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CII - Financing 3.0 Summit
"Improving ease of doing business for FPIs – a risk-based approach"
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We are now celebrating the coming of age of the domestic investor – since FY20, we have seen INR 12.3 lakh crores of money being raised by domestic mutual funds into risk-oriented schemes. During the same time, FPIs have brought in INR 3.4 lakh crores into our equity markets. We now need good quality paper issuance to match such inflows, so that a virtuous cycle of sustained capital formation can ensue.

However, that doesn't mean that FPI flows are not a priority anymore. In fact, ensuring that we draw in good quality foreign savings remains a key objective for SEBI.

In today's talk, I will cover the opening of the SEBI FPI outreach cell, measures underway to improve ease of doing investments for FPI, and the remaining agenda on ensuring no circumvention of SEBI regulations.

A. SEBI – FPI outreach cell

- A dedicated FPI outreach cell has been set up within SEBI.
- This cell has already interacted with over 500 FPIs, facilitated by custodians and DDPs.
- Prospective FPIs that are facing issues during registration can also approach this FPI cell for resolution of issues.

B. Ease of doing business for FPIs – registration & beyond

(a) Consultation on all implementation –

- A Custodian & DDP Standards Setting Forum (CDSSF), comprising custodians, DDPs, and FPIs have been set up for setting implementation standards for FPI regulations in consultation with SEBI. This ensures that the implementation standards are practical, and prevent wrongdoing without coming in the way of good business. This CDSSF played a pivotal role in creating the Standard Operating Procedure (SOP) for the implementation of the key August 24, 2023 circular on enhanced disclosures from certain FPIs.
- A few other examples of EODB initiatives that impact FPIs include:

- T+1, that improves all round efficiency and reduces risk. Incidentally, rejection rates in settlement for FPI are now lower in T+ rates are lower under T+1, than the erstwhile T+1. Kudos to the brokers, MIIs and custodians.
- Sale post FPI expiry of FPI registration allowed with checks and balances
- Expanded exemptions for August 24, 2023 circular on enhanced disclosures (e.g. Universities, PN3 conditions)

(b) Ensuring FPIs can access funds on the day of settlement

- Tax compliance can and should be something in the background, with the FPI insulated from the effects.

- Certainly not something that should be used as a reason to delay release of funds, resulting in hidden float income for custodians.

- September 9th onwards – tax confirmation will be obtained from the consultants early on settlement day, well in time for FPIs to take out money the same day if they so desire. Depositories, tax consultants, custodians, DDPs, clearing corporations, and others have put this solution together, with some regulatory nudging.

- Some are positioning this as resulting in 'increase in custody charges'. Withholding funds for an extra day(s) costs investors a lot in terms of opportunity cost and is inefficiency.

- The earnings to custodians from such float income are opaque – and are implicitly levied on FPIs. On top of it, it projects India – wrongfully – as a difficult place to do business, with operational challenges around tax compliance.

- In this area, efficiency, transparency, ease of doing business – will all be ensured from September 9th, 2024.

- Competition should determine transparent and fair charges – so far, we have had near-zero custody charges – there no such thing as a free lunch. Have no doubt that additional and transparent custody charges (if any) would be much lower than the current opportunity loss being implicitly borne by FPIs.

***(c) Common ease of registration process*:**

- Common SOP already established across all DDPs/ custodians

- Depositories are creating a portal to track and monitor FPI application (CAF) status
- Easing filling up of the CAF – allowing for easier modification of fields
- Pre-populated fields for FPI IMs setting up new FPIs

(d) Ease of registration for transparent FPIs

- August 24th circular and resultant consultative SOP identified transparent FPIs – SEBI is considering further improving ease of doing investments further for such FPIs
- Reviewing periodicity of KYC for such FPIs
- Exploring ways to ease paperwork/ attestation by use of SWIFT/ electronic confirmations where legally possible

C. Remaining agenda on ensuring no circumvention of SEBI regulations such as MPS, SAST, RPT

- ODI consultation paper – 3,000+ responses
- Identifying and handling segregated portfolios

SEBI is happy to consider further risk-based EODB, please reach out to us with ideas.

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