RBI amends voluntary retention route for FPIs investing in Indian debt market

Issued on: 06 June 2019

Summary

The Reserve Bank of India (RBI) vide a circular dated 1 March 2019[1] introduced a new investment channel called the voluntary retention route (VRR) to enable foreign portfolio investors (FPIs) to invest in the Indian debt market.

Based on the feedback from various stakeholders on VRR, the RBI has made certain amendments to the scheme vide Circular dated 24 May 2019[2], such as the introduction of a separate category for making investment in instruments eligible under both categories, ie VRR-Govt. and VRR-Corp, called 'VRR-Combined'. In addition, it removed the initial minimum investment requirement and provided an additional option for discontinuing or exiting an investment at the end of the retention period. Further, the RBI has also issued a press release dated 24 May 2019[3] prescribing various details of the revised VRR scheme.

Key amendments to the VRR direction

- **Introduction of a separate category for investment under this route**

  Earlier, there were only two categories in which investment could be made under this route, namely, VRR-Corp[4] and VRR-Govt[5]. Now, a separate category, ie VRR-Combined, is also introduced.

---

[1] A.P. (DIR Series) Circular No. 21 dated 1 March 2019
[2] A.P. (DIR Series) Circular No. 34 dated 24 May 2019
[3] Press release: 2018-2019/2760 dated 24 May 2019
[4] Under VRR-Corp, investment can be made under non-convertible debentures/bonds issued by an Indian company, commercial papers issued by Indian company, security receipts issued by asset reconstruction companies, etc., including commercial papers
[5] Under VRR-Govt., FPIs will be eligible to invest in any government securities, ie, central government dated securities (G-secs), treasury bills (T-bills) as well as state development loans (SDLs).

As per the Circular, VRR-Combined shall mean VRR for FPI investment in instruments eligible under both VRR-Govt. and VRR-Corp.

- **Removal of the conditions of investing 25% of committed portfolio size (CPS) within a month of allotment of limit**

  Earlier, there was a condition of making investment of 25% of CPS[6] within a month of allotment of the limit for investment. This condition has now been removed. Now, successful allottees are required to invest at least 75% of their CPS within three months from the date of allotment.

- **Provision of an additional option at the end of the retention period**

  Earlier, in case FPIs wished not to continue their investment under VRR at the end of the retention period, they only had two options: to liquidate their portfolio and exit or to shift their investments to the general investment limit subject to the availability of limit under the 'general investment limit'. Now, FPIs also have an option to hold their investment until its date of maturity or until it is sold, whichever is earlier.

Salient features of the press release

The key features of the press release on notifying the revised VRR for investment by FPI are as follows:

- The investment limit shall be INR 54,606.55 crore under the VRR-Combined category, which allows investment in both government securities and corporate debt.
- The minimum retention period will be of three years. During this period, FPIs shall maintain a minimum of 75% of the allocated amount in India.
- Investment limits shall be available 'on tap' and allotted on a 'first come, first serve' basis.
- The tap shall be kept open till the limit is fully allotted or till 31 December 2019, whichever is earlier.
- FPIs shall apply for investment limits online to the Clearing Corporation of India Ltd. (CCIL) through their respective custodians. CCIL will separately notify the operational details of application and allotment.

---

[6] CPS, for an FPI, shall mean the amount allotted to that FPI, for making investment.

- FPIs that were allotted investment limits under the tap that was open during 11 March to 30 April 2019 may, at their discretion, opt to convert[7] their full allotment to VRR-Combined by advising CCIL through their custodians.

Our comments

The amendment is intended to increase the operational flexibility of the existing scheme and make VRR more attractive for FPIs investing in the debt market. The amended VRR should help attract long-term and stable FPI investments into the Indian debt market.

[7] This conversions amount will be over and above the investment limit of INR 54,606.55 crore.

Contact us

To know more, please visit **www.grantthornton.in** or contact any of our offices as mentioned below:

NEW DELHI	NEW DELHI	AHMEDABAD	BENGALURU	CHANDIGARH
National Office Outer Circle L 41 Connaught Circus, New Delhi 110001 T +91 11 4278 7070	6th floor, Worldmark 2, Aerocity, New Delhi – 110037 T +91 11 4952 7400	7th Floor, Heritage Chambers, Nr. Azad Society, Nehru Nagar, Ahmedabad - 380015	5th Floor, 65/2, Block A, Bagmane Tridib, Bagmane Tech Park, C V Raman Nagar, Bengaluru – 560093 T+91 80 4243 0700	B-406A, 4th Floor, L&T Elante office Industrial area, Phase-I Chandigarh 160002 T +91 172 4338 000
CHENNAI	**DEHRADUN**	**GURGAON**	**HYDERABAD**	**KOCHI**
7th Floor, Prestige Polygon 471, Anna Salai, Teynampet Chennai - 600 018 T +91 44 4294 0000	Suite 2211, Michigan Avenue, Doon Express Business Park, Saharanpur Road, Dehradun – 248002 T +91 135 264 6500	21st Floor DLF Square, Jacaranda Marg, DLF Phase II, Gurgaon 122002 T +91 124 462 8000	7th Floor, Block III White House Kundan Bagh, Begumpet Hyderabad 500016 T +91 40 6630 8200	7th Floor, Modayil Centre Point, Warriam road junction, M.G. Road Kochi 682016 T +91 484 406 4541
KOLKATA	**MUMBAI**	**MUMBAI**	**NOIDA**	**PUNE**
10C Hungerford Street 5th Floor, Kolkata 700017 T +91 33 4050 8000	16th Floor, Tower II Indiabulls Finance Centre SB Marg, Elphinstone (W) Mumbai 400013 T +91 22 6626 2600	9th Floor, Classic Pentagon, Nr Bisleri, Western Express Highway, Andheri (E) Mumbai 400099 T +91 22 6176 7800	Plot No. 19A, 7th Floor Sector – 16A, Noida 201301 T +91 120 4855 900	3rd Floor, Unit No 309 to 312, West Wing, Nyati Unitree Nagar Road, Yerwada Pune- 411006 T +91 20 6744 8800

For more information or for any queries, write to us at **contact@in.gt.com**

Follow us @GrantThorntonIN

Grant Thornton
An instinct for growth™