

Expanding foreign investment access in Indian corporate debt through special Rupee Vostro accounts

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On 3 October 2025, the Reserve Bank of India (RBI) issued a landmark circular bearing reference number RBI/2025-26/90 A.P. (DIR Series) Circular No. 13 (the Circular), allowing persons resident outside India (PROI) to invest their surplus rupee balances in corporate debt securities issued by Indian companies through Special Rupee Vostro Accounts (SRVA) maintained with Authorised Dealer (AD) banks. The Circular takes immediate effect, significantly widening the range of permissible investments for surplus rupee balances held in SRVAs.

From Government Securities to Corporate Debt Securities

Before this reform, SRVA holders could invest their surplus rupee balances only in central government securities, including treasury bills. These instruments, while secure, offered modest returns and limited participation in India's broader debt markets.

The Circular now permits SRVA holders to invest their rupee surplus in non-convertible debentures (NCDs), bonds, and commercial papers (CPs) issued by Indian companies. This move marks a strategic shift toward integrating SRVA-based investments with India's growing corporate debt market.

Investments through the SRVA route will, however, be subject to the same aggregate investment cap that applies to Foreign Portfolio Investors (FPIs) which is currently set at 15% of the outstanding stock of corporate bonds.

Key regulatory relaxations

A. No Minimum Residual Maturity Requirement

Unlike the FPI framework, which typically mandates a minimum residual maturity of 1 year for corporate debt instruments, the Circular removes this restriction entirely. SRVA holders may now invest in instruments of any maturity, including short-term CPs and short-dated NCDs. This flexibility enhances portfolio management options and is expected to improve market liquidity and trading volumes across maturities.

B. No Issue-wise Investment Cap

Under the FPI regime, exposure to a single issuance is capped to prevent concentration risk. The Circular, however, waives these issue-wise limits, granting SRVA holders greater discretion in allocating funds. This allows for larger, more flexible participation across issuances and potentially deeper secondary market liquidity.

A distinct route — No FPI License required

One of the most significant features of the Circular is that SRVA holders do not require a separate FPI registration or license to invest in corporate debt. The SRVA mechanism therefore operates as a standalone, simplified investment channel, parallel to but distinct from the conventional FPI regime. It enables foreign

investors, already regulated by their home jurisdictions, to participate in India's debt markets without undergoing the extensive FPI compliance process.

Role of AD Banks, SEBI, and Depositories

AD Category-I banks are required to open dedicated demat accounts for SRVA holders to facilitate investment and custody of corporate debt instruments. These banks are responsible for executing transactions, ensuring full compliance with all regulatory frameworks, and reporting them promptly.

All investments made through SRVAs must be reported to SEBI-registered depositories, which will monitor adherence to prescribed limits and caps. Both AD banks and SRVA holders bear joint and several responsibility for compliance with RBI guidelines, FEMA provisions, and SEBI regulations, covering investment restrictions, disclosure requirements, and reporting obligations.

This institutional structure ensures a robust compliance ecosystem, reinforcing transparency, risk management, and market integrity in the SRVA investment framework.

Moreover, the RBI circular bearing reference number RBI/2025-26/91 A.P. (DIR Series) Circular No. 14, also dated 3 October 2025, titled "International Trade Settlement in Indian Rupees (INR)", complements the SRVA framework. It allows AD banks to enable investment of surplus SRVA balances in NCDs, bonds, and CPs issued by Indian entities. Together, these measures create regulatory synergy between INR-based trade settlements and capital market access, furthering the policy goal of rupee internationalization and capital market deepening.

Conclusion

The Circular represents a pivotal step toward reducing India's dependence on the US dollar, insulating the economy from currency volatility and external shocks. It enhances liquidity and foreign participation in the corporate debt market, while advancing the internationalization of the Indian Rupee by encouraging trade and investment in rupee-denominated assets.

For Indian corporates, the framework opens new avenues to raise debt at competitive rates, but effective regulatory oversight by SEBI remains vital to manage market risks and volatility.

Overall, this initiative aligns with the RBI's long-term vision of establishing the Indian Rupee as a trusted global currency for trade and financial transactions. By granting SRVA holders greater flexibility than conventional FPIs, the Circular is poised to deepen market liquidity, broaden foreign participation, and strengthen India's position as a global financial hub.

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