

FEMA

Foreign Direct Investment

Comprehensive Analysis: Regulatory Framework, Eligible Instruments,
Entry Routes, Sectoral Caps, Compliance & 2026 Amendments

Updated: NDI Rules 2019 (incl. May 2026 Amendments) | RBI Master Direction Jan 2025 | DPIIT FDI Policy | PN 1 & 2 / 2026 Series

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Agenda – Presentation Structure

FEMA NDI Rules 2019 as amended to May 2026 | Eight Sections

I

Key Terms & Eligible Instruments

FDI definition, PROI, LBC (PN 2/2026), equity instruments, CNs, FCCD/FCCP, NDI scope

II

Entry Routes & Sectoral Caps

Automatic / Govt. / Prohibited routes; 24-sector analysis; insurance & space 2026

III

Investing Companies & Downstream

FOCC obligations, downstream rules, computation of total foreign investment

IV

Special Modes of Investment

Preferential/rights issues, renunciation, ADR/GDR, foreign depository, IDRs, LLPs

V

OCI / NRI Investment Modes

Repatriation vs non-repatriation, Schedule IV, NRI vs PROI distinction

VI

Compliance – Pricing & Reporting

Rule 21 pricing matrix, valuation methodologies, FIRMS SMF, 10 reporting forms

VII

Analytical Perspectives & Pitfalls

Structuring issues, PN 2/2026 case study, FDI vs FPI, compliance checklist

VIII

FDI Data & Regulatory Timeline

Inflow trends, sector/source country charts, amendment history 2024–2026

Regulatory Framework – Legal Architecture for FDI in India

FEMA 1999 – The Statute

- Primary legislation; Section 6 governs capital account transactions by rules/regulations
- Shift from FERA 1973: management (civil) vs control (criminal) philosophy
- Jan Vishwas Act 2023: further decriminalised FEMA violations; reduced compounding
- Enforcement: Enforcement Directorate (ED); AD Bank for routine matters

NDI Rules 2019 (amended May 2026)

- FEMA (Non-Debt Instruments) Rules 2019 – issued by Dept. of Economic Affairs
- Governs: equity shares, CCPS, CCDs, warrants, partly paid shares, CNS, LLP capital
- Amendment series: 2020, 2022, Apr 2024, Aug 2024, Jan 2025, 1st/2026, 2nd/2026
- 10 Schedules; Rule 21 (pricing); Rule 9-A (deferred consideration – Aug 2024)

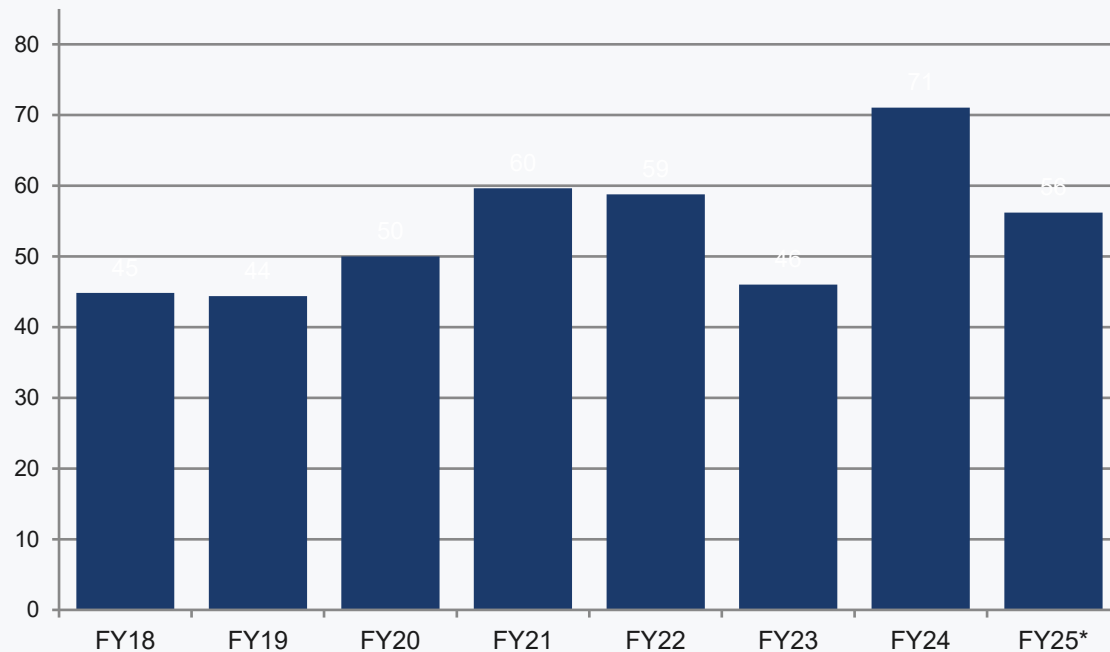
RBI Directions & DPIIT Press Notes

- Master Direction on Foreign Investment in India – updated 20 Jan 2025
- Consolidated FDI Policy 2020 (DPIIT) – amended by Press Notes:
- PN 3/2020 → amended by PN 2/2026 (LBC beneficial ownership)
- PN 2/2025 (Jun 2025): bonus shares in prohibited-sector companies
- PN 1/2026 (Feb 2026): insurance 100% FDI announced
- PN 2/2026 (Mar 2026): LBC framework recalibrated

■ Hierarchy: FEMA Act → NDI Rules (DEA) → RBI Master Direction → DPIIT FDI Policy / Press Notes → Sectoral Regulator Guidelines

India FDI Inflows – Trends & Statistics

Total FDI = Equity + Reinvested Earnings + Other Capital | Source: DPIIT



USD 1.1 Tn

Total FDI since Apr 2000

USD 71 Bn

Equity FDI – FY2023-24 (record)

143%

Rise in FDI over 11 years

#1

Preferred FDI destination, Asia 2024

* FY25 equity FDI (Apr 2024 – Mar 2025); total FDI incl. reinvested earnings ~USD 80.62 Bn

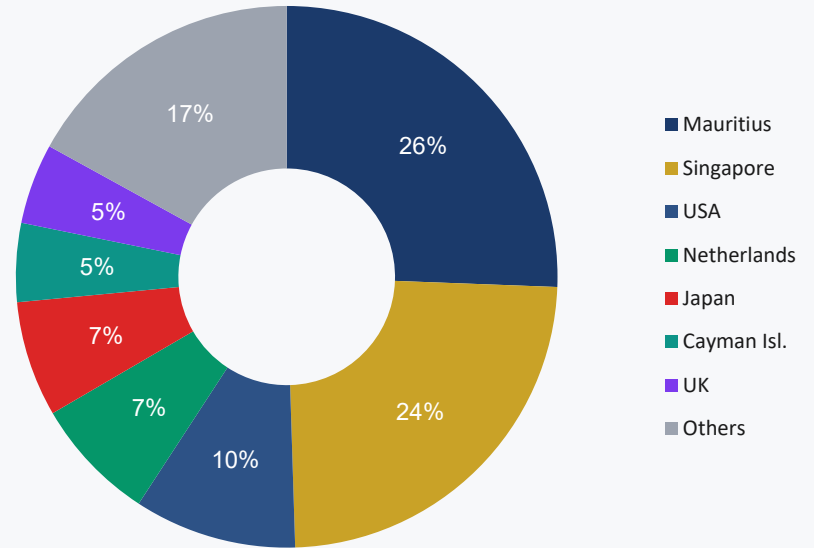
FDI in India – Top Sectors & Source Countries

Cumulative equity FDI inflows Apr 2000 – Mar 2025 | Source: DPIIT

Top Sectors – Cumulative FDI Equity (USD Bn)

Services Sector	125
Computer SW & Hardware	107.3
Telecom	43.8
Construction Dev.	34.4
Automobile Industry	32.1
Chemicals (other than fertilisers)	23.5
Trading	22

Top Source Countries (%)



⚠ Mauritius/Singapore routing largely reflects treaty-shopping structures; post-GAAR & Principal Purpose Test (PPT), adequate substance in the intermediate jurisdiction is essential.

