भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA

RBI/2017-18/199

A.P. (DIR Series) Circular No. 31 June 15, 2018

To

All Authorized Persons

Madam / Sir

Investment by Foreign Portfolio Investors (FPI) in Debt - Review

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Schedule 5 to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2017 notified vide Notification No. FEMA.20(R)/2017-RB dated November 07, 2017, as amended from time to time and the relevant directions issued thereunder.

2. A reference is also invited to AP (DIR Series) Circular No. 22 dated April 6, 2018, AP (DIR Series) Circular No. 24 dated April 27, 2018, and AP (DIR Series) Circular No. 26 dated May 1, 2018, on the captioned subject.

3. Based on the feedback received from custodians, FPIs and other stakeholders, it has been decided to provide some operational flexibility as well as transition path for FPIs and custodians to adapt to these regulations.

4. Accordingly, in supercession of the directions contained in AP (DIR Series) Circular No. 24 dated April 27, 2018 and AP (DIR Series) Circular No. 26 dated May 1, 2018, the following directions are issued:

(a) Definitions

(i) "Short-term investments" are defined as investments with residual maturity up to one year;

(ii) The term "related FPIs" shall mean 'investor group' as defined in Regulation 23(3) of SEBI (Foreign Portfolio Investors) Regulations, 2014;

(iii) The term "entities related to the corporate" shall have the meaning assigned to 'related party' in section 2(76)(viii) of the Companies Act, 2013. Issuers that are owned or controlled by the Government of India or State Governments shall be exempted from the definition of "entities related to the corporate";

(iv) "SRs" mean Security Receipts issued by Asset Reconstruction Companies;

(v) "Multilateral Financial Institutions" mean FPIs which are Multilateral Financial Institutions in which Government of India is a member.

(b) Revision of minimum residual maturity requirement

(i) In terms of A.P. (DIR Series) Circular No. 13 dated July 23, 2014, FPIs were required to invest in Government bonds with a minimum residual maturity of three years. Henceforth, FPIs are permitted to invest in Central Government securities (G-secs), including in Treasury Bills, and State Development Loans (SDLs) without any minimum residual maturity requirement, subject to the condition that short-term investments by an FPI under either category shall not exceed 20% of the total investment of that FPI in that category.

(ii) In terms of A.P. (DIR Series) Circular No. 71 dated February 03, 2015, FPIs were required to invest in corporate bonds with a minimum residual maturity of three years. Henceforth, FPIs are permitted to invest in corporate bonds with minimum residual maturity of above one year, subject to the condition that short-term investments in corporate bonds by an FPI shall not exceed 20% of the total investment of that FPI in corporate bonds. These stipulations would not apply to investments in SRs by FPIs.

(iii) The requirement that short-term investments shall not exceed 20% of total investment by an FPI in any category applies on an end-of-day basis. At the end of any day, all investments with residual maturity of up to one year will be reckoned for the 20% limit.

(iv) Short-term investments by an FPI may exceed 20% of total investments, only if the short-term investments consist entirely of investments made on or before April 27, 2018; that is, short-term investments do not include any investment made after April 27, 2018.

(c) Revision of security-wise limit

The cap on aggregate FPI investments in any Central Government security, currently at 20% of the outstanding stock of that security, in terms of A.P. (DIR Series) Circular No. 19 dated October 6, 2015, stands revised to 30% of the outstanding stock of that security.

(d) Online monitoring of investments in G-sec and SDL Categories

i. FPIs were permitted to invest in G-secs till the limit utilization reaches 90%, after which the auction mechanism was triggered for allocation of the remaining limit. With Clearing Corporation of India Ltd. (CCIL) commencing online monitoring of utilisation of G-sec limits, the auction mechanism has been discontinued with effect from June 1, 2018.

ii. Utilisation of FPI investment limits in G-secs and SDLs is being monitored online by the Clearing Corporation of India Ltd. (CCIL). Any transactions in breach of the investment limit in each category will not be accepted. Custodians and FPIs may note that any transaction that leads to a breach of the investment limit for the category will need to be reversed.

iii. Upon sale/redemption of securities (in G-secs and SDLs), the concerned FPIs may reinvest within a period of two working days from the date of sale/redemption (including date of sale/redemption). If the reinvestment is not made within that time period, reinvestment shall be subject to availability of limits for that category.

iv. The primary responsibility of complying with all limits for investment in G-secs and SDLs viz., investment utilization limit, security wise limit in G-secs, concentration limit and minimum residual maturity requirement shall lie with the FPIs and custodians.

v. CCIL will also monitor the various other limits and caps for FPI investment in G-secs and SDLs. The operationalisation of the same will be notified by CCIL.

