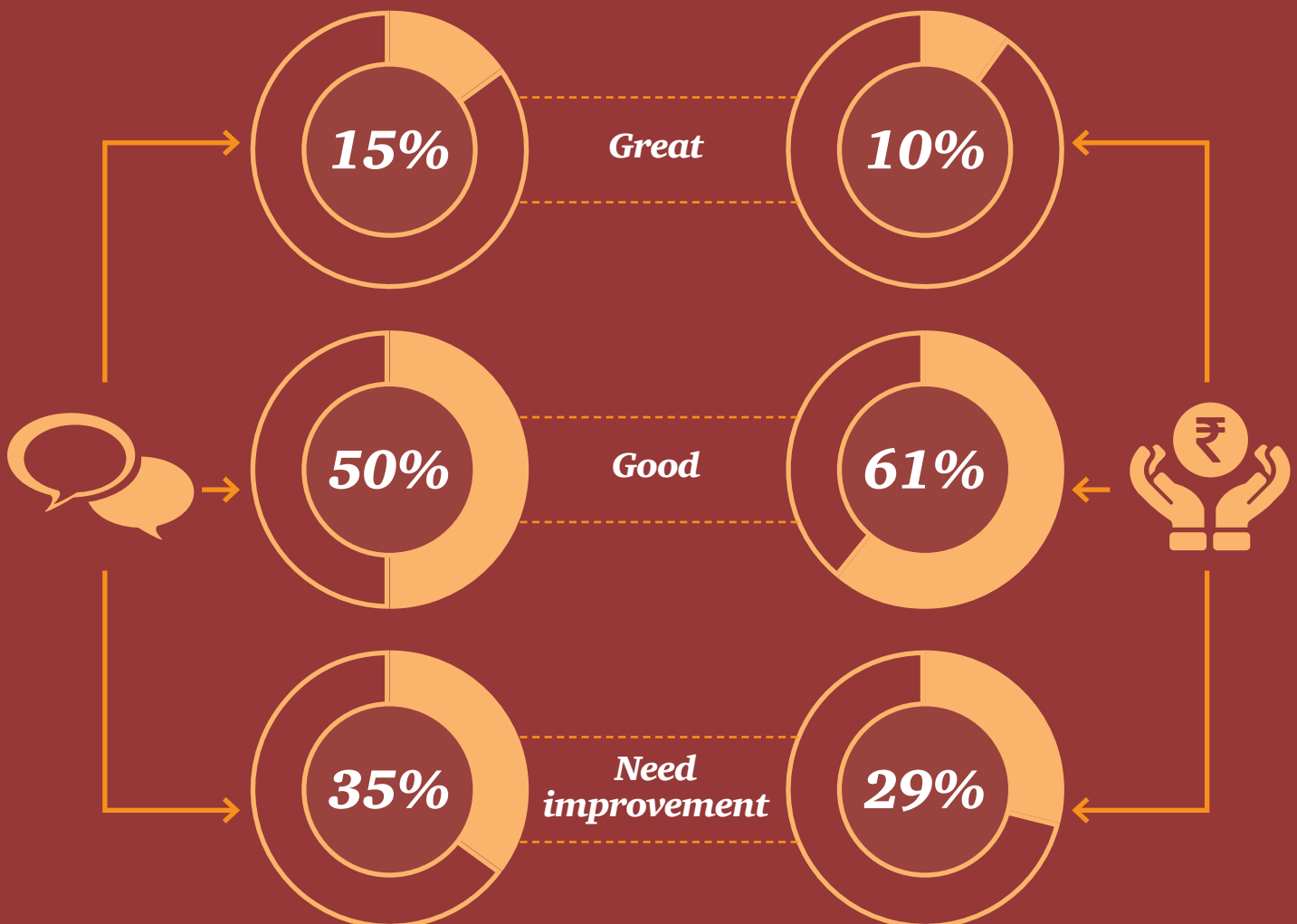
Approximately two out of three respondents rated the regulator's responsiveness and India's current trade and settlement process as either good or great.

India follows a T+2 rolling settlement cycle for exchange-traded transactions and T+1 for government securities traded and settled through CCIL. SEBI introduced the T+5 rolling settlement in the equity market in July 2001 and subsequently shortened the settlement cycle to T+3 in April 2002.

After their experience with the T+3 rolling settlement and taking other steps such as introduction of STP, SEBI further reduced the settlement cycle to T+2, hoping to further reduce the risk in the market and protect the interests of investors. The T+2 rolling settlement was introduced from 1 April 2003.

## How would you rate the regulator's responses to the queries raised?

## How would you rate India's current trade and settlement process?



Japan and the US are still following a T+3 trade settlement cycle. On the other hand, China and Singapore have a T+1 trade settlement cycle. Further, in 2013, SEBI had toyed with the idea of moving towards a T + 1 trade settlement cycle. It had issued a discussion paper titled 'Risk Management – Safer Markets for Investors', inviting suggestions from various stakeholders. However, no further action has been taken thereafter.

Some of the benefits of lowering the trade settlement cycle are:

- Reduction in the risk of non-payment or non-delivery of shares by the broker
- Reduction in the risk of default in the stock market
- Increase in liquidity for the investors

## Trade and settlement cycle



**Japan T+3**



**USA T+3**  
(intending to move towards T+2)



**Hong Kong T+2**



**China T+1**



**Singapore T+1**



**Ashish  
Chauhan**

Managing  
Director and  
Chief Executive  
Officer, BSE

“

India has always been at the forefront of settlement changes—with measures like interoperability among depositories, T+2 settlement cycle, robust risk and default management practices, mandatory CCP clearing for exchange-traded products, among others. Interoperability of clearing corporations is the next reform in the pipeline which would further revolutionise the post-trade structure in India and increase the competitiveness and attractiveness of India as an investment destination.”

