

Sebi bars 197 FIIs, 350 sub-accounts from fresh trading

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A total of 197 foreign institutional investors (FII) and 350 sub-accounts were barred from taking fresh positions in Indian stock markets from Friday, following their failure to comply with the Securities and Exchange Board of India's April order to broadbase their shareholding.

The Sebi order, which took effect Friday itself, directs these FIIs and the sub-accounts to sell off or unwind their existing positions. These entities constitute 12% of the total number of Sebi-registered FIIs and 6% of sub-accounts. Among the barred entities, 12 FIIs and 125 sub-accounts have approached the regulator to surrender their registration.

Among the non-compliant FIIs are prominent names like ABN Amro Investment Funds, Citigroup Pension Plan, Credit Suisse Asset Management, Deutsche International Trust Corporation, Dubai International Capital, JP Morgan Securities and Standard Chartered Trustees (UK).

On Wednesday, the market regulator had said that non-compliant entities will not be permitted to take fresh positions from October 1.

In April, Sebi had asked entities structured as multi-class vehicles (MCV) to have at least 20 individual investors if they are maintaining a segregated portfolio for each class of shares. The deadline to comply was September 30, 2010.

Industry experts point out that barring these entities from taking fresh positions would not significantly affect FII inflows. "The number of FIIs at this stage constitutes not more than 10% of the overall numbers and many of them may not have any significant exposure to India," said Siddharth Shah, principal and head of funds practice at Nishith Desai Associates, an international law firm. He added that non-compliance does not necessarily mean delisting. "It is just that at the current stage, they have not been able to fulfill the Sebi requirement. Possibly many of them are in the process of complying."

There are currently 1,726 FIIs and 5,529 sub-accounts registered in India, out of which 78 FIIs and 363 sub-accounts were registered in FY2010. An MCV is a structured entity in which investors in each class have different contractual agreements with FIIs or sub-accounts regarding their investment strategies, liabilities and fund manager. To meet the broad-based criteria set by Sebi, each class or unit should have a minimum of 20 individual investors or a minimum of three investors out of which at least one should be an institutional investor.

Sebi's move to widen the MCV shareholding base was aimed at enhancing transparency in the way these institutions operate.

Entities with different classes of shares have investors who are sometimes neither registered with Sebi or directly monitored, which could potentially become conduits for money-laundering and round-tripping.

Following the Sebi directive in April, many entities structured as MCVs raised fresh institutional money to broaden their investor base. Those who couldn't either consolidated their cells into one or wound up some of their cells.