Inbound & Outbound Investments

13th February , 2020

Inbound Investments

Overview

Inbound Investments

- FDI Policy Legal Framework & Regulators
- Typical Foreign Investment Windows
- FDI Policy at a glance
- Eligible Investors

Foreign Funding Sources

- Typical investment instruments
  - Equity
  - Preference shares / Debentures
  - ESOP
- External Commercial Borrowing
- Overview
  - Rupee Denominated bond
  - FCCBs
  - Convertible Notes
  - Start-ups
- FDI in LLP

Existing FEMA 20R and Acquisition of immovable property in India reclassified w.e.f 17th October 2019

FEMA (Debt Instruments) Regulations 2019 + FEMA (Non-debt instruments) Rules 2019 + Modes of payment and reporting of (NDI) Regulations 2019 = Existing FEMA 20R & Acquisition of immovable property

FDI policy regulators

- Department For promotion of Industry and Internal trade (DPIIT)
- Reserve Bank of India (RBI)
- Securities Exchange Board of India (SEBI)
- Administrative Ministries
- The above regulations came into effect from 17th October 2019

Broad category of Non-debt instruments covered under Non-Debt Instrument Rules 2019

- Equity instruments in public, private, listed and unlisted
- Capital contributions in LLP
- All Instruments recognized in FDI policy notified from time to time
- Investments in units of AIF's. REITs and Invits.
- Investments or units of ETF which invest more than 50% in equity

Broad category of instruments covered under Debt – Instrument Regulation 2019

- Dated government securities
- Unit of domestic funds or ETF having less than 50% in equity
- Security receipts issued by ARC, debt instruments issued by banks
- Credit enhanced bonds
- Listed non-convertible/redeemable preference shares or debentures in case of amalgamation

Typical Foreign Investment Windows

FDI

The Scheme

- Automatic route
- Subject to sectoral caps.
- Allows NRI Repatriable Investment.
- Debt Instruments
- Non- Debt Instruments
- Approval of CG in certain cases

Regulator

DPIIT/ CG/RBI

Typical Foreign Investment Windows

FPI

The Scheme

- Two categories prescribed by SEBI.
- For Stock Market Purchases/ Private placements of securities listed / to be listed
- Individual limit of - 10%. Entities having common ownership are considered as one.
- W.e.f 1st April 2020, Aggregate ceiling is pegged at applicable sectoral caps.
- However the aggregate limit can be reduced to a lower threshold limit of 24% or 49% or 74% with the approval of special resolution passed by the members. Once its has been reduced, the same can also be increased to 49% or 74% or the sectoral cap .
- In case of prohibited sectors the aggregate limit is fixed at 24%
- In case of breach of celling limit, a 5 day window is provided to disinvest.

Regulator

DPIIT /Ministry/ CG/SEBI/RBI

Typical Foreign Investment Windows

NRI / OCI

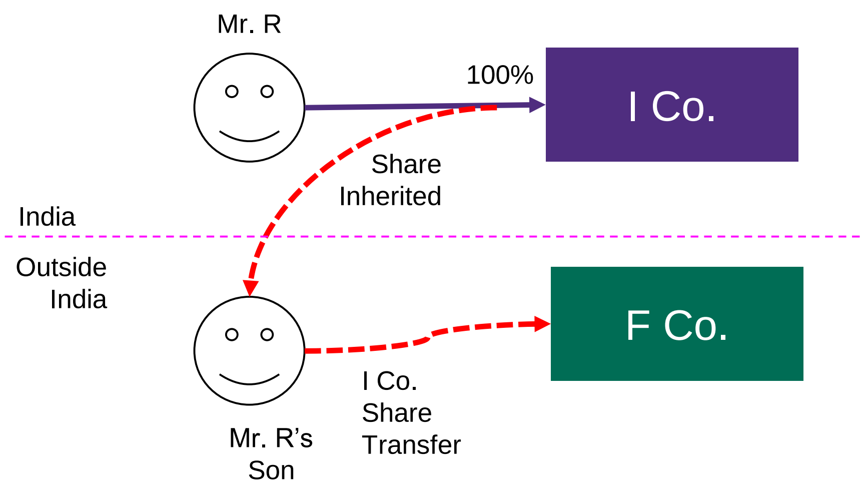
The Scheme

- **Repatriable Investment –**
  - Equity instruments of a listed Indian company.
  - Individual - 5%/ Aggregate ceiling - 10% ; extension - 24%
  - units of domestic mutual funds
  - Shares/bonds in public sector enterprise
  - Subscription to NPS
  - Subject to FDI policy
- **Non-Repatriation –**
  - Covers NRI including a Company, Trust, Partnership firm incorporated outside India and owned and controlled by such non - residents
  - Equity instruments, units of investment vehicle, capital of LLP
  - All sectors except real estate, Nidhi & agriculture

Regulator

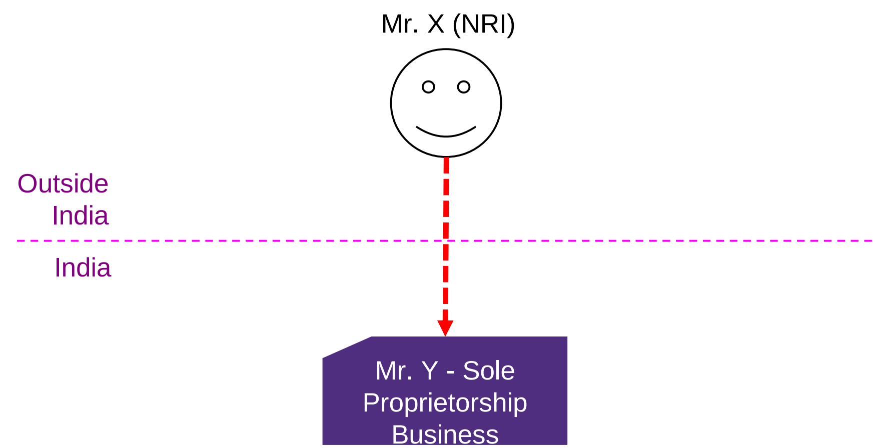
DPIIT/Ministry/ CG

Case Study



- Mr. R held 100% shares of I Co.
- Mr. R's son (who is a non-resident) inherited shares of I Co. from his father
- F Co. (Company held by NR) has agreed to purchase shares of I Co. from Mr. R's son at agreed consideration and credit his foreign bank account

