SEBI Board Meeting – Key Announcements for FPIs

The India capital markets' regulator, the Securities and Exchange Board of India (SEBI), in its recent Board meeting held earlier today, decided on certain matters such as KYC requirement for Foreign Portfolio Investors (FPIs), reduced time period for listing of issues, framework for Enhanced Market Borrowings by Large Corporates, Common Application Form for FPIs, review of Total Expense Ratio for Mutual Fund Scheme, etc. Some of the key decisions that may be relevant to FPIs are detailed below.

I. KYC requirement for FPIs

SEBI has issued a Circular dated April 10, 2018 with respect to KYC requirements for FPIs, especially Beneficial Ownership related disclosures. Following representations received from various stakeholders, a working group constituted by SEBI has been asked to review the same. The working group released its draft recommendations in this regard (please click here to refer to our news flash in this regard).

In its Board Meeting, a proposed draft circular and proposed amendments in SEBI (FPI) Regulations, 2014 were discussed and broadly agreed upon. The revised circular, in this regard, will be issued separately.

II. Common Application Form for FPIs

SEBI in consultation with the Department of Economic Affairs, Ministry of Finance, Government of India, Reserve Bank of India and Central Board of Direct Taxes has finalized a common application form for obtaining FPI Registration with SEBI, Permanent Account Number (PAN) and KYC for opening of bank and demat accounts by FPIs. Necessary amendments to SEBI (Foreign Portfolio Investors) Regulations, 2014 will be made.

On a separate note, the Department of Economic Affairs had recently notified the Common Application Form in this regard, which is yet to be operationalised.

III. Framework for Enhanced Market Borrowings by Large Corporates

SEBI considered and approved the following framework:

- The new framework shall come into effect from April 01, 2019.
- Any large corporate, covered under the framework shall intimate to the stock exchange that they are covered under the framework and shall raise 25% of their incremental borrowings for that year through the bond market;
- Any corporate, other than scheduled commercial bank, which has listed its specified securities or debt securities or non-convertible redeemable preference shares, and fulfills following criteria, as on March 31st of a financial year, shall be categorized as large corporate under the instant framework:

  - outstanding borrowing of Rs 100 Crores or above; and

  - credit rating of "AA and above"; and

  - intends to finance itself with long-term borrowings (i.e. borrowings above 1 year).
- For initial two years of implementation of the framework i.e. FY 2019-20 and FY 2020-21, a "comply or explain" approach shall be applicable. Thus, in event of non-compliance, the reasons shall be disclosed as part of the "continuous disclosure requirements" to Stock Exchanges;
- From third year of implementation i.e. F.Y. 2021-22, the requirement of 25% of incremental borrowing through bond market shall be tested for contiguous block of two years;

- At the end of two year block, if there is any deficiency in the requisite bond borrowing, a monetary penalty/fine of 0.2% of the shortfall shall be levied.

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