

CIRCULAR

HO/(1)2026-AFD-POD2/I/10157/2026

April 24, 2026

To,

- 1. All Registered Foreign Portfolio Investors**
- 2. All Registered Custodians**
- 3. All Recognised Clearing Corporations**
- 4. All Recognised Stock Exchanges**
- 5. All Registered Stock Brokers through Recognised Stock Exchanges**

Dear Sir / Madam,

Subject: Framework for net settlement of funds for transactions done by Foreign Portfolio Investors (FPIs) in cash market

1. SEBI's Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024 *inter-alia* stipulates that no institutional investor shall be allowed to do day trading, i.e., square off their transactions intra-day. Thus, all transactions carried out by FPIs are required to be grossed at custodians' level and obligations are fulfilled by FPIs on a gross basis. The custodians, however, settle their deliveries on a net basis with the Clearing Corporations (CCs).
2. Representations were received from market participants highlighting that the gross settlement of transactions results in additional liquidity requirements, increased funding costs due to forex slippage and operational inefficiency for FPIs, particularly during days of index rebalancing.
3. Accordingly, with an objective to enhance operational efficiency and reduce cost of funding for FPIs, it is decided to permit net settlement of funds for outright transactions undertaken by FPIs in cash market. For the purpose of this circular, 'outright transactions' shall mean either a purchase or a sale transaction, but not both, in a security in a settlement cycle undertaken by an FPI.

4. The framework for netting of funds for transactions undertaken by FPIs in cash market shall be as follows:
 - a) FPI transactions in securities with only outright sell or outright purchase shall be net settled to arrive at net fund obligation for such outright transactions. Transactions in securities having both purchase and sale transactions in a settlement cycle shall be excluded from netting. Such non-outright transactions shall continue to be settled by FPI as per the current procedure, i.e. on gross basis.
 - b) In case value of outright sale is less than the value of outright purchase, the residual amount along with non-outright purchase obligations shall be funded by the FPI. However, if value of outright sale exceeds the value of outright purchase, the excess outright sale shall not be adjusted towards non-outright purchase obligations.
 - c) An illustration of the FPI obligations as per current practice and new mechanism is placed at **Annexure A**.
5. Further, it is clarified that settlement of securities shall continue to be carried out on gross basis between FPI and custodian. Also, Securities Transaction Tax (STT) and stamp duty shall continue to be charged on delivery basis.
6. Accordingly, the provisions stated at Para 4 of Annexure 3 of Chapter 1 (Trading) of SEBI's Master Circular for Stock Exchanges and Clearing Corporations dated December 30, 2024 shall stand modified to the extent specified herein.
7. The implementation standards shall be formulated by the Custodians and Designated Depository Participants Standards Setting Forum (CDSSF), after consulting the relevant stakeholders.
8. Custodians, FPIs and all relevant stakeholders are advised to make necessary changes in their systems to effect the changes specified above.
9. The provisions of this circular shall be implemented on or before December 31, 2026.

10. This Circular is issued in exercise of the powers conferred under Section 11(1) of the Securities and Exchange Board of India Act, 1992 read with Regulation 44 of SEBI (Foreign Portfolio Investors) Regulations, 2019 to protect the interest of investors in securities and to promote the development of, and to regulate the securities market.

11. This Circular is available at www.sebi.gov.in under the link "Legal ---Circulars".

Yours faithfully,

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Annexure A
Illustration of obligations of FPI as per current practice and new mechanism

1. Consider an example wherein on a particular day, an FPI has bought 10 shares of stocks A and B worth 1000 each and sold 20 shares of stocks B and C worth 2000 each. For the sake of simplicity, it is assumed that all the transactions are on account of the said FPI, and the custodian clears the transactions of only this single FPI. All transactions are assumed to be confirmed. The example is summarised in the table given below:

Stock	Buy Quantity	Buy Value	Sell Quantity	Sell Value
A	10	1000	0	0
B	10	1000	20	2000
C	0	0	20	2000

2. The obligations of FPI under the current practice and new mechanism is as under:

2.1. Current Practice (Gross Settlement):

- All the transactions of the FPI are settled on a gross basis with the custodian.
- The custodian, however, settles its obligations on a net basis with the Clearing Corporation (CC).
- Accordingly, in the example given above, the pay-in and pay-out obligations of FPI towards the custodian and of custodian towards CC are given below:

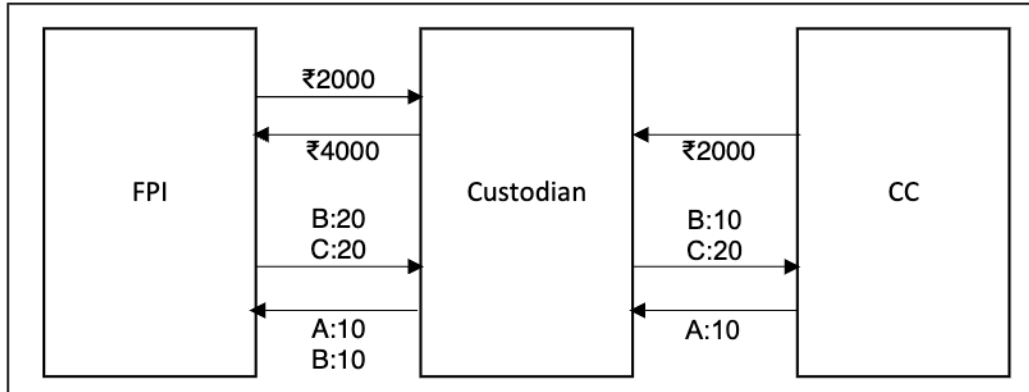
i. Obligation of FPI towards custodian

	Pay-in	Pay-out
Funds	2000	4000
Securities	Stock B: 20 Stock C: 20	Stock A: 10 Stock B: 10

ii. Obligation of custodian towards CC

	Pay-in	Pay-out
Funds	0	2000
Securities	Stock B: 10 Stock C: 20	Stock A: 10

iii. Pictorial depiction of the obligations of FPI, custodian and CC is given below:



2.2. New Mechanism (Netting of funds):

- The transactions in securities with only outright sell or outright purchase shall be netted to arrive at a net fund obligation for outright transactions.
- In the instant example, there is an outright purchase in stock A and an outright sale in stock C, therefore, they shall be netted to arrive at a net fund obligation for outright transactions.
- Since stock B involves both purchase and sale under the same settlement cycle, it shall be settled as per the existing practice of gross settlement.
- The excess outright sell value (on account of netting of funds for stocks A and C) shall not be adjusted towards non-outright buy obligations.
- Further, the manner of settlement between custodian and CC shall remain unchanged.
- Accordingly, in the example given above, the pay-in and pay-out obligations of FPI towards the custodian and of custodian towards CC are given below:

i. Obligation of FPI towards custodian

	Pay-in	Pay-out
Funds	1000	3000
Securities	Stock B: 20 Stock C: 20	Stock A: 10 Stock B: 10

ii. Obligation of custodian towards CC

	Pay-in	Pay-out
Funds	0	2000
Securities	Stock B: 10 Stock C: 20	Stock A: 10

iii. Pictorial depiction of the obligations of FPI, custodian and CC is given below:

