

# Info Capsule

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## THE RBI INTRODUCES THE VOLUNTARY RETENTION ROUTE FOR INVESTMENTS BY FOREIGN PORTFOLIO INVESTORS (FPIs) - VOLUNTARY RETENTION ROUTE<sup>1</sup>

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 at: [https://rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=45165](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=45165) for public consultation.

Based on the feedback from the public and in consultation with Government of India, the scheme has been finalized and has been notified, vide, A.P (DIR Series) Circular No. 21 dated March 1, 2019. The detailed circular could be accessed at <https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11492&Mode=0>

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

- a. The aggregate investment limit shall be ₹ 40,000 crores for VRR-Govt and ₹ 35,000 crores for VRR-Corp.
- b. The minimum retention period shall be three years. During this period, FPIs shall maintain a minimum of 75% of the allocated amount in India.
- c. 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.
- d. The investment limits under the current tranche shall be kept open till the limits are exhausted or till April 30, 2019 whichever is earlier.
- e. FPIs desirous of investing may apply online to CCIL through their respective custodians.
- f. CCIL will separately notify the operational details of application and allotment.

## RBI CONSTITUTES THE TASK FORCE ON OFFSHORE RUPEE MARKETS<sup>2</sup>

Reserve Bank has been guided by the objective of developing deep and liquid on-shore financial markets that act as a price setter of the Rupee globally. The focus of policy efforts has been to align incentives for non-residents to gradually move to the domestic market while at the same time improving market liquidity to promote hedging activity on-shore. With this objective, RBI had announced, in the Statement on Developmental and Regulatory Policies dated February 7, 2019, the setting up of a Task Force on Offshore Rupee Markets.

<sup>1</sup> Available at: [https://rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=46444](https://rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46444)

<sup>2</sup> Available at: [https://www.rbi.org.in/Scripts/BS\\_PressReleaseDisplay.aspx?prid=46423](https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=46423)

The Task Force shall examine the issues relating to the offshore Rupee markets in depth and recommend appropriate policy measures that also factor in the requirement of ensuring the stability of the external value of the Rupee.

Accordingly, RBI has constituted the Task Force on Offshore Rupee Markets. The Task Force will have the following composition:

- i. Smt. Usha Thorat, former Deputy Governor, Reserve Bank of India - Chairperson
- ii. Nominee from the Department of Economic Affairs, MoF, Government of India - Member
- iii. Nominee from the Securities & Exchange Board of India - Member
- iv. Shri Ajit Ranade, Chief Economist of the Aditya Birla Group - Member
- v. Shri Sajjid Chinoy, Chief Economist, India, JPMorgan - Member
- vi. Shri Surendra Rosha, CEO, India, HSBC - Member
- vii. Adviser-in-charge, Department of Economic Policy and Research, RBI - Member
- viii. Chief General Manager, Financial Markets Regulation Dept., RBI – Member Secretary

The terms of reference of the task force are:

- i. Assess the causes behind the development of the offshore Rupee market;
- ii. Study the effects of the offshore markets on the Rupee exchange rate and market liquidity in the domestic market;
- iii. Recommend measures to address concerns, if any, arising out of offshore Rupee trading;
- iv. Propose measures to generate incentives for non-residents to access the domestic market;
- v. Examine the role, if any, International Financial Services Centres (IFSCs) can play in addressing these concerns;
- vi. Any other relevant issue(s) the Task Force considers relevant to the context.

The Task Force shall submit its report by the end of June 2019. The Task Force may, if considered necessary, invite other experts in the field to share their inputs.