

FPI NAVIGATOR

FPI Regulatory Regime: Key Updates



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RECENT DEVELOPMENTS IN THE FPI REGULATORY FRAMEWORK

I. AMENDMENT TO SEBI (FOREIGN PORTFOLIO INVESTORS) REGULATIONS, 2019

The Securities and Exchange Board of India (“SEBI”), vide gazette notification dated August 11, 2025¹, has notified SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2025 (the “**Amendment Regulations**”). The Amendment Regulations come against the backdrop of SEBI’s consultation paper dated May 13, 2025² and its subsequent board meeting dated June 18, 2025³ wherein certain proposals were approved to provide relaxations to existing and prospective FPIs exclusively investing in Government Securities (“**G-Secs**”) under the VRR and FAR routes (“**GS FPIs**”).

The amendments are detailed hereinbelow:

- **Exemptions for Non Resident Indians (“NRIs”) / Overseas Citizens of India (“OCIs”) / Resident Indian Individuals (“RIs”) as constituents of FPIs**

A new proviso has been inserted under Reg. 4(c) of the FPI Regulations⁴, providing exemptions to GS-FPIs from the following requirements:

- (1) Contribution of single NRIs/OCIs/RIs to be below 25% of the total contribution in the corpus of the FPI⁵;
- (2) Aggregate contribution of NRIs/OCIs/RIs to be below 50% of the total contribution in the corpus of the FPI⁶; and
- (3) NRIs/OCIs/RIs not to be in control of the FPI⁷.

Kindly note that the other conditions under Reg. 4(c) remain unchanged.

- **Exemption from certain obligations and responsibilities**

GS-FPIs have been exempt from the following obligations mentioned under Reg. 22 of the FPI Regulations:

- (1) Assessing and providing investor group details to the DDP from time to time⁸;
- (2) Clubbing of investment limits of the FPIs falling within the same investor group (i.e., at 10%)⁹; and
- (3) Intimating the DDP in case of any direct / indirect change in structure or common ownership or control of the FPI or investor group¹⁰.

¹ SEBI Notification - F.No. SEBI/LAD-NRO/GN/2025/254.

² SEBI Consultation Paper on proposal to facilitate relaxation in regulatory compliances for FPI applicants investing only in Indian Government Bonds, dated May 13, 2025, available at https://www.sebi.gov.in/reports-and-statistics/reports/may-2025/consultation-paper-on-proposal-to-facilitate-relaxation-in-regulatory-compliances-for-fpi-applicants-investing-only-in-indian-government-bonds_93906.html

³ Board meeting minutes available at https://www.sebi.gov.in/media-and-notifications/press-releases/jun-2025/sebi-board-meeting_94657.html

⁴ SEBI (Foreign Portfolio Investors) Regulations, 2019.

⁵ Regulation 4(c)(i) of the FPI Regulations.

⁶ Regulation 4(c)(ii) of the FPI Regulations.

⁷ Regulation 4(c)(iv) of the FPI Regulations.

⁸ Regulation 22(1)(l) of the FPI Regulations.

⁹ Regulation 22(3) of the FPI Regulations.

¹⁰ Regulation 22(5) of the FPI Regulations.

We note that while the above amendments made to the FPI Regulations should provide a fillip to the India investments of the GS-FPIs, few of the proposals which were approved in the board meeting are still awaited, including alignment of KYC review timelines with that of RBI's (once in 2/8/10 years for high/medium/low risk customers) and timeline of intimation of all material changes by GS-FPIs within 30 days (as opposed to 7 days in case of Type I material changes).

Further, it is anticipated that investor grouping related relaxations would be pegged to GS-FPIs investing exclusively under the Fully Accessible Route ("FAR"), as was mentioned under the board meeting minutes. Moreover, it would be interesting to see whether SEBI generally grants the above-mentioned benefits to GS-FPIs investing only under the Voluntary Retention Route ("VRR") and FAR, as was proposed in the consultation paper, or it would be available to FPIs accessing G-Secs under the general route as well.

Additionally, it would be beneficial to get clarity on the relevance of the exemption provided with regard to Reg. 22(5) compliance since Reg. 22(1)(c)¹¹ would still be applicable to the GS-FPIs.

The Amendment Regulations shall come into force on February 7, 2026.

The gazette notification can be accessed [here](#).

