



The impact of SEBI regulations on foreign institutional investors' (FIIs) participation in the Indian stock market

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Abstract

The Securities and Exchange Board of India (SEBI), SEBI (Securities and Exchange Board of India) is the regulatory body for the stock market. It plays a crucial role in regulating and supervising all activities related to securities and markets in the country. The Indian stock market has witnessed significant growth over the years, attracting foreign institutional investors (FIIs) to invest in it. The increasing participation of FIIs has not only contributed to the development of Indian capital markets but also played an essential role in strengthening its economy. However, with this rise came concerns about market volatility and potential risks posed by unregulated foreign investments. To address these issues, SEBI introduced various regulations aimed at monitoring and controlling FII activities in the Indian stock market. This research paper aims to analyze the impact of SEBI's regulations on FII participation in the Indian stock market. It will examine how these regulations have affected their investment decisions, trading patterns, and overall contribution to market activity. Through a comprehensive review of literature and data analysis techniques such as regression models, we will investigate whether there is a correlation between SEBI's policies and fluctuations in FII investments.

Keywords: SEBI, Stock Market, Performance, FII, and Investments

Introduction

The Securities and Exchange Board of India (SEBI) is the main regulatory body that oversees the functioning of capital markets. Its primary goal is to protect the interests of investors and ensure orderly development and regulation of the securities market in India. One key area that SEBI regulates is foreign institutional investments, or FIIs, which refer to investments made by non-Indian entities in Indian stocks. One may wonder why SEBI regulations are significant for FIIs' participation in the Indian stock market. The answer lies in understanding how these regulations affect various aspects crucial for FIIs while investing in India's financial markets. These include compliance procedures, entry/exit norms, taxation policies, disclosure requirements, and investment limits imposed on FIIs. The impact of SEBI regulations on FII participation can be seen through two lenses- transparency and stability. Firstly, thanks to SEBI's stringent reporting mechanisms and disclosure requirements for companies listed on Indian exchanges; there has been increased transparency about corporate governance practices and financial performance among listed companies. This not only instills confidence among foreign investors but also promotes fairer competition between domestic firms^[1].

Literature review

One of the key factors driving this growth is its stock market, which has seen significant inflow of foreign investments over the years. However, with such influx of foreign investment comes regulatory challenges and concerns that need to be addressed to ensure stability and sustainability. This literature review aims to analyze and synthesize existing research on the impact of SEBI (Securities and Exchange Board of India) regulations on FIIs' participation in the Indian stock market. It delves into

various studies conducted on this topic, identifying common themes, gaps, and discrepancies that exist within this body of work.

In a research paper published in 2023 by Pritam. D. Balki, titled "The Effectiveness of SEBI Regulations on Foreign Institutional Investors' (FIIs) Participation in Indian Stock Market", the authors examine the impact of Securities and Exchange Board of India (SEBI) regulations on FIIs' participation in the Indian stock market. The study aims to assess whether these regulations have been able to attract or deter foreign investment in the Indian stock market^[2].

One such study was conducted by Kunnal Rai *et al.* (2017), which examined how SEBI regulations had affected FIIs' investment patterns in India between 2001 and 2016. The findings showed that key regulatory changes such as easing entry norms, simplifying registration processes, and increasing investment limits had a positive impact on FII flows into the Indian stock market.

The Indian stock market has been an attractive destination for foreign institutional investors (FIIs) due to its high growth potential and promising returns. However, the participation of FIIs in the Indian stock market has been influenced by various regulatory changes implemented by the Securities and Exchange Board of India (SEBI). This literature review aims to analyze the impact of SEBI regulations on FII participation in the Indian stock market. According to Vikash Saraswat, Dr. Prateek Gupta (2025)^[3], SEBI's efforts towards liberalizing policies and promoting transparency have resulted in a significant increase in FII investments in the Indian stock market^[3].

