

FAQs FOR NRI - TRADING ACCOUNT

Q1 Definition of Non-Resident Indian (NRI)?

Ans Foreign Exchange Regulation Act (FERA) defines Non-Resident Indian (NRI) as a person who is not resident in India but who is a citizen of India or is a person of Indian origin. Thus the term "non-resident" is synonymous with the term, "person resident outside India"

Q2 Is it possible for an NRI to invest in shares in India through a Stock Exchange?

Ans Yes, an NRI can invest in shares in India through a Stock Exchange. They have two options:

- i Purchase Shares or**
- ii.Convertible debenture**

of an Indian Company under the portfolio investment scheme on repatriation and /or non repatriation basis.

Q3 Is it possible for an NRI/PIO to invest in other securities?

Ans Yes, NRI/PIO has an option to invest in other securities which are:-

- a)** Shares in Public Sector Enterprises being disinvested by the Government of India
- b)** Dated Government securities (other than bearer securities) or treasury bills.
- c).** Units of domestic mutual funds.
- d).** Bonds issued by a public sector undertaking (PSU) in India

Q4 Whether NRIs are allowed to invest in Exchange Traded Funds (ETFs)?

Ans Yes, NRIs have the option to invest in Exchange Traded Funds (ETFs). They can invest in ETFs both on repatriation as well as non repatriation basis.

Q5 What is the procedure of Investment in shares by NRIs in India?

Ans As per the guidelines issued by RBI, an NRI who desires to invest in shares in India through a stock exchange need to approach the designated branch of any authorized dealer Bank which has been authorized by Reserve Bank of India to oversee the PIS (Portfolio Investment Scheme) and to open a NRE (Non Resident External) /NRO (Non Resident Ordinary) account under the scheme for routing Investments.

Q6 Meaning of Designated bank branch?

Ans There are few branches of each authorized dealer bank that has been authorized by Reserve Bank of India to carry out the business under portfolio investment scheme on behalf of NRIs. NRIs can opt for only one authorized dealer bank for the purpose of investments under portfolio investment scheme and route the transactions through the branch designated by the authorized dealer bank.

Q7 Meaning of Portfolio Investment Scheme (PIS)?

Ans Portfolio Investment Scheme (PIS) is a scheme framed by Reserve Bank of India under which - Non Resident Indian (NRIs) will be able to purchase/sell shares/convertible debentures of Indian companies on Stock Exchanges subject to the terms and conditions as specified under FEMA

For this purpose, the NRI/PIO has to apply to designated branch of a bank, which deals in Portfolio Investment Scheme. All sale/purchase transactions are to be routed through the designated branch and investments can be on repatriation as well as non repatriation basis.

Q8 Who is a Person of Indian Origin?

Ans For the purposes of Investments in shares/securities in India, person of Indian origin means a citizen of any country except Pakistan and Bangladesh, if

i) he/she at any time, held an Indian passport; or

ii) he/she or either of his/her parents for any of his/her grand parents was a citizen of India by virtue of the constitution of India or Citizenship Act (57) of 1955.

iii) the person is a spouse of an Indian citizen or a person referred to in clause (i) or (ii)

A PIO might have been a citizen of India and subsequently taken the citizenship of another country.

Q9 What do we mean by Overseas Citizen of India (OCI)?

Ans In response to persistent demands for "dual citizenship" particularly from the Diaspora in North America and other developed countries and keeping in view the Government's deep commitment towards fulfilling the aspirations and expectations of Overseas Indians, the Overseas Citizenship of India (OCI) Scheme was introduced by amending the Citizenship Act, 1955 in August 2005. The Scheme was launched during the Pravasi Bharatiya Divas convention 2006 at Hyderabad. The Scheme provides for registration as Overseas Citizen of India (OCI) of all Persons of Indian Origin (PIOs) who were citizens of India on 26th January, 1950 or there after or were eligible to become citizens of India on 26th January,

1950 except who is or had been a citizen of Pakistan, Bangladesh or such other country as the Central Government may, by notification in the Official Gazette, specify. It is commonly known as dual citizenship however OCI is not to be misconstrued as 'dual citizenship'. OCI does not confer political rights. The registered Overseas Citizens of India shall not be entitled to the rights conferred on a citizen of India under article 16 of the Constitution with regard to equality of opportunity in matters of public employment.

Q10 Whether PIO (Person of Indian Origin) as well as OCI (Overseas Citizen of India) are allowed to invest in shares in India?

Ans Except in matters relating to the acquisition of agricultural/ plantation properties, PIOs and OCIs do have uniformity with NRIs in respect of all facilities available to the NRIs in the economic, financial and educational fields.

Q11 Meaning of an Overseas Corporate Body (OCB)?

Ans Overseas Corporate Body' means:-

- i) **Company or**
- ii) **Partnership firm or**
- iii) **Society or any other**

corporate body owned directly or indirectly to the extent of minimum 60% by Non-Resident Indians and includes overseas trust in which not less than 60% beneficial interest is held by Non Resident Indians directly or indirectly but it should be irrevocable.

