Access to Debt Market for Foreign Portfolio Investor

Foreign Portfolio Investors (FPIs) limits and rationalization

i. Rationalization of investment limits: FPI investment limits have been rationalized, whereby existing limits and subdivisions have been merged in two broad categories – government securities and corporate bonds. The sub-limits for FPIs in Government securities ($10 billion) and dated securities ($15 billion) and other categories have been merged to retain the overall cap of $25 billion. In case of corporate bonds, the ceiling of $1 billion for qualified foreign investors (QFIs), $25 billion for FPIs and $25 billion for FPIs in long-term infra bonds, have been merged – retaining the overall cap for corporate bonds at $51 billion.

ii. Rationalization of allocation of debt limits: Method for allocation of debt limits in corporate bond market through auction has been changed. As per revised scheme, FIIs can now invest in Corporate Debt without purchasing debt limits till the overall investment reaches 90% after which the auction mechanism would be initiated for allocation of the remaining limits. Consequent to the changes, the restrictions on re-investment by FPIs, shall no longer apply in respect of limits held / investments made by FIIs in the Corporate Debt category, till the limits are available on tap.

iii. Withholding tax rate: The rate of withholding tax on interest payments on the borrowings of Infrastructure Debt Funds (IDF), investments made by a non-resident in rupee denominated long-term infrastructure bonds and interest on FIIs' investment made in bonds issued by Indian companies and Government securities have been reduced from 20 per cent to 5 per cent.

iv. The Budget for 2015–16 has proposed to extend the period of applicability of reduced rate of tax at 5% in respect of income of foreign investors (FIIs and QFIs) from corporate bonds and government securities, from 31.5.2015 to 30.06.2017.

v. New Foreign Portfolio Investor (FPI) Regulations: Recently, SEBI has notified new FPI regulations to put in place an easier registration process and operating framework for overseas entities seeking to invest in Indian capital markets. The new regulations replace the existing SEBI regulations for FIIs and the new class of investors, FPIs, would encompass all FIIs, their subaccounts and QFIs.

vi. Currently Indian corporate bonds open FPI limit is 765 INR Billions after utilized limits of 68.67% (1677.73 INR Billion) with a condition of minimum three-year maturity applicable across instruments for FPI while investment of coupons being permitted outside the limits and investments being restricted to securities with a minimum residual maturity of three years, will continue to apply.

vii. RBI announced its quarterly release for FPI in G-sec opening limits as mentioned in the chart, which is announced every half yearly in March and September.

	Existing Limits (INR Billions)	Total Limits as of April4, 2016 (INR billions)	Total Limit as of July5, 2016 (INR billions)
Government debt - all FPIs (auction above 90% utilisation)	1,354	1,400	1,440
Government debt - long -term investors (freely available / on tap)	441	500	560
State development loans (freely available / on tap)	70	105	140