

Foreign Portfolio Investors

Easing Access to India

Handbook for FPIs 2021 Edition



A BSE - ICCL Initiative



Knowledge Partners



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June 2021

Dear Investors,

Namaste and Welcome to India! Trust this finds you and your family safe in the new normal.

It gives me immense pleasure to present fifth edition of BSE-ICCL's Handbook titled 'FPI – Easing Access to India- 2021.' The handbook provides qualitative and quantitative information that Foreign Portfolio Investors (FPIs) seek before investing / planning to access Indian Capital Market.

Developing countries like India, require huge foreign capital to meet the investment requirements for infrastructure in coming years to facilitate economic growth and to meet sustainable development goals. According to the Economic Survey of India 2020, India needs to spend approximately US\$ 1.4 trillion to boost its infrastructure by 2025 to become a USD 5 trillion economy.

India attracted net foreign investment of approximately US\$ 350 billion in the form of FDIs and FPIs between FY2014-15 and FY2020-21. The number of FPIs registered with the capital market regulator, Securities and Exchange Board of India (SEBI), leap frogged from around 1766 in FY 2014-15 to approximately 10,126 in FY 2020-21 (till 24th June 2021). SEBI in late 2019 announced the FPI (Foreign Portfolio Investor) Regulations 2019. The new regulation significantly increases the ease of access for FPIs. India after two decades has moved from a structure-based **India Access** to a regulatory based one. India's attractiveness has gone up with Mauritius, UAE and Cyprus being granted the status to enable FPI Category I to come through these jurisdictions. The regulations have also announced several guidelines to ease access to foreign investors in Indian markets, which include simpler Know Your Client (KYC) norms, re-categorization of FPIs, revised eligibility conditions for Foreign Portfolio Investors (FPIs), permitted Eligible Foreign Entities (EFEs) to participate in commodity derivatives markets provided they have actual exposure to Indian physical commodity markets, etc.

BSE is India's leading and most diverse marketplace, and offers participants cost-efficient and reliable tools to manage uncertainty in today's globalized economy. It offers investors a wide gamut of products across the entire value chain including Equities, Debt, Commodities, Currency, Mutual Funds and more, which are of interest to foreign participants. BSE continues to play a pioneering role in the development of India's financial markets by constantly improving the trading landscape with enhanced price discovery, liquidity and transparency.

With this handbook, which also cover the key features of the latest FPI Regulations, 2019, we provide a consolidated source of information that will enable foreign investors to develop a better understanding of the process of accessing Indian Capital Markets. We have also brought out an e-version of the Handbook, which is posted on the webpage for International Investors on BSE and ICCL's website. We would like to thank the multiple intermediaries that assisted in bringing together the handbook and specially our knowledge partners, PIVOT Management Consulting and Ernst & Young.

We take this opportunity to once again welcome you to India!



Ashishkumar Chauhan

INTRODUCTION

India continues to be an attractive investment destination for global investors. With the added stability on the political front, international business houses are exploring greater opportunities. Further, the opening up of Foreign Direct Investment [FDI], accompanied by the introduction of the new Foreign Portfolio Investment [FPI] Regulations, makes India a more accessible destination amongst markets.

The FPI Regulations [2020] as well as subsequent numerous measures by SEBI and RBI have considerably eased the entry norms for FPIs to access the growing Indian Capital Markets. Over, 10,000 new FPIs have registered with SEBI since June 2014 till June 2021. (For more information please refer page no. 7).

Encouraging Foreign Inflows to the secondary market has always received special focus due to the special nature of this investor group. BSE-ICCL has been on the forefront of facilitating initiatives to attract FPIs. This book into its 5th Edition is one of its kind unique initiative and has been popular with the FPI community for crisp and focused information.

BSE -ICCL has been engaged in a number of FPI related initiatives many of which have been the first of its kind:

- Bringing out the fifth edition of the highly successful FPI handbook.
- BSE received exemptive relief under CFTC Regulation 30.10; which enables the members of BSE to solicit and accept futures and options orders and related funds from customers located in the US for futures and options transactions on BSE without registering as a futures commission merchant.
- Signing of a collateral management agreement with Clearstream enables FPIs to provide MA rated sovereign securities as collateral. This significantly reduces the cost of trading and eases the process of investing.
- Hosting first of its kind global tele-conferences for FPIs on the Union Budget since 2015. The panelists included reputed economists, leading tax firms, Mr. Ashishkumar Chauhan, MD & CEO, BSE and senior officials of the exchange.
- Hosting country-wide FPI workshop on investing by FPIs, for participants such as stock brokers, wealth managers, bankers, custodians, tax consultants, mutual funds and legal firms, drawn from various segments, attended the workshop.
- Roadshows globally. o

We recognize FPIs and prospective Foreign Investors would benefit from being made aware of the process of accessing and investing in Indian capital markets. BSE-ICCL brings the fifth edition of its first-ever, easy to use, India Access handbook providing an overview of accessing capital markets in India.

This easy-to-follow handbook provides a synopsis of the role of regulators, BSE-ICCL's offerings, key intermediaries and their offerings and tax information. The webpage, 'International Investors' on the BSE website provides dynamic information and is rightly considered the first of its kind- worldwide.

REGULATORY FRAMEWORK

Regulators

Ministry of Finance (MoF) - Government of India

The MoF is the premier policy maker with respect to, inter-alia, taxation, financial legislation and capital markets. The MoF undertakes various initiatives to facilitate investment by foreign participants in India. These initiatives broadly include ease and clarification of taxation norms, composite limit for FII + FDI investments, increasing foreign investment limits in various sectors among others.

Web link: <https://www.finmin.nic.in>

Securities & Exchange Board of India (SEBI)

The Securities and Exchange Board of India [SEBI] is the regulatory authority established under the SEBI Act, 1992 and is the principal regulator for Capital Markets. FPIs are required to register with SEBI in order to participate in the Indian securities markets.

Web link: <https://www.sebi.gov.in>

Reserve Bank of India (RBI)

The Reserve Bank of India [RBI] is governed by the Reserve Bank of India Act, 1934. It is responsible for implementing monetary and credit policies, issuing currency notes, being banker to the government, regulator of the banking system, manager of foreign exchange and regulator of payment & settlement systems while working towards the development of Indian financial markets. The RBI regulates financial markets and systems through different legislations. It regulates foreign exchange markets through the Foreign Exchange Management Act, 1999.

Web link: <https://www.rbi.org.in>

Income Tax Department, Govt. of India

The Central Board of Direct Taxes [CBDT] is the apex tax administration body that functions under the Department of Revenue, Ministry of Finance and administers direct taxation in India. This department is also responsible for enforcing the Double Taxation Avoidance Agreements.

Web link: <https://www.incometaxindia.gov.in>

WELCOMING FPIs

Under the SEBI FPI Regulations, 2019, Regulation 20 of the FPI Regulations provides a list of securities in which FPIs are permitted to access and invest. This path breaking Regulation ushers significant and positive changes in accessing the Indian Capital Markets.

Some of the highlights being:

- Re-categorization of FPIs into two Categories.
- Categorisation based primarily of the Regulatory aspects. Structure base no longer the norm.
- All existing FPIs registered as Category III FPIs deemed to have been registered as Category II FPIs.
- Funds from FATF member countries and all insurance entities have been classified as Category I FPIs and Funds from non-FATF member countries have been classified as Category II FPIs
- Entities set-up in IFSC eligible for FPI registration
- FPI registered under Category I are exempt from providing BO (beneficiary owner) details
- Non-BIS countries are eligible for FPI license
- FPIs are permitted to invest in units of REITs, InvITs and Category III AIFs
- Simplified KYC requirements
- Removal of broad-based criteria

Highlights of FPI Norms

Particulars	Category I	Category II
Ascertain Eligibility Criteria	<p>a) Government and Government related investors such as central banks, sovereign wealth funds, international or multilateral organizations or agencies including entities controlled or at least 75% directly or indirectly owned by such Government and Government related investor(s);</p> <p>b) Pension funds and university funds;</p> <p>c) Appropriately regulated entities such as insurance or reinsurance entities, banks, asset management companies, investment managers, investment advisors, portfolio managers, broker dealers and swap dealers;</p> <p>d) Entities from the Financial Action Task Force member countries or from any country specified by the Central Government by an order or by way of an agreement or treaty with other sovereign Governments, which are:</p> <ol style="list-style-type: none"> i. appropriately regulated funds; ii. unregulated funds whose investment manager is appropriately regulated and registered as a Category I foreign portfolio investor: Provided that the investment manager undertakes the responsibility of all the acts of commission or omission of such unregulated fund iii. university related endowments of such universities that have been in existence for more than five years; <p>e) An entity (A) whose investment manager is from the Financial Action Task Force member country and such an investment manager is registered as a Category I foreign portfolio investor; or (B) which is at least seventy-five per cent owned, directly or indirectly by another entity, eligible under sub-clause (ii), (iii) and (iv) of clause (a) of this regulation and such an eligible entity is from a Financial Action Task Force member country: Provided that such an investment manager or eligible entity undertakes the responsibility of all the acts of commission or omission of the applicants seeking registration under this sub-clause.</p>	<p>a) Appropriately regulated funds not eligible as Category-I foreign portfolio investor;</p> <p>b) Endowments and foundations;</p> <p>c) Charitable organisations;</p> <p>d) Corporate bodies;</p> <p>e) Family offices;</p> <p>f) Individuals;</p> <p>g) Appropriately regulated entities investing on behalf of their client, as per conditions specified by the Board from time to time;</p> <p>h) Unregulated funds in the form of limited partnership and trusts:</p>
SEBI Fees	US \$ 3,000	US \$ 300
	(For block of 3 yrs.)	

INVESTMENT LIMITS FOR FPIs by instrument-equity, equity derivatives, currency derivatives, government securities and debt instruments. Please contact a DDP, for the latest limits.

For full particulars of laws governing the Foreign Portfolio Investors (FPI), please refer to the Acts/ Regulation/ Guidelines/Circulars etc. of:

SEBI-<https://www.sebi.gov.in/legal/regulations/dec-2019/securities-and-exchange-board-of-india-foreign-portfolio-investors-regulations-2019-last-amended-on-april-17-2020-44436.html>

<https://www.sebi.gov.in/legal/circulars/nov-2019/operational-guidelines-for-fpis-and-ddps-under-sebi-foreign-portfolio-investors-regulations-2019-and-for-eligible-foreign-investors-44870.html>

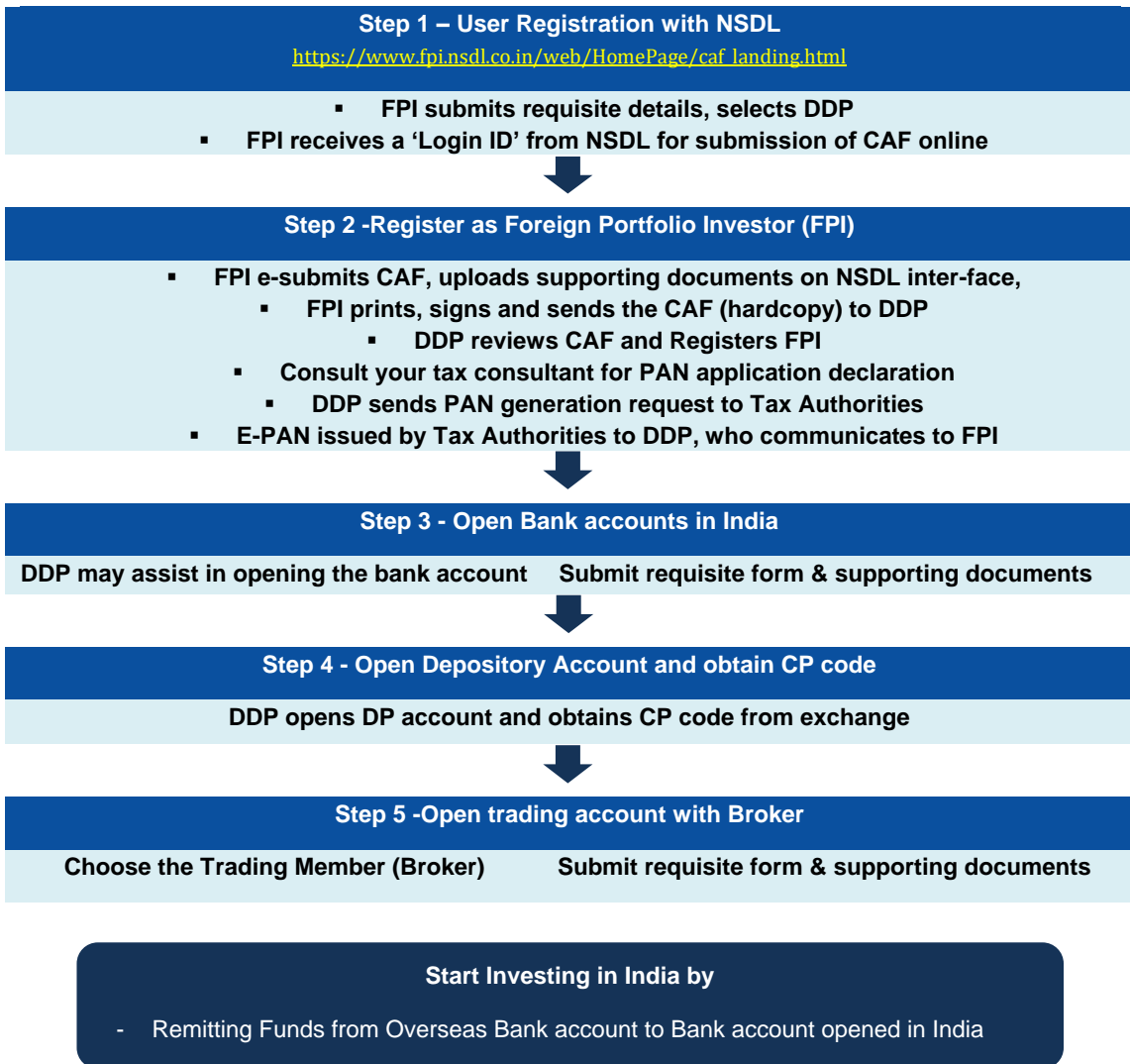
RBI- https://www.rbi.org.in/Scripts/BS_ViewMasDirections.aspx?id=11200#AN2