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## Investment limits are reasonable

An FPI is currently not permitted to purchase equity shares of more than 10% of the total issued capital of a company.

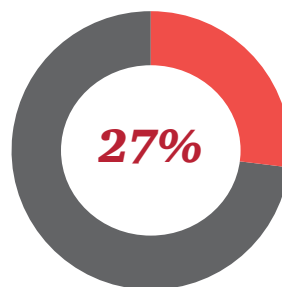
Moreover, the investment limit of 10% is clubbed for FPIs having common beneficial owners.

Further, the total FPI investments in a company cannot exceed 24% of its total paid-up equity capital. This limit can be increased up to the prescribed sectoral cap by the company by passing necessary resolutions in the board meeting and the general body meeting.

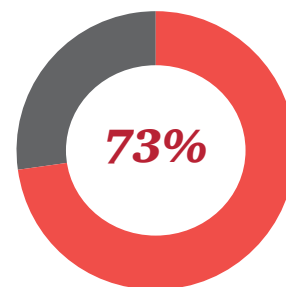
Investors find these limits adequate. Around three out of four respondents said that the present limit set at 10% by SEBI for FPIs is adequate.

However, it is worth noting that a considerable number of respondents have a high appetite for investment. Around one-fourth of the investors indicated their high investment appetite by asking for an increase in these limits beyond 10%.

### Should SEBI increase the individual FPI limits for investment in a company?



**Yes, the limits are low.**



**The limits are adequate.**



**Sunil Gidwani**

Partner,  
Pricewaterhouse  
Coopers Private  
Limited

“

While the investment limits in equity are adequate, there is scope for increasing the FPI investment limits in government debt securities.<sup>5</sup>

Currently, FPIs are unable to participate in primary auction of government debt securities, since they would need to bring the entire bid amount to India and repatriate the funds in case of partial or nil allotment. A model where FPIs can bring the margin on bid day and the entire consideration post confirmation of allotment of bid through the stock exchange/clearing corporation mechanism may be considered.”

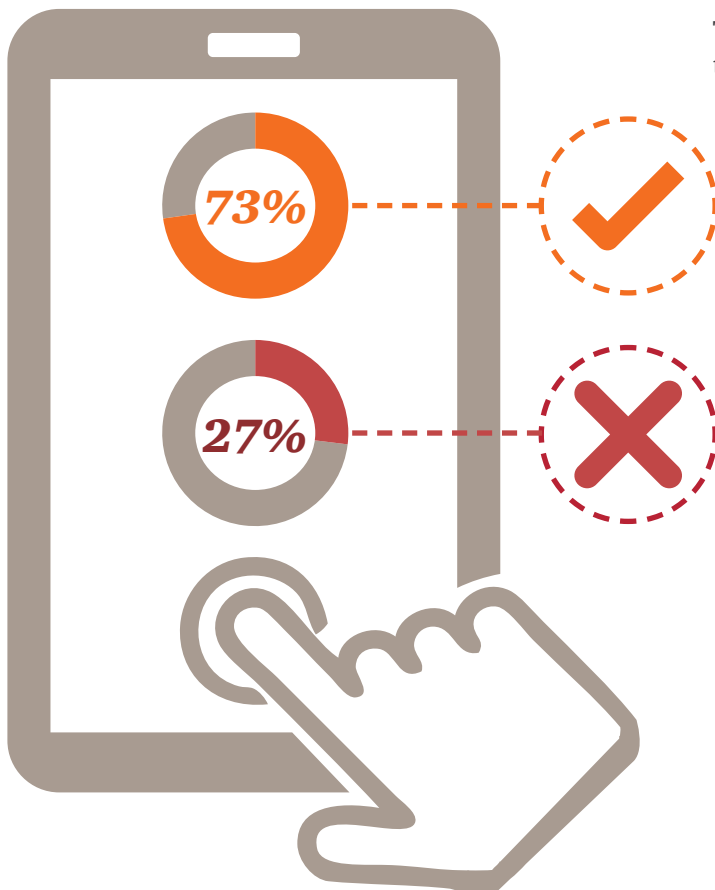
5. Appendix 2 provides the current debt limits for FPIs.

## Investors prefer to invest directly as against investing through access products

Investors displayed a preference for engaging directly with the Indian market rather than through ODIs. Among the respondents with definitive answers, 73% indicated that they would prefer direct access to the Indian market over ODIs.

The response is clearly a reflection of SEBI's recent clampdown on India access products (P-notes or ODIs).

### Would you prefer direct access to the Indian market over ODIs?



P-notes have traditionally been used by investors who wanted to gain access to Indian markets without the accompanying burden of complying with mandatory tax and regulatory rules. However, this route has been viewed by the regulator as largely opaque, giving them no information about or control over the end beneficial owners.

Pursuant to the Supreme Court appointed SIT recommendations, SEBI made the rules more stringent and sought more information about end beneficial owners.

The following measures have been adopted by SEBI:

ODI issuers will now, *inter alia*, be required to:

- Identify and verify beneficial owners in the subscriber entities who hold in excess of the prescribed threshold;
- Identify and verify person(s) who control the operations, where no beneficial owner is identified based on the prescribed threshold;
- Put in place necessary systems and carry out a periodical review and evaluation of its controls, systems and procedures.

