भारतीय रिज़र्व बैंक
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To

All Authorized Persons

Madam / Sir

Investment by Foreign Portfolio Investors (FPI) in Government Securities - Medium Term Framework – 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.

2. The Statement on Developmental and Regulatory Policies, Fourth Bi-monthly Monetary Policy Statement, 2017-18 proposed that a detailed review of current regulations on debt investment by Foreign Portfolio Investors (FPI) shall be undertaken to facilitate the process of investment and hedging by FPIs. The regulatory changes would be effective from April 2018. Accordingly, after consultation with the Government of India, the FPI limits are revised as below:

3. **Revision of Investment Limits**

(a) The limit for FPI investment in Central Government securities (G-secs) would be increased by 0.5% each year to 5.5% of outstanding stock of securities in 2018-19 and 6% of outstanding stock of securities in 2019-20.

(b) The limit for FPI investment in State Development Loans (SDLs) would remain unchanged at 2% of outstanding stock of securities.

(c) The overall limit for FPI investment in corporate bonds will be fixed at 9% of outstanding stock of corporate bonds. All the existing sub-categories under the category of corporate bonds will be discontinued and there would be a single limit for FPI investment in all types of corporate bonds.

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(d) No fresh allocation has been made to the ‘Long-term’ sub-category under SDLs. Out of the existing limit of ₹ 13,600 crore for this sub-category, an amount of ₹ 6,500 crore has been transferred to the G-secs category.

(e) The allocation of increase in G-sec limit over the two sub-categories – ‘General’ and ‘Long-term’ – remains at the current ratio of 25:75. However, based on an assessment of investment interest, this ratio has been re-set at 50:50 for the year 2018-19.

(f) Coupon reinvestment by FPIs in G-secs, which was hitherto outside the investment limit, will now be reckoned within the G-sec limits. FPIs may, however, continue to reinvest coupons without any constraint, as they do now. Only at the time of periodic re-setting of limits, coupon investments would be added to the amount of utilization. Accordingly, for the year 2018-19, the stock of coupon investment of ₹ 4,760 crore as on March 31, 2018, would be added to the actual utilization under the ‘General’ sub-category of G-secs. Since this is a new policy, as a one-time measure, the investment limit in the ‘General’ sub-category of G-secs has been increased by an amount equal to the stock of coupon reinvestment as on March 31, 2018. This increase in limit on account of coupon investment amount is over and above the limit indicated in paragraph 3(a).

(g) This coupon reinvestment arrangement will be extended to other debt categories subsequently.

(h) Accordingly, the revised limits for the various categories, after rounding off, would be as under (Table 1):

Table 1 - Revised Limits for FPI Investment in Debt - 2018-19 (Rupees crore)

	G-Sec-General	G-Sec-Long Term	SDL - General	SDL-Long Term	Corporate Bonds	Total Debt
Current Limit	191,300	65,100	31,500	13,600	244,323	545,823
Revised Limit for the HY Apr-Sep, 2018	207,300*	78,700	34,800	7,100	266,700	594,600
Revised Limit for the HY Oct 2018-March, 2019	223,300*	92,300	38,100	7,100	289,100	649,900

* Includes ₹ 4,760 crore one-time addition to limit to provide for inclusion of coupon investment amount in utilization.

4. These directions would be applicable with immediate effect.

5. A separate notification will be issued announcing coupon reinvestment arrangements referred to in paragraph 3(g) and other changes affecting operational aspects of FPI investments in debt, in consultation with SEBI.

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