KPMG

Foreign Portfolio Investor

September 2025

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Regulatory updates

Proposed framework for simplification of onboarding and compliance

With the objective to provide easier investment access, enable a unified registration process across multiple investment routes, and reduce repeated compliance and documentation, Securities and Exchange Board of India (SEBI) issued **consultation paper** seeking comments from the public (up to 29 August 2025) on the proposed **Single Window Automatic & Generalised Access for Trusted Foreign Investors (SWAGAT-FI)** framework.

It is aimed to provide single access to foreign investment routes under regulations made by SEBI i.e. Foreign Portfolio Investors (FPI) and Foreign Venture Capital Investor (FVCI). The key aspects are as under:

Foreign investors to be covered:

- Government and government related investors including entities controlled or at least 75 per cent owned by government and government related investors
- Appropriately regulated public retail funds with demonstrably diversified investor and investment base with independent fund managers, as mandated by their home regulator

Proposals:

- SWAGAT-FI can register as FVCI without further documentations
- Increase in period of continuance of registration including payment of fees and review of KYC to ten years (from existing three years for FPI and five years for FVCI).
- At present, the aggregate contribution of Non-Resident Indian (NRI), Overseas Citizen of India (OCI) and Resident Indian individuals (RI) is capped by 50 per cent of the total corpus of the FPI. It is proposed to remove the restrictions
- Use of a single demat account for holding securities acquired as FPI, FVCI or foreign investor in units of investment vehicle on an optional basis.

Source: SEBI consultation paper dated 8 August 2025

Proposal to exclude certain categories of FPI from definition of Strategic Investor[1]

The concept of Strategic Investors was introduced in SEBI (Real Estate Investment Trusts) Regulations, 2014 and SEBI (Infrastructure Investment Trusts) Regulations, 2014 to enable the REIT/InvIT to have strategic investors in the issue, prior to making an offer of units. The definition of strategic investor included FPIs.

The intent behind having such category of investors was to instill confidence in the other set of investors.

SEBI released a **consultation paper** seeking comments (up to 22 August 2025) proposing to amend the definition of Strategic Investor to include Qualified Institutional Buyers (QIBs) covered under the SEBI (Issue of Capital and Disclosure Requirements) Regulations 2018.

FPI who are individuals, corporate bodies or family offices are not QIBs.

Accordingly, it is proposed that FPI's who are individuals, corporate bodies or family offices not to be considered under the Strategic Investor category.

Source: SEBI consultation paper on amendment to the definition of strategic investor dated 1 August 2025

1 Strategic Investors are investors who get allocation before the opening of the issue, are required to invest at least 5 per cent of the total offer size and can invest up to 25 per cent of the total offer size. They are required to enter into a binding subscription agreement and the units subscribed by such investors are locked in for a period of 180 days from the date of listing. Further, the details of subscription are disclosed in the offer document.

Regulatory relaxation provided for FPIs investing only in government securities (G-sec)

Pursuant to the **consultation paper** released by SEBI on 13 May 2025 proposing relaxation to FPIs that exclusively invest in G-Sec, SEBI has provided relaxations as under:

- The restriction on contributions from NRI/OCI/RI in the corpus of such FPI has been removed. Further, NRI/OCI/RI can be in control of such FPIs
- The requirement of grouping as investor group and clubbing of investment limits (in relation to investments in equity shares) would not apply
- The requirement to disclose any direct or indirect change in structure or common ownership or control of FPI (and investor group) to designated depository participant within the timelines prescribed not to apply to such FPIs.

The relaxations are effective **21 April 2026.**

Source: SEBI notification SEBI (FPI) (Amendment) Regulations, 2025 dated 11 August 2025

International Financial Services Centre (IFSC)

Consultation paper to facilitate resident Indian participation in FPIs

NRIs, OCIs and resident Indians individuals are permitted to be constituents of FPIs subject to conditions prescribed.

Further, Alternative Investment Funds (AIF) with resident Indian non-individual sponsor/manager were permitted to register as FPIs provided the FPI was an eligible investment fund and resident Indian being an eligible fund manager as prescribed and subject to satisfaction of contribution limits etc.

