Avoidable suspense

Posted at: 12/09/2018

Highlights

- Foreign investors in the Indian market are used to unexpected twists in the regulatory landscape, but they seldom talk tough in the public domain.
- So it was unusual for a group of foreign portfolio investors (FPIs) to openly appeal to the Prime Minister for an urgent intervention.
- The Asset Managers Roundtable of India (AMRI) warned that India's booming stock markets will be in for a tight bear-hug and the embattled rupee could face even greater pressure if an April 10 diktat from the Securities and Exchange Board of India is not scrapped.
- The SEBI circular, they argued, disqualifies about $75 billion of portfolio investments into India made by FPIs backed by domestic institutions, NRIs, Persons of Indian Origin and Overseas Citizen of India card-holders.
- The total portfolio investments in India's financial markets are estimated at $450 billion.
- The circular, issued to enhance the Know Your Client norms for FPIs, ended up imposing a blanket ban on certain types of investments where NRIs, PIOs or OCIs were investors (beyond a threshold) or even served as senior managing officials of these funds.
- The circular delegates the task of identifying high-risk jurisdictions, with tighter KYC norms, on custodian banks.
- The **H.R. Khan Committee** set up by SEBI recommended changes that may be made to the regulator's directive, addressing most of the concerns raised by the FPIs.
- The panel's report clarified that NRIs, OCI card-holders and resident Indians can manage the investments of any FPI registered with SEBI and, more importantly, hold up to 50% of an FPI's assets under management.
- This has removed any ambiguity and provided relief to foreign investors who were left guessing how the term 'majority' — as stated in the April circular — would be determined by SEBI while applying the beneficial ownership test.
- The committee said the deadline for complying with the circular, which was already extended from August 31 to December 31, must be extended further, and funds with investments breaching the final thresholds that the regulator decides upon should be granted 180 days to unwind positions.
- SEBI has now announced public consultations before it finalises these norms, and in the process created some breathing space for such funds to remain invested on Dalal Street.

Conclusion and Way Forward

- No one should have a grouse with attempts to curb round-tripping of illegal domestic wealth into the Indian market through the foreign investments route.
- But treating all FPIs with Indian-origin managers as potential conduits of illicit money is unwise.

- SEBI could have managed all of this as an independent regulator had it held a timely dialogue with stakeholders before framing these norms, as it usually does.
- Such policy uncertainty and sharp about-turns will do little to enhance India's credibility among global investors.

Additional Info:

What is 'Foreign Portfolio Investment - FPI'

- Foreign portfolio investment (FPI) consists of securities and other financial assets passively held by foreign investors.
- Foreign portfolio investment (FPI) refers to investing in financial assets such as stocks or bonds in a foreign country.
- It does not provide the investor with direct ownership of financial assets and is relatively liquid depending on the volatility of the market.
- Foreign portfolio investment differs from foreign direct investment (FDI), in which a domestic company runs a foreign firm, because although FDI allows a company to maintain better control over the firm held abroad, it may face more difficulty selling the firm at a premium price in the future.
- Foreign portfolio investment is part of a country's capital account and shown on its balance of payments (BOP).
- The BOP measures the amount of money flowing from one country to other countries over one monetary year.
- It includes the country's capital investments, monetary transfers, and the number of exports and imports of goods and services.

What is considered a bear market?

- A bear market is a condition in which securities prices fall and widespread pessimism causes the stock market's downward spiral to be self-sustaining.
- Investors anticipate losses as pessimism and selling increases.

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