Foreign Portfolio Investors

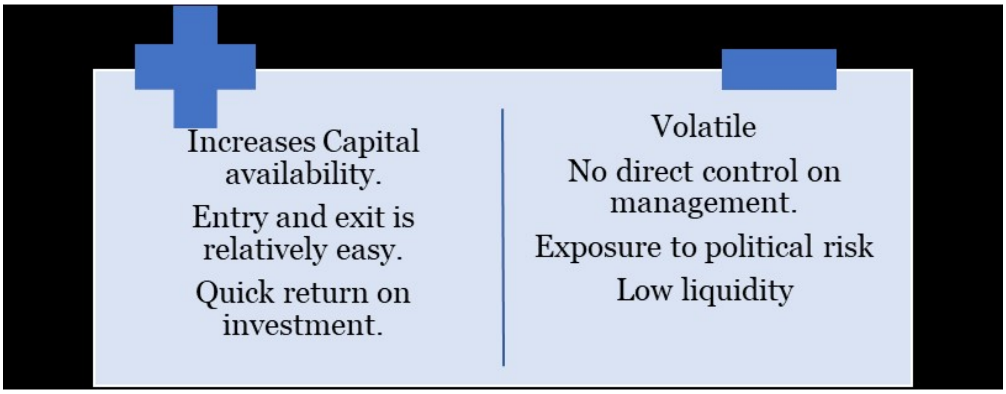
Why in news?

SEBI floated a consultation paper that proposed additional disclosures from Foreign Portfolio Investors (FPIs).

Who is a Foreign Portfolio Investor (FPI)?

- Foreign Portfolio Investment (FPI) involves holding financial assets from a country outside of the investor's own.
- FPI holdings can include stocks, ADRs, GDRs, bonds, mutual funds, and exchange traded funds.
- Foreign Portfolio Investors have only passive ownership.
- Investors have no control over ventures or direct ownership of property or a stake in a company.
- Investments of NRIs don’t come under FPI.

What are the pros and cons of FPI?



What are the differences between FPI and FDI?

- Both Foreign Direct Investment (FDI) and Foreign Portfolio Investment (FPI) are common ways for investors to participate in an overseas economy but has few distinct differences.

	Foreign Direct Investment (FDI)	**Foreign Portfolio Investment (FPI)**
Definition	Investment made by foreign investors to obtain a substantial interest in the enterprise located in a different country.	Investing in the financial assets of a foreign country, such as stocks or bonds available on an exchange.
Type	Direct Investment	Indirect Investment

Market	Inflows in primary market	Inflows in secondary market
Role of Investors	Active Investor	Passive Investor
Degree of Control	High control	Very low control
Term	Long term investment	Short term investment
Investment is done on	Physical assets of the foreign country	Financial assets of the foreign country
Entry and Exit	Difficult	Relatively easy
Risks Involved	Stable	Volatile

What is the purpose of the proposal?

- To guard against possible circumvention of the requirement pertaining to Minimum Public Shareholding (MPS)
- To prevent the misuse of the FPI route to circumvent the requirements listed Press note 3.
- To identify tangible ownership and curtail incidences of multiple routes being used to acquire ownership in a company.
- To keep up with the minimum public shareholding norms and reduce regulatory requirements.

What are the proposals made in SEBI's consultation paper?

- The proposed regulations would enhance transparency, fully identifying objective ownership of an entity in a holding.
- The proposed legislation categorises FPIs into low risk, moderate risk and high risk.
- **High Risk FPIs -** FPIs holding more than 50% of their equity asset under management (AUM) in a single corporation or with an overall holding in Indian equity markets of over Rs 25,000 crore.
- High-risk FPIs would have to make additional disclosures under this proposal.
- Existing operational FPIs should disclose within 3 month, failing which the FPI should bring down its AUM below the threshold within the time frame.
- **Failure -** Any high-risk FPI which fail to provide the disclosures wherever required would render the registration of the FPI invalid.
- **Exception -** New FPIs and existing FPIs that are winding down would be allowed to breach the threshold criteria up to a period of 6 months, after which disclosure in mandatory.

References

1. [The Hindu - Why is SEBI asking for more disclosures from FPIs?]
2. [IE - SEBI proposes additional disclosure for high-risk FPIs]