



RBI/2017-18/12  
A.P.(DIR Series) Circular No. 1

July 3, 2017

To,

All Authorized Persons

Madam / Sir

**Investment by Foreign Portfolio Investors (FPI) in Government Securities  
Medium Term Framework – Review**

Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to Schedule 5 to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified vide [Notification No. FEMA.20/2000-RB dated May 3, 2000](#), as amended from time to time.

**Review of the Medium term Framework**

2. The current Medium Term Framework (MTF) for FPI investment in Central Government Securities (G-secs) and State Government Securities (SDLs) was introduced in October 2015 with the following major features:
- Limits to be specified as a percentage of outstanding Stock – 5% for G-secs; 2% for SDLs, to be achieved by 31 March 2018, through half yearly reviews and quarterly increases.
  - Minimum tenor of investments at 3 years.
  - 20% cap on FPI investment in any particular security.
  - Preference for long-term investors – Allocation of 60% for 'long term' category and 40% for 'General' category.
  - Transfer of unutilized limits in 'Long Term' category to 'General' category.

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3. Currently 'long term' category of FPI investors accounts for about 20% of the total investment by FPIs in Central Government securities. In order to recalibrate the Framework to meet the objective of a preference for long-term investors and also with a view to manage the macro-prudential implications of evolving capital flows, the MTF has been reviewed. Based on the review, the following modifications are made to the Framework.
  - a. The overall cap of 5% for Central Government securities (G-Secs) and 2% for State Development Loans (SDLs) remain unchanged.
  - b. Future increases in the limit for FPI investment in Central Government securities will be allocated in the following ratio - 75% for 'Long-Term' category of FPIs and 25% for 'General' category.
  - c. The practice of transferring unutilized limits of 'Long-Term' category to 'General' category of FPIs is done away with.
  - d. To harmonize the approach to FPI investments in SDLs with that for Central Government securities, future increases in SDLs would be in the ratio of 75% for 'Long Term' category and 25% for 'General' category of FPIs.
  
4. RBI may, in future, continue to calibrate some features of the MTF depending on the evolving macro-economic conditions.

**Revision of Limits for the Jul-Sep 2017 Quarter**

5. The limits for investment by FPIs in Central Government Securities and State Development Loans (SDLs) for the quarter July-September 2017 are increased by INR 110 billion and INR 61 billion, respectively, and allocated as under:-

<b>Limits for FPI investment in Government Securities</b>							
							(INR Billion)
	<b>Central Government securities</b>			<b>State Development Loans</b>			<b>Aggregate</b>
	<b>General</b>	<b>Long Term</b>	<b>Total</b>	<b>General</b>	<b>Long Term</b>	<b>Total</b>	
Existing Limits	1,849	461	2,310	270	--	270	2,580
Revised limits	1,877	543	2,420	285	46	331	2,751

6. The revised limits will be effective from July 4, 2017.
7. All other existing conditions, including the security-wise limits, investment of coupons being permitted outside the limits and investments being restricted to securities with a minimum residual maturity of three years, will continue to apply.
8. The operational guidelines relating to allocation and monitoring of limits will be issued by the Securities and Exchange Board of India (SEBI).
9. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.
10. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approval, if any, required under any other law.

Yours faithfully

(T. Rabi Sankar)  
Chief General Manager