Further, investors are required to obtain the permission of FPIs prior to the transfer of ODIs.

These changes, coupled with the renegotiations of the tax treaties, are likely to make P-notes less lucrative.

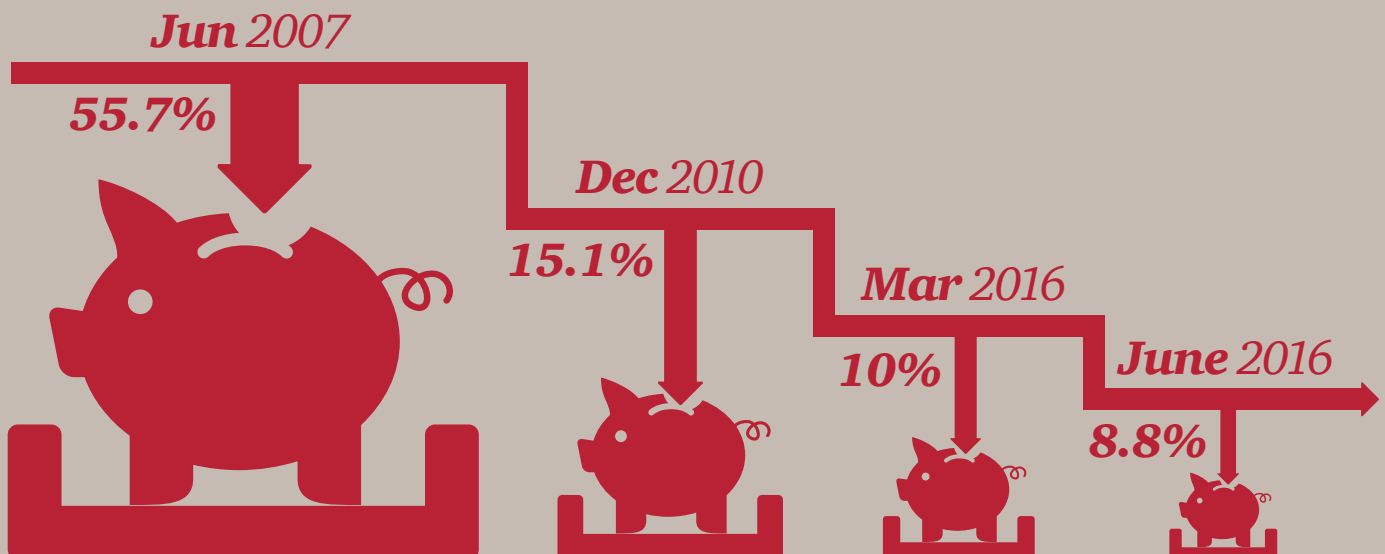
Evidently, investments via P-notes as a percentage of FPI flows have been falling over the years. Their contribution to total FPI flows in India was at an all-time high of 55.7% in June 2007, and fell to 15.1% in December 2010. As of March 2016, it was a mere 10% of the total FPI flows and it fell further to 8.8% by June 2016.



**Puneet  
Arora**  
International  
Tax Services  
Partner,  
PwC US

“ Investors across the world commonly use access products to invest in capital markets. The focus of the regulators in the country of investment is to have sufficient safeguards to ensure that these access products are not used for money laundering or tax evasion. India’s concerns and measures being adopted to restrict use of access products may be overstated and overly burdensome. These concerns and measures need to be balanced with the need for ease of doing business in India. ”

### ***Investments through P-notes as a percentage of FPI inflows have been falling***



## Tax rates on capital gains are reasonable

Investors are satisfied with the tax currently levied on capital gains. Around two out of three respondents felt that tax rates on capital gains were moderate or low.<sup>6</sup> This, coupled with the low tax rate on interest and exemption provided on dividend, makes overall tax rates in India attractive to foreign investors.