Form of Business Presence in India – Exchange Control Comparison

Parameter	Liaison Office	Branch Office	Indian Company	LLP
Activities	Promotional; no revenue	Parent's activities; RBI approval	Any lawful activity	100% auto FDI sectors only; no FDI-linked conditions
Legal Status	Extension of parent	Extension of parent	Separate – Companies Act 2013	Separate – LLP Act 2008
RBI / Approval	AD Bank notification	Form FNC; AD Bank	Auto / Govt. route per sector	Auto (triple test); else Govt.
Capital Instrument	N/A	N/A	Equity, CCPS, CCDs, warrants, partly paid	Capital contribution only
ECB Eligibility	Not permitted	Not permitted	Yes – ECB framework	NOT permitted
Accounting	Audit; annual filing to RBI	Audit; annual filing to RBI	Companies Act 2013 – Ind AS	LLP Act 2008
Transfer Pricing	Not AE typically	AE; Form 3CEB; Sec 92	AE; Form 3CEB; Sec 92-92F	AE; Form 3CEB
Winding Up	Easier; AD Bank NOC	Project completion; AD Bank	NCLT / voluntary liquidation	Dissolution – LLP Act 2008

Section I

Key Terms & Eligible Instruments

FDI Definition | Eligible Investors | LBC Framework (PN 2/2026) | Equity Instruments | CNs | FCCD/FCCP

Definition of FDI & Eligible Investors

Rule 2(s) & Schedule I, FEMA Non-Debt Instruments Rules 2019

Definition of 'Foreign Direct Investment' – Rule 2(s)

Investment by a PROI in:

- (a) Equity instruments of an unlisted Indian company; OR
- (b) $\geq 10\%$ of post-issue paid-up equity capital (fully diluted) of a listed Indian company
- Foreign Investment (broader) – Rule 2(r): any PROI investment in equity instruments or LLP capital on repatriable basis

Eligible FDI Investor (PROI)

Foreign body corporate:

- Company / body corporate incorporated outside India; SWFs; pension funds; foreign holding/subsidiary companies

Foreign individuals:

- Foreign national resident outside India; NRI/OCI on repatriation basis (treated as PROI)

Foreign institutional:

- FPI (SEBI-registered) – on crossing 10% threshold → reclassification as FDI (RBI Nov 2024)
- FVCI (SEBI-registered) – Schedule VII dispensation on pricing

Eligible Transferee

- Person eligible to hold the instrument being transferred per applicable provisions

Resident ← PROI:

- Permitted; pricing floor = fair value (resident buyer cannot pay less than FV to PROI seller)

PROI ← Resident:

- Permitted; pricing ceiling = fair value (PROI seller cannot receive more than FV from resident)

PROI → PROI:

- Permitted; incoming investor must be eligible; pricing per Rule 21
- NRI/OCI non-repatriation (Sch. IV): pricing guidelines NOT applicable
- LBC investor as transferee: PN 2/2026 beneficial ownership test applies

Land Border Countries – PN 2/2026 & NDI 1st Amendment Rules, May 2026

Complete Overhaul of PN 3/2020 | What Changed, Why & Practical Impact

★ MOST SIGNIFICANT FDI REFORM SINCE PN 3/2020: Blanket approval replaced by defined beneficial ownership test (PN 2/2026 – 15 Mar 2026 + NDI 1st Armdt Rules – 1 May 2026)

China

Pakistan

Bangladesh

Myanmar

Nepal

Bhutan

Afghanistan

Old Position – PN 3/2020

Blanket Govt. approval for any LBC entity/citizen or any investor with LBC beneficial owner

- 'Beneficial owner' was UNDEFINED → extreme uncertainty
- US/EU PE/VC funds with trace Chinese LP holdings routinely caught
- No quantitative threshold → subjective, inconsistent application
- Significantly chilled India-bound capital from global funds

New Position – PN 2/2026

Auto route available where ALL THREE met:

- ① LBC beneficial ownership ≤ 10% [PML Rules 2005, Rule 9(3)]
- ② Such BO does NOT control the investing entity
- ③ Such BO does NOT exercise ultimate effective control over the Indian investee

Govt. approval still required:

- LBC entity directly incorporated / citizen investing directly; or LBC BO > 10%

Additional 2026 Provisions

60-Day Fast Track:

- Capital goods, electronics, polysilicon & ingot-wafer mfg.
- DPIIT must decide within 60 days; majority ownership & control must stay resident

Auto-route reporting:

- Investee must report BO details to DPIIT even for auto-route cases

Multilateral exception:

- Multilateral banks/funds (ADB, IFC, World Bank): no single country = BO

Pakistan:

- Govt. approval only; prohibited in defence,

'Beneficial Owner' – Now Defined Per PML Rules 2005, Rule 9(3)

- Companies: natural person with ≥10% shareholding / voting rights / right to appoint majority directors
- Partnerships / LLPs: ≥10% capital or profits | Trusts: settlor, trustees, beneficiaries ≥10%

💡 Impact: PE/VC funds with passive LBC LPs ≤10% can now invest under auto route. Must document BO structure carefully against PML Rules thresholds before remitting.

Equity Instruments Eligible for FDI

Rule 2 & Schedule I, FEMA NDI Rules 2019 – Types, Conditions & Reporting

Equity Shares

- Most common FDI instrument; fully paid-up ordinary equity shares
- Subscription to MoA: at face value (pricing guidelines inapplicable at incorporation)
- Subsequent issues: \geq fair value; SEBI norms for listed companies
- Bonus shares: permitted (PN 2/2025 – even in prohibited-sector companies)
- Reporting: Form FC-GPR within 30 days of allotment via FIRMS Portal

Partly Paid Shares

- Minimum 25% of total consideration paid upfront on allotment
- Balance called up within 12 months of allotment (listed: SEBI norms on calls)
- Full price of shares fixed and disclosed upfront at time of allotment
- Form FC-GPR filed on initial allotment AND on receipt of each call money

Share Warrants

- Minimum 25% of total consideration paid at time of warrant allotment
- Exercise price fixed upfront; must be \geq fair value at allotment date
- Must be converted into equity within 18 months from allotment
- Warrant lapse: 25% upfront consideration forfeited (no FEMA refund to PROI)
- Form FC-GPR: on (a) allotment of warrants; and (b) conversion into equity

Deferred Consideration – Rule 9-A (Aug 2024)

- NDI 4th Amdt Rules, 16 Aug 2024: codified M&A market practice in India
- Permitted in: resident \leftrightarrow PROI transfers; FOCC downstream investments (RBI MD Jan 2025)
- Modes: deferred purchase consideration, indemnification, escrow, holdback arrangements
- Conditions: structure captured in SPA; OI Rules 2022 compliant for resident acquirer
- Pricing: fair value at transfer date; deferred component subject to applicable ceiling/floor

🚩 All instruments: issue within 60 days of receipt of funds from PROI; FC-GPR within 30 days of allotment; pricing certificate from CA / SEBI MB / CWA required for unlisted entities.

