

SEBI Chief Raises Money Laundering Concerns Over Private Equity, Venture Capital Funds

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SEBI Chairman Ajay Tyagi red-flagged private equity, venture capital and hedge funds as a possible tool for money laundering.

Such alternate investment funds need immediate attention and have forced the regulator to check possible money-laundering tendencies, Tyagi said while addressing members of Indian Private Equity and Venture Capital Association in Mumbai today. "It has to be ensured that at all costs that AIF route should not be used to circumvent other laws."

AIFs plough in the largest investments in India after foreign portfolio investors. They pumped in Rs 90,000 crore in 2017, higher than what companies raised from capital markets, according to an IVCA presentation. That's expected to hit Rs 1.5 lakh crore this year. AIFs have invested Rs 9.1 lakh crore in India in the last 12 years.

That came after the regulator eased norms for the wealthy and institutional investors ploughing more than Rs 1 crore.

"The AIF route is for educated and high net-worth investors, which why the regulations are liberal and that's the intent of SEBI as well," said Tushar Sachade, partner, financial services at PwC. There is already a plan for an accredited investor definition, he said. "If implemented, that should solve the issue."

Pratibha Jain, partner at law firm Nishith Desai Associates, said it's the source of money, rather than the regulation, that's the issue. "Just like round tripping happens in companies, it's the same concern here."

SEBI doesn't intend to tighten regulations at the moment. "We don't need any further checks and balances," said Tyagi. "But industry should self-regulate."

A proper KYC by investment manager regulated by SEBI should address the concerns, said Sachade.

Tyagi also warned the AIF industry against misuse of investment structure. Recent cases of loans disbursed through AIFs violate investment requirements, he said. "Such irregularities have to be curbed immediately."

That leaves no doubt that AIFs cannot provide loans and can only invest in securities. "If lending is in form of securities like non-convertible debentures, that's fine," said Sachade. "But a pure loan is not permissible."