Foreign Institutional Investors

And it's impact on India

CONTENTS:

Introduction

Foreign Investments

Investments made by residents of a country in another country

Foreign Entity wants to enter in the Indian Market

But HOW?

Foreign Direct Investment (FDI)

Portfolio Investment Scheme (PIS)→FII

How FII started in India?

- India opened its stock market to foreign investors in September 1992

- Since 1993, received portfolio investment from foreigners in the form of foreign institutional investment in equities.

- This has become one of the main channels of FII in India for foreigners.

- In order to trade in Indian equity market foreign corporations need to register with SEBI as Foreign Institutional Investor (FII).

What Is FII?

- Foreign institutional investor

  means “an institution

  established or incorporated outside India which proposes to make investment in India in securities
- It is used most commonly in India to refer to outside companies investing in the financial markets of India.

Who Can Be Registered As An FII?

- One who propose to invest their proprietary funds or on behalf of "broad based" funds or of foreign corporates and individuals and belong to any of the under given categories can be registered for FII.
- Pension Funds
- Mutual Funds
- Investment Trust
- Insurance or reinsurance companies
- Bank

How to Apply

- An application for registration has to be made in form A, the format of which is provided in the SEBI(FII) regulations, 1995 and submitted with under mentioned documents in duplicate addressed to SEBI as well as to reserve bank of India (RBI) and sent to the following address within 10 to 12 days of receipt of application.

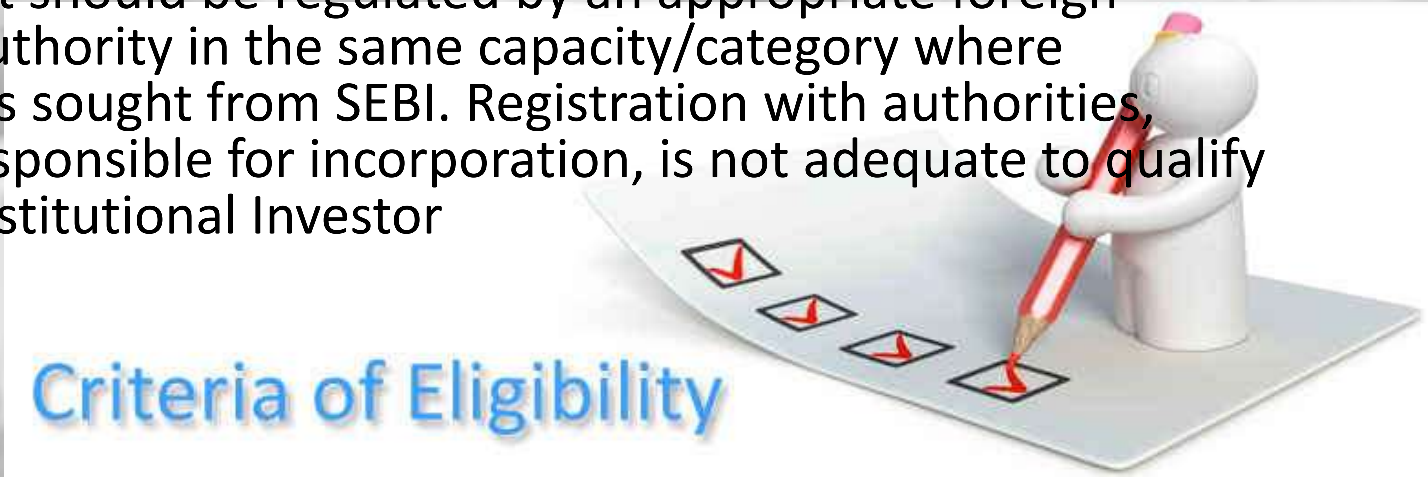
  Address for application
  the division chief
  FII division
  securities and exchange board of India,
  224, Mittal court, 'B' wing, 1st floor,
  Nariman point, Mumbai - 400 021.
  India.

The Eligibility Criteria For Applicant

As per Regulation 6 of SEBI (FII) Regulations,1995, Foreign Institutional Investors are required to fulfill the following conditions to qualify for grant of registration

- Applicant should have track record, professional competence, financial soundness, experience, general reputation of fairness and integrity