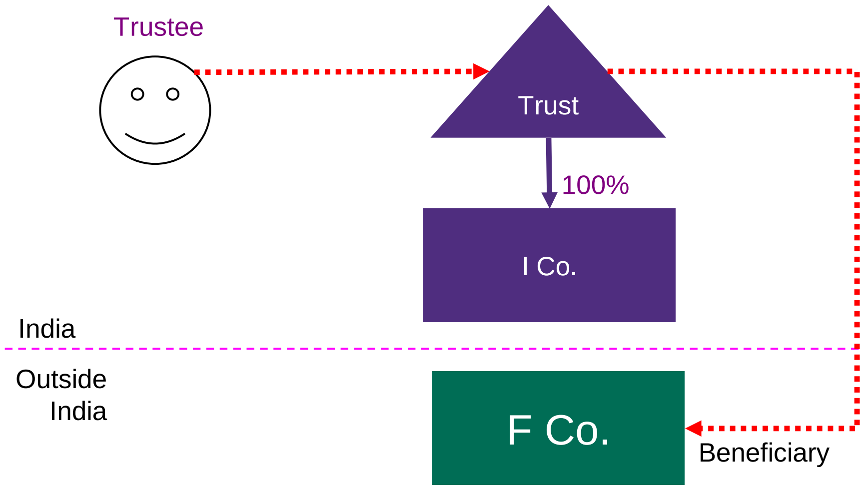
Whether the above transaction is allowed?



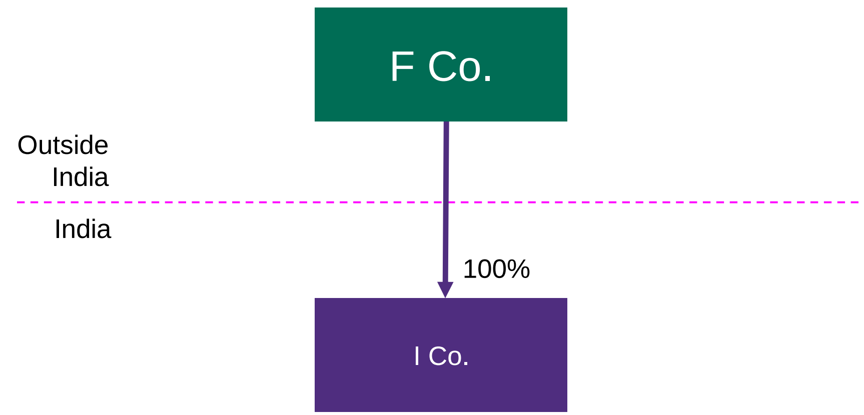
- Mr. X (NRI) is planning to invest from overseas in Mr. Y (his friend resident in India) sole proprietorship business. Is it allowed?
- Whether the answer changes if Mr. X invest from his NRO account?
- Whether Mr. X is also allowed to invest in sole proprietorship business by way of Co. Incorporated outside India wholly owned by him?

Whether answer will differ if Mr. Y deals in real estate?

Case Study



- Whether I Co. is FDI company or not?
- What will be the nature of FDI in case shares are distributed by Trust on dissolution?



- F Co. incorporated I Co. on 02-Jun-2018, incurred following expenses:
  - USD 10,000 to consultant on 05-Jan-2017 for business analysis in India;
  - USD 10,000 to consultant on 31-Apr-2018 for incorporation;
  - USD 10,000 to auditor for audit fees for FY 2018-19 in Feb-2019 as I Co., yet to commence operation

What is allowed to be capitalized in March 2019?

Typical Foreign Investment Windows

Other NR Investors

The Scheme

- This window has been introduced w.e.f 17Th October 2019 by way of Non-debt instruments Rules 2019
- Other NRI's include Sovereign Wealth Funds (SWFs), Multilateral Agencies, Endowment Funds, Insurance Funds, Pension Funds and Foreign Central Banks.
- Investment is subject to terms and condition specified by the RBI and SEBI.
- The amount of consideration shall be paid out of inward remittance from abroad through normal banking channels.

Regulator

DPIIT/Ministry/ CG

Per Finance Bill 2020, the investment income earned by the SWFs is exempted form income tax by virtue of the provisions contained in section 10 (43) of the Income Tax Act. Investment income includes interest income, dividend income, long-term capital gain. The exemptions are subject to certain conditions specified therein.

