

Government allows FPI to Invest in REITs and InvITs

February 12, 2021

In news : Amendments for enabling FPIs to subscribe to listed debt securities of REITs and InvITs

Amendments

The Finance ministry said that the Finance Bill 2021 has proposed amendments to permit foreign portfolio investors (FPIs) an entry into debt financing of emerging investment vehicles – REITs and InvITs

Amendments to following acts has been proposed by the government:

- **Securities Contracts (Regulation) Act, 1956** and **Securities and Exchange Board of India Act, 1992** with consequential amendments in the Securitisation and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002
- **The Recovery of Debts Due to Banks and Financial Institutions Act, 1993** to confer the power to Pooled Investment Vehicles (defined to include AIFs, REITs, InvITs etc.) to borrow and issue debt securities.

The move is aimed at increasing funds for the infrastructure and real estate sectors.

Significance of the move

The proposed debt financing for REIT's and InvIT's through a suitable amendment is expected to provide a major fillip and will attract more investments for the sector

The measures taken for REITs/InvITS for debt financing and exempting dividends from tax deducted at source pave the way

for foreign participation in such instruments

What is real estate investment trust (REIT)?

REIT is a company that owns, operates or finances income-producing real estate. Modeled after mutual funds, REITs pool the capital of numerous investors.

They generate a steady income stream for investors but offer little in the way of capital appreciation

What is Infrastructure Investment Trust (InvIT)?

InvIT is like a mutual fund, which enables direct investment of small amounts of money from possible individual/institutional investors in infrastructure to earn a small portion of the income as return.

REITs Vs InvITs

- REITs (Real Estate Investment Trusts) and InvITs (Infrastructure Investment Trusts) are relatively new investment instruments in the Indian market.
- While a REIT comprises a portfolio of commercial real assets, a major portion of which are already leased out.
- InvIT comprises a portfolio of infrastructure assets such as highways and power transmission assets.

What are Foreign Portfolio Investments (FPIs)?

FPI consists of securities and other financial assets held by investors in another country. It does not provide the investor with direct ownership of a company's assets and is relatively liquid depending on the volatility of the market.