Framework for net settlement of funds for FPI Equity trades

Executive Summary

The Securities and Exchange Board of India (SEBI) has introduced an optional framework enabling the financial netting of eligible Foreign Portfolio Investor (FPI) transactions in the cash / capital market segment, with the objective of reducing gross funding requirements, enhancing capital efficiency, and optimizing liquidity management for market participants. The framework allows eligible purchase and sale transactions to be offset against each other within a settlement cycle, thereby reducing the overall funding obligation while maintaining existing settlement safeguards and risk management controls.

Key features of the framework include:

- Optional net settlement of eligible outright FPI transactions in the cash/capital market segment.
- Net funding obligations will be determined at the individual FPI account level for eligible transactions that satisfy applicable validation, matching and custodian confirmation requirements.
- Netting will be restricted to transactions within the same settlement cycle, with no offset permitted across different settlement cycles.
- Margin where applicable will continue to apply to ensure adequate risk coverage under the net settlement framework.
- Certain transaction types, statutory levies, regulatory charges, taxes, and other excluded obligations will continue to be processed and settled separately under the existing gross settlement mechanism.

1. Regulatory Background

SEBI, vide Circular No. HO/(1)2026-AFD-POD2/I/10157/2026 dated 24 April 2026, has introduced a framework permitting net settlement of funds for equity transactions executed by Foreign Portfolio Investors (FPIs) in the Cash/Capital Market segment of recognized stock exchanges.

The net settlement facility is optional for FPIs and may be elected at the individual FPI registration level by providing written communication to the custodians. If the netting option is not elected by FPI, there will be no change to the existing settlement or funding process, and trades will continue to settle on a gross basis, which will be the default option. Custodians will be required to establish the necessary operational processes and implement appropriate system enhancements to support net settlement in accordance with the prescribed regulatory framework effective trade date December 07, 2026.

2. Proposed Netting Framework

2.1 Eligible Transactions

- Outright purchase and outright sale transactions will be eligible for netting, provided the trades successfully pass the preliminary validations such as availability of stocks for sell trades, compliance with FEMA rules such as Foreign Ownership Limit and sectoral restrictions etc., matching of details provided in client instructions vs Broker contract note and are deemed eligible for confirmation by the custodian to the clearing corporation.
- A transaction will qualify as an outright transaction only where the FPI has either a purchase or a sale in a particular security during the settlement cycle, but not both.
- This will includes all asset classes traded in the cash / capital market segment of an exchange like Equity, preference shares, REITs, InVITs, ETFs etc.

Outright transaction: A purchase-only or sale-only position in a security for a settlement cycle, undertaken by an FPI.

2.2 Excluded Transactions

- Transactions where both purchase and sale exist in the same security during the same settlement cycle.
- Trade-for-Trade Surveillance (Z) category securities.
- Block deal transactions.
- Any trades specified by the stock exchanges or clearing corporations for gross settlement.
  - List of series that are currently subject to gross settlement are available on the Exchange website:
    - NSE: https://www.nseindia.com/static/market-data/legend-of-series
    - BSE: List of group eligible for netting attached.



BSE List of Group.xlsx

- Outright trades not confirmed by the custodian and converted to hand-delivery settlement with the broker.

2.3 Computation of Net Settlement Obligations

- Net funding obligations shall be calculated at the individual FPI account level for eligible outright transactions executed within the same settlement cycle. Transactions belonging to different settlement cycles will be processed separately and shall not be eligible for netting across settlement cycles.
- Eligible sale proceeds may be used to offset eligible purchase obligations under the netting framework.
- Excess proceeds from outright sales shall not be used to fund excluded or non-outright purchase obligations. Such obligations must be funded separately.

2.4 Margin Requirements for Non-Institutional FPIs

Non-Institutional FPIs (Category II FPIs that are corporate bodies, individuals or family offices) intending to avail the netting facility will be required to provide the applicable upfront/peak margin for their purchase trades, as funding through Early Pay-In (EPI) may not be operationally feasible for net-funded transactions. Clients that elect and wish to avail the EPI relaxation may continue to settle their obligations on a gross basis.

Note: Applicable margin requirements shall be determined in accordance with the margin methodology prescribed by NSE Clearing Circular Ref. No. 40/2020 (NCL/CMPL/46503 dated 27 November 2020) and ICCL Notice No. 20201127-67 dated 27 November 2020 and subsequent amendments as notified from time to time.

Scenarios for availing netting benefits for non-institutional category clients:

Upfront Margin Status	Netting Eligibility
Paid for Buy & Sell trades	Yes
Paid for Buy & EPI for sell	Yes
No margin – EPI for Buy & Sell	No

2.5 Taxes and Statutory Levies

- Securities Transaction Tax (STT) and stamp duty shall continue to be charged on delivery basis as per the existing process.
- Repatriation of residual sale proceeds, after utilization toward eligible purchase obligations, may be undertaken net of applicable taxes.

2.6 Custodian Cut-Off Timelines and Netting Eligibility

Eligibility of trades for inclusion in the net settlement process will be contingent upon the trade instruction cut-off timelines agreed between the respective custodians and their clients. Only trades received, matched and processed within the agreed cut-off time will be considered for netting for the relevant settlement cycle.

Trades received or matched after the agreed cut-off time may not be included in the netting population for that settlement cycle and will be subject to separate settlement treatment in accordance with the custodian's operating procedures.

