

SEBI Circular - Investments by FPIs in Corporate Debt

The India capital markets regulator Securities and Exchange Board of India (SEBI) has issued a Circular dated 20 July, 2017 in the context of investments by Foreign Portfolio Investors (FPIs) in corporate debt.

The key takeaways from the Circular are as under:

1. FPI investment in corporate debt is subject to Combined Corporate Debt Limit (CCDL)¹. Currently, these limits are "on tap". CCDL will now be available on tap for investment by foreign investors till the overall investment reaches 95%, after which they will be auctioned. Previously, CCDL was auctioned where the overall limit breached 90%.
2. In the past where debt limits were auctioned, the auction was conducted on 20th day of every month, based on availability of free limits at the end of previous month. This procedure has now been modified, as follows:
 - Once the limit of 95% is breached, the depositories shall direct the custodians to halt all FPI purchases as well as inform the exchanges (Bombay Stock Exchange and National Stock Exchange) regarding the unutilised debt limits for conduct of auction.
 - On receipt of information from the depositories, the exchange (starting with Bombay Stock Exchange) shall conduct an auction of the unutilised debt limits on the second trading day from the date of receipt of intimation. Thereafter, the auction shall be conducted alternately on National Stock Exchange and Bombay Stock Exchange.
 - The auction shall be held only if the free limit is greater than or equal to INR 1 billion.
 - On sale/ redemption of debt securities, an FPI will have a reinvestment period of 2 trading days, which if not utilised, then the limits shall come back to the pool of free limits.
 - A single FPI/ FPI group cannot bid for more than 10% of the limits being auctioned.
3. It may be pertinent to note that the current debt limit utilisation stands at 92.89% as per data on 19 July, 2017.
4. As rupee denominated bonds issued by Indian corporates overseas are covered under CCDL, issuance of such bonds overseas shall temporarily cease, until the limit utilisation falls back to below 92%.
5. The auction mechanism shall be discontinued and the limits shall be once again available for investment on tap when the debt limit utilisation falls below 92%.
6. FPI investments in unlisted corporate debt securities shall compulsorily be in dematerialised form.

The SEBI Circular shall come into effect immediately. You may click [here](#) to access a copy of the SEBI circular.

¹ Current CCDL = INR 2.44 trillion

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