EASIER ACCESS

Accessing & Investing Through FPI Route- 5 Step Process

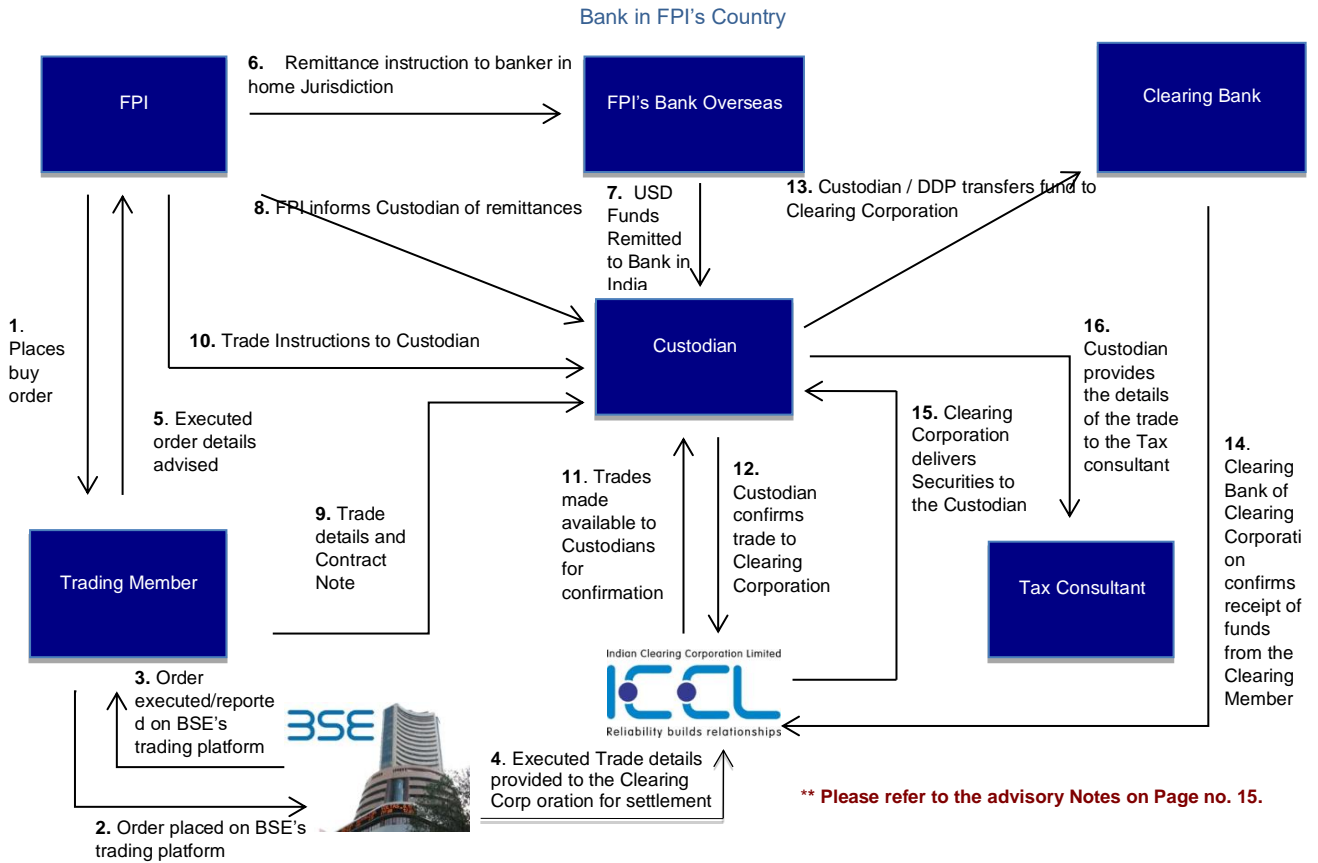
The introduction of CAF effective February 2020, is expected to considerably ease the access and simplify the Onboarding process. The ease in access process is depicted as a 5-step process. It may be noted that if all documents and formalities are completed then a FPI is likely to be registered between 10-12 working days. The easy five step access process [some processes can start simultaneously] is as below. Please consult your Designated Depository Participant (DDP)/Tax consultant for further inputs.

Just 5 steps to go live...



Note - Step 3, 4 and 5 may be simultaneous

High level FPI Transaction Flow - Equity Purchase



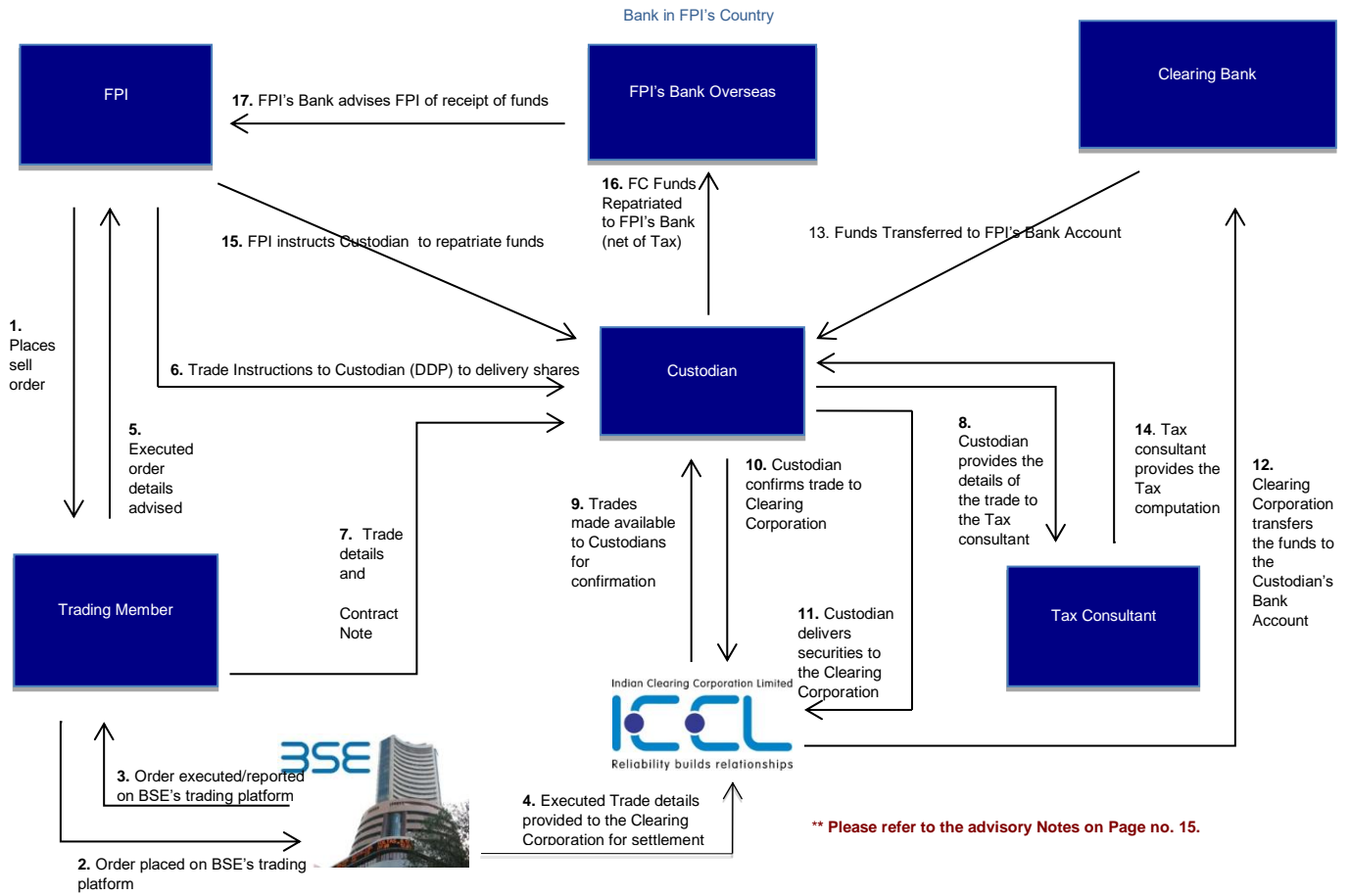
Flow - Equity Purchase

Step	Activity	Who	Day*
1	Request for placing buy order	FPI	T-1/ T
2	Order placed on BSE's trading platform	TM/Broker	T
3	Order executed on BSE's trading platform	BSE	T
4	Executed order details provided to the Clearing Corporation [ICCL] for settlement	BSE	T
5	Executed orders details advised to the FPI	TM/ Broker	T
6	Initiate remittance of funds	FPI	T
7	FPI's bank remits funds [in FC] to the Custodian's bank	FPI's Bank	T
8	Custodian [DDP] advised of the funds remittance	FPI	T
9	Trade details and contract note forwarded to the Custodian	TM/ Broker	T
10	Trade Instruction provided to the Custodian	FPI	T/T+1
11	Trades made available to the Custodian for confirmation	ICCL	T/T+1
12	Trades confirmed to the Clearing Corporation [ICCL]	Custodian	T+1
13	Custodian's clearing bank instructed to transfer funds to the Clearing Corporation [ICCL]	Custodian	T+1
14	Clearing bank confirms receipt of funds to the Clearing Corporation [ICCL]	Clearing Bank	T+1
15	Clearing Corporation [ICCL] transfer securities to the Custodian's DP	ICCL	T+2
16	Trade details are provided to the tax consultant	Custodian	T/ T+1/T+2

*The days mentioned are indicative. For details on the days and the exact deadlines, please refer to your Custodian [DDP] /Trading Member [Broker]

