Corpsec Hotline

October 17, 2008

DEBT, SET, GO.........

In light of all the recent changes in the FII Regulations, we are organizing an audio call to provide our views on the same and also to keep you abreast with the developments.

Speaker: Siddharth Shah
Date: Tuesday, October 21 2008
Time: 7 P.M. IST (+5:30 GMT), 9.30 A.M. EDT (New York time)
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With a view to provide a greater scope and more flexibility for Foreign Institutional Investor (**"FII"**) to invest in India, the Securities and Exchange Board of India (**"SEBI"**) has issued a circular, which further relaxes the investment norms by FIIs for investing into India.

Background

1. *Limits on FII investment in debt securities*

   SEBI, vide Circular No. IMD/FII & C/ 29 /2007 dated June 6, 2008 had increased the FII limits on investment in Indian debt securities. FIIs on a cumulative basis could invest upto US $5 billion in Government Securities and upto US $3 billion in Corporate Debt, with a ceiling of USD 200 million per registered entity. These changes were brought about in line with the changes in the External Commercial Borrowing policy of the Government of India.

2. *Debt : Equity ratio of FII investment*

   Until SEBI's circular issued yesterday, FIIs could invest in India through two routes:

   1. 70:30 route - wherein the total investment in equity and equity-related instruments should not be less than 70% of the aggregate of all the investments and only up to 30% of the aggregate investment can be made in debt securities.
   2. 100% debt route - wherein, an FII registered under 100% debt category can invest its entire corpus only in debt securities.

After relaxation in FII investment norms

SEBI, vide Circular No IMD/FII & C/ 33 /2007 dated October 16, 2008 notified two important relaxations in the FII norms for investments in Indian securities:

1. *Limits on FII investment in debt securities*

   - Increase in the cumulative debt investment limit from US $3 billion to US $6 billion for FII investments in Corporate Debt.
   - This change has been made after the Government of India has reviewed the External Commercial Borrowing policy
   - Accordingly, the enhanced limit for investment in corporate debt shall be allocated among the FIIs on a 'first come first served' basis in terms of our Circular dated January 31, 2008, subject to a ceiling of US $300 million per registered entity
   - The debt requests in this regard shall be forwarded to the dedicated email id fii_debtrequests@sebi.gov.in. The mailbox shall open at 23:59 PM IST, October 20, 2008

2. *Debt : Equity ratio of FII investment*

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Audio

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Video

"Investment return is not enough" Nishith Desai with Nikunj Dalmia (ET Now) at FII8 event in Riyadh
October 31, 2024

Analysing SEBI's Consultation Paper

- SEBI decided to do away with the 70:30 ratio of investment in equity and debt respectively, with immediate effect

NDA View

We believe that such constant changes are primarily aimed at ameliorating the current economic conditions and lackluster performance of the markets. Due to the liquidity crunch, most of the FIIs have been exiting their positions in Indian stocks and securities and with the bankruptcy scare, there were not many positive signs in the debt markets also. We have seen in the recent past where Reserve Bank of India (**"RBI"**) has taken measures such as cuts in the Cash Reserve Ratio (**"CRR"**) to infuse liquidity into the market. As a securities regulator, SEBI too has exercised its powers to ease the inflow of capital into India and for infusing cash in the debt market, and has come out with these changes for relaxing the norms for overseas borrowing by Indian entities.

Source: SEBI's circular on FII investments in Debt Securities

Further to our hotline "SEBI disclosure on overseas securities lending: Falling 'short'?" dated 16th October 2008, SEBI has notified the changes vide Circular No.IMD/FII&C/32/2008 issued on October 16, 2008

1. The FIIs / sub accounts are required to submit information about the quantity of the securities which they have lent to entities other than in the Indian Securities Market, i.e. where the Overseas Derivative Instruments (**"ODIs"**) are issued having an effect of a short sale in the Indian security (including F&O) / synthetic shorts
2. The format for the information pertaining to securities lent by the FIIs to entities abroad is enclosed in Annexure A for cash securities & Annexure B for derivatives positions
3. This information is required to be submitted by the FIIs to SEBI on a daily basis on the dedicated e-mail id- odireporting@sebi.gov.in, so that the same can be collated, and disseminated on a consolidated basis on the SEBI website

Thus, vide the circular SEBI has specified the format in which such information has to be submitted and they have also made such reporting to be done on a daily basis as against the biweekly basis specified in the Press Release.

Source: SEBI's Circular on Dissemination of further information about FII activity

In response to the current economic conditions, SEBI has come out with many significant changes in the FII regulations over the last month.

- **Divaspati Singh** & **Anshumita Singhania**
You can direct your queries or comments to the authors

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