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RESERVE BANK OF INDIA

वेबसाइट : www.rbi.org.in/hindi

Website : www.rbi.org.in

इ-मेल email: helpdoc@rbi.org.in

संचार विभाग, केंद्रीय कार्यालय, एस.बी.एस.मार्ग, मुंबई-400001

DEPARTMENT OF COMMUNICATION, Central Office, S.B.S.Marg, Mumbai-400001

फोन/Phone: 91 22 2266 0502 फेक्स/Fax: 91 22 2266 0358

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Statement on Developmental and Regulatory Policies

This Statement sets out various developmental and regulatory policy measures for developing and strengthening financial markets.

1. Voluntary Retention Route (VRR) for Investment by Foreign Portfolio Investors (FPIs)

The regulatory framework for FPI investment in debt has evolved over the years, influenced by trade-offs in encouraging capital flows and attendant macro-prudential considerations. Several measures have been undertaken in recent times to facilitate FPI investment in debt. To encourage FPIs willing to undertake long-term investments, a special Route called 'Voluntary Retention Route' (VRR) is being proposed. Under the proposed Route, FPIs will have more operational flexibility in terms of instrument choices as well as exemptions from regulatory provisions such as the cap on short-term investments (less than one year) at 20% of portfolio size, concentration limits, and caps on exposure to a corporate group (20% of portfolio size and 50% of a single issue). To be eligible to invest under this route, FPIs would need to voluntarily commit to retain in India a minimum required percentage of their investments for a period of their choice. FPIs would apply for investment limits under the Route through an auction process. A discussion paper on the Route will be placed today on the Reserve Bank's website for public consultation.

2. Regulation of Financial Benchmarks

The robustness and reliability of financial benchmarks are critical for efficient pricing and valuation of financial instruments. Ensuring the credibility of benchmarks promotes their wider adoption which, in turn, facilitates efficient transmission of price signals in the financial system. Following the controversy surrounding the London

Inter-Bank Offer Rate (LIBOR) fixing, the International Organization of Securities Commissions (IOSCO) laid down principles of financial benchmarks that provide the overarching framework to ensure robust and credible benchmarks in financial markets. Many regulators across jurisdictions have come up with regulations for financial benchmarks based on these principles. In India, the [Report of the Committee on Financial Benchmarks](#) had recommended, among other things, regulatory oversight of benchmark administrators. Accordingly, to improve the governance of the benchmark processes, it is proposed to introduce a regulatory framework for financial benchmarks which shall apply, initially, to benchmarks issued by the Financial Benchmarks of India Ltd. (FBIL). Draft regulations will be issued by the end of October 2018.

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Jose J. Kattoor
Chief General Manager