SEBI's Circular on FPIs

What is the Issue?

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- A recent circular by Securities and Exchange Board of India gave registered Foreign Portfolio Investors (FPIs) a deadline to provide a list of their beneficial owners.
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- It also said to close the structures where Non-Resident Indians, persons of Indian origin (PIOs) or Overseas Citizens of India (OCI), are the majority share holders.
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- It is a follow-up on an April directive which sought KYC details from foreign investors.
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What does the circular says?

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- NRIs have been barred from registering as FPIs investing in India right from the time SEBI revamped its Foreign Portfolio Investors Regulations in 2014.
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- The main intent behind this rule is **to curb round-tripping and laundering of unaccounted money through the FPI route.**
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- The April circular did direct all FPIs to identify their beneficial owners.
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- It was based on the criteria of 25 per cent ownership interest for companies, 15 per cent for other entities and 10 per cent for 'high-risk jurisdictions'.
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- It also clarified that companies that were majority-owned by NRIs or PIOs were not allowed to invest through the FPI route in India and must close

such structures.
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What are the concerns with this circular?

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- The move was to characterize fund managers as 'beneficial owners' of FPIs where their actual owners aren't identifiable.
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- A beneficial owner is a person who enjoys the benefits of ownership even though title to some form of property is in another name.
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- However most offshore funds investing in India hire locals or persons of Indian origin to oversee their portfolios.
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- Not only is a disclosure-based regime sufficient to track down cases of round-tripping.
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- SEBI can perhaps rethink the more drastic provisions of this regulation.
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What are the reactions of FPIs in this regard?

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- AMRI, a lobby group for FPIs, termed it as vague, opaque and even discriminatory.
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- It has also warned that $75 billion of FPI investments in India could flow out if SEBI implements the circular.
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How does it affect the Indian Economy?

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- This controversy broke out at a worse time for the economy.
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- Rupee value depreciation, tightening global liquidity and increasing oil prices are the various challenges faced by Indian Economy at this time.

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- So, India badly needs foreign fund flows to bridge its trade deficit.

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What is the way forward?

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- Regulators need to engage in a public consultation process about this decision.

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- It should also clearly say their reasons behind such decisions.

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- It becomes inevitable when they attempt a substantial overhaul of their ground-rules for the Indian markets.

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Source: Business Line

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