

Annex VIII.1: Report of the Committee on Capital Account Convertibility: Measures Undertaken

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
I. CORPORATES/ BUSINESS			
A. Corporate/ Business - Residents			
1. Issuing foreign currency bonds to residents and investment in foreign currency bonds and deposits (only rupee settlement)	Not permitted.	To be permitted without any ceiling.	No action taken.
2. Financial capital transfers abroad including for opening current / chequeable account.	Not permitted.	To be allowed in phases with US \$ 25,000 per annum in Phase I, US \$ 50,000 in Phase II and US \$ 1,00,000 per annum in Phase III.	<ul style="list-style-type: none"> Listed Indian companies have been permitted to invest abroad in companies listed in recognised stock exchanges, which have a shareholding of at least 10 per cent in an Indian company listed on a recognised stock exchange in India (as on 1st January of the year of the investment). Such investments shall not exceed 25 per cent of the Indian company's net worth, as on the date of latest audited balance sheet. Indian corporates have been permitted to invest within the respective ceilings as applicable in rated bonds/ fixed income securities. The rating should be at least A-1/AAA by Standard and Poor or P-1/Aaa by Moody's or F1/AAA by Fitch IBCA <i>etc.</i> for short term obligation and corresponding rating for long term ones.
3. Accessing capital markets abroad through American Depository Receipts (ADRs)/ Global Depository Receipts (GDRs) / other form of equity issues	Permitted individually by Government. Approval under FEMA given by the Reserve Bank.	No approval to be taken from the Reserve Bank / Government. Reporting within 30 days of issue.	<ul style="list-style-type: none"> Indian companies are allowed to access ADRs/GDRs markets through an automatic route without prior approval of the Ministry of Finance subject to specified norms and post-issue reporting requirements. Others require case by case approval from Government. Indian companies have been allowed to retain abroad funds raised through ADRs/GDRs, for any period to meet their future forex requirements and/or pending utilisation of foreign resources raised, the Indian company may invest the foreign currency funds.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
4. External Commercial Borrowings (ECBs)	ECBs were subject to overall ceilings and sub-ceilings.	Queuing for purpose of implementing ceiling on ECBs while ensuring that relatively smaller borrowers are not crowded out by a few very large borrowers. No restrictions on end use of funds. Loans for period with average maturity of 10 years and above in Phase I and 7 years and above in Phase II to be kept outside the ceiling.	<ul style="list-style-type: none"> The new policy announced in January 2004 significantly raised the ceiling under the automatic route from US \$ 50 million. ECBs have now been allowed under an automatic route up to US \$ 500 million (for ECBs with average maturity of more than five years) and up to US \$ 20 million (for ECBs between three to five years of average maturity). Borrowings which fall outside purview of the automatic route will be subject to a transparent process and will be decided by an Empowered Committee of the Reserve Bank. The above relaxations will also be applicable to Foreign Currency Convertible Bonds (FCCBs). ADs have been permitted to approve proposals not exceeding US\$ 20 million per import transaction for short term credit for financing, by way of either Suppliers' Credit or Buyers' Credit, of import into India for a period less than three years. ECB proceeds have to be parked abroad unless actually required.
5. Foreign Currency Convertible Bonds (FCCBs) / Floating Rate Notes (FRNs)	Permitted individually by Government within overall ECB ceiling	To be within the ECB ceiling with same procedure viz. queuing vide item 4.	<ul style="list-style-type: none"> Government has decided to transfer entire work relating to ECB/FCCB/FRN to the Reserve Bank with transparent guidelines. The method for giving clearance by the Reserve Bank is being worked out in detail and a notification is under preparation. Government of India has allowed Indian companies to prepay the existing FCCBs subject to certain conditions. Also see 4 above.
