

Proposal to permit net settlement of funds for transactions done by Foreign Portfolio Investor

1. Objective

1.1. This Board Memorandum seeks approval of the Board on a proposal to permit net settlement of funds for transactions done by Foreign Portfolio Investor (FPI) in cash market.

2. Background

2.1. In terms of Regulation 20(4) of SEBI (FPI) Regulations, 2019, FPIs are required to transact in securities in India only on the basis of taking and giving delivery of securities purchased or sold.

2.2. In terms of SEBI's Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024, institutional investors are not allowed to do day trading i.e., square-off their transactions intra-day. All transactions are grossed at custodians' level and investors are required to fulfill their obligations on a gross basis. The custodians, however, settle their deliveries on a net basis with the clearing corporations (CCs).

3. Need for review

3.1. SEBI is in receipt of suggestions that gross settlement of transactions done by FPIs is leading to additional liquidity demand and inefficiency for FPIs. For example, an FPI purchases stock A worth Rs. 100 crores and sells stock B worth Rs. 100 crores. The FPI will need to deliver stock B as well as make available Rs. 100 crores towards purchase of stock A. As a part of the pay-out, FPI will receive stock A and receive back Rs. 100 crores towards consideration for sale of stock B. It may be argued that this pay-in obligation of Rs. 100 crores results in the FPI being underinvested for at least one day to the amount of Rs. 100 crores, which otherwise could have been adjusted against the settlement proceeds of the sale transaction.

3.2. Further, there are other potential costs involved due to slippage between buying and selling forex to fulfill their obligations.

3.3. Additionally, in case of FPIs who rely on credit line provided by global custodian, there is cost of funding for at least one additional day.

3.4. The issues highlighted above are magnified during days of index rebalancing, wherein due to large inflows and outflows in index constituents, the cost of funding increases significantly.

3.5. In view of the above, in order to enhance operational efficiency and reduce cost of funding for FPIs, there is a case for reviewing the existing practice of gross settlement and permitting 'netting of funds' for transactions done by FPIs in cash market.

3.6. 'Netting of funds' in this context shall mean using the proceeds of sale transactions done by FPIs in cash market on a particular day to fund the purchase transactions in cash market on the same day, thereby requiring them to fulfill only the net fund obligation.

4. Discussions with market participants, FPI Advisory Committee and public consultation

4.1. The proposal regarding netting of funds for transactions done by FPI in cash market ('proposed scenario') was discussed with market participants namely custodians, CCs and stock exchanges.

4.2. The potential risks and operational challenges highlighted during the said discussions and SEBI's comments on the same are as follows:

4.2.1. Higher rejection rate

- a) In the current scenario, FPI needs to provide funds toward settlement of purchase transaction independent of any sale transaction. As a result, even if there are any issues in confirmation of sale transaction, purchase transaction still gets confirmed independently.
- b) In the proposed scenario, confirmation of purchase transaction may be contingent on confirmation of sale transaction. Any issues leading to rejection of sale transaction may therefore lead to rejection of purchase transaction as well. In such a scenario, the obligation for settlement of the transactions would devolve on the executing broker.
- c) It is also pertinent to note that the rationale for netting is to address high liquidity requirement on days of index rebalancing, but these are the same days where the transaction volumes is high and system slowness or other operational issues are more likely to occur.
- d) Further, since no margins are collected from the brokers or the custodians against FPI trades in cash market, rejections of large value trades can potentially put the CC, and thereby the settlement system, at risk.

SEBI's comments:

- e) The proposal envisages that in case of rejection of sale transaction, buy transactions may be confirmed by custodian to the extent of funds available. Thus, confirmation of purchase transactions may not always be contingent on the confirmation of sale transactions.
- f) The risk of FPI transactions getting rejected (on account of failure in reconciliation or shortfall of funds/securities), and devolvment of the settlement obligation on the executing broker, exists in the current scenario as well. In this regard, necessary safeguards by way of default waterfall mechanism, Core Settlement Guarantee Fund (SGF), etc. are already in place.

- g) It may be appreciated that in the proposed scenario, fund obligations of FPI due to netting shall, in fact, be lower, which is likely to reduce the probability of rejection of such large value trades on account of shortfall of funds.
- h) Further, in order to pre-empt any operational issues or system slowness that may arise on account of implementation of the instant proposal, custodians are required to maintain and regularly upgrade their systems for seamless operations.

4.2.2. Credit / Settlement System risk

- a) There is a gap of a few hours between pay-in by clearing members to CCs and pay-out by CCs to clearing members. Due to this time gap between pay-in and pay-out, clearing and settlement risk would increase to the extent of netting in the proposed framework. Currently, this risk is borne by the FPI owing to gross settlement. In the proposed framework, this risk would move to the custodian. Further, the rules, regulations and bye-laws of CCs are not clear that in a scenario of default by CC, whether CC liquidator would ask for gross settlement or net settlement. In case custodians are required/ called upon to fulfill pay-in obligation on a gross basis, but custodians only collect net funds from their FPI clients, then it would add incremental risk to the banking system.

SEBI's comments:

- b) As noted earlier, CCs have a robust mechanism in place to deal with default scenarios, including default waterfall, Core SGF, etc. Further, custodians currently settle their obligations on a net basis with CCs. In the proposed mechanism also, the obligations shall continue to be settled on a net basis between custodians and CCs, and there would be no change in funds and securities paid to/ received from CC by

custodian. Therefore, there may not be any impact on the risk arising from non-receipt of pay-out from CC.

- c) Also, SEBI's Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024 mandates CCs to have a winding down policy clearly articulating the procedure to be followed in the scenario of winding down of its critical operations and services. The said circular also provides that "The provisions of SECC Regulations, 2018 and various circulars and guidelines issued thereunder, shall continue to apply during the entire period of winding down of critical operations and services of CCs", which includes netting. Therefore, the proposed mechanism is unlikely to lead to any increase in risk.

4.3. It was also clarified that no operational changes are being envisaged in the current procedures being followed at CC for confirmation and settlement process. Further, while the validations that custodians need to perform before confirmation of trades shall undergo a change in order to facilitate confirmation on the basis of netted obligations, no changes are envisaged in the procedure for reconciliation for confirmation of trades and validation of holdings.

4.4. Further, in this regard, it may be noted that recently, RBI, vide Reserve Bank of India (Commercial Banks – Concentration Risk Management) Amendment Directions, 2026 dated February 13, 2026, has inter-alia clarified that exposures in respect of irrevocable payment commitments (IPCs) shall be included as a percentage of net settlement obligation, for the purpose of calculation of capital market exposure.

4.5. The proposal was also discussed by SEBI's FPI Advisory Committee ("the Committee") in its meeting held on January 15, 2026. Pursuant to detailed discussions held in the Committee, a consultation paper dated January 16, 2026 (**Annexure A**) was issued proposing to permit netting of funds for 'outright transactions' done by FPIs in cash market. 'Outright transactions' shall mean

those transactions done by an FPI where there is either a purchase or a sale transaction, but not both, in a security in a settlement cycle.

4.6. The mechanism for netting of funds proposed in the said consultation paper was as follows:

4.6.1. FPI transactions in securities with only outright sell or outright purchase shall be netted to arrive at net fund obligation for outright transactions. Transactions in securities having both purchase and sale transactions in a settlement cycle shall be excluded from netting. Therefore, netting of intra-day transactions in same securities shall be excluded and such non-outright transactions shall continue to be settled by FPI as per the current procedure, i.e. on gross basis.

4.6.2. In case value of outright sale is less than the value of outright purchase, the residual amount along with non-outright purchase obligations shall be funded by the FPI. However, if value of outright sale exceeds the value of outright purchase, the excess outright sale shall not be adjusted towards non-outright purchase obligations.

4.7. An illustration of the FPI obligations as per current practice and proposed mechanism was given in Annexure A of consultation paper (placed at **Annexure A**).

4.8. Further, it is clarified that settlement of securities shall continue to be carried out on gross basis between FPI and custodian. Also, Securities Transaction Tax (STT) and stamp duty shall continue to be charged on delivery basis.

4.9. The proposal would help in reducing cost of funding for FPIs, especially on index rebalancing days as there would be outright purchases and sales in incoming and outgoing stocks, respectively, in an index. At the same time, since non-outright transactions shall continue to be confirmed and settled on gross basis,

the risk of swaying of markets by FPIs holding large quantities of securities is addressed.

5. Public consultation and analysis of public comments:

5.1. A total of 69 comments were received from 23 commenters (including DDPs, custodians, stock brokers, industry associations, global custodian and FPIs). A summary of the public response to the proposals is placed at **Annexure B**.

