

### ***Investments by Foreign Portfolio Investors (FPIs) in corporate debt securities***

The Indian Government has announced a slew of measures to liberalise foreign investment in the corporate debt segment. Earlier last month, the Reserve Bank of India (RBI) amended the relevant exchange control regulations to allow FPIs to invest in unlisted non-convertible debentures (NCDs) issued by Indian companies and securitised debt instruments<sup>1</sup>. The RBI has now issued a detailed notification to this effect<sup>2</sup>.

Key takeaways from the RBI notification have been summarised as under:

#### ***Investment in unlisted NCDs/bonds***

FPIs are permitted to invest in unlisted corporate debt securities in the form of non-convertible debentures/bonds issued by private or public companies subject to the following conditions:

- (i) Minimum residual maturity of three years;
- (ii) End-use restriction on investment in real estate business, capital market and purchase of land. The term real estate business is as defined under the Foreign Exchange Management law.

#### ***Investment in Securitised Debt Instruments***

FPIs can invest in the following securitised debt instruments:

- (i) Any certificate or instrument issued by a special purpose vehicle (SPV) set up for securitisation of assets where banks, financial institutions or non-banking finance companies are originators;
- (ii) Any certificate or instrument issued and listed in terms of the Securities and Exchange Board of India (SEBI) Regulations on Public Offer<sup>3</sup>.

The notification specifically clarifies that the requirement for minimum residual maturity of three years shall not apply to FPI investment in securitised debt instruments.

Currently, FPI investments in the corporate debt segment are subject to an overall limit of INR 2.4 trillion. Investments in the above securities will be considered within such investment limit with a maximum cap of INR 350 billion. The notification further adds that all other existing conditions for investment by FPIs in the debt market remain unchanged and the above revised investment norms shall be reviewed after one year.

Corresponding amendments to the SEBI FPI Regulations, 2014 are awaited and are expected to be taken up by the Board shortly.

The above changes will provide impetus to foreign investment in the corporate debt segment and are expected to attract long term capital flows in the country.

<sup>1</sup> RBI Notification No.FEMA . 374/2016-RB dated October 24, 2016

<sup>2</sup> RBI Notification No. RBI/2016-17/138 A.P. (DIR Series) Circular No. 19 dated November 17, 2016

<sup>3</sup> SEBI Regulations on Public Offer and Listing of Securitised Debt Instruments, 2008

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