
THE EVOLVING REGULATORY ARCHITECTURE IN INDIA: A CRITICAL ANALYSIS OF SEBI'S 2024-25 REFORMS ON FPIs AND AIFs

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ABSTRACT

In 2024-25, the Securities and Exchange Board of India introduced sweeping reforms in the governance of Foreign Portfolio Investors and Alternative Investment Funds. These measures include higher beneficial ownership disclosures, anti-layering rules, and enhanced monitoring of concentrated holdings. This development represented significant push towards improving transparency in India's capital markets. The reforms were primarily prompted by concerns regarding round-tripping, money laundering, and market events like the Adani-Hindenburg controversy, and aimed to strengthen market integrity and align India with global best practices. This article provides a critical examination of these reforms and their potential impact on securities regulation, foreign investment, and corporate governance. The reforms also present significant challenges, such as higher compliance costs for smaller managers, the risk of capital flight to less regulated jurisdictions, and potential legal challenges. If carefully implemented, these reforms will mark a potential turning point in India's financial governance, and signal a strategic shift from pursuing foreign inflows at any cost to demanding that capital must possess integrity, accountability, and transparency.

Keywords: Securities and Exchange Board of India, 2024-25 Reforms, Foreign Portfolio Investors, Alternative Investment Funds, Beneficial Ownership and Disclosure.

I. INTRODUCTION

Over the past decade, India's capital markets have attracted a record level of foreign investment and also developed sophisticated domestic funds such as Alternate Investment Funds ("AIFs").¹ Together, they have become fundamental to India's economic development, and reflects its integration with global capital as well as its ambition to expand local financial markets.² But these impressive growth numbers pose a crucial question about who truly owns and controls these funds, and whether they are driving productive investment, or simply creating opaque channels for round-tripping and regulatory avoidance.

These concerns were revealed after certain high-profile events exposed the vulnerabilities in the current system.³ One such example is the Adani-Hindenburg incident in 2023 which highlighted how Foreign Portfolio Investors ("FPIs") from unidentifiable jurisdictions were able to acquire large stakes in Indian companies.⁴ At the same time, the quick rise of AIFs raised fears that the complex and multi-layered fund structures were being used to recycle domestic money through tax-friendly routes than to support genuine investment.⁵ In 2024, Securities and Exchange Board of India ("SEBI") finally stepped in with critical regulatory measures.⁶

The reforms were broad and significant. FPIs now face stricter rules regarding disclosure of beneficial ownership, especially for funds from high-risk jurisdictions or with concentrated holdings.⁷ AIFs are subject to stricter oversight on layering, co-investments, and disclosure. These changes are not minor compliance tweaks, rather a deliberate attempt to pierce the

¹ India Brand Equity Foundation, *Foreign Direct Investment in India*, <https://www.ibef.org/economy/foreign-direct-investment> (last visited Sept. 1, 2025).

² *India's Growing Capital Market: Promising First Steps to Internationalization*, S&P Global, <https://www.spglobal.com/en/research-insights/special-reports/india-forward/indias-growing-capital-market-promising-first-steps-to-internationalization> (last visited Sept. 1, 2025).

³ *Documents Provide Fresh Insight Into Allegations of Stock Manipulation that Rocked India's Powerful Adani Group*, OCCRP, <https://www.occrp.org/en/investigation/documents-provide-fresh-insight-into-allegations-of-stock-manipulation-that-rocked-indias-powerful-adani-group> (last visited Sept. 1, 2025).

⁴ *The Domino Effect of Adani-Hindenburg Saga*, 16 NUJS L. Rev. 1 (2023), <https://nujslawreview.org/wp-content/uploads/2023/10/16.1-Gupta-Mangal-1.pdf> (last visited Sept. 1, 2025).

⁵ *Alternative Investment Funds in India: The Growth Story*, Vivriti Asset Management Company, <https://vivritiamc.com/alternative-investment-funds-in-india-the-growth-story/> (last visited Sept. 11, 2025).

⁶ *SEBI (Alternative Investment Funds) (Second Amendment) Regulations, 2024*, SEBI, https://www.sebi.gov.in/legal/regulations/apr-2024/securities-and-exchange-board-of-india-alternative-investment-funds-second-amendment-regulations-2024_83060.html (last visited Sept. 11, 2025).

