FPI NAVIGATOR

FPI Framework: An Insight

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INVESTMENT GATEWAYS FOR FPIS: ACCESSING INDIAN DEBT MARKET

India's position as one of the fastest growing economies has attracted many global investors seeking diversification, growth and risk management. The equity exposure, on one hand, provides investors with potential for capital appreciation and governance rights, on the other hand, a debt investment guarantees them fixed income and downside protection.

The Government of India ("**GoI**"), along with India's central bank, the Reserve Bank of India ("**RBI**"), regulate capital inflows and outflows for India, in accordance with the Foreign Exchange Management Act, 1999 ("**FEMA**") read with the rules and regulations thereunder. India's liberalized exchange control regime facilitates the inflow and repatriation of foreign capital, albeit with strict adherence to applicable laws.

The FEMA permits Indian entities to raise debt capital from offshore investors[1], including the Foreign Portfolio Investors ("**FPIs**")[2]. The FPIs are permitted to invest in the corporate debt securities and the Government securities ("**G-Secs**") issued by the Central ('**Central G-Secs**') and State Governments ('**State G-Secs**').[3]

In this edition, we delve into various investment avenues available to FPIs for investing in G-Secs and corporate debt, viz., General Route, Voluntary Retention Route and Fully Accessible Route. Additionally, we will also discuss the recently introduced Special Rupee Vostro Account Route enabling investments in Central G-Secs.

General Route[4]

Under this route, FPIs can subscribe to Central G-Secs, State G-Secs and corporate debt securities[5], subject to compliance with the following conditions:[6]

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[1] External Commercial Borrowing framework promulgated by the RBI allows eligible resident entities to raise loan from recognized non-resident entities, subject to, *inter alia*, maturity requirements, cost ceilings and end-use restrictions - *RBI Master Direction – External Commercial Borrowings, Trade Credits and Structured Obligations*, RBI/FED/2018-19/67 FED Master Direction No. 5/2018-19, available at https://www.rbi.org.in/scripts/bs_viewmasdirections.aspx?id=11510.

[2] Regulation 20(1)(g) of the FPI Regulations, 2019 permits FPIs to invest in any debt securities as permitted by the RBI. Also, refer to Schedule I of the Foreign Exchange Management (Debt Instruments) Regulations, 2019.

[3] G-Secs can be short term (usually called treasury bills, with original maturities of less than 1 year) or long term (usually called Government bonds or dated securities with original maturity of 1 year or more). In India, the Central Government issues both, treasury bills and bonds or dated securities while the State Governments issue only bonds or dated securities, which are called the State Development Loans (SDLs) – *Government Securities Market A Primer*, dated April 01, 2020, available at https://website.rbi.org.in/web/rbi/-/publications/government-securities-market-a-primer-16413?p_l_back_url=%2Fweb%2Frbi%2Fsearch%3Fq%3DGovernment%2Bsecurities%2Bmarket%2B-%2BA%2Bprimer%26type%3Dcom.liferay.journal.model.JournalArticle%26type%3Dcom.liferay.portal.kernel.model.Layout%26togs%3Dexact%26orderBy%3Dnewest#1.

[4] Please also refer to the quantitative limits prescribed by the RBI under the Medium Term Framework (MTF) for Central G-Secs, State G-Secs and corporate bonds for the FY 2025-26, available at https://website.rbi.org.in/web/rbi/-/notifications/limits-for-investment-in-debt-and-sale-of-credit-default-swaps-by-foreign-portfolio-investors-fpis-1?p_l_back_url=%2Fweb%2Frbi%2Fsearch%3Fq%3Dlimits%2Bfor%2Binvestment%2Bin%2Bdebt%26type%3Dcom.liferay.journal.model.JournalArticle%26type%3Dcom.liferay.portal.kernel.model.Layout%26togs%3Dexact%26orderBy%3Drelevance.

[5] FPIs can invest in 'to-be listed' corporate debt securities, subject to prescribed conditions.

[6] Please refer to *Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025*, dated January 07, 2025 (updated till August 12, 2025), for full details, including any exemptions, available at https://website.rbi.org.in/web/rbi/-/master-direction-reserve-bank-of-india-non-resident-investment-in-debt-instruments-directions-2025#Fii.

