RBI relaxes Voluntary Retention Route' (VRR) for Foreign Portfolio Investors (FPIs) investment in debt

In reference to the Foreign Exchange Management (Debt Instruments) Regulations, 2019 notified vide Notification No. FEMA. 396/2019-RB dated October 17, 2019, as amended from time to time, and relevant directions issued there under and Circular No. 34 dated May 24, 2019 (hereinafter Directions), the RBI has decided to made the following changes to the Directions governing investment through the Voluntary Retention Route (VRR):

- The investment cap is increased to Rs. 1,50,000 crores from Rs. 75,000 crores.
- FPIs that have been allotted investment limits under VRR may, at their discretion, transfer their investments made under the General Investment Limit to VRR.
- FPIs are also allowed to invest in Exchange Traded Funds that invest only in debt instruments.

Features:

- Investment through this Route shall be in addition to the General Investment Limit. Investment under this route shall be capped at Rs.1,50,000 crore or higher, which amount shall be allocated among VRR-Govt, VRR-Corp, and VRR-Combined as may be decided by the Reserve Bank from time to time. The investment limit shall be released in one or more tranches.
- Allocation of investment amount to FPIs under this Route shall be made on tap or through auctions.
- The mode of allotment, allocation to VRR-Govt, VRR-Corp and VRR-Combined categories and the minimum retention period shall be announced by the Reserve Bank ahead of allotment
- No FPI (including its related FPIs) shall be allotted an investment limit greater than 50% of the

amount offered for each allotment by tap or auction in case there is a demand for more than 100% of amount offered.

- The minimum retention period shall be three years, or as decided by RBI for each allotment by tap or auction.
- FPIs shall invest the amount allocated, called the Committed Portfolio Size (CPS) in the relevant debt instruments and remain invested at all times during the voluntary retention period, subject to the following relaxations:

i. The minimum investment of an FPI during the retention period shall be 75% of the CPS (The flexibility for modulating investments between 75%-100% of CPS is intended to enable FPIs to adjust their portfolio size as per their investment philosophy).

ii. The required investment amount shall be adhered to on an end-of-day basis. For this purpose, investment shall include cash holdings in the Rupee accounts used for this Route.

iii. FPIs may, at their discretion, transfer their investments made under the General Investment Limit, if any, to the VRR scheme

- Amounts of investment shall be reckoned in terms of the face value of securities.

The Revised Voluntary Retention Route' (VRR) for Foreign Portfolio Investors (FPIs) investment in debt, 2020 released by RBI is attached for your kind reference.

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Warm Regards,

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