⁷ *Annual Report 2023–24*, Securities and Exchange Board of India, https://www.sebi.gov.in/reports-and-statistics/publications/aug-2024/annual-report-2022-23_74990.html (last visited Sept. 11, 2025).

corporate veils that have, for a long time, concealed the flow of capital into and out of India.⁸ SEBI's message here is clear, that foreign and domestic capital are welcome, but opacity is not. But the reforms also create new challenges. Greater transparency strengthens market integrity and aligns India with global norms, but it also risks discouraging legitimate investors, increasing compliance costs, and pushing funds toward less regulated jurisdictions. India needs to curb the abuse without stifling the capital that is crucial for growth.

At its core, it is not merely about compliance, but also about the kind of capital India wants, the governance standards that it demands, and the balance between growth and transparency that it seeks. The outcome will shape India's credibility as a trusted investment destination in the future.

II. EVOLUTION OF REGULATION AND THE 2024-25 REFORMS

India's relationship with foreign portfolio capital and private pools of domestic capital has been more evolutionary, rather than revolutionary.⁹ To understand the reforms, we have to understand, firstly, the slow liberalisation and technical refinement of the FPI regime over the last three decades, and secondly, the rapid rise of AIFs as a dominant and more complex, channel for domestic institutional and quasi-institutional investment.¹⁰ Together they will explain why SEBI's 2024-25 interventions look less like an isolated step and more like a systemic course-correction.

The FPI regulation started gradually and slowly, with periodical implementation of stricter rules. Since the Foreign Institutional Investor ("FII") era of the 1990s, India shifted to a consolidated FPI regime that was aimed at simplifying access while also preserving controls on capital flows. In May 2024, SEBI issued a consolidated Master Circular for FPIs, which synthesized earlier guidance and sharpened supervisory expectations on disclosures and designated depository participant obligations.¹¹ At the same time, SEBI introduced and refined

⁸ *SEBI's New Compliance Guidelines for AIFs: Ensuring Transparency and Legal Adherence*, Nishith Desai Associates, <https://lexcomply.com/blog/sebis-new-compliance-guidelines-for-aifs-ensuring-transparency-and-legal-adherence/> (last visited Sept. 11, 2025).

⁹ R. Nagaraj, *Foreign Portfolio Investment in India: Trends and Regulatory Evolution*, 57 ECON. & POL. WKLY. 34, 36 (2022).

¹⁰ India Brand Equity Found., *Alternative Investment Funds (AIF) Commitments Top Rs. 13,00,000 Crore as HNIs Prefer Diversification*, IBEF (Mar. 7, 2025), <https://www.ibef.org/news/alternative-investment-funds-aif-commitments-top-rs-13-00-000-crore-us-149-25-billion-as-high-net-worth-individuals-hnis-prefer-diversification> (last visited Sept. 11, 2025).

¹¹ SEBI, *Master Circular for Foreign Portfolio Investors, Designated Depository Participants and Eligible Foreign Investors* (May 30, 2024), <https://www.sebi.gov.in/legal/master-circulars/may-2024/master-circular-for->

disclosure thresholds and beneficial-ownership reporting requirements that was targeted at large managers and funds with concentrated Indian exposures.¹² This signalled a move away from merely registering non-resident investors towards an active oversight of who ultimately calls the shots.

But why the shift? There were two connected pressures that drove it. Firstly, market events exposed how complex offshore chains could be used to acquire concentrated stakes in listed Indian companies with very limited transparency for domestic regulators and minority investors.¹³ The Adani-Hindenburg incident fixed public and policymaker attention on this issue.¹⁴ There were major allegations about undisclosed related-party dealings and the role of undisclosed foreign funds. This created an urgency to pierce corporate veils and measure beneficial ownership more precisely. Even though it was not the sole cause, this incident acted as a powerful catalyst, significantly accelerating the regulatory push for enhanced disclosure and enforcement. By early 2024, SEBI was being pressed, by courts, Parliament, and market participants, to move from inquiry to rule-making.¹⁵

Secondly, the sheer scale and structural change in India's alternative funds market made the ongoing inaction riskier.¹⁶ AIFs, introduced under the SEBI (AIF) Regulations, 2012, grew rapidly in size and variety.¹⁷ By late 2023 and through 2024, the industry's aggregate investments and Assets Under Management ("AUM") saw a sharp climb, with Category II and Category III funds expanding their presence in private equity, venture capital, and credit strategies.¹⁸ Institutional AUM and AIF funds registered double-digit year-on-year growth in

foreign-portfolio-investors-designated-depository-participants-and-eligible-foreign-investors-_83689.html (last visited Sept. 11, 2025).