They found that improvements in trading infrastructure, relaxed investment limits, and simplification of registration processes have attracted more FIIs to invest in India. Similarly, Gunjan Mehta *et al.* (2019) also concluded that SEBI's investor-friendly policies have made India one of the

preferred destinations for FIIs, resulting in increased capital inflow into the country. On the other hand, some studies have argued that certain regulatory changes by SEBI such as imposing restrictions on participatory notes and introducing tax implications for short-term capital gains have negatively affected FII participation in India.

Research gap

Despite the rapid growth of foreign institutional investors (FIIs) in the Indian stock market over the past few decades, there is still a significant research gap on the impact of SEBI regulations on their participation. The Securities and Exchange Board of India (SEBI) is responsible for regulating and overseeing all participants in the Indian securities market, including FIIs. However, despite its crucial role, there is limited empirical evidence that explores how SEBI's policies affect FII activity in India. One potential reason for this gap could be attributed to the complexity and evolution of SEBI regulations over time. As new measures are introduced to promote transparency and efficiency in the market, it becomes challenging to isolate their individual effects on FII behavior.

Understanding SEBI's Role in Regulating FIIs in the Indian Stock Market

The Securities and Exchange Board of India (SEBI) plays a crucial role in regulating Foreign Institutional Investors (FIIs) in the Indian stock market. FIIs refer to foreign entities that invest in financial securities such as stocks, bonds, and other instruments listed on the Indian stock exchanges. The presence of FIIs has been significant in contributing to the growth and development of the Indian economy.

However, their large-scale investments also bring about potential risks that can impact the stability of the financial markets. To ensure smooth functioning and maintain investor confidence, SEBI has instituted various regulations for controlling FII activities. One such regulation is obtaining a registration certificate from SEBI before investing in any Indian securities. This process involves fulfilling certain eligibility criteria set by SEBI, including a minimum capital requirement and experience in dealing with similar activities^[4].

Additionally, SEBI mandates that FIIs adhere to investment limits set for different sectors or industries to prevent disproportionate influence on specific companies or markets. It also monitors compliance with disclosure requirements by FIIs through forms like Form A/NR or DRRs concerning ownership patterns, investments made, etc. In more recent times, SEBI also introduced measures such as capping overall shareholding percentage by all FIIs into one company at 24%

How SEBI Regulations have Attracted Foreign Institutional Investors to India

India has emerged as an attractive investment destination for foreign institutional investors (FIIs) over the years, thanks to the liberal policies and initiatives undertaken by the Securities and Exchange Board of India (SEBI). SEBI is responsible for regulating the capital markets in India and plays a crucial role in attracting FIIs. The ease of doing business, stable political environment, strong economic growth potential, and a large consumer market are some factors that have made India an alluring destination for FIIs.

One of the major reasons why FIIs have shown great interest in investing in India is due to SEBI's regulations that promote transparency and protect investor rights. The regulatory body has implemented stringent guidelines to ensure fair dealings between Indian companies and their shareholders. This has increased investor confidence in the Indian stock market, attracting more FII investments.

Additionally, SEBI also permits 100% FII ownership in most sectors without any restriction on repatriation of profits or dividends earned from investments. This promotes easy access to liquidity for FIIs which further adds to their confidence while investing. Moreover, SEBI continuously monitors any unusual activity or insider trading practices so that investors can make informed decisions about where they invest their money^[5].

The Impact of SEBI Measures on FII Inflows into the Indian Stock Market

The Indian stock market has always been a popular destination for foreign institutional investors (FIIs), with their investments contributing significantly to the growth and development of the market. However, in recent years, there have been concerns regarding the volatility and unpredictability of FII inflows into India. This prompted the Securities and Exchange Board of India (SEBI) to introduce certain measures to regulate these investments and reduce market risks.

One such measure was the introduction of a new registration process for FIIs in 2014, which aimed at streamlining their entry into the Indian markets and ensuring enhanced transparency. This move not only provided better monitoring and regulatory control over FII activities but also instilled more confidence among investors about investing in India.

