

FII & Custodian Division
Investment Management Department
Website: www.sebi.gov.in

Circular No. IMD/FII & C/ 27 /2008
January 31, 2008

To
All Foreign Institutional Investors, and
Custodians of Securities

Sub: FII investments in Debt Securities

SEBI vide Circular No. IMD/FII/25/2007 dated January 19, 2007 announced the increase in the cumulative debt investment limit available for investment by FIIs/ Sub Accounts in Government Securities/ T-Bills from US \$2 billion to US \$2.6 billion. It has now been decided to further enhance the said limit to US \$3.2 billion.

It was noticed that there was no uniformity among custodians with respect to considering investments by FIIs in debt oriented mutual fund units either as debt or equity. The issue was discussed with the Reserve Bank of India (RBI) which advised that the investment by FIIs/Sub-accounts in units of debt oriented mutual funds should be considered as investment in Corporate Debt. Accordingly, investments by FIIs/ Sub Accounts in debt oriented mutual fund units (including units of money market and liquid funds) shall henceforth be considered as corporate debt investments and reckoned within the stipulated limit of US \$1.5 billion, earmarked for FII/ Sub Account investments in corporate debt.

In view of the above, the following shall be applicable with immediate effect:

1. Henceforth, there shall be no demarcation between 100% debt and normal 70:30 FIIs/ Sub Accounts for the purposes of allocation of debt investment limits. The individual limits allocated to the 100% debt FIIs/ Sub Accounts stand cancelled.
2. The allocation of unutilized/ unallocated limits for investments in Government Securities/ T-Bills shall be on first-come-first-serve basis. The applications may be forwarded on the e-mail ID, fii_debtrequests@sebi.gov.in. The allocation shall be valid for a period of 15 days from the date of the allocation letter, on the expiry of which the unutilized limits shall lapse.

2/..

::2::

3. As mentioned above, the investments by FIIs/ Sub Accounts in debt oriented mutual fund schemes shall now be reckoned as investments in corporate debt. On re-calculating the investment figures for investments by FIIs/ Sub Accounts in corporate debt, by including their investments in units of debt oriented mutual funds, it is seen that the corporate debt investments exceed the permissible limit of US \$1.5 billion. Thus, in order to conform to the stated limit, there shall be no further investment, or rollover, of existing position in corporate debt, by both 100% debt and normal 70:30 FIIs, till the holdings fall within the stipulated limit of US \$1.5 billion.
4. In view of the above, the following instructions should be taken note of:
 - i. All FII transactions in debt-oriented mutual fund units which were previously reported as Equity transactions should be reported as debt on February 15, 2008, through the existing reporting system.
 - ii. Importantly, all such transactions should be nullified simultaneously by reporting reverse transactions in equity on the aforementioned date.

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,

Sangeeta Uchil
General Manager