



Foreign Exchange Department

Authorised Dealers Conference

January 10, 2015

Developments since the last Conference

Foreign Direct Investment Simplification, Liberalisation & Rationalisation



- LLP enabled to accept FDI
- Partly paid equity shares and warrants issued by an Indian company considered as eligible instruments for FDI & FPI
- As per revised pricing guidelines issued, equity shares, CCPS & CCDs can be issued/ transferred at prices worked out
 - as per SEBI guidelines – for listed companies
 - any internationally accepted pricing methodology – for unlisted companies
- Indian companies allowed to issue shares/ convertible debentures to a person resident outside India for any sum payable

Foreign Direct Investment

Simplification, Liberalisation & Rationalisation



- Pledge of shares in favour of NBFCs
 - Banks permitted to allow pledge of equity shares of a listed Indian company, held by non-resident investor/s
 - To secure credit facilities extended to the resident investee company for bona-fide business purposes/ operations.
- Purchase/ Sale of securities other than shares/ convertible debentures
 - To provide flexibility to investors, stipulation on manner of acquisition removed
 - Eligible investors permitted to acquire such securities in any manner
 - As per prevalent/ approved market practice
- Issue of FCCBs/ ordinary shares through depository mechanism scheme
 - Condition of prior/ simultaneous listing in the domestic market reviewed
 - Unlisted companies permitted to raise capital abroad through ADR/ GDR route without the requirement of prior/ subsequent listing
 - Initially for a period of two years
- FDI Scheme – Sector Specific caps
 - Defence sector - enhanced from 26% to 49%
 - Railways (other than Mass Rapid Transport Systems) – 100% in railway infrastructure; prohibited in operations

Foreign Portfolio Investment

Simplification, Liberalisation & Rationalisation



- Investment under Portfolio Investment Scheme
 - New scheme – Foreign Portfolio Investment Scheme put in place
 - Portfolio investor registered with SEBI called the Registered Foreign Portfolio Investor
 - FII/ QFI subsumed under registered FPI
- Investment in NCDs/ NCRPSs of Indian companies issued as bonus
 - SEBI registered LTIs – permitted on repatriation basis
 - ✓ In addition to purchase of Gsecs & NCDs/ bonds issued by Indian companies
 - ✓ Within the overall limit of USD 51bn earmarked for corporate debt
 - NRIs – permitted both on repatriation and non-repatriation basis
- Foreign Investment in Gsecs
 - Eligible investors permitted to invest in Govt dated securities having residential maturity > 1 year
 - Existing investments in < 1 year/ Tbills – allowed to taper off on maturity
 - Step taken to encourage longer term flows



External Commercial Borrowing

- Strengthening flow of resources to infrastructure sector
 - Holding Companies / Core Investment Companies under the regulatory framework of RBI permitted to raise ECB for project use in SPVs
- Further liberalisation of definition of infrastructure Sector
 - ‘Maintenance, Repairs and Overhaul’ (MRO) considered as a part of airport infrastructure
 - Aimed at strengthening infrastructure sector & encouraging capital flows
- Parking of ECB Proceeds
 - Pending utilisation for permitted end use
 - Can be parked in term deposits with AD Category- I banks in India
 - Maximum tenure of six months



External Commercial Borrowing

- Ring-fencing Indian Banking system
 - ECBs cannot be raised from overseas branches/ subsidiaries of Indian banks for
 - ✓ refinancing/ repayment of rupee loans raised from domestic banking system
 - ✓ Refinancing existing ECB
- ECB in Indian Rupees
 - Recognized NR ECB lenders permitted to extend loans in INR mobilised by undertaking swaps with AD banks in India
- Creation of charge – pool of assets enlarged
 - Allowed against movable assets
- Non-resident guarantee for non-fund based facilities entered between two resident entities
 - Also to cover derivative transactions



Regulation of Forex Derivatives

- Hedging facilities for FPIs
 - FPIs permitted to hedge coupon receipts falling due during the following 12 months
 - Step taken to enhance hedging facilities for FPIs holding securities under the PIS & provide flexibility to FPIs intending to remain invested till maturity
- Participation in the Exchange Traded Currency Derivatives (ETCD) Market
 - FPIs allowed access to the currency futures or exchange traded currency options through any registered/ recognised trading member
 - Domestic participants taking a position exceeding USD 10 million per exchange - should establish existence of an underlying exposure.
 - Underlying not required for position up to USD 10 million
 - AD banks can undertake proprietary trading in the ETCD market
 - AD banks can net/ offset their positions in the ETCD market against the positions in the OTC derivatives markets.



Thank you