



SEBI permits net settlement of funds for FPIs in cash market to enhance efficiency

The Securities and Exchange Board of India, vide Circular No. **HO/(1)2026-AFD-POD2/I/10157/2026 dated April 24, 2026**, issued under **Section 11(1) of the SEBI Act, 1992 read with Regulation 44 of the SEBI (Foreign Portfolio Investors) Regulations, 2019**, has introduced a framework permitting net settlement of funds for transactions undertaken by Foreign Portfolio Investors (FPIs) in the cash market. This circular modifies Para 4 of Annexure 3 of Chapter 1 (Trading) of the Master Circular dated December 30, 2024, with the objective of reducing liquidity pressure, funding costs, and operational inefficiencies arising from the earlier gross settlement mechanism.

Analysis

- The earlier framework mandated gross settlement at the FPI level, even though custodians settled with clearing corporations on a net basis, resulting in higher liquidity requirements and forex-related costs.
- The circular now permits netting of funds only for “outright transactions”, defined as transactions involving either purchase or sale (not both) in a particular security within a settlement cycle.
- Transactions involving both buy and sell positions in the same security (non-outright transactions) will continue to be settled on a gross basis, thereby maintaining prudential safeguards.
- Where outright purchases exceed outright sales, FPIs must fund the residual along with non-outright obligations. However, excess outright sales cannot be used to offset non-outright purchase obligations, ensuring no cross-adjustment distortion.
- Importantly, the circular clarifies that settlement of securities will continue on a gross basis between FPI and custodian, and statutory levies such as STT and stamp duty remain unaffected.



- The implementation standards are to be formulated by the Custodians and Designated Depository Participants Standards Setting Forum (CDSSF) in consultation with stakeholders.
- Market participants, including FPIs, custodians, stock brokers, and clearing corporations, are required to update systems and processes to align with the revised framework.
- The circular mandates implementation on or before December 31, 2026.
- The shift from a gross to a partial net settlement framework is expected to significantly reduce daily funding requirements for FPIs, particularly during high-volume trading periods such as index rebalancing. Operationally, FPIs and custodians will need to segregate outright and non-outright transactions at a system level, necessitating technology upgrades and reconciliation changes.
- Treasury and liquidity management functions will benefit from lower capital lock-in and reduced forex exposure, while compliance teams must ensure accurate classification of transactions to avoid settlement mismatches. Overall, while the framework improves efficiency, it introduces additional operational complexity in transaction tagging, reporting, and settlement workflows.
- **Key Takeaways**
 - SEBI allows net settlement of funds for outright FPI transactions in the cash market.
 - Circular No. HO/(1)2026-AFD-POD2/I/10157/2026 dated April 24, 2026 modifies existing settlement provisions.
 - Issued under Section 11(1) of SEBI Act, 1992 and Regulation 44 of SEBI (FPI) Regulations, 2019.
 - Non-outright transactions continue on gross basis, ensuring risk containment.
 - Liquidity pressure and funding costs expected to reduce for FPIs.
 - Implementation deadline: December 31, 2026.
 - Requires system, process, and compliance adjustments across market participants.



Lex Favios
Advocates & Solicitors

- The notification is attached herein.

[Click Here](#)