



Foreign Portfolio Investor

March 2025

KPMG. Make the Difference.



Income-tax – bills, press release



The Finance Bill, 2025

Key proposals:

Rationalisation of Long-Term Capital Gain (LTCG) tax rate in case of few securities (w.e.f. AY 2026-27)

Tax rate increased from 10 per cent to 12.5 per cent¹ on Long-Term Capital Gain (LTCG) on sale of listed bonds/debentures, units of mutual fund (other than equity oriented) etc. This is to bring parity in tax rates as applicable to equity shares, units of equity oriented mutual fund, units of business trust.

For Sovereign Wealth Funds (SWF) and Pension Funds (PF) (w.e.f 1 April 2025)

- Sunset clause for SWF/PF to make investments in infrastructure companies and claim tax exemption for specified income extended from 31 March 2025 to 31 March 2030.
- Long-Term Capital Gain (whether or not such capital gains are deemed to be Short-Term Capital Gain) arising from transfer of investments made in unlisted debt securities to be exempt from tax under section 10(23FE) of the Income-tax Act, 1961 (the Act).

International Financial Services Centre (IFSC) (w.e.f. AY 2026-27)

Inclusion of Retail Schemes and Exchange Traded Funds (ETFs) in the existing exemption on relocation regime of funds; extension of period for relocation

- In case of relocation, transfer by a shareholder or unit holder or interest holder of a capital asset being a share, unit or interest held by the holder in the original fund² in consideration for the share or unit

or interest in resultant fund³ is not considered as a 'transfer' and is tax neutral.

- It is proposed to expand the definition of **resultant fund to include retail scheme and exchange traded fund** (regulated under International Financial Services Centres Authority (Fund Management) Regulations, 2022 and satisfies conditions prescribed.
- Further, time period for relocation i.e., transfer of capital asset of the original fund, or its wholly owned special purpose vehicle, to resultant fund extended to 31 March 2030 (from 31 March 2025), subject to conditions.

Scope of exempt income of non-residents from Non-Deliverable Forward (NDF) contract/Offshore Derivative Instruments (ODI) etc. expanded

- Income accrued or arisen to, or received by a non-resident from transfer of NDF contracts or ODI or over the-counter derivatives, or distribution of income on ODI entered into with an offshore banking unit of an IFSC is exempt from tax in India.
- It is proposed to extend the aforesaid exemption in case of transactions entered between non-residents with FPI being a unit in IFSC.

Simplified regime for Indian fund managers managing offshore funds (w.e.f. 1 April 2025)

- Under the special taxation regime for offshore funds, the fund management activity carried out by an eligible investment fund through an eligible fund manager located in India does not create a business connection in India. This is subject to several conditions.

¹ Plus applicable surcharge and health and education cess.

² Original fund means a fund established outside India, subject to fulfillment of conditions.

³ Resultant fund was defined to mean a fund established or incorporated in India in the form of trust, company or limited liability partnership which was granted registration as an Alternative Investment Fund (Category I, II and III) and regulated by prescribed authorities and is located in IFSC.

- **Applicable for all Fund Managers:**

Proposed condition: The condition of aggregate participation or investment in the eligible investment fund by person resident in India not exceeding 5 per cent of its corpus to be tested on 1 April and 1 October of the previous year. In case the condition is not satisfied on either of the said days, then the said condition to be satisfied within 4 months.

- **Applicable for Fund Managers in IFSC:**

Proposed condition: In case of eligible investment fund where the fund manager is located in IFSC and has commenced operations before 31 March 2030, the Central Government may by notification provide relaxation/modification in safe-harbor conditions for such fund or fund manager.

Source: Finance Bill, 2025 dated 1 February 2025

<https://www.in.kpmg.com/taxflashnews/Foreign-Portfolio-Investors-Key-India-Union-Budget-web.pdf>

Income-tax Bill, 2025, tabled in parliament on 13 February 2025

It aims to simplify the language and structure of the Act. Core principles exercised:

- Textual and structural simplification for improved clarity and coherence.
- No major tax policy change to ensure continuity and certainty.
- No modifications of tax rates, preserving predictability for taxpayers.

