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Cayman's Iosco link to help hedge funds gain direct entry

Our Bureau MUMBAI

A STRING of recent changes could slowly pave the way for direct entry of hedge funds into the Indian securities market.

Cayman, the Caribbean offshore financial centre and a favourite tax haven of money managers, has been admitted as a member of the International Organization of Securities Commissions (IOSCO), the global standard setter for securities markets. The move could encourage the Securities and Exchange Board of India (Sebi), the local capital market regulator, to give hedge funds — most of which are registered with Cayman — direct access to the Indian market.

Cayman Islands, with its investorfriendly laws, has emerged as the most-favoured jurisdiction for fund formation, and is currently the fifthlargest banking centre in the world. The financial services regulator, Cayman Islands Monetary Authority (CIMA), is now a party to the IOSCO multilateral memorandum of understanding. The MoU provides the framework for cooperation among securities regulators.

"With CIMA getting an ordinary member recognition from IOSCO, it may open up an opportunity for several hedge funds and investment funds to seek direct registration with Sebi as an FII rather than use other indirect access routes like third party FIIs," Siddharth Shah, head of funds practice, Nishith Desai Associates, said. "By far, Cayman is the most popular offshore fund jurisdiction for funds and this could encourage many funds to seek direct FII registration with Sebi," Shah added.

Very few hedge funds are currently registered as FIIs in India. Some of these funds were allowed registration after a scrutiny of the track record of fund managers and were perceived as more of an exception to the rule. Somasekhar Sundaresan, partner, J Sagar Associates, said: "It's a positive development, as it could result in better co-operation between regulators. There are several Cayman-registered foreign funds interested in India. It is too early to comment on whether Cayman's IOSCO membership will result in registration of Cayman FIIs going up, but certainly the comfort level will improve."

The development comes at a time when emerging markets are competing with each other to attract the huge liquidity created through money infusion by central banks across markets. So far in 2009, India has seen net FII inflows of little over \$5 billion.

In a recent statement, CIMA's deputy MD said some countries either do not allow investment vehicles from non-IOSCO member countries to be sold in their jurisdictions or will require greatly-enhanced due diligence which makes it more difficult to do business with those jurisdictions. "The IOSCO membership will remove these impediments and open up markets for Caymandomiciled securities providers," said the CIMA official. According to UR Bhat, MD of Dalton Capital Advisors (India), there will be better exchange of information as all IOSCO members will follow some standard regulations. "So, in that sense, there will be an increased comfort to allow Cayman-based FIIs," he said.

But not everyone is confident that this would lead to more FII registrations. "Cayman's IOSCO membership need not result in island-

registered FII registrations going up. As this will result in increased compliance, I am not sure how many of these entities will be eligible. The ball is in Sebi's court," said a senior official at Man Investments, who did not wish to come on record.