Government of India
Ministry of Finance
Department of Economic Affairs

LOK SABHA

STARRED QUESTION NO. *201

TO BE ANSWERED ON MONDAY, AUGUST 1, 2022 / SRAVANA 10, 1944 (SAKA)

FOREIGN PORTFOLIO INVESTORS

***201 Shri Velusamy P**

Will the Minister of FINANCE be pleased to state:

(a) whether the Banking and Financial Services Sector is worried about the exodus of Foreign Portfolio Investors (FPIs) recently which resulted in highest ever outflow from the capital market;

(b) if so, the total amount withdrawn by FPIs till date and the steps taken to control the outflow;

(c) whether the increase in federal rate by the Federal Reserve Bank is the main reason for the outflow;

(d) if so, whether the Government is likely to increase the deposit rate to bring back FPIs; and

(e) if so, the details thereof and if not, the reasons therefor?

ANSWER

MINISTER OF FINANCE
(SHRIMATI NIRMALA SITHARAMAN)

(a) to (e) : A statement is laid on the Table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. *201 RAISED BY SHRI VELUSAMY P HON'BLE MEMBER OF PARLIAMENT TO BE ANSWERED ON 01.08.2022 REGARDING "FOREIGN PORTFOLIO INVESTORS"

(a) Assets Under Custody (AUC) of the Foreign Portfolio Investors (FPIs) in Banking and Financial Services have grown significantly from the level of March 31st, 2020. The details, as reported by the Depositories, at the end of last three financial years are as under:

AUC of FPIs as on	AUC of FPIs in Banking and Financial Services (INR Crore)
March 31, 2020	7,48,062
March 31, 2021	13,95,637
March 31, 2022	13,89,469
June 30, 2022	13,08,252

(Source: SEBI)

(b) to (e) The total amount invested / withdrawn by the FPIs during the last three financial years are as under:

Financial Year	Investment by FPIs (INR Crore)
2019-20	- 27,528
2020-21	2,67,100
2021-22	- 1,22,241

(Source:SEBI)

FPIs make their own investment/disinvestment decisions. No specific information on the reasons for the amount invested/ disinvested by FPIs is available. Some of the common factors that influence FPIs' investment/disinvestment may include the following –

i. Prevailing financial market conditions;
ii. Anticipated future returns out of the proposed investment;
iii. Taxation structure as prevailing in the concerned jurisdiction;
iv. Country rating of the concerned jurisdiction;
v. Risk taking ability of the concerned FPIs;
vi. Market infrastructure in the concerned jurisdiction;
vii. Liquidity and volatility in the markets of the concerned jurisdiction;
viii. Regulatory regime prevailing in the concerned jurisdiction;
ix. Financial, economic and monetary policy scenarios in its own jurisdiction and competitive markets;
x. Global outlook of the investors with respect to the concerned jurisdiction vis-à-vis other emerging/developed markets;
xi. Investment objective and mandate of the concerned FPI;
xii. Other global macroeconomic and geopolitical factors.

Several measures have been undertaken to provide operational flexibility to Foreign Portfolio Investors (FPIs) as well as to expand their investment space in the recent times as under —

Steps taken by SEBI

- **Common Application Form (CAF):** Common application form, which is a single form for registration of FPIs with SEBI, allotment of PAN and carrying out of Know Your Customer (KYC) for opening of bank and demat account was notified in 2020 by Government of India to further ease the on-boarding of FPIs.

- **Liberalized Investment Cap:** Certain investment conditions were liberalized wherein aggregate foreign investment limit have been liberalized up-to the sectoral caps, and foreign government agencies and related entities have been exempted from clubbing of investment in case of treaty/agreement/order of GoI. The liberalisation of investment cap has led to an increase in the availability of investible stock for FPI investment which has augmented the weightage of Indian securities in global indices and attracted greater foreign portfolio investment inflows.

- **Permitting Resident Indian fund managers to be constituents of FPIs:** Section 9A of the Income Tax Act, 1961 (IT Act) was introduced by the Finance Act, 2015 and was subsequently amended vide Finance Act 2020 to facilitate setting up of fund management activity in India with respect to offshore funds. In order to enable resident Indian fund managers to benefit from the provisions of Section 9A, the SEBI (Foreign Portfolio Investors) Regulations, 2019, have been amended vide notification dated on August 03, 2021.

  Prior to the amendment, only resident Indian individuals were permitted to be constituents of FPIs. Now, resident Indian fund managers (other than individuals) have also been permitted to be constituents of FPIs that are investment funds approved under the Income Tax Act, 1961, read with the Income Tax Rules, 1962. Internationally, investors prefer to make investments in a fund which is backed by the investment manager and has a track record. The aforementioned amendment shall facilitate Indian fund managers to contribute to the seed capital of investment funds incorporated /established/ registered outside India and generate a track record. Thus, the amendment is expected to provide a new business avenue for resident Indian fund managers.

- **Permitting Resident Indians (other than Individuals) to become constituents of FPIs that are registered as Alternative Investment Funds (AIFs) in IFSCs:** Resident Indians (other than individuals) have been permitted to become constituents of FPIs that are registered as AIFs in International Financial Services Centre (IFSC). Such resident Indians shall be sponsor/ manager of the FPI and their contribution in the FPI shall be subject to conditions as specified by the Board.

- **Relocation of FPIs to IFSC:** The Finance Act, 2021 has provided tax incentives for relocating foreign funds to IFSC, in order to make the IFSC in Gujarat International Finance Tec-City (GIFT City) a global financial hub. Some of these India focused foreign funds may be registered as FPIs. In view of this and to facilitate such relocation, SEBI vide circular dated

June 01, 2021 allowed a one-time off-market transfer of securities by FPIs from the original fund to the resultant fund established in IFSC.

Steps taken by RBI

- Banks in India having an Authorised Dealer Category-1 licence under FEMA, 1999 shall be allowed to lend to FPIs for the purpose of placing margins with Clearing Corporation of India Limited (CCIL) in respect of settlement of transactions involving Government Securities (including Treasury Bills and State Development Loans) by the FPIs.

- FPIs/custodian banks have been provided with an additional time of three hours after the close of trading hours for the Government securities (G-Secs) market to report over-the-counter transactions by FPIs in G-Secs to the Negotiated Dealing System-Order Matching (NDS-OM) platform.

- The aggregate investment limit for FPIs under the Voluntary Retention Route (VRR) for investment in government and corporate debt securities was increased from ₹1,50,000 crore to ₹2,50,000 crore with effect from April 1, 2022.

- FPIs have been allowed to buy and sell Credit Default Swaps in the over-the-counter market with effect from May 09, 2022.

- The following measures were announced on July 07, 2022:

  - Investments by FPIs in government securities and corporate bonds made between July 08, 2022 and October 31, 2022 shall be exempted from the limit on short-term investments till maturity or sale of such investments.

  - FPIs shall be allowed to invest in commercial papers and non-convertible debentures with an original maturity of up to one year, during the period between July 08, 2022 and October 31, 2022. These investments shall also be exempted from the limit on short-term investments till maturity or sale of such investments.

  - In addition to the 5-year, 10-year and 30-year tenor securities issued by the Government of India that are currently designated as 'specified securities' under the Fully Accessible Route (FAR), two on-the run Government securities in the 7-year and 14-year tenors as well as all new issuances of Government securities of 7-year and 14-year tenors were designated as 'specified securities' to be included under the FAR.