The review led to a substantial reduction in the volume of the Act, making it more streamlined and navigable.

Source: Ministry of Finance, Press Release dated 13 February 2025

Regulatory updates



Forward Contracts in Government Securities (G-Sec)

Reserve Bank of India (RBI) notified RBI (Forward Contracts in Government Securities)⁵ Directions, 2025, w.e.f. 2 May 2025. Key aspects:

Applicability

These will apply to forward contracts in G-Sec (bond forwards)⁶ in Indian Over-The-Counter (OTC) market

Eligible market participants

- resident; and
- non-resident who is eligible to invest in government securities under the Foreign Exchange Management (Debt Instruments) Regulations, 2019

User

Any entity, eligible as a non-retail user as per Rupee Interest Rate Derivatives (Reserve Bank) Directions, 2019 eligible to enter transaction in bond forwards as user. **Non-retail users** include:

- entities regulated by RBI
- insurance companies; mutual funds, pensions

funds and other collective investment vehicles;

- All India financial institutions
- companies/entities with net-worth of INR5 billion or above; and
- non-residents other than individuals.

Direction for users

- An eligible user (resident and non-resident) may undertake covered short⁷ positions in bond forwards only for purpose of hedging.
- To ensure that short positions undertaken by user is covered, market-makers may call for any relevant information/documents from the user, who are obliged to provide them.
- A user with a covered short position in a bond forward to exit its short position in case it ceases to hold the underlying G-Sec.

Settlement and unwinding

- A bond forward transaction may be physically-settled or cash-settled.

4. The Income-tax Bill, 2025 once passed to come into w.e.f 1 April 2026. The Bill is under review in a select parliament committee.

5. Draft RBI (Bond Forwards) Directions, 2023 released on 28 December 2023 for expanding suite of interest rate derivative products to market participants to manage interest rate risks.

6. **Bond forward** means a rupee interest rate derivative contract in which one counterparty (buyer) agrees to buy a specific G-Sec from another counterparty (seller) on a specified future date and at a price determined at the time of the contract.

7. **Covered Short** means a position in bond forwards in which the seller of the forward contract holds an equivalent amount of the G-Sec underlying the position

- A physically-settled bond forward transaction to be settled through Clearing Corporation of India Ltd. or any other clearing agency or clearing arrangement approved by RBI.
- A cash-settled bond forward transaction may be settled bilaterally or through any clearing arrangement approved by RBI.
- A market participant may exit its position in bond forward by unwinding position with the original counterparty or assigning position to any other eligible market participant(s) through novation.

Other directions

G-Secs held to cover short positions in bond forwards may be used in repo transactions or lent/placed as collateral under G-Secs Lending (GSL) transaction(s)

provided holder of short position is otherwise eligible to undertake a repo/GSL transaction.

Source: RBI notification RBI/2024-25/117
FMRD.DIRD.16/14.03.042/2024-25 dated 21 February 2025

Bond Central platform launched

Securities and Exchange Board of India (SEBI) launched **Bond Central** which is a centralised database portal for corporate bonds. Key features of bond central are:

- Comprehensive bond listings
- Price comparison
- Investor-centric Information
- Enhanced transparency

Source: SEBI Press Release 09/2025 dated 27 February 2025

International Financial Services Centre (IFSC)



International Financial Services Centre Authority (Fund Management) Regulations, 2025 – notified

These replace the IFSCA (Fund Management) Regulations, 2022. Key changes, *inter-alia*, are:

Non-Retail Schemes (Venture Capital Schemes and Restricted Schemes)

- The minimum corpus requirement reduced from USD5 million to USD3 million.
- Validity of scheme's private placement memorandum extended from 6 to 12 months.
- Open-ended investment schemes may commence investment on achieving investment of USD1 million; minimum corpus of USD3 million to be achieved within 12 months.
- Contribution by fund manager and its associates which was restricted to 10 per cent has been permitted to 100 per cent, subject to conditions.
- Several carve-outs from regulatory requirements provided to fund of fund schemes to facilitate creation and operation of feeder vehicles in IFSC in cost-effective manner.