¹² *New SEBI FPI Beneficial Owner Disclosure Norms*, Cyril Amarchand Mangaldas (May 2024), <https://corporate.cyrilamarchandblogs.com/2024/05/new-sebi-fpi-beneficial-owner-disclosure-norms/> (last visited Sept. 11, 2025).

¹³ *Hindenburg Research*, Adani Group: How The World's 3rd Richest Man Is Pulling The Largest Con In Corporate History (Jan. 24, 2023), <https://hindenburgresearch.com/adani/>.

¹⁴ "Hindenburg Allegations Against SEBI Chief Casts an 'Atmosphere of Doubt', Direct Completion of Probe Against Adani Group, Plea Asks Supreme Court," *The Hindu* (updated Aug. 13, 2024, 4:35 PM IST), <https://www.thehindu.com/news/national/hindenburg-allegations-against-sebi-chief-casts-an-atmosphere-of-doubt-direct-completion-of-probe-against-adani-group-plea-asks-supreme-court/article68519364.ece> (last visited Sept. 11, 2025).

¹⁵ *Vishal Tiwari v. Union of India*, Writ Petition (Civil) No. 162 of 2023 (India S.C. May 17, 2023).

¹⁶ *The Growth of Alternative Investment Funds in India*, 11–12 IJRASET (2024), <https://www.ijraset.com/research-paper/the-growth-of-alternative-investment-funds-in-india> (last visited Sept. 11, 2025).

¹⁷ *SEBI (Alternative Investment Funds) Regulations, 2012* (last amended Mar. 6, 2017), Securities and Exchange Board of India, https://www.sebi.gov.in/legal/regulations/apr-2017/sebi-alternative-investment-funds-regulations-2012-last-amended-on-march-6-2017-_34694.html (last visited Sept. 11, 2025).

¹⁸ Treelife, *Alternative Investment Funds (AIFs) in India*, <https://treelife.in/finance/alternative-investment-funds-in-india/> (last visited Sept. 11, 2025).

recent reporting periods, which turned AIFs from niche pools into significant intermediaries.¹⁹ The rise of multi-layered co-investment, manager-of-managers structures, and related-party arrangements increased the probability that AIF structures could be used, intentionally or unintentionally, to hide the origin and destination of funds.

SEBI's regulatory response in 2024-25 therefore had two objectives. On the FPI side, it tightened beneficial-owner and group-level disclosure rules, raised scrutiny for entities linked to high-risk jurisdictions, and clarified obligations for FPIs with high equity exposures. These were implemented through a combination of master circulars, targeted amendments, and follow-up guidance that sought to standardise reporting and to give SEBI early insights into suspicious ownership patterns.²⁰ On the AIF side, SEBI aimed to curb opacity by amending the AIF to constrain excessive layering and to require clearer disclosure around co-investment arrangements, valuation practices, and related-party dealings. The January 2024 amendment to the AIF Regulations formalised many structural expectations for fund managers and placed new obligations on trustees and sponsor entities to ensure that there is integrity in fund flows.²¹

The reforms were not only doctrinal, but also operational. SEBI combined rule-making with active enforcement and case-level scrutiny. Publicly visible enforcement activity and court proceedings since 2023, reinforced the regulator's intention, that opaque structures would no longer enjoy regulatory neglect.²² SEBI's focus on timely inquiries, detailed disclosure requirements, and substance-over-form assessment, altered how the market operated.

FPIs have still been important net providers of capital in recent years, with recurring inflows and outflows, but CY-2024 showed strong participation in both equity and primary issuance even when secondary markets experienced occasional selling.²³ At the same time, AIF investments, especially in higher-risk Category III funds, registered a strong growth through

¹⁹ Id.