Convertible Notes (CN) – FDI into DPIIT Start-Up Companies

Schedule VIII, FEMA NDI Rules 2019 | Rule 2(1)(f) Definition

Definition of Convertible Note – Rule 2(1)(f)

Instrument issued by DPIIT-recognised Startup Company evidencing receipt of money initially as debt, which is:

- (a) Repayable at the option of the holder; OR (b) Convertible into equity shares within 5 years upon occurrence of specified trigger events
- Hybrid nature: initially debt → equity on conversion; special carve-out under NDI Rules

Eligible Issuer

- DPIIT-recognised Startup Company
- Must be Indian Company (NOT LLP or Partnership)
- Sector: FDI permitted in startup's business activity
- LBC investor: PN 2/2026 BO test applies

Eligible Investor

- Person Resident Outside India (PROI)
- NRI/OCI non-repatriation: Schedule IV (no pricing norms)
- FVCI (SEBI-registered): Schedule VII
- Fund with LBC LP ≤10% + non-controlling: auto route

Minimum Amount

- INR 25 Lakhs per investor per tranche
- Multiple tranches permitted; each ≥ INR 25 Lakh
- No maximum amount prescribed
- Post-conversion: FDI sectoral cap applies

Conversion Period

- Within 5 years from date of issue of CN
- Trigger events specified in CN instrument
- Conversion price per Rule 21 (not pre-fixed)
- Cannot set conversion price below FV at conversion

Repayment Option

- CN holder may seek repayment at maturity
- Repayment in foreign currency; FEMA-compliant
- No RBI permission needed; AD Bank handles
- Maturity repayment = debt (not equity pricing norms)

Reporting – Form CN

- Form CN: within 30 days of receipt of consideration
- On conversion to equity: Form FC-GPR within 30 days
- Both via FIRMS Portal; AD Bank endorsement required
- FIA return: include CNs in foreign liability (15 July)

FCCD & FCCP – Compulsorily Convertible Instruments

Debt vs. Non-Debt Classification under FEMA NDI Rules 2019

❗ Only Fully & Compulsorily Convertible instruments qualify as Non-Debt Instruments (equity) under NDI Rules. Optionally convertible or redeemable = Debt → External Commercial Borrowing / Masala Bond framework.

FCCD – Fully & Compulsorily Convertible Debentures

- Must mandatorily convert into equity shares; no option to redeem as debt
 - Conversion price/ratio fixed upfront; must NOT be lower than FV at issuance (anti-dilution)
 - Interest during tenure: permitted; does not reclassify as debt under NDI Rules
- Pricing:
- Listed: SEBI ICDR norms | Unlisted: internationally accepted methodology; CA/MB/CWA certificate
 - Form FC-GPR: on allotment of debentures AND on conversion into equity shares

FCCP – Fully & Compulsorily Convertible Preference Shares

- Must mandatorily convert into equity within Companies Act 2013 cap of 20 years
 - No option to redeem as preference shares; failure → FEMA non-compliance
 - Dividend: subject to Companies Act Section 43/47; not capped under FEMA
- Pricing:
- Listed: SEBI ICDR | Unlisted: internationally accepted methodology; CA/MB/CWA
 - Put/call option for buyback: MUST comply with Rule 21 pricing (FV ceiling for resident buyer)
 - Form FC-GPR: on allotment of CCPS AND on conversion into equity shares

Instrument	Classification	Governing Framework	Return / Interest
Equity Shares, CCPS, CCDs, Warrants, Partly Paid	Non-Debt (Equity)	NDI Rules 2019	Market return; no cap
OCDs / OCRPS / NCDs / Bonds	Debt (ECB)	FEMA Borrowing & Lending Regulations	RBI all-in-cost ceiling
Convertible Notes (DPIIT Startups)	Hybrid → Non-Debt on conversion	NDI Rules 2019 (Schedule VIII)	Not capped; market rate

Non-Cash Consideration (Share Swap) & Non-Debt Instruments

NDI 4th Amendment Rules (Aug 2024) + Expanded 'Control' Definition (2025-26)

Share Swap – Issue / Transfer for Non-Cash Consideration (NDI 4th Amdt, Aug 2024)

Key change:

- Secondary transfer of equity instruments between resident ↔ PROI: now expressly permitted by swap of capital instruments
- Two modes: (a) Swap of equity instruments of the Indian company itself; (b) Swap of equity capital of a foreign company
- OI Rules 2022: resident party acquiring foreign equity must comply with Overseas Investment regime
- Valuation: SEBI-registered MB (India) OR investment banker registered with host country regulator (overseas)
- FOCC downstream investment via swap: also expressly permitted (RBI Master Direction, Jan 2025)
- Government approval required if Indian company is in Govt. approval sector

Non-Debt Instruments (NDI) – Scope

Definition [Rule 2(p)]:

- All equity-like instruments in which a PROI may invest under NDI Rules
- Includes: equity shares, CCPS, CCDs, warrants, partly paid shares, LLP capital, REIT/InvIT/AIF units, IDRs, CNs

Expanded 'Control' Definition (2024-26)

- NDI 4th Amdt (Aug 2024): standardised across all NDI Rules provisions
- Now includes: indirect control through layered structures, offshore vehicles, trusts, nominee arrangements
- Minority affirmative rights / veto rights over key decisions may constitute 'control'
- Entities with minority FDI holding protective rights → may be classified as FOCC

Section II

Entry Routes & Sectoral Caps

Automatic Route | Government Route (FIFP) | Prohibited Sectors | Insurance 100% | Space

FDI Entry Routes – Detailed Analysis

Automatic (>90% FDI) | Government / FIFP | Prohibited Sectors

Automatic Route – No Prior Approval Required

- PROI remits funds → Indian company issues instruments within 60 days → Form FC-GPR within 30 days of allotment
- Key sectors:
- Manufacturing 100% | IT/ITeS 100% | Telecom 100% | Insurance 100% (May 2026) | Pharma Greenfield 100%
 - Airports (new) 100% | E-Commerce Marketplace 100% | Defence ≤74% | Space (launch vehicles) ≤74%
 - LBC investments: automatic route IF BO ≤10% + non-controlling (new PN 2/2026 exception)

Government Approval Route – Foreign Investment Facilitation Portal (FIFP)

- Portal: fifp.gov.in (DPIIT-administered) | CCEA approval if FDI > ₹5,000 Cr
 - Timeline: 8-12 weeks (standard) | 12-24 weeks (defence/media) | 60-day fast track (LBC – specified manufacturing)
- Sectors (illustrative):
- Multi-Brand Retail (51%) | Defence (>74%) | Print Media – News (26%) | Mining (coal/lignite)
 - Pharma Brownfield (>74%) | Banking Private (>49%) | Satellite Manufacturing (>49%) | Broadcasting Content
 - ALL LBC direct investments unless PN 2/2026 three-limb automatic-route exception applies

PROHIBITED SECTORS (complete bar – no FDI even with Govt. approval): Lottery | Gambling & Betting | Chit Funds | Nidhi Companies | Real Estate Trading / Farmhouses | Tobacco Manufacturing | Atomic Energy | Railway Operations

Sector-wise FDI Caps – Comprehensive Table (Updated May 2026)

