

# RESERVE BANK OF INDIA Foreign Exchange Department Central Office Mumbai - 400 001

**RBI/2013-14/191 A.P. (DIR Series) Circular No.28** 

August 19, 2013

To

All Banks Authorised to Deal in Foreign Exchange

Madam/Sir,

#### Foreign Investments in Asset Reconstruction Companies (ARC)

Attention of Authorized Dealers is invited to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified by the Reserve Bank of India vide Notification No.20 dated 3<sup>rd</sup> May 2000 as amended from time to time and A.P.(DIR Series) Circular No.16 dated November 11, 2005.

#### 2. In terms of the aforesaid circular:

- (a) Foreign Direct Investment (FDI) upto 49% in the equity capital of Asset Reconstruction Companies (ARCs) was permitted subject to certain conditions. However, investment by Foreign Institutional Investors (FIIs) in the equity capital of ARCs was not permitted; and
- (b) general permission was granted to Foreign Institutional Investors (FIIs) to invest in Security Receipts (SRs) upto 49 per cent of each tranche of scheme of Security Receipts subject to condition that investment of a single FII in each tranche of scheme of SRs shall not exceed 10 per cent of the issue.
- 3. A review of the policy was undertaken and it has been decided as under:
  - i. The ceiling for FDI in ARCs has been increased from 49% to 74% subject to the condition that no sponsor may hold more than 50% of the shareholding in an ARC either by way of FDI or by routing through an FII. The foreign investment in ARCs would need to comply with the FDI policy in terms of entry route conditionality and sectoral caps.

ii. The foreign investment limit of 74% in ARC would be a combined limit of FDI and FII. Hence, the prohibition on investment by FII in ARCs will be removed. The total shareholding of an individual FII shall not exceed 10% of the total paid-up capital.

iii. The limit of FII investment in SRs may be enhanced from 49% to 74% of the paid up value of each tranche of scheme of Security Receipts issued by the Asset Reconstruction Companies. Further, the individual limit of 10% for investment of a single FII in each tranche of SRs issued by ARCs may be dispensed with. Such investment should be within the FII limit on corporate bonds prescribed from time to time, and sectoral caps under the extant FDI Regulations should be complied with.

4. A copy of Press Release dated December 21, 2012 issued in this regard by Department of Financial Services, Ministry of Finance Government of India is as per Annex.

5. Reserve Bank of India has since amended the Regulations and notified vide Notification No. FEMA.254/2013-RB dated January 07, 2013 vide G.S.R.No.344(E) dated May 29, 2013.

6. Authorised Dealer banks may bring the contents of this circular to the notice of their constituents and customers concerned.

7. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

(Rudra Narayan Kar)
Chief General Manager-in-Charge

#### [ANNEX TO A.P.(DIR SERIES) CIRCULAR NO.28 OF 19.08.2013]

#### F.No.44/17/2004-BO.II

Government of India
Ministry of Finance
Department of Financial Services

Jeevan Deep Building, 3rd Floor 10, Parliament Street, New Delhi-110 001 Dated the 21<sup>st</sup> December, 2012

#### PRESS RELEASE

## REVIEW OF FOREIGN INVESTMENT POLICY FOR ASSETS RECONSTRUCTION SECTOR\*

Government had permitted Foreign Direct Investment (FDI) in the equity capital of Asset Reconstruction Company (ARCs) upto 49% vide Press Release dated 08.11.2005. Further, on 09.11.2005, the Government permitted the Foreign Institutional Investors (FIIs) registered with the Securities and Exchange Board of India (SEBI) to invest in Security Receipts (SRs) issued by ARCs upto 49% of each tranche of scheme of SRs. The ceilings of FDI and FII have been reviewed in consultation with the stakeholders and the sector regulators. Accordingly, the Government has decided that –

- i. The ceiling for FDI in ARCs has been increased from 49% to 74% subject to the condition that no sponsor may hold more than 50% of the shareholding in an ARC either by way of FDI or by routing through an FII. The foreign investment in ARCs would need to comply with the FDI policy in terms of entry route conditionality and sectoral caps.
- ii. The foreign investment limit of 74% in ARC would be a combined limit of FDI and FII. Hence, the prohibition on investment by FII in ARCs will be removed. The total shareholding of an individual FII shall not exceed 10% of the total paid-up capital.
- iii. The limit of FII investment in SRs may be enhanced from 49% to 74%. Further, the individual limit of 10% for investment of a single FII in each tranche of SRs issued by ARCs may be dispensed with. Such investment should be within the

FII limit on corporate bonds prescribed from time to time, and sectoral caps under the extant FDI Regulations should be complied with.

- 2. The necessary notification / circular under FEMA are being brought out separately by the Reserve Bank of India.
- 3. The necessary notification under SEBI (FII) Regulations is being brought out separately by the Securities and Exchange Board of India.

Sd/-21-12-2012 (Alok Nigam)

### Joint Secretary to the Government of India

Copy forwarded to the Press Information Officer, Press Information Bureau for giving wide publicity to the above Press Release.

\*Companies registered / to be registered with RBI as Securitization Companies / Reconstructions Companies under the Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act) for the purpose of carrying on / commencing the business of asset reconstruction.