भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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RBI/2015-16/198
A.P. (DIR Series) Circular No 19

October 6, 2015

To,

All Authorised Persons

Madam/ Sir,

Investment by Foreign Portfolio Investors (FPI) in Government Securities

Attention of Authorized 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, 2000 notified vide Notification No. FEMA.20/2000- RB dated May 3, 2000, as amended from time to time. The limits for investment by foreign portfolio investors (FPI) in Government securities were last increased to USD 30 billion vide A.P.(DIR Series) Circular No.111 dated June 12, 2013. Subsequently, the allocation of limits between long term investors[1] and other FPIs was modified and the requirement of investment by FPIs in securities with minimum residual maturity of three years was put in place vide A.P. (DIR Series) Circular No.99 dated January 29, 2014 and A.P. (DIR Series) Circular No. 13 dated July 23, 2014.

2. Attention of AD Category-I banks is also invited to para 30 of the Fourth Bi-monthly Monetary Policy Statement for the year 2015-16 issued on September 29, 2015, in terms of which a Medium Term Framework (MTF) for FPI limits in Government securities was announced to provide a more predictable regime. The features of the MTF are as under:

[1] FPIs registered with SEBI as Sovereign Wealth Funds (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks.

(i) The limits for FPI investment in debt securities will henceforth be announced/ fixed in Rupee terms.

(ii) The limits for FPI investment in the Central Government securities will be increased in phases to reach 5 per cent of the outstanding stock by March 2018. In aggregate terms, this is expected to open up room for additional investment of ₹ 1,200 billion in the limit for Central Government securities by March 2018 over and above the existing limit of ₹ 1,535 billion for all Government securities.

(iii) Additionally, there will be a separate limit for investment by all FPIs in the State Development Loans (SDLs), to be increased in phases to reach 2 per cent of the outstanding stock by March 2018. This would amount to an additional limit of about ₹ 500 billion by March 2018.

(iv) The effective increase in limits for the following two quarters will be announced every half year in March and September.

(v) The existing requirement of investments being made in G-sec (including SDLs) with a minimum residual maturity of three years will continue to apply to all categories of FPIs.

(vi) Aggregate FPI investments in any Central Government security would be capped at 20% of the outstanding stock of the security. Investments at existing levels in the securities over this limit may continue but not get replenished through fresh purchases by FPIs till these fall below 20%.

3. Accordingly, for the current financial year, it has been decided to enhance the limit for investment by FPIs in Government Securities in two tranches from October 12, 2015 and January 1, 2016 respectively as under:

(₹ in billion)

	Central Government securities			State Development Loans	Aggregate
	For all FPIs	Additional for Long Term FPIs	Total	For all FPIs (including Long Term FPIs)	
Existing Limits	1244	291	1535	Nil	1535
Revised limits with effect from October 12, 2015	1299	366	1665	35	1700
Revised limits with effect from January 1, 2016	1354	441	1795	70	1865

4. For the present, the security-wise limit for FPI investments will be monitored on a day-end basis and those Central Government securities in which aggregate investment by FPIs exceeds the prescribed threshold of 20% will be put in a negative investment list. No fresh investments by FPIs in these securities will be permitted till they are removed from the negative list. There will be no security-wise limit for SDLs for now.

5. All other existing conditions, including investment of coupons being permitted outside the limits and investments being restricted to securities with a minimum residual maturity of three years, will continue to apply.

6. Further operational guidelines relating to allocation and monitoring of limits will be issued by the Securities and Exchange Board of India (SEBI)

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

8. 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,

(R. Subramanian)
Chief General Manager