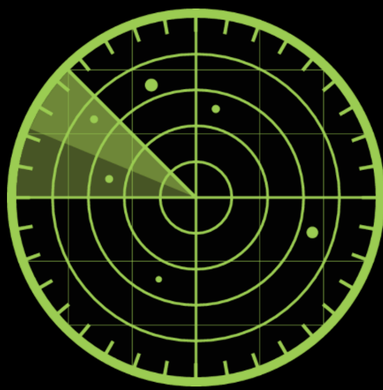
Deloitte.

India | Tax & Regulatory | For private circulation only | 06 July 2017



Regulatory Alert
Stay Ahead…

RBI raises foreign portfolio investment limit in Government Securities

Issue no: RA/13/2017

In this issue:

Background

The Reserve Bank of India (RBI) had introduced a Medium Term Framework (MTF) in October 2015, for investment by foreign portfolio investors (FPIs) in government securities including central government securities (G-Secs) as well as state government securities (also referred as State Development Loans or SDLs).

Under the MTF, the FPI investment limit in government securities were to be increased in a phased manner to reach 5% of outstanding stock for G-Secs and 2% of outstanding stock for SDLs, by 31 March 2018. Additionally, the MTF also contained other features including preferential treatment for long term FPIs, where the increase in limits was to be allocated to long-term FPIs and other such investments in the ratio of 60% and 40% respectively. Any unutilized limit in the long-term category could be released to other FPIs. In this context, long-term FPIs include Sovereign Wealth Funds (SWFs), multilateral agencies, pension/ insurance/ endowment funds and foreign central banks.

In line with the MTF, RBI issued a circular on 3 July 2017 to announce increase in the limits for the quarter July 2017 to September 2017, and has also made certain modifications to the MTF.

Revised investment limits

The revised FPI limits for investment in government securities for the quarter July to September 2017 is as under:

INR billion

Particulars	Central Government securities			State Development Loans			Aggregate
	General category FPIs	Long Term FPIs	Total	General category FPIs	Long Term FPIs	Total	
Existing Limits	1,849	461	2,310	270	--	270	2,580
Revised limits	1,877	543	2,420	285	46	331	2,751

Changes in MTF

In addition to increase in the investment limits, RBI has also announced following changes to the MTF:

- Future increases in government securities (including G-Secs and SDLs) limits would be allocated to long term FPIs and other FPIs in the ratio of 75% and 25%.
- Current practice of transferring unutilized limits from long term category FPIs to other FPIs would be discontinued.

The above changes are applicable from 4 July 2017.

Status quo for other conditions

The other conditions applicable to FPIs for investments in government securities would continue to be applicable:

- Investments can be made only in those government securities which have minimum residual maturity of 3 years
- Aggregate investments by all FPIs in a particular central government security would be capped at 20% of outstanding stock of such security
- Coupons (interest) received from government securities can be re-invested in government securities in addition to the above limits

Conclusion

Despite regular increase in limits by RBI, the current utilization levels of limits by FPIs in G-Secs (over 90%) are evident of the attractiveness of government paper among foreign investors. In the recent circular, RBI has commented that long-term FPIs account for around 20% investments in central government securities. With a clear view to increase this participation, RBI has decided to increase the ratio of future increase in limits to long term FPIs and has also decided to discontinue transfer of unutilized limits in long-term FPIs to other FPIs.

Source: RBI circular no. A.P.(DIR Series) Circular No. 01 dated 3 July 2017, SEBI Circular no. IMD/FPIC/CIR/P/2017/74 dated 4 July 2017, https://www.fpi.nsdl.co.in/web/Reports/ReportDetail.aspx?RepID=1

Do you know about Dbriefs?

Dbriefs are live webcasts that give valuable insights on important developments affecting your business. To register, visit the Dbriefs page

Download the report

Contacts

Ahmedabad
19th Floor, Shapath - V
SG Highway,
Ahmedabad – 380 015.
Tel: + 91 (079) 6682 7300
Fax: + 91 (079) 6682 7400

Bangalore
Deloitte Centre, Anchorage II,
100/2, Richmond Road,
Bangalore 560 025.
Tel: +91 (080) 6627 6000
Fax: +91 (080) 6627 6010

Chennai
No.52, Venkatanarayana Road,
7th Floor, ASV N Ramana Tower,
T-Nagar,
Chennai 600 017.
Tel: +91 (044) 6688 5000
Fax: +91 (044) 6688 5050

Coimbatore
Shanmugha Manram
41, Race Course,
Coimbatore
Tamil Nadu - 641018
Tel: + 91 (0422) 439 2801
Fax: +91 (0422) 222 3615

Delhi/Gurgaon
Building 10,
Tower B, 7th Floor,
DLF Cyber City,
Gurgaon 122 002
Tel : +91 (0124) 679 2000
Fax : + 91 (0124) 679 2012

Hyderabad
1-8-384 and 385, 3rd Floor,
Gowra Grand S.P.Road,
Begumpet,
Secunderabad – 500 003.
Tel: +91 (040) 6603 2600
Fax:+91 (040) 6603 2714

Kolkata
Bengal Intelligent Park Building
Alpha, 1st floor, Block EP and GP
Sector V, Salt Lake Electronics
Complex,
Kolkata - 700 091.
Tel : + 91 (033) 6612 1000
Fax : + 91 (033) 6612 1001

Mumbai
Indiabulls Finance Centre,
Tower 3, 28th Floor,
Elphinstone Mill Compound,
Senapati Bapat Marg, Elphinstone
(W),
Mumbai – 400013
Tel: + 91 (022) 6185 4000
Fax: + 91 (022) 6185 4101

Pune
706, B-Wing, 7th Floor,
ICC Trade Tower,
Senapati Bapat Road,
Pune – 411 016.
Tel: + 91 (020) 6624 4600
Fax: +91 (020) 6624 4605

Deloitte makes an impact that matters