



Relaxation of SEBI's FPI Norms

Why in news?

- The Securities and Exchange Board of India (SEBI) has relaxed the regulatory and compliance framework for foreign portfolio investors (FPIs).
- FPI regulations have been redrafted based on the recommendation of a committee headed by former RBI deputy governor H R Khan.

What is FPI?

- Foreign portfolio investment (FPI) consists of securities and other financial assets held by investors in another country.
- It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market.
- Along with foreign direct investment (FDI), FPI is one of the common ways to invest in an overseas economy.
- In a developing economy, foreign portfolio investors (FPIs) are perceived to be more uncertain than domestic institutional investors.
- Thus, foreign investment flows tend to be less stable as these are influenced by global liquidity drivers.

What are the key changes?

- The changes come as part of efforts to simplify and expedite the registration process for foreign portfolio investors (FPIs).
- SEBI simplified the documentation requirements for KYC, for foreign portfolio investors.
- It also permitted them to carry out off-market transfer of securities.
- The changes did away with the broad-based eligibility criteria for institutional FPIs.
- Under the new framework, FPIs would be classified into two categories instead of three.
- The requirements for issuance and subscription of offshore derivative instruments (ODIs) have also been rationalised.
- Mutual funds with offshore funds too can invest in India after registration as

FPIs to avail certain tax benefits now.

- Central banks that are not members of the Bank of International Settlements are also allowed to register as FPIs and invest in the country under the new norms.
- This is to attract more overseas funds into the market.
- SEBI has allowed entities registered at an international financial services centre (IFSC) to be automatically classified as FPIs.
- This might help foreign investors bypass some of the restrictions.
- FPIs shall be permitted for off-market transfer of securities, which are unlisted, suspended or illiquid, to a domestic or foreign investor.
- Besides, registration for multiple investment manager (MIM) structures has been simplified.

What is the possible rationale?

- SEBI's move could have possibly been motivated by the recent flow of funds out of India's capital markets.
- Capital in excess of Rs. 20,000 crore has left Indian shores in the recent period.
- This was an after effect of the decision in Union budget 2019 to increase taxes on FPIs.
- Policymakers were clearly under pressure to do something to allay the fears of foreign investors.
- The SEBI's move is much in line with addressing this.

What is the significance?

- The easing of regulatory restrictions are likely to make life easier for foreign portfolio investors (FPIs).
- Smart cities, along with other urban development agencies, will now be allowed to issue municipal bonds to raise funds for development.
- These measures to cut red tape will help lower the regulatory burden on investors.
- It will also help globalise India's financial markets, and aid the growth of the broader economy by increasing access to growth capital.

What are the shortfalls?

- There remains a broader trend of capital flowing out of emerging markets across the world.
- Given this, it remains to be seen whether SEBI's present move will yield immediate benefits.
- Even if it fails to do so, the move will still help Indian markets become more

attractive to foreign investors in the long-run.

Source: Business Standard, The Hindu



IAS PARLIAMENT

Information is Empowering

A Shankar IAS Academy Initiative