Sebi disclosure norms may hit about 100 FPIs

Holdings of entities with over 50% single group exposure stood at ₹1.2 trn by March-end

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Close to 100 entities registered as foreign portfolio investors (FPIs) could be impacted by the Securities and Exchange Board of India's (Sebi's) tighter disclosure norms.

Under the new framework that Sebi's board cleared last month, FPIs with single group exposure of more than 50 per cent or holdings of over ₹25,000 crore in domestic equities have to furnish granular disclosures around their ownership, economic interest, and names of people in control.

An analysis of FPI shareholding done by PRIME Infobase shows that there are close to 100 FPIs that have single group exposure of 50 per cent or more. The total holdings of these FPIs stood at ₹1.2 trillion at the end of the March quarter. Also, 51 FPIs had all their investments in a single corporate group. Meanwhile, there were another five FPIs holding domestic shares worth over ₹25,000 crore.

The actual number of FPIs that could be impacted by the new ruling will be higher, as this analysis is based on publicly disclosed data for NSE-listed firms. Hence, the names of only those FPIs holding more than 1 per cent stake are required to be disclosed.

However, not all FPIs that meet the threshold will be required to furnish additional details, as Sebi has kept some entities, such as sovereign funds, public retail funds, and exchange traded funds (ETFs), out of the applicability of the new norms, as there is no opacity around their ownership. For instance, the FPI with the highest domestic equity holdings is the Government of Singapore at ₹1.5 trillion. However, it will be exempt given that it is a sovereign fund.

Experts said many FPIs could trip on the single group exposure condition. According to PRIME Infobase, there are about six FPIs with between 75 per cent and 100 per cent exposure to the Adani group as per the March 2023 shareholding pattern. Their cumulative holdings stood at over ₹30,000 crore. Hinduja, Religare, GMR, and OP Jindal are some of the other corporates with FPI shareholders having high single group exposure, the data showed.

Experts said it would be interesting to see how their holdings had changed between March and June after Sebi proposed the new norms. To be sure, the new norms have yet to become effective. FPIs with high single group exposure will be given three months — down from six months proposed earlier — to provide additional disclosures from the date of notification. Those not intending to furnish the disclosures will have to trim their exposure or face a freeze on their holdings.

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It remains to be seen if impacted FPIs comply or pare their holdings below the threshold

FPIs WITH...	
holdings of over ₹25,000 crore in domestic equities	5
100% exposure to a single group	51
50% or more exposure to a single group	95

Data as on March 2023

Source: PRIME Infobase

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"While the genuine FPIs who believe in India's growth story may be expected to provide additional disclosures. However, one may not completely rule out the possibility of divestment by a few FPIs who would be reluctant to disclose their beneficial owner," said Harish Kumar, Partner, Luthra and Luthra Law Offices India. Kumar said a limited number of FPIs would be hit, and the framework would not impact the entire FPI ecosystem. "The number of FPIs hit by the new rule could be higher as public disclosures are available only for FPIs holding at least a 1 per cent stake in a single company. FPI investment is concentrated in the top 100 stocks. Here, the 1 per cent threshold is too high. There is a need for making it a value-based threshold instead of percentage-based one," said Pranav Haldea, managing director, PRIME Database Group. This regime comes after Sebi hit a wall while trying to ascertain the end beneficiaries of about a dozen FPIs holding high stakes in the Adani group.