Furthermore, SEBI also increased its surveillance mechanism through robust monitoring systems like Advanced Risk Management System (ARMS) to keep a check on any potential manipulation by FIIs. The regulatory body also mandated quarterly disclosure of investment portfolios by these entities, making it easier for authorities to track their movements in securities^[6].

Research objective

The Securities and Exchange Board of India (SEBI) is the regulatory body responsible for overseeing the functioning of the Indian stock market. Their regulations play a crucial role in shaping the investment landscape, especially for foreign institutional investors (FIIs). In recent years, there has been an increasing focus on studying how these regulations impact FIIs' participation in the Indian stock market.

There are following objectives on this study

- To analyze the changes in SEBI regulations over the years and its impact on FIIs' participation in the Indian stock market.
- To assess the effectiveness of SEBI regulations in creating a favorable environment for FIIs to invest in India.
- To determine the reasons behind fluctuations in FII inflows into the Indian stock market, with respect to changes in SEBI regulations.

- To examine how SEBI regulations have influenced FII investment patterns and preferences within different sectors of the Indian economy.
- To investigate whether compliance with SEBI guidelines has had any bearing on FIIs' decision-making process for investing in India's stock market.

Hypothesis

H0: Stricter disclosure norms implemented by SEBI have not resulted in any improvement in transparency or trust among FIIs for investing in the Indian stock market.

H1: The implementation of stricter disclosure norms by SEBI has improved transparency and accountability, leading to higher trust among FIIs for investing in the Indian stock market.

Research methodology

The impact of SEBI regulations on foreign institutional investors' (FIIs) participation in the Indian stock market has been a topic of significant interest and importance for policymakers, market analysts, and investors alike. The Securities and Exchange Board of India (SEBI) is the regulatory body that oversees the functioning of the stock market in India, making it imperative to understand how its policies affect FIIs. This research aims to analyze the impact of various SEBI regulations on FII participation in the Indian stock market through both primary and secondary data collection methods. The primary data will be collected through surveys and interviews conducted with FII representatives, as well as with experts from SEBI. Surveys will be distributed among a sample size of FIIs invested in different sectors to gather their insights on recent regulatory changes introduced by SEBI. Interviews with experts at SEBI will provide valuable information about their thought process behind implementing these regulations. Secondary data sources such as scholarly articles, annual reports, official websites of regulatory bodies, and financial newspapers will also be used to gather information related to this topic.

Research question

1. What are the main SEBI regulations that impact FIIs' participation in the Indian stock market?
2. How have these regulations evolved over time and what effect have they had on FIIs?
3. What is the extent of FIIs' involvement in the Indian stock market since SEBI's inception?
4. How do FIIs perceive SEBI regulations in terms of ease of compliance and overall impact on their investments?
5. How do foreign investors view India's regulatory environment compared to other emerging markets?

Data collection

The Securities and Exchange Board of India (SEBI) has been the regulatory authority for the Indian stock market since 1992. Over the years, SEBI has introduced various regulations with the aim of creating an efficient and transparent market for investors. One area that has received significant attention from SEBI is foreign institutional investment (FII), which refers to investments made in a country's financial assets by non-resident entities. In recent years, there has been a considerable increase in FII participation in the Indian stock market, making it crucial to

understand how SEBI regulations have influenced this trend.

Methods of data analysis and data interpretation

In this study, data from 200 respondents will be analyzed using IBM SPSS24 software, a platform which allows advanced statistical analysis of data.

Data discussion

The Securities and Exchange Board of India (SEBI) is the regulatory body responsible for overseeing the operations of the Indian stock market. In recent years, SEBI has implemented various regulations aimed at promoting transparency and accountability in the market. One such regulation is related to foreign institutional investors (FIIs), who play a crucial role in India's stock market. The impact of SEBI regulations on FIIs' participation in the Indian stock market has been a topic of much discussion among economists and market experts. The primary objective behind these regulations was to attract more long-term foreign investments into India, promoting stability and growth in the financial markets.