**However, further rationalisation can be done by the government with respect to the taxation of derivatives:**

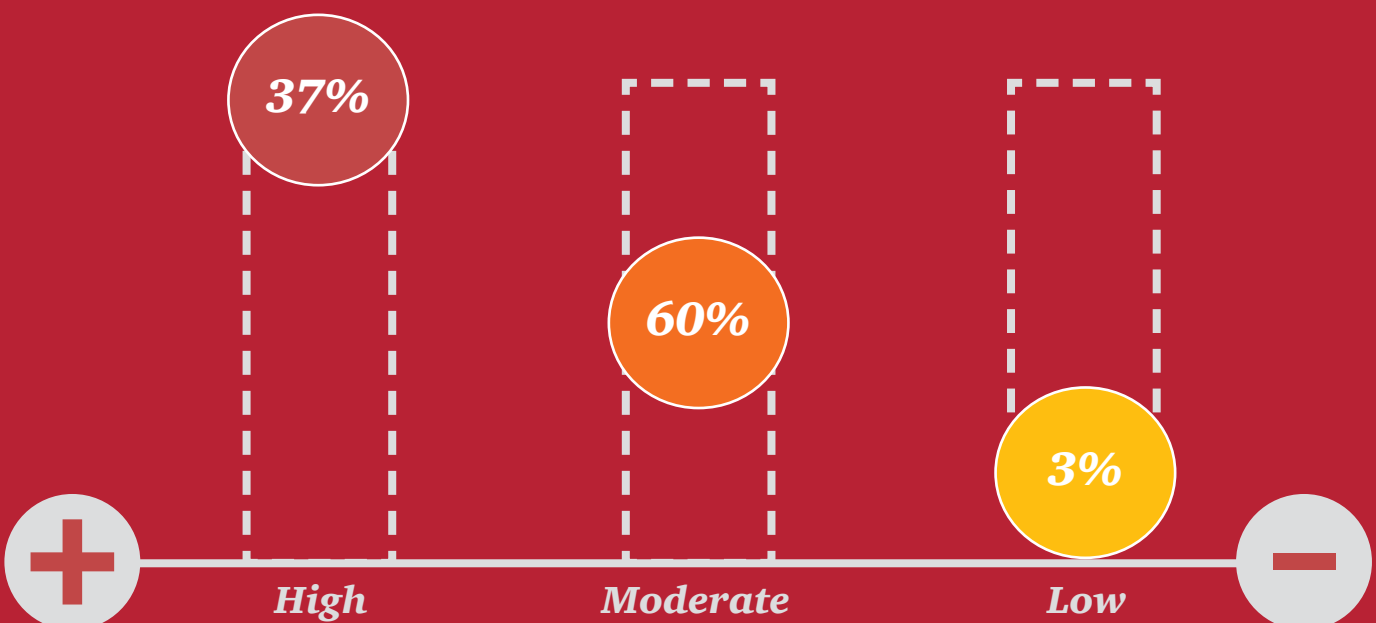
- FPIs should be given the option of categorising their income from derivative transactions as business income, if this is more beneficial to them.
- The short-term capital gain tax on derivatives should be made on a par with that on equities.

Even beyond the capital gains tax, the respondents indicated their general satisfaction with India's broad tax ecosystem. About 57% believed that the government was making significant efforts to improve the country's tax regime. We are of the view that the respondents' confidence in the government derives from the various initiatives that it has undertaken in the recent past.

Some of the key initiatives introduced by the government include:

- Consulting market participants prior to finalising tax rules, e.g. GAAR, indirect transfer, safe harbour provisions
- Setting up expert committees to look at key issues in a holistic manner
- Introducing the concept of 'limited scrutiny', thereby limiting the need to go through a full-fledged tax audit in a few selected cases

**Long-term capital gains on listed equity shares are taxed at nil and short-term capital gains on listed equity shares are taxed at 15%. Do you think these tax rates are high, moderate or low?**



6. Appendix 3 provides the tax rates on income earned by FPIs.



## Outcome of the MAT controversy is satisfactory

Among respondents who gave definitive answers, 77% were satisfied with the ultimate outcome of the MAT controversy.

This controversy began during the assessment proceedings for FY 2011-12, when the tax authorities issued assessment orders applying MAT to FPIs. Subsequent to filing representations, the government clarified<sup>7</sup> that capital gains and interest income earned by foreign companies would be reduced while calculating book profits for the purpose of MAT. Since the amendment was to be effective prospectively, in the case of past transactions, the government appointed an expert committee to determine the applicability of MAT on income earned by FPIs prior to 1 April 2015. The committee recommended complete inapplicability of MAT provisions to FPIs.

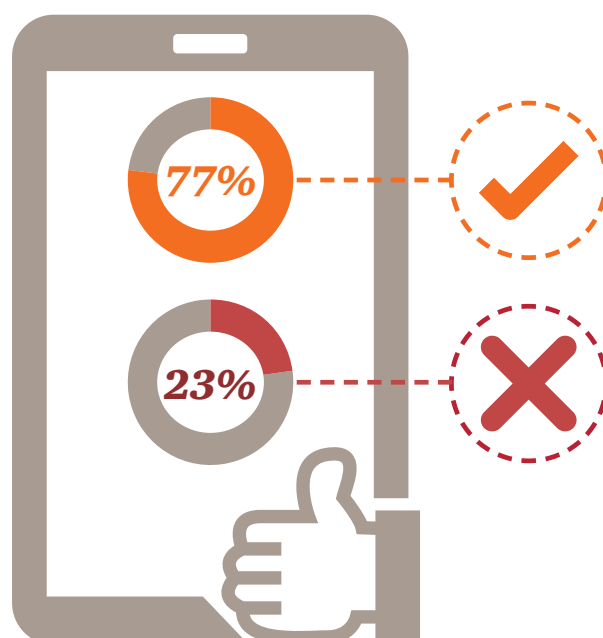
CBDT issued various circulars clarifying that the provisions of MAT shall not be applicable to foreign companies if:

- the foreign company is a resident of a country having a DTAA with India and such foreign company does not have a PE in India, or
- the foreign company is a resident of a country which does not have a DTAA with India and such foreign company is not required to seek registration under the relevant provisions of the Indian Companies Act.

Based on the circular issued, the tax authorities passed positive assessment orders for FY 2011-12, wherein it was concluded that MAT is not applicable to FPIs.

*Clarity and unambiguity in tax laws can be a potent solution for avoiding such controversies in the future.*

*Are you satisfied with the ultimate outcome of the MAT controversy?*



**Rakesh Vengayil**  
Chief Operating Officer, BNP Paribas

“The government has dealt with this issue in a relatively fast-track manner. It has shown commitment to its stated principles such as certainty of taxation and avoidance of retroactive taxation. We are impressed with the way the government approached this issue by periodically communicating with the stakeholders, engaging subject matter experts and constituting a special committee, all of which enabled a rationalised outcome. This reinforced the fact that foreign investors can invest in India with confidence.”

