

PRESS INFORMATION BUREAU
GOVERNMENT OF INDIA

**FII INVESTMENT IN LONG-TERM CORPORATE DEBT IN
INFRASTRUCTURE SECTOR LIBERALIZED**

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Following the announcement by the Union Finance Minister Shri Pranab Mukherjee in his budget 2011-12, the Government in consultation with the regulators had raised the limit for FII investment in long-term corporate bonds issued by the companies in the infrastructure sector from USD 5 billion to USD 25 billion. This scheme was operationalised vide SEBI circular CIR/IMD/FIIC/5/2011 dated 31st March 2011. As per the SEBI circular, investments under this scheme were allowed in listed and unlisted bonds that had a minimum residual maturity of five years and these investments were subject to a minimum lock-in period of three years. The scheme was conceived and operationalized to open new channels of funding for the infrastructure sector while deepening the corporate bond market.

The Government has been monitoring FIIs subscription under the scheme. It was observed that additional steps would have to be taken to increase the level of subscription by FIIs. As on 31st August 2011, against a ceiling limit of USD 25 billion or Rs 1,12,095 crores, investments by FIIs under this scheme were only USD 109 Million or Rs 500 crores. In view of this, consultations were held with stakeholders on the issue. It was concluded that the three-year lock-in period and doubts regarding the interpretation of the requirement of residual maturity of five years were discouraging FIIs from investing in this scheme.

Therefore, in order to make this scheme attractive to FIIs, the scheme has been modified in consultation with RBI and SEBI. The scheme would now have the following features.

a. As per SEBI circular CIR/IMD/DF/14/2011 dated August 09, 2011 Qualified Foreign Investors (QFIs) were permitted to subscribe to Mutual Fund Debt Schemes which invest in the infrastructure sector subject to a total overall ceiling of USD 3 billion within the existing ceiling of USD 25 billion.

b. It has now been decided to carve out USD 5 billion out of the remaining USD 22 billion for FII investments in Long-term infra bonds. FIIs can now invest in long-term infra bonds, subject to the above USD 5 billion limit, in bonds which have an initial maturity of five years or more at the time of issue and residual maturity of one year at the time of first purchase by FIIs. These investments are subject to a lock-in period of one year. FIIs can, however, trade amongst themselves but cannot sell to domestic investors during the lock-in period of one year.

c. The remaining USD 17 billion limit available to FIIs can be invested in Long-term infra bonds which have an initial maturity of five years or more at the time of issue and residual maturity of three years at the time of first purchase by FIIs. These investments are subject to a lock-in period of three years. During the three-year lock-in period FIIs can trade amongst themselves but cannot sell to domestic investors.

SEBI is expected to issue notifications incorporating the above changes in the scheme by 15th October 2011.

DSM/SS/GN