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Q1 sees no FII registrations, but market players unfazed

Stricter SEBI norms, taxation concerns cited as reasons.

No growth in registrations

Date	Registered FIIs*
30-Jun-10	1713
31-Mar-10	1713
31-Dec-09	1706

*total count as on that day

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The number of foreign institutional investors (FIIs) registering with SEBI, which had declined over the last few months, fell to nil in the latest June quarter.

Market participants, however, discount fears of waning FII interest in Indian equities.

They attribute the slower pace of registrations to reasons ranging from SEBI's stricter KYC norms to uncertainty about FII taxation and tax treaties. As further evidence, they point out to the net inflow of Rs 10,433 crore that FIIs poured into stocks last quarter. In an April directive, SEBI had asked new FII applicants to disclose more information about their investment structure in India. Under the new regime, new applicants for registration have to submit an undertaking that they are not Protected Cell Companies (PCCs) and Segregated Portfolio Companies (SPCs). Both have complex ownership structures, which make it difficult for the regulator to monitor the source of the money. The SEBI directive holds good for all new applications made after April 7, 2010. It is also applicable to the existing FIIs and sub-accounts, who have time until September 30 to follow suit.

Some industry observers feel that this has resulted in FIIs taking time to re-evaluate their options for their India investments. Mr Kishore Joshi, senior member of the Funds and Regulatory Practice at Nishith Desai Associates, an international law firm, attributed the slow growth in registrations to the time taken by global investors to re-organise themselves. “Since most fund entities registered as broad-based sub-accounts are multi-share class vehicles, the move to broad base each share class, especially where portfolio is segregated, could have slowed down new registrations into India.”

Mr Punit Shah, Head of Financial Services Tax at KPMG, also attributed the slower growth in registrations to the stricter KYC norms of SEBI.

Mr Atul Gupta, MD, Orbis Financial, however felt that the decline in registrations cannot entirely be attributed to this directive. Highlighting that a large part of FII inflows come from tax havens (especially Mauritius), he attributed it to the “uncertainty” on double taxation avoidance treaties. To some extent, the concerns have been addressed in the revised draft of the Direct Taxes Code released in mid-June.

Mr Vaibhav Sanghavi, Director of Institutional Broking at Ambit Capital, however felt that the regulations on KYC have always been in place ‘in spirit' and “therefore the drop in registrations may have been due to the global market uncertainties.”

Meanwhile, gross inflows from FIIs into the cash markets remained about the same in the June quarter as in the preceding one, though net flows fell. This, however, is in keeping with the trend in global markets said Mr Punit Shah, who also felt that it may not be right to take this as a specific case of waning global interest in India. While it may be difficult to establish the correlation between registrations and inflows, “there undoubtedly is a lead lag effect between the two” explained Mr Gupta. More often than not, new registrations get converted into inflows in a few months down the line.

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