Sr. No.	Conditions	G-Secs	Corporate Debt Securities
1.	**Eligible Instruments**	Central G-Secs[7], including Treasury Bills, and State G-Secs.	No investment in certain prescribed instruments, including partly-paid debt instruments and debt Mutual Fund schemes with <1 year portfolio maturity or Macaulay duration of the portfolio[8].
2.	**Minimum Residual Maturity**	No minimum residual maturity requirement.	Investment only in corporate debt securities with original/residual maturity of above 1 year.
3.	**Short-term Investment Limit**	Eligible securities with residual maturity up to 1 year should not exceed 30% of the total investment in each category.[9]	No short-term investment limit.[10]
4.	**Security-wise / Issue - wise Limit**	FPI investment should not exceed 30% of the outstanding stock of any Central G-Sec on an aggregate basis.	FPI, along with its investor group, should not exceed 50% of any issue.
5.	**Concentration Limit**	FPI, along with its investor group, should not exceed 15% of prevailing investment limit for each category in case of long-term FPIs[11] and 10% of prevailing limit for other FPIs.	No concentration limit.[12]
6.	**End-use restrictions**	No end-use restrictions.	End-use restrictions are prescribed for unlisted corporate debt securities with respect to investments in real estate business, capital market and purchase of land.

[7] This excludes 'specified securities' under the Fully Accessible Route.

[8] Para 4.4(ii)(b) of the *Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025*, dated January 07, 2025 (updated till August 12, 2025).

[9] Limit is applied on an end-of-day basis.

[10] RBI withdrew the requirement vide its circular dated May 08, 2025, available at https://website.rbi.org.in/web/rbi/-/notifications/investments-by-foreign-portfolio-investors-in-corporate-debt-securities-through-the-general-route-relaxations.

[11] Means Sovereign Wealth Funds, Multilateral Agencies, Pension / Insurance / Endowment Funds and foreign Central Banks.

[12] RBI withdrew the requirement vide its circular dated May 08, 2025, available at https://website.rbi.org.in/web/rbi/-/notifications/investments-by-foreign-portfolio-investors-in-corporate-debt-securities-through-the-general-route-relaxations.

Voluntary Retention Route ("VRR")[13]

VRR was introduced by RBI on March 01, 2019[14] to provide FPIs a debt investment channel without any macroprudential or other regulatory norms, subject to FPIs committing to retain a minimum percentage of their investments in India for a specific period. The key features of VRR are tabulated below:

Sr. No.	Conditions	Features
1.	**Eligible Instruments**	All instruments permitted under Schedule I of FEM (Debt Regulations) 2019 (includes G-Secs and corporate bonds), and repos and reverse repos (provided that the amount borrowed or lent under repo should not exceed 10% of the VRR investments), except (i) MFs or ETFs investing <=50% in equity, and (ii) partly paid debt instruments.[15]
2.	**Investment Limit**	Maximum allotment to an FPI in case of demand for >100% of amount offered, including its investor group, would be 50% of the amount offered for each allotment.
3.	**Retention Period**	Minimum of 3 years or as RBI prescribes for each tranche. Retention period starts from the allotment date.
4.	**Minimum Investment and Retention**	FPI should invest at least 75% of the Committed Portfolio Size ("**CPS**") within 3 months from the allotment date, and minimum 75% of the CPS should remain invested during the Retention Period.[16]
5.	**Minimum residual-maturity / Short-term investment limit / Concentration limit / Issue-wise limit for corporate debt securities**	None applicable.
6.	**End-use restrictions**	Investment in unlisted corporate debt security shall be subject to end-use restrictions on investments in real estate business, capital market and purchase of land.
7.	**Exit opportunities**	*Post Retention Period* – Provisions to liquidate, shift to General Route (subject to limit availability), extending the Retention Period, etc. available to the FPIs. *During Retention Period* – FPI can exit by selling investments to another FPI / FPIs.

[13] VRR allotment data available at https://www.fpi.nsdl.co.in/web/Reports/ReportDetail.aspx?RepID=1.

[14] RBI circular - RBI/2018-19/135 A.P. (DIR Series) Circular No. 21, available at https://rbi.org.in/Scripts/NotificationUser.aspx?Id=11492&Mode=0.

[15] Investment under VRR is allowed in ETFs that invest only in debt instruments.

[16] Required investment amount is to be adhered to on an end-of-day basis. Further, reinvestment of income in excess of CPS is permitted.

Fully Accessible Route ("FAR")

Pursuant to the announcement made in the Union Budget 2020-21, RBI, in consultation with the GoI, introduced the FAR regime in March of 2020[17].

Under the FAR channel, FPIs[18] are allowed to invest in specified securities[19] without applicability of any quantitative investment limits or macro-prudential controls as applicable under the General Route, or any investment and retention requirements mandated under the VRR.

Recently, SEBI notified SEBI (Foreign Portfolio Investors) (Amendment) Regulations, 2025 ("**Amendment Regulations**")[20] whereby FPIs exclusively investing in G-Secs under the VRR and FAR routes ("**GS-FPIs**") were provided certain relaxations, including exemption to such FPIs from (i) complying with the individual and aggregate NRI/OCI/RI investment caps, and (ii) prohibiting NRI/OCI/RI to exercise control over such FPIs. Further, the Amendment Regulations exempted GS-FPIs from the requirements of (i) furnishing investor group details, (ii) adhering to the 9.99% investment cap at investor group level, and (iii) intimating the Designated Depository Participant ("**DDP**") about any direct / indirect change in structure / common ownership or control of the FPI or investor group.