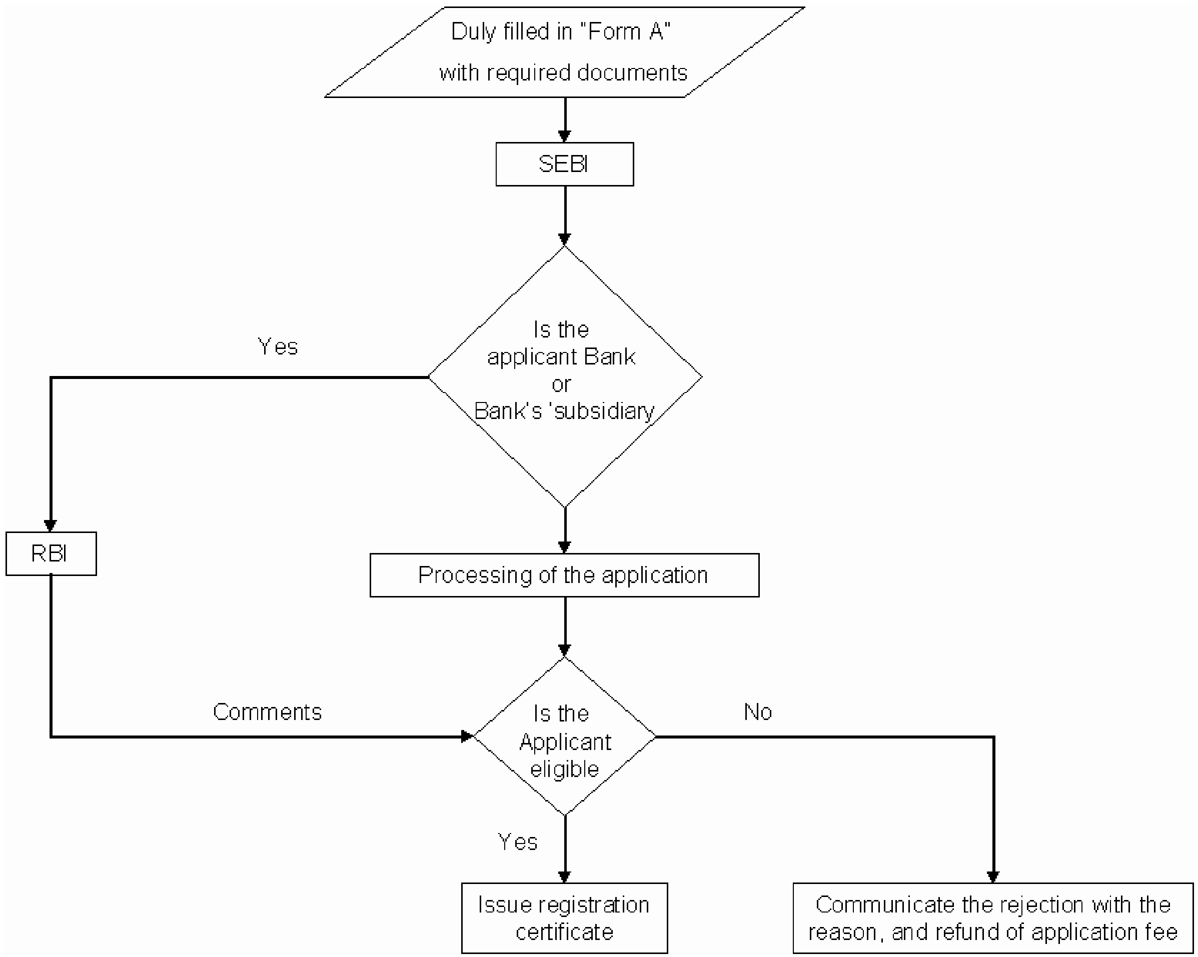
- The applicant should be regulated by an appropriate foreign regulatory authority in the same capacity/category where registration is sought from SEBI. Registration with authorities, which are responsible for incorporation, is not adequate to qualify as Foreign Institutional Investor



Eligibility

- The applicant is required to have the permission under the provisions of the Foreign Exchange Management Act, 1999 from the Reserve Bank of India.
- Applicant must be legally permitted to invest in securities outside the country or its in-corporation / establishment.
- The applicant must be a "fit and proper" person.
- The applicant has to appoint a local custodian
- Payment of registration fee of US $ 5,000.00

Registration Process



Where FII Can Invest?

Current financial instruments are available for FII investments

- Securities in primary and secondary markets including shares, debentures and warrants of companies, unlisted, listed or to be listed on a recognized stock exchange in India
- Units of mutual funds
- Dated Government Securities
- Derivatives traded on a recognized stock exchange
- Commercial papers

Restrictions

- FIIs can buy/sell securities on Indian stock exchanges, but they have to get registered with stock market regulator SEBI.
- They can also invest in listed and unlisted securities outside stock exchanges if the price at which stake is sold has been approved by RBI.
- No individual FII/sub-account can acquire more than 10% of the paid up capital of an Indian company.
- In addition, the government also introduces new regulations from time to time to ensure that FII investments are in order. For example, investment through participatory notes (PNs) was curbed by SEBI recently.
- The opening of the Indian stock market to Foreign Institutional Investors (FII) in 1992 made way for substantial foreign funds. Since then, the number of FIIs has been increasing to 740 currently.

Policies And Regulations

Regulation of FIIs

- The regulations for foreign investment in India have been framed by the Reserve Bank of India.
- In line with the said regulations, since 2003, the Securities and Exchange Board of India (SEBI) has been registering FIIs and monitoring investments made by them through the portfolio investment route under the SEBI (FII) regulations 1995.
- SEBI acts as the nodal point in the registration of FIIs.

