Ministry of Finance
Department of Economic Affairs
(Capital Market Division)
PRESS RELEASE

Subject: Review of policy relating to FII Investments in G-Sec, Corporate Bonds, Long-term infra bonds and ECB of Indian companies and QFI-reg.

1. The policies relating to the above subjects have been reviewed and the following changes have been made therein.

A. Government Securities:

a. Currently FIIs are allowed to invest US$5 billion in government securities that have residual maturity of over five years. It has now been modified to reduce the residual maturity to three years.
b. An Additional window of US$5 billion would be available for FII investment in government securities subject to residual maturity of three years.
c. The above modifications would now make available to FIIs a total limit of US$10 billion subject to residual maturity of three years.
d. With the above changes, the total FII limit would stand at US$20 billion.
e. Further, in order to broad base the non resident investor base for Government securities it has also been decided to allow long term investors like Sovereign Wealth Funds (SWFs), Multilateral agencies, endowment funds, insurance funds, pension funds and foreign Central Banks to be registered with SEBI to also invest in Government securities within this enhanced limit of USD 20 billion.

B. A new scheme under ECB:

a. HLC-ECB has decided to add a new scheme for ECB borrowings. Indian companies can now avail of ECBs for repayment of Rupee loan(s) availed of from the domestic banking system and/or for fresh Rupee capital expenditure, under the approval route, subject to them satisfying the following conditions:
   i. Only companies in the manufacturing and infrastructure sector will be eligible to avail of such ECBs;
   ii. Such companies shall be a consistent foreign exchange earner during the past three financial years;

iii. Such companies are not in the default list/caution list of the Reserve Bank of India; and

iv. Such ECBs shall only be utilized for repayment of the Rupee loan(s) availed of for 'capital expenditure' incurred earlier and are still outstanding in the books of the domestic banking system and/or for fresh Rupee capital expenditure.

v. The overall ceiling for such ECBs as stated at para-B (a) above, shall be USD10 (ten) billion. The maximum permissible ECB that can be availed of by an individual company will be limited to 50 per cent of the average annual export earnings realised during the past three financial years. The ECBs will be allowed to companies based on the foreign exchange earnings and its ability to service the ECB. The companies should draw down the entire facility within a month after taking the Loan Registration Number (LRN) from the Reserve Bank.

C. Rationalization in the Scheme of FIIs investment in Long-term Infrastructure Bonds

a. At present, FII investments in long term infra-bonds have a ceiling of US$25 billion. Out of the US$25 billion, the following are the sub-categorization:

  i. US$10 billion investment in IDF.

  ii. US$5 billion for FII investments in long term infra bonds with a residual maturity of one year and subject to a lock-in of similar period.

  iii. US$3 billion available for QFI investments in mutual fund debt scheme that also invest in schemes of infrastructure companies.

  iv. The remaining of the total ceiling (US$7 billion) is available in FII investments in long term infra bonds that have residual maturity of three years and is also subject to a lock-in period of three years.

b. The above scheme is being modified as under:

  i. Of the US$7 billion available in FII investments which is currently subject to a three year lock-in and three years residual maturity would now have one year lock-in and atleast 15 months residual maturity at the time of first purchase by an FII.

ii. The residual maturity of the bonds under the US$5 billion ceiling would now be atleast 15 months at the time of first purchase and the lock-in period would continue to be one year.

iii. The lock-in for IDF investment would be reduced to one year from the present three years subject to the condition that the residual maturity at the time of first purchase isatleast 15 months.

iv. As regards the USD 3 billion limit for QFI investment in MF debt schemes, it has been decided that QFIs can invest in those MF debt schemes that hold atleast 25% of their assets (either in debt or equity or in both) in the infrastructure sector.

D. The withholding tax would be liberalized as announced in the 2012-13 Budget.

2. Department of Revenue (DoR), RBI and SEBI will issue necessary circulars to give effect to the above changes/policies.

F. No. 10/10/2011-ECB **New Delhi, Dated the 25th June 2012**

The Press Information Bureau is requested to give wide publicity to this press release.

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