

Corpsec Hotline

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LIBERALIZATION OF INVESTMENT BY MUTUAL FUNDS

The Reserve Bank of India (“**RBI**”) vide A.P. (DIR Series) Circular No. 34 dated April 3, 2008 (“**Circular**”) has further enhanced the aggregate ceiling for overseas investment by Mutual Funds registered with the Securities and Exchange Board of India (“**SEBI**”) with immediate effect.

Present situation:

Presently, mutual funds, registered with SEBI were permitted to invest upto USD 5 billion in:

- American Depository Receipts / Global Depository Receipts issued by Indian or foreign companies;
- equity of overseas companies listed on recognized stock exchanges overseas;
- initial and follow on public offerings for listing at recognized stock exchanges overseas;
- foreign debt securities in the countries with fully convertible currencies, short term as well as long term debt instruments with rating not below investment grade by accredited / registered credit rating agencies;
- money market instruments rated not below investment grade;
- repos in the form of investment, where the counterparty is rated not below investment grade. The repos should not, however, involve any borrowing of funds by mutual funds;
- government securities where the countries are rated not below investment grade;
- derivatives traded on recognized stock exchanges overseas only for hedging and portfolio balancing with underlying as securities;
- short term deposits with banks overseas where the issuer is rated not below investment grade;
- units / securities issued by overseas Mutual Funds or Unit Trusts registered with overseas regulators and investing in (a) aforesaid securities, (b) Real Estate Investment Trusts (REITs) listed in recognized stock exchanges overseas, or (c) unlisted overseas securities (not exceeding 10 per cent of their net assets).

Changes

With a view to provide greater opportunity for investments overseas aggregate ceiling for overseas investment by Mutual Funds registered with the Securities and Exchange Board of India (“**SEBI**”) is increased from USD 5 billion to USD 7 billion with immediate effect

The existing facility to allow a limited number of qualified Indian Mutual Funds to invest cumulatively up to USD 1 billion in overseas Exchange Traded Funds, as may be permitted by the SEBI, shall continue.

Implication

The increase in the limit for foreign investments from USD 5 Billion to USD 7 Billion is an indication that there is significant interest among Mutual Funds to invest in foreign securities and thus broad base their risk by investing in a wide spectrum of securities. India's foreign exchange coffers have been growing at a fast pace as a result of unabated Foreign Direct Investments ("FDI"). India received USD 20.13 Billion as FDI during the first calendar quarter of 2008, as against USD 11.88 Billion received during the same period in 2007, an increase of about 70 per cent.

The enhanced investment limit while seemingly led by the burgeoning foreign exchange reserves, also affords insulation from an expected (according to recent news reports) slow down in India's economy. News report in a reputed Indian daily indicate that a number of Mutual Funds in India are sitting on huge piles of cash mopped up from recently launched schemes. Whilst the increase in the limit for foreign investment do provide another avenue to invest these moneys, it appears that even major global economies seem to be facing a slowdown in growth, and the much talked about sub-prime saga has led to prominent financial institutions being in dire straits. One can only hope that the managers at the Mutual Funds take the right call based on domestic and global developments before deploying funds in any market or to pursue available opportunities.

Source:

- *A.P. (DIR Series) Circular No. 34 dated April 3, 2008*
- *Hindustan times - Business times supplement -April 5, 2008*

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