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FEMA

Modes of Investments
in Debt Instruments
by Non Residents

July 2025

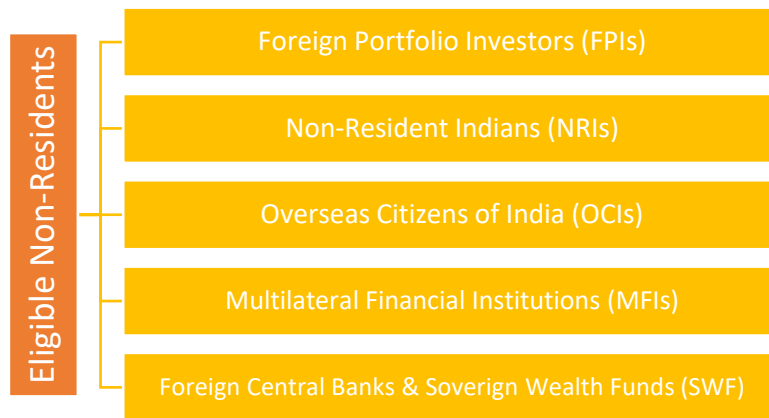
Master Directions – Reserve Bank of India [Non-resident Investment in Debt Instruments] Directions, 2025

The RBI has issued regulations to govern and monitor non-resident investments in debt instruments in India under Permissible Capital Account Transactions Regulations and Borrowing and Lending Regulations and Debt Instruments Regulations. RBI has also issued necessary directions in form of A.P. (DIR Series) Circulars and Directions.

RBI has exercised its powers conferred under Section 10(4) and Section 11(1) of FEMA, 1999¹ read with Section 45W of RBI Act² and issued a [Master Direction – RBI \(Non-resident Investment in Debt Instruments\) Directions, 2025](#) (MD-NIDI) which provides a comprehensive framework for non-resident investments in debt instruments. It aims at reducing regulatory fragmentation, thereby making simpler for investors to interpret and adhere to a single and unified set of rules.

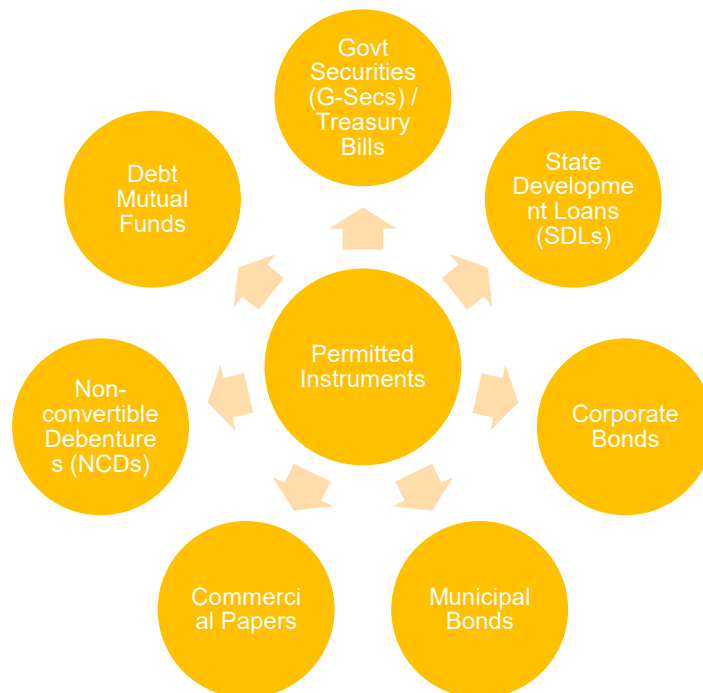
We have summarized the Master Directions below

A. Eligible Investors



B. Permitted Instruments

Typically, the MD-NIDI covers the following instruments



¹ Foreign Exchange Management Act (FEMA), 1999

² Reserve Bank of India Act, 1934

C. Mode of Investments

The investment in debt instruments can be made by Non-Residents in the following manner

1. General Route This manner of investment is specifically designed for FPIs only and applicable for certain eligible instruments.
2. Voluntary Retention Route (VRR) The VRR is also crafted for FPIs only with certain conditionalities, for e.g., prescribed retention period.
3. Fully Accessible Route (FAR) FAR route is available to all Non-Residents for investments in specified securities without any restrictions.
4. Sovereign Government Bonds This investment can be made by eligible investors in International Financial Services Centre only in India.

D. General Route

The FPIs can continue investing in eligible instruments under pre-established limits. This route preserves traditional investment patterns with clearly defined thresholds.

1. Eligible instruments and limits of investments

Eligible Instruments	Limit of Investments
G-Secs (including Treasury Bills) *	6% of the outstanding stock of G-Secs
State G-Secs	2% of the outstanding stock of State G-Secs
Corporate Debt Securities	15% of the outstanding stock of corporate bonds

