NEW FPI NORMS

Prelims: Economics- Capital Marketing

Mains: GS-III- Indian Economy and issues relating to planning, mobilization of resources, growth, development and employment.

Context:

- SEBI has relaxed the FPI norms to check the outflows of FPIs from India.
- SEBI relaxes Foreign Portfolio Investors (FPI) norms by easing the regulatory framework for FPI with simplifies KYC requirements for them and allow FPIs to carry out an off-market transfer of securities.
- Apart from this SEBI classified FPIs into two categories instead of three. SEBI relaxes the norms on the basis of a committee headed by H R Khan (Former RBI Deputy Governor).

What are Foreign Portfolio Investors (FPI)?

- FPI are those investors who hold a short-term view of a company, unlike Foreign Direct Investors who invest with a long-term view. They participate in the stock markets in the economy. FPI doesn't have direct control over the businesses. FPIs are easier to sell than the FDIs due to high liquidity. Generally, the FPI route is preferred for laundering black money. In India, FPIs are regulated by SEBI.

Need of Committee:

- Both the FPIs and the investors had serious concern over the SEBI norms and want to review the norms by SEBI. FPIs shows concern over that the FPIs norms will result in restrictions on investments however SEBI dismissed any such fears.
- Accordingly, SEBI constitutes H R Khan Committee to review FPI norms and concern raised by the investors.

Recommendation of H R Khan Committee:

- The committee categorized the recommendation into four buckets i.e. FPI Registration process, KYC and documentation, Investment permission and limits and other aspects.
- The committee recommends that OCIs, NRIs, and RIs should be allowed for holding a non-controlling stake in FPIs and no restrictions should be imposed on them for managing non-investing FPIs or SEBI registered offshore funds.

- The committee recommends for easing KYC requirements for beneficial owners in case of government-related FPIs.
- The committee recommended that erstwhile PIOs should not be subjected to any restrictions and clubbing of investment limits should be allowed for well-regulated and publicly held FPIs that have common control.
- The committee also suggests that the time for compliance with the new norms should be extended by six months after the finalization and the non-compliant investors should be given another 180 days to reconcile their existing positions.
- According to the committee, NRI will be allowed to invest as FPIs if the single holding is under 25% and group holding under 50% in a fund.
- The panel also recommends that the new rules should be equally applied to the investors using participatory notes (P-notes).
- The panel also suggested for changes in the norms pertaining to the identification of senior managing officials of FPIs and for beneficial owners of listed entities.

New FPI norms by SEBI:

- SEBI rationalizes the requirements for issuance and subscription of offshore derivative instruments (ODIs).
- SEBI said that the offshore funds floated by the mutual funds would be allowed to invest in the country after the registration.
- Those entities which are established under the International Financial Services Centre must meet the criteria for FPIs.
- SEBI permits FPIs for off-market transfer of securities which are unlisted, suspended or illiquid to a domestic or foreign investor.
- Structure for Multiple Investment Manager also has been simplified.
- Those central banks who are not the members of Bank for International Settlements would be eligible for registration as FPIs to attract more overseas funds to the market.
- The FPIs are classified into two categories earlier it was two.
- SEBI said it would rationalize the framework for issuance of participatory notes (P-notes)
- The board also clarified on the debt to equity ratio, companies need to maintain it as 2:1 to be eligible for buybacks however the Non-banking financial companies (NBFC) arms would be exempt from the rule.
- To crack down insider trading a new whistleblower mechanism will be implemented.
- Rewarding informants up to Rs. 1 crore for providing “credible and original information” on insider trading.
- Mutual funds are now allowed to invest in unlisted non-convertible debentures.

Reasons for Outflow of FPIs from India:

- India is the fastest-growing country in the world and there are certain issues which stress the overall economic performance of the country. One of the main challenges recently is the outflow of FPIs from India. Reasons for the outflow of FPIs are:
- Introducing Higher tax surcharge in the Budget 2019 by the government.
- Continue Depreciation of Indian Rupee
- The trade war between the U.S and China
- Reduced rating and default of NBFCs
- Rising of crude oil prices

Conclusion:

- Easing of FPI norms could give a boost to the overseas investment in the country which is an important source of economic growth and development in India. These changed norms will make the regulatory framework more investor-friendly for FPIs and a multidimensional approach is needed to resolve the concerns of FPIs and reasons of outflows.