MINISTRY OF FINANCE

DEPARTMENT OF ECONOMIC AFFAIRS

LOK SABHA

UNSTARRED QUESTION NO. 652

TO BE ANSWERED ON FRIDAY JULY 20, 2018/ASHADHA 29/1940 (SAKA)

FOREIGN INVESTMENT IN BONDS

652: Shri. K. PARASURAMAN:

Will the Minister of FINANCE be pleased to state

(a) Whether Reserve Bank of India has relaxed norms for foreign investment in bonds after some weekly auctions failed to attract investor interest;

(b) if so the details thereof and reasons therefor; and

(c) the measures taken/monitoring mechanism devised by the Government to ensure that the funds raised through External Commercial Borrowings (ECBs) may not be invested in real estate or used for purchase of land except for housing, industrial parks etc.?

ANSWER

MINISTER OF STATE IN THE MINISTRY OF FINANCE

(SHRI. PON.RADHAKRISHNAN)

a) & b) Medium Term Framework (MTF) for Foreign Portfolio Investments (FPI) in Central Government Securities (G-Secs) and State Government Securities (SDLs), introduced in October 2015, was to complete in March 2018, and therefore, a review of the same was due. Subsequently, it was announced in the Fourth Bi-monthly Monetary Policy Statement, 2017-18 on October 04, 2017 that a detailed review of current regulations on FPI debt investment shall be undertaken to facilitate the process of investment and hedging by FPIs, keeping in mind macro-prudential considerations. Accordingly, a review was undertaken and certain modifications in the extant regulations for FPI investment in debt was announced by RBI vide circulars dated 6th April 2018 and 27th April 2018. The review was undertaken consequent to the culmination of the Medium Term Framework (MTF) on March 31st, 2018 and not related to reduced investor interest in weekly auctions. The changes in extant norms announced by RBI on April 06, 2018 & April 27, 2018 have been listed in **Annexure 1**.

c) Under the External Commercial Borrowings (ECB) framework of Reserve Bank of India ,the negative list of end-uses includes investment in real estate or purchase of land except when used for affordable housing as defined in Harmonised Master List of Infrastructure Sub-sectors notified by the Government of India, construction and development of SEZ, and industrial parks/integrated townships. The primary responsibility for ensuring that the borrowing is in compliance with the applicable guidelines (including end use of ECB proceeds) is that of the borrower concerned. Any contravention of the applicable provisions of ECB guidelines will invite penal action under the Foreign Exchange Management Act (FEMA) 1999. The designated Authorized Dealer bank also has to ensure compliance with applicable ECB guidelines by their constituents by certifying the transactions undertaken by the company and providing certification of a Company Secretary/Chartered Accountant while raising ECB. During the monthly reporting of ECB, the Authorized Dealer bank is required to certify that the utilisation of ECB proceeds are found to be in order and in conformity with the applicable ECB guidelines and also provide a certification of a Company Secretary/Chartered Accountant in this regard.

Annexure 1 of the Lok Sabha Unstarred Question No. 652 to be answered on Friday, July 20, 2018/Ashadha 29/1940 (Saka) regarding "Foreign Investment in Bonds"

Measures announced by RBI on FPI investment in debt on April 06, 2018 and April 27, 2018

i. Limit for FPI investment in Central Government securities increased from 5% to 6% of outstanding stock (0.5% each in 2018-19& 2019-20) in during 2018-20.

ii. The overall limit for FPI investment in corporate bonds fixed at 9% of outstanding stock of corporate bonds and all subcategories were discontinued.

iii. Minimum residual maturity restriction of 3 years for investment in Government Securities was removed, provided, the short term investment (residual maturity less than 1 year) is not more than 20% of the total investment in the same.

iv. In corporate bonds, FPIs can invest in above 1 year maturity securities, provided, short term investments (residual maturity less than 1 year) are not above 20% of their total investments in the same.

v. Aggregate security-wise cap in Government Securities was revised upwards from 20% to 30% of the outstanding stock of the security.

vi. Concentration limit of 15% for long term FPIs and 10% for other FPIs of prevailing investment limit in Government Securities, State Development Loans and Corporate bonds was introduced.

vii. Single/Group investor-wise limits in corporate bonds was introduced at maximum of 20% of exposure to a corporate and maximum of 50% investment in any single issue.