★ = Amended 2024-2026 | Source: DPIIT FDI Policy + NDI Rules

Sector	Cap	Route	Key Conditions (Updated May 2026)
Agriculture & Animal Husbandry	100%	Auto	Excludes narcotics; plantation activities (tea, coffee, rubber) under specific conditions
Manufacturing (all sub-sectors)	100%	Auto	Broad; no sub-sector restriction for genuine manufacturing activities
E-Commerce – Marketplace Model	100%	Auto	No inventory; B2B only; related-party sales ≤25% of marketplace turnover
Single Brand Retail Trading	100%	Auto	≥51% FDI → mandatory 30% local sourcing; DPIIT monitoring
Multi-Brand Retail Trading	51%	Govt.	State discretion; 30% sourcing from Indian SMEs; min. USD 100 Mn investment
Defence ★	100%	≤74% Auto; >74% Govt.	Modern technology / strategic reasons for >74%; LBC investors restricted
Space (Apr 2024) ★	100%	≤74% Auto; >74% Govt.	Launches/satellites ≤74% auto; spaceports 100% auto; sat. mfg. ≤49% auto; IN-SPACe licensing
Insurance (May 2026) ★	100%	100% Auto	LIC: 20% cap retained; Resident Indian as Chair/MD/CEO; entire premium invested in India
Pharma – Greenfield	100%	Auto	New manufacturing plant; no brownfield conditions
Pharma – Brownfield	100%	≤74% Auto; >74% Govt.	Existing manufacturing; includes API and formulations
Private Sector Banking	74%	≤49% Auto; >49% Govt.	Total FDI + FPI ≤ 74%; RBI licensing; 26% resident minimum shareholding
Public Sector Banking	20%	Auto	Banking Companies Act / SBI Act; Govt. majority retained
Telecom Services	100%	Auto	Full auto liberalisation; DoT licensing; national security conditions
Broadcasting – DTH / Cable	100%	≤49% Auto; >49% Govt.	Content services: Govt. route; infrastructure: auto
Print Media – News	26%	Govt.	Non-news print: 100% auto; PIB approval required
Scheduled Air Transport	100%	≤49% Auto; NRI: 100%	DGCA licensing; foreign airlines >49%: Govt. approval; security clearance required
Airports (New/Greenfield)	100%	Auto	Existing airports >74%: Govt. approval; DGCA conditions
Construction Development	100%	Auto	Townships, housing, hospitals, educational institutions; not real estate trading
Petroleum & Natural Gas	100%	Auto	★ Also 100% auto FDI: Railway Infrastructure (signalling, freight, high-speed rail) White Label ATMs Fintech / Payment Aggregators (RBI Payment Systems) ARCs (SARFAESI-registered) PSU JVs: Govt. approval may apply in specific cases
NBFCs (regulated)	100%	Auto	Specific activities; RBI/SEBI/IRDA regulated; min. capitalisation norms

Insurance Sector – 100% FDI under Automatic Route (w.e.f. 2 May 2026) ★

Insurance Laws Amendment Act 2025 | PN 1/2026 (Feb 2026) | NDI 2nd Amendment Rules, 2 May 2026

★ 'Sabka Bima Sabki Raksha Bill' – Parliament Dec 2025 → DPIIT PN 1/2026 (Feb) → NDI Schedule I Entry F.8 replaced (2 May 2026): 100% FDI, Automatic Route

Old Position (up to 1 Feb 2026)

- FDI cap: 74% under Automatic Route
- 'Indian Management & Control' (IMC) condition required
- Majority directors must be Indian citizens
- JV partners held 26%+ mandatory residual stake

New Position (w.e.f. 2 May 2026)

- 100% FDI – Automatic Route: Insurance Companies and ALL Insurance Intermediaries
- Intermediaries: brokers, reinsurance brokers, consultants, corporate agents, TPAs, surveyors, loss assessors, managing general agents, insurance repositories
- LIC: 20% auto cap RETAINED (separate LIC Act 1956)
- FPIs: also up to 100% within sectoral limit

Conditions & Safeguards

- At least ONE Resident Indian Citizen must be Chair, MD or CEO at all times
- Entire premium income to be invested within India
- Any increase in foreign shareholding: Rule 21 pricing applies
- IRDAI registration & regulatory compliance mandatory
- Hybrid bank-insurance entities: 50% revenue test; sectoral caps continue

Practical Impact & Structuring Implications

Existing JVs:

- Foreign partner can buy out Indian JV partner → 100% subsidiary; Rule 21 pricing (not above FV for resident seller)

New entrants:

- Full-ownership insurance companies now feasible; eliminates JV partner requirement

Capital deepening:

- India's insurance penetration ~4% GDP (FY25); 100% FDI expected to accelerate capital infusion into underinsured market

Reinsurers:

- 100% FDI in Indian reinsurance companies now permitted; reinsurance branches already existed

Section III

Investing Companies & Downstream FDI

Definition | FOCC Obligations | Downstream Rules | Computation of Total Foreign Investment

Downstream Investment – Rules, FOCC Obligations & 2025-26 Updates

Definition & Guiding Principle

- 'Downstream Investment' = indirect foreign investment by FOCC (Indian entity owned/controlled by PROI) into another Indian company/LLP
- Rule 23 guiding principle: downstream = indirect FI; same conditions as direct FDI (entry route, sectoral cap, pricing, reporting)
- Not counted as indirect FI: where investing Indian entity is Owned AND Controlled by resident Indian citizens → investment not treated as foreign

Categories & Route

NBFC (RBI-registered): 100% Automatic

- RBI regulation provides basis for auto-route treatment for downstream

Core Investment Company (CIC): Govt. Route

- Must comply with RBI CIC Guidelines; asset size thresholds

Other Investing Co: Govt. Route

- After first downstream investment: investing company norms apply

FOCC Obligations (incl. 2025-26)

- **Form DI (FIFP):** within 30 days of downstream investment
- **Entity becoming FOCC:** file Form DI within 30 days of acquiring FOCC status (RBI MD Jan 2025)

Funding:

- Funds **MUST** come from abroad; domestic borrowing **NOT** permitted
- **Exception:** operational companies may raise domestic debt for own operations

Instruments:

- **Share swap & deferred consideration:**

Computation of Total FI

Direct FI:

- All PROI investment in the entity counted

Indirect FI:

- Investment via FOCC → entire downstream = indirect FI
- **WOS exception:** indirect FI in subsidiary = FI% in FOCC only

Owned & Controlled (expanded 2026):

- >50% capital held by resident Indian citizens; control = appoint majority directors OR control management; now includes indirect influence via layered structures & trusts

💡 **Example: FOCC (75% FI) invests 80% in Indian Co → entire 80% = indirect FI. If FOCC is 100% WOS of foreign parent → indirect FI in Indian Co = 80% (not 100%). Rule: count what FOCC actually invested.**

📌 **FOCC restructurings, intra-group transfers & downstream investments with LBC minority partners: expanded 'control' definition (2026) requires careful beneficial ownership mapping against PML Rules 2005 thresholds.**

Section IV

Special Modes of Investment

Preferential Issue | Rights Issue & Renunciation | ADR/GDR | Foreign Depository | IDRs | FDI in LLPs

Preferential Issue, Rights Issue & Renunciation – Listed & Unlisted

Preferential Allotment to PROI

Listed (SEBI ICDR Regulations 2018):

- Price: NOT less than HIGHER of (a) avg weekly H/L closing price for 26 weeks; or (b) avg weekly H/L for 2 weeks prior to relevant date (board resolution/SR)
- Lock-in: 3 years (promoter); 6 months (non-promoter) from allotment

Unlisted:

- Special resolution under Companies Act 2013; price \geq FV per internationally accepted methodology; valuation certificate: CA / SEBI MB / CWA

