

Tighter rules for FPI beneficial owners on anvil

Sebi sees current threshold as too high for some categories

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The Securities and Exchange Board of India (Sebi) is mooting a stricter framework for identifying “beneficial owners (BOs)” of foreign portfolio investment (FPI) in the country.

The regulator is studying the viability and impact of lowering the threshold for BOs for providing additional information, said people aware of the discussions.

FPIs (fund) are pooled vehicles that put money in domestic securities and are registered with Sebi, just like mutual funds here.

Under the current framework, the beneficial ownership of all the entities that make significant contributions to the fund needs to be disclosed.

If the investor in the fund is a company, the threshold is set at 25 per cent (of the fund corpus), and in case it is a fund or a partnership firm, the threshold is 15 per cent.

In case the FPI is domiciled in a “high-risk” jurisdiction, the threshold for all investors in that fund becomes 10 per cent.

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▶ **Beneficial owner (BO) could be an investor or a shareholder of a fund house who can exercise control over the FPI**

▶ **BOs need to be identified in accordance with PMLA rules**

▶ **These rules prescribe a threshold of 25% and 15% for corporate and non-corporate entities, respectively**

▶ **There is a lower threshold of 10% for FPIs domiciled in ‘high-risk’ jurisdictions**

▶ **Sebi wants to lower the threshold to get a better grip on BOs**

FPI...

For entities that breach these thresholds, the FPI has to submit KYC (know your customer) documents, which include the records of identity, address and financial status, to custodian banks, which facilitate foreign investment in the domestic market. Sebi can seek or access the data of BOs in any fund if it suspects round-tripping or routing of investment using front-entities or complex structures have been formed in violation of the Prevention of Money Laundering Act (PMLA). Obtaining BO data can help Sebi understand if the fund is adequately broad-based or is being controlled by nefarious entities. Sources said the issue of lowering the threshold was discussed at a recent meeting.

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