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FPI General Investment Route for debt eased:

Short-term Investment and Concentration Limits deleted

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Introduction

The Reserve Bank of India (RBI) on 8 May 2025 issued a circular bearing reference no. RBI/2025-26/35 FMRD.FMD.No.01/14.01.006/2025-26 (Relaxation Circular) in relation to investments by Foreign Portfolio Investors (FPIs) in corporate debt securities through the general route for investment (General Route).

In India, FPIs are allowed to invest in corporate debt securities under the General Route or the voluntary retention route (VRR). The General Route was generally not preferred by FPIs despite the lower tenor requirements due to compliance with conditions such as concentration limit, short term investment limit (each as set out below) and the requirement of a minimum of two investors in a particular investment. Alternatively, FPIs preferred to opt for investing through VRR, as these restrictive conditions are not applicable under VRR, however monies invested under VRR in India cannot be repatriated outside India for a period of three years from the date of allotment of VRR limits. In this regard, as opposed to VRR, investment under the General Route does not require the investments to be retained in India for a minimum period of three years from the date of allotment of VRR limits, so long as (a) a minimum maturity period of one year is complied with; and (b) minimum of two investors continue to remain invested in that corporate debt security till its maturity.

Erstwhile provisions

Prior to the implementation of the Relaxation Circular, the FPIs investing in corporate debt securities under the General Route were required to comply *inter alia* with the following:

(i) ***Short-term investment limit*** – *Investments by an FPI in corporate debt securities with residual maturity up to 1 (one) year shall not exceed 30% of the total investment of the FPI in corporate debt securities. The short-term investment limit shall apply on investments on an end-of-day basis; and*

(ii) ***Concentration limit*** – *Investment in corporate debt securities by an FPI (including its related FPIs) shall not to exceed 15% of prevailing investment limit for such securities in case of long-term FPIs (sovereign wealth funds, multilateral agencies, pension / insurance / endowment funds and foreign central banks) and 10% of prevailing investment limit for other FPIs.*

Pursuant to the Relaxation Circular effective from 8 May 2025, the RBI has withdrawn the aforesaid requirements to comply with the short-term investment limit and the concentration limit in relation to investments to be made by FPIs in corporate debt securities under the General Route.

Comment

With removal of the short-term investment limit requirement under General Route, FPIs have greater flexibility and more options to structure their investments and exits. FPIs are free to structure their investments in any proportion whether it be a single trade or as part of a larger portfolio, enhancing their ability to tailor investment strategies to their preferences. Additionally, this change will enable issuers to procure more funds for their shorter tenure investments and bridge financing needs through the General Route, thereby expanding such options for issuers.

Similarly, with the removal of the concentration limits, FPIs will now have greater flexibility to take larger exposures in corporate debt securities through the General Route.

The requirements of short-term investment limit and concentration limit were not applicable to FPI investments made through VRR, as VRR inherently offers greater investment flexibility but with a minimum investment runway of three years. This move is likely to facilitate easier investments and boost FPI investments under the General Route for short term FPI investors into India.

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