

Capital Market Newsflash dated 18th October, 2008

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TOPICS

→ Enhancement of FII investment limits in Corporate debt and dispensing with the requirement of 70:30 investments in equity and debt;

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» Enhancement of FII investment limits in Corporate debt and dispensing with the requirement of 70:30 investments in equity and debt

The Securities and Exchange Board of India (SEBI) vide its circular No. IMD/FII & C/ 33 /2007 dated October 16, 2008 has enhanced the cumulative debt investment limit for FII investment in corporate debt. SEBI has also decided to do away with the 70:30 equity-debt investment restrictions on FIIs as laid down under Regulation 15(2) of the SEBI (Foreign Institutional Investors) Regulations, 1995 (FII Regulations).

In furtherance of the above circular, the Reserve Bank of India (RBI) has vide its circular No. 25 dated October 17, 2008 has notified necessary amendments to be made to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000 (FEMA Regulations).

The contents of the SEBI circular dated October 16 are summarized below:

- The cumulative debt investment limit for FII investments in Corporate Debt has been raised from USD 3 billion to USD 6 billion.
- The enhanced limit for investment in corporate debt would be allocated amongst the FIIs on first come first serve basis, subject to a ceiling of USD 300 million per registered entity.
- The debt requests in this regard to be forwarded to the dedicated email id **fii_debtrequests@sebi.gov.in**. The mailbox shall open at 23:59 PM IST, October 20, 2008.
- With immediate effect the requirement under Regulation 15(2) of FII Regulations pertaining to restrictions of 70:30 ratio of investment in equity and debt respectively has been done away with so as to provide flexibility to the FIIs to allocate the investments across equity and debt. The necessary amendments to the FII Regulations in this regard would be carried out soon.

The contents of the RBI circular dated October 17 are summarized hereunder:

- The existing provisions pertaining to the FII investments in the equity and debt in the ratio of 70:30 as required under clause (i) of the paragraph 1 of Schedule 5 of the FEMA Regulations to be done away with.

- The requirement to get registered as a 100% debt FII for 100% investments in the debt securities under clause (ii) of the Paragraph 1 of Schedule 5 of the FEMA Regulations has been done away with. Henceforth there would be no two separate categories of registration namely (a) 100% debt or (b) 70:30 FII.
- The stipulations pertaining to the FII holdings in security receipts issued by Asset Reconstruction Companies under clause (iii) of paragraph 1 of Schedule 5 of the FEMA Regulations shall continue.

The necessary amendments to the FEMA Regulations are being issued separately, to give effect to the above.

In case of any clarifications please contact our Capital Market Team.

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A.R.A. LAW - Advocates & Solicitors

Mumbai Office:

3/F, Mahatma Gandhi Memorial Building,
7, Netaji Subhash Road, Charni Road (West)
Mumbai - 400 004.
Tel: (+91 22) 2281 1700
Fax : (+91 22) 2284 1800
E-mail: bom@aralaw.com

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