Note for Shri Ajay Tyagi
Chairman, SEBI

Making India attractive: Attracting Foreign Portfolio Investors

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Synopsis

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Making India attractive: Attracting Foreign Portfolio Investors

Header / Partner	Topic	Remarks/ Suggestion	Impact….Why factor
1. Operationalization of a policy **RBI**	**Enabling Custodian Bank –**RBI's First Bi-monthly Monetary Policy Statement, 2016-17 dated April 5, 2016 suggests introducing Custodian Bank(limited banking) *PIVOT released a note in January 2016 titled, "Enabling Custodian Banks"*	❖ India's existing Non- Bank Custodian structure is unique- neither cost efficient, more risks, higher costs to Investors. ❖ **SEBI to suggest to RBI to "activate" Custodian Bank license in India.** Non- Bank Custodians will become more efficient; India implements a Global Practice; generates direct interest into Indian Capital Markets by the leading Global Custodians - BONYM, State street, BBH, NT, Master Trust. ❖ Indian Non- Bank Custodian like SHCIL(largest at 22% market share), Edelweiss, Orbis, ILFS while equally good lose out vs to Universal Banks due to non-activation of RBI policy, rather than due to their in capabilities.	▪ Significant reduction in costs to FPI investors as in current inflows(70% through Global Custodians); the multilayer pricing(Global Custodian + Sub-Custodian) and Banking costs drive up the pricing for the end Investors. This contributes to making India more expensive. Direct entry to Custodian bank will reduce pricing as well as engage them in more India Marketing. ▪ Reduction of inefficient processes, Lesser Risks , lower costs, greater STP, greater ease of doing business for Indian Non-bank Custodians- Enables parity with Universal Bank Custodians. ▪ Enables similar standard wrt. risks/ Operations/ STP across Custodians Industry. **Eliminates significant exposure/risks of Non-bank Custodians to Banking partners(as exists now)**. ▪ Introduction of Global practice. Greater confidence amongst Investors ▪ Attracts Global Custodian Banks and thereby inflows.
2. India Visibility **MEA**	**Positioning the growing FPI interest: FPI inflows as critical as FDI inflows.** SEBI Regulates the current over $400 Billion of FPI inflows(comprised of over 8500 FPIs, from various countries). *BSE's web-based initiative wrt FPI page and Handbook in 10 International Languages, has no parallel worldwide.*	Normally FDI inflows are showcased by Indian Consulates and Ministerial Roadshows. FPI investors and FDI Investors are two separate segments. SEBI could encourage the Indian consulates(126) and Foreign Consulates (124)and Indian Ministerial delegations to advocate FPI inflows as well. https://www.indembassy-tokyo.gov.in/economy_india.html http://www.india.diplo.de/Vertretung/indien/en/05__Mumbai/Mumbai.html	▪ Showcasing by Economic Attaches at Indian Consulates etc, the strong FPI inflows in Investor meets, etc- also showcases the well developed regulated capital markets, adds to FPI investors confidence and inflows. ▪ Potential to increase inflows from new FPI Investors. ▪ Increased visibility with potential FPI Investors.
3. Mobilizing Funds - Operationalizing policy **SEBI & CBDT**	**Depositary Receipts: Operationalizing the Level One Sponsored DR space**	DRs not the same as Pnotes (PNotes not regulated). Whereas Level One DRs are Regulated by home country regulations). SEBI's requirement of information of an already regulated product, **imposes two sets of regulations- of India and home country are not consistent with DR products wrt. global** DR markets e.g. Taiwan/ Korea/ HK etc. **Sponsored DRs** enable Capital mobilization for Indian institutions at lower costs. India could roll out this long delayed product first, followed by the Unsponsored. DR investors differ from Inflow Investors wrt Risk vs Return appetite. Very minimal proof of flight of Inflow trades to overseas trading or co-mingling of the type of investor base.	▪ India's proposed Dual Jurisdiction regulation in case of Level One India product is unique and potentially dissuades International Investors. ▪ India at disadvantage vs other Jurisdictions wrt above ▪ Delay in Operationalization causes loss of- visibility and Investor Interest. ▪ Misplaced perception wrt flight of trades to overseas Exchanges- given the Investors preferences are based on well established Risk vs Return parameters. ▪ The Tax related open ends to be viewed from whether it creates a dual Taxation Scenario. If so then it defeats the capital mobilization opportunity.