²⁰ *Mandating Additional Disclosures by Foreign Portfolio Investors (FPIs) That Fulfil Certain Objective Criteria*, Circular No. SEBI/HO/AFD/AFD-PoD-2/CIR/P/2023/148 (Aug. 24, 2023), https://www.sebi.gov.in/legal/circulars/aug-2023/mandating-additional-disclosures-by-foreign-portfolio-investors-fpis-that-fulfil-certain-objective-criteria_75886.html (last visited Sept. 11, 2025).

²¹ *supra* note 6.

²² Supreme Court of India, *Supreme Court Asks SEBI to Probe if Hindenburg Report Violated Law, Caused Harm to Investors*, *The Hindu* (Jan. 3, 2024), <https://www.thehindu.com/news/national/supreme-court-asks-sebi-to-probe-if-hindenburg-report-violated-law-caused-harm-to-investors/article67700963.ece> (last visited Sept. 11, 2025).

²³ EY India, *FPI Trends – Round-up of Calendar Year 2024* (Jan. 22, 2025), <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/alerts-hub/2025/01/fpi-trends-ey-india-newsletter-round-up-of-calendar-year-2024.pdf?ref=abhigarg.com> (last visited Sept. 11, 2025).

2023-24, highlighting that the funds affected by SEBI's amendments were not marginal.²⁴ These statistics explain why policymakers viewed improved transparency as a necessary step for stability as well as governance.

III. CRITICAL APPRAISAL OF SEBI'S APPROACH

SEBI's 2024-25 reforms marked a clear shift from a largely permissive, registration-led oversight model to an active, disclosure-driven supervision of cross-border and alternative fund flows. The main principle behind this shift was that regulators worldwide have moved towards greater transparency after repeated incidents where complex ownership chains hid control, enabled related-party tunnelling, or masked round-tripping.²⁵

In India, SEBI's move was primarily motivated by three objectives, to pierce layers of ownership to reveal the beneficial owners behind large positions, to reduce the scope for round-tripping and regulatory arbitrage through offshore funds and layered AIF structures, and to facilitate early detection of market-integrity risks through more timely reporting.²⁶ These aims are well manifested from Guidelines on Anti-Money Laundering ("AML") Standards and Combating the Financing of Terrorism ("CFT"), and market-stability concerns and explain why SEBI chose disclosure and reporting as its principal path rather than blanket prohibitions.²⁷

That said, the merits of SEBI's shift depend on three linked questions.

A. Are the chosen instruments proportionate and well-targeted?

SEBI has primarily used enhanced disclosure thresholds, beneficial-ownership reporting and restrictions on co-investment mechanics to reduce opacity. These are, on the face of it, less blunt than prohibitory measures and better calibrated to the problem of hidden control.

²⁴ *supra* note 18.

²⁵ World Bank, *Beneficial Ownership Transparency: A Guide for Policy Makers* (2021), <https://thedocs.worldbank.org/en/doc/734641611672284678-0090022021/original/BeneficialOwnershipTransparency.pdf> (last visited Sept. 11, 2025).

²⁶ "SEBI's Due Diligence Framework for AIFs: Addressing Regulatory Arbitrage and Investment Transparency," SCC Online (Mar. 25, 2025), <https://www.scconline.com/blog/post/2025/03/25/sebis-due-diligence-framework-for-aifs-addressing-regulatory-arbitrage-and-investment-transparency/> (last visited Sept. 11, 2025).

²⁷ SEBI, *Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) Obligations of Securities Market Intermediaries under the Prevention of Money Laundering Act, 2002*, Master Circular (June 2024), https://www.sebi.gov.in/legal/master-circulars/jun-2024/guidelines-on-anti-money-laundering-aml-standards-and-combating-the-financing-of-terrorism-cft-obligations-of-securities-market-intermediaries-under-the-prevention-of-money-laundering-act-2002-a-_83942.html (last visited Sept. 11, 2025).

However, in practice, proportionality problems emerge.

