

RBI releases discussion paper on Voluntary Retention Route (VRR) for investment by FPIs

Reserve Bank, in consultation with the Government of India and Securities and Exchange Board of India (SEBI), proposes to introduce a separate channel, called the 'Voluntary Retention Route' (VRR), to enable Foreign Portfolio Investors (FPIs) to invest in debt markets in India. Broadly, investments through the Route will be free of the macro-prudential and other regulatory prescriptions applicable to FPI investments in debt markets, provided FPIs voluntarily commit to retain a required minimum percentage of their investments in India for a period of their choice. Participation through this Route will be entirely voluntary. The features of the Route are as follows:

Objective: The objective of the VRR channel is to attract long-term and stable FPI investments into debt markets while providing FPIs with operational flexibility to manage their investments.

Eligible investors: Any entity registered as an FPI with SEBI is eligible to participate through this Route.

Overview:

- The total amount that may be invested via the Route shall be decided by the Reserve Bank from time to time based on macro-prudential considerations and assessment of investment demand.
- Investments through this Route shall be in addition to the FPI investment limits (General Investment Limit) under the Medium Term Framework, as per A.P.(DIR Series) Circular No. 22 dated April 6, 2018, as modified from time

to time.

- The total amounts for investment through the Route shall be separately indicated for Government securities (Central Government securities as well as State Development Loans, VRR-Govt) and corporate debt (VRR-Corp).
- The total amount for investment under VRR-Govt shall be individually allocated to FPIs through an auction process. A similar allocation shall be made separately for the total amount of investment under VRR-Corp.

Auction process for allocation of limits: For every VRR auction, RBI shall announce the total investment amount to be auctioned (auction amount), and the minimum retention period applicable to allotments under that auction. Auctions shall be announced and carried out separately for VRR-Govt and VRR-Corp categories.

Management of portfolio:

- Successful bidders will be given a period of one month, starting from the date of announcement of auction results, to invest.
- An FPI will be required to invest a minimum of 67% of the CPS within the one-month period. The retention period will commence from the end of the one-month period.
- One month prior to the end of the committed retention period, an FPI will exercise its choice to continue investments under this Route by opting for an additional identical retention period.

Eligible instruments and tenor limits:

- Under VRR-Govt, FPIs will be eligible to invest in any Government security including T-bills. Similarly, under VRR-Corp, FPIs may invest in corporate debt instruments, including commercial papers.
- Investments through the Route shall be exempt from the requirements in paragraphs 4(b), (e) and (f) of A.P. (DIR Series) Circular No. 31 dated June 15, 2018.
- Income from investments through the Route may be reinvested at the discretion of the FPI. Such investments will be permitted beyond the CPS.

Access to other facilities:

- FPIs investing through the Route will be eligible to participate in repos for liquidity management, provided that the amount borrowed or lent under repo shall not exceed 10% of their investment under VRR. Securities sold under repo shall not bring the holdings below 67% of the CPS. Securities bought under repos shall not be reckoned for maintenance of the minimum 67% of CPS.
- FPIs will be allowed to participate in any currency and interest rate derivative instrument, OTC or exchange traded, to hedge their interest rate or currency risk.

Other operational aspects:

- Utilisation of limits and adherence to other requirements of this Route will be the responsibility of both the FPI and its custodian.
- FPIs shall enter into separate legal agreement/contract, enforceable within the jurisdiction of India, with their custodians, covering all relevant aspects of the VRR.
- FPIs shall open a separate Special Non-Resident Rupee (SNRR) account for investment through the Route. All fund flows relating to investment through the Route shall reflect in this account.

The detailed Discussion Paper on 'Voluntary Retention Route' (VRR) for investment by FPIs is attached for your kind reference. RBI seeks inputs on the discussion paper and therefore, request you to please provide your suggestions (if any) latest by 13th October 2018 at research@phdcci.in

Please contact for any query related to this mail to Ms. Kritika Bhasin, Research Officer at kritika.bhasin@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in and Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in , PHD Chamber of Commerce & Industry.

Warm regards,

Dr. S P Sharma
Chief Economist

PHD Chamber of Commerce and Industry

PHD House, 4/2 Siri Institutional Area
August Kranti Marg, New Delhi-110016
Ph.: + 91-11-26863801-04, 49545454
Fax: +91- 26855450, 49545451
Email: spsharma@phdcci.in
Website: www.phdcci.in



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PHD CHAMBER OF COMMERCE AND INDUSTRY

PHD House, 4/2 Siri Institutional Area, August Kranti Marg, New Delhi - 110 016 (India) • Tel. : +91-11-2686 3801-04, 49545454, 49545400
Fax : +91-11-2685 5450 • E-mail : phdcci@phdcci.in • Website : www.phdcci.in, CIN: U74899DL1951GAP001947

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