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4. Operational Ease and cost saves for FPIs **SEBI**	**Physical production of PAN Card** at time of account opening by FPI (SEBI Circular - CIR/IMD/FPIC/123/2016 dated November 17, 2016)	❖ Upon PAN allotment, PAN details are available online (downloadable) on Income Tax Dept.'s Authorised website. The PAN card follows the above process-and sent to either at FPI address overseas or local Tax advisor (different practices are adopted). The said Circular requires production of PHYSICAL PAN CARD within 60 days to the DDP, by the FPI. ❖ Given the fact that the number is verifiable from the Regulatory website as well as different practices with custody of PAN Card(Key document), we suggest removal of the requirement of "physical production of Pan Card within 60 days of grant of PAN number". The details can be verified online on Tax dept. website, thus need for physical verification is not necessary, nor adds value however adds unnecessary processes.	▪ Since there is no value add, there is no Operational or Regulatory impact if the physical is not produced. ▪ Elimination of the requirement will ensure greater ease of Operational processes at every FPI/ Custodian/ Tax advisor's end. ▪ Operational costs as well as Operational risks are eliminated,, where the PAN Card is with the FPI(based overseas) its not required to send the same to India for meeting SEBI requirement. Also eliminates the Post validation process, costs and risks associated with sending back to the FPI based overseas, thus adding costs. ▪ FPIs view this as ease of process and lowering of costs, while being in Compliance
5. Enhancing FPI interest & inflows- New Global Product **SEBI**	**Developing Listed warrants segment**: Fostering Capital Formation and FPI interest	❖ Enabling reputed Merchant Bankers to issue plain vanilla Listed warrants as a first step to regulated Capital Mobilization and increasing Market Cap. ❖ Listed warrant globally viewed as a Global product that facilitates, Capital mobilization for short periods, is listed and traded. Similar to Swiss, HK Germany, markets offering over 6000 listed warrants. ❖ FPIs actively participate in this segment in markets(as above) which have similar set up as India.	▪ Diversity of products for FPIs and local Investors- Greater market Capitalization. ▪ Diversity of services by Investment bankers. ▪ Enables capital Mobilization in a safe secure way as well as at lower costs. ▪ Growth of revenues for State, Regulator, Exchanges, Clearing Corp and other intermediaries. Well regulated product ▪ More FPI inflows as the product is very popular with FPIs globally.
6. Reduce Operational Costs and Risks **SEBI**	**Interoperability between Clearing houses**	Similar to the Interoperateability between CDSL and NSDL, encourage the Interoperateability between NSCCL and ICCL.	▪ It significantly reduces the Operational costs, leads to lesser Risk assessments of Clearing Corps by the Risk management teams of Custodians and FPIs., enhances STP and greater operational ease. ▪ No Operational impact on the functioning of the Clearing Corporations.
7. Reduce Operational Costs significantly **SEBI**	**SEBI clarify wrt. Core activities of Intermediaries** (SEBI circular of 15th Dec.2011) Reduce significantly Operational Costs	❖ SEBI could define "core vs non core activities" . This can encourage/enable Intermediaries to outsource within India. ❖ Operational Costs in India ranks amongst the highest in the world, due to multiple level connectivity, lower STP, non standard practices, multiple emerging products, requirement to be based in financial districts etc), ever increasing requirements. Reducing Costs of Intermediaries, to reduce cost of investment in India. ❖ Such definition can assist, in enabling outsourcing the non-core activities and thereby significantly bringing down costs. Controls and Compliance continue to be responsibility of the outsourcing SEBI registered entity	▪ Will significantly reduce Operational costs –benefit can be passed to Investors. ▪ Global Markets outsource to processing shops in India, thereby reducing operational costs of other countries. The said markets thus become Operationally more cost attractive, vs. India getting more expensive and less attractive with ever increasing requirements. ▪ Outsourcing assist in bringing down costs significantly as well as broad base countrywide location of processing Centers, develop local talent and revenue streams in India. ▪ No impact on the Compliance, Controls and Risks as the outsourcing franchise will have primary responsibility and the processing center will have Secondary Responsibility.

