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# INCREASE IN FPI LIMITS - BOON TO THE INDIAN STOCK MARKET

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### **What is FPI?**

*Portfolio investment, in general, means an investment in a group (portfolio) of assets. FPI is investment by non-residents in Indian securities including shares, government bonds, corporate bonds, convertible securities, infrastructure securities etc. The class of investors who make investment in these securities are known as Foreign Portfolio Investors.*

*In India, the SEBI (Foreign Portfolio Investors) Regulations, 2019 provides the framework for registration and procedures with regard to foreign investors who propose to make foreign portfolio investment in India.*

### **What is MSCI Emerging Market Index? What is its impact on Indian stock market?**

*MSCI Indices were started by the Morgan Stanley Capital International. The MSCI Emerging Market Index is an index used to measure the equity market performance in global emerging markets. It includes developing economies such as Argentina, Brazil, China, India, Indonesia, etc.*

*Foreign investors face a lot of difficulties while investing in domestic markets due to information asymmetry, various accounting methods, local language, etc. Inclusion of a country in the MSCI Index assures the investors regarding safety of their funds. Greater the weightage of a country in the MSCI Index, greater the reliability and therefore, greater the foreign investments.*

On 17<sup>th</sup> October, 2019 the Ministry of Finance notified the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 [**NDI Rules**] bringing about various changes to the scheme of foreign investment in India including an increase in the limit for Foreign Portfolio Investment [**FPI**].

The NDI Rules prescribe that with effect from 1<sup>st</sup> April, 2020, the aggregate limit for FPI in India shall be the sectoral caps applicable to the Indian Company as laid down in Schedule I of the Rules. The sectoral caps in some cases are up to 100% (for example in sectors such as agriculture, mining, broadcasting, etc.) which means FPI in Companies engaged in such sectors could be up to 100%, unless it exercises its option of reducing such limit to 24%, 49% or 74% with approval of its Board of Directors as well as its General Body before 31<sup>st</sup> March, 2020. However, in case a Company does not exercise such option, the aggregate limit is the sectoral cap from 1<sup>st</sup> April, 2020. Such companies also retain the option to increase the FPI limit to a maximum of the sector limit at a later date.

This is a welcome move for the Indian economy as it is expected to attract massive inflow of overseas funds. This prospect becomes even more tangible in light of the MSCI's decision on 31<sup>st</sup> March, 2020 to defer making any changes to India's weightage until the aforesaid increase in FPI limits was practically implemented.

Under the SEBI legal regime, certain depositories are authorised to monitor FPI groups and publish various data related to FPI activities. Accordingly, on 3<sup>rd</sup> April, 2020, the National Securities Depository Limited and the Central Depository Services Ltd. published the revised aggregate FPI limits of Listed Indian Companies.

[[https://www.fpi.nsdl.co.in/web/StaticReports/APFIL\\_File/FILM\\_ALL\\_LIST\\_2020.pdf](https://www.fpi.nsdl.co.in/web/StaticReports/APFIL_File/FILM_ALL_LIST_2020.pdf)]

[ <https://www.cdslindia.com/publications/FIMonitoring.aspx> ]

The MSCI will conduct its Semi-Annual Index Review in the month of May, 2020 and the global brokerage is expecting India's weightage to rise by about 70 basis points implying an increase in investment of 2.5 billion dollars.