India

India's market regulator tightens reporting requirements for offshore funds -document

By Jayshree P Upadhyay

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The new logo of the Securities and Exchange Board of India (SEBI) is seen on the facade of its headquarters in Mumbai, India, April 19, 2023. REUTERS/Francis Mascarenhas/File Photo

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May 24 (Reuters) - India's market regulator has asked all foreign funds investing in the country to identify their parent financial institution to help unravel opaque ownership structures, according to a letter seen by Reuters.

The letter was sent by the Securities and Exchange Board of India (SEBI) to custodian banks, through which funds flow into the country, earlier this month with a request for the information to be provided by September.

The move follows a regulatory investigation into suspected violations in overseas investments in the Adani group of companies. The Adani group has denied all allegations.

A panel appointed by India's Supreme Court to oversee the investigation **cited difficulties in obtaining information** from offshore entities as one reason the regulator has struggled to reach any conclusion.

In its letter, SEBI wrote that it has found instances of foreign portfolio investor (FPI) registration being granted to branches of banks.

"Since the branch of a bank is not a separate legal entity, (the custodian bank) shall ensure that their client is a legal entity," SEBI said.

Custodian banks are also required to identify a senior officer of the legal entity as a beneficial owner in the case that no single investor holds more than 10% in the fund.

The reporting requirement aims to make transparent the sources of money coming into India, said two sources with direct knowledge of the matter, declining to be named as they are not permitted to speak to the media.

"SEBI wants the parent financial institution to be a separate, identifiable legal entity regulated by the appropriate regulator of a cooperative jurisdiction," said one of the sources.

SEBI said funds which fail to identify their parent institutions by September will have to wind up by March 2024.

This is SEBI's "endeavour to pierce through opaque structures and discover actual beneficial owners who ultimately own, control or influence an FPI entity," said Prakhar Dua, leader for financial services and regulatory practice at law firm Nishith Desai Associate.

Reporting by Jayshree P Upadhyay; Editing by Kirsten Donovan

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