Q12 Whether Overseas Corporate Body (OCBs) are also allowed to invest in shares in India?

Ans OCBs have been prohibited from making investments under Portfolio Investment Scheme. OCBs have been de-recognized as a class of investor entity w.e.f. September, 16, 2003. Further, the OCBs which have already made investments under the PIS are allowed to continue holding such shares /convertible debentures till such time these are sold on the stock exchange.

Q13 What are the documents necessary to open a NRI/PIO/OCI trading account?

Ans List of documents to be taken while registering NRI/PIO/OCI Clients as may be applicable

Document ensuring status of entity

- In case of Indian passport: Valid passport, Place of birth as India, Valid visa –Work/Student/employment/resident permits etc.
- In case of foreign passport: Valid passport and any of the following Place of birth as India in foreign passport copy of PIO / OCI Card as applicable in case of PIO/OCI
- PIS Permission Letter from the respective designated bank
- PAN Card
- Overseas Address Driving License/ Foreign passport /Utility Bills/
- Bank statement (not more than 2 months old) /
- Notarized copy of rent agreement/ leave & license agreement/ Sale deed.
- Photograph of Investor.
- Proof of respective bank accounts & depository accounts.

Q14 What are other client registration formalities to be taken care while registering NRI/PIO/OCI Clients?

Ans In case of NRI/PIO/OCI client registration documents are required to be executed by client himself and not by Power of Attorney Holder. In case of

In-person verification of such clients, the members may obtain from such clients KYC documents attested by any one of the following entities –Indian Embassy/Consulate general in the country where the client resides, Notary Public, Court, Magistrate, Judge or Local banker.

Q15 Whether providing local (Indian) address by the NRIs is mandatory?

Ans At the time of NRIs registration, they need to provide their foreign address along with documentary proof of the same. If they so desires they can keep their local (Indian) address as correspondence address. In such scenario additionally they are required to provide documentary evidence in support of local address also.

Q16 Whether NRIs are allowed to open two separate trading accounts namely (NRE & NRO)?

Ans Yes, NRIs can have two separate trading accounts based on **NRE & NRO**.

Q17 What are the supplementary requirements with respect to contract notes?

Ans Contract notes in original for both purchase and sale transactions needs to be submitted with in the time precise by the designated bank to enable designated banks to report the same to Reserve Bank of India.

Q18 What safety measures trading member needs to take while dealing with NRI Clients?

Ans Trading member need to ensure that:-

- Securities are not in RBI prohibited list before executing the order.

- Clear funds are available for purchases.
- Securities are available before executing any sell order.
- Depending upon whether the purchases are made on repatriation / Non-repatriation basis pay-out of the securities needs to be transferred to respective de-mat account.
- Purchase/Sale transactions in cash segment should be settled by delivery only.

Q19 Is there any upper limit on the Investments under the Portfolio Investment Scheme?

Ans NRIs are allowed to invest in shares of listed Indian companies in recognized Stock Exchanges under the PIS:-

i.NRIs can invest through designated ADs, on repatriation and non-repatriation basis under PIS route up to 5% (Five) per cent of the paid-up capital / paid-up value of each series of debentures of listed Indian companies.

ii.The aggregate paid-up value of shares / convertible debentures purchased by all NRIs cannot exceed 10% (Ten) per cent of the paid-up capital of the company / paid-up value of each series of debentures of the company.

iii.The aggregate ceiling of 10% (Ten) per cent can be raised to 24% (Twenty Four) per cent, if the General Body of the Indian company passes a special resolution to that effect.

Q20 What are the options available of payment to be made by NRIs for shares purchased on Stock Exchange?

Ans Payment for purchase of shares and/or debentures on repatriation basis has to be made by way of inward remittance of foreign exchange through normal banking channels or out of funds held in NRE/FCNR (B) account maintained in India. If the shares are purchased on non-repatriation basis, the NRIs can also utilize their funds in NRO account in addition to the above.

Q21 How the Sale proceeds can be remitted by NRIs/PIO?

Ans In case of NRI/PIO, if the shares sold were held on repatriation basis, the sale proceeds (net of taxes) may be credited to his NRE /FCNR (B)/NRO accounts of the NRI/PIO, whereas sale proceeds of non repatriable investment can be credited only to NRO accounts

Q22 Can an NRI transfer shares purchased under PIS to any other scheme under private arrangement?

Ans No, Shares purchased under PIS on stock exchange shall be sold on stock exchange itself. Such Shares cannot be transferred by way of sale under private arrangement or by way of gift (except by NRIs to their relatives as defined in Section 6 of Companies Act, 1956 or to a charitable trust duly registered under the laws in India) to a person resident in India or outside India without prior approval of the Reserve Bank of India.

Q23 Whether an NRI can purchase securities by subscribing to public issue? What are the permissions/approvals required? How can those shares be sold?