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8. Visibility Leveraging Globally India Expertise **SEBI/SROs**	**Leveraging and developing overseas based, India Capital Market Expertise, for supporting Indian Inflows.** Singapore, Mauritius, Dubai, Hong Kong beside UK, US etc have been key inflow Centers. Over decades, a significant level of India expertise has developed in these centers, over decades, amongst Intermediaries based and operating from there(Custodians, Banks, Tax Firms, Consulting firms etc). Approximately more than 500 such India expert Firms exist globally. *BSE, besides Roadshows, hosts "Annual India Budget Telecalls" with FPIs and intermediaries.. Similarly NSE does with PWC. Ministry of Finance fact sheet of 2012*	❖ These Intermediaries have over decades, developed India centric expertise from own exposure/strategic alliances/branches or experience (many times inadequate/incomplete). Moreover many of these Intermediaries can provide valuable inputs/can benefit from recent India related knowledge as well as be used to deepen India leverage with newer FPIs/Existing FPIs/ New inflow markets(Japan/Korea/ Australia etc). ❖ Concalls, meetings with such groups through local based Institutions, Associations, integrated marketing solutions can facilitate India support. Arm them with knowledge as well as seeking information – that can assist Inflows.	▪ Supports India visibility with FPIs ▪ Inputs from intermediaries that can add value to India proposition ▪ Enabling high quality information to intermediaries, supporting their Indian expertise ▪ It enables Strategic support for Indian Capital markets and IFSC.
9. Reduce non-value add, additional costs to FPIs **SEBI**	**DMA requirement wrt Investment managers adds costs, processes, inefficiency to FPIs, without any value add to the process.** No such requirements wrt voice orders as well as DMA for direct FPIs. This especially in the era of FPI regulations of 2014, hinders the inflows from Category II and Category III FPIs, adding unproductive costs and creating perception of difficulty of access. The requirement adds cost of Registration, adds new FPIs without any addition to Inflows, delays trading, is not consistent with existing practices in India and Globally. *SEBI circular of August 7, 2012 and prev. circular of April 21,2009*	❖ **Remove the requirement wrt Investment managers to be registered as FPIs.** Onus be on risk management, rather than requiring Investment managers to be additionally registered as FPIs. ❖ The current Regulation hinders development of DMA(more robust, less expensive and less risky vs Voice) and confuses. ❖ Category II/III given their lean team, may not necessarily have a India Dedicated Desk, hence they may use Investment managers(through authorization) to reduce costs. However with IMs too required to be registered as FPIs, FPIs are saddled with significantly additional costs, risks, processes- not present in the other option.	▪ Enables standardization of practices for FPIs accessing directly/through investment Managers. Also consistent with Global practices. ▪ Does not impact the responsibility of the FPI and the Indian Brokerage firms if such requirement is removed. ▪ FPIs do not incur additional set up costs(of upto USD 10,000) besides additional Operational risks and recurring costs. ▪ DMA costs are almost half of the costs of Voice orders. This reduces costs for FPIs wrt their trading.
10. Diversity of market cap for greater FPI interest **SEBI**	**Developing SME listed segment-** Increased interest from mid sized funds especially category II and III(Japan, Korea and other jurisdictions). Developing this segment will add to market capitalization (If 180 listing can go to 400), thereby adding diversity and depth.	❖ HNI and mid sized Funds particularly from Japan, Korea etc, are interested in the mid sized companies. However the critical issues they face is wrt one authentic source of Information. Further the Big investment bankers have not been actively engaged in supporting the development of this segment. ❖ A combination of Information, active participation by key market intermediaries in developing this segment, can be beneficial and attract greater inflows.	▪ Assists growth of FDI interest ▪ Enhanced India Interest ▪ Higher market capitalization and inflows ▪ Raising capital for SMEs at lower costs ▪ Addresses interest of Category II and III Investors of low value quality stocks ▪ Greater information Governance , enabling more confidence

