



COMMERCIAL/CORPORATE

SEBI Circular on Ease of Compliance for FPIs Investing Exclusively in Government Securities

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Introduction

On 10 September 2025, the Securities and Exchange Board of India (SEBI) issued Circular bearing no. SEBI/HO/AFD/AFD-PoD-3/P/CIR/2025/127 under the subject “Ease of regulatory compliances for FPIs investing only in Government Securities”. The circular introduces a streamlined compliance framework for Foreign Portfolio Investors (FPIs) that invest solely in Government Securities under the Fully Accessible Route (FAR) (“GS-FPIs”). Effective 8 February 2026, the framework reduces registration and reporting requirements, aligns KYC obligations with banking norms, and provides clarity on transitions between regular FPIs and GS-FPIs. The reform represents a strategic move to encourage stable foreign investment in India’s sovereign debt market.

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Key Regulatory Changes

• Exemption from Investor-Group Disclosure

SEBI has removed the obligation for Government Securities (GS-FPIs) to disclose investor-group details at the time of registration. This exemption is significant because such disclosure is otherwise a central requirement for FPIs, and its relaxation recognises the relatively low-risk profile of government securities investors.

• Resident Indian Contributions

The circular clarifies that contributions by resident Indian individuals to GS-FPIs must be made exclusively under the RBI’s Liberalised Remittance Scheme (LRS). Further, such participation is permitted only in global funds where exposure to Indian securities does not exceed 50%. This ensures that resident contributions remain controlled, transparent, and consistent with India’s foreign exchange regime.

• Simplified Periodic Compliance

GS-FPIs will no longer be required to file “no-change” declarations or report non-material changes at the time of renewal. Instead, the only obligation at the three-yearly renewal stage is payment of the prescribed fees to the Designated Depository Participant (DDP). Importantly, material changes both Type I and Type II must still be reported within thirty days, along with the necessary supporting documentation, preserving SEBI’s ability to monitor substantive developments.

• Harmonised KYC Periodicity

Another key reform is the alignment of custodian KYC review cycles with the periodicity applicable to an FPI’s bank accounts under RBI guidelines. This removes duplication in compliance, reduces operational inefficiency, and provides greater consistency across regulators without diluting the anti-money laundering (AML) framework.

• Transition Framework

The circular provides an operational mechanism for movement between the two categories. New applicants may identify themselves as GS-FPIs at registration. Existing FPIs may also transition to GS-FPI status by declaration to their DDP, subject to ensuring that non-Government securities holdings are divested or that systems are in place to prevent such investments. Conversely, GS-FPIs choosing to operate as regular FPIs must provide all additional disclosures required under the broader FPI regime.

Legal and Regulatory Context

The circular is issued under Section 11(1) of the SEBI Act, 1992, following the 11 August 2025 amendments to the SEBI (Foreign Portfolio Investors) Regulations, 2019. It also integrates with the FPI Master Circular dated 30 May 2024, which governs the registration, KYC, and compliance framework for FPIs.

The relaxation is closely linked to the RBI's Fully Accessible Route (FAR), under which specified Government securities are opened fully to non-resident investors without limits. By limiting compliance relief to FAR-eligible securities, SEBI ensures that the benefit is available only in respect of low-risk sovereign debt investments.

Strategic Impact on Stakeholders

For FPIs

- Lower compliance costs and reduced administrative burden.
- Obligation to maintain strict investment discipline in FAR-eligible G-secs.
- Careful monitoring required to ensure LRS compliance for resident Indian participation.

For DDPs and Custodians

- System upgrades to classify and track GS-FPIs.
- Enforcement of divestment or preventive mechanisms for non-G-sec holdings.
- KYC review cycles must be realigned with banking norms.

For the Market

- Improves the attractiveness of Indian Government securities to global investors.
- Advances India's policy objective of deepening its sovereign bond market and supporting possible inclusion in international bond indices.
- Balances regulatory efficiency with continued oversight through mandatory reporting of material changes.

Conclusion

SEBI's circular marks a decisive shift towards a risk-based compliance regime. By easing obligations for FPIs limited to sovereign debt, SEBI has reduced barriers for foreign participation in Government securities while preserving essential safeguards. Effective 8 February 2026, this reform is expected to bolster foreign demand for Indian debt, strengthen market depth, and reinforce regulatory alignment with RBI's FAR framework.

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