Rights Issue – Listed

- Rights Entitlement (RE) traded on exchange before last application date (post-2020 regime)
- PROI can subscribe on repatriation basis (Schedule I); or renounce RE to another eligible investor
- Pricing: board discretion; generally at discount to market; must be \geq face value

Rights Issue – Unlisted

- Section 62(1)(a) Companies Act: pro-rata rights to all existing shareholders; 15-30 day acceptance period
- FEMA: price \geq FV per internationally accepted methodology
- SEBI ICDR floor price: NOT applicable to unlisted; price must be \geq face value

Renunciation of Rights Entitlement – All Permutations

- Resident \rightarrow PROI: Permitted; transferee must be eligible FDI investor; Rule 21 pricing (floor = FV for resident seller); LBC investor: PN 2/2026 BO test applies
- PROI \rightarrow Resident: Permitted; consideration paid by resident to PROI must comply with Rule 21 pricing ceiling (\leq FV); FC-TRS filing required
- PROI \rightarrow PROI: Permitted; incoming investor must be eligible FDI investor; LBC: PN 2/2026 three-limb test applies to incoming investor
- NRI/OCI (non-repatriation basis): Governed by Schedule IV; FEMA pricing norms NOT applicable; sale/renunciation proceeds credited to NRO account only

Depository Receipts – ADR, GDR, Foreign Depository & IDRs

DR Scheme 2014 | Schedule IX & X, NDI Rules 2019 | GIFT City IFSC

ADR / GDR – Indian Companies Raising Capital Abroad (DR Scheme 2014)

ADR:

- US depository bank issues DRs against underlying Indian equity; listed NYSE/NASDAQ/OTC; denominated in USD

GDR:

- Listed outside US (London, Luxembourg, Singapore, GIFT IFSC); any permissible foreign currency

Common:

- Underlying shares with SEBI-registered domestic custodian | DRs NOT counted in FDI sectoral cap at issuance; counted on conversion
- Two-way fungibility: DRs ↔ underlying shares (within SEBI reconversion limits)
- Permissible jurisdictions: FATF & IOSCO-compliant | Form DRR by domestic custodian within 30 days

Issue via Foreign Depository – Schedule IX

Sponsored DRs:

- Indian co. deposits shares with domestic custodian → foreign depository issues DRs to overseas investors

Unsponsored DRs:

- Foreign depository acquires existing shares from secondary market; no company participation
- GIFT City IFSC: IFSCA regulates; NSE IFSC / BSE IFSC listing; listing without mandatory domestic listing possible

IDRs – Foreign Companies Raising Capital in India (Schedule X)

- Domestic depository (SEBI-registered) issues IDRs in INR against underlying foreign company shares
- Eligibility (foreign issuer):
- Listed in home country ≥ 3 years; pre-issue capital ≥ USD 50 Mn; avg turnover ≥ USD 500 Mn; net worth ≥ USD 100 Mn
 - Two-way fungibility: IDRs ↔ underlying shares after 1 year (SEBI conditions); Form IDR within 30 days

Foreign Direct Investment in LLPs

Schedule VI, NDI Rules 2019 | The Triple Test | Restrictions | Reporting

📌 **Auto Route Triple Test:** FDI in LLP is under automatic route **ONLY** if **ALL THREE** conditions are **SIMULTANEOUSLY** met: (a) 100% FDI permitted; (b) under Automatic Route; (c) **NO** FDI-linked Performance Conditions. Failure in **ANY ONE** → Government Approval required.

Eligible Investors in LLPs

- Foreign company, body corporate, PROI entity
- NRI / OCI: repatriation basis (Sch. VI) or non-repatriation (Sch. IV)
- FVCI: permitted if sectoral triple-test satisfied
- FPI: **CANNOT** invest in LLP capital (expressly excluded)
- LBC investors: PN 2/2026 BO test applies

Capital & Profit Sharing

- Capital contribution = FDI instrument (no shares / debentures in LLP)
- LLP Agreement specifies contribution ratio & profit-sharing ratio
- Profit sharing need not mirror capital ratio; commercial basis permitted
- No debentures, CCPs, CNs or equity-like instruments in LLPs
- LLPs **CANNOT** raise ECB – express statutory bar

Reporting

Form LLP-I:

- Receipt of capital contribution from PROI – within 30 days

Form LLP-II:

- Transfer of capital contribution or profit share – within 30 days

Downstream by FOCC-LLP:

- Form DI; funds from abroad; 100% auto FDI sectors only (no conditions)

Key Restrictions – LLP Cannot:

- Raise ECB | Issue NDIs (shares, warrants, CNs) | Receive FDI in prohibited sectors
- Agricultural sector, real estate: prohibited sector LLP restrictions apply equally
- Insurance: 100% FDI is for insurance companies (not LLP structure); LLP triple-test fails for insurance
- Defence LLPs >74%: Govt. approval needed even though defence permits 100% FDI

📌 **Conversion:** LLP with foreign investment may convert into a company (or vice versa) under applicable provisions; FEMA / FIRMS reporting obligations continue post-conversion.

Section V

OCI / NRI Investment Modes

Repatriation vs Non-Repatriation | Schedule IV | Distinction from PROI FDI

OCI & NRI – Repatriation vs Non-Repatriation Basis Comparison

Parameter	FDI (PROI Repatriation)	NRI/OCI – Repatriation (Sch. III/VI)	NRI/OCI – Non-Repatriation (Sch. IV)
Treated as FDI?	Yes – counted in sectoral cap	Yes – treated at par with PROI	NO – NOT treated as FDI
Eligible Instruments	Equity, CCPS, CCDs, warrants, partly paid, CNs, LLP capital	Listed equity (Sch. III); LLP capital (Sch. VI)	Capital instruments, units, CNs – not as FDI
Pricing Guidelines	Rule 21 – full pricing matrix	Rule 21 applies	Pricing guidelines DO NOT apply
Repatriation	Fully repatriable: proceeds + dividends	Fully repatriable	NOT repatriable; NRO account only
Bank Account	NRE or FCNR (foreign currency)	NRE account	NRO account only
Downstream Effect	Creates FOCC if >50% ownership/control	Creates FOCC (treated as PROI)	Does NOT create FOCC; treated as resident
FEMA Reporting	FC-GPR / FC-TRS via FIRMS Portal	FC-GPR / FC-TRS as applicable	FC-TRS for transfers; no FDI reporting for issue
LLP Investment	Yes – Schedule VI; triple test applies	Schedule VI; triple test	Schedule IV; NOT counted as FDI; no triple test

Section VI

Compliance – Pricing, Valuation & Reporting

Rule 21 Pricing Matrix | Valuation Methodologies | FIRMS SMF | Schedules to NDI Rules

