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SEBI Proposes Widening FPI Access for IFSC Funds, Resident Indians and Mutual Funds

SEBI Proposes Widening FPI Access for IFSC Funds, Resident Indians and Mutual Funds

The Securities and Exchange Board of India (“SEBI”) has released a consultation paper dated August 8, 2025 ([link](#)) (“**Consultation Paper**”), proposing regulatory changes to broaden the participation of resident Indians, particularly non-individuals and mutual funds (“**MFs**”), in the Foreign Portfolio Investment (“**FPI**”) regime. The move is aligned with the government’s objective of strengthening the role of International Financial Services Centres (“**IFSCs**”) and integrating Indian investors more closely into global capital markets.

SEBI has through the Consultation Paper proposed the following key proposals and changes:

- [Enabling retail schemes based in IFSCs with resident Indian non-individuals as sponsor/manager to register as FPIs;](#)
- [Alignment of limits on contribution by resident Indian non-individual sponsor/manager;](#)
- [Permit Indian MFs to be constituents of FPI;](#) and
- [Draft amendments to SEBI \(FPI\) Regulations, 2019 \(“**FPI Regulations**”\) in line with the above proposed changes.](#)

SEBI is inviting stakeholder and public comments or suggestions on the Consultation Paper till **August 29, 2025**. These proposals, if implemented, would significantly enhance the operational flexibility for India-based fund structures in IFSCs, resolve critical compliance challenges, and further integrate Indian MFs into global markets.

The above proposals have been analysed in the table below.

Proposal	Details of the proposal	Questions for public comments
Enabling retail schemes based in IFSCs with resident Indian non-individuals as sponsor / manager to register as FPIs	<ul style="list-style-type: none"> ▪ International Financial Services Centres Authority (Fund Management) Regulations, 2025 (“IFSCA FM Regulations”) define ‘scheme’ or ‘fund’ as a scheme of a Fund Management Entity (“FME”) launched under these regulations. Under Chapter III, scheme types include: <ul style="list-style-type: none"> - Venture Capital Schemes (filed with the IFSCA as “venture capital fund” under Category I AIF); - Restricted Schemes (Non-Retail Schemes) (filed with the IFSCA as Category I, II or III AIF); - Retail Schemes; and - Special Situation Funds (considered as a category under restricted schemes; filed with the IFSCA as Category I AIF). ▪ IFSCA requested that in addition to AIFs with resident Indian non-individual sponsor/manager already permitted to register as FPIs, retail schemes with resident Indian non-individual sponsor/manager may also be permitted. ▪ Under the said regulations, “Retail scheme” means a scheme offered to all investors or a section of investors for subscription with no ceiling on the number of investors. FME/associate must invest at least 1% of Assets under Management (“AUM”) or USD 200,000, whichever is lower. ▪ Retail schemes must have at least 20 investors with no single investor holding more than 25% in a scheme and cannot invest more than 10% of AUM in securities of a single company. ▪ Currently, resident Indian individuals may be constituents of an FPI with contribution <25% individually and <50% collectively with Non- 	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?