TM - Trading Member

High level FPI Transaction Flow - Equity Sell

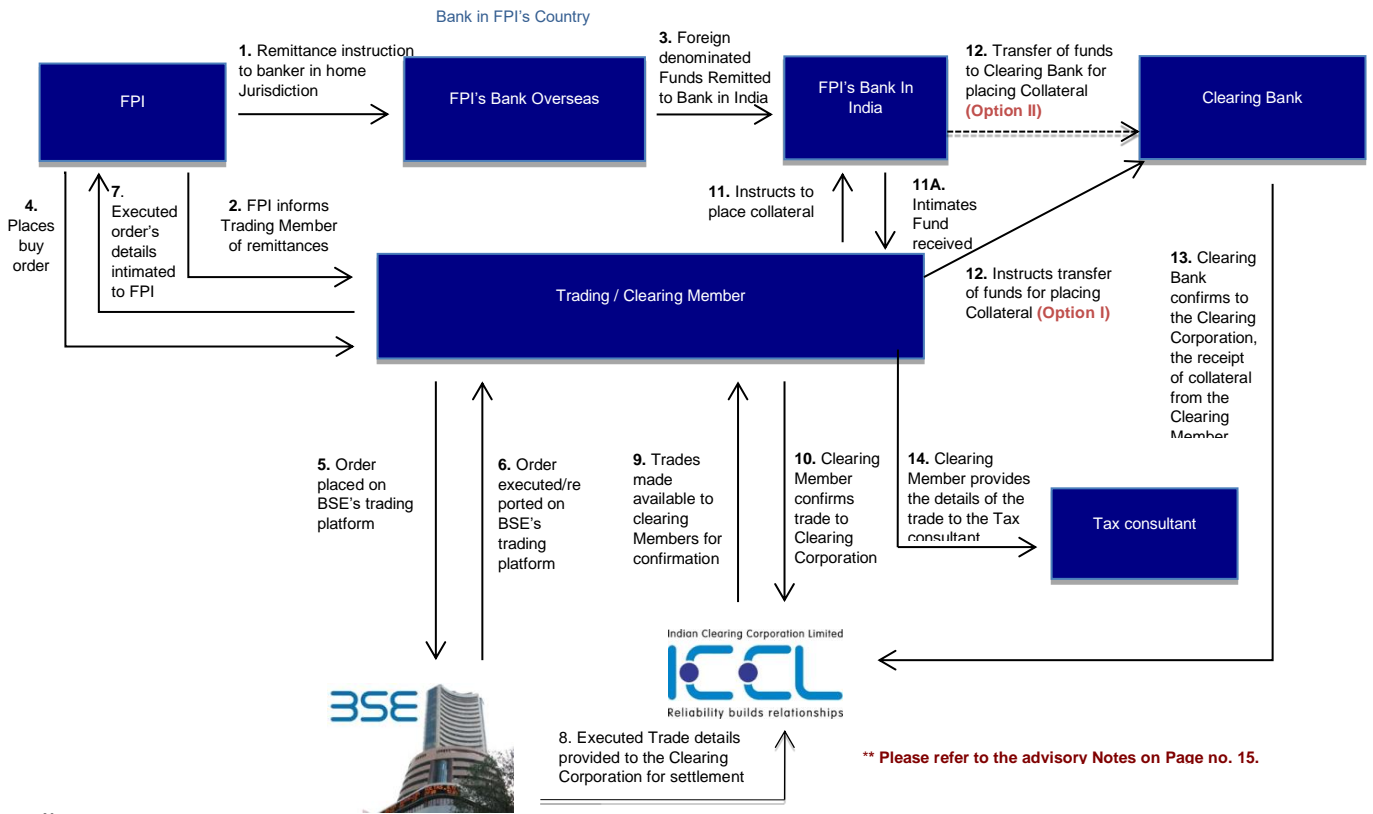


High level FPI Transaction Flow - Equity Sell

Step	Activity	Who	Day*
1	Request for placing sell order	FPI	T-1/T
2	Order placed on BSE's trading platform	Broker	T
3	Order executed on BSE's trading platform	BSE	T
4	Executed orders details provided to the Clearing Corporation [ICCL] for Settlement	BSE	T
5	Executed Order details advised to the FPI	Broker	T
6	Trade Instruction to deliver Securities, provided to the Custodian	FPI	T/T+1
7	Trade details and Contract Note forwarded to the Custodian	Broker	T
8	Trade details are provided to the Tax consultant	Custodian	T
9	Trades made available to the Custodian for confirmation	ICCL	T/T+1
10	Trades confirmed to the Clearing Corporation [ICCL]	Custodian	T+1
11	Securities transferred to the Clearing Corporation [ICCL]	Custodian	T+2
12	Clearing Corporation [ICCL] transfers the funds to the Custodian's Clearing Bank	ICCL	T+2
13	Funds are transfer to FPI's Bank Account	Custodian	T+2
14	Tax consultant provides the Tax Computation	Tax Consultant	T+2
15	Instruction to Custodian to repatriate funds	FPI	T+2
16	Custodian instructs Bank to: a - Pay the applicable Tax b - Repatriate funds [net of tax] to the FPI's Bank	Custodian	T+2/T+3
17	FPI's Bank advised the FPI of receipt of funds	FPI's Bank	T+3/T+4

* The days mentioned are indicative. For details on the days and the exact deadlines, please refer to your Custodian [DDP] /Trading Member [Broker]

High level FPI Transaction - Derivatives Long (Purchase)



High level FPI Transaction Flow - Derivatives Long (Purchase)

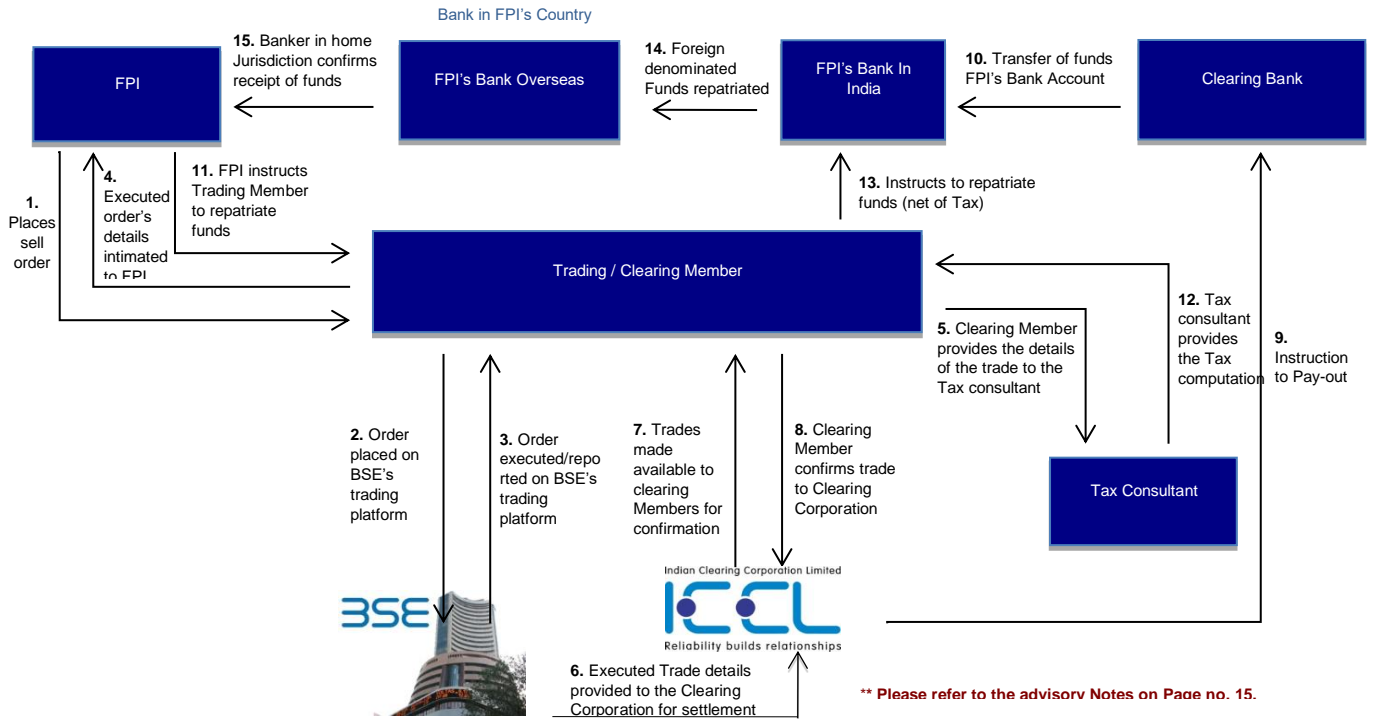
Step	Activity	Who	Day*
1	Remittance Instructions to Banker in home jurisdiction	FPI	T-1/T
2	FPI informs Funds remittance	FPI	T-1/T
3	Foreign denominated funds remitted to Bank in India	FPI's Bank Overseas	T-1/T
4	Request for placing buy Order	FPI	T-1/T
5	Order Placed on BSE's Trading Platform	TM/CM	T
6	Order executed on BSE's Trading Platform	BSE	T
7	Executed order's details intimated to the FPI	TM/CM	T
8	Executed Trade details provided to the Clearing Corporation (ICCL) for Settlement	BSE	T
9	Trades made available to the Clearing Member for confirmation	ICCL	T
10	Trades confirmed to the Clearing Corporation (ICCL)	CM	T
11	FPI's Bank in India instructed to place collateral	TM/CM	T
11A	FPI's Bank in India instructs receipt of funds to Clearing Member	FPI's Bank in India	T
12	Collateral placed with Clearing Bank (Option I)	FPI's Bank in India	T
12A	Instructs transfer of funds for placing Collateral (Option II)	TM/CM	T
13	Clearing Bank confirms receipt of collateral to the Clearing Corporation (ICCL)	Clearing Bank	T/T+1
14	Trade details are provided to the Tax consultant on final settlement	TM/CM	T+1/T+2

TM- Trading Member CM- Clearing Member

* The days mentioned are indicative. For details on the days and the exact deadlines, please refer to your Custodian (DDP)

/ Trading Member (Broker)

High level FPI Transaction Flow - Derivatives Short [Sell]



High level FPI Transaction Flow - Derivatives Short (Sell)

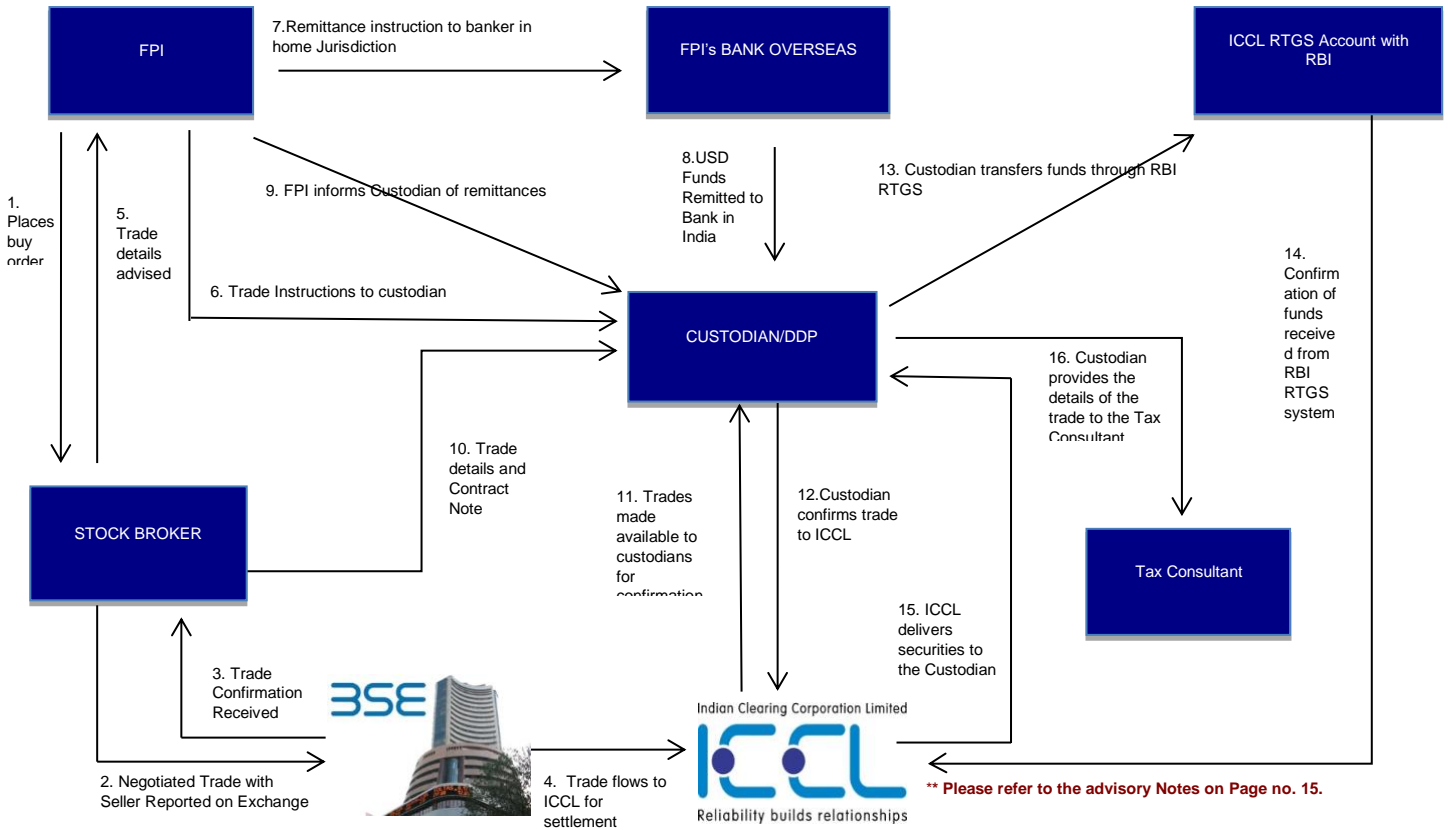
Step	Activity	Who	Day*
1	Request for placing sell Order	FPI	T-1/T
2	Order placed on BSE's Trading Platform	TM /CM	T
3	Order executed on BSE's Trading Platform	BSE	T
4	Executed Trade details intimated to the FPI	TM /CM	T
5	Tax consultant advised of the trades details	TM /CM	T
6	Executed Trade details provided to the Clearing Corporation (ICCL) for Settlement	BSE	T
7	Trade details made available to Clearing Member for confirmation	ICCL	T
8	Trade confirmed	TM /CM	T
9	Instructions for transfer of Settlement amount to TM/ CM	ICCL	T+1
10	Clearing Bank transfers the funds to the TM/ CM's Bank Account	ICCL	T+1
11	FPI provides repatriation instructions	FPI	T+1
12	Tax consultant provides the Tax Computation	Tax Consultant	T+1
13	TM/ CM instructs its Bank to: a - transfer funds to the Client's Bank Account b - pay the applicable Tax c - repatriate funds [net of tax] to the FPI's Overseas Bank Account	CM	T+1
14	Foreign Currency denominated Funds repatriated to FPI's Bank	FPI's Bank in India	T+2/T+3
15	FPI's Bank advises FPI of receipt of funds	FPI's overseas Bank	T+3/T+4

TM - Trading Member

CM- Clearing Member

* The days mentioned are indicative. For details on the days and the exact deadlines, please refer to your Custodian [DDP]/Trading Member [Broker]

High level FPI Transaction Flow - Corporate Bond Purchase (Exchange Reporting Platform)