Our detailed analysis on the above amendments are available in our August newsletter, accessible here.

Special Rupee Vostro Account ("SRVA") Route

With a view to advancing the internationalization of the Indian Rupee ("**INR**"), the RBI, vide a circular dated July 11, 2022[21], had introduced an arrangement for invoicing, payment and settlement of exports and imports in INR ("**SRVA July Circular**"). In light of Regulation 7(1) of the Foreign Exchange Management (Deposit) Regulations, 2016[22], the AD banks, with prior approval from the FED, RBI, were allowed to open SRVA of correspondent bank/s of the partner trading country for settlement of trade transactions with such country. Subsequently, RBI through a circular[23] permitted AD banks to open SRVAs of overseas correspondent banks without seeking its approval.

While the SRVA July Circular permitted the investment of SRVA (rupee surplus) balance, inter alia, in G-Secs (including T-bills) without separately obtaining the FPI license, the necessary operational instructions were issued by the RBI on August 12, 2025, through issuance of a circular[24] and amendment in the Master Direction – Reserve Bank of India (Non-resident Investment in Debt Instruments) Directions, 2025[25] **("Master Directions").**

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[17] RBI circular - RBI/2019-20/200 A.P. (DIR Series) Circular No. 25, dated March 30, 2020, available at https://www.rbi.org.in/Scripts/NotificationUser.aspx?Id=11849&Mode=0. Please note that the circular came into effect on April 01, 2020.

[18] Along with FPIs, Non-Resident Indians (NRIs) and Overseas Citizens of India (OCIs) can also invest under FAR.

[19] 'Specified securities' include securities listed under Annex-3 here; all new issuances of 5/7/10-year tenors by the Central Government; and any other security that RBI may notify.

[20] e-Gazette Notification - F.No. SEBI/LAD-NRO/GN/2025/254, dated August 11, 2025.

[21] RBI/2022-2023/90 A.P. (DIR Series) Circular No.10.

[22] Reg. 7(1). "*A deposit made by an authorised dealer with its branch, head office or correspondent outside India, and a deposit made by a branch or correspondent outside India of an authorised dealer, and held in its books in India, shall be governed by the directions issued by the Reserve Bank in this regard from time to time*".

[23] RBI/2025-2026/71 A.P. (DIR Series) Circular No.08, dated August 05, 2025.

[24] RBI/2025-26/72 A.P. (DIR Series) Circular No. 09.

[25] Supra 6, Please refer to Part – 5A of the Master Directions.

The Master Directions stipulate that investments in Central G-Secs (including T-bills), other than specified securities under the FAR, are subject to investment prescriptions applicable under the General Route, except the short-term investment limit, as mentioned earlier. In this regard, the AD banks have been directed to open separate security accounts for SRVA holders for holding their G-Sec investments.

Notably, the quantitative limit for Central G-Secs (including T-bills)[26] and the security-wise limit, as prescribed under the General Route, are to be reckoned towards FPI investments as well as investments made through the SRVA route.

Conclusion

FPI net investments in Indian debt instruments during calendar year 2024 was around USD 20 bn, as compared to equity investments of USD 124 mn.[27] Further, as noted by SEBI in its May 13 consultation paper[28], FPIs' holdings in FAR eligible securities crossed USD 30 bn in March 2025. With the inclusion of G-Secs in several global index providers, these securities have emerged as the most attractive assets for the FPIs.

Despite the recent geopolitical hiccups, the anticipation is that the Indian G-Secs would remain as preferable instruments of transactions for the FPIs. India's low foreign exchange volatility, it being one of the most promising emerging markets economy, and G-Secs being sovereign backed and hence risk-free, should keep attracting the global investors. SEBI's recent approvals, mentioned above, would further encourage and strengthen the FAR channel and increase liquidity in India's bond market.

The operationalization of the SRVA route should provide a much-needed avenue to certain overseas exporters seeking to put their India locked-in capital into a safe and promising investment. Interestingly, this is in addition to RBI permitting non-residents to use balances held in their repatriable INR a/cs to make Foreign Direct Investment in non-debt instruments[29].

It is essential for FPIs to evaluate their commercial objectives before selecting a particular debt investment route, as each route is accompanied by its own set of nuanced legal and regulatory constraints. Additionally, it is important to consider whether any further securities law analysis is required in relation to the specific debt instrument being subscribed to.

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[26] 6% of the outstanding stock of Central G-Secs other than those included as 'specified' securities' under the FAR.

[27] NSDL data, available at https://www.fpi.nsdl.co.in/web/Reports/Yearwise.aspx?RptType=6.

[28] 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.

[29] RBI Press Release 2024-2025/1940, dated January 16, 2025.

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