Proposal	Details of the proposal	Questions for public comments															
	<p>resident Indians (“NRIs”) / overseas citizens of India (“OCIs”), if made via Liberalised Remittance Scheme (“LRS”) and in global funds with <50% India exposure; they may contribute up to 100% in certain IFSC-based FPIs.</p> <p>PROPOSAL:</p> <p><i>Enable retail schemes based in IFSCs with resident Indian non-individuals as sponsor/manager to register as FPIs.</i></p> <div style="background-color: #2c4e64; color: white; padding: 5px; margin-top: 10px;"> ELP Comments </div> <div style="background-color: #e6f2ff; padding: 10px; margin-top: 5px;"> <p><i>Currently, non-resident Indians (NRI), overseas citizens of India (OCI) and resident Indians are not eligible to register as FPIs under the FPI Regulations. However, NRIs, OCIs or resident Indian individuals are permitted to be constituents of FPIs subject to limits on their contribution and control of the FPIs. This proposal would bring about parity between AIFs and retail schemes in IFSCs, enabling a wider range of India-based fund structures to access the FPI route.</i></p> </div>																
Alignment of limits on contribution by resident Indian non-individual sponsor/manager	<ul style="list-style-type: none"> Currently, IFSCA (FM) Regulations prescribe minimum and maximum sponsor contribution thresholds for AIFs and retail schemes as provided in the table below: <table border="1" style="width: 100%; border-collapse: collapse; text-align: center;"> <thead> <tr> <th>Type of Scheme</th><th>Minimum Contribution Requirement</th><th>Maximum Contribution (Cap)</th></tr> </thead> <tbody> <tr> <td>AIF – Venture Capital Scheme</td><td>Lower of 2.5% of targeted corpus or USD 750,000</td><td>10% of targeted corpus</td></tr> <tr> <td>AIF – Restricted Scheme (Close-ended)</td><td>Lower of 2.5% of targeted corpus or USD 750,000</td><td>10% of targeted corpus</td></tr> <tr> <td>AIF – Restricted Scheme</td><td>Lower of 5% of targeted corpus or USD 1,500,000</td><td>10% of targeted corpus</td></tr> <tr> <td>Retail Scheme</td><td>Lower of 1% of AUM or USD 200,000</td><td>-</td></tr> </tbody> </table> <ul style="list-style-type: none"> The current FPI Regulations set contribution limits for resident Indian non-individuals in AIFs based in IFSCs based on the category of the AIF, 2.5% for Category I/II and 5% for Category III, while the IFSCA (FM) Regulations, set limits based on the type of scheme, prescribing a minimum of 2.5% (for close-ended funds) or 5% (for open-ended funds) and a cap of 10%. This misalignment creates compliance difficulties, as sponsors must maintain contributions exactly at the FPI thresholds to avoid 	Type of Scheme	Minimum Contribution Requirement	Maximum Contribution (Cap)	AIF – Venture Capital Scheme	Lower of 2.5% of targeted corpus or USD 750,000	10% of targeted corpus	AIF – Restricted Scheme (Close-ended)	Lower of 2.5% of targeted corpus or USD 750,000	10% of targeted corpus	AIF – Restricted Scheme	Lower of 5% of targeted corpus or USD 1,500,000	10% of targeted corpus	Retail Scheme	Lower of 1% of AUM or USD 200,000	-	<ul style="list-style-type: none"> 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”? 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)?
Type of Scheme	Minimum Contribution Requirement	Maximum Contribution (Cap)															
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	<p>breaching either SEBI or IFSCA norms. To address this, IFSCA has proposed aligning FPI Regulation limits with its own framework to prevent operational issues and bring consistency.</p> <p>PROPOSAL</p> <ul style="list-style-type: none"> ▪ 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. ▪ 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 enhanced and fixed at 10% of the corpus of the fund (or AUM in case of retail schemes) <div data-bbox="375 734 1157 1059"> <p>ELP Comments</p> <p><i>The proposed alignment removes the current “compliance trap” arising out of the mismatch between the limits given in SEBI’s FPI framework and IFSCA’s FM framework. Permitting resident Indian non-individuals to invest up to 10% in AIFs and retail schemes set up in IFSCs which are also SEBI registered FPIs would be consistent with IFSCA norms and would offer operational flexibility to such FPIs.</i></p> </div>	
<p>Permit Indian MFs to be constituents of FPI</p>	<ul style="list-style-type: none"> ▪ SEBI’s circular dated November 4, 2024 (link) permits Indian MF schemes to invest in overseas MFs / unit trusts (“UTs”) with Indian securities exposure, subject to conditions (exposure limits, pooling requirement, pari-passu / pro-rata rights, independent investment manager, etc.). ▪ Such overseas MFs/UTs are expected to invest in India as FPIs. ▪ However, currently FPIs cannot have resident Indian non-individuals as constituents except under limited provisions as provided below: <ul style="list-style-type: none"> - Where the FPI is an eligible investment fund under Section 9A(3) of the Income Tax Act, 1961 (“ITA”) with a resident Indian as an eligible fund manager under Section 9A(4) of ITA; - Where the FPI is an AIF in an IFSC regulated by IFSCA, with a resident Indian sponsor/manager contributing up to 2.5% or USD 750,000 (Category I/II) or 5% or USD 1.5 million (Category III), whichever is lower; and - Where the FPI is controlled by an investment manager owned/controlled by NRI, OCI, or resident Indian, incorporated in India and registered with SEBI. <p>PROPOSAL:</p> <p>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 SEBI circular dated November 4, 2024, as amended from time to time.</p>	<p>Do you agree with the proposal to permit overseas MF or UT registering as FPI to have Indian mutual fund as a constituent?</p>

