



Regulatory Alert Stay Ahead...

Foreign Direct Investment in Other Financial Services

Issue no: RA/12/2016

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Background

The Union Finance Minister in his Budget 2016 speech had indicated the intention to permit Foreign Direct Investment (FDI) beyond the 18 specified Non-Banking Finance Companies (NBFCs) activities and other financial activities which are regulated by financial sector regulators under the automatic route.

The present FDI Policy makes it mandatory to obtain prior approval of Government of India (GOI) before undertaking foreign investment in other financial services which are not specifically permitted in the FDI Policy.

For NBFCs, FDI is permitted only in 18 permitted activities, subject to compliance with the minimum capitalization norms.

Proposed changes in the FDI Policy

The GOI has on 10th August, 2016 given its approval to amend relevant regulations for foreign investment in NBFCs and other financial services.

The key highlights of the proposal are as follows:

- FDI in "Other Financial Services" will be permitted under the automatic route, provided such services are regulated by any other regulator (Reserve Bank of India, Securities and Exchange Board of India, Pension Fund Regulatory and Development Authority etc.) / Government Agencies.
- FDI in unregulated "Other Financial Services", which are not regulated by any regulator / Government Agency, will be permitted under approval route.
- Minimum capitalization norms specified for NBFCs will be eliminated considering most of the regulators have already prescribed their respective minimum capitalization norms.

In order to give effect to the above decision, the Foreign Exchange Management (Transfer or Issue of Security by the Person Resident Outside India) Regulations, 2000 (FEMA Regulation) will be suitably amended.

Conclusion

The proposed changes especially doing away with the capitalization norms under the FDI Policy for NBFC sector would make FDI in financial services more attractive.

Indian Financial Services industry may witness healthy M&A activity in view of the proposed changes.

One would have to see actual amendments to the FEMA Regulation for details.

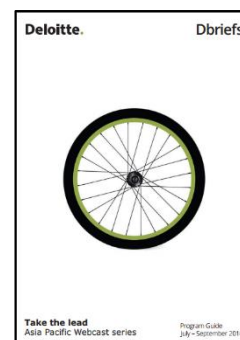
Source: Press Information Bureau, GOI (Cabinet) Press release of 10 August 2016.

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