



Monitoring of Foreign Investment Limits in Listed Indian Companies

Background

The Reserve Bank monitors the investment position of FIIs/NRIs in listed Indian companies, reported by Custodian/designated AD banks, on a daily basis, in Forms LEC (FII) and LEC (NRI) as per Master Circular on Foreign Investment in India (Circular No. 15/2011-12). Further, In order to minutely check the foreign investment limits (FPI Limit, NRI Limit, Sectoral Cap) in listed Indian companies, SEBI in consultation with RBI on April 5, 2018 issued a circular for depositories to place a new system to monitor the foreign investment limits in listed Indian companies and directed Listed Companies to provide the information related to foreign investment in the companies by April 30, 2018 (extended till May 15, 2018 as per amended circular). The system was expected to go live on May 5, 2018 but SEBI extended the deadline by May 18, 2018 as depositories are in process to put in place the necessary infrastructure and IT systems for operationalising the monitoring mechanism. Also, RBI issued circular to the AD Banks to check and instruct the clients to comply with the circular.

Brief Process

- ❖ A company will appoint any one depository as its designated depository for the purpose.
- ❖ Stock exchanges BSE NSE and MSEI will provide the data on the paid-up equity capital of the company to its designated depository.
- ❖ This data includes the paid-up equity capital of the company on a fully diluted basis - total number of shares that would be outstanding if all possible sources of conversion are exercised.
- ❖ The depositories will provide an interface wherein a Listed Company will provide information including details of shares held by FPI, NRIs and other foreign investors in demat as well as in physical form.

- ❖ In an event of any change, such as increase or decrease of the aggregate FPI or NRI limits or the sectoral cap or a change of the sector of the company, the company will inform such changes to its designated depository.
- ❖ A red flag will be activated in case total foreign investment in a company is within 3 per cent or less than 3 per cent of the sectoral cap.
- ❖ Depositories will inform the exchanges about the activation of the red flag for the identified Company/Shares. Further, the exchanges will issue the necessary notifications on their respective websites.
- ❖ Once a red flag has been activated for a given company/shares, the foreign investors shall trade in the shares with a clear understanding that in the event of a breach of the aggregate limits or the sectoral cap, he shall be liable to disinvest the excess holding within five trading days.
- ❖ Such excess shares should be sold to domestic investors.
- ❖ If a breach of the investment limits has taken place by FPIs, and such FPIs have failed to disinvest within 5 trading days, then necessary action will be taken by SEBI against them.

