

From FPI outflow worry to SEBI's rebuttal on repercussions of April 10 circular: Key things to know

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Earlier, SEBI had come out with a circular on April 10, that sought to identify and verify the “Beneficial Owner” of the FPIs to potentially curb the money-laundering and round tripping concerns.

After FPI-lobby groups raised concerns that the SEBI circular on KYC norms regarding FPI investments would lead to outflows of \$75 billion and lead to a further rupee plunge and stock market crash, the regulator said that such a claim is irresponsible. “It is preposterous and highly irresponsible to claim that 75 billion dollars of FPI investment will move out of the country because of Sebi’s circular issued in April 2018,” SEBI said in a statement.

Notably, the Asset Managers’ Roundtable of India (AMRI), an influential FPI lobby group had said that SEBI’s move could rattle India’s stock market and also cause rupee to plunge further. “If not corrected immediately, about \$75 billion worth of

investments will need to be unwound in a short period, causing a stock market crash and a sharp fall in the rupee in an election year,” Nandita Agarwal Parker, president of the AMRI said.

Earlier, SEBI had come out with a circular on April 10, that sought to identify and verify the “Beneficial Owner” of the FPIs to potentially curb the money-laundering and round tripping concerns. The circular barred NRIs, persons of Indian origin (PIO) and overseas citizens of India (OCI) from being “beneficial owners” or “in control” of foreign portfolio investors.

The BO is a natural person who ultimately owns or controls the FPI. “We understand the government’s concern over round-tripping. FPIs have no objection in disclosing who the beneficial owners are. But why restrict investments?” Nishit Desai, founder of law firm Nishith Desai Associates said in a press conference.

“The circular is vague, opaque, and confusing. It distrusts NRIs and resident institutional community... A Nigerian can manage an FPI but not an NRI or a large Indian group,” said Nandita Agarwal Parker said in the same conference. Decoding the impact of the latest rules, Arvind Sanger, Geosphere Cap said that India may be shooting itself in the foot with SEBI’s Circular on FPIs. “Global funds are not impacted by new FPI rules. Dedicated India funds could be discouraged due to new FPI rules,” he told CNBC TV18.

Interestingly, the market regulator, in April, had asked Category II and III FPIs to provide list of their beneficial owner (BO) in a prescribed format within six months. It had also extended the deadline by two months till December for providing a list of beneficial owners, and assured them that issues raised will be looked into by an expert panel. The decision came after Sebi received representations from market participants, seeking review and additional time for complying with the guidelines.