

SEBI permits ‘Segregated Nominee Account Structure’ in IFSC

Summary

The government has set up India’s first International Financial Service Centre (IFSC), which brings together world-class infrastructure, connectivity, people and technology on a single platform for businesses across the world. In March 2015, SEBI had issued a detailed set of guidelines¹ for establishing IFSCs as part of its efforts to establish a financial hub in the country.

In order to facilitate ease of market access for foreign investors, SEBI vide its Circular² dated 24 May 2018 has permitted foreign investors to trade on stock exchanges located in IFSCs through Segregated Nominee Account Providers (Providers). The Circular specifies the regulatory requirements to be followed by Providers.

Key features of the Circular

The key features of the Circular are as under:

Key features	Details
Eligible Providers	<ul style="list-style-type: none"> SEBI-registered brokers in IFSC SEBI-registered FPIs (Categories I and II) Trading/Clearing members of international stock exchanges/clearing corporations that are regulated by a member of Financial Action Task Force (FATF) such as brokers, depository participants and clearing houses
Registration of Providers	Eligible entities shall be registered with a stock exchange/clearing corporation in IFSC for providing Segregated Nominee Account Structure to their end clients.
Eligibility criteria for Providers	Stock exchanges need to lay down eligibility criteria/norms for Providers, including ‘net worth’, which should not be less than that prescribed by other leading stock exchanges offering similar structures.
KYC of end clients	<ul style="list-style-type: none"> Providers need to ensure appropriate due diligence of end clients as per global standards, including KYC and AML compliance before on-boarding. An end client can open a Segregated Nominee Account with only one Provider and trades of a client are cleared and settled only through one clearing member. Legal Entity Identifier (LEI) code

¹ Securities and Exchange Board of India (International Financial Services Centres) Guidelines, 2015 dated 27 March 2015

² SEBI Circular dated 24 May 2018 – SEBI/HO/MRD/DRMNP/CIR/P/2018/83

Key features	Details
	<p>mechanism may be used to ensure compliance with this requirement.</p> <ul style="list-style-type: none"> Unique Client Code (UCC) should be assigned across all end clients by stock exchanges/clearing corporation in IFSC. It shall be used at the time of placing an order on stock exchanges by Providers.
Margin computation and reporting	<ul style="list-style-type: none"> Margins need to be computed at the end-client level of the Provider. Margins need to be grossed up at and collected from the Provider. Margin reporting shall be at the level of the Provider.
Margin collection	<ul style="list-style-type: none"> Margin needs to be paid by the end client to the Provider. However, the margins may be funded by the Provider based on an agreement between the Provider and the end client. Stock exchanges need to ensure that commercial terms and documentation/agreements entered into between the Provider and end client contain the clause with respect to margin funding arrangement.
Directions for stock exchanges and clearing corporations	<p>Stock exchange and clearing corporations are directed to:</p> <ul style="list-style-type: none"> ensure that the provisions of the Prevention of Money Laundering Act, 2002 (PMLA) and the rules thereof, including those relating to capturing KYC information to the extent applicable to FPIs, are adhered to by Providers for their end clients take necessary steps to put in place systems for the implementation of the Circular, including carrying out necessary amendments to the relevant bye-laws, rules and regulations communicate the status of implementation of the provisions of the Circular to SEBI in the Monthly Report.
Other key points	<ul style="list-style-type: none"> Position limits need to be monitored at the end-client level by stock exchanges/clearing corporations. Stock exchanges, brokers and Providers need to furnish information to SEBI relating to trades on stock exchanges in IFSC originated by/through Providers, including KYC details of their end clients, as and when requested.

Our comments

The Circular will ease access norms for foreign investors. Foreign investors who are not investing in India under the FPI route would be able to simply access the Indian capital market in IFSCs through Providers. The relaxation in funding requirement on the margin payable by the end client would definitely provide the much-needed boost for investment in IFSCs.

However, further guidelines by stock exchanges on the operational aspect of the Nominee Account Structure will be appreciated.



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