6. Loans from non-residents	Allowed by the Reserve Bank on a case-by-case basis for loans from Non-Resident Indians (NRIs) on non-repatriable basis with restrictions on interest payments and end use.	To be allowed to borrow up to US \$ 250,000 per entity in Phase I, US \$ 500,000 per entity in Phase II and US \$ 1 million per entity in Phase III with payment of interest not exceeding LIBOR without restriction on period of loan, use of funds and repatriation of loan/ interest.	<ul style="list-style-type: none"> Such loans are governed by ECB guidelines.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
7. Joint Ventures (JVs)/ Wholly Owned Subsidiaries (WOSs) abroad	Proposals for investments up to US\$ 4 million were cleared by the Reserve Bank. The extent of outflow is dependent upon the export performance of the Indian promoter and capability for repatriation by way of dividend, <i>etc.</i> , within a period of five years. Cases not covered by these criteria were cleared by a Special Committee. Balances in EEFC accounts can be used for investment up to US\$ 15 million without the specific approval of the Reserve Bank.	Direct investments abroad to be allowed for ventures up to US \$ 50 million by ADs subject to transparent guidelines to be laid down by the Reserve Bank. Above US \$ 50 million through a special committee. The current stipulation on repatriation of earnings by way of dividend <i>etc.</i> within a specified time period should be removed. JVs/WOSs can be set up by all parties and not restricted only to exporters / exchange earners.	<ul style="list-style-type: none"> Indian parties are allowed to make direct investment in a JVs/WOSs outside India without prior approval of the Reserve Bank/Government subject to certain conditions. The existing ceiling for Indian investment in Myanmar and SAARC countries (excluding Pakistan) under the automatic route has been enhanced to US\$ 150 million or its equivalent. The investment may be funded out of EEFC balances and 100 per cent of ADRs/GDRs raised by the Indian party. Any Indian company with a proven track record was eligible to invest upto 100 per cent of its net worth by way of market purchases for investment in foreign entity engaged in any bonafide business entity. The overall limit of US \$ 100 million has been done away with. Investment in overseas financial sector is also permitted subject to certain terms and conditions. An Indian party engaged in the activities specified by the Reserve Bank is permitted to acquire shares of a foreign company engaged in the similar activity in exchange of ADRs/GDRs issued to the latter in accordance with the guidelines issued by the Government. Investment not covered in any of the permissible routes requires approval by the Special Committee for overseas investment. Resident shareholders of Indian companies, who offer their shares for conversion to ADRs/GDRs, have been permitted to receive the sale proceeds in foreign currency. Further, the sale proceeds, so received by residents, are also permitted to be credited to their EEFC/RFC (D) Accounts. Individuals: A person resident in India being an individual is permitted to acquire foreign securities by way of gift, inheritance or under cashless Employees Stock Option Scheme (ESOP). In addition, employees or directors of the Indian office/branch/ subsidiary of a foreign company or an Indian company are permitted to acquire ESOPs against remittance without any monetary limit. The Reserve Bank also allows resident employees of software companies to purchase foreign securities under the ADR/GDR linked stock option scheme upto a consideration not exceeding US \$ 50,000 in a block of five calendar years.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
8. Project Exports	Indian project exporters were required to approach the Reserve Bank for prior approval for a variety of purposes while executing the projects abroad.	Requirement of prior approval by the Reserve Bank may be dispensed with subject to reporting to the Reserve Bank.	<ul style="list-style-type: none"> Where export of goods or services is proposed to be made on deferred payment terms or in execution of a turnkey project or a civil construction contract, the exporter is required to submit the proposal for prior approval of the approving authority, before entering into such export arrangement. Approving authority considers the proposal in accordance with the guidelines issued by the Reserve Bank from time to time.
9. Establishment of offices abroad	Powers given to ADs to allow remittances for exporters with an average annual export turnover of Rs.150 lakhs and above to open representative/non-trading offices. Further, EEFC account holders were permitted to utilise their EEFC balance without any restriction for establishing any type of offices. Other cases required the Reserve Bank's approval.	Any corporate entity may open offices abroad without the need for prior approval from the Reserve Bank. Capital expenditure towards opening of the offices and current expenditure for maintenance could be subject to overall value limits to be allowed by ADs.	<ul style="list-style-type: none"> Remittances towards opening of offices abroad is classified as a transaction of current account nature. General permission to open/maintain foreign currency account has been granted subject to certain conditions. Indian corporates who have set up overseas offices have been allowed to acquire immovable property outside India for their business as well as for staff residential purposes.
10. EEFC accounts for exporters and exchange earners	50 per cent for EOUs and 25 per cent for others - restrictions on use of funds for current account and permitted capital account transactions.	100 per cent of earnings for all exporters/exchange earners to be allowed to be held in EEFC accounts in India. Use of funds allowed for current and permitted capital account transactions with cheque writing facility in Phase I and II. In Phase III, EEFC accounts can be held with banks outside India at the option of the exporter and exchange earners.	<ul style="list-style-type: none"> There are two categories of EEFC account holders, one those who can retain up to 100 per cent of their receipt in foreign exchange and others who can retain 50 per cent. A 100 per cent Export Oriented Unit (EOU) or a unit situated in (a) Export Processing Zone (EPZ) or (b) Software Technology Park (STP) or (c) Electronic Hardware Technology Park (EHTP), status holder exporters, professionals are eligible to credit up to 100 per cent of their foreign exchange receipts to their EEFC account. On application, the corporates are permitted to credit higher than the permissible percentage of export proceeds to their EEFC account on a case-to-case basis to enable them to take advantage of lower interest rates and prepay the ECBs.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
B. Corporates-Non-Residents (including OCBs)			
1. Foreign Direct Investment (FDI)	Overseas Corporate Bodies (OCBs) were allowed facilities similar to NRIs. Other corporates were allowed to invest up to various proportions with the Reserve Bank/ Government approval under the FDI policy of the Government.	Prior approval of the Reserve Bank not required for FDI. Reporting by ADs to the Reserve Bank.	<ul style="list-style-type: none"> Government has since substantially expanded foreign investment under the "Reserve Bank's Automatic Route" to include all items/activities, except certain items, (<i>i.e.</i>, 6 prohibited items and 12 items included in the negative list) for investment under FDI/NRI/OCB investment. However, sectoral caps continue to apply. Investment under automatic route requires reporting of the transaction to the Reserve Bank within 30 days. Investment exceeding these sectoral caps or investment in sectors in the negative list requires approval from Foreign Investment Promotion Board (FIPB). OCB has been derecognised as a class of investor since September 16, 2003. Registered Foreign Venture Capital Investors (FVCIs) have been permitted to invest in Indian Venture Capital Undertakings/ Venture Capital Funds. An Indian company may sponsor issue of ADRs/GDRs with an overseas depository against shares held by its shareholders at a price to be determined by a lead manager subject to certain conditions. Existing non-resident shareholders have been permitted to apply for issue of additional equity shares or preference shares or convertible bonds over and above their rights entitlement, subject to sectoral caps.
