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NEW NORMS: ON REGULATIONS FOR FOREIGN INVESTORS

Relevant for: Indian Economy | Topic: Issues relating to Growth & Development - Capital Market & SEBI

Foreign investors who have been fleeing the country since the Union budget presented early last month have something to cheer about finally. On Wednesday, the Securities and Exchange Board of India (SEBI), based on the recommendations of the H.R. Khan committee, eased several regulatory restrictions that are likely to make life easier for foreign portfolio investors (FPIs). Among a slew of measures, the financial markets regulator has simplified the registration process for FPIs by doing away with the broad-based eligibility criteria, which required a minimum of at least 20 investors in a foreign fund, and certain documentary requirements. FPIs can now also engage in the off-market sale of their shares with fewer restrictions. Further, SEBI has allowed entities registered at an international financial services centre to be automatically classified as FPIs. This might help foreign investors bypass some of the restrictions. Mutual funds with offshore funds too can invest in India as FPIs to avail certain tax benefits now. Central banks that are not members of the Bank of International Settlements are also allowed to register as FPIs and invest in the country under the new norms. Smart cities, along with other urban development agencies, will now be allowed to issue municipal bonds to raise funds for development. These measures to cut red tape will help lower the regulatory burden on investors, globalise India's financial markets, and aid the growth of the broader economy by increasing access to growth capital.

It is not immediately clear whether SEBI's move on Wednesday was motivated by the recent flow of funds out of India's capital markets. Capital in excess of 20,000 crore has left Indian shores in the last few weeks after Finance Minister Nirmala Sitharaman's budget decision to increase taxes on FPIs. Policymakers were clearly under pressure to do something to allay the fears of foreign investors, so the timing of SEBI's move is no surprise. But given the broader trend of capital flowing out of emerging markets across the world, it remains to be seen whether SEBI's present move will yield immediate benefits. Even if it fails to do so, the move will still help Indian markets become more attractive to foreign investors in the long-run. While the steps taken by policymakers to make amends for their previous policy errors are obviously welcome, they should not deflect attention from the larger and persistent issue of overreach by the government against investors. In a world of globalised capital markets, where many nimble emerging markets compete to attract capital from the developed world, India cannot afford to be seen as flip-flopping on its commitments.

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