Indian Economy · GS - III

Examine how the rationalisation of Foreign Portfolio Investor disclosure norms can influence India's capital market attractiveness while balancing transparency and financial stability.

EXAM YEAR	PAPER	SUBJECT
DAILY PRACTICE 21/11/2026	GS - III	Indian Economy

MARKS	WORD LIMIT
15	~250 words

Answer Hint

Regulatory burden, global competitiveness, FPI inflows, beneficial ownership, market integrity, systemic risks, SEBI's regulatory approach.

Model Answer

Introduction

Foreign Portfolio Investors (FPIs) are important sources of capital for Indian financial markets. However, their investments also require adequate transparency to prevent market manipulation and regulatory circumvention.

Rationale for Rationalisation

SEBI's proposal to withdraw the Additional Disclosure Framework reflects an effort to align India's regulatory requirements with international practices.

- **Global competitiveness:** Excessive compliance requirements may make Indian markets less attractive compared with competing investment destinations.
- **Ease of investment:** Simplified procedures can reduce compliance costs and encourage greater participation by overseas institutional investors.
- **Capital formation:** Higher and more stable FPI participation can improve market liquidity and support investment financing.

Need to Preserve Regulatory Safeguards

Regulatory relaxation must not compromise market integrity.

- **Ownership transparency:** Beneficial ownership disclosures help identify the ultimate individuals or entities controlling investments.
- **Market integrity:** Transparency reduces the possibility of concealed concentration, market manipulation and circumvention of investment restrictions.
- **Financial stability:** Sudden capital outflows and concentrated exposures can increase volatility and systemic risks.

Way Forward

SEBI should adopt a risk-based regulatory framework that distinguishes genuine institutional investors from opaque investment structures. Simplified disclosures can be accompanied by effective beneficial ownership checks, data-sharing arrangements and targeted scrutiny of high-risk entities.

Conclusion

India needs a regulatory environment that is globally competitive without weakening investor protection. Proportionate disclosure requirements can help attract foreign capital while preserving transparency, accountability and financial stability.

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