Typical Foreign Investment Windows

FVCI

The Scheme

- Investment in unlisted ventures with exit on listing
- Equity or Equity linked instruments/ Debt instruments of an Indian Company identified in 10 sectors, Start up Company
- Category one AIF

Regulator

SEBI/ RBI/CG

LLP

The Scheme

- Contribution to the Capital/ Acquisition or transfer of profit shares
- Automatic route: Permissible in sectors where 100% FDI allowed under automatic route and there are no FDI linked performance conditions
- Pricing guidelines applicable

Regulator

RBI/CG

FDI Policy at a Glance

Permitted

100% FDI permitted without approvals in most sectors

Approval required for Licensed Industries

- Hazardous Chemicals
- Defence Equipment

Restricted

Some Sectors	FDI Cap
Private Banking	74%
Civil Aviation	100%
Insurance	49%
Multi Brand Retail	51%
Print Media	26%
Cable Networks	100%
Defence sector	49%
Scheduled/ Regional Air transport service	49%

Prohibited

- Agriculture (some exceptions)
- Gambling & Lottery
- Real estate (except construction development)
- Tobacco products

Govt. sector only

- Railways (Other than infrastructure covered under automatic route)
- Atomic Energy

Eligible Investors

- Person registered outside India
- Entity Incorporated Outside India

Regulated / Restricted Investors

- Person or entity of Pakistan / Bangladesh
  - prior Ministry of Home Affairs (MHA) and DPIIT approval

- NRIs / Citizens of Nepal and Bhutan
  - investment in free foreign exchange through normal banking channels

- Non-resident / NRI / OCI investment on repatriation basis in capital of Sole Proprietorship / Partnership
  - RBI approval
  - Prohibited sectors : agricultural /plantation, real estate, print media

Downstream Investments

- Downstream investment by Foreign Owned and Controlled Indian Entity (FOCE) to be reported to DIPP in Form DI within 30 days of such investment by the FOCE

- Downstream investment by an LLP permissible in sectors where foreign investment up to 100% is permitted under automatic route and there are no FDI linked performance conditions

- Downstream investment by FOCE is considered as Indirect Foreign Investment. Indian entity receiving Indirect Foreign Investment is required to comply with entry route, sectoral caps, pricing guidelines and other FDI linked performance condition for foreign investment

- Onus on compliance with the first level Indian company making downstream investment and annual compliance certificate required from statutory auditor of such first level company and included Directors Report

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Downstream Investments – Important Definition

Indirect Foreign Investment	• Downstream Investment received from Indian entity which is: ✓ received FDI and which is not owned and controlled by non-resident; or ✓ Investment vehicle whose sponsor or manager or investment manager are owned and controlled by non-resident
Company controlled by Resident Indian Citizens	Where “resident Indian citizens beneficially own more than 50% of the equity interest in the Indian investing company, either directly or through Indian companies”
Control	Right to appoint a majority of directors or to control the management or policy decisions including by virtue of their shareholding or management rights or shareholder agreements or voting agreements

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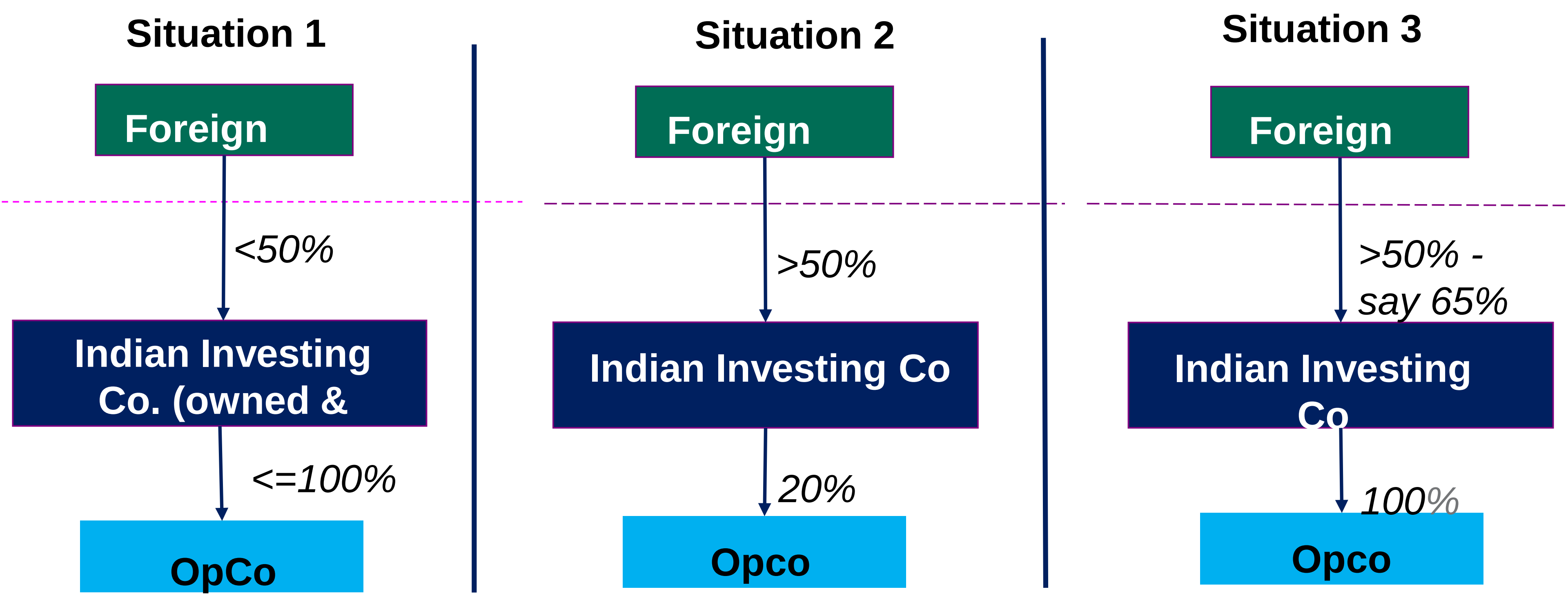
Case Study – FDI in OpCo



What if Indian Investing Co. is non-operative company?

