



## **SEBI permits Foreign Portfolio Investors (FPIs) to invest in unlisted securities**

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In August 2016, SEBI vide its circular had redefined the Corporate debt limit of INR 2,443,230 million for FPIs as the Combined Corporate Debt Limit (CCDL) for all foreign investments in Rupee Denominated Bonds issued both onshore and overseas by Indian corporates.

SEBI vide its circular dated 20 July 2017 has restricted on tap investment by foreign investors in CCDL till the overall investment reaches 95 percent, subsequent to which, the auction mechanism shall be initiated for allocation of the balance limits.

A detailed auction procedure / mechanism has been provided if the overall FPI investment in CCDL exceeds 95 percent which is as under:

- a) The depositories (NSDL / CDSL) shall direct custodians to halt all FPI purchases in corporate debt securities;
- b) The depositories to inform the exchanges (NSE / BSE) regarding the unutilised debt limits for conduct of auction;
- c) The exchange (starting with BSE) shall conduct an auction for the allocation of unutilised debt limits on the second trading day from the date of receipt of intimation from the depositories. Subsequent auctions shall be conducted alternately on NSE and BSE at intervals of 12 trading days;
- d) The auction shall be held only if the free limit is greater than or equal to INR 1,000 million. If the free limit remains less than INR 1,000 million for 15 consecutive trading days, then an auction shall be conducted on the sixteenth trading day to allocate the free limits;
- e) Minimum / Maximum bid, duration of bidding, bid price norms have been prescribed;
- f) Post auction and allotment of limits, the FPIs have a window of 10 trading days to invest in CCDL' s. Unutilised limits, if any shall be added to the pool of free limits;
- g) Upon sale / redemption of debt securities, FPIs will have a reinvestment period of 2 trading days. If the reinvestment is not made within 2 trading days, then the limits shall be added to the pool of free limits;
- h) A single FPI/ FPI Group cannot bid for more than 10 percent of the limits being auctioned;

- i) The auction mechanism shall be discontinued and the limits shall be once again available for investment on tap when the debt limit utilisation falls below 92 percent. In such a scenario, the reinvestment facility (refer point g) above) shall stand terminated and cannot be availed for the same limits when the utilisation crosses 95 percent again; and
- j) Since, rupee denominated bonds issued by Indian corporates overseas are covered under CCDL, issuance of such bonds overseas shall also temporarily cease until till the limit utilisation falls back to below 92 percent.

Further, in February 2017, SEBI had notified new norms allowing FPIs to make investments in unlisted corporate debt securities and securitised debt instruments. SEBI in partial modification of this circular has clarified that the FPI investments in unlisted corporate debt securities shall compulsorily be in dematerialised form.

Source: <http://www.sebi.gov.in>

**Ahmedabad**

Commerce House V, 9th Floor,  
902 & 903, Near Vodafone House,  
Corporate Road,  
Pralhad Nagar,  
Ahmedabad – 380 051  
Tel: +91 79 4040 2200  
Fax: +91 79 4040 2244

**Bengaluru**

Maruthi Info-Tech Centre  
11-12/1, Inner Ring Road  
Koramangala,  
Bengaluru – 560 071  
Tel: +91 80 3980 6000  
Fax: +91 80 3980 6999

**Chandigarh**

SCO 22-23 (1st Floor)  
Sector 8C, Madhya Marg  
Chandigarh – 160 009  
Tel: +91 172 393 5777/781  
Fax: +91 172 393 5780

**Chennai**

KRM Tower, Ground Floor,  
No 1, Harrington Road  
Chetpet, Chennai – 600 031  
Tel: +91 44 3914 5000  
Fax: +91 44 3914 5999

**Gurugram**

Building No.10, 8th Floor  
DLF Cyber City, Phase II  
Gurugram, Haryana – 122 002  
Tel: +91 124 307 4000  
Fax: +91 124 254 9101

**Hyderabad**

Salarpuria Knowledge City,  
ORWELL, 6th Floor, Unit 3, Phase  
III, Sy No. 83/1, Plot No 2,  
Serilingampally Mandal, Raidurg  
Ranga Reddy District,  
Hyderabad, Telangana – 500081  
Tel: +91 40 6111 6000  
Fax: +91 40 6111 6799

**Jaipur**

Regus Radiant Centres Pvt Ltd.,  
Level 6, Jaipur Centre Mall,  
B2 By pass Tonk Road  
Jaipur, Rajasthan, 302018.  
Tel: +91 141 - 7103224

**Kochi**

Syama Business Center  
3rd Floor, NH By Pass Road,  
Vytilla, Kochi – 682019  
Tel: +91 484 302 7000  
Fax: +91 484 302 7001

**Kolkata**

Unit No. 603 – 604,  
6th Floor, Tower – 1,  
Godrej Waterside,  
Sector – V, Salt Lake,  
Kolkata – 700 091  
Tel: +91 33 4403 4000  
Fax: +91 33 4403 4199

**Mumbai**

Lodha Excelus, Apollo Mills  
N. M. Joshi Marg  
Mahalaxmi, Mumbai – 400 011  
Tel: +91 22 3989 6000  
Fax: +91 22 3983 6000

**Noida**

Unit No. 501, 5th Floor,  
Advant Navis Business Park  
Tower-B, Plot# 7, Sector 142,  
Expressway Noida, Gautam Budh Nagar,  
Noida – 201305  
Tel: +91 0120 386 8000  
Fax: +91 0120 386 8999

**Pune**

9th floor, Business Plaza,  
Westin Hotel Campus, 36/3-B,  
Koregaon Park Annex, Mundhwa Road,  
Ghorpadi, Pune – 411001  
Tel: +91 20 6747 7000  
Fax: +91 20 6747 7100

**Vadodara**

iPlex India Private Limited,  
1st floor office space, No. 1004,  
Vadodara Hyper, Dr. V S Marg  
Alkapuri, Vadodara – 390 007  
Tel: +91 0265 235 1085/232 2607/232 2672