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Sebi's view to not restrict participation by Mauritius-based FPIs is pragmatic, say experts (Aniruddha Chowdhury/Mint)

Sebi clarifies Mauritius funds will continue to get registration

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- The Sebi statement comes after Mauritius was placed on a global terror-financing watch list
- Funds coming in from Mauritius will be subject to stricter KYC norms: Sebi

MUMBAI : The markets regulator on Tuesday clarified that foreign investors from Mauritius will continue to be eligible for registration in India but will face tougher disclosure requirements.

The Securities and Exchange Board of India's (Sebi's) statement comes after the island nation, a tax haven and the second-largest source of foreign portfolio investments into India after the US in 2019, was placed on an international terror-financing watch list. Funds coming from Mauritius will now be subject to stricter know-your-client (KYC) disclosures, compliance and regulatory scrutiny, a Sebi spokesperson said. Fund managers were, however, sceptical whether Sebi will allow them to register as foreign portfolio investors (FPIs) under the regulations.

Financial Action Task Force (FATF), a Paris-based monitoring group to tackle terrorism financing and money laundering, last week put countries, including Mauritius, Pakistan and Cayman Island on its grey list, which indicates the jurisdictions have weak rules to prevent money laundering and terror financing. The list also includes countries that have committed to resolving identified strategic deficiencies within agreed time frames and are subject to increased monitoring.

Richie Sancheti, head of investment funds at law firm Nishith Desai Associates, said that Sebi's move is pragmatic. "The guidance from FATF to its members (which includes India) in such cases is to take this into account in their risk analysis. Accordingly, the view taken by Sebi to not restrict participation by Mauritius-based FPIs and new applicants is pragmatic. Had Mauritius been classified as a "non-cooperative country" in addition to a bar on FPI participation, it could have also triggered restriction on LRS (liberalised remittance scheme) remittances to Mauritius-based outbound structures," said Sancheti.

"Non-FATF countries were seldom a favourable destination for US or UK investors. But for funds looking for treaty benefits in certain type of investment instruments, Mauritius has always been a favoured route. The Sebi clarification is a big boost for Mauritius since the cloud of negativity is now gone. However, we may still see enhanced monitoring on FPI as well as FDI investments," said Neha Malviya, director of Wilson Financial Services.

Sebi's clarification comes as a positive for investors but it may not resolve all concerns around Mauritius.

"A fund set up in a FATF grey list jurisdiction may not find favour with certain sophisticated institutional investors. They typically route their investments through jurisdictions that do not attract high strictures from FATF. So even if Sebi continues to grant registrations, we may see fund managers, particularly those raising institutional capital, shy away from Mauritius until it's out of the grey list," said Tejesh Chitlangi, senior partner at law firm IC Universal Legal.

Putting Mauritius on the watch list was seen as the second blow for the nation as funds from the country also attract additional tax due to indirect transfer provisions.