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EY Regulatory Alert

RBI provides relaxation on restrictions in investments by FPI in Corporate Debt Securities through general route.

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Executive summary

This alert summarizes a recent circular[1] issued by the Reserve Bank of India (RBI) dated 8 May 2025 (Circular) providing relaxations with respect to investments by Foreign Portfolio Investors (FPIs) in Corporate Debt Securities under the general route.

The amendments have been made with a view to providing greater ease of investment to FPIs and are effective immediately.

[1] FMRD.FMD. No.01/14.01.006/2025-26

Background

- Presently, as per the Securities and Exchange Board of India (FPI) Regulations, 2019, FPIs can invest, *inter-alia,* in debt securities as may be permitted by the RBI.

- The Foreign Exchange Management (Debt Instruments) Regulations, 2019 provides the type of debt securities a FPI can invest in, which includes Government securities, treasury bills, non-convertible debentures, bonds, etc. Further, the RBI has issued various circulars on a time-to-time basis outlining the terms, conditions and directions with respect to investments by FPIs in debt securities.

- With a view to providing a comprehensive framework for non-resident investment in debt securities, the RBI on 7 January 2025 issued a Master Direction[2] (Master Direction) consolidating various circulars issued by it. The Master Direction, *inter-alia*, outlines the routes for making investments by FPIs, non-resident Indians, Overseas Citizens of India, investment limits and conditions for each category of investment.

- FPIs can make investments in Indian debt securities under three routes:

    - General Route
    - Voluntary Retention Route (VRR)
    - Fully Accessible Route (FAR).

- Under the General Route, FPIs can invest in Government and corporate debt securities, subject to prescribed conditions.

- With a view to providing greater ease of investment to FPIs, the RBI has issued the Circular relaxing certain conditions applicable to FPIs for investment in corporate debt securities under the General Route. The amendments are effective immediately. This alert summarizes the changes made by the Circular[1].

Existing conditions - investment in corporate debt securities (General Route)

- Key conditions applicable for investment in corporate debt securities are as follows:

(i) Minimum residual maturity requirement: Subject to certain exceptions, FPIs can invest only in those corporate debt securities which have original or residual maturity of above one year.

(ii) Short-term Investment limit: Short-term investments (i.e. investments with residual maturity of upto one year) by an FPI should not exceed 30% of the total investment of the FPI in corporate debt securities.

(iii) Single/ Group investor-wise limit: Investment by an FPI (not being a multilateral financial institution), including its related FPIs, should not exceed 50% of any issue of a corporate debt security.

(iv) The above conditions shall not apply to the following:

   (a) Security receipts/ debt instruments issued by Asset Reconstruction Companies.
   (b) Debt instruments issued by an entity under the Corporate Insolvency Resolution Process.
   (c) Default bonds.

(v) Concentration limit:

Type of FPIs	Limit
Long-term FPIs[3]	15%
Other FPIs	10%

(vi) End-use restrictions: FPI investment in unlisted non-convertible debentures/ bonds are subject to end-use restrictions on investments in real estate business, capital market and purchase of land.

Relaxation in respect of certain conditions listed above

RBI has vide the Circular[1] withdrawn the requirement to comply with the following two conditions:

- Short-term Investment limit as outlined in para (ii) above

- Concentration limit as outlined in para (v) above.

All other conditions shall continue to be applicable.

[2] Notification No. FMRD.FMD.10/14.01.006/2024-25

[3] Long term FPIs are defined to mean sovereign wealth funds, Multilateral Agencies, Pension / Insurance / Endowment Funds and foreign Central Banks

Comments

India has seen a significant flow of foreign investment in the Indian debt markets over the last few years. The net FPI investment in debt has grown from USD 1.9 billion (apprx) as on 31 March 2022 to USD 16.8 billion (apprx) as on 31 March 2025 (as per data available on NSDL portal). A significant contributor to this inflow was investment by foreign investors in Government securities specifically under the FAR (investment in FAR is not subject to any investment limit or macro-prudential controls). The growth was driven by India's inclusion in JP Morgan's Government Bond Index starting June 2024 followed by inclusion in Bloomberg Emerging Market Local Currency Government Index (beginning 31 January 2025) and by FTSE Russell in its Emerging Market Government Bond, Asian Government Bond and Asian-Pacific Government Bond indices commencing in September 2025.

However, investment in corporate bonds, either under the general route or the VRR, has not seen much of a traction. As per the NSDL portal, out of the overall debt limit for corporate bonds under the general route, only 15.79% has been utilized as on 28 March 2025. This was 16.20% as on 28 March 2024. The reason for the same could be that such investment is subject to various conditions including minimum residual maturity, short-term investment limits, single/ group investor-wise limit, end use restrictions, concentration limits, etc.

Though the withdrawal of certain conditions by the RBI is a welcome move, it is relevant to note that a key ask of the industry to do away with the single/ group-wise investor limit continues to remain unaddressed. The proposed relaxation should help FPIs to structure their portfolios and also those FPIs who do not want to take a long-term credit risk in light of the financial markets facing volatility. Consequently, the relaxations may further foster FPI investment in corporate bonds thereby increasing the flow of foreign capital into the country.

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ED None.