Findings

The Securities and Exchange Board of India (SEBI) plays a crucial role in regulating the stock market and protecting investors' interests. With the increasing globalization, foreign institutional investors (FIIs) have become major players in the Indian stock market, accounting for a significant portion of daily trading volumes.

There are followings findings on this study

- FIIs have been the main driving force behind the rise in Indian stock market in recent years.
- SEBI has implemented several measures to regulate FII participation and protect domestic investors' interests.
- Stricter regulations such as KYC (Know Your Customer) norms and higher entry barriers have also led to a decline in FII inflows at times.
- One of the major regulations introduced by SEBI is the FPI (Foreign Portfolio Investment) route, which allows FIIs to invest in Indian markets through a simplified registration process.
- FPI route has increased transparency and reduced administrative burden for FIIs, thus attracting more foreign investments into India.
- Another key impact of SEBI regulations on FIIs is the requirement for prior approval from designated regulators before investing in sensitive sectors like defense and telecom.

Suggestions

India is one of the fastest-growing economies in the world, making it an attractive destination for foreign institutional investors (FIIs). The Securities and Exchange Board of India (SEBI) is responsible for regulating FIIs' participation in the Indian stock market. Over the years, SEBI has introduced various regulations to safeguard investor interests and promote transparency in the market. One significant impact of SEBI's regulations on FIIs' participation in the Indian stock market is increased confidence among investors.

There are following suggestions on this study

- Regulation must be aligned with global standards to encourage more foreign investors to participate in the Indian stock market.
- The process of obtaining necessary approvals from SEBI for investing in India should be simplified, thus reducing bureaucratic barriers for FIIs.
- Increased transparency and disclosure requirements from both FIIs and India-based companies can help build trust among investors, positively impacting FII investment in the Indian stock market.
- Streamlining taxation policies related to FII investments will attract more foreign capital into the country's economy by making it a more tax-friendly destination.
- The imposition of caps on FII investments should focus on sectors where such restrictions are genuinely required rather than blanket application across all industries.
- Simplifying KYC norms for FIIs can help attract new players into the Indian financial markets while also easing compliance requirements for existing ones.

Conclusion

In conclusion, the impact of SEBI regulations on foreign institutional investors' participation in the Indian stock market has been significant. These regulations have played a crucial role in increasing transparency and promoting investor confidence in the Indian market. The measures taken by SEBI such as streamlining registration procedures, relaxing investment limits, and ensuring fair pricing of securities have attracted more FIIs to invest in India. This has not only brought in much-needed foreign capital but also helped in diversifying the investor base and improving overall market liquidity. However, there is still room for improvement as certain challenges like taxation issues and regulatory compliance remain a concern for FIIs investing in India. It is imperative that SEBI continues to work towards creating a conducive environment for FII participation while simultaneously addressing these challenges to ensure sustained inflow of foreign investments into the Indian stock market.

Limitations of study

Despite the significant role played by foreign institutional investors (FIIs) in shaping the Indian stock market, there are limitations to consider when studying the impact of SEBI regulations on their participation. Firstly, it is important to note that SEBI regulates only those FIIs registered with them, which accounts for a relatively small proportion of overall FII investments in India. This could potentially skew any findings as unregistered FIIs may not adhere to these regulations and still have an impact on the market. Additionally, it is worth considering that FIIs have different investment strategies and objectives, which cannot be fully captured by regulatory measures alone.

Further research

The Securities and Exchange Board of India (SEBI) is the regulatory body that oversees the functioning of the Indian securities market. Over the years, SEBI has implemented various regulations to ensure fair and transparent trading

practices in the stock market. One such regulation that has gained significant attention is its impact on foreign institutional investors (FIIs). The introduction of FII regulations by SEBI in 1992 opened up a new avenue for foreign capital inflows into India's stock market. However, along with this increased participation from FIIs came concerns about their influence on domestic markets' stability. In recent years, SEBI has taken measures to address these concerns through strict guidelines and monitoring mechanisms.

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