

EY Regulatory Alert

**Government of India announces
measures to deepen the
Government Securities market**

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Executive summary

On 5 June 2026, the Government of India (GOI) announced a series of reforms aimed at deepening the Government Securities (G-Secs) market and enhancing Foreign Portfolio Investor (FPI) participation, as outlined in the Press Release issued by the Ministry of Finance (Press Release)¹. The reforms include significant liberalization of the tax and regulatory framework governing FPI investments in G-Secs. Concurrently with the issuance of the Press Release, the Reserve Bank of India issued the A.P. (DIR Series) Circular No. 11 dated 5 June 2026 (RBI Notification)² and the GOI promulgated the Income-tax (Amendment) Ordinance, 2026 (Ordinance 2026)³, to give effect to the measures announced in the Press Release.

This alert summarizes the Press Release, RBI Notification and the Ordinance 2026. While the amendments in the RBI Notification are effective immediately, the changes in the Ordinance 2026 are effective from 1 April 2026.

Taken together, the measures are positioned as part of the Government's continuing effort to align India's investment framework with global standards, improve operational efficiency for foreign investors and deepen India's sovereign debt market.

¹ [Press Release dated 5 June 2026](#)

² [RBI Notification dated 5 June 2026](#)

³ [Ordinance, 2026](#)



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Background

In line with the GOI's commitment to strengthen India's position as a leading global investment destination and deepen the capital markets, the GOI has issued the Press Release outlining a series of reforms to increase FPI participation in G-Secs and facilitate greater portfolio investment in the equity segment. These reforms aim to broaden and diversify the investor base. Greater foreign participation will provide an additional source of funding for infrastructure, manufacturing, urban development, climate initiatives, and other national priorities. It will also improve market liquidity and price discovery, support the development of a smoother yield curve, reduce government borrowing costs, strengthen financial market benchmarks, and enhance the transmission of monetary policy across the economy.

Simultaneously, the RBI issued the RBI Notification and the GOI also promulgated the Ordinance 2026 to implement the measures announced in the Press Release.

This alert summarizes the changes made vide the Press Release, RBI Notification and the Ordinance 2026 and their implications for FPIs.

Liberalization of regulatory framework for FPI investments in G-Secs

- 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 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, 2025⁴ issued on 7 January 2025 and updated from time to time. 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.

- Presently, FPIs are permitted to make investments in Indian debt securities under three routes:
 - General Route
 - Voluntary Retention Route (VRR)
 - Fully Accessible Route (FAR).
- While investments under the General Route are subject to macro-prudential and other regulatory norms, investments under the VRR are not subject to such restrictions. However, FPIs investing under the VRR are required to maintain a prescribed minimum percentage of their investments in India for a minimum retention period of three years, or such other period as may be specified by the RBI. Further, the FAR permits eligible foreign investors, including FPIs, to invest in specified G-Secs without investment restrictions.
- Over the past year, the RBI has relaxed conditions under the General Route for corporate debt investments⁵ and also rationalised the VRR enabling more efficient portfolio structuring and management⁶.
- To enhance FPI participation in G-Secs, the Press Release has announced the following measures, which have been formalized by the RBI through the RBI Notification and are effective immediately.

Removal of restrictions in respect of short-term investment limit, concentration limit and security-wise limit

- Hitherto, FPI investment in G-Secs under the General Route was subject to, *inter-alia*, the following conditions:
 - **Short-term investment limit:** Short-term investments (i.e. investments with residual maturity of upto one year) by an FPI in Central G-Secs (including Treasury bills) and State G-Secs should not exceed 30% of the total investment of the FPI in each category.
 - **Security-wise limit:** Aggregate investment by all FPIs in any Central G-Secs should not exceed 30% of the outstanding stock of that security.
 - **Concentration limit:** An FPI (along with its related FPIs) cannot invest more than 15% (for Long-term FPIs⁷) or 10% (for Other FPIs) of the investment limit for each

⁴ Notification No. FMRD.FMD.10/14.01.006/2024-25

⁵ EY Alert - Relaxations in conditions for investment in Corporate Debt Securities

⁶ EY Alert - RBI circular - Rationalization of VRR

⁷ "Long term FPIs" are defined to mean sovereign wealth funds, Multilateral Agencies, Pension / Insurance / Endowment Funds and foreign Central Banks.

category i.e. Central G-Secs and State G-Secs.

- With a view to facilitating greater ease of investment for FPIs, the above restrictions have now been removed. The overall FPI investment ceilings remain unchanged at 6% of outstanding stock of Central G-Secs and 2% of outstanding stock of State G-Secs.

Expanding the list of specified securities under FAR

- The FAR was introduced⁸ on 30 March 2020 and became effective from 1 April 2020 in respect of limited categories of G-Secs. As indicated above, FAR permits eligible foreign investors, including FPIs, to invest in 'specified G-Secs' without investment restrictions. Over time, the Government has expanded the range of securities eligible for investment under the FAR.
- The list of securities designated as "specified securities" under the FAR has been further widened to, inter-alia, include the following
 - New issuances of 15-year, 30-year, and 40-year GOI securities
 - New issuances of Sovereign Green Bonds with 5-year, 7-year, 10-year, 15-year, 30-year and 40-year tenors.