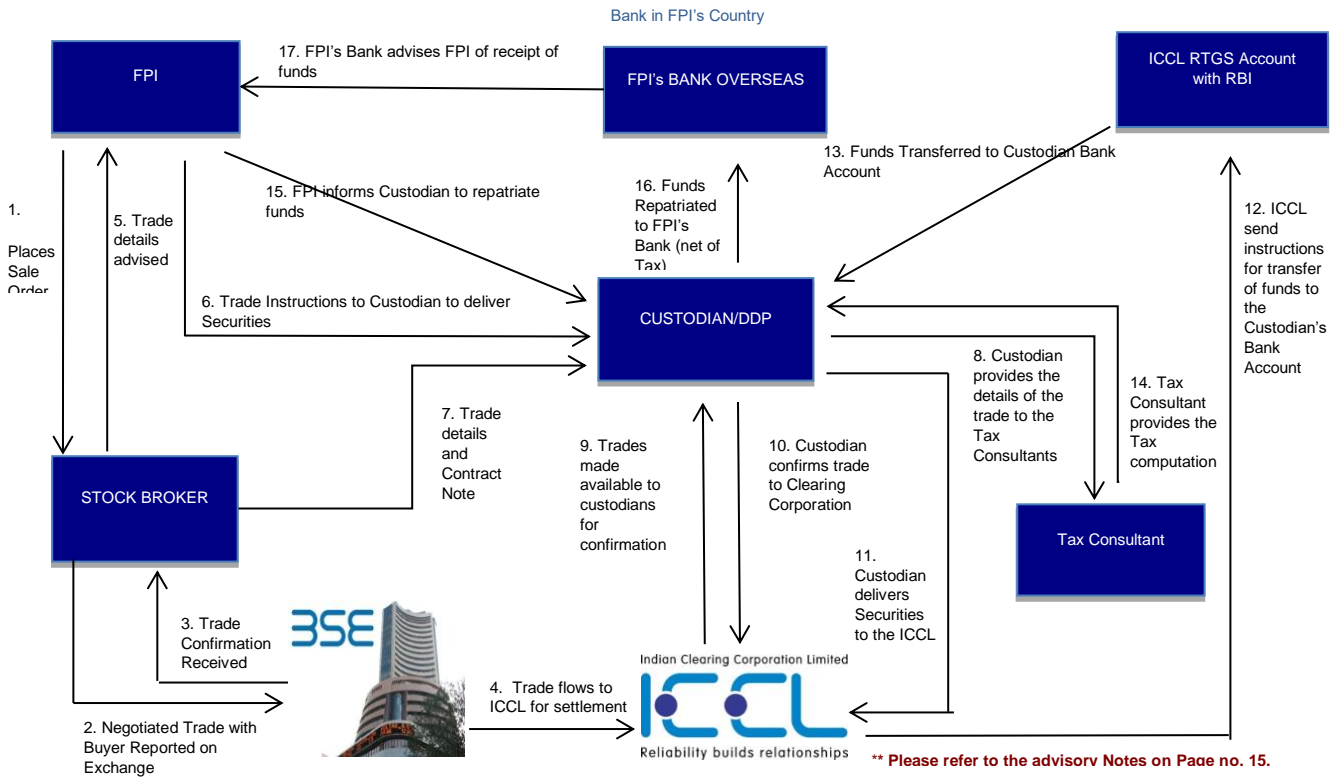


High level FPI Transaction Flow - Corporate Bond Purchase (Exchange Reporting Platform)

Step	Activity	Who	Day*
1	Request for placing Buy Order	FPI	T
2	Negotiated trade reported on BSE	Stock Broker	T
3	Trade confirmation received	BSE	T
4	Trade flows to ICCL for settlement	BSE	T
5	Trade details advised to FPI	Stock Broker	T
6	Trade instructions to custodian	FPI	T
7	Remittance instruction to banker in FPI's home jurisdiction	FPI	T /T+1/T+2
8	Funds remitted to bank in India	FPI's Bank	T /T+1/T+2
9	FPI informs custodian of remittances	FPI	T /T+1/T+2
10	Trade details and contract note issued to custodian	Stock Broker	T /T+1/T+2
11	Trades made available to custodians for confirmation	ICCL	T /T+1/T+2
12	Custodian confirms trade to ICCL	Custodian	T /T+1/T+2
13	Custodian transfer funds through RBI RTGS	Custodian	T /T+1/T+2
14	Confirmation of funds received from RBI RTGS system	ICCL RTGS	T /T+1/T+2
15	ICCL delivers securities to the custodian	ICCL	T /T+1/T+2
16	Custodian provides the trade details to Tax Consultant	Custodian	T/T+1/T+2

* The days mentioned are indicative. For details on the days and the exact deadlines, please refer to your Custodian (DDP) /Trading Member (Broker)

High level FPI Transaction Flow - Corporate Bond Sale (Exchange Reporting Platform)

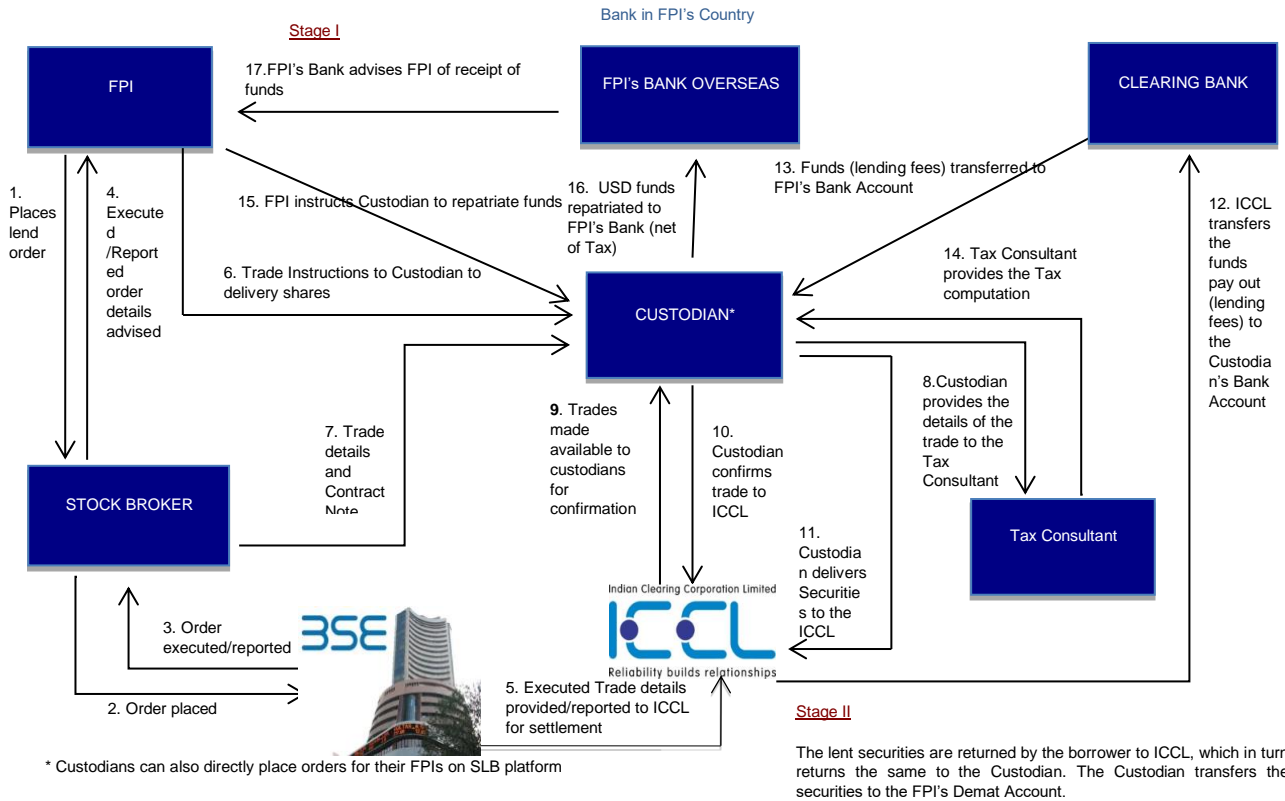


High level FPI Transaction Flow - Corporate Bond Sale (Exchange Reporting Platform)

Step	Activity	Who	Day*
1	Request for placing Sell Order	FPI	T
2	Negotiated trade reported on BSE	Stock Broker	T
3	Trade confirmation received	BSE	T
4	Trade flows to ICCL for settlement	BSE	T
5	Trade details advised to FPI	Stock Broker	T
6	Trade instructions to custodian to deliver securities	FPI	T
7	Trade details and contract note issued to custodian	Stock Broker	T
8	Custodian provides details of trades to CPA	Custodian	T /T+1
9	Trades made available to custodians for confirmation	ICCL	T
10	Custodian confirms trade to ICCL	Custodian	T /T+1 /T+2
11	Custodian delivers securities to the ICCL	Custodian	T /T+1 /T+2
12	ICCL sends instructions for transfer of funds to the Custodian's bank account	ICCL	T /T+1 /T+2
13	Funds transferred to custodians bank account	RBI RTGS	T /T+1 /T+2
14	Tax Consultant provides the tax computation	Tax Consultant	T /T+1 /T+2
15	FPI informs custodian to repatriate funds	FPI	T+1 /T+2 / T+3
16	Funds repatriated to FPI's bank	Custodian	T+2/T+3
17	FPI's bank advises FPI of receipt of funds	FPI's bank	T+2/T+3

* The days mentioned are indicative. For details on the days and the exact deadlines, please refer to your Custodian (DDP) /Trading Member (Broker)

High level FPI Transaction Flow - SLB - Lending of Securities



** Please refer to the advisory Notes on Page no. 15.

High level FPI Transaction Flow - SLB - Lending of Securities

Step	Activity	Who	Day*
1	Request for placing Lend Order	FPI	T-1/T
2	Order Placed	Stock Broker	T
3	Order executed	ICCL	T
4	Executed order details advised to the FPI	Stock Broker	T
5	Executed orders details advised to ICCL for Settlement	BSE	T
6	FPI provides trade instructions to the custodian	FPI	T
7	Stock Broker provides the trade details and contract note to the Custodian	Stock Broker	T
8	Trade details are provided to the Tax Consultant	Custodian	T /T+1
9	Trades made available to custodian for confirmation	ICCL	T
10	Custodian confirms trades to the ICCL	Custodian	T
11	Custodian delivers securities to the ICCL	Custodian	T
12	ICCL transfers the funds to the Custodian's Bank Account	ICCL	T+1
13	Funds transferred to the FPI's Bank account	Clearing Bank	T+1
14	Tax Consultant provides the Tax Computation	Tax Consultant	T+1 /T+2
15	FPI Instructions to repatriate funds	FPI	T+1
16	Funds [net of Tax] remitted to the FPI's Overseas Bank	Custodian	T+2 /T+3
17	FPI's Overseas Bank confirms receipt of funds to the FPI	FPI's Bank	T+3 /T+4

*The days mentioned are indicative. For details on the days and the exact deadlines, please refer to your Custodian [DDP] /Trading Member [Broker]

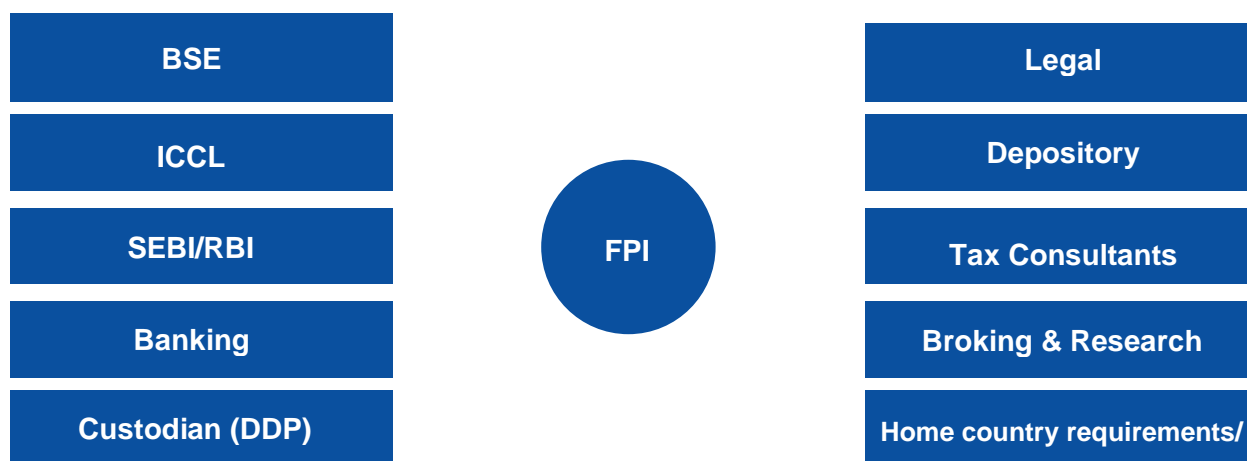
Advisory Notes with reference to transaction flow charts

- India is a pre-funded market and requires investor to arrange for funds before it invests.
- The Indian financial markets are regulated by RBI and SEBI. These Regulators prescribe rules, regulations and restrictions on trading, holding, reporting etc. of Securities. Please contact your Custodian/DDP/ Trading Member [Broker] for details of the regulations applicable to client category.
- The Derivatives transaction processes also involve Risk Management which is not depicted in the above Transaction Flows.
- Details for Securities which can be accepted as Collateral for Derivatives Collateral Management will be provided to FPI by its Trading and Clearing Member.
- For Derivatives positions, FPI can either go for collateral or opt for daily pay-in/pay-out of shortage/ excess of Margin
- For Derivatives settlements and Expiry processes, please contact your Trading/ Clearing Member.
- Tax obligations will be calculated and advised by the Tax consultant appointed by the FPI. The Custodian/DDP to ensure that the advised tax obligations are discharged in a timely manner. Further details on the application of Tax will be provided by the Tax Consultant.

