

Corpsec Hotline

September 17, 2003

BAN ON FOREIGN DIRECT INVESTMENTS BY OVERSEAS CORPORATE BODIES

The Reserve Bank of India ("RBI"), through a Circular dated September 16, 2003, has banned Overseas Corporate Bodies ("OCBs") [held to the extent of at least 60% by Non Resident Indians or Persons of Indian Origin] from making any fresh investments through foreign direct investment ("FDI") route.

While the OCBs were banned to invest in the secondary market with effect from November, 2001, till now they were permitted to make direct investment under the FDI route. By taking this step, the RBI has derecognized OCBs in India as an eligible 'class of investor'. The decision was taken pursuant to a review of the investment activities of OCBs in India, carried out by RBI on the basis of the recommendations of the Joint Parliamentary Committee on Security Market Scam.

Some of the major decisions taken by the RBI, after consultations with the Government, are:

- the ban imposed on OCBs under Portfolio Investment Scheme ("PIS") in November 2001 shall continue;
- OCBs as a 'class of investor' shall not be allowed to make fresh investments in India under various routes/schemes available under extant Foreign Exchange Management Regulations and facility of opening fresh Non-Resident External Rupee ("NRE") and Foreign Currency (Non-Resident) ("FCNR") and Non-Resident Ordinary Rupee ("NRO") accounts shall also be withdrawn;
- OCBs shall not be allowed to acquire, by way of sale or gift, the shares or convertible debentures, from non-resident investors or other OCBs; and
- OCBs shall not lend in rupees or in foreign currency to a person resident in India.

While the RBI has allowed the OCBs to continue to hold investments earlier made under the PIS and the FDI route (on repatriation basis), investments made under the FDI route (on non-repatriation basis) would have to be disposed of, after obtaining specific permission of the RBI.

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