The operational scope of “beneficial ownership” is disputed across legal regimes. SEBI’s May 2024 master circular tightened Know-Your-Customer (“KYC”) and beneficial-owner verification obligations for FPIs and their intermediaries, which was an important step towards clarity, but the burdens of implementation are heavy for managers that are operating global feeder funds and parallel accounts.²⁸ Granular disclosures can be administratively burdensome and commercially sensitive, as they may reveal proprietary investor composition to competitors.²⁹ At the same time, it suggests that SEBI recognises the compliance cost burden on smaller managers and seeks to limit reporting to systemically significant actors. This tension, between the need for details to detect abuse and the cost of over-broad reporting, lies at the heart of proportionality debates.

Second, the anti-layering measures in the AIF amendments aim to prevent circular flows that disguise domestic origin of funds. These are conceptually sound, but their administration is difficult. Many legitimate private-equity arrangements, such as manager co-investments, fund-of-funds, managed accounts, rely on layered structures to provide contractual flexibility.³⁰ Distinguishing abusive layering from legitimate structuring requires information that is not easily captured by bright-line rules, and enforcement therefore risks being either under-inclusive or over-inclusive. SEBI’s approach to require clearer disclosure by trustees and sponsors is helpful, but without proportionate safe-harbours for bona fide structures, funds may re-engineer to jurisdictions or structures that reduce India’s visibility into the flows.

B. Do they rest on a solid legal foundation and clear inter-agency coordination?

SEBI’s rule-making sits at the intersection of several statutes and authorities. The SEBI Act and regulations, Foreign Exchange Management Act (“FEMA”), and anti-money-laundering law under Prevention of Money-Laundering Act (“PMLA”) and its rules.³¹ In practice, effective policing of round-tripping and hidden beneficial ownership requires coordinated

²⁸ Supra note 11.

²⁹ Investment Company Institute et al., *Joint Letter Re: SEBI Consultation on FPI Beneficial Ownership & SMO Requirements* (Aug. 2023), <https://www.ici.org/system/files/2023-08/23-cl-joint-letter-sebi-re-fpi-bo-smo-rqmmt.pdf> (last visited Sept. 11, 2025).

³⁰ Bain & Company, *India Private Equity Report 2024* (Apr. 2024), https://www.bain.com/globalassets/noindex/2024/bain_report_india_private_equity_report_2024.pdf (last visited Sept. 11, 2025).

³¹ Securities and Exchange Board of India Act, No. 15 of 1992, India Code (1992); Foreign Exchange Management Act, No. 42 of 1999, India Code (1999); Prevention of Money-Laundering Act, No. 15 of 2003, India Code (2003).

information-sharing and clarity on which regulator leads on which issue. SEBI's master circulars and AIF amendments have repeatedly referenced compliance with FEMA and AML obligations, and recent operational frameworks, such as the reclassification of FPI holdings to Foreign Direct Investment ("FDI"), is evidence of growing inter-regulatory participation.³² But doctrinally, there are questions regarding the limits of SEBI's delegated powers. To be specific, it is unclear how far a market regulator can go in imposing information-gathering obligations that carry quasi-criminal, investigative implications. The judicial scrutiny of regulatory overreach will be an important check, particularly where enforcement actions produce reputational and market consequences for global managers.

C. What are the likely market responses: compliance, avoidance, or flight?

Regulators must anticipate behavioural responses. Three plausible reactions are especially important. Firstly, compliance. The optimistic scenario is that FPIs and AIFs internalise stronger KYC and governance practices, trustees and custodians tighten controls, and meaningful ownership transparency emerges without materially reducing inflows. SEBI's targeted thresholds also reduce needless burdens on genuinely small players, which improves net proportionality.

Secondly, regulatory arbitrage. A more worrying but realistic outcome is that funds may shift to alternative jurisdictions or instruments to escape SEBI's regulations. A comparative analysis shows that increased reporting burdens can produce such migration unless it is accompanied by cooperative cross-border information exchange and harmonised international standards. The U.S. approach to private-fund reporting is a useful example.³³ It provides the regulator with systemic data while preserving commercial confidentiality, but it rests on a developed supervisory structure that can act on that data, something India is still building.³⁴

Thirdly, capital withdrawals or deterring new investors. If compliance costs and disclosure risk are perceived as too high, particularly for managers who are reluctant to reveal identities of the investors, there may be a reduction in fresh FPI registrations or a re-routing of capital through

³² Supra note 6 and 11.

