RBI/2008-09/240
A. P. (DIR Series) Circular No. 25

October 17, 2008

To,

All Authorised Dealer Category –I Banks

Madam / Sir,

Allocation of FII Investment between debt and equity

Attention of Authorised Dealer Category - I (AD Category – I) banks is invited to sub-paragraphs i) & ii) of Paragraph 1 of Schedule 5 to FEMA Notification No.20 dated May 3, 2000, as amended from time to time, in terms of which Foreign Institutional Investors are allowed to purchase, on repatriation basis, dated Government securities/treasury bills, listed non-convertible debentures/bonds, commercial papers issued by an Indian company and units of domestic mutual funds and Security Receipts issued by Asset Reconstruction Companies either directly from the issuer of such securities or through a registered stock broker on a recognized stock exchange in India, provided that :

(i) the FII shall restrict allocation of its total investment between equity and debt instruments (including dated Government Securities and Treasury Bills in the Indian capital market) in the ratio of 70:30;

(ii) if the FII desires to invest up to 100 per cent in dated Government Securities including Treasury Bills, non-convertible debentures/bonds issued by an Indian company, it shall form a 100 per cent debt fund and get such fund registered with SEBI; and

(iii) the total holding by a single FII in each tranche of scheme of Security Receipts shall not exceed 10 per cent of the issue and the total holdings of all FIIs put together shall not exceed 49 per cent of the paid up value of each tranche of scheme of Security Receipts issued by the Asset Reconstruction Companies.

2. In order to accord flexibility to the FIIs to allocate their investments across equity and debt instruments, the Securities and Exchange Board of India (SEBI), in consultation with the Government of India, vide its Circular No IMD/FII & C/33/2007 dated October 16, 2008 has dispensed with the conditions provided in Regulation 15 (2) of the SEBI FII

Regulations pertaining to restrictions of 70: 30 ratio of investments in equity and debt, respectively. Accordingly, it has been decided, to dispense with the existing provisions under FEMA Regulations, as mentioned in proviso (i) above. However, the stipulations made in proviso (iii) in respect of FII holdings in security receipts issued by Asset Reconstruction Companies shall continue.

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

4. Necessary amendments to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 (Notification No.FEMA.20/2000-RB dated May 3, 2000) are being issued separately.

5. 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,

(Salim Gangadharan)
Chief General Manager-in-Charge