Typical investment instruments

Equity Shares

- Fully paid shares for cash
- Pricing guidelines
  - Listed companies – As per SEBI guidelines
  - Unlisted companies - not less than fair value of shares as per any internationally accepted pricing methodology on arm's length basis.
- Partly paid up shares
  - Pricing to be determined upfront
  - 25% (including share premium) to be received upfront
  - Balance to be received within 12 months (not in case where issue size is greater than 500 Cr and as per SEBI regulations)
- capitalization – imported capital goods (within 180 days of shipment) / machinery/ pre-operative/ pre-incorporation expenses

RBI has allowed buy back option on Equity shares/ CCPs /CCDs

- Minimum lock-in period of one year or as applicable under FDI regulations;
- Exit - Without assured return on such buy back
  - listed company - At the prevailing market price at recognised stock exchanges;
  - Unlisted company - Price as per any internationally accepted pricing methodology on arm's length basis.

Typical investment instruments

Preference Shares / Debentures

- Fully and mandatorily convertible preference shares / debentures
  - Required to be fully paid-up
  - The price/ conversion formula to be determined upfront at the time of issue
  - Pricing not to be lower than fair market value determined at the time of issue
  - Optionality clause allowed subject to conditions:
    - minimum lock-in period of one year
    - eligible to exit without any assured return, as per pricing/valuation guidelines issued by RBI

- Non-convertible/ optionally convertible/ partially convertible preference shares / debentures
  - Treated as debt
  - ECB conditions to apply
  - Interest rate – LIBOR + spread as permissible for ECBs of corresponding maturity

Typical investment instruments

Preference Shares / Debentures (contd…)

- Reporting of Inflows
  - Preference shares/convertible debentures within 30 days from the receipt to regional office of RBI
  - FIRC and KYC report of non-resident investor

- Reporting of Shares
  - Within 30 days from the issue of shares file FC-GPRS with AD
  - Annual return on Foreign Liabilities and Assets with RBI by 15th July every year

Taxability of convertible debentures / convertible preference shares

- Conversion of debenture into shares of the company – Not taxable
- Conversion of preference shares into equity shares of that company – Not taxable introduced in Finance Act 2017
- Taxable at time of sale of equity shares
- The period for which convertible instruments are held shall be included for computing period of holding of resulting equity shares

Typical investment instruments

ESOPs / Sweat Equity

- Issued to employees/directors of company/holding co/ joint venture/ wholly owned subsidiary who are resident outside India
- Subject to sectoral cap
- Where employee is a citizen of Bangladesh/Pakistan – prior approval of Government
- Furnish Return as per Form-ESOP - to the RBI Regional Office within 30 days from the date of issue of ESOP

New investment instruments

Convertible Notes (CNs)

- Introduced by RBI vide amendment to FEMA (Transfer or Issue of Security by a Person Resident outside India) (15th Amendment) Regulations, 2016

- Available only for "Startup Companies" as defined under DPIIT notification dated 11th April 2018
  - ✓ Instrument to be treated as debt
  - ✓ to be re-paid or converted into equity shares within 5 years

- All Non-Resident entities/individuals (other than Pakistan or Bangladesh) eligible to purchase
- Min subscription is Rs.25 lakhs or more in a single tranche
- Startup cos engaged in sectors falling approval route to obtain Govt approval for issuing CNs
- NRIs eligible to purchase CNs under Non-repatriation route

No clarity on how convertible notes are treated under Companies Act, 2013

Startups

- Introduced by RBI vide amendment to FEMA (Transfer or Issue of Security by a Person Resident outside India) (3^{rd} Amendment) Regulations, 2016 on 28^{th} April 2016

- "Startup " As per DPIIT notification No. G.S.R. 364(E), dated the 11th April, 2018:
  - ✓ Less than 10 years old
  - ✓ Turnover < Rs.100crores in preceding FY
  - ✓ engaged in development, commercialization of new products or services driven by technology

- Splitting up, re-construction of existing business not permitted

Rights and Bonus issue

Issue of rights shares/ debentures

- Indian Co can make right issue to NR provided:
  - It does not result in increase in percentage of foreign equity approved/ permissible
  - Issue and allotment does not exceed sectoral cap
  - Original shares/ debentures are held in accordance with regulations
  - Listed cos: Rights offer at a price determined by the co.
  - Non-Listed cos: price not less than the price offered to resident shareholders
  - Additional allocation out of unsubscribed portion; subject to sectoral cap
- Share/ debentures to be subject to same conditions as original shares/ debentures

Issue of Bonus shares

- Indian Co can issue bonus shares to NR provided:
  - Original shares held in accordance with the regulations
  - Bonus shares to be subject to same conditions as original shares

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Transfer of Shares

Resident to Non-Resident

- General permission, except Sectors falling under approval route
- Stock market purchases NOT permissible under automatic route
- RBI approval required if:
  - Transfer by way of gift
  - Deferred consideration
- Pricing norms – Minimum of Internationally accepted valuation methodology / SEBI guidelines for IPO/book-building, open offer, delisting, etc.)

Non-Resident to Resident

- General permission
- Pricing norms – Maximum of Internationally accepted valuation methodology / price as per SEBI guidelines

NR to NR

- Automatic route
- No pricing norms
- RBI approval required if transfer from NRI /OCI to NR

- Reporting in form FC-TRS on e-biz portal within 60 days from the date of receiving consideration
- Onus on submission lies on resident (irrespective of transferor/transferee)
- KYC report of person resident outside India to be submitted to AD

Transfer of Shares – deferred consideration

- Introduced by RBI vide amendment to FEMA (Transfer or Issue of Security by a Person Resident outside India) (7th Amendment) Regulations, 2016 on May 20th, 2016