³³ SEC, *Form PF* (PDF), <https://www.sec.gov/files/formpf.pdf> (last visited Sept. 11, 2025).

³⁴ Dechert LLP, *SEC Adopts Third Set of Amendments to Form PF* (Mar. 2024), <https://www.dechert.com/knowledge/onpoint/2024/3/sec-adopts-third-set-of-amendments-to-form-pf.html> (last visited Sept. 11, 2025).

less transparent channels.³⁵ This trade-off is political as well as economic. India wants depth and global integration, but not at the cost of systemic opacity. SEBI's successive reforms, raising reporting thresholds, issuing clarificatory circulars, suggest that it is sensitive to these risks, but the proof will be in market flows and the willingness of global managers to continue using India as a primary market destination.³⁶

IV. RISKS, CONSEQUENCES, AND WAY FORWARD

SEBI's 2024-25 reforms are among the most assertive exercises of its regulatory power since the creation of the FPI and AIF regimes. Their intent is unimpeachable. Yet the measures do not come without a cost. In practice, they generate new risks, compliance challenges, and legal uncertainties. Understanding these unintended consequences is critical to assessing whether the reforms will strengthen India's markets or inadvertently undermine them.

One immediate concern is regulatory spillover. Even though the new FPI norms primarily target concentrated holdings and opaque beneficial owners, the compliance net has been cast widely.³⁷ Global managers who operate diversified portfolios across emerging markets may find India's requirements comparatively burdensome.³⁸ For example, the demand for detailed disclosure of every natural-person beneficial owner beyond prescribed thresholds may deter institutional investors such as pension funds and sovereign funds, who are bound by confidentiality to their underlying contributors. This could warn off inflows.

A similar problem arises in AIF regulation. The 2024 amendments restrict multi-layered structures to prevent fund-of-funds from disguising domestic capital as foreign. Yet many legitimate private-equity and venture capital strategies require intermediate funds to segregate investor rights, manage tax exposure, or comply with global allocation rules.³⁹ In the absence

³⁵ Business Standard, *FPI Withdrawal in 2024–25 Marks Second-Largest Annual Equity Outflow on Record Amid Global Uncertainty, Says SEBI*, Business Standard (Aug. 13, 2025), https://www.business-standard.com/markets/capital-market-news/fpi-withdrawal-in-2024-25-marks-second-largest-annual-equity-outflow-on-record-amid-global-uncertainty-says-sebi-125081300767_1.html (last visited Sept. 11, 2025).

³⁶ SEBI, *Mandating Additional Disclosures by Foreign Portfolio Investors (FPIs) that Fulfil Certain Objective Criteria*, https://www.sebi.gov.in/legal/circulars/aug-2023/mandating-additional-disclosures-by-foreign-portfolio-investors-fpis-that-fulfil-certain-objective-criteria_75886.html (last visited Sept. 11, 2025).

³⁷ Preethi Vijayagopal, Bhawana Jain & Shyam Ayinippully Viswanathan, *Regulations and Fintech: A Comparative Study of the Developed and Developing Countries*, 17 J. Risk Fin. Manag. 324 (2024), <https://doi.org/10.3390/jrfm17080324> (last visited Sept. 11, 2025).

³⁸ Ashima Goyal & Subrata Sarkar, *Governance, Regulation, Incentives and Outcomes*, 16 MFE Emerging Mkt. Econ. 373, 375-76 (2023), <https://doi.org/10.1080/17520843.2023.2257431> (last visited Sept. 11, 2025).

³⁹ *Global Trends in Hedge Fund Domiciliation*, IFC Review (Nov. 2023),

of clear safe-harbours, the risk is that the anti-layering rule will sweep in ordinary structures, forcing fund managers to either restructure at high cost or shift domiciles offshore.

A second unintended effect is the heightened compliance costs. Enhanced due diligence, periodic disclosures, and system upgrades for tracking beneficial ownership are expensive, especially for smaller AIF managers and boutique FPI houses.⁴⁰ Larger global firms might be able to absorb these costs, but mid-sized firms, the very entities that diversify India's capital base, may get squeezed out. The compliance burden also risks creating a two-tier market. Well-capitalised funds may continue to dominate and smaller domestic managers will struggle to scale. This outcome is the opposite of SEBI's longstanding objective of encouraging diversity in the fund management industry. Industry associations have already flagged the risk that rising costs will concentrate the market rather than democratise it.