7. The Finance Act, 2015

# Tax audits are satisfactory, though time taken can reduce

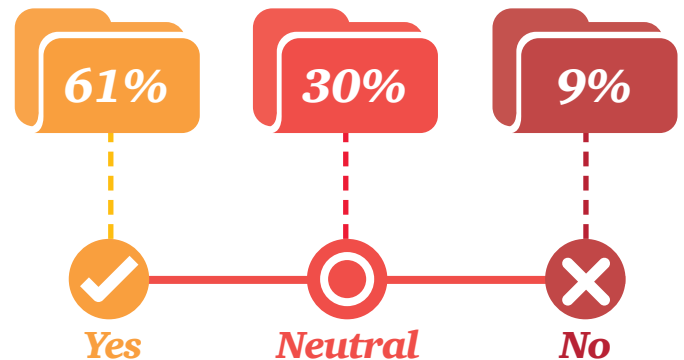
Investors are happy with the ultimate outcome of tax audits, although they are not happy about the three-year period required to complete these audits.

Most of the respondents were satisfied or very happy with the ultimate outcome of tax audits. However, 67% were not very satisfied with the time taken.

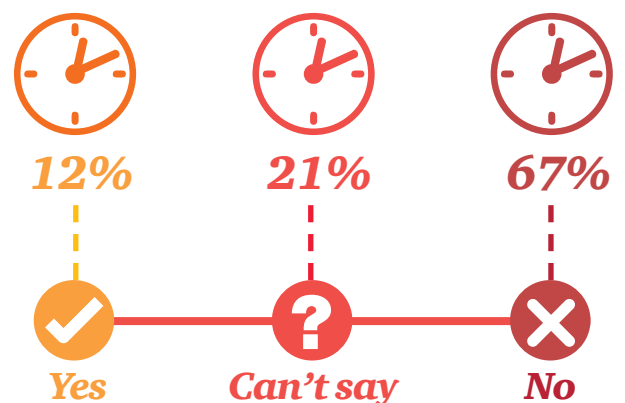
After a taxpayer files its return of income in India, the Indian Revenue Department selects some cases for a detailed or limited tax audit. A tax audit is required to be completed within 33 months from the end of the FY. If the taxpayer is not satisfied with the order, it can appeal to the higher authorities.

- In order for the Indian Revenue Department to match trades, it should improve the quality of data sourced from various agencies based on PAN.
- The government should introduce a fast-track audit mechanism for FPIs.
- By introducing a limited scrutiny assessment, the government is moving in the right direction.

## Were you satisfied with the ultimate outcome of the tax audit?



## Are you satisfied with the time taken to complete the tax audit for a financial year (currently, it takes about three years from the end of a financial year to close a tax audit)?



**Timothy McManus**

Fund and Securities  
Tax Manager,  
First State  
Investments

“We remain comfortable with the way tax audits have been conducted in the past few years. The government’s effort in bringing the Minimum Alternate Tax controversy to a closure is commendable. We believe there exists scope for further improvements in tax administration and we will continue to engage actively where appropriate.”

## Simpler tax returns and paperless tax audit are highly desired

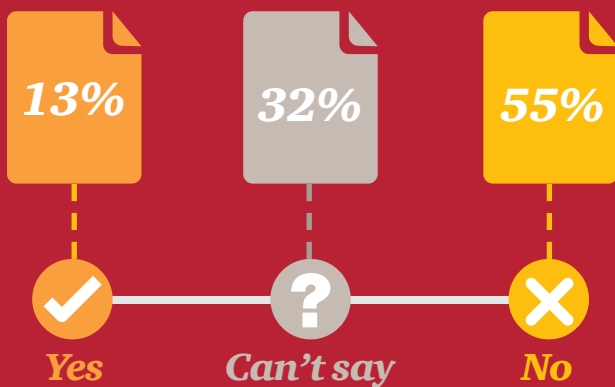
Fifty-five per cent of the respondents find the income tax return forms difficult to understand. Currently, the income tax return form is very extensive. A number of data tabs required in the return form are not applicable to FPIs, e.g. income from house property, profits and gains from business and profession. FPIs primarily earn capital gains, which makes categories like 'business and profession' and 'income from house property' redundant.

About 66% of the respondents stated that audit of foreign funds investing in India should be made paperless. The wide consensus for going digital and paperless while auditing foreign funds is in line with the government's focus on a digital future.

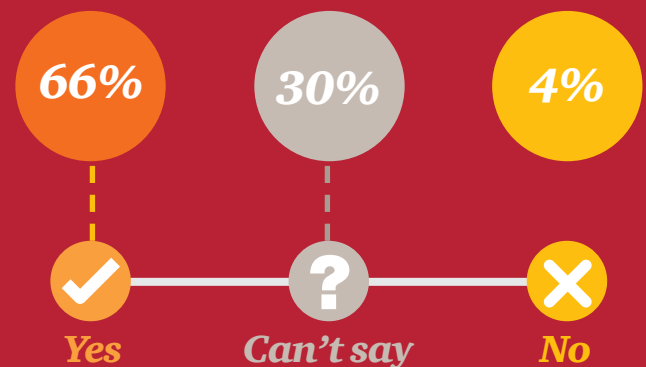
With the intention of going paperless, CBDT has notified a revised format for issuing notices for initiating tax audits.<sup>8</sup> The taxpayer has been given the option of making submissions via email, thereby reducing the interface with the Indian Revenue Department.

