What's New

News Flash

pwc

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Voluntary Retention Route for investment by Foreign Portfolio Investors (FPIs)

Reserve Bank of India ('RBI') has today issued a press release and a discussion paper proposing a special channel called 'Voluntary Retention Route' ('VRR') for FPIs. The objective of the VRR is to attract long-term and stable FPI investments into debt markets while providing FPIs with operational flexibility to manage their investments.

Key highlights of the proposed Voluntary Retention Route are as below:

- The total amount that may be invested via the Route shall be decided by the Reserve Bank from time to time based on macro-prudential considerations and assessment of investment demand.
- Investments through this Route shall be in addition to the General Investment Limit as per A.P.(DIR Series) Circular No. 22 dated April 6, 2018 or as modified from time to time. For limit refer our appended News flash dated 6 April 2018.
- The total amounts for investment through the VRR shall be separately indicated for Government securities and corporate debt (including commercial paper); and shall be individually allocated to FPIs through an auction process.
- The criterion for allocation of investment amount to each FPI (*Committed Portfolio Size or CPS*) shall be based on the retention period proposed by the FPI in the bid for the auction.
- For every VRR auction, RBI shall announce the total investment amount to be auctioned (auction amount). The minimum retention period for allotments under each auction shall be three years or as decided by RBI.
- FPIs investments through the VRR shall be exempt from regulatory provisions such as the cap on short-term investments (less than one year) at 20% of portfolio size, concentration limits and caps on exposure to a corporate group (20% of portfolio size and 50% of a single issue).
- One month prior to the end of the committed retention period, an FPI will exercise its choice to continue investments under this Route by opting for an additional identical retention period.
- In case an FPI decides not to continue under VRR at the end of the retention period, it will be required to liquidate its portfolio and exit or shift its investments to the 'General Investment Limit' subject to availability.
- An FPI that violates any of its commitments under the VRR shall be deregistered by SEBI.
- FPIs investing through the Route will be eligible to participate in repos for liquidity management, provided that the amount borrowed or lent under repo shall not exceed 10% of their investment under VRR.
- FPIs would be allowed to hedge the interest rate or currency risk by way of OTC or exchange traded derivatives.
- FPIs shall open a separate bank account (SNRR) and securities account for investment made under the VR

Comments on the discussion paper are invited from market participants and other interested parties by October 19, 2018 and can be forwarded by email to fmrdfeedback@rbi.org.in with subject line "Feedback on Discussion Paper on VRR".

Please click here to access the Press Release here to access the discussion paper issued by the RBI

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***

With Best Regards
PwC TRS Team

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