



New SEBI norms for FPI

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The Securities and Exchange Board of India (SEBI) has said that it will implement most of the recommendations of H.R. Khan panel on the Know Your Client (KYC) guidelines and beneficiary ownership norms of foreign portfolio investors (FPIs).

The panel had been set up by the regulator to advise it on redrafting FPI regulations for simplification, and to advise on any other issue relevant to these investors.

Why Committee was formed?

- FPIs and investors had serious concerns regarding the norms released by SEBI and wanted SEBI to review the norms.
- Concerns of Investors
 - FPIs are the major source of investment in India. The Asset Managers Roundtable of India (AMRI) **has said that norms will result in restrictions on investments.**
 - The AMRI has said that these measures could lead to an outflow of as much as \$75 billion in FPIs. However, SEBI has dismissed any such fears and termed AMRI claims as irresponsible.
 - The SEBI had not explained the High-Risk Jurisdictions or give the list of countries, thus lacking transparency.
 - As of now, economic ownership has been the basic criteria for determining the BO of an offshore fund. This means an entity owning a majority stake in a fund is considered a BO. But in new circular, the regulator has asked FPIs to determine ownership based on both shareholding and control.
- In a relief to FPIs, the SEBI-appointed H.R. Khan panel to review FPI norms and look into issues raised by stakeholders.

Background

- On April 10, 2018, SEBI issued a circular directing certain categories of FPIs such as trusts, banks, mutual funds, and investment managers to disclose their beneficial owners within six months. A beneficial owner (BO) is a person who, directly or indirectly, derives the benefits of ownership.
- The circular said that Non-Resident Indians (NRIs), Persons of Indian Origin (PIOs), Overseas Citizens of India (OCIs) and Resident Indians (RIs) cannot be beneficial owners of a fund investing in India.

- The regulator also asked FPIs to disclose names and addresses of the beneficial owners; whether they were acting alone or together through one or more natural persons as a group; tax residency jurisdiction; and the beneficial owner group's percentage shareholding capital or profit ownership in the FPI.
- On August 21, 2018, SEBI extended the six-month deadline for disclosure to December 31.

Why Amendment was needed?

The regulator wants to tighten KYC norms:

- to prevent money laundering
- to prevent round-tripping of funds (Black money from India invested in Indian Markets through foreign routes), when an investment is made from a high-risk jurisdiction. Countries with a known history of money laundering and funding terrorism activities are considered as high-risk jurisdictions.

Recommendations

- The H.R. Khan panel has proposed that NRIs, OCIs, and RIIs should be allowed to hold a non-controlling stake in FPIs, and no restrictions should be imposed on them to manage non-investing FPIs or Sebi-registered offshore funds.
- It has recommended that erstwhile PIOs should not be subjected to any restrictions, and clubbing of investment limits should be allowed for well-regulated and publicly-held FPIs that have common control.
- The panel has suggested that the time for compliance with the new norms should be extended by six months after they are finalized, and non-compliant investors should be given another 180 days to wind down their existing positions.
- It has also asked SEBI to do away with additional KYC requirements for beneficial owners in case of government-related FPIs.
- The committee has recommended changes in the norms pertaining to the identification of senior managing officials of FPIs, and for beneficial owners of listed entities. It has suggested changes in the disclosure of personal information of beneficial owners.
- It has said that all new rules should apply equally to investors using participatory notes (P-Notes).