

## Number of FIIs sans broad-based structure dwindles

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The number of foreign institutional investors (FIIs) who have not met the Securities and Exchange Board of India's (Sebi) order to broad-base their fund structure has declined significantly. It stood at just more than 1% compared to over 10% previously, according to the latest data from the regulator.

There were 179 accounts out of 1,718 registered FIIs that were non-compliant in December 2010. This number has declined to 23, Sebi data show. It excludes close to 70 FII accounts who have surrendered their registrations as they were not willing to change their structure.

The fall in numbers follows restructuring by some institutions and undertakings by others to the regulator saying that they would do so in a time-bound manner.

"Most of our clients have been able to modify their structure in line with Sebi directives," said Siddharth Shah, head funds practice at Nishith Desai Associates.

Similarly, the number of non-compliant sub-accounts has come down to 17 from 326 in December 2010, which included 230 entities who have willingly surrendered their registrations.

"The decline in the total number of FIIs does not indicate that all institutions have managed to become broad-based. The Sebi data only reflects those institutions who have not given an undertaking that they are compliant," said Suresh V Swamy, executive director, tax & regulatory services at PricewaterhouseCoopers.

Sebi had asked FIIs and sub-accounts in a circular in April 2010 to make sure that those FIIs having multi-class vehicle (MCV) structures or equivalent should make their structure broad based. For a fund to be considered broad based, it should have minimum 20 investors with none of them holding more than 49% of the total shares in the fund.

Prior to this directive, FIIs used to have number of structures like MCVs, protected cell companies and segregated portfolio companies to differentiate funds on the basis of different investment objectives. According to experts, there were apprehensions that such structures could be used to facilitate round-tripping.

Though Sebi had given deadline till September 2010 for submission of undertaking, close to 189 or 12% of total FIIs registered in India, were unable to comply by then.

Going ahead, experts believe that we may see still lesser number of non-compliant FIIs as India continues to be an attractive investment destination for them.

"A few of the funds are trying to raise fresh investments from institutional investors which should help them satisfy the broad-based criteria, but these are difficult times. India is growing at a good rate compared to the American and European economies. Other things remaining constant, India will be an attractive place for FIIs. High interest rates in India also attract overseas investors. Large number of sub-accounts is being registered for investment in the debt markets especially from Japan," said Swamy.

According to latest Sebi data, close to 21 FIIs and 342 sub-accounts have registered in the first five months of this fiscal, taking the total registrations to 1,743 and 6,028, respectively.

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