*excluding securities specified under FAR

2. Stipulations for investments

Investment in G-Secs	Investment in Corporate Debt Securities (CDS)
<ul style="list-style-type: none"> • Maturity Requirement: No restriction on maturity requirement. • Limit in short-term investments Investment with residual maturity up to 1 year shall not exceed 30% of total investment of FPI in each category excluding certain investments[@] • Security-wise limit: Total investment by an FPI in any Central Government Securities shall not exceed 30% of outstanding stock of security. • Concentration limit: For long-term FPI (including related FPIs), 15% of prevailing investment limit for each category and 10% for other FPIs. • Specified rules for reinvestment of coupons and sale / redemption proceeds 	<ul style="list-style-type: none"> • Maturity Requirement: Investment permitted with original / residual maturity of above one year. • Prohibited Investments <ul style="list-style-type: none"> • Optionally Convertible securities where the option to convert is exercisable within a year from the date of investments • Debt MF with maturity / Macaulay duration of portfolio up to one year • Partly Paid Debt Instruments • Amortised CDS with duration up to one year • Issue wise limit: Investment shall not exceed 50% of total issue of CDS. • Investment in NCDs / Bonds subject to end-use restrictions on investments in real estate business, capital market and purchase of land • Resale of investment in 'to be listed' CDS if it is not listed within the period prescribed by SEBI^{&} • Above condition of Maturity requirement and issue wise limit does not apply to Security Receipts, Debt instruments issued under CIRP[#] process and default bonds, securities issued by MFIs

@ - Investments made on or before 27.04.2018; Investments made between 08.07.2022 and 31.10.2022

& - Securities Exchange Board of India; # Corporate Insolvency Resolution Process.

E. Voluntary Retention Route (VRR)

VRR is primarily designed for FPIs and requires investors to commit to holding their investments for a minimum period of at least 3 years. In return, they gain access to broader pool of investment choices, which are often allocated either through auction or on 'first come first serve' basis.

1. Eligible Investors

All FPIs.

2. Eligible Instruments

It includes the following instruments

- All instruments as specified under Debt Instruments Regulations, 2019 (except Debt Mutual Funds, Hybrid ETFs[^] and Partly paid Debt Instruments).
- Repo and Reverse Repo, subject to the amount borrowed or lent under Repo does not exceed 10% of total investment under VRR Route, subject to prescribed conditions.

[^] - Exchange Traded Funds

3. Limit of Investment

INR 2.50 Lakhs Crores or higher amount as notified by RBI.

4. Allocation of Investment The Investments are allocated either on tap or through auction mechanism vide Annex-2 to MD-NIDI. However, if demand is for more than 100% of amount offered, maximum allotment to an FPI (including related FPIs) shall be 50% of amount offered for each allotment.

5. Retention Period The minimum retention period is 3 years or as per RBI Announcement.

6. Stipulations for investments under VRR

- Minimum 75% of Committed Portfolio Size (CPS) [including cash holdings in Rupee Accounts) shall be invested within 3 months from the allotment date and remain invested during the committed Retention period.
- Transfer of investments made under General Route to VRR is permitted.
- No repatriation from cash accounts of FPI allowed, if such repatriation leads to fall in CPS investments below 75% during the Retention period.
- No minimum residual maturity requirement, or issue-wise limits as applicable to CDS as per General Route.
- Exit by an FPI before the Retention period can only be possible if its investments are sold to another FPI(s).
- Separate Special Non-Resident Rupee (SNRR) accounts are required for making investments through VRR route.
- Utilization of limits and adherence to other requirements shall be the responsibility of FPIs and Custodian.

F. Fully Accessible Route (FAR)

This Route offers unfettered access to the Non-Residents for prescribed investments.

1. Eligible Investors

- FPIs
- Non-Resident Indians
- Overseas Citizens of India
- Any other person notified by RBI

2. Eligible Instruments

Securities as per Annex -3 to Master Directions. RBI may add / change tenors of new securities.

3. Limit of Investments

Investments in Specified securities shall not be subject to any investment limit or any macro-prudential norms.

G. Investments in Sovereign Green Bonds

The investments in Sovereign Green Bonds can be made by eligible investors in IFSC in India. These investments shall be in accordance with 'Scheme for Trading and Settlement of Sovereign Green Bonds in the IFSC in India' notified by RBI, as amended from time to time.

H. Other Facilities

A Non-Resident can undertake transactions in foreign exchange, interest rate and credit derivatives in terms of specified Directions³ issued by RBI in this regard.

I. Investments in Government Securities in OTC Markets

- An FPI can participate in G-Securities Markets – Primary and Secondary.
- All OTC trades in G-Securities made by FPIs (except transactions using NDS-OM web module in secondary market) shall have to be reported to NDS-OM platform on the same date within 3 hours after close of trading day.
- OTC secondary market transactions in G-Secs undertaken by FPI can be settled on T+1 / T+2 basis.

³ Master Direction – Risk Management and Inter-Bank Dealings; Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019; Master Direction – Reserve Bank of India (Credit Derivatives) Directions, 2022 on transactions in Credit Default Swap by FPIs – Operational Instructions

J. Obligations of Investors

- RBI may call for any information / clarification or statement, from Non-Residents, custodians, or any other entity involved with the Non-Resident investment in debt instruments. Such people, agencies and participants shall furnish information, statement or clarification within such time as specified by RBI.
- Transaction in breach of applicable investment limit or macro-prudential control shall not be accepted.
- Investment in breach of applicable investment limit shall have to be reversed.
- Violation by FPIs shall be subject to regulatory action by SEBI. Post approval of custodian, FPIs are required to regularize minor violations, immediately upon notice and within 5 working days of violation.
- Custodians shall report all violations which have not been regularized.

Our comments

This Master Direction is a single source which defines clear investment routes and limits and ensures certainty of rules for non-residents. These attributes conjointly aim at enhancing market confidence, reducing the ambiguities and promoting regular capital flows into India's debt market.