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## All eyes on FII as new rule sets in

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All eyes will be on foreign fund flows into the stock markets for the next few days after the Sebi stuck to its deadline of September 30, barring foreign institutional investors (FIIs) and their sub-accounts from making fresh purchases from October 1 unless they comply with new rules.

Sebi had directed FIIs to declare that they are not multi-class share vehicles (MCVs) by constitution and do not have an equivalent structure. FIIs have to declare that their investment contains only single-class shares instead of MCVs.

Going a step further, Sebi said it would place the list of non-compliant entities on its website.

But, legal consultants and market experts said that most of the FIIs and sub-accounts have either complied with the new rules or are in the process of complying it in coming days.

While some say most of the FIIs and sub-accounts have complied with the rules, which will become effective from Friday, there are others who reckoned that about 30-35 per cent of FIIs are yet to comply with the rule.

Said Siddharth Shah of Nishith Desai Associates, a leading law firm: "I'm sure there are FIIs and sub-accounts who are yet to comply with the new rules. But, our sense is that such number is not big to have an overbearing impact on the market. Primarily, Sebi had given adequate time — almost six months — for applicants to adhere to the new rules. "Most have either complied or are in the process of complying with the rules."

But Neerav Merchant, associate partner at Majmudar & Co International Lawyers, said: "Some proactive FIIs may have already complied with the Sebi guidelines as they had substantial time for doing so. However, based on rough estimates, it is inferred that around 30-35% of the registered FIIs may not have complied."

If Merchant is correct, it will have some serious impact on the market given that FIIs have been the key drivers this year.

"On a side note, the recent circular may have a negative impact on the recent momentum seen in the Indian stock markets, which predominantly has been driven by FIIs. Apparently, such a negative impact may even make Sebi come up with more flexible norms in the near future to facilitate compliance by non-compliant FIIs," said Merchant.

As on September 30, there were 1,726 FIIs registered with Sebi. The number of sub-accounts with Sebi is 5,523. FIIs invested a record \$18-odd billion in Indian stocks this calendar.

The new rule, however, will see the exit of some FIIs from the Indian markets. "There are also others who have decided to wind up their operations. However, they are very few in number; and in our assessment, it won't be a number that will significantly impact the capital flow," Shah said.

Sudip Bandyopadhyay, managing director & CEO of Convexity, a brokerage firm, felt FIIs, which are serious players in the Indian stock markets, should have already complied with the new regulations. "I don't think the market will have a major impact because of some big FIIs pulling out the money due to the new rules," he said.

According to Sebi, from Friday, FIIs and sub-accounts that have not complied with would not be permitted to take fresh positions in cash and derivatives markets while they can retain their current positions or sell off/unwind.

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