RAISING BARRIERS AGAINST BEIJING Pg 1

Govt plans to cap China FPI investments at 5%

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The department of economic affairs (DEA) and markets regulator Securities and Exchange Board of India (Sebi) are considering capping investment by foreign portfolio investors (FPIs) from the countries sharing a land border with India, especially China, at 5 per cent, said persons in the know. Currently, an FPI or a beneficial owner is allowed to hold up to 10 per cent in a listed stock.

The sources said the proposal had already been discussed by the DEA and Sebi and is awaiting feedback from the Prime Minister's Office (PMO).

"The markets regulator and the ministry of finance have been working out various modalities pertaining to FPI investments from China and other neighbouring countries (Pakistan, Afghanistan, Nepal, Bhutan, Bangladesh, and Myanmar). These include lowering the investment threshold," said a government source privy to the discussion.

Other measures being considered include relatively stringent know your customer (KYC) norms and a separate standard operating procedure (SOP) for approval, renewal, and fresh investment from these neighbouring countries.

The sources said the proposal in this regard had been sent to the PMO for vetting given its impact on the bilateral relations with India's neighbours. "The regulator and the ministry concerned are awaiting the PMO response on the matter," said the source cited above.

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Chinese FPI investments saw a jump during the March quarter

As on	AUC (₹ cr)	Chg (%)
Dec 31, '16	53	-61
Dec 31, '17	697	1,217
Dec 31, '18	561	-19
Dec 31, '19	774	38
Mar 31, '20	3,258	321

Note: AUC is assets under custody; change is year-on-year, except in March 2020 when it is quarter-on-quarter; includes NSE-listed companies where holding is more than 1% Source: Nseinfobase.com

China FPI...

Experts say while there could be a desire to lower investment cap, there may be implementation challenges.

"If the government decides to restrict FPI investments from border countries, it will be interesting to see whether the restrictions are placed on FPIs based in those countries or beneficial owners based in those countries, or both. Also, we need to see whether such FPIs will be completely prohibited from making fresh investments without government approval or whether they will be allowed to invest freely subject to a lower than 10 per cent cap," said Rajesh Gandhi, partner, Deloitte India.

At present, the investment by an FPI cannot exceed 10 per cent of the paid-up capital of an Indian company. All FPIs taken together cannot acquire more than 24 per cent of the paid-up capital of an Indian company. According to the Sebi regulations, FPIs are not allowed to invest in unlisted shares, and investment in unlisted entities will be treated as an FDI.

Recently, the Centre had tightened the FDI policy for the seven neighbouring nations, with focus on China.

"The step to cap FPI investments will definitely put more barriers on investments from China (given the earlier announcement of pre-scrutiny of FDI from the seven neighbouring countries). This step, however, seems retrograde, given that unlike FDI, FPI investors generally exercise no control or direct ownership in the investee entity and are financial investors mostly driven by short-term profits, rather than long-term strategic investments," said Atul Pandey, partner, Khaitan & Co.

At present, China doesn't feature among the top 10 jurisdictions when it comes to FPI investments in India. However, a sharp jump in FPI investments from China during the March quarter amid market meltdown had raised many eyebrows. FPI investments from China jumped more than 4 times during the March quarter. This was mainly on account of the People's Bank of China raising its stake in mortgage lender HDFC. Experts said Chinese FPI into India is higher than reported as holdings below 1 per cent don't get captured and reported that easily.