RBI introduces the Voluntary Retention Route for Investments by Foreign Portfolio Investors (FPIs)

The Statement on Development and Regulatory Policies in the Monetary Policy Statement dated October 05, 2018 had announced a separate scheme called 'Voluntary Retention Route' (VRR) to encourage Foreign Portfolio Investors (FPIs) to undertake long-term investments in Indian debt markets. Under this scheme, FPIs have been given greater operational flexibility in terms of instrument choices besides exemptions from certain regulatory requirements. A discussion paper on the VRR scheme was placed on the Reserve Bank's website for public consultation. Based on the feedback from the public and in consultation with Government of India, the scheme has been finalized by RBI and has been notified, vide, A.P (DIR Series) Circular No. 21 dated March 1, 2019.

Investment under the VRR scheme shall be open for allotment from March 11, 2019. The details are as under:

- The aggregate investment limit shall be ₹ 40,000 crores for VRR-Govt and ₹ 35,000 crores for VRR-Corp.
- The minimum retention period shall be 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 for investments and shall be allotted by Clearing Corporation of India Ltd. (CCIL) on 'first come first served' basis.
- The investment limits under the current tranche shall be kept open till the limits are exhausted or till April 30, 2019 whichever is earlier.
- FPIs desirous of investing may apply online to CCIL through their respective custodians.
- CCIL will separately notify the operational details of application and allotment.

Hedging of exchange rate risk by Foreign Portfolio Investors (FPIs) under Voluntary Retention Route

In regard to A.P. (DIR Series) Circular No. 21 dated March 01, 2019 on Voluntary Retention Route (VRR) for Foreign Portfolio Investors (FPIs) investment in debt. The operational guidelines, terms and conditions for hedging the exposure to exchange rate risk on account of investments made under this route are as follows:

Purpose: To hedge the exposure to exchange rate risk on account of investments made under the Voluntary Retention Route (VRR)

Products: Forwards, options, cost reduction structures and swaps with Rupee as one of the currencies

Operational Guidelines, Terms and Conditions:

i. Authorised dealers may offer derivative contracts using any of the aforementioned products to eligible users under VRR or to its central treasury (of the group and being a group entity). Authorised dealers shall ensure that:

a) The FPI has an exposure to exchange rate risk on account of investments made under VRR.
b) The notional and tenor of the contract does not exceed the value and tenor of the exposure.
c) The same exposure has not been hedged with any other authorised dealer or on the exchange.
d) In cases where the value of the exposure falls below the notional of the derivative, the derivative should be suitably adjusted unless such divergence has occurred on account of change in market value of the exposure, in which case the FPI may, at its discretion, continue with the derivative contract till its original maturity.

ii. Authorised dealers shall allow FPIs to freely cancel and rebook the derivative contracts.

iii. Authorised Dealer shall ensure that all payables incidental to the hedge are met by the FPI out of repatriable funds and/or inward remittance through normal banking channels.

Please contact for any query related to this mail to Ms. Surbhi Sharma, Associate Economist at surbhi@phdcci.in with a cc to Dr. S P Sharma, Chief Economist at spsharma@phdcci.in of 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, India
Tel: +91 49545454
Fax: +91 11 26855450
Email: spsharma@phdcci.in
Website: www.phdcci.in
Follow us on