Sr. No.	Date	Contents	Remarks
1.	September 1992	FIIs allowed to invest by the Government Guidelines in all securities in both primary and secondary markets and schemes floated by mutual funds. Single FIIs to invest 5 percent and all FIIs allowed to invest 24 percent of a company's issued capital. Broad based funds to have 50 investors with no one holding more than 5 percent.	The objective was to have reputed foreign investors, such as, pension funds, mutual fund or investment trusts and other broad based institutional investors in the capital market.
2.	November 1996	100 percent debt FIIs were permitted.	100 percent debt funds were permitted to give operational flexibility to FIIs.
3.	April 1997	Aggregated limit for all FIIs increased to 30 percent subject to special procedure and resolution.	The objective was to increase the participation by FIIs.
4.	April 1998	FIIs permitted to invest in dated Government Securities subject to a ceiling.	Consistent with the Government policy to limit the short-term debt, a ceiling of USD 1 billion was assigned which was increased to USD 1.75 billion in 2004.
5.	June 1998	Aggregate portfolio investment limit of FIIs and NRIs/PIOs/OCBs enhanced from 5 percent to 10 percent	Common ceilings would have negated the permission to FIIs. Therefore, separate ceilings were

		and the ceilings made mutually exclusive.	prescribed.
6.	June 1998	Forward over allowed in equity. FIIs permitted to invest in equity derivatives.	The objective was to make hedging instruments available.
7.	February 2000	Foreign firms and high net-worth individuals permitted to invest as sub-accounts of FIIs. Domestic portfolio manager allowed to be registered as FIIs to manage the funds of sub-accounts.	The objective was to allow operational flexibility and also give access to domestic asset management capability.
8.	March 2001	FII ceiling under special procedure enhanced to 49 percent.	The objective was to increase FII participation
9.	September 2001	FII ceiling under special procedure raised to sectoral cap.	
10.	December 2003	FII dual approval process of SEBI and RBI changed to single approval process of SEBI.	The objective was to streamline the registration process and reduce the time taken for registration.
11.	November 2004	Outstanding corporate debt limit of USD 0.5 billion prescribed.	The objective was to limit short-term debt flows.

FII Vs FDI

- Where FDI is a bit of a permanent nature, FII flies away at the shortest political or economical disturbance

- Entry and Exit is relatively very easy for an FII as compared to FDI. Entry difficult for FDI because of infrastructure problems. Exit more difficult because of archaic labor laws

- have been blamed for exacerbating small economic problems in a country by making large and concerted withdrawals at the first sign of economic weakness.

FDI Vs FII….

- FDI is more desirable than portfolio investment because the investments there under are made directly in the capital of the company and not in the secondary market
- FDI helps in increasing production and employment , FII does not affect production and employment .
- FII investment is frequently referred to as *hot money* for the reason that it can leave the country at the same speed at which it comes in, in case of FDI it does'nt

SALIENT FEATURES OF FII ?

- . FIIs would be required to obtain an initial registration with SEBI to enter the market nominee companies, affiliated and subsidiary companies of an FII will be treated as separate FIIs for registration and may seek separate registration with SEBI
- Since there are foreign exchange controls in force, FIIs shall also seek various permissions under FERA from the RBI, both SEBI and RBI registration will be under a single window approach
- SEBI’s initial registration would be valid for 5 years. RBI’s general permission under FERA to the FII will also hold well for five years, both will be renewable for similar five periods later on.

DISADVANTAGES OF FII ?

- **Herding and positive feedback trading**
- **BOP vulnerability**
- **Possibility of taking over companies or backdoor control**
- **Money laundering**

IMPACT OF FIIS ON INDIAN MARKETS

- In the past four years there has been more than $41 trillion worth of FII funds invested in India.
- This has been one of the major reasons on the bull market witnessing growth with the BSE Sensex rising 221%
- The present downfall of the market too is influenced as these FIIs are taking out some of their invested money.
- For long-term value investors, there's little because for worry but short term traders are adversely getting affected by the role of FIIs are playing at the present.

CONCLUSION

- FII do have significant impact on the Indian Stock Market but there are other factors like government policies, budgets, bullion market, inflation, economical and political condition, etc. do also have an impact on the Indian stock market.
- Also FII is not the only factor affecting the stock indices. There are other major factors that influence the stock market.
- Nowadays FIIs are the major contributors to the stock markets. The pros of allowing FIIs to invest in the Indian markets far outweigh the cons.
- It is up to the policy makers of India to allow FIIs to operate and provide them with more opportunities and reasons to invest in Indian markets.

SUGGESTIONS

- Simplifying procedures and relaxing entry barriers for business activities and providing investor friendly laws and tax system for foreign investors.
- Allowing foreign investment in more areas.
- In different industries indices the FIIs should be encouraged
- We have to modernize and also have to save our culture. Similarly the laws should be such that it would protect domestic investors and also promote trade in country through FIIs.
- Encourage industries to grow to make FIIs an attractive junction to invest.

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THANK
YOU

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