Pricing Guidelines – Rule 21, FEMA NDI Rules 2019

Complete Transaction Matrix | Aug 2024 & May 2026 Amendments

Transaction	Type	Pricing Standard	Certifying Authority	Note
A. Issue by Indian co. to PROI	Listed	SEBI ICDR Regulations 2018; Takeover Code (if applicable)	SEBI-registered MB	Relevant date = board resolution/SR
A. Issue by Indian co. to PROI	Unlisted	≥ Fair Value; internationally accepted methodology; arm's length	CA / SEBI MB / CWA	Valuation certificate; DCF/NAV/comparables
A. Issue – Convertible instrument	Any	Price/formula fixed at issuance; conversion price ≥ FV at issuance	CA / MB / CWA	Cannot re-price downward at conversion
B. Transfer: Resident → PROI	Listed	SEBI ICDR / Takeover Code pricing	SEBI-registered MB	Floor = market price; cannot be below SEBI floor
B. Transfer: Resident → PROI	Unlisted	NOT LOWER than FV (floor)	CA / SEBI MB / CWA	Resident seller gets ≥ fair value
C. Transfer: PROI → Resident	Listed	SEBI guidelines	SEBI-registered MB	Ceiling = market price
C. Transfer: PROI → Resident	Unlisted	NOT HIGHER than FV (ceiling)	CA / SEBI MB / CWA	Resident buyer pays ≤ fair value
D. Swap (Aug 2024)	Any	SEBI MB (India) OR IB registered with overseas regulator	Dual valuation	Govt. approval if approval-route sector
E. Deferred Consideration Rule 9-A	Any	Price fixed at transfer date; deferred subject to ceiling/floor	CA / MB	Captured in SPA; OI Rules compliant
F. PROI → PROI non-repatriation	Any	Pricing guidelines NOT applicable	—	Schedule IV; market / negotiated price
G. Subscription to MoA	Any	At face value	—	Inapplicable at incorporation stage
H. Share Warrants	Any	Full price fixed upfront; ≥ FV; 25% paid upfront	CA / MB / CWA	Conversion within 18 months; no repricing
I. Partly Paid Shares	Any	Full price upfront; 25% upfront; balance within 12 months	CA / MB / CWA	FC-GPR at allotment and each call

Valuation Methodologies – 'Internationally Accepted' Under Rule 21

Applicable to unlisted equity instruments | FEMA NDI Rules 2019

What Constitutes 'Internationally Accepted Methodology'?

- Rule 21 requires 'internationally accepted pricing methodology on arm's length basis' – no single method mandated
- Accepted methods: DCF, NAV, Comparable Company Multiples, or a combination
- Valuation certificate must be from: Practising CA (ICAI); OR SEBI-registered MB; OR Practising CWA
- Swap transactions: SEBI-registered MB (India side) OR Investment Banker registered with overseas host-country regulator

DCF – Discounted Cash Flow

Primary method for going-concern businesses

- Projects free cash flows over 5-7 years; terminal value via Gordon Growth or exit multiple
- Discount rate: WACC (cost of equity + cost of debt, capital-structure weighted)
- Equity value = enterprise value less net debt

FEMA use:

- Primary for unlisted cos with positive cash flows and predictable revenue
- Preferred for mature businesses; cross-checked with NAV

NAV – Net Asset Value

Asset-based; relevant for holding / investment / NBFC / real estate cos

- Fair value of assets less FV of liabilities = NAV per share
- Assets must be revalued to current FV (not book values)
- Intangibles, goodwill: critical for tech/IP-intensive companies

FEMA use:

- Primary for asset-heavy businesses (infra, real estate, holdings)
- Sole method for pure holding companies with minimal operations

Comparable Company Multiples

Market-based using listed peer companies

- Common multiples: EV/Revenue, EV/EBITDA, P/E, P/BV
- Also: comparable M&A transaction multiples in same sector
- Requires identification of truly comparable peers; size/liquidity adjustments

FEMA use:

- Strong cross-check / secondary method in most valuations
- Particularly relevant for early-stage startups (EV/Revenue)
- Discounts: marketability 20-30%; minority stake 10-20% as applicable

FIRMS Portal & Single Master Form – Reporting Framework

firms.rbi.org.in | SMF launched 1 Sep 2018 | Updated to May 2026

FIRMS Portal Overview

- **Web-based platform; replaced eBiz portal | All FDI reports via SMF (Single Master Form)**
- **AD Bank eKYC verification mandatory; AD Bank verifies & endorses all filings before RBI submission**
- **2026: additional DPIIT reporting for auto-route LBC investments (BO ≤10%) per PN 2/2026 – filed separately on FIFP portal**

FC-GPR

Issue of capital instruments by Indian company to PROI | 30 days of allotment

FC-TRS

Transfer of capital instruments between resident & non-resident (either direction) | 60 days of transfer or remittance/receipt

LLP-I

Receipt of capital contribution by Indian LLP from PROI | 30 days

LLP-II

Transfer of capital contribution or profit share in LLP | 30 days

CN

Receipt of consideration for Convertible Notes by DPIIT Startup | 30 days of receipt

ESOP

Issue of ESOPs / sweat equity to non-resident employees or directors | 30 days of issue

DRR

Issue / transfer of Depository Receipts by domestic custodian | 30 days of close of issue/programme

DI

Downstream investment by FOCC / Investment Vehicle into Indian co/LLP | 30 days of investment (or 30 days of becoming FOCC)

InVi

PROI investment in Investment Vehicle (REIT / InvIT / AIF) | 30 days from subscription

FLA

Annual Return on Foreign Liabilities & Assets – all entities with outstanding FDI/ODI | By 15 July each year

Schedules to FEMA NDI Rules 2019 – Complete Reference

Ten Schedules | Updated May 2026

Sch.	Schedule Title	Key Coverage (Updated May 2026)
I	Purchase/Sale of Capital Instruments by PROI	Core FDI schedule; equity, CCPS, CCDs, warrants, partly paid; pricing Rule 21; Schedule I Entry F.8 updated May 2026 (insurance 100% FDI)
II	FPI – Investment in Listed Securities	SEBI-registered FPIs buying/selling listed capital instruments on Indian exchanges; SWAGAT-FI framework (Aug 2025)
III	NRI/OCI – Repatriation Basis (Listed)	NRI/OCI purchase/sale of listed Indian company capital instruments on repatriation basis through recognised exchanges
IV	NRI/OCI – Non-Repatriation Basis	Capital instruments, CNs, LLP capital on non-repatriation basis; NOT counted as FDI; pricing norms inapplicable; NRO account
V	Other Securities (Govt. Securities / T-Bills)	FPIs, NRIs, Foreign Central Banks, MDBs: Govt. securities, T-Bills; MDB exemption clarified May 2026
VI	Investment in LLPs	FDI in LLPs; capital contribution; triple test for auto route; Form LLP-I & LLP-II; PN 2/2026 BO test applies
VII	FVCI – Foreign Venture Capital Investors	SEBI-registered FVCIs; invest in equity/instruments of VCUs; pricing dispensation; PN 2/2026 BO test for LBC-linked FVCIs
VIII	Investment Vehicles (REIT / InvIT / AIF)	PROI investment in SEBI-regulated pooled investment vehicles; Form InVi; SWAGAT-FI applies (Aug 2025)
IX	Depository Receipts (ADR / GDR)	Issue/transfer of DRs; domestic custodian; DR Scheme 2014; Form DRR; GIFT City IFSC provisions
X	Indian Depository Receipts (IDRs)	Foreign cos issuing IDRs through SEBI-registered domestic depository; listed on Indian exchanges in INR; two-way fungibility post 1 year

Section VII

Analytical Perspectives & Practical Issues

Structuring Pitfalls | PN 2/2026 Case Study | FDI vs FPI | Compliance Checklist

Common FDI Structuring Issues & Compliance Pitfalls

Frequent Non-Compliance Areas | AD Bank & FEMA Enforcement Focus

01 Pricing Violation – Most Common

- Issue: unlisted equity issued to PROI below fair value (startup rounds, CNs with pre-fixed low conversion price)
- Risk: Rule 21 contravention; compounding under Section 15 FEMA; delay penalty 9% p.a.
- Fix: valuation certificate BEFORE allotment; conversion formula at issuance \geq FV at issuance

