

Regulatory Digest

July 12, 2024

MID-YEAR FPI WRAP 2024: DEVELOPMENTS IN THE FOREIGN PORTFOLIO INVESTOR REGIME

The significant developments in the FPI space in the first half of 2024 are:

- Release of updated Master Circular for FPIs.
- Amendment to circular mandating additional disclosures by FPIs that fulfil certain objective criteria.
- Circular on relaxation of timeline for disclosure of material changes by FPIs.
- Circular on flexibility to FPIs dealing with their securities post expiry of their registration.
- Relief for NRI, OCI & RI Investors in GIFT IFSC based FPIs.

INTRODUCTION

The first half of 2024 saw SEBI introducing multiple changes in the framework governing Foreign Portfolio Investors ("FPIs"). From issuing thought-provoking consultation papers to releasing materially impacting circulars, SEBI managed to keep all the stakeholders on their toes. .

In this issue of our regulatory digest, we discuss the developments in the FPI space from January 1, 2024 to June 30, 2024.

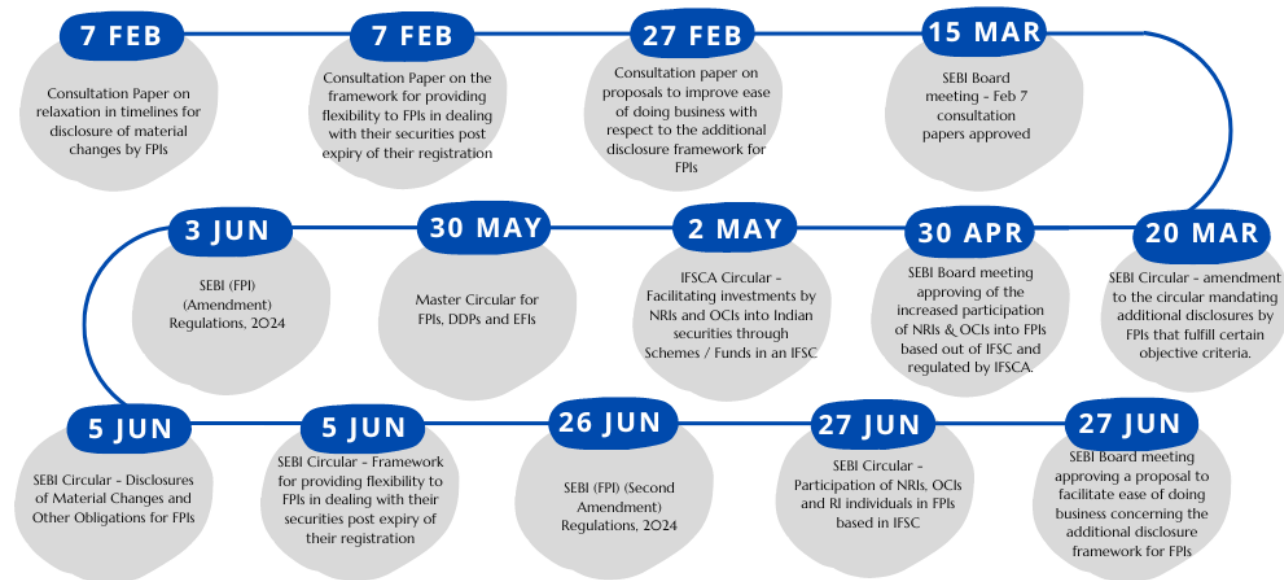


Figure: Timeline of the updates in the FPI regime

Master circular for FPIs, DDPs and EFIs

The SEBI (Foreign Portfolio Investors) Regulations, 2019 ("FPI Regulations") outline the eligibility criteria, categories of FPIs, investment conditions and restrictions, general reporting obligations, and other guidelines for FPIs and Designated Depository Participants ("DDPs"). Soon after their notification on September 23, 2019, the FPI Regulations were supplemented by consolidated operational guidelines ("Operational Guidelines") for FPIs, DDPs, and Eligible Foreign Investors ("EFIs"), which were released on November 05, 2019, and facilitated the implementation of the regulations. On December 19, 2022, the Master Circular for FPIs, DDPs, and EFIs ("Erstwhile Master Circular") consolidating various SEBI circulars and guidelines was released by SEBI in supersession of the Operational Guidelines.

Recently on May 30, 2024, SEBI released an updated Master Circular for FPIs, DDPs, and EFIs ("Master Circular")¹, consolidating all the SEBI circulars and guidelines applicable to FPIs. The Master Circular superseded the Erstwhile Master Circular and serves as a comprehensive guide for FPIs, covering various aspects like the registration process of FPIs, know your customer ("KYC") requirements, investment conditions/restrictions and avenues available to FPIs, conditions for issuance of offshore derivative instruments, position limits available for derivatives exposure by FPIs, investor charter for FPIs, requirement of certain objectively identified FPIs to provide granular information of all entities holding any ownership, economic interest, or control in the FPI, on a full look through basis, etc.

Amendment to Circular mandating additional disclosures by FPIs that fulfil certain objective criteria

On August 24, 2023, SEBI issued a circular² ("Additional Disclosure Circular") mandating certain objectively identified FPIs to provide granular details of all entities holding any ownership, economic interest, or exercising control in the FPI, on a full look through basis, up to the level of all natural persons, without any threshold. For this purpose of providing the granular details, SEBI identified the following two types of FPIs:

- FPIs holding more than 50% of their Indian equity Assets Under Management ("AUM") in a single Indian corporate group ("50%concentration criteria");
- FPIs that individually, or along with their investor group, hold more than INR 25,000 crore (~USD 3 billion) of equity AUM in the Indian markets.

A detailed mechanism for independently validating the conformance of FPIs with the conditions and exemptions has been laid out in a Standard Operating Procedure ("SOP") framed and adopted by all DDPs, in consultation with SEBI. However, since the release of the Additional Disclosure Circular and the SOP, there has been a huge uproar amongst the market participants with regards to their practical applicability. In an attempt to resolve some of these issues, on March 20, 2024, SEBI released a circular³ exempting certain FPIs breaching the 50% concentration criteria from providing the granular details, subject to the following conditions:

- The apex Indian company of such corporate group has no identified promoter. The details of the corporate groups with apex companies having no identified promoters is available [here](#). This link is updated by depositories as and when required.

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