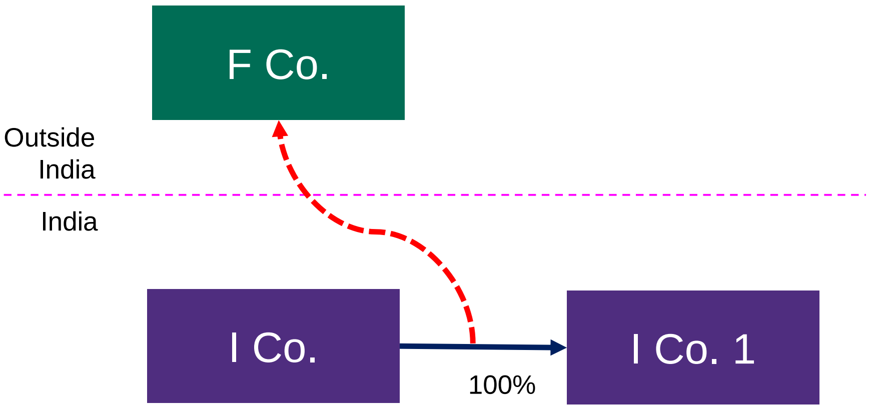
- Applicable for transfer of shares between R buyer and NR seller or vice-versa

- Deferred consideration permitted upto 25% of the transaction value

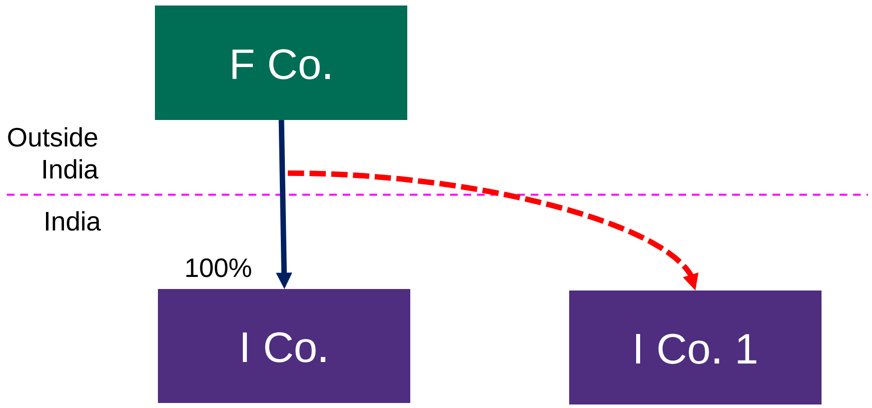
- to be deposited in an escrow account within a period of 18 months from the date of transfer agreement

- applicable only for equity instruments subject to pricing guidelines

Case Study



- I Co. 1, FMV – 100
- I Co. 1, Consideration Agreed – 200
- Deferred consideration (18 Months) – 50
- Indemnity can be agreed up to what amount?



- I Co., FMV – 100
- I Co., Consideration Agreed – 100
- Deferred consideration (18 Months) – 50
- Indemnity (18 Months) – 100

Whether possible?

Amalgamation and Arrangement

Issue of shares under amalgamation/ merger

- Transferee Co/ New Co to issue shares to NR shareholder of transferor Co provided:
  - Scheme of amalgamation/ merger is duly approved by NCLT
  - % of NR shareholding does not exceed sectoral cap
  - Transferor/ transferees/ New Co not engaged in prohibited sectors

As per Debt Regulations issued on 17th October 2019, issue of Non convertible/redeemable preference shares/debentures

- They are issued as bonus out of general reserve,
- under Scheme of Arrangement approved by the Court;

Conversion of ECB, other entitlements

General Permission available for –

- Conversion of ECB into equity/ preference shares provided:
  - Co is engaged in automatic sector or has obtained prior approval
  - Post conversion Foreign equity is within sectoral caps
  - Pricing guidelines complied
  - Compliance with other statutes/ regulations
- Issue of shares against lump sum fee/ royalty subject to pricing guidelines and compliance with applicable tax laws

Govt Approval Route for Issue of shares against –

- Import of capital goods (excl second hand machinery)
- Pre-operative / pre incorporation expenses

FDI in LLPs

100% FDI allowed subject to following conditions :

- Sectors currently eligible for 100% FDI under automatic route and no performance linked condition.
- Sectors with FDI Linked performance conditions (NBFCs/ Construction Development Projects etc.), agricultural/ plantation activity, print media, real estate business not permitted
- Indian LLPs engaged in sectors with 100% FDI under automatic route permitted to make downstream investment
- Indian Company with 100% FDI under automatic route permitted to convert into LLP
- FII/ FVCI/QFI/ a citizen/entity of Pakistan & Bangladesh not eligible to invest
- LLPs with FDI not permitted to raise ECB

FDI in LLPs – RBI notification on operational guidelines

- Foreign Capital participation in LLPs allowed by way of capital contribution/ acquisition of profit share
- Reinvestment of earnings permitted
- Investment subject to pricing guidelines- internationally accepted/adopted as per market practice valuation norm
- Reporting through AD within 30 days of receipt of contribution in Form FDI- LLP (I)
- Disinvestment/transfer of capital or profit share permitted b/w R to NR and vice versa (FDI-LLP (II) with in 60 days of receipt of funds)
- All LLPs having fresh FDIs in a FY to file return in Form FLA with RBI on or before 15th July every year

Reporting Requirement as per Modes & payment Rules 2019

- The New Rues for Modes and payment have been prescribed in October 2019.
- Except for prescribing the payment mode in relation to SWF and other prescribed investors, there is no change in the reporting requirement.
- Still the SMF are retained in the RBI portal without any change, even after the insertion of new Rules.

Recent reporting developments – Single Master Form Reporting

- In the First Bi-monthly Monetary Policy Review dated April 5, 2018, RBI, with the objective of integrating the extant reporting structures of various types of foreign investment in India, introduced a Single Master Form (SMF). So all the above mentioned forms, which were filed separately have been integrated within SMF.
- The SMF would be filed online on the Foreign Investment Reporting and Management System (FIRMS) portal (firms.rbi.org.in).

