



भारतीय प्रतिभूति और विनियम बोर्ड Securities and Exchange Board of India

CIRCULAR

IMD/FPIC/CIR/P/2018/101

June 15, 2018

To

1. All Foreign Portfolio Investors (through their Custodian of Securities)
2. All Custodians
3. The Depositories (NSDL and CDSL)
4. The Stock Exchanges (BSE, NSE and MSEI)

Dear Sir / Madam,

Sub: Review of Investment by Foreign Portfolio Investors (FPI) in Debt

1. SEBI vide Circular No. CIR/IMD/FIIC/1/2015 dated February 3, 2015 and Circular No. CIR/IMD/FPIC/8/2015 dated Oct 6, 2015 had stipulated minimum residual maturity restriction of three years for investment by FPI in Government Securities (G-secs) , State Development Loans (SDLs) and Corporate Debts. Further, vide circular No. CIR/IMD/FIIC/2/2015 dated February 5, 2015, SEBI enabled investment of coupons in G-Secs and related matters. Also, SEBI Circular No. CIR/IMD/FIIC/19/2014 dated October 09, 2014 prescribed the procedure to be followed in the implementation of the auction mechanism.
2. In accordance with RBI circular A.P. (DIR Series) Circular No. 31 dated June 15, 2018, the changes to operational aspects of FPI investment in debt are set forth below.
3. It has been decided to withdraw minimum residual maturity restriction of three years for investment by FPIs in G-Secs and SDLs. Further, the auction process being carried out by BSE/ NSE shall be discontinued from the date of this circular.
4. Till date, depositories were monitoring the G-Sec/ SDLs utilisation limits and reporting to SEBI. Henceforth, the overall monitoring of G-Sec/ SDLs will be done by Clearing Corporation of India Ltd.(CCIL).
5. Thus, any circular previously issued by SEBI from time to time for monitoring of G-Sec and SDLs stands withdrawn and hence, shall not be applicable to FPIs for investments in G-Secs and SDLs from June 1, 2018. However, FPIs may be guided by RBI circular dated June 15, 2018 referred above for the requirements of G-Secs and SDLs.



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6. Further, revised requirements for FPIs investments in corporate debt securities are placed as **Annexure**.
7. It is clarified that the primary responsibility of complying with monitoring the corporate debt investment limits is with the FPIs on whose behalf depositories will monitor the investment limits. As the depositories are maintaining the data on investor group level, depositories shall monitor the investments at the investor group level. Custodians shall be responsible for monitoring their own clients.
8. At the time of monitoring the corporate debt investment limits, depositories shall identify the FPIs in breach and inform to their respective custodians who in turn shall advise their FPI clients for the needful. For the monitoring of G-Secs/ SDLs utilisation limits by CCIL, depositories shall share the investor group data with RBI and CCIL on a monthly basis.
9. The stock exchanges and depositories shall put in place the necessary systems for the online monitoring of the investment limits

This circular is issued in exercise of powers conferred under Section 11 (1) of the Securities and Exchange Board of India Act, 1992.

A copy of this circular is available at the web page "Circulars" on our website www.sebi.gov.in. Custodians are requested to bring the contents of this circular to the notice of their FPI clients.

Yours faithfully,

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Revised requirements for FPIs investments in corporate debt securities

1) Minimum residual maturity

- a) Till date, FPIs were required to invest in corporate bonds with a minimum residual maturity of three years. Henceforth, FPIs are permitted to invest in corporate bonds with minimum residual maturity of above one year, subject to the condition that short-term investments (i.e. investment in securities with residual maturity up to 1 year) in corporate bonds by an FPI shall not exceed 20% of the total investment of that FPI in corporate bonds.
- b) The requirement that short-term investments shall not exceed 20% of total investment by an FPI in any category applies on an end-of-day basis. At the end of any day, all investments with residual maturity of up to one year will be reckoned for the 20% limit.
- c) Short-term investments by an FPI may exceed 20% of total investments, only if such short-term investments consist entirely of investments made on or before the date prescribed by RBI vide circular dated AP (DIR Series) Circular No. 24 dated April 27, 2018; that is, short-term investments do not include any investment made after aforesaid date prescribed by RBI.

