

MEMO# 31809

June 14, 2019

ICI Global Comment Letter on SEBI Report on Foreign Portfolio Investor Regulations

[31809]

June 14, 2019 TO: ICI Members

ICI Global Members

ICI Global Investing Subcommittee

ICI Global Regulated Funds Committee

ICI Global Tax Committee SUBJECTS: International/Global RE: ICI Global Comment Letter on SEBI Report on Foreign Portfolio Investor Regulations

In March 2018 the Securities and Exchange Board of India (SEBI) constituted a Working Group under the leadership of former Chairman HR Khan to review the regulatory framework applicable to foreign portfolio investors (FPIs) and suggest recommendations on ways to simplify and rationalize the FPI framework.[\[1\]](#) On March 24, SEBI released the report of the Working Group for public comment. The report contains numerous recommendations regarding the FPI registration process, know your customer (KYC) requirements and simplification of documentation, investment restrictions, and other matters relevant to FPIs.

Some of the key recommendations proposed by the Working Group are the following:

1. Ease of access – fast track on-boarding process for select Category II FPIs, review of the broad based condition for appropriately regulated entities, pension funds to be considered for Category I FPI registration, deemed broad based status for insurance/re-insurance entities, and simplified registration for multiple investment manager (MIM) structures.
2. Simplification of documentation – removal of “opaque structure” definition, simplified KYC documentation for Category III FPI, and KYC reliance on same group regulated entity of custodian for non-PAN documents.
3. Review of investment restriction – liberalized investment cap, harmonization between investment restrictions in FPI regulations and FEMA 20(R), reclassification of investment from FPI to FDI, permitting FPIs for off-market transactions, and review of restriction on sovereign wealth funds for investment in corporate debt securities.
4. Other matters – strengthening of clubbing restrictions, alignment between FPI and alternative investment fund (AIF) routes and strengthening of the offshore derivative

instrument (ODI) framework.

ICI Global submitted the attached comment letter. We expressed general support for SEBI's efforts to consolidate and liberalize the FPI regime, noting that a simpler compliance and registration process, with effective and appropriate controls, will facilitate further investment in India. We further explained that, notwithstanding the proposed changes, the requirement for a regulated fund to be broad based in order to be a Category II FPI, remains a significant challenge for many funds looking to invest in India and certain funds therefore forego investing in India. We urged SEBI to consider this, as well as the points we raise on the specific Working Group recommendations, as it finalizes the regulations. We then provided comments on numerous specific recommendations.

We understand that SEBI is seeking to issue finalized regulations within the next few months.

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[Attachment](#)

endnotes

[1] The report is *available at* https://www.sebi.gov.in/reports/reports/may-2019/report-of-working-group-on-fpi-regulation-s-seeking-public-comments_43107.html.

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