

SEBI advocates for greater protection for ‘extra-dickey’ FPIs

The SEBI has recommended a requirement for obtaining more information from high-risk category FPIs. The rules have come in after various reports have highlighted that certain FPIs have abused the normal laws governing MPS and PN-3. The recommendation now sub-classifies FPIs into (1) high-risk, (2) moderate, and (3) low.

The high-risk category defines investors that own 50% or more equities in AUM held in a sole company. Minute details including the ownership arrangement, and economic and command authority features must be shared. Any high-risk FPIs with a total AUM of more than Rs 25,000 crores must also follow these directions, failing to do so will result in the particular limit set being reduced further to include more FPIs by December 2023.

SEBI has accounted for such an action after the latest expose by the US-based Hindenburg Group that staked claims that FPIs held a prominent share in various registered businesses of the Adani Group. Low-risk and moderate-risk FPIs will remain unaffected by these directives. Those FPIs possessing a lower India-based holding despite having a larger international presence will be categorized as ‘moderates.’

PN3 and Dodging of FPI Conventions under the Guise of MPS

Press Note 3 (PN3) was introduced by the Govt. of India in 2020 in order to check the expedient incorporation of burdened Indian businesses at cut prices. The rules stated that any entity or individual based in India’s neighbouring nations will have to invest through the official ministry’s channels. In the event of FPIs relinquishing their stake to investors based on the earlier criteria will also require Government’s permission. This adjustment was done after it was largely observed that these large investments remained unchanged creating suspicion amongst concerned regulatory bodies about possible diversions of funds to these neighbouring countries creating an imbalance in India’s GDP.

Glossary

SEBI – Securities Exchange Board of India

FPI – Foreign Portfolio Investors

MPS – Minimum Public Shareholding

AUM – Assets under Management