*The government should come out with simplified tax returns for FPIs, eliminating the need to fill unwanted data.*

### Are the income tax return forms easy and simple to understand?



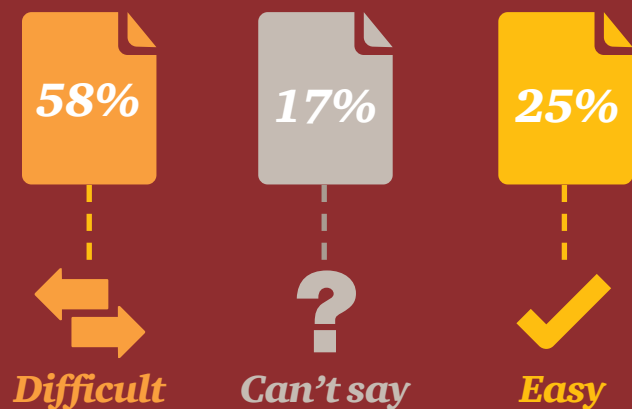
### Should the government make the assessment of foreign funds investing in India paperless?



The application form and the process of obtaining a PAN after filing the application are reasonable. However, the attestation requirement to furnish a whole set of authenticated/notarised documents is cumbersome. According to the survey results, 58% of the respondents found the current procedure to obtain a PAN onerous.

While applying for a PAN, the applicant is required to indicate its legal status. The PAN application form does not cover all possible scenarios (e.g. offshore LLC and LLP).

### ***How do you rate the current procedure for obtaining a PAN?***



### ***The following changes in the PAN process/documentation will be welcome:***

- Provide a single window for FPI license and PAN*
- Introduce self-attestation even for FPIs*
- Introduce a residuary category of legal status in PAN forms*
- Allow FPIs to amend their legal status, pursuant to restructuring in their home country*



# Overall tax and regulatory environment needs improvement

Our survey indicates respondents' satisfaction with specific issues related to tax and regulations, rates on capital gains, outcome of the MAT controversy, tax audits, and the regulator's responsiveness.

However, an assessment of the overall environment would be incomplete without taking stock of the other aspects of tax and regulation, which might not necessarily be a pocket of strength. For instance, the FPI registration process and KYC requirements, despite the government's current initiatives, could benefit from further easing.<sup>9</sup>

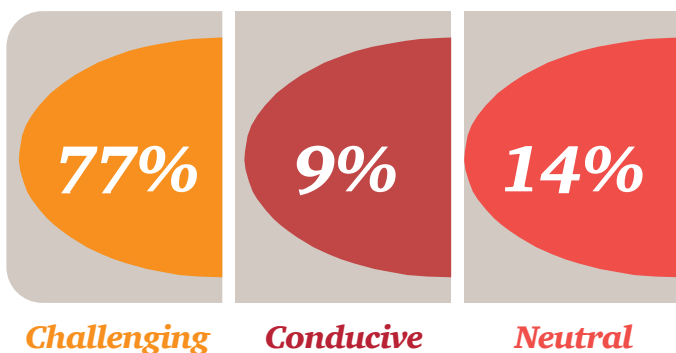
Similarly, in the area of taxation, GAAR, offshore transfer provisions, safe harbour provisions, withdrawal of capital gains benefits under the India-Mauritius tax treaty and its collateral impact on the India-Singapore treaty are adding to the challenging environment.

When asked about the overall regulatory and tax environment, 77% and 81% of the respondents, respectively, found them to be challenging.

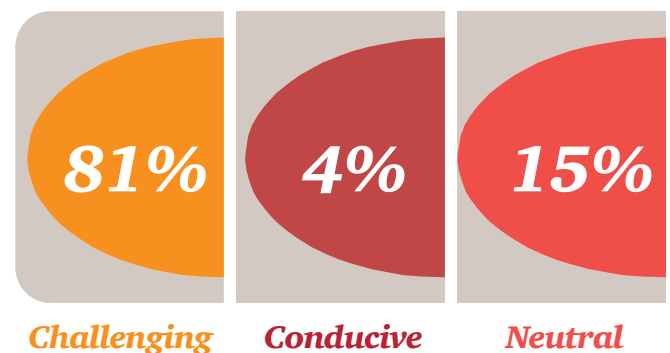
- The regulator should look at further easing the FPI registration process by rationalising the criteria for registration and KYC norms.
- The government should provide clarity on tax issues impacting FPIs.

**Despite satisfaction with specific aspects of tax and regulation, investors find the overall environment challenging.**

**How would you rate India's current regulatory environment compared to that in other emerging markets?**



**How would you rate India's current tax environment compared to that in other emerging markets?**



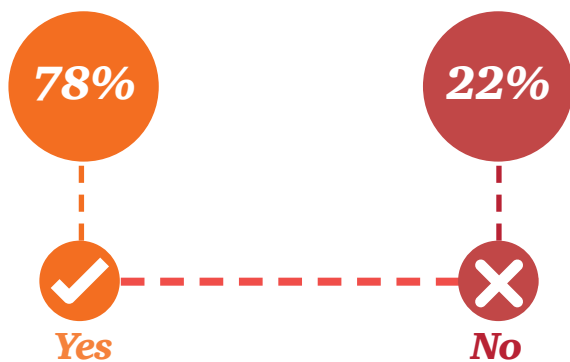
9. Appendices 4 and 5 provide various categories of FPIs and the eligibility criteria for obtaining a FPI license respectively.