Single Master Form Reporting

- The reporting entity should register in the above portal and record the details of the entity in the Entity Master Form (EMF).
- Contents of EMF:
  - Corporate Identity Number
  - Name of company/ LLP
  - Date of incorporation
  - Permanent Account Number
  - Registration number provided by RBI in case the entity has received FDI previously
  - Address of registered office and contact details
  - Details of Business Activity with NIC Code (as per 2008 format)
  - Particulars of FDI and FPI received by the company (to be updated as and when there is change in the foreign investment received)
- Once the EMF is successful created, the reporting entity can comply with its reporting requirement.

Thank You

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OUTBOUND INVESTMENTS

What is ODI

Regulation 2(e) of Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000, defines

Direct Investment outside India as

- Investment by way of contribution to the capital (equity + CCPS) or subscription to the Memorandum of Association of a foreign entity,

or

- by way of purchase of existing shares of a foreign entity either by market purchase or private placement or through stock exchange,
- but does not include portfolio investment.

ODI BY CORPORATES

ODI Overview

Automatic Route

- No prior approval of Reserve Bank of India
- Eligible entities:
  - Company
  - Body created under an Act of Parliament
  - Registered partnership firm
  - Limited Liability Partnership (LLP)
- Fulfillment of specific conditions

Approval Route

- Investment by all other entities
  - Proprietorship, Unregistered partnership firm , Trust, Society
- Investment in certain sectors
  - Real estate business
  - Banking business
  - Share swap

Automatic Route for ODI

- Automatic approval for "Financial Commitment" up to 400% of Net Worth as on date of last audited Balance Sheet
- Computation of 400% to include:
  - Contribution to capital
  - Loans
  - 100% guarantees issued to or on behalf of F Co (50% for performance guarantees)
- Investment to be in bona fide business activity (no ODI in real estate and banking)
- Investee company not on RBI's caution list/list of defaulters to the banking system or under investigation by any investigation/enforcement agency or regulatory body
- Investor company has submitted up to date returns (APR) for all its existing ODI's

Investment through SPV also permitted

Permissible of Sources of Funding

Rupee Resources

Share Swap

Capitalisation of export receivables

Proceeds of ADR/ GDR issue

EEFC A/c balance

ECB Proceeds

400% ceiling does not apply

400% ceiling will apply

ODI Regulation for Automatic Route

Total Financial commitment

- ✓ Total financial commitment not to exceed 400% of the net worth
- ✓ Investment can be made by way of equity or equity and debt/ guarantee
- ✓ Equity includes CCPS
- ✓ Only debt without equity participation not permitted (under Automatic Route)
- ✓ Energy & Natural Resources sector – investment exceeding specified limits permitted with RBI approval

Conditions

- ✓ All Indian entities are prohibited from investing in real estate and banking business under automatic route
- ✓ Must be engaged in bonafide business activity
- ✓ Investment in un-incorporated entities – not permitted (except Oil & Gas sector)

Valuation

Investment in shares of existing company – mandatory valuation requirements

- ✓ > USD 5 mn: SEBI regd. Category I Merchant Banker/ Investment Banker/ Merchant Banker registered in host country
- ✓ < USD 5 mn: Valuation by CA/ CPA

Investment by way of swap of shares

- ✓ SEBI regd. Category I Merchant Banker/ Investment Banker/ Merchant Banker regd. in host country
- ✓ ADR/ GDR Swap: Valuation by Investment Banker
- ✓ Automatic route

Case Study

XYZ Ltd

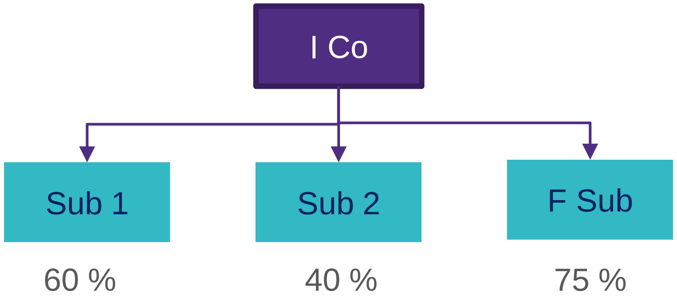
Particulars	Amount
Equity Share Capital	100
Redeemable Preference Share Capital	220
General reserves	40
Securities Premium Account	180
Capital reserves	200
Revaluation reserves	140
Ind AS Reserves	20
Total	900

What is the net worth of XYZ Ltd for ODI Regulations
Which reserves would form part of free reserves?

