

Proposal to increase the threshold under size criteria (set to guard against potential circumvention of Press Note 3 stipulations) in the additional disclosure framework

1. Objective:

1.1. The purpose of this Board Memorandum is to increase the threshold under size criteria (set to guard against potential circumvention of Press Note 3 stipulations) in the additional disclosure framework from INR 25,000 crores to INR 50,000 crores. Note that there are no changes proposed to the 50% concentration criteria that is designed to guard against potential circumvention of SEBI's norms with respect to minimum public shareholding and substantial acquisition of shares and takeovers.

2. Background:

2.1. To guard against possible circumvention of Minimum Public Shareholding ("MPS") norms, requirements under SEBI (Substantial Acquisition of Shares and Takeover) Regulations, 2011 ("SAST Regulations"), and Press Note 3 ("PN 3"), SEBI (Foreign Portfolio Investors) Regulations, 2019 ("FPI Regulations, 2019") were amended in August 2023, and Regulations 22(6) and 22(7) were inserted in FPI Regulations, 2019 empowering SEBI to specify criteria for enhanced disclosures of economic interest, control or ownership of FPI. SEBI's Circular dated August 24, 2023 ("August 2023 Circular") mandated disclosure of granular details of all entities holding any ownership, economic interest, or control in an FPI, on a full look through basis, without any threshold, by FPIs fulfilling any of the following criteria:

- a) holding more than 50% of their Indian equity AUM in a single Indian corporate group to guard against possible circumvention of MPS/SAST Regulations ("concentration criteria"); or
- b) individually, or along with their investor group (in terms of Regulation 22(3) of the FPI Regulations, 2019), hold more than INR 25,000 crore of equity AUM in the Indian markets to guard against possible circumvention of PN 3 stipulations ("size criteria")

2.2. Certain FPIs, including those having a broad based, pooled structure with widespread investor base or those having ownership interest by Government or Government related investors have been exempted from such additional disclosure requirements, subject to certain conditions.

3. Need for Review:

3.1. The current threshold of INR 25,000 crore under size criteria was proposed initially vide a consultation paper dated May 31, 2023 issued by SEBI, seeking comments from public on the proposal regarding additional disclosure framework. Eventually, this threshold was also adopted in the final framework issued through August 2023 Circular.

3.2. The size criteria were specified with a view to guard against the potential circumvention of Press Note 3 stipulations by FPIs with large Indian equity portfolios, with potential to disrupt orderly functioning of Indian securities markets by their actions. The 'potential to disrupt the functioning of market' has to be evaluated relative to the size of the market. In this regard, a broad market parameter such as turnover can be used as a factor to assess the size of market. Data for average daily turnover (in capital market segment at NSE) for the FY 2022-23 and FY 2024-25 (till December 2024) shows an increase of 122 percent.

Table 1: Average daily turnover in capital market segment at NSE

Period	Average Daily Turnover (INR crores)
FY 2022-23	53,434
FY 2024-25*	1,18,757
Change (%)	122

* till 31-12-2024

The increase in average daily turnover has, consequently, necessitated a review and increase of the threshold under size criteria.

4. Public Comments and Recommendations of the FPI Advisory Committee:

4.1.A Consultation Paper soliciting public comments, on this proposed increase in threshold was issued by SEBI on January 10, 2025, and the same is placed at **Annexure A**.

4.2.Comments were received on the aforesaid consultation paper from 31 commenters (including DDPS, Custodians, Academicians, industry associations, law firms, Global Custodians, banking and FPIs). A summary of the public response to the proposals is placed at **Annexure B**.

4.3.It is seen from the comments that the proposal has received overall positive feedback from the public. On the issue of whether the size criteria should be enhanced for mandating additional disclosures from FPIs/ODI subscribers, as proposed in the consultation paper, 30 out of 31 comments are in favour (strongly agree + agree + partially agree) of the proposal. On the issue whether the size criteria should be increased to INR 50,000 crores, 27 out of 28 comments are in favour (strongly agree + agree + partially agree) of the proposal. One commenter has disagreed with the proposal and instead suggested reduction in the threshold to INR 10,000 crore as FPIs are opaque, with many just pass through ones through multiple nations which can be misused by domestic and international investors to hide the ultimate investor. In this regard, it may be noted that for obtaining registration, FPIs are required to satisfy applicable eligibility conditions and are subjected to KYC compliance in accordance with FATF standards and PMLA requirements. Accordingly, FPIs are also required to disclose details of beneficial ownership in accordance with PMLA requirements. Thus, the context of change in size criteria has to be evaluated with the potential to disrupt the market for which enhanced transparency was stipulated. In view of the same, suggested reduction in threshold made by the commenter is not being accepted.

4.4. The proposal was also discussed in the FPI Advisory Committee (“the Committee”), in its meeting held on February 25, 2025. The Committee deliberated and concurred with the proposal to enhance the threshold under size criteria to INR 50,000 crores.

5. Proposal:

5.1. Considering the increase in market turnover and based on the comments received from market participants and the Committee, it is proposed to increase the threshold under size criteria from the present INR 25,000 crore to INR 50,000 crores.

5.2. It is clarified that no change is being proposed in the extant threshold for the concentration criteria, which is designed to prevent circumvention of MPS and SAST Regulations.

5.3. It is proposed that the above may be specified by way of issuance of circular. Although there are no regulatory amendments proposed to effect this proposal, this would amend the threshold of size criteria that was approved by the Board during the meeting held on June 28, 2023 and included in the August 2023 Circular. Accordingly, the instant proposal is being submitted to the Board for its kind consideration.

6. Proposal to the Board:

6.1. In order to facilitate ease of compliance with respect to the additional disclosure framework for FPIs, the Board may consider and approve the proposals at Para 5 above.

6.2. The Board may also authorize the Chairperson, SEBI, to take such consequential and incidental steps necessary to give effect to the decision of the Board.

Encl:

1. Annexure A - Consultation Paper on proposal to increase the size criteria in the additional disclosure framework dated January 10, 2025 (3 pages)
2. Annexure B - Summary of public comments on the Consultation Paper dated January 10, 2025 (1 page)

Annexure A

The consultation Paper is available at the following link:

https://www.sebi.gov.in/reports-and-statistics/reports/jan-2025/consultation-paper-on-proposal-to-increase-the-size-criteria-set-to-guard-against-potential-circumvention-of-press-note-3-stipulations-in-the-additional-disclosure-framework_90696.html

Annexure B

This has been excised for reasons of confidentiality.