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Sebi levels playing field: FVCIs subject to same governance norms as FPIs

Mandates disclosure of beneficial ownership, allocates registration and monitoring responsibility to DDPs

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Illustration: Ajay Mohanty

The Securities and Exchange Board of India (Sebi) has notified norms governing foreign venture capital investors (FVCIs), effectively bringing them on a par with those for foreign portfolio investors (FPIs). The amendments represent a comprehensive revamp of the registration and governance framework for FVCIs, ensuring greater parity.

Under the new norms notified on September 5, FVCIs will have to delegate the registration and governance process to designated depository participants (DDPs), in line with those for FPIs.

Furthermore, they will now have to provide details of beneficial ownership under the Prevention of Money Laundering Act.

The changes pertain to registration, eligibility criteria, application requirements, rationalisation of the cost of registration, and the introduction of a renewal fee.

Until now, the registration process and due diligence were handled directly by Sebi, while DDPs will now be entrusted with these responsibilities.

The changes will become effective on January 1, 2025.

“Since the new requirements are yet to come into force, coupled with the fact that the consultative process started more than a year ago, this is expected to provide a sufficient glide path for stakeholders (DDPs and FVCIs, both existing and new) to align themselves with the regulatory expectations,” said Gazal Rawal, partner, Cyril Amarchand Mangaldas.

She added that although this may increase the compliance burden on DDPs amid a raft of regulatory changes, the new norms will enhance governance and transparency.

“Additionally, the application process is expected to be further streamlined in due course, whereby similar to FPIs, the registration, allotment of permanent account number, and know-your-customer for opening of bank and dematerialised accounts for FVCIs will be done through a common form,” said Rawal.

Legal experts believe that the changes are an attempt to replicate the success Sebi has achieved by delegating responsibilities to DDPs in the case of FPIs.

“Concepts such as intimation to the DDP in case of material changes in information, renewal of registration, and the imposition of late fees for renewal have been introduced for FVCIs. This move aligns with Sebi’s broader efforts to reduce its direct involvement in the day-to-day operations of intermediaries and to focus more on policymaking and regulatory oversight for these entities,” said Ritul Sarraf, member, financial services and regulatory practice at Nishith Desai Associates.

“Interestingly, the Press Note 3 restrictions applicable to foreign direct investment from land-bordering countries and the additional disclosure requirements applicable to FPIs from such countries in case of breach of certain investment limits don’t seem to apply to FVCIs,” she added.

In 2023-24, 28 new FVCIs were registered, bringing the total number to 279 as of March 2024. However, 18 registrations were cancelled in the same financial year. Total investments by FVCIs in the Indian market increased by 12 per cent year-on-year to Rs 53,922 crore — of which the highest allocation is towards information technology.

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