Merging the investment limits for Long-term FPIs⁷ with the general limits

- Currently, Long-term FPIs⁷ have a separate investment limit allocated for them. The investment limit for financial year 2026-27 for investment in G-Secs is as follows:

Period	Central G Secs General	Central G-Secs Long-term FPIs
	(~ USD billion)	
April 2026 to Sept 2026	31	17
Oct 2026 to March 2027	32	18

Period	State G-Secs General	State G-Secs Long-term FPIs
	(~ USD billion)	
April 2026 to Sept 2026	15	1
Oct 2026 to March 2027	16	1

- The Press Release and RBI Notification have merged the sub-categories of investment limits for 'general' and 'Long-term FPIs' into a single investment limit for Central G-Secs and State G-Secs, respectively.

Granting tax exemption in respect of interest and capital gains income arising to FPIs and Bank for International Settlements (BIS) from investments in G-Secs

- Recognizing the importance of a competitive tax regime in attracting global capital, the GOI has rationalized the tax treatment applicable to investments by FPIs in G-Secs.
- In this regard, the President of India, by virtue of powers granted under Article 123 of the Constitution of India, has promulgated the Ordinance 2026.
- As per the Ordinance 2026, with effect from 1 April 2026, any interest income from G-Secs⁹ and any capital gains arising from transfer thereof earned by FPIs and BIS shall be exempt from tax, subject to furnishing of prescribed information (the same are pending to be notified).

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⁸ RBI/2019-20/200 A.P. (DIR Series) Circular No. 25 dated 30 March 2020

⁹ The term G-Secs for the purpose of the Ordinance has been defined as per Section 2(f) of the Government Securities Act, 2006 to mean a security created and issued by the Government for the purpose of raising a public loan or for any other purpose as may be notified by the Government in the Official Gazette and having one of the forms mentioned in Section 3. Section 3 of the Government Security Act, 2006 states that a G-Sec may, subject to such terms and conditions as may be specified, be in such

forms as may be prescribed or in one of the following forms, namely:

- a Government promissory note payable to or to the order of a certain persons; or
- a bearer bond payable to bearer; or
- a stock; or
- a bond held in a bond ledger account.

- A comparative summary of the tax rates applicable to FPIs under the Income-tax Act, 2025, is provided below:

Source of Income	Rates prior to Ordinance 2026*	Rates post Ordinance 2026
Capital Gains		
Short-term capital gains	30%	0% (consequently, losses if any, will be ignored)
Long-term capital gains	12.50%	0% (consequently, losses if any, will be ignored)
Interest income	20%	0%

***plus applicable surcharge (ranging from 2% to 37%) and cess (4%).**

- In light of the above amendments, any taxes paid by FPIs on interest income from G-Secs or on capital gains arising from their transfer for the period from 1 April 2026 to date may be claimed as a refund in the return of income for the year ended 31 March 2027, or adjusted against future tax liabilities arising during tax year 2026-27.
- Currently, certain tax treaties, including those with Singapore and Mauritius, provide an exemption from capital gains tax on G-Secs along with a concessional rate of tax on interest income. Accordingly, the recent amendments further enhance the

attractiveness of the tax regime for G-Secs, making it more favourable than the benefits available under some of these tax treaties.

Liberalization of investment by individual Persons Resident Outside India (PROI)

- The Honourable Finance Minister of India as part of the Union Budget 2026-27 had proposed the following:
 - Individual PROI shall be allowed to invest in equity instruments of listed Indian companies through the Portfolio Investment Scheme.
 - Investment limits for individual PROI shall be increased from 5% to 10%, and overall investment limit for all individual PROIs shall be increased to 24% from the current 10%.
- The Press Release states that the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 are being amended to implement the above proposal.
- Once implemented, individual PROI shall be permitted to invest under the Portfolio Investment Scheme which was hitherto available only to Non-Resident Indians/ Overseas Citizens of India. This is expected to attract a broader base of relatively stable individual foreign investors and also support greater and more stable foreign inflows into the Indian equity markets.

Comments

The Indian financial markets have witnessed volatility in recent months, with periods of decline driven by sustained FPI outflows amid global uncertainties. These outflows put pressure on the external sector and led to depreciation of the Indian Rupee.

In this context, the Government's decision to liberalize the regulatory regime for FPIs is likely to support the development of a smooth yield curve, and attract stable systematic inflows of long-term, patient foreign capital, including long-term investors such as pension funds, insurance companies and sovereign wealth funds. This is also expected to boost foreign exchange inflows for the country.

At the same time, the decision to exempt FPIs from tax on income earned from G-Secs is a significant step towards bringing the country's bond market in line with global standards.

Collectively, these changes are likely to make the Indian G-Secs more attractive to overseas investors.

