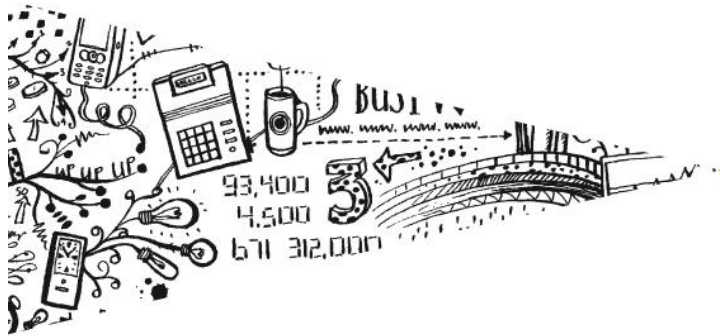


16 January 2012

# EY Regulatory Alert

Change in re-investment period of debt limits for Foreign Institutional Investors



# Background

The Securities and Exchange Board of India (Foreign Institutional Investors) Regulations, 1995, permit Foreign Institutional Investors (FIIs) to invest, *inter alia*, in government and corporate debt securities. To enable FIIs/ sub-accounts to invest in debt securities, debt limits are issued or auctioned by the Securities and Exchange Board of India (SEBI) from time to time.

The SEBI *vide* its previous circulars<sup>1</sup> allowed the FIIs/ sub-accounts, which had acquired or obtained investment limits from the SEBI, the flexibility to re-invest into debt securities after the initial investment had been sold off or had matured, provided the subsequent investment was made within 5/ 15 business days of the sale or maturity of the earlier investment for government and corporate debt securities, respectively.

SEBI has now issued a circular<sup>2</sup> relating to the aforesaid re-investment facility.

## Salient features

The circular has specified the following changes to the reinvestment facility.

<sup>1</sup> Circular No. IMD/FII&C/30/2008 dated 4 July 2008 and Circular No. CIR/IMD/FIIC/18/2010 dated 26 November 2010

<sup>2</sup> Circular No. CIR/IMD/FIIC/1/2012 dated 3 January 2012

### *Debt (other than long term infra debt category<sup>3</sup>)*

#### New allocations of debt limits

- ▶ Limits acquired in bidding sessions henceforth to expire/ lapse on sale/ redemption at maturity of debt investment
- ▶ Limits to be allocated in subsequent bidding processes

#### Limits currently held

- ▶ FIIs/ sub-accounts that have already acquired debt limits/ investments would continue to have the re-investment facility unless either of the following conditions are satisfied:
  - ▶ The total sales made by an FII/ sub-account from its debt portfolio reaches twice the size of the debt portfolio (i.e. the total of the current investment and unutilized limit available with the FII/ sub-account on 3 January 2012); or
  - ▶ A period of two years elapses from the date of the circular i.e. on 2 January 2014
- ▶ On satisfaction of either of the above conditions, the limits shall expire/ lapse on sale or redemption of the investments. The limits would be allocated in subsequent bidding processes

<sup>3</sup> As per the SEBI circular dated 26 November 2010, infra debt category is where the FII invests into debt securities of infrastructure companies

### *Long term infra debt*

#### New allocations of debt limits

- ▶ If a FII/ sub-account decides to sell its holdings during the lock-in period to another FII/ sub-account, the limit will automatically transfer to the purchasing entity. If a FII/ sub-account decides to sell/ redeem their holdings after lock-in period, the limits shall expire/ lapse. These limits would be allocated again in subsequent bidding processes

#### Limits currently held

- ▶ FIIs/ sub-accounts already holding investments in long term infra debt category (one year lock-in and one year residual maturity clause) would be subject to conditions for re-investment indicated above, subject to the following exception:
  - ▶ FIIs/ sub-accounts undertaking *inter se* sale of investments during the lock-in period, or after the lock-in period but before 2 January 2014, would have the option to sell its investments along with the limits or to sell only the investments and retain the limits
  - ▶ Conditions for re-investment (indicated above) would be applicable to the entity retaining the limits

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