Proposal	Details of the proposal	Questions for public comments						
	<div>ELP Comments</div> <div><i>This change would operationalise SEBI’s previous circular for overseas MF/UT investments and facilitate diversification for Indian mutual funds.</i></div>							
Draft amendments to FPI Regulations in line with the above proposed changes	<ul style="list-style-type: none">In view of the above proposal, the draft amendments to be carried to FPI Regulations as provided below have been placed at Annexure – A of the Consultation Paper:	Do you agree with the draft amendments to FPI Regulations placed at Annexure A?						
	<table><tr><th>Current provision under FPI Regulations</th><th>Proposed provision under FPI Regulations</th></tr><tr><td>New proviso to be inserted after first proviso</td><td><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></td></tr><tr><td>Second proviso to Regulation 4(c): <i>Provided further that resident Indian, other than individuals, may also be constituents of the applicant, subject to the following conditions, namely-</i> <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> <i>(ii) such resident Indian, other than individuals, is a Sponsor or Manager of the applicant; and</i> <i>(iii) the contribution of such resident Indian, other than individuals, shall be up to-</i> <i>(a) 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></td><td><i>Provided further that resident Indian, other than individuals, may also be constituents of the applicant, subject to the following conditions, namely –</i> <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> <i>(ii) such resident Indian, other than individuals, is a Sponsor or Manager Fund Management Entity or its associate of the applicant; and</i> <i>(iii) the contribution of such resident Indian, other than individuals, shall be up to-</i> <i>(a) 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> <i>(b) 5% of the corpus of the applicant or US\$ 1.5 million (whichever is lower), in case the applicant is a</i></td></tr></table>		Current provision under FPI Regulations	Proposed provision under FPI Regulations	New proviso to be inserted after first proviso	<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>	Second proviso to Regulation 4(c): <i>Provided further that resident Indian, other than individuals, may also be constituents of the applicant, subject to the following conditions, namely-</i> <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> <i>(ii) such resident Indian, other than individuals, is a Sponsor or Manager of the applicant; and</i> <i>(iii) the contribution of such resident Indian, other than individuals, shall be up to-</i> <i>(a) 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>	<i>Provided further that resident Indian, other than individuals, may also be constituents of the applicant, subject to the following conditions, namely –</i> <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> <i>(ii) such resident Indian, other than individuals, is a Sponsor or Manager Fund Management Entity or its associate of the applicant; and</i> <i>(iii) the contribution of such resident Indian, other than individuals, shall be up to-</i> <i>(a) 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> <i>(b) 5% of the corpus of the applicant or US\$ 1.5 million (whichever is lower), in case the applicant is a</i>
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Proposal	Details of the proposal		Questions for public comments
	<p>(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;</p>	<p>Category III Alternative Investment Fund;</p> <p>a) 10% of the corpus of the applicant in case the applicant is an Alternative Investment Fund; or</p> <p>b) 10% of the Assets under Management in case the applicant is a Retail scheme;</p> <p>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.</p>	

We trust you will find this an interesting read. For any queries or comments on this update, please feel free to contact us at insights@elp-in.com or write to our authors:

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