

## Corpsec Hotline

March 19, 2007

### WOULD HEDGE FUNDS BE ULTIMATELY ALLOWED UNDER THE FII ROUTE?

The Securities and Exchange Board of India ("SEBI") is proposing to permit hedge funds to register with it as a foreign institutional investor ("FII") and directly participate in the Indian capital market. SEBI chairman, Mr. M. Damodaran, has made this announcement at a meeting in Singapore recently.

#### Background

Hedge funds are a class of investors investing on a global basis. While the term 'Hedge Fund' has not been defined under the Indian securities laws, SEBI in its report on hedge funds referred to them as unregistered private investment partnerships, funds or pools that may invest and trade in many different markets, strategies and instruments (including securities, non-securities and derivatives) and are not subject to regulatory requirement in their home country.

At present hedge funds are not permitted to invest in Indian portfolios. They are mainly investing in India through offshore derivative instruments, including participatory notes ("PNs"). PNs are instruments issued by FIIs against underlying Indian securities. Through this route, hedge funds can derive the economic benefit of investing in Indian securities without registering as FIIs or their sub-accounts and without being supervised by the SEBI.

#### Regulatory aspects

Even though there is no express prohibition in the SEBI (Foreign Institutional Investors Regulations, 1995 ("FII Regulations")) on hedge funds from registering as an FII with SEBI, their unregulated nature prevents hedge funds from registering as an FII. Under the present FII Regulations, hedge funds cannot approach SEBI for registration as an FII since the norms explicitly provide that only entities regulated by a foreign regulatory authority can be registered as FIIs.

Further, there are no provisions in the FII Regulations preventing hedge funds from investing in India as an FII sponsored registered sub-account. While most hedge funds can meet the requirements of the sub-accounts of registered FII, SEBI currently withholds consideration of applications where it is found that the sub-account is a hedge fund.

#### Implications

Providing hedge funds a direct entry in the Indian capital market would bring them under the direct supervision / jurisdiction of SEBI. This would enable SEBI, whenever required to seek information about the ultimate beneficiaries investing through such hedge funds. This may also remove apprehensions that any India regulatory authority may have that some of the hedge funds are involved in money laundering.

It is, however, to be seen as to when and to what extent SEBI would open up the FII route for hedge funds, as this proposal has to be blessed by the Ministry of Finance ("MoF") as well; especially in view of SEBI's similar proposals in the past, which were not approved by the MoF.

Source: *Business Standard*, March 19, 2007.

- Kishore Joshi & Shiju P.V.

You can direct your queries or comments to the authors

#### DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

## Research Papers

### New Age of Franchising

June 20, 2025

### Life Sciences 2025

June 11, 2025

### The Tour d'Horizon of Data Law Implications of Digital Twins

May 29, 2025

## Research Articles

### 2025 Watchlist: Life Sciences Sector India

April 04, 2025

### Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

### INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

## Audio

### CCI's Deal Value Test

February 22, 2025

### Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

### Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

## NDA Connect

Connect with us at events, conferences and seminars.

## NDA Hotline

Click here to view Hotline archives.

## Video

### Vyapak Desai speaking on the danger of deepfakes | Legally Speaking with Tarun Nangia | NewsX

April 01, 2025

**SIAC 2025 Rules: Key changes &  
Implications**

February 18, 2025

---