

Info Capsule

May 6, 2019



THE INSTITUTE OF
Company Secretaries of India

भारतीय कम्पनी सचिव संस्थान

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SEBI PANEL MAY RECOMMEND FPI INVESTMENT IN UNLISTED COMPANIES

The Securities and Exchange Board of India (Sebi) committee on the overhaul of regulations for offshore investors is set to recommend that foreign portfolio investors (FPIs) be allowed to buy shares of unlisted companies. The committee, headed by former RBI deputy governor HR Khan, is expected to include this suggestion in its final report, said two people with knowledge of the matter.

Such a measure would be a boost for startups and other unlisted entities as they will get access to a broader pool of capital. Currently, overseas funders of startups have to come in through the foreign direct investment (FDI) route and hence can only be strategic investors in such companies.

Ease of investing for foreign funds

FPIs is allow to buy shares in unlisted companies will help them bring big-ticket investors on board without having to list on the exchanges. Further, FPIs will be able to pick up smaller chunks of stakes in unlisted companies, something that's typically not done through the FDI route.

"Until now, any FPI that wanted to buy shares in such companies had to set up a separate FDI account," said one of the persons cited above. This would have to be through destinations such as Singapore. "FPIs never showed much interest in unlisted shares in India due to these complexities involved"

Until 2013, overseas investors were allowed to buy unlisted shares under the erstwhile foreign institutional investor (FII) regulations. However, in 2014, Sebi overhauled the rules and introduced the current FPI regime, restricting foreign institutions from dealing in unlisted securities. FPIs are allowed to invest in listed entities and those that plan to be listed.

"Current regulations permit FPIs to invest in 'to be listed' shares and it's unclear as to what should be the timeline by when these unlisted shares should get listed for it to fall within the permissible category," said Tejesh Chitlangi, partner, IC Universal Legal. "Allowing FPIs will eliminate this grey area in the regulation and will also reduce costs for FPIs."

The move will align with Sebi's aim to allow greater participation of FPIs in the Indian capital market. Last year, Sebi allowed FPIs to purchase unlisted debt securities and also invest in local municipal bonds.

"The idea is to improve the ease of investing for foreign funds," said one of the persons cited above. "Permitting them to invest in diverse assets under a single FPI licence would make the FPI route more popular... The proposed changes will need amendments to some of the RBI norms as well." The Khan committee plans to take up the issue with RBI in forthcoming meetings, he said. However, while most hedge funds and broad-based funds have the mandate to invest in unlisted companies, some pension funds and sovereign wealth funds don't .

"FPIs comprise a large universe of investors ranging from pension funds to family trusts. Some of them may not have the flexibility to invest in unlisted securities," said a source who deals with FPIs. "However, funds that pool money from wealthy investors such as hedge funds have more liberal mandates and can capitalise on such relaxations."

The Khan committee is expected to finalise its recommendations in the next two weeks and has already started the drafting process, said the people ..

Source : <https://economictimes.indiatimes.com/markets/stocks/news/sebi-panel-may-recommend-fpi-investment-in-unlisted-cos/articleshow/69193757.cms>
