

## **Consultation Paper on proposals to facilitate participation by resident Indians in Foreign Portfolio Investors (FPIs)**

### **1. Objective**

1.1. The objective of this consultation paper is to seek comments from the public on the following proposals aimed to facilitate participation by resident Indians in FPIs:

- 1.1.1. To enable Retail Schemes based in International Financial Services Centres (IFSCs) in India with resident Indian non-individuals as Sponsor/Manager to register as FPIs
- 1.1.2. To align the contribution limits under SEBI (Foreign Portfolio Investors) Regulations, 2019 (hereinafter referred to as 'FPI Regulations') with IFSCA (Fund Management) Regulations, 2025 (hereinafter referred to as 'IFSCA (FM) Regulations, 2025') for resident Indian non-individuals in funds setup in IFSCs.
- 1.1.3. To allow Indian Mutual Funds to be constituents of FPIs.

### **2. Background**

2.1. In terms of FPI Regulations, non-resident Indians (NRI), overseas citizens of India (OCI) or resident Indians are not eligible to register as FPIs. However, NRIs, OCIs or resident Indian individuals are permitted to be constituents of FPIs subject to certain conditions in terms of limits on contribution and control of the FPIs.

2.2. Further, resident Indian non-individuals are permitted to be constituents of an FPI, subject to certain conditions and investment limits summarised as under:

- 2.2.1. FPI being an eligible investment fund as provided under sub-section (3) of section 9A of the Income Tax Act, 1961 which has been granted approval under the Income Tax Rules, 1962, and resident Indian being an eligible fund manager of the FPI, as provided under sub-section (4) of section 9A of the Income Tax Act, 1961.
- 2.2.2. FPI being an Alternative Investment Fund (AIF) setup in IFSC and regulated by International Financial Services Centres Authority (IFSCA), and its sponsor/manager being a resident Indian contributing up to:



- i. 2.5% of the corpus of AIF or US \$ 7,50,000 (whichever is lower) in case of Category I & II AIF, or
- ii. 5% of the corpus of AIF or US \$ 1.5 million (whichever is lower) in case of Category III AIF.

2.2.3. FPI being controlled by an Investment Manager which is controlled and/or owned by NRI or OCI or resident Indian, and such Investment Manager being incorporated or setup under the Indian laws and appropriately registered with SEBI.

2.3. The provision enabling resident Indian non-individuals to be constituents of FPI, as provided in Para 2.2.2 above, was incorporated in 2021 to facilitate the growth and functioning of the AIFs set up/ proposed to be set up in IFSC.

### **3. Enabling Retail Schemes based in IFSCs in India with resident Indian non-individuals as Sponsor/Manager to register as FPIs**

3.1. IFSCA (FM) Regulations, 2025 define 'scheme' or 'fund' as a scheme of a Fund Management Entities (FME) launched under these regulations. Under Chapter III of IFSCA (FM) Regulations, 2025, following types of schemes for fund management have been provided for:

- 3.1.1. Venture Capital Schemes (filed with the IFSCA as "venture capital fund" under Category I AIF)
- 3.1.2. Restricted Schemes (Non-Retail Schemes) (filed with the IFSCA as Category I, II or III AIF)
- 3.1.3. Retail Schemes
- 3.1.4. Special Situation Funds (considered as a category under restricted schemes; filed with the IFSCA as Category I AIF).

3.2. IFSCA has requested that in addition to AIFs with resident Indian non-individual sponsor/manager, that are already permitted to register as FPI, retail schemes with resident Indian non-individual sponsor/manager may also be permitted to register as FPI.

3.3. IFSCA (FM) Regulations, 2025 define “Retail scheme” as a scheme offered to all investors or a section of the investors for subscription with no ceiling as to number of investors in the scheme. These regulations also require FME or its associate to invest at least 1% of the Assets under Management (AUM) of the retail scheme or USD 2,00,000, whichever is lower. This is similar to mutual funds in the Indian context, wherein SEBI (Mutual Fund) Regulations, 1996 require Asset Management Companies (AMCs) to maintain “skin in the game” by contributing to schemes of mutual fund.

3.4. Further, in terms of IFSCA (FM) Regulations, 2025, retail schemes are required to have at least 20 investors with no single investor investing more than 25% in a scheme. Also, in general, a retail scheme cannot invest more than 10% of its AUM in securities of a single company.

3.5. It may also be noted that presently resident Indian individuals are permitted to be constituents of an FPI (with contribution less than 25% individually and less than 50% on an aggregate basis, along with NRIs/OCIs, of the corpus), subject to condition that the contribution is made through the Liberalised Remittance Scheme and in global funds whose India exposure is less than fifty percent. Further, resident Indian individuals (along with NRIs/OCIs) can contribute even up to 100% of the corpus of certain IFSC based FPIs, including funds that are akin to mutual fund structures.

3.6. In view of the above and in line with the extant provisions in respect of AIFs based in IFSCs in India, the request made by IFSCA to enable retail schemes in IFSCs with resident Indian non-individuals as sponsor/manager merits consideration.

