

Ownership disclosure could see pushback by FPIs: Experts

Sebi directive to offshore investors follows Adani probe

SIDDHANT MISHRA
Mumbai, May 25

THE SECURITIES AND Exchange Board of India's (Sebi's) move to direct foreign funds operating in India to identify their parent entity is being hailed by experts as a much-needed requirement, but will likely lead to some pushback owing to the long process and costs involved.

According to reports, Sebi has asked all offshore funds to identify their parent financial institution as a step towards unravelling opaque ownership structures, asking them to provide the information by September.

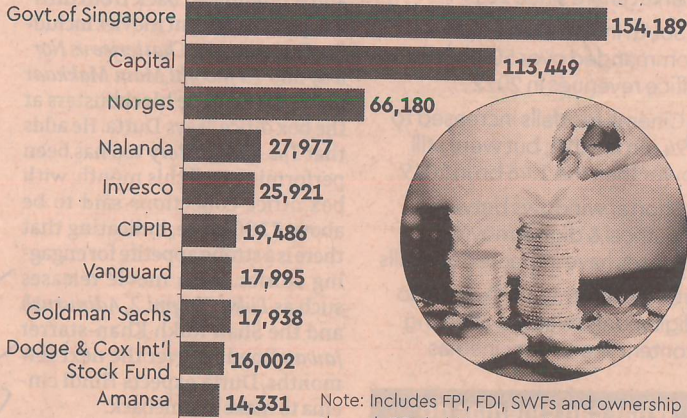
Custodian banks are also required to identify a senior officer of the legal entity as a beneficial owner in the case that no single investor holds more than 10% in the fund, according to the report by *Reuters*.

Sameer Jain, managing partner at PSL Advocates & Solicitors, says the rising FPI investment in India has brought in liquidity and efficiency into the domestic markets. However, the regulator's intervention was warranted, as it has been observed that FPIs are shying away from naming senior officers and their parent entities.

This could cause some discomfort

UNRAVELLING OWNERSHIP STRUCTURES

Assets under custody of top FPIs as of March 31, 2023 (₹ crore)



Source: primeinfobase.com

Note: Includes FPI, FDI, SWFs and ownership through DRs held by custodians; disclosure only available for holdings greater than 1%



to foreign funds, which do not wish to disclose their parent's identity.

"Investors might step back if they do not wish to comply, because there is a huge cost involved in the long procedure of due diligence, thus causing them to lose interest. Further, there will be difficulty in tracking back information shared by investors, since the data would most likely go back via multiple nations," said Jain.

This development comes on the heels of the probe involving Adani group entities, with questions having been raised on the source of foreign money coming into the conglomerate.

Roopal Bajaj, head (Private Client

& Funds), Singhania & Co, "From industry's perspective, bringing beneficial owners to light reinforces the security of the financial system. Hence, it may be in the favour of entities with FPI registrations to avoid legal repercussions by concealing the beneficial owners' identities."

She pointed out that certain practical challenges faced by the regulators in probing the ultimate beneficial owners of funds in the recent inspection of Adani entities, coupled with the Opposition's allegations on weak reporting requirements for FPIs, could have led Sebi to take the step.

The move is also being seen as a move towards stepping up the fight

against tax frauds, money laundering, corruption, terrorism financing and other financial crimes.

"Despite the move being aligned with the principle of preventing money-laundering and round-tripping, it may not be welcomed well by offshore funds registered in tax-haven jurisdictions. Further, such volatility in the regulatory system raises serious questions and affects the structuring strategy of various offshore funds," adds Bajaj.

FPIs had pumped in close to ₹20,225 crore in Indian equities as of Thursday, according to data with the CDSL.

Among the largest FPIs investing in India are the Singapore government, with an assets under custody (AUC) of ₹1.54 trillion, followed by Capital with ₹1.13 trillion. Norges, Nalanda, Invesco, and CPPIB are other top FPIs, according to data with primeinfobase.

According to Manmeet Kaur, principal associate, Karanjawala & Co, general obligations and responsibilities of FPIs under provisions of Sebi's FPI Regulations of 2019 mandate them to provide additional information or documents including beneficial ownership details of their clients, as may be required by the depository participant or the regulator.

The regulator has reportedly told offshore funds that failure to comply with the latest directive by the September timeline would lead to a wind-up of the fund by March 2024.