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Capital markets emerged as a viable alternate to the banking finance juggernaut that dominated Indian landscape. Increasingly countries are engaged in developing their Capital markets as a viable alternate to Banking.

EASE -> Opportunity-> Growth. We have held this refrain for centuries. In capital markets it goes two steps forward-> Diversity of risks and -> Wealth creation.

Year 2019-20 added more ease of doing business, especially for

# Feature

## EASE... KEEP THEM COMING

Foreign Portfolio Investors (FPI). Ease added trust and confidence as well. As Indians, we are never satisfied and forever seeking change! It also showcases our ability to adapt and move faster. In the FPI space, change seems to be the all times constant, indeed with greater Turn Around Time(TAT)!

A Country's Capital market grew from USD 200 Million of Market Cap (in 1990s) to the present USD 2.3 Trillion- It happened in India! The famous crooner Alisha Chinai couldn't be more right. As wealth creation became a norm, Investors and participants flocked and adapted/drove the changes, Government, SEBI / RBI/CBDT and SROs guided building a stronger Capital market- with hiccups galore, a recoil before every super leap forward.

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To cut the chase, I focus on the key changes in 2019-20, that provide more business opportunities to the Broking community, Custodians, Tax firms, Legal firms and more importantly the Investors and Companies. Not to speak of the revenue opportunity to the Government, Regulators and

SROs. I will also briefly dwell on what we could do better..... as our insatiable instincts yearn for more changes!!!

**FPI Regulations, 2019:** The SEBI FPI Regulation is the harbinger of significant change for the better. It ushered a Global way of Recognition of foreign Investors - those Regulated by FATF countries vs the not so. The complicated structures of the yore replaced by simplicity, though we still have some way to go! Does that make the Non- FAFT countries like Mauritius, Cyprus, Malta etc. less attractive inflow destinations? Not so. Though the processes will be more, these countries have evolved significantly to provide high quality services at more competitive pricing thereby increasingly emerging as the new inflow destinations. Countries like Cyprus are members of MoneyVAL an associate of FATF.

**Interoperability of Clearing houses, 2019:** Ease of settlement got a bigger shot for all investors with the go-live of interoperability. This specially benefitted Brokers, Custodians, Banks. Gone is the need to maintain two or more sets of processes- by each Clearing house. Risks and costs got minimized as Brokers, Custodians can now settle all their transactions through one Clearing house. Its easier to explain to FPIs as well.

**Common Application form (CAF), 2020:** Access to India in the almost last three decades meant navigating through the complex and multiple level application form. This considerably delayed FPIs access to India and in instances deterred - due to home country regulations / costs / time / resources or sometimes all of it! The CAF seeks to address issues that relate to costs / time / resources, though it's still in early stages and will need a few aspects to be ironed out. To the intermediaries, it will mean less efforts lesser costs and easy to understand processes. The Five step entry process gets reduced to 4 and with faster TAT on account opening... Maybe access India in 10 days! With increased interactions of India based Brokerage firms with foreign investors/their counterparts, this is good news and will assist in changing perceptions while sourcing business/ tie- ups. The bridge being built by the BSE Brokers Forum (BBF) is already garnering India interest like none other - more on this later.

**SME Listings, 2019:** The breaching of 500+ listings across both the Exchanges, raising USD 900 Million of Capital and creating a market cap of USD 4.2 Billion, created new opportunities for FPIs, especially from some of the Asian countries and US. Category II FPIs look to investing in this growing segment. The BSE SME Segment is playing the lead role in listings and market Cap. What expectancies do FPIs have of this segment - besides listing good companies (I'm sure there are over 10,000

out there), visibility through road shows and more importantly the establishment and visibility of Governance norms beyond those as per listing requirements. For e.g. Switzerland's over 325,000 SMEs have state institutions like SECO, SERI, SGE, ETH (the university) together developing the segment. In India - Government, Exchanges, BBF, Brokers, Custodians can take similar lead in creating more wealth for itself and its constituents.