2) Concentration Limits

Investment by any FPI (including investments by investor group as determined on the basis of clubbing requirement on the basis of common beneficial owner in accordance with Regulation 23(3) of SEBI (FPI) Regulations, 2014), in corporate debt securities, shall be subject to the following concentration limits:

- (i) Long-term FPIs: 15% of prevailing investment limit.
- (ii) Other FPIs: 10% of prevailing investment limit.
- (iii) In case an FPI has investments (INV_0) in excess of the concentration limit on the effective date (date on which these concentration limits come into existence as prescribed by RBI), it will be allowed the following relaxations, subject to availability of overall limits, as a one-time measure:
 - a) In case an FPI has investments (INV_0) in excess of the concentration limit on the effective date, it will be allowed to undertake additional investments such that its portfolio size at the end of any day (INV_t) does not exceed INV_0 plus 2.5% of investment limit on the effective date. Once INV_t falls below the prevailing concentration limit, the FPI shall be free to make investments up to the applicable concentration limit.
 - b) In case an FPI has investments (INV_0) within the concentration limit, but in excess of 7.5% (12.5% in case of FPIs in the 'Long-term' sub-category) of the



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investment limit on the effective date, that FPI shall be allowed to undertake additional investments such that its portfolio size at the end of any day (INV_t) does not exceed INV_0 plus 2.5% of the investment limit on the effective date. Once INV_t falls below the prevailing concentration limit, the FPI shall be free to make investments up to the applicable concentration limit.

- c) All other FPIs will be allowed to invest up to the applicable concentration limit.

3) **FPI Investment limits in corporate bonds:**

FPI investment in corporate bonds shall be subject to the following requirements:

- (i) Investment by any FPI (including investments by investor groups as determined on the basis of clubbing requirement on the basis of common beneficial owner in accordance with Regulation 23(3) of SEBI (FPI) Regulations, 2014), shall not exceed 50% of any issue of a corporate bond. In case an FPI, including investments by investor groups, has invested in more than 50% of any single issue, it shall not make further investments in that issue until this stipulation is met.
- (ii) No FPI shall have an exposure of more than 20% of its corporate bond portfolio to a single corporate (including exposure to related parties of corporate as defined under section 2(76)(viii) of Companies Act, 2013).
 - a) In case an FPI has, as on the date prescribed by RBI, exposure in excess of 20% to any corporate (including exposure to entities related to the corporate), it shall not make further investments in that corporate until this stipulation is met.
 - b) Investments made (other than those referred to in para 3(ii)(a)) by FPI after the date prescribed by RBI would be exempted from this requirement till March 31, 2019. These investments will, however, have to comply with this requirement thereafter.
 - c) To facilitate newly registered FPIs to build up a diversified portfolio, FPIs registering after the date prescribed by RBI are permitted to comply with this requirement by March 31, 2019, or six months from the date of registration, whichever is later.
- (iii) For the purpose of these stipulations, “entities related to the corporate” shall not include issuers that are owned or controlled by the Government of India or State Governments.
- (iv) These stipulations would not apply to investments by FPIs which are Multilateral Financial Institutions in which Government of India is a member and investment by FPIs in Security Receipts issued by Asset Reconstruction Companies.

4) **Pipeline investments in corporate bonds**

- (i) Investment transactions by FPIs in corporate bonds that were under process but had not materialized as on the date prescribed by RBI (pipeline investments),



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shall be exempt from the requirements specified in paragraphs 3(i) and 3(ii) of this circular, subject to the custodian of the FPI reasonably satisfying itself that:

- a) the major parameters such as price/rate, tenor and amount of the investment have been agreed upon between the FPI and the issuer on or before the date prescribed by RBI;
 - b) the actual investment will commence by December 31, 2018; and
 - c) the investment is in conformity with the extant regulations governing FPI investments in corporate bonds prior to the date prescribed by RBI.
- (ii) Custodians may, based on their assessment of adherence to the above conditions, permit, or not permit, as the case may be, pipeline investments by FPIs without reference to the Reserve Bank.

5) **Partly paid instruments**

No FPI shall invest in partly paid debt instruments.

6) **Action in case of default**

Appropriate action may be initiated against FPIs who are not in compliance with the requirements specified here.