INTERMEDIARIES CORNER

To facilitate ease in understanding the Intermediaries role, we present a listing of the various intermediaries and an overview of their offerings. For your benefit we have also listed the members of the BSE, DDPs, key Tax consultants and key Banks available for FPI investors. The below diagram will assist your understanding of the intermediaries and their roles.

RO/ SROs/ Intermediaries engaged with FPIs



COSTS

FPI Investors are typically seized by the below costs. FPIs are advised to check with their respective service provider, intermediaries for further details on costs involved.

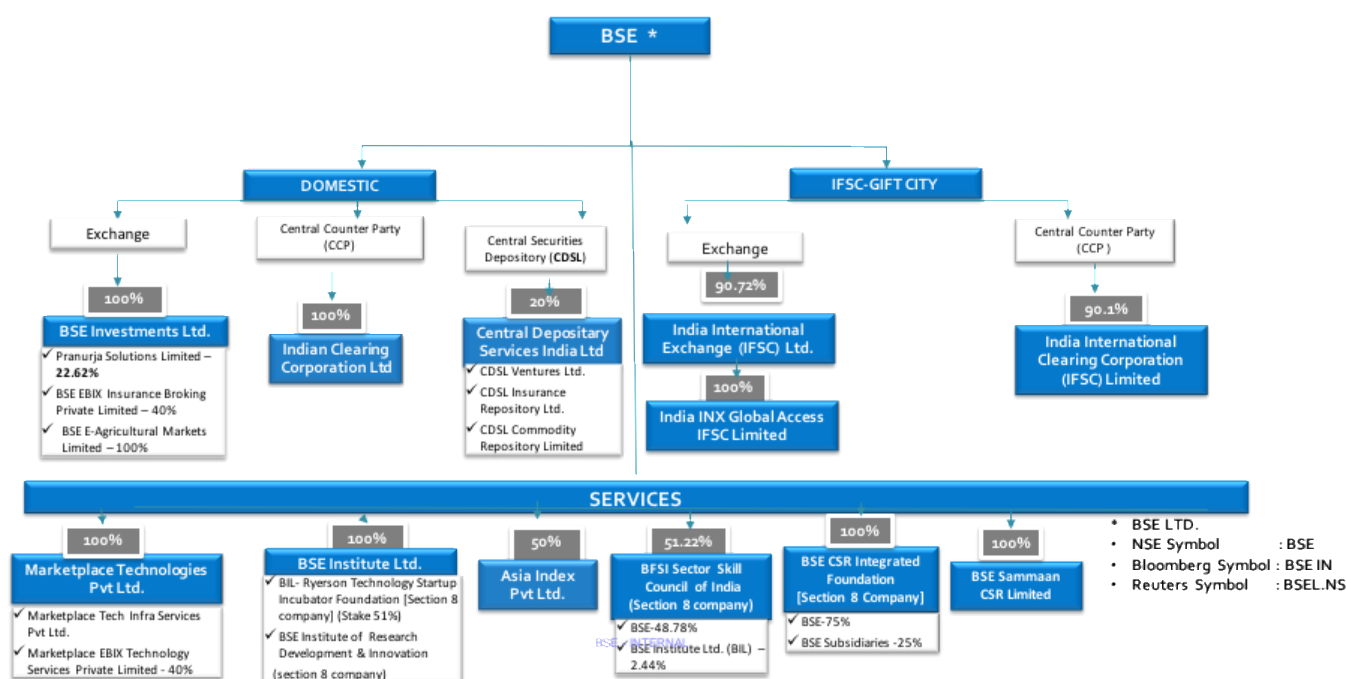
No.	Costs	Payable to	Remarks
Pre - Trade			
1	Income Tax- Permanent Account Number [PAN] Processing Charge	Tax Consultant	--
2	FPI Registration Processing fees	Custodian/ DDP	Between Investor and Custodian/ DDP
3	FPI Registration	SEBI Fees	As per SEBI norm- Cat. I, II. Collected by Custodian/ DDP.
Trade [Buy/ Sell]			
4	Trading Brokerage fees	Brokers	Wherever applicable SEBI Turn over fees, Stamp duty, GST and Securities Transaction Tax is payable
Post - Trade			
5	Safekeeping and Transaction	Custodian/ DDPI	--
6	FX Charges	Banks	Settlements are in local currency [INR]
Compliance			
7	Income Tax	Income Tax Dept.	--
8	Tax Services including Annual Return filing services	Tax Consultant	--

BSE

Established in 1875, BSE (formerly Bombay Stock Exchange Ltd.) is Asia's First Stock Exchange. **BSE is currently the Fastest Stock Exchange in the world with a median response time of 6 microseconds.**

Over the past 146 years, BSE has facilitated the growth of the Indian economy by providing itself as an efficient capital formation and wealth creation platform. BSE is a corporatized and demutualised entity, with a broad shareholder-base. BSE's systems and processes are designed to safeguard market integrity, drive the growth of the Indian capital market and stimulate innovation and competition across all market segments.

BSE GROUP



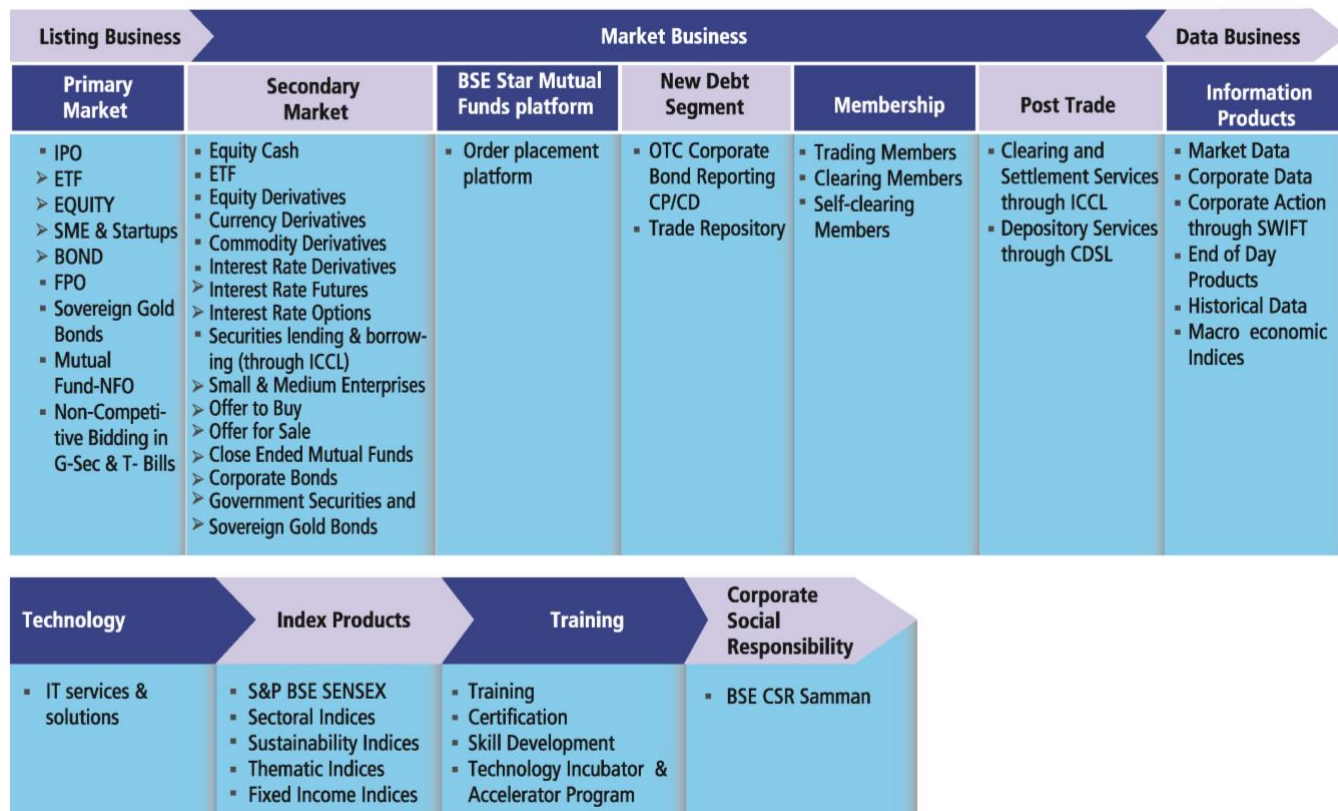
Key Worldwide Ranking

Sr. No	Topic	Worldwide Ranking
1	Number of Listed Companies	First
2	Market Capitalization	Ninth
3	Number of trades in Equity Shares	Ninth
4	Number of Currency Options contracts	Second
5	Number of Currency Futures contracts	Third

* Source: World Federation of Exchanges (WFE) as of January 2021

BSE Products

Supporting Business



FPI - Debt Markets

- FPIs are permitted to invest in the Debt Markets. BSE has an active Debt Segment offering multiple features for FPIs.
- BSE, the first Exchange to list securitized Debt Instruments and privately placed Non-Convertible Redeemable Preference Shares, has a market leadership of about 70% in retail trading of Corporate Bonds.
- For ease of settlement, FPIs can report and settle deals directly or through registered BSE broker on NDS-RST for all OTC transactions of Corporate Debt executed in India.
- All Corporate bond deals reported for settlement on NDS-RST are settled by ICCL.
- The FPIs (through their Custodian) need to register with ICCL wherein login credentials of NDS-RST will be provided to FPI within 'one day' of receipt of documentation.

For further information please contact debtinfo@bseindia.com

INDIAN CLEARING CORPORATION LIMITED (ICCL)

The Indian Clearing Corporation Limited ("ICCL") carries out the functions of clearing, settlement, collateral management and risk management for various offerings of BSE. ICCL settles trades reported on the Indian Corporate Debt Segment and the Mutual Fund ("STAR MF") Segment of BSE and clears and settles trades executed on all the other segments of BSE, including Equity Cash, Equity Derivatives, Currency Derivatives Segment, Interest Rate Derivatives, BSE SME, Offer for Sale, Securities Lending & Borrowing, and Debt including Sovereign Gold Bonds and Exchange traded G-Secs and Corporate Bonds. ICCL has a net-worth of OVER INR 6 Billion (approx. USD 82.3 Million).

Weblink: <http://www.icclindia.com/>

Key Attributes:

- ICCL has been accorded Qualified Central Counterparty ("QCCP") status by the Securities and Exchange Board of India ("SEBI")
- ICCL is the 1st clearing corporation in India to publish its self-assessment of the CPMI-IOSCO's Principles of Financial Market Infrastructures on its website to ensure a clear understanding and an assessment of the risks associated with ICCL
- ICCL is the only clearing corporation in India to have been granted "AAA" rating by two rating agencies, India Ratings Ltd. (Indian arm of Fitch Ratings) and Care Ratings Ltd
- ICCL has subscribed to an insurance policy of USD 60 Million applicable across all segments. The objective of the policy is to protect ICCL against counterparty defaults and add a further capital cushion to the ICCL net-worth making the resources of the non-defaulting members even safer

TRADING, SETTLEMENT AND RISK MANAGEMENT

Trading

An FPI client places order through a Trading Member (broker) on the Exchange. The settlement is done through a Clearing member/ Custodian (DDP). India's Cash Segment follows T+2 Settlement Cycle. Securities are held in a segregated DEMAT form. All settlements are through Clearing Corporation (ICCL), thereby minimizing settlement risks (Funds/ Securities) to FPIs.

Trading on the BSE is available through multiple online systems and is conducted from Monday to Friday (except public holidays) between 9:15 a.m. and 3:30 p.m. for Equity Cash/ Equity Derivatives and 9:15 a.m. to 5:00 p.m. for Currency Derivatives.

Settlement

Trades done in the securities in the Equity Cash Segment on BSE are settled through ICCL on a T+2 basis. A T+2 settlement cycle means that the transactions done on T day (trade day), the final settlement takes place on second business day (excluding Saturdays, Sundays and other settlement holidays) after the trade day. For Equity Derivatives Segment, a T+1 settlement cycle is followed, while for Currency Derivatives Segment, trades are settled on same day (T+0) basis.

