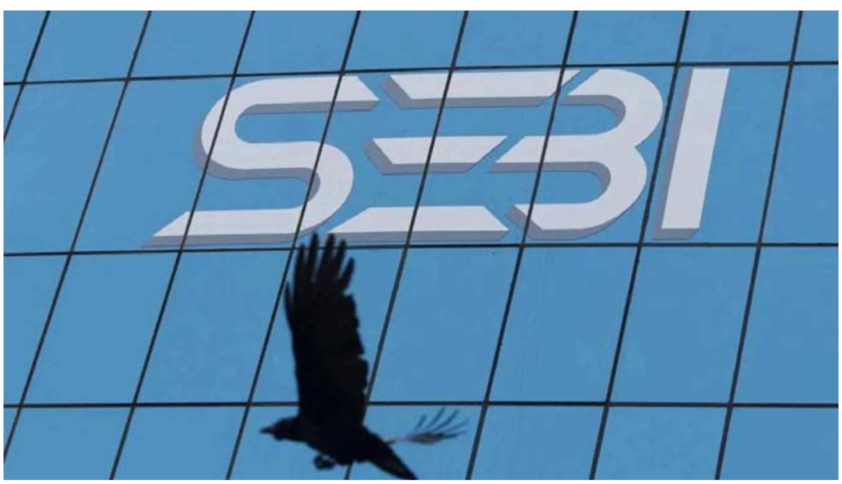
SEBI’s AUM threshold boost lifts FPI mood, but investors seek more

Updated - March 26, 2025 at 08:49 PM. | Mumbai, Mar 26

Higher disclosure limits to ease compliance burdens, increase P-notes in the market

BY AKSHATA GORDE



Foreign portfolio investors (FPIs) have welcomed SEBI’s decision to double the assets under management (AUM) threshold for granular ownership disclosures. However, experts say the move falls short of addressing broader investment challenges that FPIs face in India.

The SEBI board on Monday approved increasing the cap on AUM to ₹50,000 crore, over which FPIs need to provide detailed ownership details — down to individual persons.

Earlier, FPIs managing over ₹25,000 crore or investing more than 50 per cent in a single corporate group had to either cut holdings or risk losing their registration. The relaxation is expected to prevent forced sell-offs and encourage offshore derivative instrument (ODI) investments, experts said.

Likely volatility ahead

FPIs could now ramp up on investments in India through ODIs or participatory notes (P-notes) as the limits with foreign banks will be doubled — potentially driving speculative trading, said market experts.

P-notes allow foreign investors to gain exposure to Indian equities without registering as FPIs with SEBI or Indian tax authorities through major foreign banks.

“Many FPIs had been shifting to P-notes from direct investments due to easier compliance. However, last year, major foreign banks hit their ₹25,000-crore cap, limiting further issuance,” said a custodian who declined to be named. “The higher threshold may bring some relief, but direct investments are unlikely to surge.”

The regulator justified the move through the boom in the Indian market, where cash equity trading volumes have surged over 122 per cent — from an average of ₹53,434 crore daily in FY23 to ₹1,18,757 crore in FY25 (as of December 2024).

“A higher disclosure threshold is expected to enhance capital inflows, improve market depth and ensure greater transparency,” said Mahavir Lunawat, Founder and MD of Pantomath Financial Services. “It simplifies compliance for mid-sized and small-sized FPIs, encouraging greater participation in Indian equities and reduces the compliance burden.”

Lingering concerns

Industry experts believe most FPIs fall below the ₹50,000-crore limit in direct investments, which restricts the benefit of the higher threshold. FPIs had hoped for more flexibility, particularly on the 50 per cent corporate group investment cap.

"There are FPIs with a strategy of investing in only two or three Indian companies," said Prakhar Dua, Co-Head of Financial Regulatory Practice at Nishith Desai Associates. "The objective is not to violate minimum public shareholding norms of India. They're genuine investors that are getting stuck due to the cap of 50 per cent in a single Indian corporate group."

Many funds are also structured such that it's not administratively and operationally feasible for them to disclose all the investors. Even the exemptions that SEBI provided over the last year saw practical hindrances with the SOP getting delayed at times. FPIs with genuine structures claiming exemptions were stranded for months last year until they could claim them, said Dua.

The previous stringent disclosure rules had raised concerns about overregulation potentially slowing inflows from FPIs, said Ajay Garg, CEO at SMC Global Securities. "Industry feedback during the January 2025 consultation warned that India risked losing appeal compared to lighter-touch markets like Singapore," he said.