

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1772
ANSWERED ON:01.08.2003
INVESTMENT BY FOREIGN FUNDS
AMBATI BRAHMANIAH

Will the Minister of FINANCE be pleased to state:

- (a) whether the SEBI is keeping a close watch on the pattern of investment by foreign funds operating in the Indian market;
- (b) if so, whether SEBI has detected any illegal activity so far in 2003-04 by any foreign fund;
- (c) if so, the major areas of investment where foreign funds play a major role;
- (d) the extent to which foreign funds would determine the volatility of our stock exchanges;
- (e) whether SEBI has taken precautionary steps to ensure that foreign funds obey the law in word and spirit; and
- (f) if so, the details of such safeguards taken by SEBI?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO VITHOBA ADSUL):

(a) and (b) Securities & Exchange Board of India (SEBI) maintains investment data irrespective of Foreign Institutional Investors (FIIs) and their sub-accounts under portfolio investment scheme. As per SEBI's (Foreign Institutional Investors) Regulations, 1995 foreign institutional investors shall ensure reporting to SEBI on a daily basis the transactions entered into by them on their own account or on behalf of their sub-accounts through domestic custodians. SEBI, on exception basis and through oversight of exchange functioning, and the Exchanges as part of normal monitoring functions, keep watch on any unusual or abnormal trading activity in the market. This is applicable to overall monitoring of trading in the stock market and not specific to FII activity. No illegal activity by foreign institutional investors has been detected by SEBI so far in 2003-04.

(c) Does not arise.

(d) As per data collected by SEBI on daily basis, the gross turnover (purchases + sales) of FIIs and their sub-accounts during April 2003 to June 2003 is Rs. 29,745 crores, whereas turnover (one sided) of Mumbai Stock Exchange (BSE) and National Stock Exchange (NSE) during the same period was Rs. 233,513 crores. Since the overall FIIs turnover is a small percent of the total market turnover, this may not affect the volatility of stock exchanges.

(e) and (f) Yes Sir. The following steps have been taken by SEBI for ensuring fair dealings in Indian markets by FIIs/ sub-accounts:

(i) FII/Sub-account- Investment Limits Category Limit FIIs sub accounts 10% of the paid-up capital (except foreign corporates of investee company and foreign individuals) Sub accounts foreign 5% of the paid-up capital corporates and foreign individuals All FIIs and sub-accounts 24% / 49% / upto sectoral put together cap of the paid up capital.

(ii) FII Investment Restrictions FIIs shall transact business only on the basis of taking and giving deliveries of securities brought and sold. FIIs shall not engage in short selling in securities. The transactions of FIIs in securities shall be only through registered stock brokers.

(iii) Recently SEBI Board in its meeting held on July 24, 2003, has approved the following provisions to be incorporated in the SEBI (Foreign Institutional Investors) Regulations, 1995: code of conduct for foreign institutional investors FIIs shall fully disclose information concerning the terms of, and parties to, off-shore derivative instruments, such as, participatory notes, equity linked notes, or any such instruments by whatever names they are called, entered into by it or its affiliates relating to any Indian securities. as and when and in such form as the Board may require.