

Regulatory Digest

July 01, 2025

MID-YEAR FPI WRAP 2025: DEVELOPMENTS IN THE FOREIGN PORTFOLIO INVESTOR REGIME

The significant developments in the FPI space in the first half of 2025 are:

- The threshold for submission of additional disclosures by FPIs, based on size criteria, has been relaxed by increasing the limit to INR 50,000 crore (approx. USD 5.88 billion)
- SEBI extended the deadline for implementation of granular disclosure norms under the December 2024 ODI circular from May 17, 2025, to November 17, 2025
- SEBI Board approved a proposal to ease regulatory compliance requirements for FPI applicants investing exclusively in Indian Government Bonds

INTRODUCTION

The year 2024 was transformative for Foreign Portfolio Investors (“FPIs”) in India, with the Securities and Exchange Board of India (“SEBI”) setting strong regulatory momentum through significant reforms. Building on that foundation, the first half of 2025 saw a more measured phase, with fewer but meaningful changes to the FPI framework.

In this edition of our regulatory digest, we cover key developments in the FPI space between January 1, 2025, and June 30, 2025.

RELAXATION OF SIZE CRITERIA

As a background, SEBI had issued a circular dated August 24, 2023 (“Additional Disclosure Circular”¹), mandating certain objectively identified FPIs to provide granular details of all entities holding any ownership, economic interest, or exercising control in the FPI, on a full look through basis, up to the level of all natural persons, without any threshold. As per Additional Disclosure Circular, the following two types of FPIs were required to disclose such granular details:

- FPIs holding more than 50% of their Indian equity Assets Under Management (“AUM”) in a single Indian corporate group (“50% concentration criterion”);
- FPIs that individually, or along with their investor group, hold more than INR 25,000 crore (~USD 3 billion) of equity AUM in the Indian markets (“size criteria”).

While the 50% concentration criterion is intended to prevent possible circumvention of minimum public shareholding norms, the size criteria aim to guard against potential evasion of the Press Note 3 (2020) requirements by FPIs holding large Indian equity portfolios, whose actions could potentially disrupt the orderly functioning of Indian securities markets.

In this context, on January 10, 2025, SEBI issued a consultation paper² proposing an important change to the Additional Disclosure Circular. The said consultation paper proposed to increase the size criteria threshold from INR 25,000 crore (approx., USD 3 billion) to INR 50,000 crore (approx. USD 5.88 billion) citing a 122% rise in average daily turnover on the NSE between FY 2022–23 and FY 2024–25 (till December 2024). The proposal clarified that the ‘potential to disrupt the functioning of market’ needs to be evaluated in proportionate to the size of market and the turnover can be used as a broad market parameter to assess the market size and accordingly, the aforesaid increase in market turnover justifies the need for increasing the size criteria threshold.

SEBI observed that with evolving market dynamics, the existing threshold of INR 25,000 crore (approx., USD 3 billion) could inadvertently bring within its ambit a wider range of FPIs than initially envisaged, potentially imposing disproportionate compliance requirements on FPIs that pose minimal systemic risk.

Following the consultation process, SEBI issued a circular on April 9, 2025³, formally amending the FPI Master Circular⁴ dated May 30, 2024 (“Master Circular”) to increase and revise the size criteria threshold to INR 50,000 crore (approx. USD 5.88 billion). It is important to note that there are no changes to the existing 50% concentration criterion.

This amendment applies both to FPIs and to subscribers of Offshore Derivative Instruments (“ODIs”), as specified in SEBI’s December 17, 2024 circular⁵ on ODI-related disclosures. The revised threshold is now reflected across six specific paragraphs of Part C and Part D of the Master Circular.

The amendment took immediate effect and was issued under SEBI’s regulatory powers to protect investor interests

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and ensure orderly conduct in the securities market.

EXTENTION OF DEADLINE FOR DISCLOSURE OF ADDITIONAL GRANULAR INFORMATION BY THE ODI SUBSCRIBERS

On May 16, 2025, SEBI issued a circular⁶ extending the timeline for implementation of certain provisions of its earlier circular dated December 17, 2024, titled "*Measures to address regulatory arbitrage with respect to ODIs and FPIs with segregated portfolios vis-à-vis FPIs*" ("**December 2024 Circular**")⁷.

Aligned with Additional Disclosures Circular which mandated certain objectively identified FPIs to provide granular details, the December 2024 Circular mandated additional granular disclosures by certain ODI subscribers and FPIs with segregated portfolios. Please see our hotline '*SEBI tightens norms around issuance of Offshore Derivative Instruments by FPIs*' for a detailed analysis of the above.