02 FC-GPR / FC-TRS Filing Delay

- Issue: FC-GPR not filed within 30 days of allotment; FC-TRS not filed within 60 days
- Risk: Late Submission Fee (LSF) per RBI; AD Bank penalty; FEMA prosecution if willful
- Fix: internal compliance calendar; AD Bank diarised reminders; FIRMS portal auto-calculations

03 Downstream Funding Violation

- Issue: FOCC borrows domestically and uses proceeds for downstream investment in Indian subsidiary
- Risk: Section 3(a) FEMA contravention; lending bank also exposed; RBI notice to investee
- Fix: downstream funds must come from abroad; operational companies may raise domestic debt for own operations

04 LBC Beneficial Ownership Mapping Failure

- Issue: Investor has LBC BO $>10\%$ or LBC BO exercises control but invests under automatic route
- Risk: post-PN 2/2026 contravention; divestment/regulatory action; criminal liability possible
- Fix: map full BO structure against PML Rules 2005 thresholds BEFORE remitting funds

05 FLA Non-Filing

- Issue: company with FDI outstanding fails to file FLA Return by 15 July
- Risk: FEMA penalty; inability to receive further FDI (AD Bank flags); RBI follow-up notices
- Fix: calendar entry; assign CS / CFO ownership; brief new FDI recipients on FLA obligation

06 FOCC Misclassification

- Issue: entity acquired by foreign investor (minority with veto rights) not reclassified as FOCC
- Risk: investments made without sector checks; FEMA enforcement; ROC-level complications
- Fix: review SHAs for control-creating rights; reclassify where applicable; file Form DI

PN 2/2026 – Beneficial Ownership Case Study

How the New Framework Works for Global PE/VC Funds in Practice

Background – US PE Fund Seeking to Invest in Indian IT Company

- US-headquartered PE Fund (Delaware LP) seeks to invest USD 50 Mn in Indian IT company (ICo)
- LP composition: 55% US institutional investors | 20% European pension funds | 15% Chinese SWF (CSWF) | 10% Middle-Eastern family office
- CSWF: no management role, no advisory board seat, no investment veto rights

Analysis Under PN 3/2020 (Old Framework)

Issue:

- CSWF (China – LBC) holds 15% LP interest in the Fund
- 'Beneficial owner' UNDEFINED → lawyers conservatively advise Govt. approval needed
- Govt. approval in IT sector: 12-24 weeks

Result:

- Investment delayed or abandoned; Fund unable to participate in Indian round on competitive timeline

Analysis Under PN 2/2026 (New Framework)

CSWF = 15% LP interest – exceeds 10% PML Rules threshold:

- Step ①: 15% > 10% → Condition ① FAILS → Government approval STILL required

Modified scenario (CSWF = 8% LP):

- Step ①: 8% ≤ 10% ✓ | Step ②: CSWF has no governance role → no control ✓
- Step ③: CSWF has no direct interest in ICo → no ultimate effective control ✓

Result (modified scenario): Automatic Route – major improvement for global funds

Key Takeaways for Fund Managers & GPs

LP mapping required:

- Identify all LBC LPs → compute LP interest % → if any LBC LP > 10% → Govt. route OR reduce LP stake below 10% before India investment

Documentation:

- Certificate from GP confirming LBC BO ≤ 10% + no control; supported by LP agreement & KYC records; investee reports BO details to DPIIT

Ongoing monitoring:

- Any future LP change increasing LBC BO above 10% → fresh DPIIT approval needed before further investment

FDI vs. FPI – Comparative Analysis & Reclassification

SEBI FPI Regulations 2019 | RBI Reclassification Framework Nov 2024

Parameter	FDI	FPI	Key Implication
Threshold	≥10% of paid-up equity (fully diluted) of listed co; any % in unlisted	<10% of paid-up equity in listed company	The 10% line is the legal demarcation
Governing framework	FEMA NDI Rules 2019 (Schedule I)	SEBI FPI Regulations 2019; Schedule II NDI Rules	Separate regimes; different compliance obligations
Sectoral cap	Counted towards FDI sectoral cap	NOT individually counted; aggregate FPI counted separately	FDI + FPI aggregate = total foreign investment
Pricing on transfer	Rule 21 applies; floor/ceiling for resident transactions	Market price on exchange; no FEMA pricing restriction	FDI = illiquid (unlisted); FPI = highly liquid
Board representation	Director nomination possible; strategic investment	No board representation; passive typically	FDI = strategic; FPI = financial
Beneficial ownership	PN 2/2026 LBC BO test applies	SEBI BO norms; PMLA compliance	Both regimes now have BO transparency
Reclassification	On crossing 10%: RBI Nov 2024 framework (investor's choice)	FPI position ≥10% triggers reclassification option	Reclassification is voluntary but irreversible
SWAGAT-FI (Aug 2025)	Not applicable	Streamlined onboarding for low-risk FPIs	Faster KYC; reduced documentation for eligible FPIs

FDI Compliance Checklist – Practical Reference

For Practitioners, CFOs & Company Secretaries | Pre-Investment | Post-Investment | Ongoing

Pre-Investment

- Confirm entry route (auto/Govt.) for the specific sector and FDI cap remaining
- Map investor: PROI eligibility; LBC BO test (PML Rules 2005 – ≤10% + non-controlling)
- Confirm instrument type: equity / CCPS / FCCD / CN / warrant / partly paid
- Pre-issuance fair value certificate from CA / MB / CWA (unlisted entities)
- Board resolution authorising allotment at price ≥ FV
- If LBC BO involved: document BO structure; obtain DPIIT approval OR confirm PN 2/2026 auto-route eligibility
- Convertible instrument: fix price / formula upfront; confirm ≥ FV at issuance
- Govt. route: file on FIFP; await approval BEFORE receiving funds
- Startup CN: confirm DPIIT recognition certificate current and valid

Post-Investment

- Receive inward remittance via banking channel; obtain FIRC from AD Bank
- Allot instruments within 60 days of receiving funds from PROI
- File Form FC-GPR via FIRMS Portal within 30 days of allotment
- AD Bank endorsement on FC-GPR before RBI submission
- Issue share certificate / debenture certificate / LLP contribution receipt
- Update MCA: Form PAS-3 (allotment) / Form MGT-14 (special resolution)
- LBC auto-route case: report BO details to DPIIT separately per PN 2/2026
- Assess if entity is now FOCC: if yes, file Form DI; future downstream = FDI norms
- Register on FIRMS portal if first FDI transaction

Ongoing / Annual

- File Annual FLA Return by 15 July each year (all entities with outstanding FDI/ODI)
- Monitor FDI sectoral cap headroom; flag approaching-limit situations early
- On any transfer: FC-TRS within 60 days; pricing certificate
- Downstream investments by FOCC: Form DI within 30 days; source funds from abroad
- Track LBC LP/BO changes in investing fund; re-assess PN 2/2026 compliance
- Monitor convertible instrument timelines: warrants 18 months; CNs 5 years; CCPS 20 years
- Monitor FEMA notifications, RBI circulars, DPIIT Press Notes regularly
- Annual FEMA compliance audit: FC-GPR, FC-TRS, FLA, DI, CN filings reviewed
- FLA cross-check: ensure FLA matches FC-GPR / FC-TRS and audited balance sheet

Section VIII

Regulatory Amendments – 2024 to 2026

Complete chronological digest | Analytical commentary on each amendment

Key Regulatory Amendments – April 2024 to August 2025

Apr 2024 | Space Sector – 100% FDI

NDI 3rd Amdt Rules (16 Apr 2024): 100% FDI in space sector with sub-sector caps. Launch vehicles & satellites: ≤74% auto; spaceports: 100% auto; satellite manufacturing: ≤49% auto, 49-74% Govt., >74% prohibited. IN-SPACe/DPIIT licensing required. Consequential to Space Policy 2023.

