

Consultation Paper on proposal to facilitate relaxation in regulatory compliances for FPI applicants investing only in Indian Government Bonds

1. OBJECTIVE

To achieve ease of doing business while also optimizing regulations through a risk-based framework, certain waivers/ relaxations of extant registration requirements and regulatory obligations are proposed to be given to existing and prospective FPIs ("IGB-FPI") that exclusively invest in Indian Government Bonds ("IGBs") under Voluntary Retention Route (VRR) and Fully Accessible Route ('FAR').

2. BACKGROUND

2.1. Currently, various channels available for investment in debt instruments by non-residents are as follows:

- a) General Route
- b) Voluntary Retention Route
- c) Fully Accessible Route

Out of the above, VRR and FAR facilitates non-residents to invest in debt instruments without being subject to restrictions such as security-wise limit, concentration limit.

2.2. Several global index providers announced inclusion of IGBs in their respective bond indices viz. J P Morgan Global EM Bond Index (starting June, 2024), Bloomberg EM Local Currency Government Index (starting January, 2025) and FTSE Russell Emerging Markets Government Bond Index (starting September, 2025).

2.3. In terms of Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 ("FPI Regulations"), a person is required to obtain a certificate of registration before making any investment in India, as an FPI. Such registration is granted by Designated Depository Participants (DDPs), on behalf of SEBI, as per the procedure laid down in FPI Regulations and Master Circular for FPIs, DDPs and Eligible Foreign Investors ("FPI Master Circular") dated May 30, 2024.

2.4. FPIs are subject to regulatory framework specified under the FPI Regulations and circulars issued by SEBI from time to time. By their very nature of exclusive investment in IGBs, certain regulatory requirements prescribed for FPIs under FPI Regulations, 2019 and circulars issued thereunder like Additional Disclosure Framework as provided under Part C of FPI Master Circular, monitoring of equity investment limits, etc. are not relevant, and hence, not applicable to IGB-FPIs.

2.5. FPI investment in FAR eligible securities crossed INR 3 lakh crore mark in March 2025. Indicative value of aggregate holding of FPIs in FAR eligible IGBs is given below:

As on Date	FPI FAR Holding	
	INR Crore	USD Million [#]
March 31, 2021	32,411	4,428
March 31, 2022	45,686	6,025
March 31, 2023	76,815	9,356
March 28, 2024	1,73,826	20,851
March 28, 2025	3,06,249	35,732

(Source: CCIL)

- converted into USD million based on prevailing conversion rates

Further, the total investment limits allotted under VRR stands at INR 1.75 lakh crores as on March 28, 2024 and INR 2.05 lakh crores as on March 28, 2025.

From the above, it can be observed that there has been significant increase in holdings of FPIs in IGBs. Simplification of onboarding process and rationalization of ongoing regulatory compliances is expected to further help in facilitating investments by FPIs in IGBs.

3. PROPOSALS:

3.1. In line with the objective of risk based approach, optimum regulation and ease of doing business and also to encourage foreign investment into the country, the following is proposed:



3.1.1. Rationalizing KYC Periodicity

- 3.1.1.1. FPIs open trading and demat accounts and obtain Custodial Participant (CP) code for investment in securities market. IGBs are primarily traded through RBI's Negotiated Dealing System – Order Matching (NDS-OM) platform. Further, such trades are cleared and settled through Clearing Corporation of India Limited (CCIL). An IGB-FPI can make investment in IGBs only. Accordingly, IGB-FPI applicants need not open trading and demat accounts and obtain CP code.
- 3.1.1.2. Currently, custodians are required to carry out KYC review of FPIs on a periodic basis once in 1 year / 3 years, based on risk categorization of the FPIs. This ensures that documents, data or information of FPIs collected under the due-diligence process are kept up-to-date and relevant.
- 3.1.1.3. RBI also requires their regulated entities to carry out periodic updation of KYC of their clients to ensure that the information or data collected under Client Due Diligence is kept up-to-date and relevant. The timelines for updation of KYC, as prescribed by RBI, are once in 2 years / 8 years /10 years for high/medium/low risk customers respectively.
- 3.1.1.4. It is proposed to align the periodicity of KYC review for IGB-FPIs with the timelines prescribed by RBI for their regulated entities, to facilitate ease of doing business for IGB-FPIs.

Questions for public comments

1. Do you agree with the proposal to align the periodicity of KYC review for IGB-FPIs with the timelines prescribed by RBI for their regulated entities?

3.1.2. Investor group requirements:

- 3.1.2.1. Currently, investments by FPIs are subject to various investment limits, e.g. 10% limit in case of equity instruments, concentration limits in case of debt instruments, etc. Such limits are applicable to an FPI along with its investor group. To enable monitoring of such limits, FPI applicants are required to identify entities in its investor group and provide details of the same.
- 3.1.2.2. However, in case of IGB-FPI, the investments shall be solely in IGBs through VRR and FAR where no such limits and clubbing requirements are



relevant, rendering the group details redundant. In view of the same, it is proposed that IGB-FPIs shall not be required to furnish investor group details.