Registered Fund Management Entity (FME) (Retail) and Retail Schemes

- The minimum corpus requirement reduced from USD5 million to USD3 million.

- The requirement of 'sound track record' for a Registered FME (Retail) clarified to take into account the fund management experience of other entities within the FME's group.
- Where the requirements of experience of handling higher Asset Under Management (AUM) and number of clients are not met, clarity provided in terms of relevant experience of person(s) having significant shareholding in the FME, while also specifying a higher net worth requirement for the FME.
- The requirement of listing of close-ended retail scheme on recognised stock exchange made optional if minimum investment by each investor in scheme is at least USD10,000.

Others

- For Non-Retail and Retail Schemes, pending deployment of money, in addition to existing permitted financial products and instruments, parking in bank deposits and overnight schemes has been permitted.
- To aid in global expansion of their operations, FMEs permitted to open branches or representative offices in other jurisdictions for marketing their offerings and client service, without requiring any prior approval from IFSCA. Intimation to IFSCA is sufficient.

Source: Source: IFSCA Press Release dated 19 February 2025 and Notification dated 10 February 2025

Market watch – press articles-select extracts



BSE launches sensex derivative contracts at IFSC in GIFT City, Gujarat

BSE has launched sensex derivative contracts at the International Financial Services Centre (IFSC) in GIFT City, Gujarat. These US dollar-denominated contracts will be traded on the India International Exchange (India INX), BSE's dedicated stock exchange for GIFT- IFSC. GIFT City provides several tax benefits, including no Securities Transaction Tax (STT), capital gains tax, or stamp duty

Source: Business Standard, Khushboo Tiwari, 3 February 2025

Taxman tests waters on FPI derivative trade

Indian tax authorities have demanded tax from two FPIs from Mauritius on their earnings from equity derivatives. This is based on the argument that equity derivatives are closely linked to equities. The Dispute Resolution Panel has supported this assessment, raising concerns about the implications for all FPIs from treaty jurisdictions.

Source: The Economic Times, Sugata Ghosh and Rashmi Rajput, ET Bureau dated 27 February 2025

FPI statistics



Parameters	Current month	Previous month	Change
Net Equity inflows during Feb 2025 (in USD million)	(396)	(893)	
Net Debt inflows during Feb 2025 (in USD million)	120	7	
Total FPIs registered as on 28 Feb 2025	11,783	11,728	55
AUC of FPIs at end of Jan 2025 (in USD million)	85,035	88,863	(3,828)

Source: FPI monitor, NSDL, 28 February 2025

KPMG in India contact:

Sunil Badala

National Head of Tax

E: sunilbadala@kpmg.com

kpmg.com/in



Access our latest insights on
KPMG Insights Edge

Follow us on:

kpmg.com/in/socialmedia



The information contained herein is of a general nature and is not intended to address the circumstances of any particular individual or entity. Although we endeavor to provide accurate and timely information, there can be no guarantee that such information is accurate as of the date it is received or that it will continue to be accurate in the future. No one should act on such information without appropriate professional advice after a thorough examination of the particular situation.

KPMG Assurance and Consulting Services LLP, Lodha Excelus, Apollo Mills Compound, NM Joshi Marg, Mahalaxmi, Mumbai - 400 011 Phone: +91 22 3989 6000, Fax: +91 22 3983 6000.

© 2025 KPMG Assurance and Consulting Services LLP, an Indian Limited Liability Partnership and a member firm of the KPMG global organisation of independent member firms affiliated with KPMG International Limited, a private English company limited by guarantee. All rights reserved.

The KPMG name and logo are trademarks used under license by the independent member firms of the KPMG global organisation.

This document is for e-communication only.