Corpsec Hotline

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HEDGE FUNDS: NOT A COMPLETE NO-NO

The issue of hedge funds has been doing the rounds in the regulatory circles for sometime now, starting with the Securities and Exchange Board of India (**SEBI**) report on hedge funds released in May 2004. Currently there are around 700 FIIs registered with SEBI, of which 22 to 25% are hedge funds.

In his recent interview (featured in Business Standard, June 27, 2005), the SEBI Chairman, Mr. M. Damodaran, has expressed the regulator's perspective and concerns on hedge funds per se and their exposure to Indian capital markets.

The Chairman clarified that the traditional concern with hedge funds is the volatility that they bring to the capital markets on account of sudden flight of capital triggered by their high risk taking preferences. However, the Chairman expressed that this would not be a major concern if there are enough players to balance out the exit of some players. In fact, in response to the specific question regarding whether SEBI proposes to take any additional market stabilization measures he categorically declined and added that more money and more stocks would be the market's own contribution to itself. The Chairman also expressed that in terms of hedge funds the real worry is the character of entities and not the conduct of the market players.

Thus, if entities that are regulated in their home jurisdictions are willing to comply with the KYC norms under the FII regime, they are welcome provided the home country regulators adhere to governance levels acceptable to SEBI.

To read the whole interview,click here. To read the SEBI report on hedge funds, click here.

You can direct your queries or comments to Shagoofa Khan and Kishore Joshi.

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