Ans Yes. The issuing company may issue shares to NRI on the basis of specific or general permission from GOI/RBI. Therefore, individual NRI need not obtain any permission. While seeking the credit of sale proceeds to

NRE/NRO account, the designated bank should be provided with the details regarding date of allotment and cost of acquisition to calculate the taxes, if any.

Q24 Whether an NRI is able to do Intra-day transactions in cash segment?

Ans Short Selling is not allowed So NRI Investor has to take delivery of shares purchased and give delivery of shares sold Therefore they are not permitted to do Intra-day transactions in cash segment.

Q25 Whether Trading in futures & options segment of the exchange is permissible by NRIs?

Ans Yes, NRIs are permitted to invest in futures & options segment of the exchange out of Rupee funds held in India on non repatriation basis, subject to the limits prescribed by SEBI.

Q26 Whether NRIs are permitted to trade in Currency Derivatives segment of the Exchange?

Ans No, Only “a person resident in India” as defined in section 2(v) of FEMA Act 1999 is permitted to participate in currency derivative segment of the Exchange.

Q27 Whether trading account can be opened for person’s resident outside India who had been allotted shares under Employee Stock Option scheme?

Ans Listed Indian companies are allowed to issue shares under the Employees Stock Option Scheme (ESOPs), to its employees or employees of its joint venture or wholly owned subsidiary abroad who are resident outside India,

other than to the citizens of Pakistan or any other country which may be notified in official gazette. Trading account can be opened for person's resident outside India only for the sole objective of selling of shares acquired under ESOP Scheme.

Q28 Whether rights/bonus shares can be issued to NRI?

Ans FEMA provisions permit Indian companies to issue Rights / Bonus shares to existing non-resident shareholders, subject to compliance of sectoral cap as may be precise.

Q29 What are the steps required to be taken by NRIs In order to trade in Future and Options segment of the Exchange?

Ans An NRI, who wishes to trade on the Future and Options segment of the exchange, is required to approach the exchange through a clearing member, through whom the NRI would like to clear his trades for allotment of custodial participant (CP) code. Clearing corporation would assign a CP code to each NRI, based on the application received from the clearing member of the NRI. Trading members should ensure that at the time of order entry CP Code of the NRI is placed in the CP Code field of the trading system. The NRI client shall have only one clearing member at any given point of time.

Q30 Is there any ceiling prescribed for NRIs in Exchange Traded Derivative Contracts?

Ans Position limits would be applicable on the combined position in all derivative contracts on an underlying stock at an Exchange. Position limits for NRIs shall be same as the client level position limits specified by SEBI from time to time.

For Index based contracts - Disclosure requirement for any persons or persons acting in concert who together own 15% or more of the open interest of all derivative contracts on a particular underlying Index.

For Stock option and single Stock futures contracts –

The gross open position across all the derivative contracts for a security for each specific client shall not exceed higher of:

1% of the free float market capitalization (in terms of number of shares)

OR

5% of the open interest in all derivative contracts in the same underlying stock (in terms of number of shares)

Q31 How Investment positions of NRIs are monitored?

Ans Reserve Bank monitors the investment position of NRIs/FIIs in listed Indian companies, reported by designated banks, on a daily basis. When the total holdings of NRIs/FIIs under the Scheme reaches the limit Of 2 percent below the sectoral cap, Reserve Bank will issue a notice(**caution list**) to all designated branches of designated banks cautioning that any further purchases of shares of the particular Indian company will require prior approval of the Reserve Bank. Once the shareholding by NRIs/FIIs reaches the overall ceiling / sectoral cap /statutory limit, the Reserve Bank places the company in the **Ban List**. Once a company is placed in the Ban List, **no NRI can purchase the Shares of the company under the Portfolio Investment Scheme. List of caution/banned RBI scrip is available at:-**

http://www.rbi.org.in/scripts/BS_FiiUser.aspx

Q32 In case a person who is resident in India becomes a non-resident, will he/she be required to change the status of his/her holding from Resident to Non-Resident?

Ans As per section 6(5) of FEMA, NRI can continue to hold the securities which he/she had purchased as a resident Indian, even after he/she has become a non resident Indian, on a non-repatriable basis.

Q33 In case a Non-Resident Indian becomes a resident in India, will he/she be required to change the status of his/her holding from Non-Resident to Resident?

Ans Yes. It is the responsibility of the NRI to inform the change of status to the designated authorized dealer branch, through which the investor had made the investments in Portfolio Investment Scheme and the DP with whom he/she has opened the demat account. Subsequently, a new demat account in the resident status will have to be opened, securities should be transferred from the NRI demat account to resident account and then close the NRI demat account.

Q34 In case a Non-Resident Indian becomes a resident in India or vice a versa, will he/she be required to open a new trading account?

Ans Yes, Trading member needs to open a new trading account which needs to be uploaded with the new category code (01 – Resident Individual) & (11 – NRI) as may be applicable.

References

- RBI Master Circular dated RBI/2010-11/13 dated July 01, 2010.
- FAQ hosted on RBI website www.rbi.org.in

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