[Date]

[Client Name]
[Client Address]
[City, Country]

Subject: Tax Structuring Advisory - Offshore Derivative Instruments (ODIs)

Dear [Client Name],

We are providing this advisory letter to outline the tax considerations and proposed structuring for your investment in Offshore Derivative Instruments (ODIs) in relation to the underlying [Market/Asset Class, e.g., Indian Equity Market].

1. Transaction Overview
The proposed structure involves the issuance of ODIs (such as Participatory Notes) by a Foreign Portfolio Investor (FPI) to you, the Subscriber. These instruments will track the performance of underlying securities held by the FPI.

2. Tax Residency and Treaty Benefits
To optimize the tax burden, the investment should be routed through an entity resident in a jurisdiction with a favorable Double Taxation Avoidance Agreement (DTAA) with the host country. Key considerations include:
- Capital Gains Tax exemptions under specific articles of the DTAA.
- Minimum Substance requirements to ensure eligibility for treaty benefits.
- General Anti-Avoidance Rules (GAAR) compliance.

3. Specific Tax Implications
- **Withholding Tax:** Analysis of dividend distribution taxes and interest withholding rates on the underlying assets.
- **Indirect Transfer Provisions:** Assessment of whether the redemption of ODIs triggers indirect transfer taxes in the host jurisdiction.
- **Operational Fees:** Treatment of management and performance fees paid to the FPI or Investment Manager.

4. Compliance and Reporting
- Disclosure of Ultimate Beneficial Ownership (UBO).
- Know Your Customer (KYC) compliance with regulatory bodies (e.g., SEBI, CSSF).
- Annual tax filings and certification of residency.

5. Recommendations
Based on our analysis, we recommend [Insert Specific Structure, e.g., the use of a Luxembourg/Mauritius/Singapore-based SPV] to hold the ODIs. This structure balances regulatory transparency with tax efficiency.

This advice is based on current tax legislation. We recommend a periodic review as global tax standards (such as BEPS) evolve.

Sincerely,

[Your Name/Signature]
[Your Title]
[Firm Name]