**BBF Initiatives:** In my familiarization of the last two years, of the activities and initiatives of BBF, I'm like many, impressed with its efforts and initiatives to reach out to investors in India and now - overseas. Kudos to the BBF board as well as Dr. Vispi Bathena and his team. My interest is driven also by the BBFs fast growing initiative in engaging with foreign Exchanges, brokerages, FPIs, Indian Government Institutions overseas- showcasing the India attractiveness and seeking/ driving MOUs. Mr. Uttam Bagri's elevation to the vice chair position at International Federation of Investor Education (IFIE) will create greater visibility for Indian Capital Markets. High quality presentations, panelists with deep knowledge, premier institutions participating - formed BBF's various overseas forays. FPIs are flocking to BBF's events in increasing numbers and I'm sure it will grow as BBF does in many more jurisdictions. Its time for Indian brokerages to re- invent and start developing solutions and services to FPIs. Some have already begun!

**BSE FPI access Handbook, 2020:** BSE is the only institution in India and maybe the only exchange in the world, that has produced a crisp handbook for FPIs. The very popular book's fourth Edition incorporates the latest information (FPI regulations and CAF). FPIs are impressed with the layout of the information and find it easy to follow. Brokers can follow the Custodians model of sharing the booklet in their interactions with FPIs as well as familiarizing themselves on this growing segment. In last 4 years almost 1800 new FPIs, mostly erstwhile Category II invested in India; this constitutes almost 19% of total nos of FPIs.

**India centric initiatives by Global Institutions and Markets, 2019, 2020:** The year also saw multiple initiatives to project Indian Capital markets. SEBI together with US Institutions, Indian Embassy and HSBC - in US; Global Custodian's India Roundtable in April 2020; Cyprus Funds Summit of Nov 2019 carrying an India Focus, BBFs initiatives in Japan with JSDA and Indian Embassy. Many more such initiatives need to be rolled out. The increased initiative leads to the proverbial question. How do I invest in India? Who can execute and settle, where do I get Research reports etc.? Also, as many more Indian based entities are rated/topping the Global Surveys - Investors are recognizing the same and choose to benefit from wider choice of Global standard service providers. This has resulted in India's leading single country Custodians benefitting more.

## Budget 2020

The budget didn't hold out much for the FPIs... certainly not unpleasant surprises.

## Indian attractiveness roadmap also deserves developments that FPIs look for:

- The removal of Capital gains tax
- Less frequent changes, or all at once at periodic intervals
- More visibility on the initiatives, to be led by Policy makers Reduced costs of accessing India
- More Government initiatives in promoting FPI segment
- Most of the Governments initiatives relate to promotion of FDI
- FPI space needs ownership and support by Government agencies, especially as FPI

investments in India is in excess of USD 400 Billion

- Though India's ease of doing business, ranking has improved and is noticed, the slippage in the GDP growth is also noticed!

In fairness, SEBI's FPI division has over the last decade initiated many steps to improve ease of doing business and in instances responded to issues at days' notice - the most recent example being SEBI's clarifications on status of FPIs inflowing from Mauritius, post the FATF announcement. Such responses are much welcomed and appreciated, by Industry and investors alike.

To conclude, wealth is being created, as the ease of doing business is growing even in the

FPI segment. Are all the intermediaries, especially the venerated Broking industry ready for growth / change? Are we solution oriented? The FPIs are listening.

**Viraj** values his career related stint at BSE in early 1990s. Post a rich career with Morgan Stanley and as Country Manager, Custody with Citibank India, Citibank Switzerland, JP Morgan Chase and BNP Paribas, he founded PIVOT Management Consulting in 2015. PIVOT is globally recognized with global footprints in offices and assignments. PIVOT advises Exchanges, Custodians, PEs, FPIs, Broking firms, Corporates. He besides being an Independent Director with Motilal Oswal Trust Company, is on committees at Bombay Chamber of Commerce and Industry and as an expert on NSE Academy. In 2019 he was recognized by Global Custodian as amongst the 30 Global leaders in the over \$100 Trillion Custody Industry. He is featured in local and international media.