

# ***SEBI permits Segregated Nominee Account Structure in IFSC***

May 25, 2018

## ***In brief***

To operationalise the capital markets in India's first International Financial Service Centre (IFSC), the Securities and Exchange Board of India (SEBI) issued a circular<sup>1</sup> in January 2017 specifying the guidelines for participation/ functioning of eligible foreign investors and foreign portfolio investors (FPIs) in the IFSC.

In order to further facilitate ease of market access for foreign investors, SEBI issued a circular<sup>2</sup> on 24 May, 2018 that permits segregated nominee account structure (SNA Structure) in the IFSC.

SNA Structure permits the orders of foreign investors to be routed through eligible segregated nominee account providers (Providers), for trading on the stock exchanges in the IFSC, while adhering to regulatory requirements at the client level.

## ***In detail***

The broad features of the SNA Structure are summarised below.

### ***Entities eligible to register as Providers***

- SEBI registered brokers in the IFSC;
- SEBI registered FPIs (Category I and II); and
- Trading/ clearing members of international stock exchanges/ clearing corporations that are regulated by a member of the Financial Action Task Force.

### ***Registration of Providers***

Providers are required to register with a stock exchange/ clearing corporation in the

IFSC for providing SNA services to their end-clients.

### ***Eligibility criteria/ norms for Providers***

Stock Exchanges shall lay down the eligibility criteria/ norms for Providers, including net worth requirement (which shall not be less than that prescribed by other leading stock exchanges offering similar structures), and the clauses/ provisions for obtaining information of the end-clients.

### ***KYC of end-clients***

- Providers to ensure appropriate due diligence of end-clients as per global standards, including know your customer (KYC) and anti-money laundering compliance, before on-

boarding clients to offer SNA services to them;

- An end-client is permitted to open SNA with only one Provider and the same shall be monitored by allotment of a legal entity identifier (LEI) code;
- Trades of an end-client shall be cleared and settled only through one clearing member in the IFSC; and
- Each end-client shall be assigned a unique client code (UCC) by the stock exchange/ clearing corporation.

### ***Order entry***

UCC shall be used by the Providers at the time of order entry for their end-clients.

<sup>1</sup> IMD/HO/FPIC/CIR/P/ 2017/ 003 dated January 04, 2017

<sup>2</sup> SEBI/HO/MRD/DRMNP/CIR/P/2018/83

### ***Margin computation and reporting***

- Margins shall be computed at the end-client level of the Provider.
- Margins shall be grossed up at and collected from the Provider.
- Margin reporting shall be at the level of the Provider.

### ***Margin Collection***

- Margin shall be payable by the end-client to the Provider. However, the Provider is also allowed to fund margins based on a clearly defined bilateral agreement with the end-client.
- Stock Exchanges to ensure that commercial terms and documentation/ agreement entered into by the Provider and end-client contains a clause regarding the aforesaid arrangement.

### ***Monitoring of position limits***

Position limits to be monitored at

end-client level by stock exchanges/ clearing corporations.

### ***Other risk management framework***

All other provisions relating to risk management that are applicable in the IFSC shall also be applicable to the end-clients of the Providers.

Further, stock exchanges, brokers and Providers will be required to furnish information relating to trades on stock exchanges in the IFSC that are originated by/ through Providers—including the KYC details of their end-clients—to SEBI, as and when requested.

The stock exchanges in IFSC are also required to ensure that the provisions of the Prevention of Money Laundering Act, 2002 and the rules thereof, including those relating to capturing the KYC information for sharing with the Central KYC Registry, to the extent that they are applicable to FPIs, are adhered to by Providers

for their end-clients.

### ***The takeaways***

This circular is a welcome move promoting ease of investing in the IFSC for the global investor community. This change will directly benefit offshore investors, who are currently not registered with SEBI as FPIs, by providing them with easy access to the capital markets in the IFSC. The introduction of SNA Structure in the IFSC will provide business opportunities to global capital market players, who will be able to act as Providers. As the next step, the stock exchanges in the IFSC will now have to roll out the eligibility norms to operationalise the SNA structure.

### ***Let's talk***

For a deeper discussion of how this issue might affect your business, please contact your local PwC advisor

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