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REGULATOR PROPOSES NEW NORMS FOR FPIS

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

As per the consultation paper, Sebi said allowing the FPIs in Exchange Traded Commodity Derivatives is likely to increase depth and liquidity in commodity derivative markets.

MUMBAI : The Securities and Exchange Board of India (Sebi) has proposed allowing foreign portfolio investors (FPIs) registered with it to participate in exchange-traded commodity derivatives (ETCDs) in recognized stock exchanges.

Allowing FPIs to participate in ETCDs is likely to increase depth and liquidity in commodity derivative markets, Sebi said in a consultation paper floated to seek public comments. Enhanced liquidity can gradually enable the Indian commodity derivative market to serve as a global benchmark for various commodities and thus shift India from the role of price taker to price setter, Sebi said.

FPIs and custodians have expressed keen interest to participate in ETCDs. Their participation might help lower transaction costs in the commodity futures segment through economies of scale, as per Sebi.

Until now, FPIs, which have to adhere to a certain set of compliance requirements and have significant purchasing power, have not yet been allowed to participate in ETCDs. Sebi, however, believes that given the ineffectual nature of the Eligible Foreign Entities (EFE) norms to acquire traction and also as no EFE has expressed interest in participating in ETCDs in India, there is now a perceived need to allow FPIs registered with Sebi to engage in ETCDs.

Sebi has already implemented the participation of alternate investment fund (AIF), portfolio management service and mutual funds in commodities markets.

In November 2021, Sebi’s Commodity Derivatives Advisory Committee said EFE norms should be discontinued and foreign investors should be allowed to participate in Indian ETCDs through the FPI route. The condition of necessary actual exposure to physical engagement, as in case of EFEs, should be removed, it said.

END