



CIRCULAR

CIR/IMD/FIIC/1/2012

January 03, 2012

To

All Foreign Institutional Investors
through their designated Custodians of Securities

Dear Sir/Madam

Sub: Changes in Re-investment period of FII debt limit

1. Please refer to para 2 of SEBI circular Cir No. IMD/FII&C/30/2008 dated July 04, 2008 and para 6 of circular CIR/IMD/FIIC/18 /2010 dated November 26, 2010, relating to facility provided for FIIs for re-investment period for debt investments.

Withdrawal of the facility of re-investment

2. It has been decided that henceforth re-investment period shall not be allowed for all new allocations of debt limit to FIIs/sub-accounts. Thus, limits acquired in the bidding sessions henceforth shall expire/lapse on either sale or redemption at maturity of the debt investments. These limits then shall again be allocated in subsequent bidding processes.

Treatment for entities that currently hold limits/ investments

3. As on the date of the issuance of this circular those FIIs and sub-accounts that already have acquired limits and /or invested in debt, these existing limits shall expire in the following manner:-
 - a. Facility of re-investment shall continue until any one of the following thresholds is breached
 - i. Total sales made from the existing debt portfolio (current debt investment and the un-utilized limit currently with the entity, if any) is twice the size of its debt portfolio as on the date of this circular
 - or
 - ii. expiry of two years from the date of this circular i.e. January 02, 2014
 - b. Re-investment period for the above purposes shall continue to be as per para 6 of circular CIR/IMD/FIIC/18 /2010 dated November 26, 2010
4. After the threshold as mentioned above is breached, in case of any sale or redemption of the investments, the limit shall expire/lapse. These limits then shall again be allocated in subsequent bidding processes.
5. It is clarified here that the FII/sub-account is not required to sell its investments in debt instrument after it reaches the threshold mentioned above, and thus it can continue to retain the debt investments beyond the threshold, however, the sale or redemption thereon will not be eligible for re-investment beyond the thresholds above.



Investments in long term infra debt category

New Allocations

6. For all new allocations of debt limit under this category, if a FII decides to sell their holdings during lock-in period to another FII; the limit will automatically transfer to purchasing entity. However, if a FII decides to sell/redeem their holdings after lock-in period; same limit shall expire/lapse. These limits then shall again be allocated in subsequent bidding processes.

Treatment for entities currently holding investments:

7. Similar facility as provided in para 3 & 4 above shall also be applicable for all investments made in the long term infra debt category (with one year lock in and one year residual maturity clause) where lock in provisions are in force.
 - a. During the lock-in period, if a FII/sub-account decides to sell its investments in the special trading window as provided by the exchanges in terms of SEBI circular dated March 31, 2011, selling FII/ sub-account may exercise its option to sell its investments along with the limits or may choose to sell only the investments and retain the limits.
 - b. In case the selling entity chooses to retain the limit, then it shall be subject to para 3 of this circular.
 - c. If selling entity chooses to transfer the limit, then the purchasing entity shall be subject to the para 3 of this circular.
8. Entities can avail of the benefit of Para 7 (a) if it sells the investments to another another FII/sub-accounts after lock-in period; however this benefit can be availed only upto January 02, 2014.
9. Upto January 02, 2014, if the FII/Subaccount redeems the investments at the maturity of the instrument, or sells to a domestic participant after the lock-in period, it can avail benefit of para 3 of this circular.
10. FIIs are advised to evolve suitable mechanism in consultation with their custodian to give effect to the provisions of this circular.

This circular is issued in exercise of the powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act 1992, read with Section 10 of the Securities Contracts (Regulation) Act, 1956 to protect the interests of investors in securities and to promote the development of, and to regulate the securities market.

A copy of this circular is available at the web page "F.I.I." on our website www.sebi.gov.in. The custodians are requested to bring the contents of this circular to the notice of their FII clients.

Yours faithfully,

Jeevan Sonparote
General Manager
+91-22-26449110
jeevans@sebi.gov.in