

FIIIs, sub-accounts to seek more time to broaden base

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MumbaiNot having succeeded in broad-basing their investor base, several foreign institutional investors (FIIs) and their sub-accounts will seek more time from the capital markets regulator to comply with its guidelines. The deadline for complying with Sebi's rules is September 30, 2010. On April 15, Sebi had asked those structured as multi-class vehicles (MCV) to have atleast 20 individual investors, if they maintain a segregated portfolio for each classes of shares, by September 30. An MCV is a structured entity where investors in each class have different contractual agreement with sub-accounts in regards to investment strategies, liabilities and fund manager.

"Those entities which are finding it hard to fulfil the 'broad base' criteria might approach the regulator seeking extension of September 30 deadline, since it will be quite difficult for them to wind up their investment in a short period of time," said Siddharth Shah, principal and head of funds practice, Nishith Desai Associates, an international law firm, which facilitates registration, fund formation and structuring for FIIs.

Over 250 such entities, which are currently registered with the regulator are believed to be competing hard to rope in overseas pension funds, university endowment funds and high net worth investors (HNI)s to fulfill the Sebi norms. "In fact, a lot of these funds are attempting to restructure themselves as broad based institutions as specified by the capital market regulator," Shah said, adding that wherever different cells of MCV can be consolidated into one class, entities are going ahead and doing it.

"While some entities are trying to raise fresh institutional money to broad base them, others who are finding it difficult to meet the Sebi specified criteria are winding up some of their cells," he said.

Broad basing of investor base is primarily a move by Sebi to bring transparency in fund operations as these entities with different class of shares have investors, who are neither registered with Sebi or directly monitored. To meet the Sebi specified broad-based criteria, each class or units should have a minimum of 20 individual investors in it or a minimum of three investors out of which at-least one should be an institutional investor.

There are currently 1,732 FIIs and 5,544 sub-accounts registered with Sebi as on September 14, 2010. Of them, industry sources said around 5- 10% of these entities have structured themselves as MCV's. Since it is difficult for FIIs or sub accounts to rope in new investors during this short period of time, many of them are trying to target the existing investors according to a senior executive with an overseas custodian bank.