Case Study

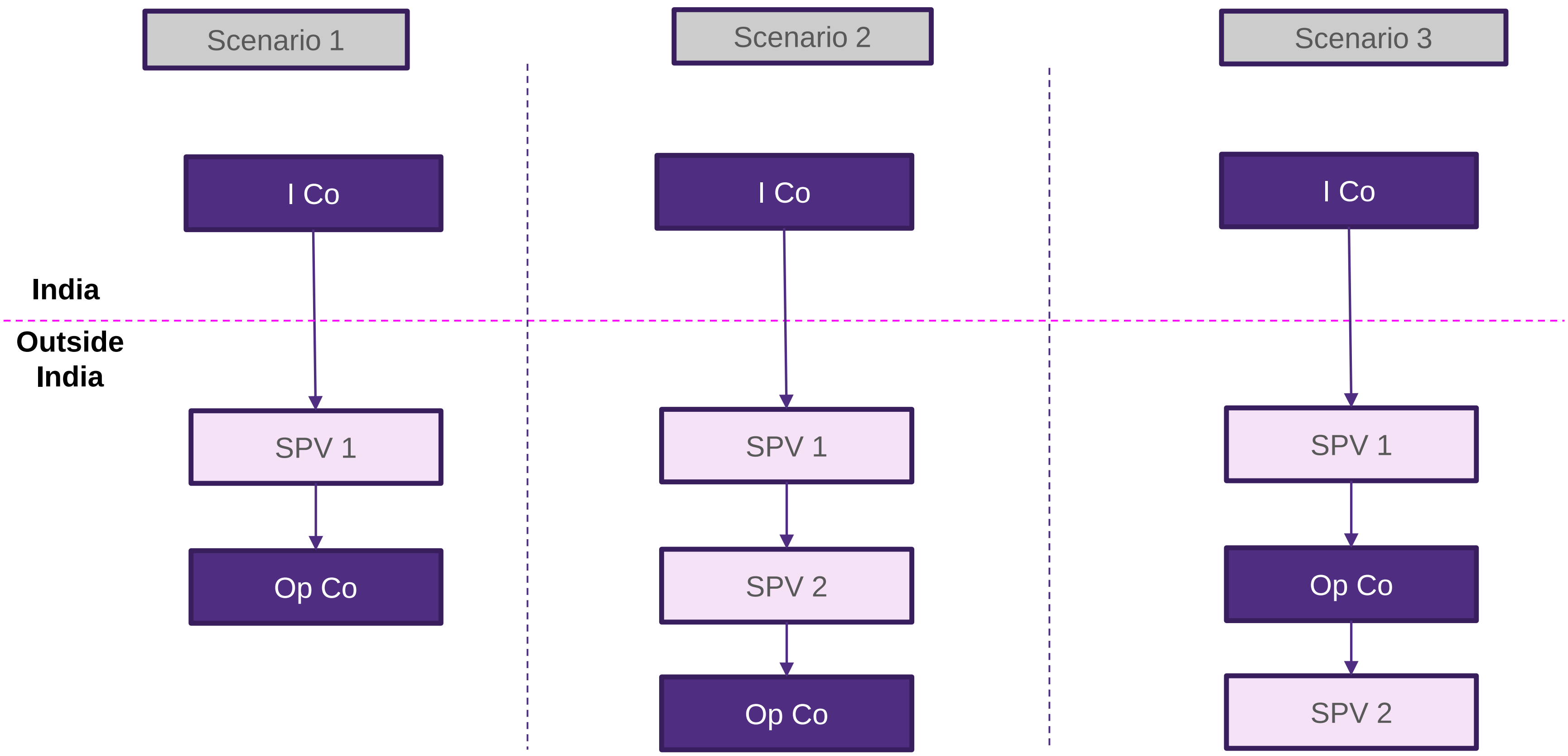
XYZ Ltd

Particulars	I Co	Sub 1 (60%)	Sub 2 (40%)	F Sub (75%)
Equity Share Capital	50	10	30	100
Preference Share Capital	10	2	6	20
General reserves	20	4	12	40
Securities Premium Account	90	18	54	-
Capital reserves	100	20	60	-
Ind AS Reserves	80	16	48	
Total	**350**	**70**	**210**	**160**



What is the net worth of I Co (including the net worth subsidiaries) as per ODI Regulations ?

Case Study


Scenario 1
Scenario 2
Scenario 3
I Co
I Co
I Co
India
Outside India
SPV 1
Op Co
SPV 1
SPV 2
Op Co
SPV 1
Op Co
SPV 2

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Guarantee

- No guarantee can be open ended – amount and period
- Corporate guarantee on behalf of fist level step down operating JV/ WOS is permitted
  - ✓ Direct subsidiary can be an operating or a SPV
- Corporate guarantee on behalf of second/ subsequent level step down operating subsidiary is permitted under approval route
  - ✓ Indian Party, indirectly, holds at-least 51% stake
- Renewal/ Rollover of an existing guarantee shall not be treated as a fresh financial commitment:
  - ✓ No change in the end use of guarantee
  - ✓ No change in terms, conditions & amount except validity period of guarantee
  - ✓ Fresh reporting is done in Form ODI
- ODI compliance required for guarantee given by a bank/ FI in India, backed by guarantee or collateral of Indian party

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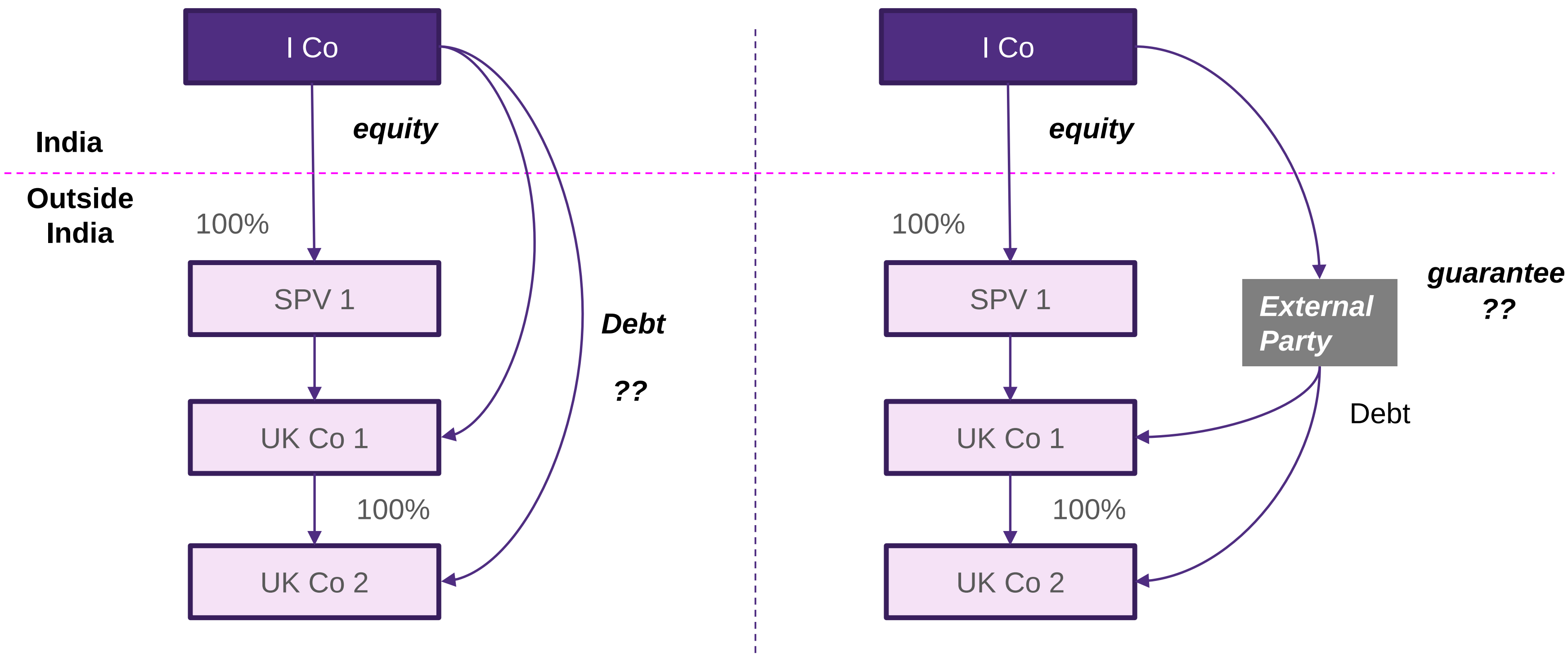
Case Study