Margins

Segment	Initial Margin/ Value at Risk (‘VAR’) Margin	Mark to Market margin (‘MTM’) Margin	Extreme Loss Margin (‘ELM’)/ Exposure Margin	Cross Margining	Calendar Spread Margin	Assignment Margin (options)	Premium Margin (options)
Equity Cash	☑	☑	☑	☑	--	--	--
Equity Derivatives	☑	☑	☑	☑	☑	☑	☑
Currency Derivatives	☑	☑	☑	--	☑	☑	☑

Risk Management

- **Core Settlement Guarantee Fund (‘Core SGF’):** ICCL has created a Core SGF available to meet settlement obligations
- **Stress Test:** ICCL carries out stringent stress tests for assessing the adequacy of liquidity arrangements and for adequacy of margins
- **Limited Liability:** Limited liability for non-defaulting members is NIL
- **Recovery & Resolution:** INR 1 Billion (approx. USD 13.5 Million) is maintained separately for covering operational cost for 1-year, legal cost, regulatory cost and other liabilities
- The policy on composition and contributions to be made to the Core SGF, investment policy for Core SGF and the Default Waterfall for each segment along with the quantum of resources is available in each layer of the default waterfall

Core Settlement Guarantee Fund

As per present guidelines:

- ICCL's contribution to Core SGF should be at least 50%
- The Stock Exchanges contribution to Core SGF should be at least 25%
- The clearing member's primary contribution to Core SGF should not be more than 25%

Currently, ICCL has decided to not collect any contribution from clearing members towards Core SGF. Hence, ICCL/Exchanges' skin in the game is approximately 75%

Default Waterfall

The default waterfall gives the hierarchy in which funds would be apportioned in case of a default by clearing members. ICCL maintains a dedicated Default Waterfalls for each segment, effectively ring fencing each segment of ICCL from defaults in other segments.

DEFAULT WATERFALL

April 2021							(INR Crore)
Sr. No.	Description	Equity Cash Segment	Equity Derivative Segment	Currency Derivative Segment	Debt Segment	Commodity Derivative Segment	
1	Monies of defaulting member (including defaulting member's primary contribution to Core SGF(s) and excess monies of defaulter in other segments)	As applicable	As applicable	As applicable	As applicable	As applicable	
2	Insurance, if any	457.38					
3	ICCL resources (equal to 5% of the segment MRC)	9.71	0.89	7.49	0.00	0.70	
4	i. Penalties						
	ii. ICCL contribution to the extent of at least 25% of the segment MRC	281.55	28.91	179.43	8.00	9.94	
	iii. Remaining Core SGF: ICCL contribution, Stock Exchange contribution and non-defaulting members' primary contribution to Core SGF on pro-rata basis						
	iv. Earmarked, but not contributed, funds towards augmentation of Core SGF*	0.00	0.00	0.00	0.00	250.00	
5	Proportion of remaining ICCL resources (excluding ICCL's contribution to core SGF of other segments and INR 100 Crore**) equal to ratio of segment MRC to sum of MRCs of all segments	135.25	12.33	104.26	0.00	1.85	
6	ICCL/SE contribution to Core SGFs of other segments (after meeting obligations of those segments) and remaining ICCL resources to that extent as approved by SEBI	354.29	731.46	488.58	763.22	508.97	
7	Capped additional contribution by non-defaulting members of the segment***	0.00	0.00	0.00	0.00	0.00	
8	Any remaining loss to be covered by way of pro-rata haircut to pay-outs	As applicable	As applicable	As applicable	As applicable	As applicable	

Features

- Limited Liability: Limited liability for non-defaulting members is subject to a maximum cap of NIL.
- Exposure towards CCP: ICCL has decided to currently keep the Clearing Members' contribution to default fund as "Nil"
- Insurance: ICCL has subscribed to a unique insurance policy of USD 60 Million applicable across all segments

TAX STRUCTURE

A	Tax Framework - an overview
B	Taxation under the provisions of the Income-tax Act, 1961 (IT Act)
C	Taxation under the provisions of the Double Taxation Avoidance Agreement (DTAA)
D	Tax administration

Appointment of a tax consultant

Prior to carrying out activities in India and to operationalize the cash and custody accounts, the FPI is required to obtain an income-tax registration number i.e. PAN (Permanent Account Number). The tax consultant will assist the FPI in obtaining the PAN. In absence of PAN in India, application for PAN is made in the Common Application Form for FPI registration filed by the applicant for FPI registration.

Tax Consultants also render key compliance services like maintaining transaction details of the investments made by the FPI in India, issuing periodic remittance letters to facilitate repatriation of funds of the FPI (through the DDP/ Local Bank), filing the annual income-tax return, etc.

A. Tax Framework

The Indian tax laws provide for a special concessional tax framework for investments made by FPIs in India. Typically, the following types of income are earned by FPIs in a financial year¹ on account of investments in securities:

- Dividend on shares and units of mutual funds
- Interest
- Capital gains earned on transfer of securities

B. Taxation under the provisions of the IT Act

Dividend on shares and units of equity oriented mutual funds²

Prior to 1 April 2020, dividend income earned by the shareholders from Indian company was subject to a dividend distribution tax (DDT) at the rate of 15% (plus applicable surcharge and education cess)³ and exempt in the hands of shareholders. DDT was required to be computed by grossing up the dividend payable⁴. Effective from 1 April 2020, income earned by way of dividend declarations and distributions from an Indian company is taxable in the hands of shareholders at the rate of 20% (plus applicable surcharge and education cess), subject to treaty benefits.

Effective FY 2018-19, distribution of income by an equity oriented mutual fund to its unit holders is a taxable event [exempted prior to FY 2018-19]. Tax at the rate of 10% (plus applicable surcharge and education cess), is levied on such income distribution.

¹ A financial year in India runs from 1 April to 31 March of the following calendar year.

² A fund is treated as an equity oriented mutual fund if more than 65% of its investible funds are invested in equity shares of domestic companies.

³ Surcharge at the rate of 12% (on the base tax rate) plus education cess at the rate of 4% (on the base tax rate plus surcharge) would apply.

⁴ The effective rate of DDT following the grossing-up mechanism would be 20.56%.

Dividend tax rates:

Taxable Income earned by Non-corporate FPI (in INR)	Rate	
	Surcharge (%)	Expected tax rate on dividend (20% + surcharge + 4% Cess) (%)
Up to INR 5 million	Nil	20.80%
INR 5 million to 10 million	10%	22.88%
INR 10 million and above	15%	23.92%

Taxable Income earned by corporate FPI (in INR)	Rate	
	Surcharge (%)	Expected tax rate on dividend (20% + surcharge + 4% Cess) (%)
Up to INR 10 Mn	Nil	20.80%
INR 10 Mn to 100 Mn	2%	21.216%
INR 100 Mn and above	5%	21.84%

Interest

A concessional tax rate of 5% (plus applicable surcharge and education cess)³ is provided on interest income earned by an FPI from:

- Investment in Government securities; or
- Investment in Rupee denominated bonds of an Indian company (provided the rate of interest does not exceed the rate notified by the Central Government as mentioned below). This is applicable with respect to interest received before 1 July 2023.

The rate notified by the Central Government for Rupee Denominated Bonds issued:

Date of issue of bonds	Maximum rate
Prior to 1 July 2010	5% over the SBI Base Rate as on 1 July 2010
After 1 July 2010	5% over the SBI Base Rate as on date of issue

Interest earned from other securities (including from Rupee Denominated Bonds of an Indian company where the rate of interest exceeds the rate notified by the Central Government) shall be taxable at 20% (plus applicable surcharge and education cess)⁵.

³ In case of corporate and non-corporate taxpayers, surcharge at the applicable rates (on the base tax rate) [tabulated in the ensuing pages] plus an education cess of 4% (on the base tax rate plus surcharge) would be levied.

Capital Gains

Characterization of income

Income earned by an FPI from sale of Indian securities will be characterized as 'capital gains' since the securities held by an FPI (in accordance with FPI Regulations) are deemed to be a capital asset under the provisions of the IT Act.

Taxability of capital gains

The taxability of capital gains earned by an FPI on transfer of Indian securities broadly depends on:

- type of security transferred
- the period for which the securities were held prior to their transfer
- whether Securities Transaction Tax (STT) is paid

The gains/ losses are classified as short-term or long-term depending on the period of holding discussed below:

Sr. No.	Source of Income	Period of holding	Type of gain/ loss
1	Capital gains/ loss arising from the transfer of listed equity shares/ units of an equity orientated mutual fund/ other listed securities	12 months or less before date of sale	Short-term
		More than 12 months before date of sale	Long-term
2	Capital gains / loss arising from the transfer of unlisted shares	24 months or less before date of sale	
		More than 24 months before date of sale	
3	Capital gains/ loss arising from the transfer of securities other than those mentioned above	36 months or less before date of sale	Short-term
		More than 36 months before date of sale	Long-term

Key tax rates applicable to FPIs as prescribed under the IT Act for the income earned in respect of securities are as under⁴:

Capital gains on transfer of certain securities

Tax rates	Corporate FPIs	Non-Corporate FPIs (other than partnership firms)
Base rate		
Long-term capital gains on transfer of listed equity shares/ units of equity oriented mutual fund on market (STT is paid)	10%	10%
Short-term capital gains on transfer of listed equity shares/ units of equity oriented mutual fund on market (STT is paid)	15%	15%
Long-term capital gains on transfer of debt securities (including debt oriented mutual funds) and listed derivatives (listed futures and options)	10%	10%
Short-term capital gains on transfer of debt securities (including debt oriented mutual funds) and listed derivatives (listed futures and options)	30%	30%
Surcharge on base rate		

⁴ The tax rates may be amended in subsequent Union Budgets of the Government of India. Hence, kindly reach out to your Tax Consultant for the most recent tax rates applicable.

Total income does not exceed INR 5 million	-	-
Total income exceeds INR 5 million but not INR 10 million	-	10%
Total income exceeds INR 10 million but not exceed INR 100 million	2%	15%
Total income exceeds INR 100 million	5%	15%

Interest income and other income

Tax rates	Corporate FPIs	Non-Corporate FPIs (other than partnership firms)
Base rate		
Interest income on specified securities/ loan agreements	5%	5%
Interest income on securities	20%	20%
Other interest income/ other income	40%	30%
Surcharge on base rate		
Total income does not exceed INR 5 million	-	-
Total income exceeds INR 5 million but not INR 10 million	-	10%
Total income exceeds INR 10 million but not INR 20 million	2%	15%
Total income exceeds INR 20 million but not INR 50 million	2%	25%
Total income exceeds INR 50 million but not INR 100 million	2%	37%
Total income exceeds INR 100 million	5%	37%

Effective Tax rates

Capital gains on transfer of certain securities

Type of Income	Capital gains on transfer of listed equity shares/ units of equity oriented mutual funds on market (STT is paid)		Capital gains on transfer of debt securities (including of debt oriented mutual funds) and listed derivatives (listed futures and options)	
	Long term	Short term	Long term	Short term
Corporate FPIs				
Total income does not exceed INR 10 million	10.40%	15.60%	10.40%	31.20%
Total income exceeds INR 10 million but not INR 100 million	10.61%	15.91%	10.61%	31.82%

Type of Income	Capital gains on transfer of listed equity shares/ units of equity oriented mutual funds on market (STT is paid)		Capital gains on transfer of debt securities (including of debt oriented mutual funds) and listed derivatives (listed futures and options)	
	Long term	Short term	Long term	Short term
Total income exceeds INR 100 million	10.92%	16.38%	10.92%	32.76%
Non-corporate FPIs (other than partnership firms)				
Total income does not exceed INR 5 million	10.40%	15.60%	10.40%	31.20%
Total income exceeds INR 5 million but not INR 10 million	11.44%	17.16%	11.44%	34.32%
Total income exceeds INR 10 million	11.96%	17.94%	11.96%	35.88%

Interest income and other income

Type of Income	Interest income		Other income
	Specified interest income taxable at 5%	Specified interest income taxable at 20%	
Corporate FPIs			
Total income does not exceed INR 10 million	5.20%	20.80%	41.60%
Total income exceeds INR 10 million but not INR 100 million	5.30%	21.22%	42.43%
Total income exceeds INR 100 million	5.46%	21.84%	43.68%
Non-corporate FPIs (other than partnership firms)			
Total income does not exceed INR 5 million	5.20%	20.80%	31.20%
Total income exceeds INR 5 million but not INR 10 million	5.72%	22.88%	34.32%
Total income exceeds INR 10 million but not INR 20 million	5.98%	23.92%	35.88%
Total income exceeds INR 20 million but not INR 50 million	6.50%	26.00%	39.00%
Total income exceeds INR 50 million	7.12%	28.50%	42.74%

The tax rates mentioned are subject to relief under the DTAA, as applicable (discussed later in this section).

Note 1: Hitherto, long-term capital gains arising on transfer of equity shares of a company or units of an equity-oriented fund were exempt from tax provided:

- The sale transaction has been concluded on or after 1 October 2004
- The sale transaction is chargeable to STT

With effect from 1 April 2017, amendments brought in the Finance Act, 2017 impose a restriction for claiming an exemption of long-term capital gains tax in cases where:

- The equity shares are acquired on or after 1 October 2004
- The purchase transaction was not subject to levy of STT

The amendment thus seeks to provide the long-term capital gains exemption only where STT has been paid both at the time of purchase as well as sales.

However, the Central Board of Direct Taxes (CBDT), in order to protect certain genuine cases, has issued a notification providing a negative list of transactions for which the benefit of exemption would not be available.

Note 2: Effective FY 2018-19, tax on long-term capital gains arising on transfer of *inter alia*, listed equity shares and units of equity oriented mutual funds exceeding INR 0.1 million at the rate of 10% (plus applicable surcharge and education cess)⁵. Such gains were earlier exempt from tax [prior to FY 2018-19], subject to the transaction of acquisition and sale being subject to STT or a notified transaction.

