SEBI Panel's suggestion on FPI Norms

Why in news?

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SEBI appointed panel has made some suggestions to its circular to enhance KYC norms for foreign portfolio investors (FPI).

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Who is a BO?

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- A beneficial owner (BO) is one, who, directly or indirectly, derives the benefits of ownership.
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- The threshold for a BO in a partnership firm or trust is 15% and 25% in the case of companies.
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- The threshold is only 10% if the fund is incorporated in high-risk nations with a history of money-laundering and terrorism, etc.
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- In case no single entity meets these thresholds, then a senior managing official of the FPI is the designated BO.
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What does the circular say?

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- **Ban -**It says Resident Indians (RIs), Non Resident Indians (NRIs), Persons of Indian Origin (PIOs) and Overseas Citizens of India (OICs) **cannot be BO** of a FPI investing in India.
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- NRIs and OCIs can only obtain an FPI licence on condition that **they limit their roles to investment advisors** and do not invest their money.
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- **Conversion -**Any single FPI can only hold a shareholding limited to 10% in an Indian listed company.
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- If the limit is breached, the BO must either opt to be treated as a FDI, or divest stake below 10% within five trading sessions.
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- The investment limit of different FPIs will be clubbed if they have the same BO and the clubbed limit should also not exceed 10%.
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- Category II and III FPIs were asked to disclose the name and address of the BOs, their tax residency jurisdiction along with percentage shareholding capital or profit ownership in the FPIs.
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- SEBI has also asked FPIs to determine ownership based on both shareholding and control, in contrast to the prior criteria of whoever owning a majority stake in a fund being considered a BO.
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- Though SEBI has not explicitly stated the reason, concerns over money-laundering and round tripping may have prompted this directive.
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- In a relief to FPIs, SEBI-appointed panel has made some suggestions to the circular.
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What does the HR Khan panel recommend?

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- **NRIs be allowed** to hold stakes of **up to 25%** in FPI funds.
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- In combination, NRIs can hold up to 50% of an FPI fund in concert and PIOs and OCIs can be allowed to invest via the FPI route without any restriction.
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- It clarified that the concept of BO should be applied **only for KYC norms**.
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- For additional Know Your Customer (KYC) norms, certain sensitive data (such as the US Social Security number) will not be collected, to alleviate concerns about data security.
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- This prevents the possibility of the 10% limit being triggered and the Centre

has told SEBI that it need not use beneficial owner definition laid down under PMLA.
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- In cases where the 10% limit is exceeded, the FPIs in question will be given 180 days to divest holdings (or opt to be treated as foreign direct investors).
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- The same regulations will apply to participatory note investments.
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Source: The Hindu, Business Line

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