PRESS RELEASE

The consolidated FDI policy document is a single reference point for investors and regulators. The first such consolidation was released in March, 2010 after which it has been updated every six months. This *'Circular 1 of 2012'*-is the fifth edition of the consolidated policy document.

2. The significant changes introduced in this edition of the Circular are:

(i) **Policy for FDI in Commodity Exchanges:**

At present, foreign investment, within a composite (FDI & FII) cap of 49%, under the Government approval route-i.e. through the Foreign Investment Promotion Board (FIPB)-is permitted in commodity exchanges. Within this overall limit of 49%, investment by Registered FIIs, under the Portfolio Investment Scheme (PIS) is limited to 23% and investment under the FDI Scheme is limited to 26%. It has now been decided to liberalise the policy and to mandate the requirement of Government approval only for FDI component of the investment. Such investment by FIIs, in commodity exchanges, will, therefore, no longer require Government approval. This change aligns the policy for foreign investment in commodity exchanges, with that of other infrastructure companies in the securities markets, such as stock exchanges, depositories and clearing corporations.

(ii) **Non Banking Finance Companies (NBFC)-clarification on 'leasing':**

It has been clarified that the activity of 'leasing and finance', which is one among the eighteen NBFC activities, where induction of FDI is permitted, covers only 'financial leases' and not 'operating leases'. This provision intends to clarify the coverage of the term 'leasing and finance', insofar as the NBFC sector is concerned.

(iii) **Import of capital goods/ machinery/ equipment (including second-hand machinery)-conversion to equity:**

At present, conversion to equity is permitted for import of capital goods/ machinery/ equipment (including second-hand machinery). It has been represented before Government that the Indian capital goods sector, including the machine tools industry, construction machinery and textile machinery, has been suffering because of import of cheaper second hand machinery, which is often sub-standard. With a view to incentivising machinery embodying state-of-the-art technology, compliant with international standards, in terms of being green, clean and energy efficient, second-hand machinery has now been excluded from the purview of this provision.

(iv) **Clarification on investment by Foreign Institutional Investors (FIIs):**

Currently, an FII may invest in the capital of an Indian Company under the Portfolio Investment Scheme which limits the individual holding of an FII to 10% of the capital of the company and the aggregate limit for FII investment to 24% of the capital of the company. This aggregate limit of 24% can be increased to the sectoral cap/statutory ceiling, as applicable, by the Indian Company concerned, through a resolution by its Board of Directors, followed by a special resolution to that effect by its General Body. It has been clarified that this would be subject to prior intimation to RBI.

(v) **Investment by Foreign Venture Capital Investors (FVCIs):**

Government has permitted FVCIs to invest in the eligible securities (equity, equity linked instruments, debt, debt instruments, debentures of an IVCU or VCF, units of schemes / funds set up by a VCF) by way of private arrangement / purchase from a third party also, subject to stipulated terms and conditions. SEBI registered FVCIs have also been permitted to invest in securities on a recognized stock exchange subject to the provisions of the SEBI (FVCI) Regulations, 2000. These provisions have now been reflected under the FDI policy as well.

(vi) **Investment by 'Qualified Financial Investors (QFIs)':**

Government has permitted QFIs to invest (DPs), in equity shares of listed Indian companies as well as in equity shares of Indian companies which are offered to public in India in terms of the relevant and applicable SEBI guidelines/regulations. QFls have also been permitted to acquire equity shares by way of right shares, bonus shares or equity shares, on account of stock split/consolidation or equity shares on account of amalgamation, demerger or such corporate actions, subject to the prescribed investment limits. These provisions have now been reflected under the FDI policy as well.

(vii) **General permission for transfer of shares and convertible debentures:**

The liberalised policy on transfer of shares/ convertible debentures of companies engaged in the financial services sector has now been reflected under FDI policy.

(viii) **Changes in FDI policy in single-brand retail trading and pharmaceuticals sector:**

The policy regarding Single Brand retail trading has been liberalized and now FDI, up to 100%, is permitted, under the Government route, subject to specified conditions, as per Press Note 1(2012) issued on 10.1.2012. Accordingly, the revised provisions have been incorporated in the Circular. The provisions of Press Note 3 of 2011, dated 8.11.2011, have also been incorporated in the Circular.

3. In view of the fact that Government has undertaken substantial rationalization/ liberalization of the FDI policy, it is felt that the need for frequent amendments to the Circular does not exist any longer. Further, any changes made in the FDI policy are notified through Press Notes issued during the year. It has, therefore, been decided that the Consolidated Circular on FDI Policy, which was, until now, being released on a six-monthly basis, may, henceforth, be issued after one year. As such, the next version of the Consolidated Circular on FDI Policy, would be released on 29.3.2013.

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