

Highlights of RBI Circular for reclassification of Foreign Portfolio Investment to Foreign Direct Investment (FDI)

RBI has issued guidelines on November 11, 2024, for the reclassification of FPI to FDI, pursuant to the Foreign Exchange Management (Non-debt Instruments) Rules, 2019. Following are the highlights:

A. Operational Framework

- 1. Eligibility:** The reclassification facility shall not be available for sectors prohibited for FDI.
- 2. Prior Approvals:** FPIs shall obtain necessary approvals from the Government of India, as applicable, and concurrence from the Indian investee company before acquiring equity instruments beyond the prescribed limit.
- 3. Reporting Requirements:** FPIs shall report the entire investment held in the Indian company within the prescribed timelines.

3.1. Reporting by Indian Company

The Indian company shall report the investment in Form FC-GPR when the investment beyond the prescribed limit results from the fresh issuance of equity instruments by the Indian company to the FPI.

3.2. Reporting by FPI

The FPI shall report the investment in Form FC-TRS when the investment beyond the prescribed limit is due to the acquisition of equity instruments by the FPI in the secondary market.

3.3. Reporting by AD Bank

The Authorized Dealer (AD) bank concerned shall report the amount of reclassified foreign portfolio investment as divestment under the Liberalized Exchange Control (FII) reporting.

- 4. Divestment:** Failure to obtain necessary approvals shall necessitate compulsory divestment of investments beyond the prescribed limit within the prescribed timeframe.

- 5. Transfer of Equity Instruments:** Upon completion of reporting, FPIs shall request their custodian to transfer equity instruments from their demat account for FPI to their demat account for FDI.

B. Timeline

The reclassification or divestment shall be completed within five trading days from the date of settlement of trades causing the breach.

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C. Governing Provisions

Post-reclassification, the investment shall be governed by Schedule I of the Foreign Exchange Management (Non-debt Instruments) Rules, 2019.

D. Compliance

Authorised Dealer Category-I banks shall ensure compliance with these guidelines and bring them to the notice of their customers/constituents concerned.

(Open RBI Notification dt November 11, 2024)

<https://rbi.org.in/Scripts/NotificationUser.aspx?Id=12749&Mode=0>

(Attachments to “RBI” under “Resource Centre)

December 03, 2024