In order to enable retail scheme based in IFSC, to align with the contribution limit for resident Indian non-individuals in funds set-up in IFSC and allow Indian mutual funds to be constituents of FPI, based on request from IFSC Authority, SEBI issued consultation paper seeking comments (up to 29 August 2025). The **key proposals** are:

- **Retail Schemes in IFSCs:** To permit retail schemes with resident Indian non-individual sponsors/managers to register as FPIs.
- **Contribution Limits:** contribution of resident Indian non-individual to be up to:
  - 10 per cent of the corpus of the applicant in an AIF
  - 10 per cent of the Assets Under Management in case the applicant is retail scheme
- The condition of resident Indian non-individual to be sponsor/manager to be substituted with Fund Management Entity (FME) or its associates for IFSC based FPIs.
- **Indian Mutual Funds:** To permit Indian mutual funds to be constituents of applicant FPI.

Source: SEBI consultation paper dated 8 August 2025

Amendment notified to include Third Party Fund Management Services

Pursuant to IFSCA Authority meeting in June 2025, International Financial Services Centre Authority (Fund Management) Regulations, 2025 has been amended to include third party management services with effect from 31 August 2025.

The amendments will allow FME in IFSC to launch and manage Restricted Schemes on behalf of overseas or domestic third-party fund managers who are not required to establish physical presence in IFSC. This is aimed at enhancing the competitiveness of IFSC by providing a cost-efficient, operationally scalable and globally aligned platform for international asset managers.

Key aspects are as under

For this purpose, “third-party fund manager” to mean and include an entity registered or regulated, for the purposes of fund management, portfolio management, investment advisory or any other similar activity, by whatever name called, with the concerned financial sector regulator in the country of its incorporation, and which avails the third-party fund management services from a Registered FME.

Such third party will be deemed to be associate of the FME. Further, the FME to manage Restricted Schemes under third-party fund management arrangement. The corpus of the scheme not to exceed USD50 million.

Source: IFSC Notification dated 24 July 2025 published 31 July 2025

Income-tax – case laws

Income-tax Act, 2025 notified

The Government of India has notified Income-tax Act, 2025 to consolidate and amend law relating to income-tax. The new Act shall replace Income-tax Act, 1961 and shall come into force with effect from 1 April 2026.

Few highlights of the new act are as below:

- The Income-tax Act, 2025 has replaced the terms "assessment year" and "previous year" with **"tax year"** .
- No change in tax on income in respect of securities and capital gains from transfer of securities.

Source: Ministry of Law and Justice dated 21 August 2025.

Mistake apparent from records made by taxpayer at the time of filing Income-Tax Return (ITR) can be rectified by the Assessing Officer (AO)

In the ITR filed, the taxpayer had made double addition and overstated the income inadvertently. On processing of the ITR, the taxpayer filed rectification application which was rejected by the AO.

On appeal before the Commissioner of Income-tax (Appeals), it was held that since the mistake was made at the time of filing the ITR and not by order of the AO, the appeal was not maintainable and informed taxpayer to seek remedy from the Central Board of Direct Taxes.

On further appeal before Income-tax Appellate Tribunal (ITAT), it was held that the ITR and accompany computation form part of the record of the AO while processing the ITR. Therefore, any mistake which rises from the ITR itself such as double addition due to arithmetical error is a mistake apparent from record and rectifiable under section 154 of the Income-tax Act, 1961 (the Act).

ITAT further noted that the principle of real income is fundamental to taxation. Once it has been established that the tax has been computed on inflated or fictitious figure, which arose due to duplication of the same disallowance, the authorities are bound in law to rectify the error. The AO was directed to rectify the computation of income.

Source: Janki Wind Farm Developers Pvt. Ltd v. ITO ITA No. 1000/Ahd/2025 dated 12 August 2025

In absence of any specific chronology for set off of capital loss prescribed in the Act, the taxpayer is entitled to exercise option most beneficial

A USA based FPI had set-off capital loss in the following manner:

- current year short-term capital loss (STCL)[2] subjected to securities transaction tax (STT) set-off against current year short-term capital gain (STCG) not subjected to STT
- brought forward STCL set-off against current year STCG not subjected to STT
- the above set-off was done before set-off with current year STCG subjected to STT.

