



## 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>

[www.kpmg.com/in](http://www.kpmg.com/in)

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