



Fund Managers Fear Foreign Outflows After SEBI's New Rules

Jayshree P Upadhyay
@jaysh88

Published: Sep 03 2018, 7:40 PM

Last Updated: Sep 04 2018, 12:07 AM

Foreign funds have started winding up or reworking their structure after India's market regulator barred non-resident Indians from controlling them, four fund managers told BloombergQuint requesting anonymity.

Trident Trust, Mauritius is winding up its Class A of Emerging India Focus Funds due to the restrictions, according to its email to investors—BloombergQuint has reviewed the mail. Under Class A, the majority shareholders are non-resident Indians, it said. Trident Trust didn't respond to emailed queries.

The Securities and Exchange Board of India, in an April 10 circular, barred non-resident Indians, persons of Indian origin and overseas citizens of India from being “beneficial owners” or “in control” of foreign portfolio investors. A fund manager is considered to be in control if the beneficial ownership of a foreign fund can’t be defined—like in case of a diversified investor base.

SEBI on Aug. 21 extended the deadline to comply with the regulations by the end of 2018.

Nandita Agarwal Parker, president of Asset Managers Roundtable in India, said the government doesn’t realise the severity of the problem it has created for the fund management industry. “If not corrected immediately, about \$75 billion worth of investments will need to be unwound in a short period, causing a stock market crash and a sharp fall in the rupee in an election year.”

BloombergQuint could not independently verify investments by foreign funds managed by NRI, PIO and OCI managers.

An opportunities fund based out of Mauritius is also encountering delay in getting a category II foreign portfolio investment licence as the fund manager is an NRI, said one of the managers quoted above. The fund already has a commitment of \$50 million.

Because of the change in the regulations, funds have to look for a strategic partner, said the manager. While it has found one, approval of the Financial Services Commission, Mauritius, is required. Redoing documents and a change in shareholding led to a delay in getting the FPI licence, the fund manager said.

AMRI, with 13 resident asset managers as its members, on Aug 29. wrote to SEBI that the April 10 circular resulted in restrictions on investments and, in some cases, it has even placed a blanket ban on investment through certain foreign portfolio investors.

The funds don’t have any reservations on complying and disclosing beneficial ownership, said Nishith Desai of Nishith Desai Associates, a law firm that deals with foreign portfolio investors. “They are protesting the blanket ban.”