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SEBI's new disclosure norms may impact over 200 FPIs

HINDENBURG EFFECT. FPIs face deadlines to trim holdings, make more disclosures

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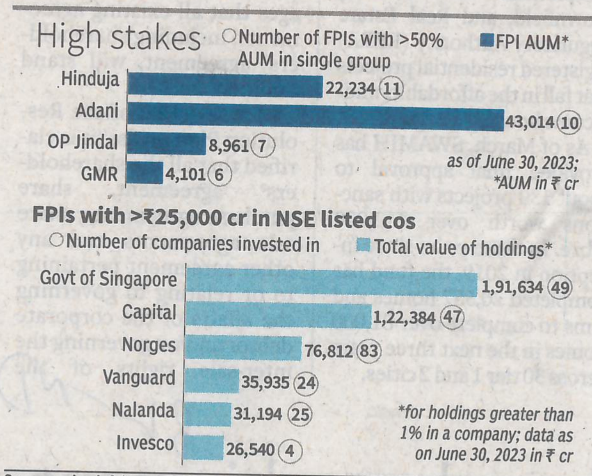
Over 200 foreign portfolio investors will be impacted by the Securities and Exchange Board of India's new disclosure norms that are set to become operational from November 1.

There are 227 FPIs with over 50 per cent of their equity investments in a single stock or group of NSE listed companies. These have invested over ₹1.98-lakh crore in over 140 corporate entities, the prominent ones being Adani, OP Jindal, GMR and Hinduja groups. Of the 227 FPIs, 122 had 100 per cent of their holding in a particular company or group, data from primeinfobase.com show.



Source: primeinfobase.com

NEW RULES

Under SEBI's new rules that were formulated following the Hindenburg-Adani case, FPIs holding over 50 per cent of their equity AUM in a single Indian corporate group have 10 trading days to bring down their holdings. Those with over ₹25,000 crore of equity AUM in Indian equities have 90 calendar days to do so.

After this, investors need to make additional disclosures regarding persons having any ownership, economic interest, or control. The registration of FPIs that don't comply may eventually become invalid.

About 2 per cent of the universe of 11,000-plus foreign portfolio investors will be impacted by the new norms.

"Concentrated portfolios in one corporate group or company may seem a bit unusual. The regulators can exercise the right to look into the same from the point of view of market safety, round tripping, and intent of investment," said a person who deals with FPIs. The key aspects to look at would be if these FPIs are set up in FATF-compliant jurisdictions, if the funds are coming through banking channels, and whether these investors have complied with the SEBI requirements and the internal restricted countries lists, the person added.

FPIs breaching the thresholds may have to realign or diversify their portfolio, or reduce their holdings in the particular company or corporate entity.

"The disclosure requirements could intensify the compliance demands on FPIs, particularly those with intricate ownership set-ups. As FPIs navigate the set thresholds, the need for investment realignment might pose operational hurdles. Moreover, rigorous actions like account blockages for non-adherence could dissuade certain FPIs from venturing into the Indian financial landscape," said Suresh Swamy, Partner, Price Waterhouse & Co.

REGULATORY OVERSIGHT

Experts believe the regulatory oversight may lead corporates to plan their overseas investments better, especially those that are strategic in nature. "A breach may impact the reputation and credibility of corporate groups as well as FPI strategies and holdings," said Ravi Prakash, Associate Partner, Corporate Professionals.

"SEBI's apprehension on circumvention of FDI, takeover code, listing, insider trading and round tripping norms appears to the well founded. It has taken a balanced approach with provision for relaxation for broad-based funds, sovereign funds, and other genuine cases," said Yashesh Ashar, partner, Illume Advisory.