

Amendments to SEBI's FPI Regulations to benefit Mutual Funds and Indian promoters of FMEs

The Securities and Exchange Board of India (“SEBI”) has released the Securities and Exchange Board of India (Foreign Portfolio Investors) (Second Amendment) Regulations, 2025 dated December 1, 2025 (“**Second Amendment**”) amending the exist Securities and Exchange Board of India (Foreign Portfolio Investors) Regulations, 2019 (“**FPI Regulations**”). The Amendment Regulations will come into force 180 days from publication in the Official Gazette, i.e. on June 1, 2026.

Two of changes introduced by the Second Amendment facilitate the outflow of money from India to FPIs. These are:

- **Participation of SEBI-Registered Mutual Funds:** Regulation 4 of the FPI Regulations permits an applicant that is constituted by a Non-Resident Indian, Overseas Citizen of India, or resident Indian to apply for an FPI registration, provided the total aggregate contribution held by a single non-resident Indian or overseas citizen of India or resident Indian individual is below twenty-five percent of the total contribution, and the total aggregate contribution held by non-resident Indian or overseas citizen of India or resident Indian individuals is below fifty percent of the total contribution. The Amendment Regulations have included mutual funds registered under the Securities and Exchange Board of India (Mutual Funds) Regulations, 1996 as permissible constituents of an FPI applicant, subject to the aforementioned limits, which remain unchanged.
- **Revised Investment Thresholds for Fund Management Entities in International Financial Services Centre (“IFSC”):** Currently, resident Indians (other than individuals) may also be constituents of an FPI, provided the FPI is an alternative investment fund or a retail scheme set up in the IFSC, and such resident Indian is a fund management entity or its associate. Earlier, under sub-clause (iii) of the third proviso under Regulation 4(c) of the FPI Regulations, the permissible contribution from such resident Indians was capped at 2.5% of the corpus or USD 750,000 (whichever was lower) for Category I and II Alternative Investment Funds, and 5% of the corpus or USD 1.5 million (whichever was lower) for Category III Alternative Investment Funds. The Amendment Regulations have now revised these thresholds and introduced a uniform limit of 10% of the Assets Under Management (AUM) for all Alternative Investment Funds and retail schemes setup in IFSC.

ELP Comments

The IFSCA (Fund Management) Regulations, 2025 (“FM Regulations”) require an FME to have a minimum commitment in each AIF managed by such FME. The IFSCA FM regulations also cap the maximum amount which an FME can invest in the AIF managed by such FME. The reason for a cap of the FME’s investment in the AIF (which is not present in SEBI’s regulations for AIFs) is that the FME’s investment in the AIF results in an outflow of forex from India, where the FME is either an Indian entity or the subsidiary of an Indian entity. The cap on the FME commitment under the FM regulations is 10% of the targeted corpus in case of any restricted scheme. This cap was higher than the cap given under the FPI Regulations. The Second Amendment has now aligned the cap given in the FPI Regulations with the cap prescribed by the FM Regulations.

The Second Amendment can be found here: [SEBI | Securities and Exchange Board of India \(Foreign Portfolio Investors\) \(Second Amendment\) Regulations, 2025](#)

We hope you have found this information useful. For any queries/clarifications please write to us at insights@elp-in.com or write to our authors:

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