II. CONSULTATION PAPERS

SEBI, on August 08, issued two consultation papers ("CPs"), viz., (i) Proposals to facilitate participation by resident Indians in FPIs; and (ii) Introduction of Single Window Automatic & Generalised Access for Trusted Foreign Investors ("SWAGAT-FI") framework for FPIs and FVCIs¹², for the purposes of public consultation and feedback.

The below write-up succinctly discusses these proposals.

- **Proposal to facilitate participation by resident Indians in FPIs**

(1) Enabling GIFT-IFSC based retail schemes having resident Indian non-individuals as sponsors / managers to register as FPIs with SEBI

Currently, Alternative Investment Funds ("AIFs") based in International Financial Services Centre ("IFSC") with resident Indian non-individuals acting as their sponsors / managers are permitted to register as FPIs with SEBI; however, such permission has not been accorded to the IFSC based retail schemes having Indian entities as their sponsors / managers.

SEBI has highlighted in the CP that there exist certain similarities between a retail scheme and a domestic mutual fund, such as the requirements for the Fund Management Entity ("FME") to have 'skin in the game'¹³, and for the retail scheme to be broad based¹⁴ and diversified in terms of its

¹¹ "inform the Board and designated depository participant in writing, if there is any material change in the information including any direct or indirect change in its structure or ownership or control or investor group previously furnished by him to the Board or designated depository participant, in the manner and within the timelines as may be specified by the Board from time to time."

¹² Foreign Venture Capital Investors.

¹³ Regulation 52 of the IFSCA (Fund Management) Regulations, 2025 requires FME or its associate to invest at least 1% of the AUM of the retail scheme or at least USD 200,000, whichever is lower.

¹⁴ Retail schemes are required to have at least 20 investors with no single investor investing more than 25%.

investments¹⁵. Further, resident Indians are allowed to invest up to 100% of the corpus of certain IFSC based FPIs, including the funds that are akin to mutual fund structures¹⁶.

In view of the above, the CP proposes to allow IFSC-based retail schemes with resident Indian non-individuals as sponsors / managers to be registered as FPIs.

(2) Aligning contribution-related requirements under the FPI Regulations with the FM Regulations¹⁷

Two proposals have been put forth in this regard:

- (i) Per Regulation 4¹⁸ of the FPI Regulations, resident Indian non-individuals can contribute to FPIs only as long as they are the 'sponsors / managers' of the same. However, in the FM Regulations, the contributions are permitted to be made by the 'FME or its associates'.

In order to address this, SEBI has proposed that 'sponsor / manager' be substituted in the relevant provision for resident Indian non-individuals with 'FME or its associate', only for IFSC-based FPIs.

- (ii) While Regulation 4 of the FPI Regulations prescribes a 'maximum cap' on contributions from resident Indian non-individuals at 2.5% (Category I and II AIFs) / 5% (Category III AIFs) of the corpus of the fund, the FM Regulations prescribes a 'minimum' of 2.5% (close-ended funds) / 5% (open-ended funds) and a 'maximum cap' of 10% of the corpus of the fund (or AUM in case of retail schemes) for both open-ended and close-ended funds.

In order to align the prevailing mismatch, SEBI has proposed that the maximum limit on contribution by resident Indian non-individuals as FMEs or its associates be specified at 10% of the corpus of the fund (or AUM in case of retail schemes).

This above proposal would enable the Indian entities seeking to act as the FME (or its associate) of the IFSC based FPI to contribute more than 2.5% / 5% up to a maximum of 10%.

(3) Permitting Indian mutual funds to be constituents for overseas mutual funds / unit trusts

SEBI, vide a circular¹⁹ ("**Overseas MF Circular**"), had permitted Indian mutual funds to invest in certain overseas mutual funds / unit trusts ("**MFs/UTs**") that have exposure to Indian securities. Notably, such MFs/UTs invest in India as SEBI registered FPIs. However, owing to the extant Regulation 4 of the FPI Regulations, FPIs cannot have resident Indian non-individual participants, unless they fall under any of the exceptions – (i) FPI and resident manager compliant with the safe harbour provisions of the Income-tax Act, 1961²⁰; (ii) Indian entity acting as the sponsor / manager to an IFSCA regulated AIF; or (iii) NRI/OCI/RI controlled IM incorporated under the Indian laws and appropriately registered with SEBI.

¹⁵ A retail scheme cannot invest more than 10% of its AUM in securities of a single company.

¹⁶ SEBI Circular, SEBI/HO/AFD/AFD-POD-2/P/CIR/2024/89, dated June 27, 2024.

