

**January 25, 2006**

To

All Banks Authorised to Deal in Foreign Exchange

Madam / Sir,

**Foreign Investment in Tier I and Tier II instruments issued by banks in India**

Attention of Authorized Dealer (AD) banks is invited to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified by the Reserve Bank of India vide Notification No.20 dated 3<sup>rd</sup> May 2000, as amended from time to time. Regulation 5 of the said Notification read with Schedule 2, 3 and 5 specifies the capital market instruments which can be subscribed to by Foreign Institutional Investors (FIIs) registered with Securities and Exchange Board of India (SEBI) and by Non-Resident Indians (NRIs).

2. With a view to permit banks in India to augment their capital through issue of Perpetual Debt instruments eligible for inclusion as Tier I capital and Debt capital instruments as upper Tier II capital, it has been decided to permit the following category of foreign investors to subscribe to these instruments:

- (i) Foreign Institutional Investors (FIIs) registered with SEBI, and
- (ii) Non-Resident Indians (NRIs)

3. The foreign investments in these instruments will be subject to the following conditions.

- a) The investment by all FIIs in Perpetual Debt instruments (Tier I) should not exceed an aggregate ceiling of 49 per cent of each issue, and investment by individual FII should not exceed the limit of 10 per cent of each issue.

- b) The investments by all NRIs in Perpetual Debt instruments (Tier I) should not exceed an aggregate ceiling of 24 per cent of each issue and investments by a single NRI should not exceed 5 percent of the issue.
- c) The investment by FIIs in Debt capital instruments (Tier II) shall be within the limits stipulated by SEBI for FII investment in corporate debt.
- d) Investment by NRIs in Debt capital instruments (Tier II) shall be in accordance with the extant policy for investment by NRIs in other debt instruments.

4. The issuing banks will be required to ensure compliance with the conditions stipulated in paragraph 3 above at the time of issue.

5. The issue-wise details of amount raised as Perpetual Debt Instruments qualifying for Tier I capital by the bank from FIIs/NRIs are required to be reported within 30 days of the issue in the annexed proforma to the Chief General Manager, Reserve Bank of India, Foreign Exchange Department, Foreign Investment Division, Central Office, Mumbai 400 001. The details of the secondary market sales / purchases by FIIs and the NRIs in these instruments on the floor of the stock exchange shall be reported by the custodians and designated banks, respectively to the Reserve Bank of India through the soft copy of the LEC Returns, on a daily basis, as prescribed in Schedule 2 and 3 of the Notification under reference.

6. The banks issuing Perpetual Debt instruments and Debt capital instruments shall also comply with the guidelines notified by the Department of Banking Operations and Development (DBOD), Reserve Bank of India, from time to time.

7. Necessary amendments to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations are being issued separately.

8. Authorised Dealer banks may bring the contents of this circular to the notice of their constituents and customers concerned.

9. 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 is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

**Vinay Bajjal**  
**Chief General Manager**

**Annex**

**Details of Investments by FIIs and NRIs in  
Perpetual Debt instruments qualifying as Tier-I capital**

a) Name of the bank :

b) Total issue size/  
amount raised (in Rupees) :

c) Date of issue :

FIIs			NRIs		
No of FIIs	Amount raised		No. of NRIs	Amount raised	
	in Rupees	as a percentage of the total issue size		in Rupees	as a percentage of the total issue size

It is certified that

- (i) the aggregate investment by all FIIs does not exceed 49 percent of the issue size and investment by no individual FII exceeds 10 percent of the issue size.
  
- (ii) It is certified that the aggregate investment by all NRIs does not exceed 24 percent of the issue size and investment by no individual NRI exceeds 5 percent of the issue size.

Authorised Signatory

Date

Seal of the bank