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**GAAR:** Concerns surrounding the amendments to GAAR were also evident in the responses. Around 64% of the respondents said that they were worried about the introduction of GAAR. At a granular level, tax managers (78%) were more concerned about GAAR than portfolio managers (42%).

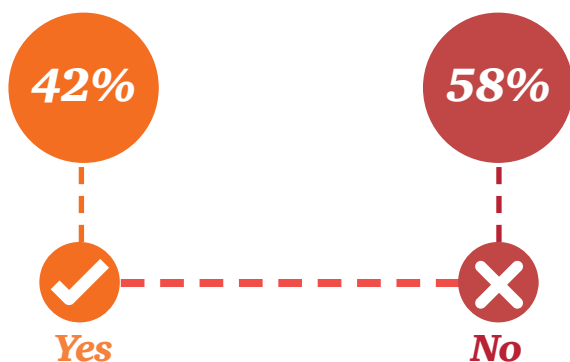
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### *Are you concerned about the impact of GAAR on the Indian tax law? (tax managers)*



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### *Are you concerned about the impact of GAAR on the Indian tax law? (portfolio managers)*



**Offshore transfer provisions:** As per the current law, investors in India-centric FPI funds may possibly be taxed in India and FPIs may be obliged to withhold appropriate taxes thereon.

The potential tax risk resulting from these indirect transfers is creating concerns among the FPI community, especially investors in India-focused funds, who are directing a substantial portion of their funds into Indian securities.

These funds are at a tax disadvantage compared to global funds which bring in a small portion of their total investments into India.

**Safe harbour provisions:** These reflect the Make in India provisions for the fund management industry and enable management of offshore funds from India. Some of the present conditions that are required to be fulfilled by the funds (e.g. investment and investor diversification, remuneration conditions, investor safeguards, tracking resident Indian investment) to avail of safe harbour benefit are a bit onerous.

Further, laws of some countries require funds to appoint fund managers who are domiciled in a country whose regulator is recognised by them. Active engagement by the government and the regulator at appropriate international forums will ensure that SEBI is recognised by these countries, pursuant to which such funds could appoint Indian fund managers.

The government is actively trying to address the concerns of the asset managers. For example, it has amended rules to relax a few conditions and provided a pre-approval mechanism. The minimum capitalisation requirement for asset managers is fairly large for wholly owned subsidiaries. These caps are likely to be rationalised very shortly.



## Closing comments



**Bhavin Shah**  
Financial Services Tax Leader,  
PricewaterhouseCoopers  
Private Limited

The survey results highlight the success till date and the challenges that lie ahead for the government. The government and the regulator have launched a number of initiatives that will change the future of the investment, tax and regulatory landscape in India.

The regulator is regularly approving new products. The opening up of the commodities market to institutional investors and permitting of FPI investments in unlisted debt securities as well as securitised debt instruments are being actively considered. A consultation paper has been issued on algorithmic trading and co-location. Minimum capital requirements for non-banking finance companies with foreign shareholding is proposed to be done away with. Overall, it is heartening to note that India is moving in the right direction.

With this survey, we have also commenced a new medium of dialogue with you, where we ask you what you like and dislike, and seek your inputs and comments on what should change in India on the tax and regulatory front.

We hope that this report will trigger conversations between us that will add to our collective understanding about Indian capital markets and India's investment, tax and regulatory environment.

We will come back to you again next year with fresh insights. Till then, take care and happy investing!

# *Appendix*



## Appendix 1 - Cost of trading\*

### STT

<i>Taxable securities transaction</i>	<i>STT rate</i>	<i>Payable by</i>
Purchase or sale of equity shares	0.1%	Purchaser and seller
Sale of futures	0.01%	Seller
Sale of an option	0.05%	Seller
Sale of an option, where exercised	0.125%	Purchaser
Sale of a unit of an equity-oriented mutual fund	0.001 %	Seller

### Stamp duty

<i>Particulars</i>	<i>SD rate</i>
Transfer of shares in dematerialised form	Nil
Transfer of shares in physical form	0.25% of market value

### SEBI turnover charges

<i>Particulars</i>	<i>Amount</i>
Debt securities	20 INR per crore
Other than debt securities	5 INR per crore

### Service tax

<i>Payable on</i>	<i>Amount</i>
Stockbroker's services	15% on the brokerage value

\* Includes only statutory levies

## Appendix 2 - Debt limits

<b>Particulars</b>	<b>Government debt limit Total = 2,140 billion INR* [w.e.f. 5 July 2016]</b>			<b>Corporate debt limit Total = 51 billion USD</b>
Instrument type	Central government securities	Central government securities	State development loans	Corporate bonds
Eligible investors	All investors	Only specified long-term investors <sup>#</sup>	All investors	All investors
Sub-limit	1,440 billion INR	560 billion INR	140 billion INR	51 billion USD <sup>^</sup>

<sup>\*</sup> Investment only in dated securities with residual maturity of three years and above

<sup>#</sup> Sovereign wealth funds, multilateral agencies, endowment funds, insurance funds, pension funds and foreign central banks

<sup>^</sup> Includes a sub-investment limit of 5 billion USD earmarked for credit-enhanced bonds

## Appendix 3 - Domestic tax rates – FPIs

<i>Nature of income</i>	<i>Tax rate*</i>			
Capital gains	Listed equity/ units of equity-oriented mutual funds (subject to STT)	Listed equity (not subject to STT)	Debt securities/ units of mutual fund (other than equity oriented)	Future and options
– Long term	Exempt	10%	10%	NA
– Short term	15%	30%	30%	30%
Dividend income	Exempt		NA	
Interest income	Government bonds – 5%/20% Rupee-denominated corporate bonds – 5%/20% Other securities – 20% Other interest income – 40%			

\* In addition, surcharge and education cess are leviable.

