



## news flash

### April 2020



## **RBI introduces 'Fully Accessible Route' for Investment by non-residents in Government Securities**

### **Introduction**

On 30 March 2020, RBI issued two circulars, viz. (i) circular bearing number RBI/2019-2020/199 A.P.(DIR Series) Circular No. 24 (“**Circular 24/2020**”) which has revised the limit for FPI investments in corporate bonds and clarified on the applicability of investment limits in Central Government securities (G-secs) and State Development Loans (SDLs); and (ii) circular number RBI/2019-20/200 A.P. (DIR Series) Circular No. 25 dated 30 March 2020 (“**FAR Circular**”), which was issued to operationalise the proposal made by Ms. Nirmala Sitharaman, Finance Minister, in the Union Budget, for the financial year 2020-2021, on 1 February 2020 to enable certain specified categories of government securities to be fully open to investments by all persons resident outside India without any restrictions, vide a separate channel namely; Fully Accessible Route (“**FAR**”).

### **A. Key amendments in the Circular 24/2020**

1. The pool for investment by FPIs in corporate bonds has been increased from 9% of the outstanding stock to 15% of the outstanding stock for the financial year 2020-2021, which would allow more investment inflow.
2. With respect to limits for FPI investment in Central Government securities (G-secs) and State Development Loans (SDLs) for financial year 2020-2021, it has been clarified that the RBI will advise on this separately and till that time the current aggregate limits will be applicable.

### **B. Key Features of the FAR Circular**

1. It enables all persons resident outside India (as defined under the Foreign Exchange Management Act, 1999) to invest in dated Government securities as specified by the RBI from time to time for investment under FAR
2. This FAR Circular shall operate along with the two existing routes, i.e. the Medium Term Framework (“**MTF**”) and the Voluntary Retention Route (“**VRR**”).
3. Other provisions of the various rules and regulations notified under the Foreign Exchange Management Act, 1999 will continue to be applicable.

### **Effective Date**

FAR Circular shall come into effect from 1 April 2020.

### **Who can invest under the FAR Circular?**

While the FAR Circular permits all non-residents to invest in FAR Government Securities, it only sets out the process of investment for those eligible investors who are permitted to invest in Government Securities under the provisions of Foreign Exchange Management (Debt Instruments) Regulations, 2019 (“**Debt Instruments Regulations**”) (such as Foreign Portfolio Investors (FPIs), Non-Resident Indians (NRIs), Overseas Citizens of India (OCIs), etc.). Further, the FAR Circular clarifies that other non-residents may invest through International Central Securities Depositories and that the process for such investments is to be notified in due course.

### **Specified Securities: Which are these securities?**

‘Specified securities’ has been defined as the Government securities periodically notified by the RBI for investment under the FAR route. In this regard, RBI has also notified the directions bearing number RBI/2019-2020/201 FMRD.FMSD.No.25/14.01.006/2019-20 and annexed the list of certain Government securities that are eligible for investment under the FAR route on 30 March 2020.

If a security has once been designated as a ‘Specified security’, it shall remain eligible for investment under the FAR Circular until maturity. In addition, all new issuances of Government securities of 5-year, 10-year and 30-year tenors from the financial year 2020-21 will be eligible for investment under the FAR as ‘specified securities’. The RBI may add new tenors or change the tenors of new securities to be designated as ‘specified securities’ from time to time.

### **Investment: Limit or no?**

There will be no quantitative limit on investment by eligible investors in the Specified securities. The FAR Circular further clarifies that all investments by eligible investors in the specified securities will be treated as being under the FAR from the date on which the FAR Scheme comes into effect i.e. 1 April 2020.

The FAR Circular states that FPIs that currently hold investments in the specified securities shall, within one year from 1 April 2020, readjust their investments under the MTF to comply with requirements mandated in A.P. (DIR Series) Circular No. 31 dated 15 June 2018 read with A.P. (DIR Series) Circular No. 18 dated 23 January 2020.

### **Some Ambiguity**

While Circular 24/2020 states the current aggregate limits of the Central Government securities will be applicable, the FAR Circular allows FPIs to invest in the ‘Specified securities’ without any limit. Since the Circular 24/2020 and FAR Circular were both issued on the same date, there is no clarity on whether investments by FPIs in “specified securities”, which presently form a sub-set of Government Securities, would be counted towards the aggregate limits set for investments by FPIs in Government Securities, though on a plain reading, it appears that it would.

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