Foreign borrowing – FPI investment in debt – Policy changes & Changes in ECB Policy

April 30, 2018

In brief

In consultation with the Government of India, the Reserve Bank of India (RBI) has amended regulations relating to debt investment by Foreign Portfolio Investors (FPI) and External Commercial Borrowings (ECB) guidelines.

In detail

Foreign borrowing – FPI investment in debt – Policy changes[1]

The key changes are as follows:

Minimum residual maturity

Currently, FPIs are required to invest in bonds with a minimum residual maturity of three years.

The RBI has reduced this period to one year for corporate bonds and has withdrawn this condition for investment in Central Government securities (G-secs) and State Development Loans (SDLs) categories. Investment by FPI in G-secs and SDLs with residual maturity below one year cannot exceed 20% of the total investment of that FPI in that category.

Single/ Group investor-wise limit in corporate bonds

Investment by FPI (including related FPIs) in corporate bonds to be subject to the following requirements:

- Investment not to exceed 50% of any issue of a corporate bond.
- Exposure not to be more than 20% of its corporate bond portfolio to a single corporate (including related entities).

If the investment exceeds the above limits, no further investments permitted until these stipulations are met. Furthermore, a newly registered FPI must adhere to this stipulation starting no later than six months from the commencement of its investments.

Concentration Limit - Government/ corporate securities

Concentration limits applicable to investment by FPI (including related FPIs):

- For Long Term FPIs – 15% of the prevailing investment limit for that category.
- For Other FPIs – 10% of the prevailing investment limit for that category.

One-time measure prescribed for investments currently exceeding the above concentration limit.

Partly paid instruments

FPIs are not permitted to invest in partly paid instruments.

Security-wise limit

Aggregate FPI investments in any G-sec are now capped at 30% (currently 20%) of the outstanding stock of that security.

Monitoring G-sec utilisation limits – Online

The auction mechanism to be discontinued with effect from 01 June, 2018 and the Clearing Corporation of India Limited

[1] RBI/2017-18/168 A.P. (DIR Series) Circular No. 24 dated 27 April 2018

to commence online monitoring.

***Changes in ECB Policy*[2]**

The following is a summary of the changes to the ECB guidelines:

Eligible Borrowers – HFCs/ Port Trusts/ Maintenance, Repair and Overhaul and freight forwarding

Eligible Borrowers would include regulated Housing Finance Companies (HFCs) and Port Trusts under all tracks. These entities would require a board approved risk management policy and need to hedge 100% of exposure for ECBs raised under Track I.

Further, companies in the business of maintenance, repair and freight forwarding can also raise ECBs denominated in INR.

End-use

Currently, a positive end-use list is prescribed for Track I and specified category of borrowers, while a negative end-use list is prescribed for Track II and III. It has now been decided to have only a negative list for all tracks.

The negative list for all Tracks would include investment in real estate or purchase of land, except when used for affordable housing, construction and development of SEZ and industrial parks/ integrated townships, investment in capital market and equity investment.

Additionally, for Tracks I and III, negative end-uses would include working capital purposes, general corporate purposes and repayment of rupee loans. However, this would not apply to ECB raised from foreign equity holders with minimum average maturity of five years.

Further, for all Tracks, the negative end-use will also include on-lending to entities for the above activities.

All-in-cost

For all ECBs, all-in-cost would be 450 basis points over the benchmark rate.

Benchmark rate for Track I and Track II ECB will be the six month USD LIBOR (or applicable benchmark for respective currency). Further, the benchmark rate for Rupee ECBs and Rupee denominated bonds will be the prevailing yield of Government of India securities of corresponding maturity.

ECB Liability to Equity Ratio

For ECB raised from direct equity holder, the ECB liability to equity ratio was capped at four times under the automatic route and seven times under the approval route. This requirement will now not be applicable if the total of all ECBs raised by an entity is up to US$5 million or equivalent.

Further, ECB Liability to Equity Ratio for ECB under the automatic route can now be up to 7:1.

Let's talk

For a deeper discussion of how this issue might affect your business, please contact your local PwC advisor

[2] RBI/2017-18/169 A.P. (DIR Series) Circular No.25 dated 27 April 2018

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