In order to grandfather gains notionally realised by investors upto 31 January 2018 (for shares acquired prior to 31 January 2018), it has been provided that taxable gains will be determined using the higher of:

- actual cost of acquisition; or
- Lower of sale price and FMV on 31 January 2018 (being the highest price quoted on the stock exchange in case of listed securities or net asset value in case of a unit which is unlisted).

The long-term capital gains would be computed without giving effect to the inflation indexation and the benefit of computation of capital gains in foreign currency.

STT

Securities transacted on a Recognized Stock Exchange in India are subject to STT levied as follows:

Transaction	Rates	Payable by
Purchase and sale of equity shares on the stock exchange	0.100%	Purchaser/ Seller
Sale/ redemption of units of equity oriented mutual fund	0.001%	Seller
Sale of an option in security on the stock exchange where option is not exercised	0.050% ⁵	Seller
Sale of an option in security where option is exercised on the stock exchange	0.125% ⁶	Purchaser
Sale of a future in securities on the stock exchange	0.010%	Seller

No STT is payable on transaction in debt securities/ units of debt mutual funds.

Indirect Transfer provisions

Indirect transfer provisions were introduced in the IT Act by the Finance Act, 2012 to clarify that an asset being share or interest in a company or entity registered or incorporated outside India shall be deemed to be situated in India, if the share or interest derives its value (directly or indirectly) substantially from assets situated in India.

However, provisions of indirect transfer do not apply to an asset or capital asset, being share or interest, held by investors by way of investment, directly or indirectly, in specified FPIs (being SEBI registered Category I and Category II FPIs).

International Financial Services Centre (IFSC)

Currently, units in IFSC *inter alia* enjoy exemption from DDT, STT, commodities transaction tax. Besides these, the following additional tax incentives are also provided:

- Exemption from tax on transfer of capital assets being bonds, Global Depository Receipts (GDRs), Rupee Denominated Bonds of an Indian company, derivatives, securities notified by the IFSCA, transacted by a non-resident on a recognised stock exchange located in an IFSC and the consideration for which is payable in foreign currency;
- A reduction in Alternate Minimum tax rate from 18.5% to 9% for units located in the IFSC, being non-corporate persons.
- Several tax incentives are casted for encouraging relocation of fund structure in the IFSC and creating IFSC as an hub for India focused funds
- Income-tax incentives are also proposed for offshore funds seeking to redomicile in the IFSC
- For funds registered as Category III Alternative Investment Funds in IFSC – (i) exemption from income-tax for transfer of securities (other than shares in an Indian company), (ii) taxation of dividend/ interest income at a concessional rate of 10%; and (iii) exemption from tax for any income from a securitisation trust taxable as 'profits and gains of business'.

⁵ STT would be computed on the amount of option premium.

⁶ STT would be computed on intrinsic value which is difference between the settlement price and the strike price.

Goods and Service tax

With effect from 1 July 2017, under the Goods and Services Tax (GST) law, commission charged by stock brokers to FPIs is subject to a tax rate of 18%.

C. Taxation under the provisions of DTAA

Where the Government of India has entered into an agreement with the Government of any other country for avoidance of double taxation (DTAA), then in relation to a taxpayer to whom such agreement applies, provisions of DTAA to the extent more beneficial will override the provisions of the IT Act.

In order to avail beneficial provisions of the DTAA, the FPI will have to obtain a tax residency certificate (TRC) confirming its tax residency under the DTAA from the home country tax authorities and maintain a self-declaration (in Form 10F) where the TRC does not contain the prescribed particulars.

Base Erosion and Profit Shifting (BEPS)

Under the Organisation for Economic Co-operation and Development (OECD) BEPS action plans, a multilateral instrument (MLI) has been released which seeks to *inter alia* modify bilateral tax treaties to counter the granting of treaty benefits in what it refers to as 'inappropriate circumstances'. The Indian Government has deposited the ratified MLI to implement tax treaty related measures to prevent BEPS on 25 June 2019 with OECD. This is the final leg in India's sprint towards effectuating the landmark MLI. India has notified 93 tax treaties, excluding China. Countries such as the UK, France, Japan, Netherlands, Australia and Singapore are part of the final list and accordingly, India's tax treaties with such countries will include MLI provisions with effect from 1 April 2020. The applicability of DTAA relief to an FPI will accordingly be subject to the MLI, depending on the effective date of the amendment to the particular bilateral treaty.

D. Tax administration

Obtain a Permanent Account Number (PAN)

To obtain a PAN, an application is required to be filed in the Common Application Form (in the application for FPI registration) through the Depository participant along with the documentary evidence for identity and address of the applicant.

Withholding tax

No withholding tax applies on capital gains income payable to an FPI. The FPI will need to self-discharge taxes, prior to remittance or on quarterly advance tax due dates, whichever is earlier, based on capital gains tax computed by the Tax Consultant. The person responsible for paying any other sum chargeable to tax to an FPI (other than capital gains) will be required to withhold tax at source at the applicable tax rate.

Payment of taxes on income earned in India

A taxpayer is required to estimate tax liability for a financial year and discharge the same by way of 'advance tax' on the due dates prescribed (mentioned below):

Due date of tax payment	Amount of tax liability to be discharged by a taxpayer
June 15	15%
September 15	45%
December 15	75%
March 15	100%

Delay/ deferment in deposit of advance tax has interest implications

Filing of annual income-tax return

Income earned by the FPI in India is required to be reported in an annual income-tax return to be filed with the CBDT as per the following schedule:

Taxpayer	Filing date
Non-corporate taxpayer	Before 31 July following the financial year*
Corporate taxpayer	Before 30 September following the financial year*

* Extended to 30 November, following the financial year where transfer pricing provisions apply to the taxpayer.

The above information provided is for general guidance only. For your specific requirements you are advised to consult your Tax Consultant with respect to tax implications arising out of their investments in India.

Compiled by Ernst & Young, LLP, India

ABBREVIATIONS

Sr. No.	Acronym	Full Form
1.	INR	Indian Rupee
2.	BRICS	Brazil, Russia, India, China and South Africa
3.	BSE	Bombay Stock Exchange Ltd.
4.	CBDT	Central Board of Direct Taxes
5.	CP	Custodial Participant
6.	CPMI-IOSCO	Committee on Payments and Market Infrastructures - International Organisation of Securities Commissions
7.	DDP	Designated Depository Participant
8.	DDT	Dividend Distribution Tax
9.	DMA	Direct Market Access
10.	DTAA	Double Taxation Avoidance Agreements
11.	ELM	Extreme Loss Margin
12.	ETF	Exchange Traded Fund
13.	FDI	Foreign Direct Investment
14.	FII	Foreign Institutional Investors
15.	FPI	Foreign Portfolio Investor
16.	FPO	Follow on Public Offer
17.	FTSE	Financial Times Stock Exchange
18.	ICCL	Indian Clearing Corporation Ltd.
19.	IPO	Initial Public Offering
20.	IPP	Institutional Placement Programme
21.	IT Act	Income Tax Act
22.	ITP	Institutional Trading Platform
23.	KYC	Know Your Customer
24.	MICEX	Moscow Interbank Currency Exchange
25.	MoF	Ministry of Finance
26.	MRC	Minimum Required Corpus
27.	MTM	Mark to Market
28.	OFS	Offer for Sale
29.	PAN	Permanent Account Number
30.	QCCP	Qualified Central Counter Party
31.	QFI	Qualified Foreign Investors
32.	RBI	Reserve Bank of India
33.	RO	Regulatory Organisations
34.	SBI	State Bank of India
35.	SEBI	Securities Exchange Board of India
36.	SGF	Settlement Guarantee Fund
37.	SLB	Securities Lending and Borrowing
38.	SME	Small and Medium Enterprises
39.	SRO	Self-Regulatory Organisations
40.	STP	Straight Through Processing
41.	STT	Securities Transaction Tax
42.	TRC	Tax Residency Certificate
43.	VAR	Value At Risk
44.	WFE	World Federation of Exchanges

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“...IFSC .. aims to provide onshore talent with an offshore technological and regulatory framework. This is to enable Indian firms to compete on an equal footing with offshore financial centres. Gift City IFSC will be able to **provide facilities and regulations comparable to any other leading international finance centres in the world.**”

- extracts from India Prime Minister N. Modi’s speech at launch of India INX, Jan. 2017

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1. INTRODUCTION TO INDIA INX AT GIFT IFSC

India International Exchange (IFSC) Limited (India INX) is India's first and leading international exchange in the **International Financial Services Centre (IFSC)** at the **Gujarat International Finance-Tec City (GIFT City)**. India INX and its clearing arm, **India International Clearing Corporation IFSC Limited (India ICC)** are subsidiaries of BSE Limited. The Exchange inaugurated by **Hon'ble Prime Minister of India Shri. Narendra Modi** on Jan 09, 2017 commenced operations on Jan 16, 2017.

Operating on an advanced technology platform of EUREX T7, the India INX is world's fastest Exchange with a turn-around time of 4 micro seconds. India INX offers trading in multi asset classes –n equity derivatives, currency derivatives, commodity derivatives and debt instruments under a single segment, thus providing significant cost advantages to participants. India INX also provides competitive advantage in terms of tax structure and supportive regulatory framework, comparable with global financial centres.

Web Link: <https://www.indiainx.com/>

REGULATORY FRAMEWORK

A. SECURITIES & EXCHANGE BOARD OF INDIA (SEBI)

The Securities & Exchange Board of India (SEBI) is the regulatory authority established under the SEBI Act, 1992 and is the principal regulator for Capital Markets. FPIs are required to register with SEBI in order to participate in the Indian Securities Market.

Key regulatory framework for FPIs operating in IFSC are:

1. SEBI (IFSC) Guidelines (Mar 2015) provides overall framework for IFSC intermediaries and exchanges.
2. SEBI Guidelines on FPI Participation (Jan 2017) permits SEBI-registered FPIs to operate in IFSC without undergoing any additional documentation and / or prior approval process. A Trading Member of a recognised stock exchange in IFSC, may rely on the due diligence process already carried out by a SEBI registered intermediary during the course of registration and account opening process in India.
3. SEBI circular on Participation of FPIs in Commodity Derivatives in IFSC (Sep 2017) allows FPIs to participate in non-agricultural commodity derivatives, traded and cash-settled on IFSC exchanges.
4. SEBI circular on Segregated Nominee Account Structure (SNAS) in IFSC (May 2018) allows FPIs (Cat I & II) to either register as Segregated Nominee Account Providers ("Provider") to offer SNAS to end-Clients (or) FPIs can become end-clients of Providers.

Web Link:

https://www.sebi.gov.in/legal/guidelines/mar-2015/sebi-international-financial-services-centres-guidelines-2015_29457.html

B. MINISTRY OF COMMERCE AND INDUSTRY, GOVERNMENT OF INDIA

The Ministry of Commerce and Industry, Govt. of India enacted the Special Economic Zone (SEZ) Act (2005) and implemented the Special Economic Zone Rules (2006), thus providing the foundation for the establishment of the International Financial Services Centre (IFSC) through its notification in April 2015.

Web link: http://sezindia.nic.in/upload/uploadfiles/files/10_Gazette%20Notificatio%20IFSC.pdf

2. INDIA INX – KEY VALUE PROPOSITION

Diverse Products	<ul style="list-style-type: none"> i. Best in class primary market for Debt- Global Securities Market ii. Balanced & Diversified Portfolio iii. Derivative products across all major assets classes under a single segment – equity, equity indexes, commodity and currency derivatives iv. Fixed Income investment products v. Trade through nominee account structure or be a Provider of nominee account
High Liquidity	<ul style="list-style-type: none"> i. Liquid & deep markets, operational for 22 hours with over 75 % market share ii. Execute buy/sell orders any time efficiently across asset classes iii. Non- stop access of 22 hours a day- ability to react to any change real time
Competitive Cost, Tax Benefits	<ul style="list-style-type: none"> i. One of the Most Cost Competitive Exchange Globally ii. No Currency Risk- Transaction & settlement in USD iii. Capital Efficiency – Single Segment across Asset class iv. Wide choice of collaterals- Foreign Sovereign Securities, Bank Guarantees, Fixed Deposits, Cash, etc. v. Higher position limits with single market access vi. No Tax Friction – No Transaction Taxes, No Capital Gains Tax, No GST, Income Tax holiday for IFSC units
Ease of On-boarding, Operation	<ul style="list-style-type: none"> i. Membership open to an Indian entity or Foreign Entity with an IFSC subsidiary, meeting necessary requirements ii. Direct access to Equity & Commodity derivatives for registered FPIs iii. SEBI registered Custodian or its 'International Associates' can offer services iv. Segregated Nominee Account Structure launched
Financial Safeguards	<ul style="list-style-type: none"> i. Daily twice mark to market settlements ii. Tie-up with ICSDs to deposit international sovereign securities as collateral, settle through ICSDs iii. Settlement guarantee by India ICC as counterparty to each derivatives trade
Reliability & Technology	<ul style="list-style-type: none"> i. Strong Governance & Risk Management aligned with CPMI – IOSCO PFMI ii. State of art technology- World's fastest exchange with median response time of 4 microseconds iii. Server co-location at INDIA INX Data Centre, Direct Market Access iv. Real-time price and transaction data feed