## Appendix 4 - Categories of FPI

<b>Category I</b>	Government and government-related foreign investors, sovereign wealth funds
<b>Category II</b>	<ul style="list-style-type: none"><li>• Appropriately regulated broad based funds, including mutual funds, investment trusts, insurance/reinsurance companies</li><li>• Appropriately regulated persons, including a bank (if the central bank of that country is a member of BIS), asset management companies, investment managers/advisors, portfolio managers</li><li>• Broad based funds not appropriately regulated but whose investment manager is appropriately regulated and registered as a Category II FPI</li><li>• University funds and pension funds</li></ul>
<b>Category III</b>	Endowments, charitable societies, corporate bodies, trusts, family offices, individuals, etc.



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## **Appendix 5 - Eligibility conditions for FPIs**

- *The applicant should not be resident in India or a non-resident Indian.*
- *The applicant should be a resident of a country*
  - *whose securities market regulator is a signatory to IOSCO's Multilateral MOU or a signatory to a bilateral MOU with SEBI;*
  - *whose central bank is a member of BIS;*
  - *against whom the Financial Action Task Force has not issued any warnings.*
- *The applicant must be a fit and proper person as prescribed.*

# Contacts



## **Gautam Mehra**

India Tax Leader  
gautam.mehra@in.pwc.com  
91 22 6689 1155

## **Nehal Sampat**

nehal.d.sampat@in.pwc.com  
91 22 6119 8567

## **Anish Sanghvi**

anish.sanghvi@in.pwc.com  
91 22 6689 1133

## **Jay Mehta**

jay.j.mehta@in.pwc.com  
91 22 6689 1120

## **Samip Barlota**

samip.barlota@in.pwc.com  
91 22 6689 1160

## **Bhavin Shah**

Financial Services Tax Leader  
bhavin.shah@in.pwc.com  
91 22 6689 1122

## **Sunil Gidwani**

sunil.gidwani@in.pwc.com  
91 22 6119 8052

## **Bhairav Dalal**

bhairav.dalal@in.pwc.com  
91 22 6689 1130

## **Kunal Shah**

kunal.s.shah@in.pwc.com  
91 22 6689 1140

## **Tushar Sachade**

tushar.sachade@in.pwc.com  
91 22 6689 1177

## **Suresh V Swamy**

suresh.v.swamy@in.pwc.com  
91 22 6119 8053

## **Harshal Kamdar**

harshal.kamdar@in.pwc.com  
91 22 6689 1110

## **Nitin Karve**

nitin.karve@in.pwc.com  
91 22 6689 1477

## **Vikram Bohra**

vikram.bohra@in.pwc.com  
91 22 6689 1150

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## ***Acknowledgements and thanks***

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### ***Core team***

Nimesh Shah, Director

Tapobrata Das Roy, Manager

Vijay Morarka, Assistant Manager

Abhishek Mehta, Assistant Manager

Alisha Shaikh, Analyst



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### ***Communication, online and multimedia***

Rahul Virkar, Associate Director

Ravish Vishwanathan, Manager

Vinni Issar, Manager



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### ***Editorial and designing***

Chandana Chandra, Director

Dion D'Souza, Manager

Pallavi Dhingra, Assistant Manager



# Glossary

<b>BIS</b>	<i>Bank for International Settlements</i>
<b>BJP</b>	<i>Bharatiya Janata Party</i>
<b>BSE</b>	<i>Bombay Stock Exchange</i>
<b>CAGR</b>	<i>Compounded annual growth rate</i>
<b>CBDT</b>	<i>Central Board of Direct Taxes</i>
<b>CC</b>	<i>Clearing corporation</i>
<b>CCIL</b>	<i>Clearing Corporation of India Limited</i>
<b>CEO</b>	<i>Chief executive officer</i>
<b>DTAA</b>	<i>Double Taxation Avoidance Agreement</i>
<b>FPI</b>	<i>Foreign portfolio investor</i>
<b>FY</b>	<i>Financial year</i>
<b>GAAR</b>	<i>General anti-avoidance rules</i>
<b>INR</b>	<i>Indian rupee</i>
<b>IOSCO</b>	<i>International Organization of Securities Commissions</i>
<b>KYC</b>	<i>Know Your Client</i>
<b>LLC</b>	<i>Limited liability company</i>
<b>LLP</b>	<i>Limited liability partnership</i>
<b>MAT</b>	<i>Minimum alternate tax</i>
<b>MOU</b>	<i>Memorandum of understanding</i>
<b>NSE</b>	<i>National Stock Exchange</i>
<b>ODIs</b>	<i>Offshore derivative instruments</i>
<b>PAN</b>	<i>Permanent Account Number</i>
<b>PE</b>	<i>Permanent establishment</i>
<b>P-notes</b>	<i>Participatory notes</i>
<b>SEBI</b>	<i>Securities and Exchange Board of India</i>
<b>SIT</b>	<i>Special Investigation Team</i>
<b>STP</b>	<i>Straight-through processing</i>
<b>STT</b>	<i>Securities transaction tax</i>
<b>US</b>	<i>United States of America</i>
<b>USD</b>	<i>US dollar</i>

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# Notes

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