Further, permitting individual persons resident outside India to access the Indian capital markets under the Portfolio Investment Scheme is a step towards expanding the pool of potential investors and simplifying the investment process for individuals abroad who want exposure to Indian markets without having to undergo extensive paperwork and registration requirements.

Taken together, these measures introduced by the GOI aim to reduce operational complexities, simplify market access, and provide a more seamless investment experience comparable to leading international financial markets. These reforms are expected to encourage broader participation from global investors seeking exposure to one of the world's fastest-growing major economies.

Our offices

Ahmedabad

22nd Floor, B Wing, Privilon
Ambli BRT Road, Behind Iskcon Temple
Off SG Highway, Ahmedabad - 380 059
Tel: + 91 79 6608 3800

Gandhinagar

8th Floor, Building No. 14A
Block 14, Zone 1
Brigade International Financial Centre
GIFT City SEZ
Gandhinagar - 382 355
Tel: + 91 79 6608 3800

Bengaluru

12th & 13th Floor
"UB City", Canbera Block
No.24 Vittal Mallya Road
Bengaluru - 560 001
Tel: + 91 80 6727 5000

Ground & 1st Floor
11, 'A' wing
Divyasree Chambers
Langford Town
Bengaluru - 560 025
Tel: + 91 80 6727 5000

3rd & 4th Floor
MARKSQUARE
#61, St. Mark's Road
Shantala Nagar
Bengaluru - 560 001
Tel: + 91 80 6727 5000

1st & 8th Floor, Tower A
Prestige Shantiniketan
Mahadevapura Post
Whitefield, Bengaluru - 560 048
Tel: + 91 80 6727 5000

Ecospace
1st Floor, Campus 1C
Ecospace Business Park
Outer Ring Road,
Bellandur - Sarjapura Area,
Varthur Hobli,
Bengaluru Urban - 560103

Bhubaneswar

8th Floor, O-Hub, Tower A
Chandaka SEZ, Bhubaneswar - 751024
Tel: + 91 674 274 4490

Chandigarh

Elante offices, Unit No. B-613 & 614
6th Floor, Plot No- 178-178A
Industrial & Business Park, Phase-I
Chandigarh - 160 002
Tel: + 91 172 6717800

Chennai

6th & 7th Floor, A Block,
Tidel Park, No.4, Rajiv Gandhi Salai
Taramani, Chennai - 600 113
Tel: + 91 44 6654 8100

Delhi NCR

Aikyam
Ground Floor
67, Institutional Area
Sector 44, Gurugram - 122 003
Tel: + 91 124 443 4000

3rd & 6th Floor, Worldmark-1
IGI Airport Hospitality District
Aerocity, New Delhi - 110 037
Tel: + 91 11 4731 8000

4th & 5th Floor, Plot No 2B
Tower 2, Sector 126
Gautam Budh Nagar
Noida - 201 304
Tel: + 91 120 671 7000

Hyderabad

THE SKYVIEW 10
18th Floor, "SOUTH LOBBY"
Survey No 83/1, Raidurgam
Hyderabad - 500 032
Tel: + 91 40 6736 2000

THE SKYVIEW 20
2nd Floor, 201 & 202
Right Wing, Survey No 83/1
Raidurgam, Hyderabad - 500 032
Tel: + 91 40 6736 2000

Jaipur

9th floor, Jewel of India
Horizon Tower, JLN Marg
Opp Jaipur Stock Exchange
Jaipur - 302018

Kochi

7th Floor, ABAD Nucleus
NH-49, Maradu PO
Kochi - 682 304
Tel: + 91 484 433 4000

Kolkata

22 Camac Street
3rd Floor, Block 'C'
Kolkata - 700 016
Tel: + 91 33 6615 3400

6th floor, Sector V,
Building Omega, Bengal Intelligent
Park, Salt Lake Electronics Complex,
Bidhan Nagar
Kolkata - 700 091
Tel: + 91 33 6615 3400

Mumbai

14th Floor, The Ruby
29 Senapati Bapat Marg
Dadar (W), Mumbai - 400 028
Tel: + 91 22 6192 0000

5th Floor, Block B-2
Nirlon Knowledge Park
Off. Western Express Highway
Goregaon (E)
Mumbai - 400 063
Tel: + 91 22 6192 0000

3rd Floor, Unit No.301
Building No.1, Mindspace-Gigaplex
IT Park, MIDC, Plot No. IT-5
Airoli Knowledge Park
Airoli West, Navi Mumbai - 400 708
Tel: + 91 22 6192 0003

18th Floor, Altimus
Pandurang Budhkar Marg
Worli, Mumbai - 400 018
Tel: + 91 22 6192 0503

Pune

C-401, 4th Floor
Panchshil Tech Park, Yerwada
(Near Don Bosco School)
Pune - 411 006
Tel: + 91 20 4912 6000

10th Floor, Smartworks
M-Agile, Pan Card Club Road
Baner, Pune - 411 045
Tel: + 91 20 4912 6800

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