

**September 26, 2007**

To,

All Category - I Authorised Dealer Banks

Madam / Sir,

**Overseas Investment by Mutual Funds - Liberalisation**

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to Regulation 6C and Regulation 26 of Notification No.FEMA120/RB-2004 dated July 7,2004, [Foreign Exchange Management (Transfer or Issue of Any Foreign Security)Regulations, 2004] as amended from time to time (the Notification) and A. P. (DIR Series) Circular No. 97 dated April 29, 2003, A. P. (DIR Series) Circular No. 3 dated July 26, 2006, A. P. (DIR Series) Circular No. 11 dated November 16, 2006, A. P. (DIR Series) Circular No. 53 dated May 8, 2007 and A. P. (DIR Series ) Circular No 72 dated June 8, 2007.

2. The provisions for overseas investments by Mutual Funds registered with Securities and Exchange Board of India (SEBI) have been further liberalized, with immediate effect, as under :

a) Enhancement of the Aggregate Ceiling

The aggregate ceiling for overseas investment by Mutual Funds, registered with SEBI, has been enhanced from USD 4 billion to USD 5 billion with immediate effect. The existing facility to allow a limited number of qualified Indian Mutual Funds to invest cumulatively up to USD 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI, shall continue.

b) Further Avenues for Overseas Investment .

Mutual Funds, registered with SEBI are presently permitted to invest in ADRs / GDRs of Indian and foreign companies, rated debt instruments not below investment grade by accredited/registered credit rating agencies, in the equity of overseas companies listed on a recognized stock exchange overseas, in overseas mutual funds that make nominal investments (say to the extent of 10 per cent of net asset value) in unlisted overseas securities, and overseas exchange traded funds that invest in securities. In order to enable the Mutual Funds to tap a larger investible stock overseas, it has been decided to allow Mutual Funds also to invest in additional instruments, subject to the guidelines issued by SEBI.

Accordingly, the Mutual Funds registered with SEBI, are permitted to invest in :

- i) ADRs / GDRs issued by Indian or foreign companies;
- ii) equity of overseas companies listed on recognized stock exchanges overseas;
- iii) initial and follow on public offerings for listing at recognized stock exchanges overseas;
- iv) foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited / registered credit rating agencies;
- v) money market instruments rated not below investment grade;
- vi) repos in the form of investment, where the counterparty is rated not below investment grade. The repos should not, however, involve any borrowing of funds by mutual funds;
- vii) government securities where the countries are rated not below investment grade;
- viii) derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities;

ix) short term deposits with banks overseas where the issuer is rated not below investment grade;

x) units / securities issued by overseas Mutual Funds or Unit Trusts registered with overseas regulators and investing in (a) aforesaid securities, (b) Real Estate Investment Trusts (REITs) listed in recognized stock exchanges overseas, or (c) unlisted overseas securities (not exceeding 10 per cent of their net assets).

4. Monthly reporting requirement to the Reserve Bank as stipulated vide A. P. (DIR Series) Circular No.3 dated July 26, 2006 and modified vide A. P. (DIR Series) Circular No 72 dated June 9, 2007 would continue for statistical purposes with appropriate modifications to include the above mentioned additional categories of investments. AD Category - I banks may note to submit monthly report to Reserve Bank on or before 10<sup>th</sup> of the following month. Non-submission of the report would be viewed seriously by the Bank

5. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

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,

**Salim Gangadharan**  
**Chief General Manager**