Emerging trends in FPI flows

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India is the fastest growing major economy in the world, and a major reason has been the economic reforms implemented by the government and the efforts of its market regulators and the central bank to liberalise the investment environment.

India's capital markets, which are increasingly on par with international counterparts in terms of regulatory strength and ease of access, present a vast range of attractive investment options for those looking to strategically diversify their portfolios.

Testament to the impact of such reforms, India improved its 'Ease of Doing Business' rank to 77 (up 23 positions) per the World Bank's Doing Business Report released in October 2018.

As the world's largest democracy, India offers a stable political environment, a vast pool of talented human resources, and an increasingly affluent middle class that is driving domestic demand and growth across sectors. Plans are underway to reform the banking, infrastructure and housing sectors, as well as allow greater foreign participation in a range of sectors, from insurance to aviation.

The Indian securities market regulator – the Securities and Exchange Board of India (SEBI), the banking regulator – the Reserve Bank of India (RBI) and the Ministry of Finance (MoF) have worked in synergy to strengthen India as an attractive investment destination for Foreign Portfolio Investors (FPIs) and Foreign Direct Investors (FDIs).

These initiatives, coupled with a stable government have attracted capital inflows from 9000+ FPIs from the United States of America, Mauritius, Singapore, United Kingdom, Hong Kong, Japan, Luxemburg, Ireland, Canada, Norway, Netherlands and many more countries.

Similarly, simplifying the know your customer (KYC) process for FPI registration by SEBI appointed Designated Depository Participant (DDP) custodians has been an enabler for FPIs.

In addition, SEBI's simplification of the KYC process for FPI registration, which has significantly reduced onboarding times has been an enabler and encouraged more FPIs to enter the market.

Other initiatives by Indian regulators such as the International Financial Service Centre (IFSC) at Gujarat International Finance Tec-City (GIFT) is giving FPIs exposure to global markets from India with their existing FPI registration.

In addition, interoperability between clearing corporations went live in June 2019, giving flexibility to FPIs to choose their desired clearing corporation for clearing and settlement.

FPI investment into debt markets, which underwent a setback in 2018, has recovered as a result of innovative initiatives including the Voluntary Retention Route (VRR) which has reignited FPI interest in Indian government securities and the corporate bonds market.

Despite the revision of the Double Tax Avoidance Agreement (DTAA) between India and several countries including Singapore, Mauritius and Hong Kong, foreign investors continue to enter to capture the returns of the rapidly growing Indian market.

We are confident that the changes underway by the regulators will continue to bolster the attractiveness of India's capital markets to foreign investors.

As I write this letter, a SEBI working group under the Chairmanship of Mr. H.R. Khan, Deputy Governor (retired), Reserve Bank of India has submitted draft recommendations for FPI regulations, including inter alia, the FPI registration process, KYC and simplification of documentation, investment restrictions and other aspects. This report was before the public for comments till 14 June 2019 and BNP Paribas is actively engaged in the consultation process to make recommendations to enhance further the ease of doing business.

As a custodian, BNP Paribas Securities Services India is actively engaged in market developments and thought leadership programmes with regulators. We will continue to keep you updated on the outcomes of any changes.