

Inclusion of Sovereign Green Bonds as 'G-Sec' under the liberal 'Fully Accessible Route'

30 December 2024

Introduction

The Reserve Bank of India (RBI), in an attempt to further the proposal of issuance of the Sovereign Green Bonds (SGB) by the Government of India (GoI), has been looking to undertake measures to mobilise resources for green infrastructure.

RBI issued a notification on 7 November 2024 to include SGBs of 10-year tenor issued by the GoI in the second half of the fiscal year 2024-25 under the realm of Fully Accessible Route (FAR) for investment by non-residents in government securities.

The FAR was introduced in March 2020 as a key component of India's broader strategy to strengthen its bond market, attract foreign investment, and further liberalize its financial sector, all while maintaining stability and transparency.

We have summarised the purpose, applicability and process for implementation of the FAR as well as designating of SGBs as a specified security under the FAR, pursuant to the modifications proposed vide various notifications up to the RBI notification (Update) dated 7 November 2024.

Background and purpose

GoI, in the Union Budget 2020-21, decided to open up the investments in certain specified categories of GoI (GSecs), up to a 100% to non-resident investors, and created FAR as a separate route.

The FAR was introduced to facilitate non-resident investments in government securities by removing the investment ceilings that were imposed under existing investment routes, such as the Medium Term Framework (MTF) and the Voluntary Retention Route (VRR). It created a separate, more non-resident-friendly channel for these investments. The FAR would co-exist and operate along with MTN and VRR and was effective from 1 April 2020.

Applicability of the FAR

In relation to the investors

Eligible Investors

The scheme would be applicable to any person resident outside India, i.e., a person who is not:

- (a) residing in India for over 182 days in the preceding financial year, excluding individuals staying outside India for employment, business, or indefinite purposes;
- (b) registered or incorporated in India, as well as offices, branches, or agencies in India or abroad, owned or controlled by persons resident in or outside India, respectively.

In relation to the government securities

Any government securities, which are specified by the RBI as GSecs, for which investment by Eligible Investors under the FAR is allowed and are notified by the RBI by way of the Updates.

Features of the FAR

Eligibility for investment

RBI has been designated with the responsibility of notifying certain GSecs as 'specified securities, making them eligible for investment under the FAR and these GSecs once so designated shall continue to be eligible for investment under the FAR, till maturity. Further, from time to time, RBI has also been authorised to add new tenors or change the tenors of new GSecs to be designated as 'specified securities'.

Investment Limits

Under the FAR, there is no investment ceilings or quantitative limits on investment by Eligible Investors in the GSecs. Further, the restrictions applicable to foreign portfolio investors (FPI) under the directions issued by the RBI by way of notification dated 15 June 2018, i.e., minimum residual maturity requirement, security-wise limit and concentration limit, will not be required to be adhered to under FAR by the Eligible Investors. All investments by Eligible Investors in the GSecs will be under the FAR from the date on which the FAR comes into effect.

Treatment of existing investments in GSecs

All the existing FPI investments in the GSecs shall be reckoned under the FAR. RBI through one of the Updates dated 15 April 2020, also notified that the calculation of outstanding stock of GSecs and utilization levels of limits under the MTF has accordingly been adjusted.

Further, it was also notified that all the investments by the Eligible Investors in the GSecs will be under the FAR from 1 April 2020.

Process for investment in GSecs and reporting under the FAR

- (a) All the FPIs, non-resident Indians, overseas citizens of India and other entities permitted to invest in GSecs under the Foreign Exchange Management (Debt Instruments) Regulations, 2019, can invest under the FAR, as until now under the existing arrangements, such as VRR or MTF.
- (b) Eligible Investors, which do not form part of (a) above, have also been permitted invest under the FAR, through International Central Securities Depositories.

Introduction and inclusion of SGB under the FAR

The GoI, amongst many of their initiatives towards achieving net-zero emissions by 2070 aligning with principles outlined in the United Nations Framework Convention on Climate Change, in the Union Budget 2022-23, introduced measures such as thematic funds for blended finance and SGB which will be issued by the GoI, for the purpose of mobilizing their resources for green infrastructure. Green bonds or green debt securities, as defined under the SEBI (Issue and Listing of Non-Convertible Securities) Regulations, 2021, are debt security issued for funding projects with environmental benefits, including renewable energy, clean transportation, and sustainable waste management, amongst other purposes.

Similarly, the motive of introducing SGBs was to use the proceeds from issuance of these SGBs and to deploy them in various green public sector projects aiming to reduce the carbon intensity of the economy.

According to the RBI notification dated 7 November 2024, 10 year SGBs issued by the GoI in the second half of the fiscal year 2024-25 were categorized as G-Secs under the FAR, offering Eligible Investors all applicable benefits of the FAR on investments in these designated SGBs.

Comments

The FAR introduced by RBI in the year 2020, with the intention of easing the access for non-residents towards investing in the Indian government securities market and now by way of notification dated 7 November 2024 resulting in the inclusion of SGBs of 10 year tenor as GSecs, shall be attracting large funds from major global investors and facilitating inflow of stable foreign investments in GSecs. The same can also be ascertained from the 'Issuance Calendar for Marketable Dated Securities for October 2024 – March 2025' released by the RBI on 26 September 2024, wherein the GoI plans to auction GoI dated securities including SGBs, for the second half of the fiscal year 2024-25 (1 October 2024 to 31 March 2025) for an amount of up to INR 6,61,000 crores.

- *Manisha Shroff (Partner), Arjita Agarwal (Senior Associate), and Mayank Chaturvedi (Associate)*



About Khaitan & Co

Khaitan & Co is a top tier and full-service law firm with over 1200 legal professionals, including 270+ leaders and presence in India and Singapore. With more than a century of experience in practicing law, we offer end-to-end legal solutions in diverse practice areas to our clients across the world. We have a team of highly motivated and dynamic professionals delivering outstanding client service and expert legal advice across a wide gamut of sectors and industries.



This document has been created for informational purposes only. Neither Khaitan & Co nor any of its partners, associates or allied professionals shall be liable for any interpretation or accuracy of the information contained herein, including any errors or incompleteness. This document is intended for non-commercial use and for the general consumption of the reader, and should not be considered as legal advice or legal opinion of any form and may not be relied upon by any person for such purpose. It may not be quoted or referred to in any public document, or shown to, or filed with any government authority, agency or other official body.

www.khaitanco.com | © Khaitan & Co 2024 | All Rights Reserved.

Ahmedabad · Bengaluru · Chennai · Delhi-NCR · Kolkata · Mumbai · Pune · Singapore