Mauritius puts India-focussed funds, others under its regulatory lens

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Ashley Coutinho | Mumbai April 16, 2019 Last Updated at 11:11 IST

Representative image

Mauritius has stepped up scrutiny of offshore fund structures as the country tries to shed its image as a quasi-tax haven and showcase its compliance with all major international tax norms.

The move has put several global and India-focussed funds wanting to set up structures in Mauritus under the country's regulatory glare.
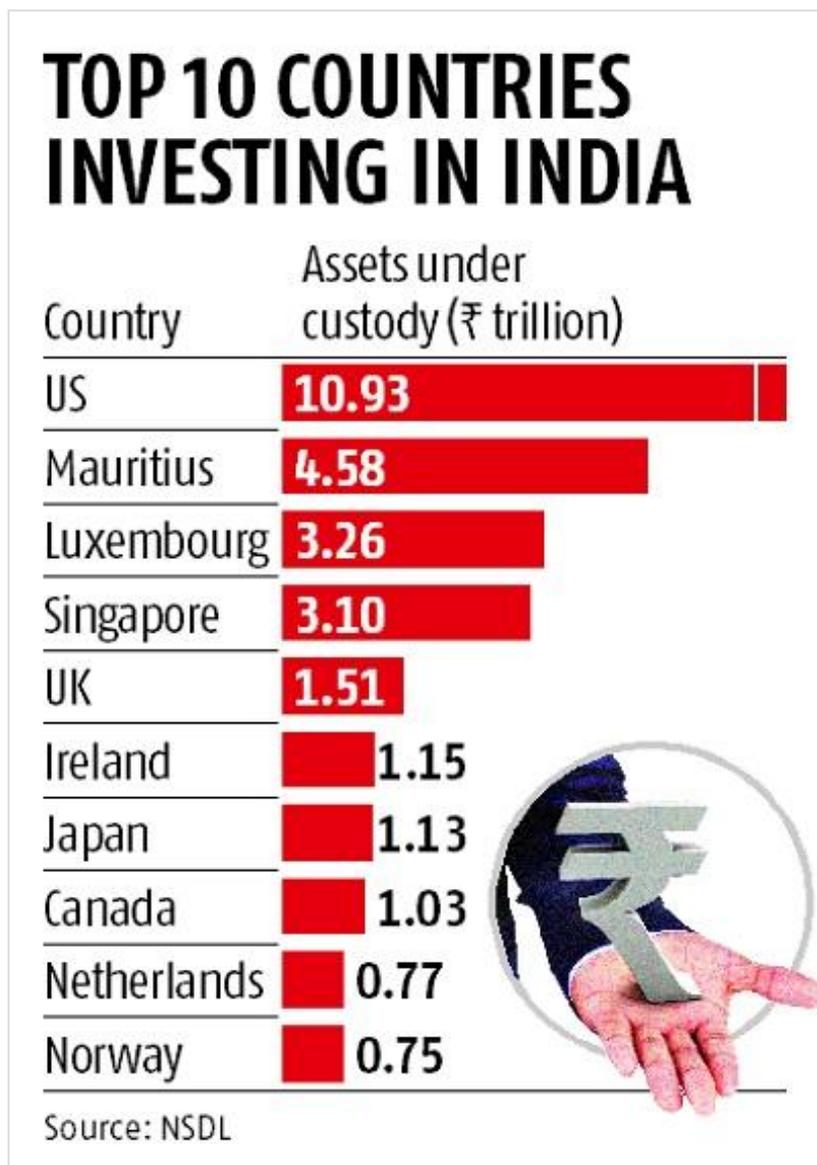
The country's financial services regulator Financial Services Commission (FSC) is combing through KYC information of new fund applications as well as undertaking extensive background checks on fund sponsors and fund managers, said sources. FSC is also reaching out to regulators of countries in which these sponsors or managers are based to verify their antecedents.

"The look-through principles are being applied stringently. The authorities are resorting to telephonic interviews with some of the applicants and examining issues or complaints filed against them in the past," said Richie Sancheti, head – investment funds, Nishith Desai Associates.

The increased scrutiny is pushing back timelines and jacking up costs of setting up India-focussed funds in Mauritius.

"FSC is being cautious in granting licences to offshore funds and/or sub funds. In the past few months, FSC has been taking anywhere between 2 and 3 months to approve an application compared to a month or so taken earlier," said a person familiar with the matter. The delays may prompt several India-focused or global funds wanting to domicile in Mauritius to set up these structures in other countries such as Cayman, Bermuda or Singapore, said experts.

The upside will be that fund structures from Mauritius will come under lesser scrutiny from other jurisdictions in the future. "The higher scrutiny will help Mauritius improve its reputation in the eyes of global regulators," said Sancheti. To be sure, Mauritius remains a preferred destination for Asian investors, especially those wanting to invest in debt and derivatives instruments, as there is no tax to be paid on investments in these asset classes except for the interest part in the debt instrument.

TOP 10 COUNTRIES INVESTING IN INDIA

Country	Assets under custody (₹ trillion)
US	10.93
Mauritius	4.58
Luxembourg	3.26
Singapore	3.10
UK	1.51
Ireland	1.15
Japan	1.13
Canada	1.03
Netherlands	0.77
Norway	0.75

Source: NSDL

Mauritius mainly provides for two types of investments vehicles for offshore funds: Collective investment schemes which can invest across asset classes and closed-ended or private equity funds via an investment holding company.

"Mauritius has been making efforts to improve its reputation and trustworthiness of its jurisdiction. It has adopted a development strategy for its financial services sector which is based on continuous improvement, transparency and compliance with international norms and standards," said Neha Malviya, director, Wilson Financial Services, an FPI-centric brokerage.

The efforts have started to pay off. For instance, Mauritius did not figure in the European Commission's new list of 23 countries with strategic deficiencies in its anti-money laundering and counter-terrorist financing frameworks that was announced in February this year.

In a recent note, the Economic Development Board, Mauritius, observed that the country is compliant with all the Organisation for Economic Co-operation and Development (OECD) norms, including the Global Forum on Transparency and Exchange of Information for Tax Purposes, the Base Erosion and Profit Shifting project, and the Common Reporting Standard.

Companies operating in Mauritius are subject to stringent substance requirements, including minimum number of resident directors and full-time employees, according to the communique.

Late last year, Mauritius had amended its Income Tax Act and inserted a clause for determining the place of effective management, making it difficult to establish residency in the country and posing a new headache to Indian private equity as well as portfolio investors putting money into the country.