Effects of SEBI's ruling on FPI Norms

Why in news?

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- The Asset Managers Roundtable of India (AMRI) warned of potential dangers with the SEBI's recent ruling on FPI Norms.
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- Clickhere to know more on the circular.
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What were the shortcomings?

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- **Capital Outflow -**The total portfolio investments in India's financial markets are estimated at $450 billion.
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- The SEBI circulardisqualifies about $75 billion of portfolio investments into India made by FPIs backed by domestic institutions, NRIs, PIO and OCI card-holders.
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- The order may trigger **wholesale selling** since NRIs cannot operate through the FPI route anymore.
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- It was originally issued with the intention to enhance the KYC norms for FPIs.
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- But it ended up imposing a blanket ban on certain types of investments where NRIs, PIOs or OCIs were investors (beyond a threshold) or even served as senior managing officials of these funds.
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- The circular delegates the task of identifying high-risk jurisdictions, with tighter KYC norms, on custodian banks.

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- **Definition** – Companies runningmultiple India-focussed funds might have only a single officer as a BO for all funds from one house.
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- In that case, the separate funds may be **forced to sell**, even if those funds are all individually below the 10 per cent limit.
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- **Revenue loss** - Loss of investment of funds into India could also result in the country losing the benefit of tax revenues generated by onshore Indian taxpayers.
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- **Impact on public enterprises** - Private investment in public enterprises (PIPE) strategy could also be affected
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- **Privacy -** Given the lack of data protection laws, information demanded in the KYC like address, date of birth, tax residency number, passport number, etc., of the BO will make many FPIs uncomfortable in sharing information.
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- Hence, a group of FPIs openly appeal to the Prime Minister for an urgent intervention in this regard.
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What is SEBI’s stand?

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- The circular was only repeating the rules contained in the FPI regulations framed in 2014.
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- NRIs and RIs can manage FPI funds, provided they did not invest their own funds through such entities.
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- If an FPI is Category II investment manager of other FPIs and is **a non-investing entity**, it may be promoted by NRIs/ OCIs.
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- The problem arises in case of proprietary funds when investment managers will also be beneficial owners.
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- In that case, only that part of the assets will have to be liquidated within a specified time limit.
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What is the way forward?

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- SEBI has now announced public consultations before finalisation and it ensures FPI’s remain invested on the Indian stock market.
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- Any attempts of round-tripping illegal domestic wealth into the Indian market through FPI route should be curbed.
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- But treating all FPIs with Indian-origin managers as potential conduits of illicit money is unwise.
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- As an independent regulator, it should ensure timely dialogue with all stakeholders before framing these norms to enhance India’s credibility among global investors.
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Source: The Hindu

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