5.2. With respect to the proposal to permit netting of funds for transactions done by FPI in cash market, all the 23 comments received are in favour (strongly agree, agree and partially agree) of the proposal.

5.3. With respect to the risk mitigants proposed in response to the potential risks and operational challenges highlighted by the market participants, 22 out of 23 comments received are in favour (strongly agree, agree and partially agree) of the proposal. The lone commenter in disagreement with the proposal inter-alia suggested the following:

5.3.1. For DVP sale transactions, the securities may be delivered by custodian to the broker's pool account on the settlement day (T+1) and blocked in the favour of CC. Post settlement, pay-out of fund to FPI may be done by CC through custodian. This approach mitigates ad hoc funding and liquidity related risks at the broker level, eliminates requirement for intra-day funding by brokers and ensures that purchase confirmation is not contingent on sale confirmation.

5.3.2. Custodians implement appropriate operational processes to ensure that the ultimate responsibility for ensuring timely funding of trades rest with the FPI thereby, reducing the risk of trade rejections, avoiding funding and penalty exposure at broker level without compromising on risk-management principles.

5.4. The above suggestion regarding DVP sale transactions will lead to modification of existing settlement systems at CC level, which is outside the scope of the present proposal. The said recommendation also presumes availability of securities with the custodian, which may not be true in all DVP transactions. Further, upgradation of custodian systems has already been dealt in para 4.2.1(g) above. In view of the same, the suggestions are not being considered.

5.5. With respect to the proposed mechanism for permitting netting of funds for outright transactions done by FPIs in cash market, 22 out of 23 comments received are in favour (strongly agree, agree and partially agree) of the proposal. The lone commenter disagreeing with the proposal has suggested extending the benefit of netting to intra-day transactions in same securities as well. Considering the risks discussed earlier regarding swaying of market by an FPI holding substantially large quantity of securities and as recommended by FAC, netting of funds is proposed only for outright transactions.

5.6. Further, following are some of the major suggestions received from the public along with comments of SEBI:

5.6.1. The instant proposal may be kept optional for FPI to choose between gross and net settlement owing to established processes, automation for FX, cash management, and reconciliations, or from the need to settle taxes immediately on sale transactions to ensure timely NAV adjustments and accurate book closure, among other considerations.

Comments of SEBI:

With respect to taxation, it may be mentioned that tax is calculated based on the transactions undertaken and not based on the type of settlement of such transactions. Thus, the proposed mechanism doesn't have any implications on the taxation.

Further, netting on optional basis may lead to divergent practices being followed by same set of participants, i.e., FPIs and would, therefore,

lead to unnecessary ambiguity and operational complexity in the custodian's systems. In view of the same, the said suggestion is not being accepted.

- 5.6.2. A sufficient timeline of 12-18 months may be provided for implementation of the proposal. Further the system enhancements for the current year have already been finalized and implementation of the current proposal may have an adverse impact on the same.

Comments of SEBI:

It is desirable that implementation of a proposal designed for providing ease of doing business for FPIs is not delayed for long. However, considering the need for carrying out system changes, it is proposed that the proposal may be implemented on or before December 31, 2026, thereby providing a time period of around nine months for system enhancements that may be required to implement the proposal.

- 5.6.3. A task force involving all stakeholders may be constituted to discuss any potential changes and improvements to existing market practices.

Comments of SEBI:

Post issuance of circular by SEBI, Custodians and DDPs Standard Setting Forum (CDSSF) may be advised to formulate the necessary guidelines or standards operating procedure (SOP) to implement the proposal, after consulting the relevant stakeholders.

- 5.7. A summary of SEBI's response to other major comments received is placed at **Annexure C.**

6. Proposal to the Board:

6.1. In order to enhance operational efficiency and reduce cost of funding for FPIs, the Board may consider and approve the proposed mechanism for net settlement of funds as follows:

6.1.1. FPI transactions in securities with only outright sell or outright purchase shall be net settled to arrive at a net fund obligation for such outright transactions. Transactions in securities having both purchase and sale transactions in a settlement cycle shall be excluded from netting. Such non-outright transactions shall continue to be settled by FPI as per the current procedure, i.e. on gross basis.