Nov 2024 | RBI: FPI-to-FDI Reclassification Framework

RBI framework (11 Nov 2024): FPI holding ≥10% of paid-up equity (fully diluted) = FDI threshold. Investor may reclassify entire FPI holding as FDI (irreversible). Process: notify custodian → freeze further FPI purchases → Govt. approvals (if required) → FC-GPR. Not permitted in FDI-prohibited sectors.

Jun 2025 | PN 2/2025 – Bonus Shares in Prohibited Sectors

DPIIT PN 2/2025 (7 Apr; effective 11 Jun 2025): Indian companies in FDI-prohibited sectors may issue bonus shares to existing non-resident shareholders from capitalisation of free reserves / securities premium. Shareholding pattern must remain UNCHANGED. NDI Rule amendment gave statutory backing retrospectively.

Aug 2024 | NDI 4th Amendment Rules (Key Changes)

(i) Secondary share swaps (resident ↔ PROI): expressly permitted for first time; (ii) Rule 9-A inserted: deferred consideration / escrow / holdback codified; (iii) FPI aggregate up to sectoral cap: no Govt. approval if no transfer of ownership/control; (iv) 'Control' standardised across all NDI Rules provisions; (v) White Label ATMs: 100% auto route.

Jan 2025 | RBI Master Direction Updated

(i) Deferred consideration / share swap for FOCC downstream: expressly available; (ii) Entity becoming FOCC: file Form DI within 30 days; (iii) Convertible instrument issuance: company must ascertain FDI headroom before allotment; (iv) Deferred payment / escrow / holdback to be captured in SPA or transfer agreement.

Aug 2025 | SEBI SWAGAT-FI Framework

SEBI SWAGAT-FI (1 Aug 2025): Streamlined onboarding for low-risk FPIs; simplified KYC; faster demat account opening; reduced documentation; expanded eligible investor categories (certain SWFs, university endowments). Covers FPI registration under SEBI FPI Regulations 2019 and investment in REITs, InvITs, AIFs.

Key Regulatory Amendments – 2026 ★ Most Recent

PN 1/2026 | PN 2/2026 | NDI 1st & 2nd Amendment Rules | Expanded Control Definition

★ 2026 DUAL POLICY PIVOT: Liberalisation (insurance 100% auto FDI) + Structural Reform (LBC beneficial ownership defined) – most significant overhaul since PN 3/2020

Feb 2026 | PN 1/2026 – Insurance 100% FDI (DPIIT)

DPIIT PN 1/2026: 100% FDI in insurance companies and intermediaries under auto route. Consequential to Insurance Laws Amendment Act 2025 ('Sabka Bima Sabki Raksha Bill') enacted Dec 2025. LIC: 20% cap retained. Resident Indian as Chair/MD/CEO required. Entire premium to be invested in India.

1 May 2026 | NDI 1st Amdt. Rules 2026 – LBC Framework

Ministry of Finance gazette notification: Rule 6(a) NDI Rules substituted. LBC trigger changed from investor 'located in' LBC to BO 'vested in' LBC (captures indirect structures). Three-limbed auto route test codified. Multilateral bank clarification inserted. 'Ultimate effective control' through layered structures, trusts, offshore vehicles codified.

2026 Ongoing | Expanded FOCC 'Control' – Indirect Influence

Post-PN 2/2026: 'control' now includes indirect influence through layered offshore vehicles, trust structures and nominee arrangements. Minority affirmative rights / veto rights may constitute control. FOCCs must apply FDI rules to all restructurings, intra-group transfers and downstream investments.

15 Mar 2026 | PN 2/2026 – LBC Beneficial Ownership (DPIIT)

Fundamental recalibration of PN 3/2020: (i) 'BO' defined per PML Rules 2005 [$\geq 10\%$]; (ii) Three-limbed auto route test; (iii) Auto-route cases → DPIIT reporting required; (iv) Future LBC BO change → fresh approval; (v) 60-day fast track: capital goods, electronics, polysilicon, ingot-wafer; (vi) Multilateral banks: no single country = BO.

2 May 2026 | NDI 2nd Amdt. Rules 2026 – Insurance 100%

Schedule I Entry F.8 replaced: 100% foreign investment (FDI + FPI combined) in: (a) Indian insurance companies; (b) all insurance intermediaries. LIC: 20% auto cap retained. 50% revenue test for hybrid bank-insurance entities. All NDI pricing (Rule 21) and reporting (FC-GPR) compliance applicable.

Budget 2026-27 | FDI Policy Outlook & Model BIT

Revised India Model BIT framework announced; balance investor protection with regulatory rights. Total FDI since Apr 2000: USD 1.1 Tn. FDI inflows FY24-25: ~USD 80.62 Bn. India targets USD 100 Bn FDI destination by 2027. Single investment window (FIFP rationalisation) and sector-specific investment promotion councils proposed.

India FDI Policy Evolution – Key Liberalisation & Reform Timeline

2019 to 2026 | Green = Liberalisation | Red = Tightening | Teal = Structural Reform

Year	Policy Change	From	To (Current)	Type
2019	NDI Rules 2019 enacted	Fragmented FEMA regulations	Consolidated single statute with 10 Schedules	Simplification
2020	PN 3/2020 – Land Border	No LBC restrictions	All LBC entities/citizens → Govt. approval	Tightening (security)
2021	Insurance FDI cap raised	49% auto route	74% auto route	Liberalisation
2021	Defence FDI cap raised	49% cap	74% auto; 100% Govt. possible	Liberalisation
2022	OI Rules 2022 notified	FEMA (Transfer/Issue of Foreign Securities) Regulations	Comprehensive Overseas Investment framework	Simplification
Apr 2024	Space sector opened	Prohibited (strategic sector)	100% FDI with sub-caps; IN-SPACE framework	Major Liberalisation
Aug 2024	NDI 4th Amdt – Swap/Deferred	No express FEMA provision	Share swaps & deferred consideration codified	Facilitation
Nov 2024	FPI→FDI Reclassification	Ad hoc; no formal framework	RBI operational framework; streamlined process	Facilitation
Jun 2025	Bonus shares – prohibited sectors	Not permitted	Permitted; no new FDI inflow; shareholding unchanged	Clarification
Mar 2026	PN 2/2026 – LBC BO reform	Blanket Govt. approval; BO undefined	BO defined (PML Rules); ≤10% non-controlling → auto	Structural Reform
May 2026	Insurance 100% FDI (NDI 2nd Amdt)	74% auto route	100% auto; LIC 20%; resident Chair/MD/CEO	Major Liberalisation

Thank You

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CFO World – CFO Leadership Forum

FICAF – Federation of Indian CA Firms

Disclaimer: Prepared for educational/seminar purposes only. Updated to NDI Rules 2019 as amended through May 2026, including NDI 1st & 2nd Amendment Rules 2026, PN 1/2026 and PN 2/2026, RBI Master Direction Jan 2025 and DPIIT FDI Policy. Does not constitute legal or professional advice. Refer to latest gazette notifications, FEMA regulations, RBI Master Directions and DPIIT Press Notes; consult qualified advisors for specific transactions.