3. Tax Benefits at par with Global IFCs

Tax Benefits	<p>Tax benefits for all</p> <ul style="list-style-type: none"> i. No Securities Transaction Tax (STT) ii. No Commodity Transaction Tax (CTT) iii. No GST on dollar denominated services procured or offered internationally iv. No Capital Gains Tax across asset class (Derivatives, Bonds, DRs) for non-residents
	<p>Additional Tax benefits for IFSC units</p> <ul style="list-style-type: none"> i. No Dividend Distribution Tax (DDT) ii. No Stamp duty iii. 9% Minimum Alternate Tax (MAT) iv. 9% Alternate Minimum Tax (AMT) for non-corporates v. Income Tax Holidays – <ul style="list-style-type: none"> a. 100% of eligible profits or gains – 10 years consecutive assess, out of 15 years

4. DIVERSED PRODUCT PORTFOLIO ELICITING HIGH INTEREST FROM INVESTORS

Products available to trade*	Additional products in pipeline**
Equity Index Derivatives: S&P BSE SENSEX Index F&O INDIA50 Index F&O	Currency Derivatives (Futures) : INRUSD USDINR Quanto
Commodity Derivatives (Futures): Gold, Silver, Copper, Gold KG, Brent Crude	Currency Derivatives (Options) : USDINR Quanto
Global Single Stock (Futures)	Commodity Derivatives (Futures): Natural Gas, Gold Quanto, Silver Quanto, Copper Quanto, Brent Crude Oil Quanto
Currency Derivatives (F&O) : EURUSD, GBPUSD, JPYUSD	Commodity Derivatives (Options) : Gold Quanto
Indian Single Stocks (F&O) : 107 Single Stock Futures covering more than 70% of market capitalization of BSE	Depository Receipt (DRs)
Debt Securities Masala bonds (Indian rupee denominated international bonds) Foreign currency denominated bonds	

*As on September 30, 2018

**Subject to final product approval from SEBI

5. FPIs at INDIA INX

FPIs can be:

- End-Client of Segregated Nominee Account Providers (“Providers” or “SNAP”)
- End-Client of Trading Members (TM)
- Register as “Providers” offering “Segregated Nominee Accounts” for end-Clients

6. MULTIPLE OPTIONS TO PARTICIPATE FOR FOREIGN INVESTORS

Type of Foreign entity	Definition	Trading Member	Clearing Member	Provider for Nominee account	Client of Broker	Client of Provider	Other intermediary services (non-broking)
SEBI registered FPI	Cat I, II	Yes (with IFSC subsidiary)	Yes (with IFSC subsidiary)	Yes (FPI Cat I & II)	Yes	Yes	NA
Eligible Foreign Investors	Non-individual foreign participants not registered as FPIs with SEBI	Yes (with IFSC setup)	Yes (with IFSC setup)	Yes (if TM/CM of International Stock Exchange / Clearing Corporation)	Yes	Yes	NA
Foreign Bank Branch	<ul style="list-style-type: none"> Already present in India Set up as IFSC Banking Unit 	Yes	Yes	Yes (If TM at IFSC)	Yes	Yes	Yes Intermediary options: [Merchant Banker, Banker to an issue, Underwriter, Investment advisor, Portfolio Manager, Custodian]
International Associates of SEBI registered non-broking / non-clearing intermediary	Associate ¹ as defined in SEBI (Intermediaries) Regulations, 2008	NA	NA	NA	NA	NA	

¹“Associate” means any person controlled, directly or indirectly, by the intermediary, or any person who controls, directly or indirectly, the intermediary, or any entity or person under common control with such intermediary, and where such intermediary is a natural person will include any relative of such intermediary and where such intermediary is a body corporate will include its group companies (as defined in the Monopolies and Restrictive Trade Practices Act, 1969 (Act No. 54 of 1969) or any re-enactment thereof) or companies under the same management;

7. Simplified Registration Process for FPI & NON-FPI as clients of Trading Member (TM)

Process for FPI clients

- 1 KYC application form to be submitted by FPI to Trading Member (TM)
- 2 Trading Member verified FPI from KRA and enrolls client
- 3 FPI may request for co-location setup to TM or Leased Line to TM who subsequently requests India INX for approval (optional)
- 4 FPI Transfers money to TM or CM to start trading

Process for non-FPI foreign clients

- 1 KYC application form to be submitted by applicant to Trading Member (TM)
- 2 Trading Member verifies records of applicant
- 3 Applicant applies for Permanent Account Number (PAN)
- 4 TM enrolls client subject to verification
- 5 Client Transfers money to TM or CM to start trading

8. What is SEGREGATED NOMINEE ACCOUNT STRUCTURE?

India INX has launched the **Segregated Nominee Account Structure** to further facilitate ease of market access for foreign investors. Through this mechanism, FPIs can become end-Clients of eligible **Segregated Nominee Account Providers** (the “**Provider**”) for trading on the India INX products.

India INX’s operating guidelines for the Segregated Nominee Accounts Structure adheres to the broad framework provided by the Securities and Exchange Board of India (SEBI), India’s capital markets regulator through its Circular No. SEBI/HO/MRD/DRMNP/CIR/P/2018/83 dated May 24, 2018.

Eligible entities (**Providers**) include SEBI-registered brokers in IFSC, Foreign Portfolio Investors (Cat I & II) as well as Trading / Clearing Members of International Stock Exchanges / Clearing Corporations that are regulated by a member of Financial Action Task Force (FATF). There are eligibility norms including a minimum net worth requirement of INR 100 million.

The key benefits of India INX’s Segregated Nominee Accounts Structure are:

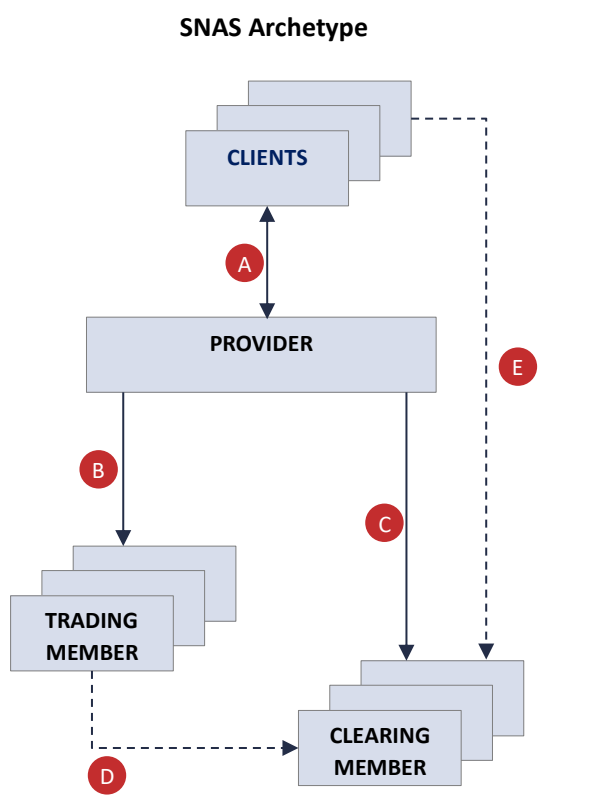
- Easy and immediate access for foreign investors to trade on India INX
- Immediate access to global markets for FPIs and EPIs through established intermediaries.
- Quickens on-boarding of clients
- Structure enables Providers to fund margins on behalf of their end-Clients through agreements
- Segregated accounts ensure greater protection for end-Clients of Providers
- Decrease in Transaction Costs due to lower cost towards overheads and compliance

APPLICABILITY OF SEGREGATED NOMINEE ACCOUNT STRUCTURE

Participant type at India INX	Who are you?	How do you trade on India INX?
Client	<ul style="list-style-type: none"> • FPI (Cat I and II) • Eligible Foreign Investors(EFI) • TM at IFSC¹ 	<ul style="list-style-type: none"> • Through Provider (SNAS) • Through TMs
Provider of Segregated Nominee Account Structure	<ul style="list-style-type: none"> • FPI (Cat I and II) • Broker at IFSC (TM or CM) • TM, CM of international exchanges / CCPs that are regulated by a member of FATF 	<ul style="list-style-type: none"> • Through TMs (or) • Yourself (if you are a TM at IFSC)
Trading Member (TM)	<ul style="list-style-type: none"> • Any Indian or foreign entity with set up at IFSC 	<ul style="list-style-type: none"> • Other TMs (or) • Yourself
Clearing Member having TM registration	<ul style="list-style-type: none"> • Any Indian or foreign entity with set up at IFSC 	<ul style="list-style-type: none"> • Other TMs (or) • Yourself

¹ If not trading on your own account as TM

HOW DOES SEGREGATED NOMINEE ACCOUNT STRUCTURE WORK



How SNAS works?

- A**
 - Provider on-boards end-clients to trade on India INX
 - Each client can register with only one Provider
 - Provider can offer Margin Funding to clients
 - Details of end-client available only with Provider
- B**
 - Provider can choose multiple TMs for trade execution
- C**
 - Provider can choose multiple CMs for clearing of trades
- D**
 - Trades executed by TM are cleared and settled by the designated CM of client of a Provider after *give-up* by the default CM of TM
- E**
 - Each Client's trades are cleared and settled through only one CM ("Designated CM")

To be a PROVIDER?

- Entity type
 - SEBI-registered brokers in IFSC,
 - SEBI registered FPIs (Category I and II) and
 - Trading / Clearing members of international stock exchanges / clearing corporations that are regulated by a member of Financial Action Task Force (FATF)
- Minimum net worth: INR 100 million
- **Other requirements:** Obtain information relating to end-clients as and when sought by Exchange or SEBI

REGISTRATION PROCESS FOR PROVIDER

1. Apply to India INX with net-worth certificate and SEBI registration details
2. India INX conducts due diligence of proposed Provider's details
3. India INX issues a Provider Code (PCODE) to applicant
4. Select TMs to open account (optional)

Kindly refer to India INX's circular no. 20180611-1, dated June 11, 2018, no. 20191023-1, dated October 23, 2019 available at www.indiainx.com and India ICC's circular no. 20180611-2, dated June 11, 2018 available at www.indiaicc.com for further details

TO BE END-CLIENT OF PROVIDER?

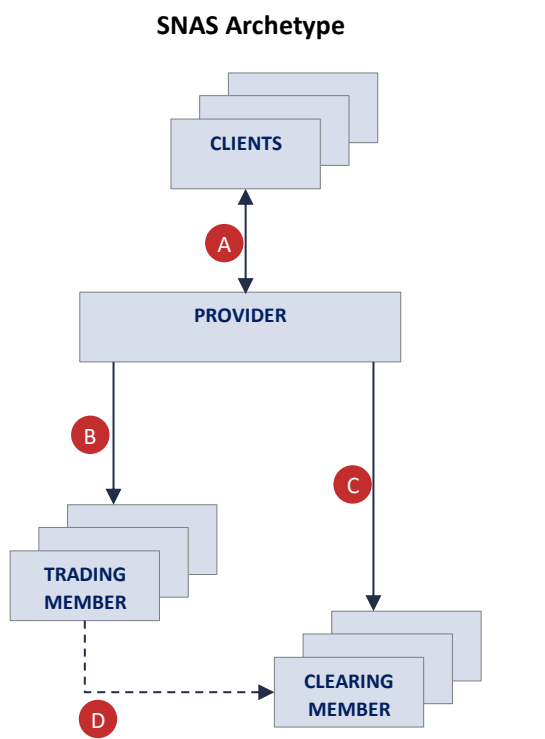
- Entity type
 - FPIs
 - EFIs

- Client is eligible as per due diligence done by Provider following global KYC and AML compliance standards
- **Other requirements:** Adherence to Prevention of Money Laundering Act, 2002 (PMLA) including KYC by Client

REGISTRATION PROCESS FOR END-CLIENT

- Provider on-boards clients through the following steps:
1. Provider conducts AML / KYC checks on client
 2. Apply to India ICC with application to onboard client providing client details and CM undertaking
 3. India ICC issues CLCODE to Client through Provider and informs assigned CM
 4. Provide copy of agreement with Client on margin funding, if requested by Exchange, CCP or SEBI

TRADING, CLEARING & SETTLEMENT FOR SNAS



Trading, Clearing and Settlement

- Clients can execute transactions through:
 - Provider (in case the Provider is a TM), or
 - Any TM with whom Provider has a Member-Client relationship
- Provider's TM places order on behalf of end-Client using the CLCODE as the Unique Client Code
- Margins computed at the end-client level of 'Provider' and grossed up
- Margin reporting shall be at the level of the 'Provider'
- Margin to be held by the Clearing Member
- Trades are Cleared through the *Designated* CM after *give-up by default* CM of TM and confirmation by the Designated CM
- Unconfirmed trades form part of default CM's obligations

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PIVOT'S founder Viraj Kulkarni has over two decades of experience in financial services including leadership position in India and Switzerland with Citibank, JP Morgan, BNP Paribas and Morgan Stanley. Besides other recognitions, he was recognized in early 2019 as amongst the 30 Global leaders in the Securities Services Experts, by the Global Custodian. He is a "PROFIT Accelerator Mentor" on the Asian Development Bank PROFIT program, mentoring entrepreneurs from India, Thailand, Cambodia and Vietnam.