Where compliance is perceived as excessive, capital usually seeks alternatives. As discussed previously, the most likely response to SEBI's reforms is jurisdictional arbitrage. Some funds may increasingly use offshore centres, such as Singapore, GIFT City IFSC with more lenient reporting norms, or bilateral routes through treaty partners, to channel investment into India indirectly. If this occurs, SEBI's visibility over actual beneficial ownership may get diminished rather than improve. There is a risk of pushing hidden activity further into the shadows, beyond the reach of domestic law. Comparative analysis highlights this danger. After the European Union ("EU") Alternative Investment Fund Managers Directive ("AIFMD") imposed stringent reporting rules, several hedge funds shifted domiciles to less regulated centres, that led European regulators to enforce the ongoing cross-border coordination efforts.⁴¹

Another risk is that the legality of the reforms might come into question. SEBI's enhanced disclosure norms and investigative demands stretch the boundaries of delegated legislation. For instance, requiring custodians and depository participants to collect detailed beneficial ownership information creates quasi law enforcement obligations for private intermediaries. It might be argued that such obligations, without explicit statutory backing in the SEBI Act or FEMA, may be ultra vires. Indian courts have historically been willing to test the limits of

<https://www.ifcreview.com/articles/2023/november/global-trends-in-hedge-fund-domiciliation/> (last visited Sept. 11, 2025).

⁴⁰ Vijayagopal, Jain & Ayinippully Viswanathan, *supra* note 41.

⁴¹ Jean-Baptiste Poulle et al., *Chapter 38: Alternative Investment Fund Managers Directive (AIFMD)*, in EU Banking & Financial Regulation (2024) 398–412, <https://doi.org/10.4337/9781035301959.00054> (last visited Sept. 11, 2025).

regulatory action, especially where property rights and proportionality are implicated.⁴² If enforcement actions under the new regime are challenged, judicial scrutiny could limit SEBI's ability to sustain its current path. This risk emphasises the need for legislative clarity and parliamentary oversight.

Paradoxically, even though the reforms are intended to improve corporate governance, its short-term consequences may be ambiguous. By constraining foreign portfolio concentration, SEBI may reduce the scope for promoters to use offshore entities to reinforce control. Yet if large and legitimate FPIs exit or scale back, domestic promoters may find themselves with greater influence, which will weaken minority-investor protections. Similarly, if AIF managers exit instead of complying, domestic capital formation in private markets could become slow. More transparent data on beneficial ownership is, without a question, valuable in view of systematic stability, but the benefits will materialise only if SEBI can process, analyse, and act on the information effectively. Without investment in supervisory technology and inter-agency data sharing with Reserve Bank of India (“RBI”), Financial Intelligence Unit (“FIU”), Enforcement Directorate (“ED”), the new disclosures might end up becoming a compliance ritual rather than a risk-management tool.

A measured way forward for SEBI is twofold. First, learn selectively from counterpart regimes that balance systemic surveillance with commercial confidentiality. The United States (“US”) Securities and Exchange Commission (“SEC”) Form PF,⁴³ the EU's AIFMD reporting architecture,⁴⁴ and Singapore's disclosure framework each provide design lessons, particularly on data aggregation, tiered reporting, and secure, regulator-only access to investor information.⁴⁵ Second, convert disclosure into actionable supervision by strengthening inter-agency data and clarifying legal authorities for evidence collection and enforcement. The Financial Action Task Force (“FATF”) mutual evaluation's emphasis on effective AML/CFT

⁴² *M. M. Sheth v. Securities and Exchange Board of India*, (strike-down of sub-reg (2) of Reg. 28) (High Ct. Gujarat); *Harsh Mehta v. Securities and Exchange Board of India*, Writ Petition No. 4844 of 2024, ¶¶ 5-8 (High Ct.) (India).

⁴³ Supra note 33.