The AO and Dispute Resolution Panel disallowed the order of set-off adopted by the taxpayer.

On appeal, ITAT held that under section 70 of the Act no chronology has been mentioned in respect of set-off of losses. The provisions do not compel taxpayer to first set-off against STCL subjected to STT against STCG subjected to STT and then allow for set-off against STCG not subjected to STT. In absence of any specific chronology, taxpayer is entitled to exercise option most beneficial to the taxpayer. The AO was directed to grant the benefit to the taxpayer.

Source: Schwab Fundamental Emerging Markets Equity ETF vs DCIT, ITA No. 2133/Mum/2025 dated 17 June 2025

Provisions of Multilateral Convention to Implement Tax Treaty Related Measures to Prevent Base Erosion and Profit Shifting MLI not to be applied automatically

The dispute revolves around the application of treaty benefit under the India-Ireland tax treaty.

The taxpayer is a resident of Ireland involved in leasing aircrafts to Indian airlines. The taxpayer had filed ITR declaring Nil taxable income claiming that in absence of Permanent Establishment in India, business income is not taxable in India.

AO and DRP rejected taxpayers' contention and concluded that Principal Purpose Test under Article 6 and 7 of the MLI were not satisfied.

The taxpayer filed an appeal before the ITAT on application of MLI provisions. Revenue contented that by virtue of MLI's notification alone, Article 6 and 7 of becomes part of the tax treaty.

2 For AY 2022-23 the STCG not subjected to STT are taxed at the base rate of 30 per cent and STCG subjected to STT are taxed at the rate of 15 per cent.

The taxpayer argued that while India-Ireland tax treaty is a covered tax agreement, the consequences of MLI have not been separately notified by way of protocol to India-Ireland tax treaty.

Based on the ratio laid down by the Supreme Court which made it mandatory for notification for Most Favoured Nation clause to apply to the select tax treaty, ITAT held that in absence of a specific notification incorporating Article 6 and 7 of the MLI into the India-Ireland tax treaty, the MLI provisions cannot be invoked. Further, it stated that a "synthesised text" is a non-binding explanatory aid; it does not, and cannot, supplant the requirement for a legally valid act of incorporation in each jurisdiction.

Source: Sky High Appeal XLIII Leasing Company Limited v. ACIT (Mum) ITA No. 1122/Mum/2025 dated 13 August 2025

Market watch – press articles-select extracts

SEBI proposes eased regulatory norms for AIFs catering to accredited investors

"SEBI has proposed a separate category of Alternative Investment Fund (AIF) schemes, consisting of accredited investors, which will enjoy a lighter-touch regulatory framework compared to regular AIFs. In a ***consultation paper*** *issued on Friday, SEBI suggested that such accredited investors (AI-only schemes) could be allowed certain flexibilities, given that accredited investors are deemed to have the knowledge, financial capacity and risk appetite to make informed investment decisions without the same level of regulatory safeguards required for retail participants."*

Source: ET Now, ET Now Digital, dated 10 August 2025

BSE proposes pre-open trading session for F&O from December 8

"BSE on Thursday proposed to introduce a pre-open session for index and stock futures in the equity derivatives segment from December 8. The move comes in light of market regulator Securities and Exchange Board of India's (Sebi's) twin circulars directing exchanges to enhance trading convenience and strengthen risk monitoring in equity derivatives."

Source: Economic Times, Shivdendra Kumar, dated 28 August 2025

FPI statistics

Parameters	Current month	Earlier month	Changes
Net Equity inflows during August 2025 (in USD million)	(3,970)	(2,103)	
Net Debt inflows during August 2025 (in USD million)	1,437	1,340	
Total FPIs registered as on 02 September 2025	12,023	11,985	38
AUC of FPIs at end of July 2025 (in USD million)	892,550	917,035	(24,486)

Source: FPI monitor, NSDL, 2 September 2025

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