Article

Green light for FPIs to invest in securitised debt instruments and unlisted debentures

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SEBI vide its notification no. - SEBI/LAD/NRO/GN/2016-17/035, dated 27th February, 2017, paved the way for investments by Foreign Portfolio Investors (FPIs) in unlisted debentures and securitised debt instruments issued by Indian companies. Previously the RBI had permitted investment by FPIs in unlisted non-convertible debentures and securitized debt instruments issued by Indian companies in November, last year. This amendment by the securities market regulator is the final push which was need to encourage more FPI investments in India.

It was decided in the SEBI board meeting held in November 23rd, 2016 to allow investment by FPIs in unlisted debt securities and securitised debt instruments of all Indian companies. This amendment is the final nod by the SEBI to allow for investment by FPIs.

Until now FPI could invest only in debt securities of companies engaged in infrastructure sector. This was a clear indication that the government aimed to develop the infrastructure in India. But now it seems the government does not want to restrict this to infrastructure sector only and wants to reap all the benefits for developing a dynamic and a facilitating bond market in the country.

Economic development and smooth flow of funds into the economy are the counter side of a single coin, and the government of India has very well taken this into account, while amending the FPI regulation. By allowing FPI investment in unlisted debt instruments of Indian companies, the government has relaxed the burden which the companies had to bear, while raising funds in form of equity which in turn blocked the companies from taping into fresh funds and listing of debt instruments which called in additional burden of complying with a host of other regulations.

Now, since the companies will be able to raise fund from foreign sources in form of unlisted debt, they will have room for additional investment as fixed capital in hard times and also will be able to raise funds in short notices as the need to list the instruments are no longer applicable.

However, securitised debt instruments which will be eligible for FPI investments have to –

i. *any certificate or instrument issued by a special purpose vehicle (SPV) set up for securitisation of asset/s where banks, FIs or NBFCs are originators; and/or*
ii. *any certificate or instrument issued and listed in terms of the SEBI Regulations on Public Offer and Listing of Securitised Debt Instruments, 2008.*

This implies that the government is still playing safe in case of securitised instruments, as instruments issued by other the ones listed above will not be regulated by neither the central bank of the country nor the securities market regulator.

This amendments will open up new investment opportunities for the FPIs in India, and in turn will come to rescue the Indian companies which are in need of funds but are unable to tap into them without being listed and bringing in additional burden of regulations for listed entities.