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RBI allows all non-residents to invest in specified Central Government securities without any restrictions

RBI has rolled out a new route 'FAR' to attract foreign investments in specified long dated Central Government securities. The new route is in addition to the existing routes available for foreign investments in Indian debt securities.

New route for foreign investments in specified Government Securities with no restrictions or ceiling.

Background:

The Indian Finance Minister in her 2020 Budget speech had announced that certain specified categories of Central Government securities would be opened fully for non-resident investors without any restrictions. In line with this announcement, the Reserve Bank of India (RBI) has introduced a new route viz. "Fully Accessible Route" (FAR) for non-residents to invest in certain specific Government securities starting April 1, 2020.

Key features of the new FAR route are as follows:

- Any non-resident can make investments in specified Government securities under this route. Existing investors (including FPIs¹, NRIs², OCI³s etc.) eligible to invest in Government securities, would also qualify for making investments under FAR.
- With the rollout of FAR, FPIs now have three separate routes to invest in Government securities in India. Please refer attached Annexure for key features of all the three routes.
- Presently, Government securities allowed under FAR are as follows:

S No.	ISIN	Security
1	IN0020190396	6.18% GS 2024
2	IN0020180488	7.32% GS 2024
3	IN0020190362	6.45% GS 2029
4	IN0020180454	7.26% GS 2029
5	IN0020190032	7.72% GS 2049

In addition to the above, all new issuances of Government securities of 5-year, 10-year and 30-year tenors from the financial year 2020-21, will be eligible for investment under FAR as 'specified securities'. Also, RBI may add new tenors or change tenors of new securities to be designated as specified securities.

¹ Foreign Portfolio Investors

² Non-Resident Indians

³ Overseas Citizens of India

- Investments under FAR will be free from all investment limits. Further, restrictions applicable on FPI investments in Government securities under the General Investment route (e.g. Residual maturity condition, security-wise limit, concentration limit) will not apply to investments made under FAR.
- All existing investments (by FPIs or other investors) in any of the above securities will henceforth be reckoned under FAR. This implies that investments by FPIs (and other investors) in the above securities will not be subject to any investment restrictions otherwise applicable to investments in Government securities. With the exclusion of above securities from General Investment route, FPIs have been granted a period of 1 year to readjust their remaining investments under the General investment route.
- Non-resident investors, hitherto not allowed to invest in Government securities, can now invest under FAR through the International Central Securities Depositories e.g. Euroclear and Clearstream.

Annexure:

General Investment Limits route

- FPI investments in debt securities under the “General Investment Limits” category are subject to overall limits prescribed by RBI from time to time. Currently, the overall limits are as follows:

Rupees in Billion

	Long term FPIs*	Other FPIs
Central Government securities⁴	1151	2461
State Development Loans	71	612
Corporate debt securities⁵		4292

*Long term FPIs include Sovereign Wealth Funds, Multilateral Agencies, Endowment Funds, Insurance Funds and Foreign Central Banks

- Investment by a single FPI or a group of related FPIs shall not exceed 15 percent (for long term FPIs) / 10 percent (for other FPIs) of the overall investment limits tabulated above.
- At all times (monitored on a day end basis), an FPI’s investment in Government Securities / state development loans maturing within 1 year, shall not exceed 30 percent of the FPI’s total portfolio in such securities.
- In respect of FPI investment in corporate debt securities, the following restrictions apply:
 - An FPI can invest only in those securities which have residual maturity of at least 1 year as on the date of investment
 - At all times (monitored on a day end basis), an FPI’s investment in corporate debt securities maturing within 1 year shall not exceed 30 percent of the FPI’s total portfolio of corporate debt securities
 - Investment by any FPI, including investments by other FPIs in the same investor group, shall not exceed 50 percent of any issue of a corporate bond

⁴ Source: <https://www.ccilindia.com/FPIHome.aspx>

⁵ Source: <https://www.fpi.nsdli.co.in/web/Reports/ReportDetail.aspx?RepID=1>

The above three restrictions do not apply to FPI investments in following securities:

- Security Receipts
 - Investments in debt instruments issued by Asset Reconstruction Companies
 - 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
- FPIs are not permitted to invest in partly paid debt instruments
 - FPI investment in non-equity oriented mutual funds (i.e. debt) are subject to following conditions:
 - FPI investments in debt mutual funds included for the purpose of above limits
 - FPIs are not permitted to invest in overnight funds, liquid funds, money market funds, short term debt funds and ultra-short term debt funds

Voluntary Retention Route (VRR)

- Under this route, an FPI needs to commit a specific amount of investment and the retention period (minimum three years) for which it will remain invested.
- Once the limits are allocated, the FPI needs to invest at least 75 percent of the total committed amount within a period of three months
- Under this route, investments can be made in any debt securities permissible for FPIs except for unit of debt mutual funds. However, investments in exchange traded funds (which invest only in debt securities) are specifically permitted under this route.
- FPIs can also undertake repo and reverse repo transactions under this route
- The total investment by all FPIs taken together under VRR is currently capped at INR 1.5 trillion. Allocation of limits to FPIs is facilitated by the Clearing Corporation of India Limited on an application made by the respective custodian. The allocation of limits can be on tap basis or through auction mechanism depending upon the utilisation level of this limit.
- During the retention period, 75 percent of the committed amount remains in India either in the form of cash or invested in debt securities
- An FPI can participate in repos for its cash management, provided the amount borrowed or lent under repo does not exceed 10 percent of their investment under VRR
- FPIs investing under this route will be eligible to use any currency or interest rate derivative instrument, over-the-counter (OTC) or exchange traded, to manage their interest rate risk or currency risk.



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