(e) Concentration limit

Investment by any FPI (including investments by related FPIs), in each of the three categories of debt, viz., G-secs, SDLs and corporate debt securities, shall be subject to the following concentration limits:

(i) Long-term FPIs: 15% of prevailing investment limit for that category.

(ii) Other FPIs: 10% of prevailing investment limit for that category.

(iii) In case an FPI has investments (INV_0) in excess of the concentration limit on the effective date (date on which these concentration limits come into existence), it will be allowed the following relaxations, subject to availability of overall category limits, as a one-time measure:

   a. In case an FPI has investments (INV_0) in excess of the concentration limit on the effective date, it will be allowed to undertake additional investments such that its portfolio size at the end of any day (INV_t) does not exceed INV_0 *plus* 2.5% of investment limit for the category on the effective date. Once INV_t falls below the prevailing concentration limit for the category, the FPI shall be free to make investments up to the applicable concentration limit.
   b. In case an FPI has investments (INV_0) within the concentration limit, but in excess of 7.5% (12.5% in case of FPIs in the 'Long-term' sub-category) of the investment limit for the category on the effective date, that FPI shall be allowed to undertake additional investments such that its portfolio size at the end of any day (INV_t) does not exceed INV_0 *plus* 2.5% of the investment limit for the category on the effective date. Once INV_t falls below the prevailing concentration limit for the category, the FPI shall be free to make investments up to the applicable concentration limit.
   c. All other FPIs will be allowed to invest up to the applicable concentration limit.

(f) Single/Group investor-wise limits in corporate bonds

FPI investment in corporate bonds shall be subject to the following requirements:

(i) Investment by any FPI, including investments by related FPIs, shall not exceed 50% of any issue of a corporate bond. In case an FPI, including related FPIs, has invested in more than 50% of any single issue, it shall not make further investments in that issue until this stipulation is met.

(ii) No FPI shall have an exposure of more than 20% of its corporate bond portfolio to a single corporate (including exposure to entities related to the corporate).

a. In case an FPI has, as on April 27, 2018, exposure in excess of 20% to any corporate (including exposure to entities related to the corporate), it shall not make further investments in that corporate until this requirement is met.

b. 'New' investments (i.e., investments made after April 27, 2018 in corporates other than those referred to in para '4(f)(ii)a.' above) by FPIs would be exempted from this requirement till March 31, 2019. These 'new' investments will, however, have to comply with this requirement thereafter.

c. To facilitate newly registered FPIs to build up a diversified portfolio, FPIs registering after April 27, 2018 are permitted to comply with this requirement by March 31, 2019, or six months from the date of registration, whichever is later.

(iii) The requirements of single/group investor-wise limits in corporate bonds (para 4(f)(i) and para 4(f)(ii) above) would not be applicable to investments by Multilateral Financial Institutions and investments by FPIs in SRs.

(g) Pipeline investments in corporate bonds

(i) Investment transactions by FPIs in corporate bonds that were under process but had not materialized as on April 27, 2018 (pipeline investments), shall be exempt from the requirements specified in paragraphs 4(f)(i) and 4(f)(ii) of this circular, subject to the custodian of the FPI reasonably satisfying itself that:

a. the major parameters such as price/rate, tenor and amount of the investment have been agreed upon between the FPI and the issuer on or before April 27, 2018;

b. the actual investment will commence by December 31, 2018; and

c. the investment is in conformity with the extant regulations governing FPI investments in corporate bonds prior to April 27, 2018.

(ii) Custodians may, based on their assessment of adherence to the above conditions, permit, or not permit, as the case may be, pipeline investments by FPIs without reference to the Reserve Bank.

(h) Other changes

No FPI shall invest in partly paid debt instruments.

5. These directions would be applicable with immediate effect. The directions contained in [AP (DIR Series) Circular No. 24 dated April 27, 2018] and [AP (DIR Series) Circular No. 26 dated May 1, 2018] stand withdrawn.

6. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals, if any, required under any other law.

Yours faithfully

(T. Rabi Sankar)
Chief General Manager