

Corpsec Hotline

October 23, 2007

SUMMARY OF CONFERENCE/VIDEO CALL HELD ON OCTOBER 22, 2007 WITH THE CHAIRMAN OF SEBI, MR. M. DAMODARAN AND FIIS

Summary:

1. The first point was with regard to the time taken for FII registration. The Chairman emphasized SEBI's commitment to expedite the FII registration process and to substantiate this he pointed out that SEBI had granted FII registration to certain applicants in less than couple of weeks.
2. During his speech, the Chairman stressed upon the need for foreign portfolio investors to come directly in the Indian markets rather than indirectly through Offshore Derivative Instruments ("ODIs") and indicated that SEBI will revisit the FII Regulations to see what other categories can be included.
3. The Chairman acknowledged that many FIIs issuing ODIs hedged their exposure through their own proprietary sub-accounts and therefore a complete ban on such sub-accounts would be unreasonable. To address this he proposed that existing proprietary sub-accounts, willing to convert themselves in to FIIs, will have the option to send a letter of intent to SEBI within 24 hours of the conference call followed by a completed FII application within a week. Reacting to a query, the Chairman clarified that such proprietary sub-account will be allowed to use the transition period of 18 months in respect of winding up of ODIs issued that have underlying exposure to derivative segment. The Chairman also indicated that SEBI was not considering of extending this benefit to other categories of sub-accounts like "foreign corporate sub-account" even if they may be issuing ODIs.
4. In respect of the manner of calculating AUC in India, the Chairman clarified that the exposure of the FII and its proprietary sub-accounts only will be considered. The Chairman further clarified that for the purpose of calculating AUC an aggregate of equity and debt investments in India by the FII will be taken into account.
5. The Chairman clarified that SEBI contemplates FII registration for more than one entity from within the same group.
6. The Chairman acknowledged that under the current FII Regulations, those sub-accounts that are not regulated will not be in a position to seek FII registration in their own right. However, the Chairman clarified that this aspect will be considered in its Board meeting of October 25, 2007 with a view to further expand the categories of entities that can be allowed to register as FII.

Conclusion:

The Chairman indicated that the comments received on the draft policy paper will be considered in the board meeting which is expected to take place on October 25, 2007. Further, there is a need to clearly lay down the manner of computing AUC of FIIs in India. We also hope that the stance of SEBI on certain other outstanding issues like allowing hedge funds/managers to register as FIIs, use of third party FIIs, FII applicants that have real estate background and focus, NRI/OCB investors etc. is spelled out in clear terms. The Chairman's assurance that present regulatory regime for FII registration, including the eligibility criteria, will be relaxed for the purpose of enabling more foreign investors to register as FIIs, is commendable. It remains to be seen whether SEBI will relax the current restrictions such as the applicant should have one year track record and the applicant should be regulated by a recognized foreign regulator, etc. Relaxation of these restrictions will allow more investors to access directly the Indian capital market. In addition, it is important to see if SEBI will allow sub-account registration under foreign corporate and foreign individual categories.

- Divaspati Singh & Suneet Barve

You can direct your queries or comments to the authors

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