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11. Reducing Pre-registration costs and Access cost **SROs** *BSE hosted Countrywide initiatives in 2015/16 to educate brokers on the requirements of servicing the segment. Panelists included legal firms, Custodians, Banks, tax firms servicing FPI segment*	**Developing Ecosystem for facilitating Category III FPIs.** Category II, which have been enabled since 2014 benefit from the low SEBI registration fees. However pre-registration costs as well as <u>access</u> costs remain high and thus discourages.	❖ Develop ecosystem that can service this segment. This needs the Indian Intermediaries to step up and offer services of a quality and pricing that reduces the cost of access. In effect encourage India's Intermediaries (Custodians, Tax, broking, banking) to handle new segment. ❖ Requirements wrt Apostille and Notarization of Documents, add substantial costs to the costs of entry to be borne by FPI. Alternate solutions should be determined. Banking attestation is restrictive in certain instances. *PIVOT is engaged in developing/ encouraging Indian Brokerages, Custodians, Banks, Tax firms to provide stripped down services at stripped down pricing- without compromising on regulatory compliances. The intention is to provide a wider choice to FPIs and support more inflows into India*	▪ The addition of new intermediaries increases competition and reduces costs ▪ enables new set of intermediaries to market India to FPIs ▪ FPIs have wider choice in selection of India based Intermediaries, with local market expertise and easy on cost of access. *At PIVOT we see emergence of new Intermediaries committed to growing in this space. FPIs are increasingly engaging them*
12. Adding Diversity **SEBI/RBI/CBDT/SROs**	Developing IFSC	❖ Introduce Intl. products- e.g Listed warrants and India related products traded/listed overseas. See point 5 ❖ Leverage tax treaty countries as these have India Expertise and play a supportive role. ❖ Positioning IFSC as an **preferred** alternate to Dubai and Singapore, where Indian products are traded, rather than the IFSC to compete with Indian Exchanges	▪ Will bring in Investment bankers, Investors. ▪ Diversity of products. ▪ Enables India related products availability at less costs than what's available in stated jurisdictions ▪ Plug outflow of Indian trades to other jurisdictions, which are easier to access, though expensive jurisdictions

The Why factor……

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At PIVOT, its our belief that Indian Capital markets have moved away from an inaccessible capital markets, weighed from a Risk perspective of the 2000's to being a leading country providing Diversified Products, Increasing Global practices, greater STP, Newer segments, advent of new FPI segments, facilitated by a pro-active and progressive regulator in the form of SEBI. In my personal experiences of being in other markets, I haven't come across such a dynamic Regulator.

Steps taken by SEBI have facilitated/assisted the Stock Exchanges/ SROs/ intermediaries in positioning India in the Global Capital markets. Yet a lot more can be done and I'm sure, will be done to increase capital formation, enable greater ease, develop equality, attract new segments etc. For us at PIVOT positioning India, is a joy.

<u>I state a few factors that drive the thought process in these notes</u>:

***Custodian Bank license**: For ensuring parity, Developing Global practice, providing thrust to Indian non-bank Custodians, to provide equal chance to be financially sound, competitive and reduce costs of access, eliminate exposure/ risks related to Universals Banks. StockHolding, as India's largest Custodian (22% market share; USD 190 Billion of Assets; over 500000 transactions pa) is also the most experienced with over 600 many years of expertise. The grant of license could enable it and other institutions(Edelweiss, Orbis, Ilfs to) derive above benefits and be on parity with Universal Banks(mostly foreign) rendering Custody services.*

***FPIs have invested over 400 Billion**: What's referred as "hot money" has been in the country for decades and adds revenue besides developing the market. FPIs have never left India in droves (except those who did for Trading related decisions). Hence its essential to drum this fact as much as possible to attract new ones including from new jurisdictions- using the suggested multiple partners including consulates.*

***Operational ease**: Are easy fixes and reduce costs- Pan Card, Interoperability of clearing houses, outsourcing of non-core activities, modifying DMA requirements- These do not have any negative impact, while increasing Investor delight!*

***Capital Mobilization**: Following Global practices- enabling listed warrants, promoting IFSC, sponsored Level One DRs, developing SME segment will increase inflows, mobilize capital at lower cots, protect Investor interest and improve confidence. A multi-product country is more preferred than one with fewer products!*

At PIVOT , over last 3 years we have carried out many FPI related initiatives- also together with Exchanges, FPIs, Tax Firms, thought leadership papers, Roadshows overseas, developing eco-system(SME, FPI), Legal Firms, Custodians, Banks, Brokerages, Global Media. We are constantly seized by what we can do more to facilitate ease of access to India.

Our journey continues…..THANK YOU