

September 06, 2006

To

All Category I - Authorised Dealer Banks

Madam / Sir,

Overseas Direct Investment by Regulated Entities in the Financial Sector

Attention of the Authorised Dealer (AD - Category I) banks is invited to Regulation 6 and 7 of Notification No.FEMA120/RB-2004 dated July 7, 2004 [Foreign Exchange Management (Transfer or Issue of any Foreign Security) (Amendment) Regulations, 2004], as amended from time to time, in terms of which, Indian entities investing in entities engaged in financial services activities overseas have to comply with the additional conditions laid down in Regulation 7 of the Notification.

2. At present, entities engaged in financial services activities in India making investment in non-financial services activities overseas are not required to comply with the additional conditions mentioned in Regulation 7 of the Notification. With a view to assess the impact of the overseas operations of such entities on a consolidated basis, it has been decided that regulated entities in financial sector in India investing overseas in **any** activity will also have to comply with the conditions stipulated in Regulation 7 of the Notification *ibid*.

3. It is further clarified that trading in Commodities Exchanges overseas and setting up JV/WOS for trading in Overseas Commodities Exchanges will be reckoned as financial services activity and will require clearance from the Forward Markets Commission (FMC). The FMC has recently put in place guidelines for allowing FMC registered members of Commodity Exchanges to undertake commodity related activities abroad. Indian entities desirous of setting

up of JV/WOS overseas for trading in overseas commodities exchanges may, therefore, approach the FMC for regulatory clearance.

4. Unregulated Indian entities engaged in the financial services activities in India may invest in non-financial sector activities overseas subject to Regulation 6 of the Notification *ibid*.

5. Necessary amendments to the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) (Amendment) Regulations, 2004 are being issued separately.

6. AD - Category I 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 (FEMA), 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

Salim Gangadharan
Chief General Manager-in-Charge

Withdrawn w.e.f. August 22, 2022