### **Proposal 1**

3.7. It is proposed to enable retail schemes based in IFSCs in India with resident Indian non-individuals as sponsor/manager to register as FPIs.



#### Questions for public comments

1. Do you agree with the proposal to enable retail schemes based in IFSCs in India with resident Indian non-individuals as sponsor/manager to register as FPIs?

#### 4. Alignment of limits on contribution by resident Indian non-individual sponsor/manager

4.1. Prior to notification of the IFSCA (FM) Regulations, 2022, AIFs in IFSCs were governed under SEBI (AIF) Regulations, which prescribed minimum threshold for sponsor contributions, but no maximum limit. However, IFSCA (FM) Regulations, 2022 introduced both minimum and maximum threshold for contribution by FME/its associate. The same provisions continues in the IFSCA (FM) Regulations, 2025.

4.2. In terms of IFSCA (FM) Regulations, 2025, skin in the game requirements for FME or its associate to AIFs and retail scheme are as under:

4.2.1. AIFs setup as venture capital schemes:

- i. **Minimum:** Lower of (2.5% of the targeted corpus or USD 7,50,000);  
**Cap:** 10% of the targeted corpus.

4.2.2. AIFs setup as restricted schemes:

- i. In case of a close ended scheme:  
**Minimum:** Lower of (2.5% of the targeted corpus or USD 7,50,000);  
**Cap:** 10% of the targeted corpus.
- ii. In case of an open-ended scheme:  
**Minimum:** Lower of (5% of the targeted corpus or USD 15,00,000);  
**Cap:** 10% of the targeted corpus.

4.2.3. Retail schemes:

- i. **Minimum:** Lower of (1% of the AUM of the retail scheme or USD 2,00,000).

4.3. However, in terms of FPI Regulations (refer Para 2.2.2. above), in respect of such AIFs based in IFSCs in India, with a resident Indian non-individual as sponsor/manager, the limits on contribution by such sponsor/manager are not in line with the contribution



requirements specified in the IFSCA (FM) Regulations, 2025. While FPI Regulations prescribe contribution limits based on category of AIF, IFSCA (FM) Regulations, 2025 prescribe the limits based on type of scheme e.g. venture capital scheme, open-ended restricted scheme. Further, in terms of thresholds, FPI Regulations prescribe a cap of 2.5% (for Category I/II AIFs) and 5% (for Category III AIFs), the IFSCA (FM) Regulations, 2025 prescribe a minimum of 2.5% (for close-ended funds) / 5% (for open-ended funds) and a cap of 10%.

4.4. IFSCA has requested that such limits for contribution by resident Indian non-individual as sponsor/manager under FPI Regulations may be aligned with IFSCA (FM) Regulations, 2025 to avoid compliance related issues. In other words, the sponsor of the Fund is perforce required to maintain its contribution exactly at 2.5% / 5% since anything lower or higher than this renders these funds non-compliant with IFSCA/SEBI's norms respectively.

4.5. In view of the above, the request made by IFSCA to align the limits on contribution by resident Indian non-individuals warrants consideration. It may be noted that even presently a single resident Indian individual is permitted to contribute below 25% of the corpus of a FPI, while aggregate contribution of resident Indian individuals (along with NRI/OCI) can be below 50%, subject to certain conditions. Further, SEBI vide Circular dated June 27, 2024 has also permitted aggregate contribution by resident Indian individuals (along with NRI/OCI) up to 100% of the corpus of certain IFSC based FPIs.

4.6. In view of the above, the maximum limit on contribution by resident Indian non-individuals under FPI Regulations may be specified at 10% of the corpus of fund. The same limit shall also be applicable in respect of retail schemes, with resident Indian non-individual as sponsor/manager, that are proposed to be permitted to register as FPIs under Proposal 1 above.

4.7. Further, as noted at Para 2.2.2 above, FPI Regulations specify that resident Indian non-individual can contribute to the FPI, subject to it being a sponsor or manager of the FPI. However, as seen in Para 4.2 above, IFSCA (FM) Regulations, 2025 specify that contribution in the fund is required to be made by the FME or its associate. In order



to avoid any ambiguity, it is proposed to align these requirements by substituting the condition of resident Indian non-individual to be “Sponsor or Manager” of the FPI with “FME or its associate” only for IFSC based FPIs.

## Proposal 2

4.8. In view of the above, the following are proposed:

- 4.8.1. The condition of resident Indian non-individual to be “Sponsor or Manager” of the FPI may be substituted with “Fund Management Entity or its associate” for IFSC based FPIs.
- 4.8.2. The maximum limit on contribution by resident Indian non-individual as FME or its associate in AIFs and retail schemes set up in IFSCs may be specified at 10% of the corpus of the fund (or AUM in case of retail schemes).

### Questions for public comments

2. Do you agree with the proposal to substitute the condition of resident Indian non-individual to be a constituent as “Sponsor or Manager” of the FPI with “Fund Management Entity or its associate”?
3. Do you agree with the proposal to specify the maximum limit on contribution by resident Indian non-individual in AIFs and retail schemes set up in IFSCs to 10% of the corpus of the fund (or AUM in case of retail schemes)?