6.1.2. In case value of outright sale is less than the value of outright purchase, the residual amount along with non-outright purchase obligations shall be funded by the FPI. However, if value of outright sale exceeds the value of outright purchase, the excess outright sale proceeds shall not be adjusted towards non-outright purchase obligations.

6.1.3. Settlement of securities shall continue to be carried out on gross basis between FPI and custodian. Also, STT and stamp duty shall continue to be charged on delivery basis.

6.2. The proposals may be implemented on or before December 31, 2026.

6.3. The above may be implemented by way of issuance of a circular.

6.4. The Board is requested to consider and approve the proposals at para 6.1, 6.2 and 6.3 above with suitable amendments as considered appropriate and authorize the Chairman, to make consequential and incidental changes and take necessary steps to give effect to the decision of the Board.

Encls:

1. Annexure A - Consultation Paper on proposal to permit netting of funds for transactions done by Foreign Portfolio Investors (FPIs) dated January 16, 2026 (09 pages)
2. Annexure B - Summary of public comments received on the Consultation Paper dated January 16, 2026 (01 page)
3. Annexure C - Summary of SEBI's response to other major comments received (04 pages)

Annexure-A

Consultation Paper available on SEBI website at the following link:

[https://www.sebi.gov.in/reports-and-statistics/reports/jan-2026/consultation-paper-on-proposal-to-permit-netting-of-funds-for-transactions-done-by-foreign-portfolio-investors-fpis- 99097.html](https://www.sebi.gov.in/reports-and-statistics/reports/jan-2026/consultation-paper-on-proposal-to-permit-netting-of-funds-for-transactions-done-by-foreign-portfolio-investors-fpis-99097.html)

Annexure-B**Summary of public comments on 'Consultation Paper on proposal to permit netting of funds for transactions done by Foreign Portfolio Investors (FPIs)'**

Proposals		No. of people/entities agreeing to the proposal					
S. No.	Proposal	Strongly Agree	Agree	Partially Agree	Disagree	Strongly Disagree	Total Count
1	Do you agree with the proposal to permit netting of funds for transactions done by FPIs in cash market?	10	10	3	0	0	23
2	Do you agree with the potential mitigants cited above in response to the potential risks or operational challenges highlighted by the market participants?	5	13	4	1	0	23
3	Do you agree with the proposed mechanism for permitting netting of funds for outright transactions done by FPIs in cash market, as stated above?	4	15	3	0	1	23

Annexure-C**Summary of SEBI's response to other major comments received**

S. No.	Public Comment	SEBI's Response
1	Clarification may be required regarding calculation of capital market exposure. RBI may be requested to consider permitting custodians to provide limited intraday lines to FPIs to the extent of sale proceeds required to fund purchase obligations in the same settlement cycle, without the requirement to record it as an exposure and nor any requirement for credit assessment on clients (on similar lines as currently permitted for G Sec trades). These will only be technical intra-day since such sales proceeds are adjusted against the purchase obligation in the same settlement cycle with the same clearing corporation and hence there is no real exposure or extension of credit to the FPIs.	RBI, vide Reserve Bank of India (Commercial Banks – Concentration Risk Management) Amendment Directions, 2026 dated February 13, 2026, has inter-alia clarified that exposures in respect of irrevocable payment commitments (IPCs) shall be included as a percentage of net settlement obligation, for the purpose of calculation of capital market exposure.
2	Confirmation of purchase transactions may not be made contingent on confirmation of sale transactions. It will help in reducing the risk of higher rejections that may arise due to the netting of funds.	The proposal envisages that in case of rejection of sale transaction, buy transactions may be confirmed by custodian to the extent of funds available. Thus, confirmation of purchase transactions may not always be contingent on the confirmation of sale transactions.

