

EY Regulatory Alert

RBI Circular on rationalization of investment in debt securities under Voluntary Retention Route

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Executive summary

This alert summarizes a recent circular¹ released by the Reserve Bank of India on 6 February 2026 (Circular), enhancing the ease of doing business and improving operational flexibility for Foreign Portfolio Investors (FPIs) investing under the Voluntary Retention Route (VRR).

As per the Circular, the investment limits applicable to FPIs under the VRR shall be subsumed under the General Route. Further, an option is granted to FPIs availing a longer retention period to exit the VRR after end of the minimum retention period.

The said circular shall be effective from 1 April 2026.

¹ RBI/2025-26/205 A.P (DIR Series) Circular No.21

Background

- ▶ Presently, as per Securities and Exchange Board of India (Foreign Portfolio Investment) Regulations, 2019, FPIs can invest, *inter-alia*, in debt securities as may be permitted by the Reserve Bank of India (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 outlining the terms, conditions and directions with respect to investments by FPIs in debt securities. The same have been consolidated in Master Direction - RBI (Non-resident Investment in Debt Instruments) Directions, 2025² issued on 7 January 2025 and updated from time to time.
 - ▶ Prior to 2019, FPIs could make investments in debt instruments only under the General Route. However, under this route, FPIs were subject to macro-prudential and other regulatory norms such as:
 - minimum residual maturity requirements
 - concentration limits
 - security/issue-wise limits
 - ▶ With a view to attract long-term and stable FPI investments into the debt markets, RBI, in consultation with the Government of India and Securities and Exchange Board of India, introduced a separate channel, called the 'Voluntary Retention Route' with effect from 1 March 2019³. Under VRR, FPIs voluntarily commit to retain a required minimum percentage of their investments in India for a minimum retention period of 3 years or as communicated by RBI for each tranche. Further, investments under VRR are not subject to the macro-prudential and other regulatory norms (as discussed above).
- ▶ Hence, currently, FPIs are permitted to make investments in debt instruments under the following routes:
 - General Route
 - VRR
 - Fully Accessible Route⁴
 - ▶ Since being introduced, RBI has, from time to time recalibrated the VRR to improve operational flexibility and provide ease of doing business to FPIs.
 - ▶ Currently, the total investment limit under VRR is ~ USD 30 billion, of which ~ 82% has been utilized as of 17 February 2026⁵.
 - ▶ As part of further deepening the financial markets, the RBI has during its bi-monthly monetary policy announcement on 6 February 2026 proposed to remove the limit of ~ USD 30 billion for investments under VRR and merge the same with the respective category under the General Route of investments.
 - ▶ Subsequently, the RBI issued the Circular¹ on 6 February 2026 and also amended Master Direction - RBI (Non-resident Investment in Debt Instruments) Directions, 2025.
 - ▶ This alert summarizes the key amendments made by the Circular.

Amendments by the Circular

- ▶ Investments under VRR shall now be subject to the investment limit stipulated for FPI investments under the General Route and there shall not be any separate limits for VRR.
- ▶ Accordingly, all investments undertaken through the VRR in Central Government securities (including Treasury Bills), State Government securities, and corporate debt securities will now be counted toward the respective investment limits applicable under the General Route.
- ▶ Eligible instruments and investment limits under General Route are tabulated below. The said limits shall now also apply for investments made under VRR.

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

³ RBI/2018-19/135 A.P. (DIR Series) Circular No. 21 dated 1 March 2019

⁴ The Fully Accessible Route enables eligible foreign investors including FPIs to invest in prescribed Government securities without any

restrictions - RBI/2019-20/200 A.P. (DIR Series) Circular No. 25 dated 30 March 2020

⁵ <https://www.fpi.nsdli.co.in/web/Reports/ReportDetail.aspx?RepID=1#>

Eligible Instruments	Investment Limits	Eligible Foreign Investors	Upper Limit (~ USD billion)	% of Limit Utilized	Limit available for investment (~USD billion)
Central Government Securities (including Treasury Bills), other than those included as 'specified securities' under the FAR	6% of the outstanding stock of the said securities	FPIs not being Long term FPIs ⁶	32	18	26
		Long Term FPIs	18	2	17
State Government Securities	2% of the outstanding stock of the said securities	FPIs not being Long term FPIs	15	1	15
		Long Term FPIs	1	0	1
Corporate Debt Securities	15 percent of the outstanding stock of the said securities	All Categories FPIs	98	14	84

- ▶ Further, RBI has stated that FPIs which have availed an investment limit exceeding the minimum retention period, may opt to liquidate their portfolio, fully or partly and exit after the end of the minimum retention period.
- ▶ The above changes shall take effect from 1 April 2026.

⁶ Long term FPIs mean Sovereign Wealth Funds, Multilateral Agencies, Pension/Insurance/Endowment Funds and Foreign Central Banks.

Comments

The Circular represents an important reform to VRR since its launch in 2019. The move of the RBI marks a clear policy shift toward harmonisation and simplification of FPI investments for debt markets.

As macro-prudential and other norms are not applicable to investments made under VRR, this route has attracted a lot of participation by foreign investors over the past several years. As on 18 February 2026, approximately 82% of the overall VRR limits have already been utilised. Thus, the merging of VRR overall cap with the General Route removes the concern on exhaustion of existing quota and may provide more room to foreign investors to invest in India's debt markets and provide flexibility to rebalance their portfolios.

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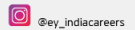
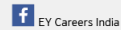
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