There may be scenarios where a trade received after the cut-off could have otherwise impacted the eligibility of trades already considered for netting. For example, an outright purchase or sale transaction included in the netting process may

subsequently appear to become a non-outright position if an offsetting trade in the same security is received after the agreed cut-off time.

In such cases, the custodian will not revisit or recompute the netting obligation already determined based on the trade population available as of the agreed cut-off time. Accordingly, trades already included in the netting process will continue to be settled on a net basis, notwithstanding any subsequent post-cut-off trade activity that may otherwise have changed the outright eligibility status.

Illustrative example:

Timing	Trade / Event	Settlement Treatment
Before agreed cut-off	Buy Security A of INR 100 Mn received and matched	Treated as an eligible outright purchase and included in netting
After agreed cut-off	Sell Security A of INR 80 Mn received and matched	Not considered for recomputing the netting population for that settlement cycle
Final treatment	Buy trade already included in netting	Continues to be netted based on the eligible population available at cut-off

3. Illustrative Netting Scenarios

The examples below are simplified illustrations to explain the application of the proposed framework:

Scenario 1: Eligible Outright Purchases and Sales - Netting Applicable

Security	Transaction Type	Value (INR Mn)	Eligibility
Security A	Purchase	100	Eligible
Security B	Sale	(70)	Eligible
Security C	Purchase	20	Eligible

- Gross eligible purchase obligation: INR 120 Mn.
- Eligible sale proceeds: INR 70 Mn.
- Net funds payable by the FPI: INR 50 Mn.

Outcome: The FPI funds only the net obligation of INR 50 Mn instead of the gross purchase obligation of INR 120 Mn.

Scenario 2: Purchase and Sale in the Same Security - Netting Not Applicable

Security	Transaction Type	Value (INR Mn)	Eligibility
Security A	Purchase	100	Excluded
Security A	Sale	(80)	Excluded

- Since both purchase and sale exist in the same security during the same settlement cycle, the transactions do not qualify as outright transactions.
- Purchase obligation of INR 100 Mn and sale entitlement of INR 80 Mn will follow the gross settlement process.

Scenario 3: Combination of Eligible and Excluded Transactions

Security	Transaction Type	Value (INR Mn)	Eligibility
Security A	Purchase	100	Eligible
Security B	Sale	(70)	Eligible
Security C	Purchase	50	Block deal - excluded

- Eligible transactions are netted: INR 100 Mn purchase less INR 70 Mn sale = INR 30 Mn payable.
- Excluded block deal purchase of INR 50 Mn must be funded separately on a gross basis.
- Total funding required: INR 80 Mn.

Important: Sale proceeds from eligible outright sales should not be used to fund excluded purchase obligations.

Scenario 4: Excess Eligible Sale Proceeds after Netting

Security	Transaction Type	Value (INR Mn)	Eligibility
Security A	Purchase	50	Eligible
Security B	Sale	(120)	Eligible

- Net receivable after eligible netting: INR 70 Mn.
- Surplus sale proceeds may remain in the account or be repatriated, subject to applicable tax deductions and regulatory requirements.

Scenario 5: Excluded Purchase Cannot Be Funded from Eligible Sale Proceeds

Security	Transaction Type	Value (INR Mn)	Eligibility
Security A	Sale	(100)	Eligible outright sale
Security B	Purchase	80	Trade-for-Trade Z category - excluded
Security C	Purchase	90	Eligible outright buy

- Eligible transactions are netted: INR 100 Mn sell less INR 90 Mn purchase = INR 10 Mn excess.
- Excess proceeds of eligible sale trade INR 10 Mn cannot be used to fund the excluded purchase obligation of INR 80 Mn under the netting framework.
- The excluded purchase must be funded separately, while the eligible sale proceeds will settle as per the applicable process.

Scenario 6: Tax Funding Requirement after Net Settlement

Item	Amount (INR Mn)
Net sale proceeds available	20
Applicable tax liability	25
Additional funding required	5

- Financial netting does not eliminate or reduce the obligation to discharge applicable taxes.
- Where the tax liability exceeds available net proceeds, the FPI must separately fund the shortfall.

4. Summary of Settlement Treatment

Transaction / Situation	Eligible for Netting?	Settlement Treatment
Outright purchase and sale in different securities	Yes	Net settlement at FPI account level
Purchase and sale in the same security	No	Gross settlement
Block deals	No	Gross settlement
Trade-for-Trade Surveillance Z category or other trades settling at Gross with CCP	No	Gross settlement
Trades not confirmed by custodian / hand delivery	No	Gross settlement
Non-Institutional FPI without required margin toward purchase trades	No	Gross settlement
Non-Institutional FPI meeting margin requirement toward purchase trades	Yes	Net settlement at FPI account level

5. Key Takeaways

- The framework is intended to reduce gross funding requirements for eligible FPI transactions while preserving existing settlement risk controls.
- Eligibility is determined at security and settlement-cycle level, with net funding computed at FPI account level.
- Excluded transactions remain outside the netting facility and must be funded separately.
- Tax and statutory levy obligations continue as per the existing process.

- Clients may, at their discretion, communicate their adoption of netting arrangements to brokers, enabling more effective operational planning, capacity allocation, and liquidity management by the brokers.