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STREETS AHEAD

Sovereign funds crowd India gate

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A GROWING number of sovereign wealth funds (SWFs), including China's overseas investment arm, Korea Investment Corporation and some from the Gulf region, has sought Sebi's approval to register and invest in the Indian stock market. With the capital market regulator easing norms for SWFs to register as foreign portfolio investors, nine government-owned or controlled funds have submitted their applications to Sebi for formal registration, sources close to the development said.

The list of sovereign funds, which have investible surplus aggregating to hundreds of billions of dollars and are now waiting for regulatory approval to invest in India, includes one of China's state-owned investment vehicles, Korea Investment Corporation, Saudi Arabia, which recently set up a $5.3-billion fund, and SWFs from Oman and Jordan, said a person associated with the registration process.

Lawyers representing some of these funds said since these are large financial entities, government-run and are sometimes opaque in their investment strategies and portfolios, the due diligence process is far more stringent as compared to other categories of foreign portfolio investors. Sebi also has concerns relating to SWFs from certain countries.

Funds' entry may boost capital inflows

SOME of the world's top SWFs have been operating in India for long. For instance, the early birds include the biggest of them — the Abu Dhabi Investment Authority — credited with assets of over $875 billion, which has been investing in Indian markets for over a decade. So has the Government of Singapore Investment Corporation (GIC), which has over $100 billion in assets. Temasek Holdings, another investment arm of the Singapore government, has also been active for a while. Others include Norway's government pension fund, reckoned to be one of the best in terms of corporate governance practices, and Kuwait Investment Authority.

The majority of the 20 or so SWFs in operation now have been promoted by countries enjoying a boom in revenues either owing to record oil prices or a commodity boom, as with Chile. These nations, which have a current account surplus, have carved out a part of their foreign exchange reserves funds to invest in a variety of assets, including stocks, to earn higher returns. India is yet to embark on such a course, as the country has a current account deficit.

In May this year, Sebi revised its foreign institutional investors regulations of 1995, to give effect to policy measures on offshore derivative instruments (participatory notes) by including sovereign wealth fund as a new investor category. Following the easing of rules, quite a few SWFs have applied to Sebi. The potential entry of these funds could boost capital inflows at a time when foreign portfolio investors have sold stocks aggregating $6.5 billion since the beginning of 2008. "Professionally-managed sovereign wealth funds can be a good source of long-term capital for an emerging economy like India," said Siddharth Shah, Head-Funds Practice, Nishith Desai Associates.

The International Monetary Fund estimates that the size of SWFs could rise from $2-3 trillion now to $6-10 trillion over the next five years. Although the large SWFs have helped bolster the capital of Wall Street biggies such as Merill Lynch, Morgan Stanley, UBS and Citi, there have been concerns relating to their investment practices, transparency and also political and commercial objectives. The IMF is working with some of them to evolve a code of best practices in the wake of concerns expressed by some countries.