भारतीय रिज़र्व बैंक
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A.P. (DIR Series) Circular No. 24 April 27, 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, 2000 notified vide Notification No. FEMA.20/2000-RB dated May 3, 2000, as amended from time to time and the relevant directions issued thereunder.

2. In terms of AP (DIR Series) Circular No. 22 dated April 6, 2018, the revised framework for Foreign Portfolio Investors (FPI) in debt was announced. It was further stated that a separate notification would be issued announcing other changes affecting operational aspects of FPI investments in debt, in consultation with SEBI.

3. Accordingly, the changes to operational aspects of FPI investment are set forth below.

(a) 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. The minimum residual maturity requirement for Central Government securities (G-secs) and State Development Loans (SDLs) categories stands withdrawn, subject to the condition that investment in securities with residual maturity below 1 year by an FPI under either category shall not exceed, at any point of time, 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.

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Henceforth, FPIs are permitted to invest in corporate bonds with minimum residual maturity of above one year.

(b) 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.

(c) Online monitoring of G-sec utilisation limits

Currently, FPIs are permitted to invest in G-secs till the limit utilization reaches 90%, after which the auction mechanism is triggered for allocation of the remaining limit. With Clearing Corporation of India Ltd. (CCIL) commencing online monitoring of utilisation of G-sec limits, it has been decided to discontinue the auction mechanism with effect from June 1, 2018. Utilisation of FPI limits shall be monitored online thereafter.

(d) 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 any point in time (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 any point in time (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.

(e) Single/Group investor-wise limit 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). In case an FPI has 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 stipulation is met. A newly registered FPI shall be required to adhere to this stipulation starting no later than 6 months from the commencement of its investments.

4. **Other changes**: No FPI shall invest in partly paid instruments.

5. These directions would be applicable with immediate effect.

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