

ERGO

Analysing developments impacting business

FPI- INVESTMENT IN DEBT AND VOLUNTARY RETENTION ROUTE - FURTHER RELAXATIONS INTRODUCED

27 January 2020

The Reserve Bank of India (RBI) revised the features of investment by Foreign Portfolio Investors (FPIs) in India *vide* two circulars published on 22 January 2020, namely the circular on FPI investment in debt (FPI Investment Circular) and Voluntary Retention Route' (VRR) for FPIs investment in debt (VRR Circular).

By way of the FPI Investment Circular, the RBI has introduced the following changes in relation to FPI investments in debt:

- The short term investment limits for FPIs in i) Central Government Securities (including Treasury Bills), ii) State Development Loans and iii) Corporate bonds has been increased from the erstwhile limit of 20% to 30% of the total investment of the FPI in the Central Government Securities (including Treasury Bills) or State Development Loans or Corporate bonds, as the case may be; and
- Similar to exemptions from short term investment limits afforded to FPI in case of investment in security receipts, the FPI Investment circular has extended the said exemption to FPI investment in debt instruments issued by asset reconstruction companies and debt instruments issued by an entity under the corporate insolvency resolution process as per the resolution plan approved by the National Company Law Tribunal under the Insolvency and Bankruptcy Code, 2016.

By way of the FPI VRR Circular, the RBI has announced the following revisions to the FPI VRR route of investment:

- The cap on investment under VRR has been increased to INR 1,50,000 crores from INR. 75,000 crores.
- FPIs that have been allotted investment limits under VRR may, at their discretion, transfer their investments made under the General Investment Limit available to FPI to VRR.
- The scope of instruments that FPIs can invest in has been expanded under VRR to also include Exchange Traded Funds that invest only in debt instruments.

Comment:

With this move, the RBI has bolstered its intention to facilitate and encourage investment by Foreign Portfolio Investors in India by allowing further exemptions and by increasing investment limits.

- Manisha Shroff (Partner), Nandini Paliwal (Associate) and Siddhant Shetty (Associate)

For any queries please contact: editors@khaitanco.com

We have updated our [Privacy Policy](#), which provides details of how we process your personal data and apply security measures. We will continue to communicate with you based on the information available with us. You may choose to unsubscribe from our communications at any time by clicking [here](#).

For private circulation only

The contents of this email are for informational purposes only and for the reader's personal non-commercial use. The views expressed are not the professional views of Khaitan & Co and do not constitute legal advice. The contents are intended, but not guaranteed, to be correct, complete, or up to date. Khaitan & Co disclaims all liability to any person for any loss or damage caused by errors or omissions, whether arising from negligence, accident or any other cause.

© 2020 Khaitan & Co. All rights reserved.

Mumbai

One Indiabulls Centre, 13th Floor
Tower 1 841, Senapati Bapat Marg
Mumbai 400 013, India

T: +91 22 6636 5000
E: mumbai@khaitanco.com

New Delhi

Ashoka Estate, 12th Floor
24 Barakhamba Road
New Delhi 110 001, India

T: +91 11 4151 5454
E: delhi@khaitanco.com

Bengaluru

Simal, 2nd Floor
7/1, Ulsoor Road
Bengaluru 560 042, India

T: +91 80 4339 7000
E: bengaluru@khaitanco.com

Kolkata

Emerald House
1 B Old Post Office Street
Kolkata 700 001, India

T: +91 33 2248 7000
E: kolkata@khaitanco.com