I Co
equity
India
Outside India
100%
SPV 1
UK Co 1
100%
UK Co 2
Debt
??
I Co
equity
100%
SPV 1
External Party
guarantee ??
Debt
UK Co 1
100%
UK Co 2

Procedure for Investment

Automatic Route

- Submit Form ODI with the AD (amended Form vide AP DIR 62 dt Apr 13, 2016)
- Online filing of Form ODI by AD

Approval Route

- Submit application in Form ODI with the RBI through AD

Information / Documents Required

– Past 3 year financial particulars
– JV partner information
– Statutory auditor certificate
– Valuation certificate
– Copy of board resolution

RBI allots a Unique Identification No. for each JV/ WOS

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Post Investment Obligation

- Receive share certificate / other documentary evidence within 6 months
- Further remittances permitted only after issuance of UIN
  - AP DIR 131 dt May 31, 2012 – UIN intimated through an auto generated email
- Repatriate to India all dues receivable from foreign entity within 60 days
- Submit APR to RBI by December 31 [AP DIR 61 dt April 13, 2016]
- No prior approval required for WOS / JV to
  - diversify activities
  - set up a step down subsidiary
  - alter shareholding pattern in overseas entity
- Post facto filing with RBI within 30 days any subsequent changes in ODI
- Write-off of capital/receivables permitted upto 25% of equity investment in JV/WOS
  - Auto route for listed Indian Cos
  - Approval route for unlisted Indian Cos

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Exit from JV/ WOS

Allowed under automatic route if :

- No outstanding dues from JV / WOS
- Sale after > 1 full year of operations
- Write off in cases of -
  - JV / WOS listed overseas
  - Listed ICo with net worth of >= Rs. 100 crore
  - Unlisted ICo / Listed ICo with net worth < Rs. 100 crore if ODI < USD 10 million
- No defaults / investigation in India
- Sale proceeds to be repatriated within 90 days
- Sale of listed shares effected through overseas stock exchange
- Unlisted shares – as per valuation by CA/CPA

ODI BY INDIVIDUALS

ODI by Individuals

Automatic route for -

- ESOP – cashless or otherwise
- Acquiring foreign securities by way of gift / inheritance
- LRS window upto USD 250,000 per FY
- Qualification shares for becoming director of FCo
- Getting shares as consideration for professional services rendered to FCo (within LRS ceiling)

Liberalized Remittance Scheme (LRS)

- Limited to USD 250,000 per person per FY. No step down subsidiary is allowed
- Remittance of dividend and divestment is to be done within 60 days
- PAN a pre-requisite
- All remittances under this window to be made through one AD
- Remittance not allowed -
  - To Mauritius, Bhutan, Pakistan, Nepal and countries specified as non-cooperative by the FATF
  - Prohibited remittances (lottery, gaming, etc.)

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Liberalized Remittance Scheme (LRS)

Permissible Transactions	Impermissible Transactions
Permitted current and/ or capital account transactions	Schedule 1: Prohibited/ Restricted transactions and Schedule 2: Remittances requiring Central Government approval
Acquisition of immovable property overseas and listed/ unlisted shares of overseas companies	Direct/ Indirect remittances to specific countries including Bhutan, Nepal, Mauritius, Pakistan and non co-operative countries/ territories notified by FATF
Opening of bank accounts outside India	Bank credit facility not allowed for remittances under LRS. Credit facility not allowed on security of such deposits
Investment in units of Mutual Funds, Venture Capital Funds, debt securities, promissory notes etc.	
Acquisition of shares under ESOP Scheme	
Acquisition/ Establishment of JV/ WoS outside India subject to specific conditions	
Remittance towards gifts/ donations, objects of art	

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Overseas offices

Automatic approval for Firms/ Companies to open offices abroad provided

- overseas office not to create any financial liabilities for Head Office
- exchange released by AD to be used specifically for that purpose
- details of foreign currency bank account opened overseas to be reported to AD
- profits to be repatriated to India

Ceiling on remittances for meeting expenses of overseas office

Initial expenditure	Higher of 15% of average annual turnover during the last two accounting years or 25% of net worth
Recurring expenses	10% of average annual turnover during the last two accounting years

Ceilings do not apply to
Remittances out of EEFC A/c
Offices set up by EOU/ STP/ HTP/ EPZ units (within 2 years of establishment))

Thank You

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