Questions for public comments

2. Do you agree with the proposal to not require IGB-FPIs to furnish investor group details?

3.1.3. FPIs with Non-resident Indian (NRI), Overseas Citizen of India (OCI) and Resident Indian Individual (RI) constituents:

- 3.1.3.1. Currently, contribution of a single NRI/OCI/RI in the corpus of FPI applicant is restricted to 25% of the corpus of FPI and aggregate contribution of all NRIs/OCIs/RIs is restricted to 50% of the corpus of FPI. Further, the NRIs, OCIs and RIs shall not be in control of the applicant. However, the said restrictions are not applicable to FPIs investing only in mutual funds.
- 3.1.3.2. In view of the above and considering the nature of investments, it is proposed to permit NRI/OCI/RI contribution in the corpus of IGB-FPI without any restrictions. Further, it is proposed to permit NRI/OCI/RI to be in control of IGB-FPI.
- 3.1.3.3. Also, under FAR, NRIs and OCIs are already permitted to make investment in specified IGBs without any limit.
- 3.1.3.4. Note that the requirement of RIs to contribute through the Liberalised Remittance Scheme and in global funds whose Indian exposure is less than fifty percent, shall continue to apply.

Questions for public comments

3. Do you agree with the proposal to permit NRI/OCI/RI contribution in the corpus of IGB-FPI without any restrictions?
4. Do you agree with the proposal to permit NRI/OCI/RI to be in control of IGB-FPI?



3.1.4. Timelines for disclosure of Material Changes:

- 3.1.4.1. Currently, FPIs are required to disclose material changes in information within a period of 7 working-days / 30 days from the date of change for Type I / Type II changes.
- 3.1.4.2. With a view to facilitate ease of compliance for IGB-FPIs, it is proposed that the timeline for intimation of material changes (both Type I and Type II) and submission of supporting documents (if any), by IGB-FPIs may be relaxed to 30 days.

Questions for public comments

5. Do you agree with the proposal to relax timelines for disclosure of material changes by IGB-FPI?
6. Do you agree with the proposed timeline of 30 days for intimation of material changes (both Type I and Type II) and submission of supporting documents (if any) by IGB-FPIs?

3.1.5. Transition between regular FPI and IGB-FPI

- 3.1.5.1. IGB-FPI shall be required to be identified as such at the time of registration. Further, regular FPIs (existing as well as prospective) desirous of availing the relaxations proposed for IGB-FPIs, may be permitted to transition to IGB-FPI by making appropriate declaration. Before transitioning to IGB-FPI, such regular FPIs shall be required to divest all their holdings except the securities permitted for IGB-FPIs and close the said demat and trading accounts.
- 3.1.5.2. Similarly, an IGB-FPI may also transition to regular FPI by making appropriate declaration. Pursuant to such transition, the FPI shall comply with regulatory requirements applicable to regular FPI.

Question for public comments

7. Do you agree with the proposal to permit transition between regular FPI and IGB-FPI?



3.2. In view of the above proposals, draft amendments to be carried out to FPI Regulations is placed at **Annexure A**.

Question for public comments

8. Do you agree with the draft amendments to FPI Regulations placed at **Annexure A**?

4. PUBLIC COMMENTS

4.1. Considering the implications of the aforementioned matters on the market participants, public comments are invited on the above-detailed proposal. The comments/suggestions should be submitted latest by June 03, 2025, through the following link:

<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>

4.2. Any technical issue in submitting your comment through web based public comments form, may be communicated through email to afdconsultation@sebi.gov.in with a subject: *"Issue in submitting comments on Consultation paper on proposal to facilitate relaxation in regulatory compliances for FPI applicants investing only in Government Securities"*

Issued on: May 13, 2025

Draft amendments to SEBI (FPI) Regulations, 2019

- 1) Regulation 2 (k)(a) to be inserted as follows:

2(k)(a) "IGB-FPI" means a foreign portfolio investor that invests only in Indian Government Bonds in accordance with the conditions specified by the Board;

- 2) New Proviso to be inserted to Regulation 4(c):

Provided further that the provisions of sub-clauses (i), (ii) and (iv) of clause (c) shall not be applicable to IGB-FPI.

- 3) Proviso to be inserted to Regulation 20(1):

Provided that IGB-FPI shall invest only in Indian Government Bonds permitted under Voluntary Retention Route and Fully Accessible Route, as notified by the Reserve Bank of India.

- 4) Proviso to be inserted to Regulation 22(1)(l):

Provided that IGB-FPI shall not be required to provide investor group details.

- 5) Regulation 22(3) to be amended as follows:

*(3) Multiple entities registered as foreign portfolio investors **other than IGB-FPI** and directly or indirectly, having common ownership of more than fifty per cent or common control, shall be treated as part of the same investor group and the investment limits of all such entities shall be clubbed at the investment limit as applicable to a single foreign portfolio investor:*

Provided that in case the limit is breached due to transaction(s) by foreign portfolio investors under these regulations, the excess holding shall be divested within five trading days from the date of settlement of the trades causing the breach.

Provided further that in case the foreign portfolio investor fails to divest the excess holding, the entire investment in the company by such foreign portfolio investors including its investor group shall be considered as investment under the Foreign Direct Investment as per the procedure specified by the Board and the foreign portfolio investor and its investor group shall not make further portfolio investment in that company under these regulations.