S. No.	Public Comment	SEBI's Response
3	Custodians should have flexibility to implement processes (such as Standing Instructions for FX) to ensure FPIs fund their net purchase obligations. Flexibility in confirmation processes and funding arrangements will help contain operational risks and avoid shifting undue funding risk onto brokers or custodians.	The said suggestion pertains to operational processes followed by custodians, which is not specific to the scope of this instant proposal.
4	SEBI is requested to evaluate using stress testing and scenario analysis, likelihood and impact on the market, e.g. technical issues in settlements of the depository, default of FPI, custodian, broker or CCP. This will help create failsafe mechanisms to protect the rest of the investors in the market from adverse impact in any of the scenarios listed. While these risks existing even today, netting at investor level would lead to recalibration of the downstream and upstream risk.	A timeline of around nine months is being proposed to ensure readiness and smooth implementation of the proposal. Thus the proposals will be implemented on or before December 31, 2026.
5	For FPIs with multiple investment managers (not MIM structure), net funding complicates matters, as one manager's trades can affect the entire FPI account's net cash position, increasing operational and client-management risk for custodians who lack control over trading activities.	It is not clear about the exact complication that may arise out of the instant proposal. In the proposed mechanism fund obligations of FPI on account of netting shall, in fact, be lower, thereby enhancing operational efficiency and reduce cost of funding for FPIs.

S. No.	Public Comment	SEBI's Response
6	Clarity may be provided on the timing and calculation of capital gains tax under a netting framework. Custodian should not be held liable for any tax default by the client in its capacity as an AD Bank. SEBI may engage with CBDT, tax agents, and custodians to ensure that tax certificate formats and operating procedures reflect the shift to net funding. Adequate implementation time will be essential to ensure a robust and scalable solution across the ecosystem.	The said suggestions pertain to taxation which may be outside the purview of SEBI. Any operational aspects to streamline taxation related system changes basis the current proposal shall be facilitated in consultation with the relevant authorities. In any case, a timeline of around nine months is being proposed to ensure readiness and smooth implementation of the proposal. Thus the proposals will be implemented on or before December 31, 2026.
7	In case of rejected trades that devolve to the broker but have matched subsequently, it is suggested that custodians should deliver securities / cash first and receive payment/ securities thereafter, rather than the current market practice in which brokers deliver first before receiving payment from the custodians as this leads to the broker funding the trades for the FPI prior to settlement.	The suggestion is regarding changes to an existing practice on rejection of trades and is not specific to the instant proposal. Accordingly, the said suggestion is not being considered.
8	While FPIs are not subject to margin on cash trades today an assessment of whether some minimal buffer is prudent under netting should be undertaken to protect clearing integrity.	The said suggestion is not within the scope of the instant proposal and hence is not being considered.
9	SEBI may engage with brokers during the	Memorandum proposes to advise

S. No.	Public Comment	SEBI's Response
	design and implementation process. Their perspectives should inform design decisions.	CDSSF to formulate the necessary guidelines for implementation of the proposal, after consulting the relevant stakeholders.
10	The final framework should provide algorithmic clarity on how multi security netting will be computed and verified by custodians or Clearing participants.	Memorandum proposes to advise CDSSF to formulate the necessary guidelines for implementation of the proposal, after consulting the relevant stakeholders.
11	Currently trades executed by NRIs are also settled on a gross basis. It is suggested that netting mechanism may be extended to NRIs.	The suggestion is not within the scope of the instant proposal. Hence, the same is not being considered.
12	With regards to the potential mitigants around potentially higher rejections, where there is a timing difference in exchange settlement, netting may be allowed but FPIs should be required to split their FX trades trade in two separate tickets at the same rate to ensure no interdependency of one leg on another.	The suggestion increases operational complexity and financial burden for FPIs, and may negate the benefits envisaged from the instant proposal. Hence, the same is not being considered.
13	FPIs are expected to transition from trade-by-trade FX to a single net FX process. This is a material change for custodians and should be discussed collectively to ensure consistent treatment of regulatory risks (e.g., managing unintended overdrafts under IPC rules). The shift, however, is a significant procedural	Memorandum proposes to advise CDSSF to formulate the necessary guidelines for implementation of the proposal, after consulting the relevant stakeholders.

S. No.	Public Comment	SEBI's Response
	change for custodians. For example, custodians will need procedures to smooth the small differences between executed single FX amount and the actual pay-in obligation. Therefore clear, standardized processes across custodians will help manage IPC related considerations.	
14	Prerequisite of sale confirmation by the custodian to be facilitated by clearing corporation for outright transaction. Facilitating such confirmation through the clearing corporation introduces an additional layer of validation, enhances operational efficiency and mitigates settlement risk. The prerequisite ensures that netting benefits are extended only against confirmed trades thereby, safeguarding market integrity and protecting intermediates for premature exposure.	The suggestion is regarding changes to an existing practice on trade confirmation and is not specific to the instant proposal. Accordingly, the said suggestion is not being considered.