⁴⁴ Directive 2011/61/EU of the European Parliament and of the Council of 8 June 2011 on Alternative Investment Fund Managers, 2011 O.J. (L 174) 1.

⁴⁵ Monetary Authority of Singapore (MAS), *Securities and Futures (Reporting of Derivatives Contracts) Regulations 2013 (as amended)*, <https://www.mas.gov.sg/regulation/explainers/securities-and-futures-reporting-of-derivatives-contracts-regulations> (last visited Sept. 11, 2025).

operations reinforces this point, that data without coordinated follow-up produces limited preventive value.⁴⁶

To mitigate the risks, SEBI needs to refine its approach. It needs to adopt a tiered disclosure framework and differentiate between systemically significant investors and small-scale players. High-risk FPIs and large AIFs should face intensive reporting, but smaller entities should be subject to proportionate obligations. SEBI should create safe-harbours for bona fide structures and provide regulatory comfort for legitimate fund-of-funds, co-investment funds, and pension-fund aggregators.⁴⁷ This would reduce uncertainty and prevent over-compliance.

There should be technology-enabled supervision characterised by a move from paper-heavy reporting to automated ownership tracing and cross-agency analytics, and possibly leveraging blockchain-based registries or Artificial Intelligence (“AI”) driven anomaly detection.⁴⁸ There should also be stronger legislative clarity. This can be done by amending primary statutes and confirm SEBI’s authority to demand granular beneficial-ownership disclosures. This would pre-empt judicial pushback and reinforce the legitimacy of regulatory action. In addition to this, international cooperation must be ensured. Information-sharing agreements with key jurisdictions should be strengthened. Due to the globalised nature of investment funds, unilateral Indian regulation is only partly effective unless it is supported by cooperative transparency mechanisms.

V. CONCLUSION

The 2024-25 reforms of the FPI and AIF regimes mark a significant turning point in India’s securities regulation. By prioritizing transparency, detailed disclosure, and traceable ownership, SEBI has signalled that capital is welcome, but opacity is not. These measures are in response to the systemic risks exposed by complex multi-jurisdictional fund structures, high-profile controversies, and global regulatory expectations.⁴⁹ The reforms align India with international trends, and reinforces the integrity of its capital markets. At the same time, they

⁴⁶ FATE, *Mutual Evaluation Report: India* (2023), esp. Chs. 6 & 7 (coordination and supervision gaps), <https://www.fatf-gafi.org/en/countries/m-r/india.html> (last visited Sept. 11, 2025).

⁴⁷ Directive 2011/61/EU of the European Parliament and of the Council, *supra* note 38.

⁴⁸ Bank for Int’l Settlements, *Suptech: Leveraging Technology for Better Supervision* (Oct. 2018), <https://www.bis.org/fsi/publ/insights9.pdf> (last visited Sept. 12, 2025); Reserve Bank of India, *Report of the Committee on FinTech Related Issues* (Jan. 2018), <https://rbidocs.rbi.org.in/rdocs/PublicationReport/Pdfs/CFTI180518F.pdf> (last visited Sept. 12, 2025).

⁴⁹ *Hindenburg Controversy* *supra* note 4; *World Bank Report* *supra* note 25.

highlight the delicate balance regulators must maintain, that too little disclosure invites opacity, while excessive requirements pose the risk of deterring legitimate investment and narrowing the supply of long-term capital. Legal clarity, parliamentary backing, and proportional enforcement are therefore essential to secure both compliance as well as legitimacy.

Institutional capacity is equally critical. Collecting data is straightforward, but analysing it and ensuring actionable outcomes is far more challenging. SEBI's ability to deploy technology-driven supervision, cross-jurisdictional data systems, and AI-based anomaly detection will determine whether the reforms are able to achieve meaningful impact or remain procedural exercises. From a corporate governance perspective, the reforms increase accountability and protect minority investors. But there might be unintended consequences if compliance burdens drive away institutional participants or restrict access to capital for start-ups and infrastructure projects. Therefore, transparency must be implemented along with measures that preserve choice and market depth.

In conclusion, the challenge is not whether SEBI should pursue transparency, but how it does so. The effectiveness of the 2024-25 reforms will shape India's credibility as a global investment destination. The stakes for India's markets and international reputation could not be higher.