## 5. Permit Indian Mutual Funds to be constituents of FPI

5.1. In order to facilitate ease of investment in overseas mutual funds or unit trusts (MFs/UTs), to bring transparency in the manner of investment, and to enable Indian mutual funds to diversify their overseas investments, SEBI, through its circular dated November 4, 2024, permitted Indian mutual fund schemes to invest in overseas MFs/UTs that have exposure to Indian securities, subject to certain conditions in terms of exposure limit, pooling requirement, pari-passu and pro-rata rights, independence of investment manager, etc.



5.2. Such overseas MFs/UTs are expected to invest in India as FPIs. However, as mentioned earlier, presently FPIs cannot have resident Indian non-individual as a constituent except as mentioned under Para 2.2 above.

### Proposal 3

5.3. In order to facilitate operationalisation of the aforementioned circular dated November 4, 2024 and consequently enable Indian mutual funds to invest in overseas MFs/UTs that have exposure to Indian securities, it is proposed that overseas MF/UT registering as FPI may be permitted to have Indian mutual fund as a constituent subject to the conditions as mentioned in the circular dated November 4, 2024 as amended from time to time.

#### Questions for public comments

4. Do you agree with the proposal to permit overseas Mutual Fund or Unit Trust registering as FPI to have Indian mutual fund as a constituent?

### 6. Draft amendments to FPI Regulations

6.1. In view of the above proposals, draft amendments to be carried out to FPI Regulations is placed at **Annexure A**.

#### Questions for public comments

5. Do you agree with the draft amendments to FPI Regulations placed at Annexure A?

### 7. Public comments

7.1. Considering the implications of the aforementioned matters on the market participants, public comments are invited on the above-detailed proposals. The comments/suggestions should be submitted latest by August 29, 2025, through the following link:  
<https://www.sebi.gov.in/sebiweb/publiccommentv2/PublicCommentAction.do?doPublicComments=yes>





7.2. Any technical issue in submitting your comment through web based public comments form, may be communicated through email to [afdconsultation@sebi.gov.in](mailto:afdconsultation@sebi.gov.in) with a subject: "*Issue in submitting comments on Consultation Paper on proposals to facilitate participation by resident Indians in Foreign Portfolio Investors (FPIs)*".

**Issued on: August 08, 2025**



**Draft amendments to SEBI (FPI) Regulations, 2019**

Current provision	Proposed provision
New proviso to be inserted after first proviso	<b><i>Provided further that a mutual fund registered under SEBI (Mutual Fund) Regulations, 1996 may also be constituent of the applicant, subject to such conditions as may be specified by the Board from time to time;</i></b>
<p>Second proviso to Regulation 4 (c):</p> <p><i>Provided further that resident Indian, other than individuals, may also be constituents of the applicant, subject to the following conditions, namely –</i></p> <p>(i) <i>the applicant is an Alternative Investment Fund setup in the International Financial Services Centres and regulated by the International Financial Services Centres Authority;</i></p> <p>(ii) <i>such resident Indian, other than individuals, is a Sponsor or Manager of the applicant; and</i></p> <p>(iii) <i>the contribution of such resident Indian, other than individuals, shall be up to-</i></p> <p>(a) <i>2.5% of the corpus of the applicant or US \$ 7,50,000 (whichever is lower), in case the applicant is a Category I or Category II Alternative Investment Fund; or</i></p>	<p><i>Provided further that resident Indian, other than individuals, may also be constituents of the applicant, subject to the following conditions, namely –</i></p> <p>(i) <i>the applicant is an Alternative Investment Fund or a Retail Scheme setup in the International Financial Services Centres and regulated by the International Financial Services Centres Authority;</i></p> <p>(ii) <i>such resident Indian, other than individuals, is a <del>Sponsor or Manager</del> <b>Fund Management Entity or its associate</b> of the applicant; and</i></p> <p>(iii) <i>the contribution of such resident Indian, other than individuals, shall be up to-</i></p> <p><del>(a) 2.5% of the corpus of the applicant or US \$ 7,50,000 (whichever is lower), in case the applicant is a</del></p>



<p><i>(b) 5% of the corpus of the applicant or US \$ 1.5 million (whichever is lower), in case the applicant is a Category III Alternative Investment Fund;</i></p>	<p><del>Category I or Category II Alternative Investment Fund; or</del> <del>(b) 5% of the corpus of the applicant or US \$ 1.5 million (whichever is lower), in case the applicant is a Category III Alternative Investment Fund;</del></p> <p><b>(a) 10% of the corpus of the applicant in case the applicant is an Alternative Investment Fund;</b> <b>or</b> <b>(b) 10% of the Assets under Management in case the applicant is a Retail scheme;</b></p> <p><b>Explanation – ‘Fund Management Entity’ and ‘associate’ shall have the meaning as provided under International Financial Services Centres Authority (Fund Management) Regulations, 2025, as amended from time to time.</b></p>
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