GLITCHES IN GENERATION of invoices may delay mandatory disclosures in home countries; brokers make a representation to GST Council on difficulties and ask for relaxations

FPIs Fear Compliance Risks Under the New GST E-invoicing System

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Mumbai: Overseas funds seem unhappy with the GST council, and they anticipate additional compliance burden when a proposed invoicing system kicks in this autumn.

The new electronic invoicing system, taking effect from October 1, requires entities to upload the invoice details on the GST portal on a real-time basis. After FPIs upload, the portal will assign an Invoice Reference Number (IRN), which needs to be mentioned in the invoice.

FPI brokers made a representation to the GST council through the Hong Kong-based industry body Asia Securities Industry and Financial Markets (ASIFMA). These funds said the new GST invoice system would “cause tremendous disruption” while exposing them to compliance risks.

FPIs have reiterated the communication between the FPI brokers and GST Council. However, the GST authorities are not inclined to provide any special dispensation to FPIs, according to ET’s sources.

To be sure, the new norms will apply to any FPI broker with a turnover of more than ₹500 crore - a threshold FPI brokers believe is too low. A mail sent to the GST authorities remained unanswered.

“While the new system is designed to mitigate tax leakage and improve tax compliance, the changes should not impact the working of the sector due to the technical nature,” said Abhishek A Rastogi, partner at Khaitan & Co. “In the past, there have been exceptions created for certain sectors and it is hoped that the representation covering these aspects is addressed pragmatically by the government.”

Several of the big-ticket FPIs, such as multinational banks, are not investors themselves but are brokers and wealth managers trading on behalf of their clients. The actual investors are usually foreign mutual funds, pension funds and insurance companies.

For every transaction these FPI brokers execute for their clients, they generate a contract note. Now, these contract notes would mandatorily need the IRN number, the generation of which could get delayed. However, the clients of these FPIs need these notes within an hour of market close, since they must collate the data and disclose their portfolio and NAVs daily.

This is a regulatory requirement in their home countries, and any delay in disclosures would attract regulatory action. Also, rules of the Securities and Exchange Board of India (Sebi) mandate brokers to generate contract notes within 24 hours of the execution of the trade.

“Brokers required to comply with e-invoicing mechanism under GST may find it administratively cumbersome to generate IRN specifically when they are required to issue contract notes in a time-bound manner,” said Dhaval Jariwala, partner at tax consultancy PNLJ Associates.

Another key challenge is the modification of an invoice if the broker has entered incorrect information as the new system doesn’t allow any modifications to be made. “It will be a compliance nightmare for the brokers since there are also Sebi rules that apply if a contract note is cancelled,” said the managing director of a leading American bank that is an FPI broker. “Also, the stock market is peculiar from other businesses since we generate lakhs of invoices every day based on the trading volume.”