¹⁷ IFSCA (Fund Management) Regulations, 2025.

¹⁸ Para (iii) of the second proviso to the Reg.4(c) of the FPI Regulations.

¹⁹ SEBI circular, SEBI/HO/IMD/IMD-PoD-1/P/CIR/149, dated November 04, 2024.

²⁰ Section 9A of the Income-tax Act, 1961.

In order to operationalize the aforementioned circular, SEBI has proposed that Indian mutual funds be allowed to participate as constituents to an overseas MF/UT registered as an FPI and complying with the conditions stipulated under the Overseas MF Circular.

The Consultation Paper can be accessed [here](#).

- **Proposal for introduction of 'SWAGAT-FI' framework for FPIs and FVCIs**

The SWAGAT-FI framework mulls a system wherein a subset of “identified and verified low-risk FPIs” (less concentrated holding risks and long-term investment objectives) can be governed under a relatively relaxed onboarding and compliance regime.

The proposed features of the framework are as follows:

(1) Categories of FPIs eligible under SWAGAT-FI framework

- (i) Government and related investors as prescribed under Reg. 5(a)(i) of the FPI Regulations; and
- (ii) Appropriately regulated Public Retail Funds (“**PRFs**”) with demonstrably diversified investor and investment base with independent fund managers as mandated by their home regulators, viz.,
 - (a) appropriately regulated MFs/UTs open for subscription by retail investors that verifiably operate as a blind pool with diversified investors & investments under an independent investment manager;
 - (b) appropriately regulated insurance companies without segregated portfolios; and
 - (c) appropriately regulated pension funds.²¹

The CP proposes that eligible foreign investor applicants shall have an option to opt for SWAGAT-FI identification at the time of FPI registration. Further, existing eligible FPIs shall also be permitted to transition to SWAGAT-FI status.

(2) Single-window (optional) FVCI registration alongside FPI registration

Built upon the regulatory alignment of the FPI and FVCI regime last year²², SEBI has proposed to grant an option to the overseas investor to also register as an FVCI while applying for the FPI license, without needing to furnish any additional documentation to the domestic custodian.

This relaxation would help the offshore investors to seamlessly take exposure to prescribed unlisted Indian companies through the FVCI route as well as have a smooth and easier onboarding as an investor in an Indian AIF since their FPI status would ensure them meeting the conditions an AIF investment manager is required to look into while onboarding an investor²³.

²¹ Aligned with the definition of PRFs given under Reg.22(4)(c) of the FPI Regulations.

²² Vide SEBI (Foreign Venture Capital Investors) (Amendment) Regulations, 2024, dated September 05, 2024.

²³ Master Circular for Alternative Investment Funds (AIFs) dated May 07, 2024.

(3) Longer periodicity for continuance of registration and review of KYC

Both the FPI Regulations and the FVCI Regulations require respective license renewals to happen after every few years, along with payment of prescribed regulatory fees. Further, the FPIs and FVCIs need to undergo KYC review periodically basis their risk categorization. Considering that SWAGAT-FIs would be deemed to be low-risk investors, SEBI has proposed to increase the license tenure and KYC review to 10 years, in line with the RBI's rule of KYC update of low risk customers being done in every 10 years²⁴.

(4) Removal of cap on aggregate contribution from NRIs, OCIs, and RIs

Reg. 4(c)(ii) of the FPI Regulations caps the aggregate NRI/OCI/RI contribution in an FPI to 50%. In this regard, SEBI has noted that the FPIs receiving participation from NRIs, OCIs, and RIs would likely be in the nature of mutual funds, and since concentration of investment from such individuals is an unlikely scenario in such structures, SEBI has proposed to remove this cap on contributions for SWAGAT-FIs.

(5) Use of a single demat account for investment under various routes

Presently, foreign investors registered as both FPIs and FVCIs are allowed to use a single rupee account as per RBI's prescriptions²⁵; however, they are not allowed to use a single demat account for both routes. SEBI, now, has proposed to permit these investors to use a single demat account for holding all securities acquired by them, supported by back-end solutions to address issues of co-mingling of securities and related systemic risks.

The Consultation Paper can be accessed [here](#).

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²⁴ Master Direction – Know Your Customer (KYC) Direction, 2016, Master Direction DBR.AML.BC. No.81/14.01.001/2015-16.

²⁵ RBI Press Release: 2024-2025/1940, dated January 16, 2025.