Sustained Capital Formation at a Time of Increased Domestic Participation in Securities Markets

Keynote Address by SEBI WTM Ananth Narayan G at FICCI CAPAM – August 21, 2025

Thank you for the privilege of addressing this august gathering at the FICCI CAPAM conference. I thought I would use this opportunity to offer some thoughts around ensuring sustained capital formation at a time of increased domestic participation in our securities markets.

Over the past few years, we have witnessed a remarkable rise in the level of participation by domestic investors in our capital markets. We need to collectively ensure that this pace is sustainable and sustained. For one, industry must take advantage of this increased availability of risk capital and ensure commensurate capital formation. At the same time, we must collectively focus on increasing investor protection including through spreading education and risk awareness, and on improving overall ease of doing business, including for our overseas investors.

1. Let me start with detailing the rise of the Domestic Investor

(a) Let us start with our Mutual Funds

As you know, over the past 5 years, there has been clear and ongoing shift towards equity markets in our collective asset allocation.

What has this meant for our markets?

- In FY 2024-25, mutual funds net purchased ₹6.1 lakh crore of equities — more than twice the highest-ever level before.
- Foreign Portfolio Investors, by contrast, were net sellers to the tune of nearly ₹1.3 lakh crore.
- Other domestic institutional investors and individuals additionally net purchased another record of ₹2.7 lakh crore.

Put together, this represented a record ₹7.5 lakh crore of net demand for equities in a single fiscal year — 60% higher than the previous high.

This, in turn, supported a record supply of ₹4.6 lakh crore of equity issuances in FY25 – more than double the ₹2.2 lakh crores raised the previous fiscal.

While there is space for more investments, there can be nothing better for capital formation than a record demand for paper alongside a record supply of fresh paper.

(b) Let me now turn to Alternative Investment Funds

Beyond listed markets, there is another silent revolution underway. Alternative Investment Funds (AIFs) overseen by SEBI are channeling increasing amount of risk-seeking savings to entrepreneurs and unlisted companies.

- In FY 2024-25 alone, net commitments into AIFs increased by ₹2.2 lakh crore to ₹ 13.5 lakh crores, and actual AIF investments increased by ₹1.3 lakh crore, to ₹5.4 lakh crores. Flows into AIFs are now of comparable magnitude to the flows into mutual funds.
- Over 70,000 unique investors are already participating in our AIF industry.

AIFs – especially Category I & II, which represent over 75% of total AIF commitments – now stand out as a robust engine for channeling patient, risk-seeking funds into private capital, supporting entrepreneurship, innovation, and infrastructure development.

(c) Amidst all this, FPIs continue to remain invested in India

The data on absolute FPI holdings in India is instructive.

- As of end July 2025, FPIs held ₹72 lakh crores of AUM in India equity (equivalent to over $ 830 billion)
- Back in July 2019 (pre-Covid-19), this figure was ₹28 lakh crores.

In other words, FPI holdings have grown 2.5 times in six years, implying a 16.5% compounded annual growth rate. Even if incremental FPI flows fluctuate, over time, FPIs are in fact increasing their relative exposure to the fastest-growing large economy in the world.

FPIs and India continue to enjoy a healthy symbiotic relationship.

Ruchir Sharma, in his recent FT article, has pointed out that over the last decade, India has produced 40 ‘steady compounders’ as he calls them, each with average annual dollar returns of over 15%, and a current market capitalization that exceeds USD 10 bn. Overall, FPIs have made over 10% USD returns in India since inception. India has been amongst the best performing and consistent markets globally.

We, in turn, have benefited from the deepening of our capital markets, and the ensuing capital formation that FPI investments have facilitated.

Even as we celebrate the rise of the domestic investor, we must continue to welcome and compete for overseas savings. India must stay open for business and investment.

2. Let me now turn to what all this means for the members of FICCI —entrepreneurs, corporates, and the builders of India's economic future.

We live in times of profound change. Generative Artificial Intelligence and automation are transforming business models. Ongoing and expected breakthroughs — in renewable energy, quantum computing, Artificial General Intelligence, and even space exploration — are reshaping our world in ways that were unimaginable just a decade ago.

The key question for us in India is: do we want to just react to these changes, or do we want to shape the economic future? I would argue that given our young and aspirational population, the latter is not just an opportunity, but an imperative.

The good news is that you have the capacity to grow:

- Corporate debt and leverage levels are relatively modest, and,
- Domestic savers are coming into markets in unprecedented numbers.

My request to FICCI members is – please take advantage of this, raise capital, deploy it thoughtfully and with vision, and help define our future.

For our part in SEBI, we are resolved to easing your process of raising capital. Over the past year, there have already been significant improvements in the efficiency of our primary markets. In addition, there have seen a series of ongoing proposals relating to ease of raising fresh capital. We remain open to more suggestions on what more we could do, while managing any attendant risks to the ecosystem.

3. We also have a collective responsibility to ensure this rise of the Domestic Investor is sustainable and sustained.

(a) First, we need increased Investor Education and Risk Awareness. This is a key national priority.

To this end, under the guidance of Chairman SEBI, major efforts are underway at SEBI. You are already likely seeing SEBI being more visible in social and other media – such as with the ongoing "SEBI vs SCAM" outreach to combat digital fraud.

Backed by the results of a nationwide survey covering 90,000 households, over the next year, we intend to design and launch a large, targeted, demography-sensitive outreach program, tailored by age, region, and language, delivered through the appropriate media. This will focus on achieving the overarching objective of increasing risk-aware and responsible participation in our capital markets.

We are also leveraging the Panchayati Raj ecosystem for a parallel physical outreach to grassroot investors. We will count on industry support to amplify these messages.

