New FPI disclosure norms kick in from November 1

Granular data required for 50% single group exposure, ₹25,000 cr AUM

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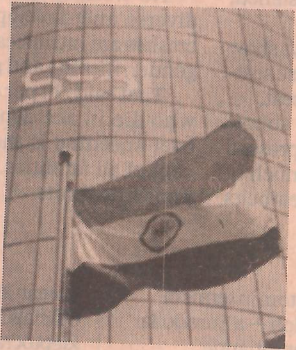

The Securities and Exchange Board of India (Sebi) announced on Thursday that stricter disclosure norms for foreign portfolio investors (FPIs) will come into effect from November 1.

Under these regulations, overseas funds that hold more than 50 per cent of their equity investments in a single Indian corporate group, or have more than ₹25,000 crore of equity assets under management (AUM) in the Indian market, will have to provide detailed information about their beneficial owners.

This new framework, approved by the Sebi board in June, arises from challenges the regulator faced in identifying entities with an economic interest in FPIs during its investigation into the Adani group-Hindenburg matter.

With this change, Sebi aims to obtain detailed information about all entities holding ownership, economic interest, or exercising control in the FPI, on a full look-through basis, up to the level of all natural persons. This marks a departure from previous norms that set thresholds for preventing money laundering.

However, government-linked investors registered as FPIs, public retail funds, and certain exchange-traded funds have been exempted from the regulations. Furthermore, pooled investments registered with the government or with a regulated authority in their home country will also be exempted if their holding in Indian corporate is below 25 per cent of their global AUM on a scheme level.

The markets regulator added that while the broad principles have been outlined, the detailed mechanism for independently validating the conformance of FPIs with the conditions and exemptions will be elaborated in a Standard Operating Procedure (SOP). This SOP will be used for consistent practice, independent valuation, and the removal of regulatory arbitrage. All designated depository participants or custodians who facilitate transactions with FPIs will have to adapt to the SOP.

According to an analysis by PRIME Infobase of data available until March 2023, nearly 100 FPIs could be affected, as they 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 March quarter of the 2022-23 financial year. Corporates such as Hinduja, Religare, GMR and OP Jindal are among those with FPI shareholders having high single group exposure, as per PRIME Infobase data.

The analysis revealed that 51 FPIs had invested solely in a single corporate group, while another five FPIs held domestic shares worth more than ₹25,000 crore. The data includes only those FPIs that have more than a 1 per cent stake in the companies.

Experts have opined that certain FPIs may have already begun restructuring their holdings to avoid the stricter norms.