These provisions were originally slated to come into effect five months from the date of issuance, i.e., May 17, 2025.

However, based on feedback and implementation challenges raised by stakeholders, SEBI has now extended this deadline to November 17, 2025. This extension is aimed at giving market participants, custodians, and depositories additional time to establish the necessary systems and procedures to ensure smooth compliance with the new disclosure framework.

All other provisions of the December 2024 Circular remain unchanged.

SEBI BOARD MEETING

On March 25, 2025, SEBI issued a consultation paper⁸ proposing to ease regulatory compliance requirements for a distinct class of FPIs, who invest exclusively in Indian Government Bonds ("**IGBs**") under the Voluntary Retention Route (VRR) or the Fully Accessible Route (FAR) ("**IGB-FPIs**"). The move aims to align with SEBI's broader push toward a risk-based, proportionate regulatory framework and to further facilitate foreign investment in sovereign debt markets, especially in light of the inclusion of Indian government securities in global bond indices (i.e. JP Morgan, Bloomberg, and FTSE Russell) during 2024 and 2025.

The proposals were subsequently approved by the SEBI Board at its 210th meeting held on June 18, 2025⁹, signaling formal regulatory backing for the creation of the IGB-FPI category. As per the SEBI Board approval:

- KYC periodicity for IGB-FPIs will now be aligned with RBI's standards.
- IGB-FPIs will not be required to furnish investor group details.
- NRI/OCI/RI investors will be allowed to contribute freely and even exercise control over IGB-FPIs, subject to existing constraints on RI investors under the Liberalised Remittance Scheme.
- The timeline for reporting material changes has been extended to 30 days, regardless of type, as against 7 or 30 days under current norms.
- The mechanism for onboarding and transitioning into the IGB-FPI category will be clarified by SEBI through subsequent circulars

This regulatory easing is expected to significantly reduce the compliance burden for sovereign-debt-focused investors and provide a further boost to India's positioning within global bond indices

A circular amending the Master Circular and laying down the specific details is awaited.

NDA VIEWS

The first half of 2025 saw not just minor amendments or timeline extensions, but also important structural changes in the FPI regulatory framework. SEBI increased the size criteria threshold for triggering additional disclosure requirements to INR 50,000 crore (approx. USD 5.88 billion). This was done to reduce the compliance burden on FPIs that do not pose systemic risk. SEBI also extended the deadline for implementing the granular disclosure norms for ODI subscribers to November 17, 2025, allowing more time for operational readiness. In addition, SEBI approved a new framework for FPIs investing only in Indian Government Bonds (IGB-FPIs). The framework allows for simplified compliance, including relaxed KYC timelines, exemption from investor group disclosures, and no restrictions on NRI/OCI/RI contributions or control. These measures reflect SEBI's continued focus on a more risk-based and business-friendly regulatory approach.

Authors

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You can direct your queries or comments to the relevant member.

¹https://www.sebi.gov.in/legal/circulars/aug-2023/mandating-additional-disclosures-by-foreign-portfolio-investors-fpis-that-fulfil-certain-objective-criteria_75886.html

²https://www.sebi.gov.in/reports-and-statistics/reports/jan-2025/consultation-paper-on-proposal-to-increase-the-size-criteria-set-to-guard-against-potential-circumvention-of-press-note-3-stipulations-in-the-additional-disclosure-framework_90696.html

³https://www.sebi.gov.in/legal/circulars/apr-2025/amendment-to-circular-for-mandating-additional-disclosures-by-fpis-that-fulfil-certain-objective-criteria_93399.html

⁴https://www.sebi.gov.in/legal/master-circulars/may-2024/master-circular-for-foreign-portfolio-investors-designated-depository-participants-and-eligible-foreign-investors-_83689.html

⁵https://www.sebi.gov.in/legal/circulars/dec-2024/measures-to-address-regulatory-arbitrage-with-respect-to-offshore-derivative-instruments-odis-and-fpis-with-segregated-portfolios-vis-vis-fpis_89986.html

⁶https://www.sebi.gov.in/legal/circulars/may-2025/extension-of-timeline-for-implementation-of-provisions-of-sebi-circular-dated-december-17-2024-on-measures-to-address-regulatory-arbitrage-with-respect-to-offshore-derivative-instruments-odis-and-f-_93980.html

⁷https://www.sebi.gov.in/legal/circulars/dec-2024/measures-to-address-regulatory-arbitrage-with-respect-to-offshore-derivative-instruments-odis-and-fpis-with-segregated-portfolios-vis-vis-fpis_8998_6.html

⁸https://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

⁹https://www.sebi.gov.in/media-and-notifications/press-releases/jun-2025/sebi-board-meeting_94657.html

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