(b) Let me now turn to the need to have a robust Accredited Investor Regime

Early and mid-stage investing is as essential for the economy, as it can be risky for the investor.

Studies suggest failure rates of 80–90% for startups, and that multiple such bets are needed to diversify risks adequately. In other words, risky investments demand risk awareness, risk management, and risk acceptance. In addition, losses must be absorbable by investors without spilling over as systemic risk.

That said, from amongst the risky bets of today will emerge the industry leaders of tomorrow. Over 75% of the constituents of BSE Sensex today were not part of the index when it was first launched in 1986. If anything, the pace of change seems even more frenetic than 40 years ago. Particularly given the current global and economic context, channeling risk-aware funds into private capital is now a crucial imperative.

Investor protection is at the core of SEBI's mandate around ensuring sustained capital formation. However, burdening risk aware investors and their funds with excessive regulation can add to the costs of this crucial ecosystem.

Globally, the identification of a certain set of risk-savvy and risk-capable investors as 'Accredited Investors' allows for easing of regulations otherwise designed to protect investors. Accreditation involves the investor evidencing some risk management and absorption capability, while explicitly acknowledging a caveat emptor and her desire for less regulatory protection.

We have already had an Accredited Investor (or AI) regime since 2021. This has hardly taken off, since hitherto, there were little tangible benefits that accompanied such an AI status. In addition, the process of obtaining accreditation was seen as being cumbersome and expensive.

This is changing. SEBI has already eased the process of obtaining AI status, making it largely paper-free. We are proposing to do even more on this score, including by allowing AIF fund managers to undertake the initial due diligence for granting AI status.

We have now also proposed an AI-only AIF regulatory regime that has significantly less compliance requirements around investor protection – our pathway to optimum regulations around AIFs. We want to enable sophisticated investors to back higher-risk ventures in an efficient manner.

Most of you in this room will qualify as Accredited Investors. Please get that accreditation, and give us your constructive feedback on what we could do to make the process simpler and of more use to you.

(c) A quick word on our Derivatives Markets (F&O)

SEBI's approach to arriving at the optimum regulatory regime around derivatives has been, and will continue to be, analytical and consultative.

- On one hand, we are looking to deepen the underlying cash equities market. Indeed, average daily traded volumes in equity cash markets have grown rapidly by over 25% Compounded Annual Growth Rate over the past 5 years, to well over INR 1 lakh crore now. However, there is more to be done, particularly given the even sharper rise in short-term derivative volumes.

- On the other hand, we are considering ways to improve the tenor and maturity profile of derivative products, so that they better support sustained capital formation, and foster all-round trust in the ecosystem. This may also need to be achieved in a calibrated manner, giving the system adequate time to adjust.

- Equally important is ensuring risk awareness and suitability amongst participants. We are open to objective and simple mechanisms to ensure that derivative participation is informed, suitable, and appropriate. Here again, stakeholder engagement will be key – we are open to all constructive ideas.

To re-emphasize, SEBI's approach here has been – and will continue to be – thoughtful, analytical and consultative.

(d) Let me turn to steps to encourage FPI Investments

While domestic flows are strong, we cannot ignore the importance of foreign savings. We must make it easier for global funds to invest in India. We have put out some proposals in the public domain in this regard.

You will recollect that in August 2023, we had mandated that funds with a concentration of more than 50% of holdings in one corporate group must give us granular details of all individuals, to the last cent, who own, control, or have any economic interest in the fund. However, following a risk-based approach, we had also provided exemptions from these disclosures to certain objectively identified funds on a strict trust-but-verify basis. So Sovereign Wealth Funds, and certain Public Retail Funds such as regulated mutual funds where their home country regulations clearly mandated a blind pool with diversified investors, diversified investments, an independent investment manager, and adequate disclosures, were exempt from such additional disclosures.

We are now looking to see if what was intended as a criteria for risk-based relief from onerous regulations, can now be flipped more positively, as a qualification to obtain a kind of "diplomatic passport" to invest more easily in our markets.

SEBI has now proposed a “Single Window Automatic & Generalized Access for Trusted Foreign Investors” (SWAGAT-FI), a framework that could cover as much as 70% of FPI assets under management. For verifiably trusted FPIs, this could effectively and eventually mean easier registration, lighter ongoing compliance, and wider market access on par with large domestic institutions.

Your feedback on the first set of proposals towards this – encompassing what SEBI can do within its remit – would be very welcome. The objective is clear: use an objective and risk-based approach to make it significantly easier to invest in India.

Separately, we are also developing an FPI Portal, providing clarity and transparency to existing and prospective foreign investors around our regulatory regime. This will also be a one-stop shop for global investors to understand the “how” of accessing India markets.

4. Conclusion: Preserving Trust

Let me conclude by touching upon the single most important ingredient of healthy markets: trust.

Our ecosystem of investors, funds, intermediaries and issuers has grown dramatically.

To ensure sustained capital formation, we must guard against Type I errors such as large scale uninformed investing, cybersecurity and technology failures, governance failures, market manipulation, or flawed product-market design. These could come in the way of sustained capital formation.

At the same time, we must be mindful of Type II errors — such as excessive regulatory burden or interference that hampers legitimate business or stifles innovation.

At SEBI, we strive constantly to minimize both through wide consultation and evidence-based policymaking. I urge all participants here today:

- On Type I errors — when you see something, please say something.
- On Type II errors — when you lobby for flexibility or innovation, engage with us on how to identify and mitigate risks.

That is how we can work as trusted partners, ensuring that the rise of the Indian saver translates into sustained capital formation for decades to come.

Thank you once again for this opportunity, and for your patience.

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