

Investment by FPIs in Debt – Review

The Securities and Exchange Board of India (SEBI) and Reserve Bank of India (RBI) have issued a circular on debt investments by FPIs, applicable with immediate effect. The circulars are attached for your reference. The earlier circulars issued by RBI on 27 April 2018 and 1 May 2018 have been withdrawn.

The key changes vis-a-vis the RBI circular dated 27 April 2018 and 1 May 2018 are as under:

1. “Related FPIs” have been defined in line with regulation 23(3) of SEBI FPI regulations, i.e. having more than 50% common beneficial owners. This is relevant for computing the investor wise limits of 50% for investment in a single corporate
2. Investment limit of 20% in corporate bonds with residual maturity below 1 year, investor wise limits (50%) in any single issue and portfolio wise concentration limits (20%) shall not apply to investments by FPIs in Security Receipts (SRs). SRs have been defined to mean Security Receipts issued by ARCs
3. Investment limit of 20% in corporate bonds with residual maturity below 1 year will be reckoned on an end-of-day basis
4. Investment limit of 20% in corporate bonds with residual maturity below 1 year shall not apply to investments made on or before April 27, 2018, provided that the FPI holds no other investments made after April 27, 2018 with residual maturity less than one year
5. Investment transactions by FPIs in corporate bonds that were under process but had not materialised as on April 27, 2018 (‘pipeline investments’) have been exempted from the requirement of 20% concentration limits and 50% investor wise limits for any single issue, subject to the following:
 - a. the major parameters (price/rate, tenor and amount the investment) have been agreed upon between the FPI and the issuer on or before April 27, 2018;
 - 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 April 27, 2018

The Custodians to permit / reject the pipeline investments by FPIs based on their assessment of adherence to the above conditions, without any reference to the Reserve Bank of India.

6. New investments made after April 27, 2018 to be exempted from the requirement of 20% concentration limit to a single corporate (including entities related to the corporate) till March 31, 2019. Newly registered FPIs (i.e. FPIs registering after April 27, 2018) also permitted to comply with the requirement of 20% concentration limit by March 31, 2019, or six months from the date of registration, whichever is later
7. Investor wise limits (50%) in any single issue and portfolio wise concentration limits (20%) shall not apply to investments by FPIs which are Multilateral Financial institutions in which Government of India is a member

The other provisions of RBI circulars dated April 27, 2018 and May 1, 2018 remain unchanged.

Please click [here](#) to access the SEBI circular and [here](#) to access the RBI circular.

If your interest lies in a specific area or subject, do advise us so we can send you only the relevant alerts. For any additional information, please reach out to your PwC relationship manager or write in to ***pwctrs.knowledgemanagement@in.pwc.com***

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