2. Portfolio Investment in India through stock exchanges in shares/debentures.	Allowed within the 24 per cent limit (can be increased to 30 per cent at the option of the company) which includes portfolio investment by NRIs, Foreign Institutional Investors (FIIs) and OCBs subject to approval by the Reserve Bank which is valid for a period of five years. The investment restricted to one per cent by individual NRIs/OCBs and 10 per cent by individual FIIs. Corporates, other than OCBs and FIIs were not permitted.	To be allowed to all non-residents without prior approval by the Reserve Bank. Designated ADs should be required to report to the Reserve Bank.	<ul style="list-style-type: none"> An NRI is permitted to purchase/ sell shares and/or convertible debentures of an Indian company through a registered broker on a recognised stock exchange provided: <ul style="list-style-type: none"> i) The NRI routes all his transactions through designated branch of an AD in India. ii) The paid-up value of shares purchased by NRIs, on individual basis, both on repatriation/non-repatriation basis does not exceed 5 per cent of the total paid-up capital of the company concerned. iii) The paid-up value of each series of convertible debentures both on repatriation/non-repatriation basis does not exceed 5 per cent of the total paid-up value of each series of the convertible debentures of the company concerned.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
			<p>iv) The aggregate paid-up value of shares of the company purchased by NRIs does not exceed 10 per cent of the total paid-up capital and in the case of convertible debentures, the aggregate paid-up value of each series of debentures purchased by NRIs does not exceed 10 per cent of the total paid-up value of each series of the convertible debentures of the concerned company.</p> <p>v) The above ceilings of 10 per cent can be raised to 24 per cent if a Special Resolution to that effect is passed by the General Body of the Indian company concerned.</p> <p>vi) The facility to FIIs/NRIs and FVCIs to purchase shares or convertible debentures of an Indian company, which is engaged in print media sector has been withdrawn. The restriction is also applicable to purchase of shares and convertible debentures of NRIs on non-repatriation basis.</p>
3. Disinvestment	Disinvestment as approved by the Reserve Bank except where sales are made through stock exchanges under portfolio investment scheme.	RBI approval to be dispensed with.	Action deferred
II. BANKS			
A. Banks - Residents			
1. Loans and borrowings from overseas banks and correspondents including overdrafts in nostro accounts.	ADs were permitted to borrow up to US \$ 10 million from their overseas offices/ correspondents without any conditions on end use and repayment of such borrowings.	<p>(i) Each bank may be allowed to borrow from overseas markets, short-term (up to one year) and long-term (over one year), to the extent of 50 per cent of the unimpaired Tier I capital with a sub limit of one third (<i>i.e.</i>, 16.67 per cent of unimpaired Tier I capital) for short-term borrowings. Ceilings to be raised progressively in Phases II and III.</p> <p>(ii) No restrictions on use of funds and repayment. Prudential norms regarding open position and gap limits to continue.</p>	<p>• ADs in India are permitted to borrow in foreign currency as given below subject to certain conditions:</p> <p>i) From its head office or branch or correspondents outside India upto 25 per cent of its unimpaired Tier I capital or US \$ 10 million, whichever is more.</p> <p>ii) From the head office or branch or correspondents outside India without limit for the purpose of replenishing rupee resources (not for investment in call money or other markets).</p> <p>iii) Lines of credit from a bank / financial institution outside India without any limit for the purpose of granting pre-shipment are post-shipment credit to its constituents.</p> <p>iv) A branch outside India of an AD may borrow in foreign currency in the normal course of its banking business outside India.</p>

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
2. Investments in overseas markets	Banks allowed to invest in overseas money markets up to US\$ 10 million.	Investments may be in overseas money markets, mutual funds and foreign securities. To be allowed subject only to requirements of Section 25 of Banking Regulation (BR) Act 1949 and open position/gap limits.	<ul style="list-style-type: none"> ADs have been given freedom to undertake investments in overseas markets subject to the limits approved by the banks' Board of Directors. Such investments may be made in overseas money market instruments and/or debt instruments issued by a foreign state with a residual maturity of less than one year and rated at least AA(-) by Standard and Poor / Fitch-IBCA or Aa3 by Moody's. Banks in India have the freedom to invest the undeployed FCNR(B) funds in overseas markets in long-term fixed income securities rated at least AA(-) by Standard and Poor, or Aa3 by Moody's or AA by Fitch IBCA.
3. Fund-based/ non-fund based facilities to Indian JVs and WOSs abroad	Cleared by the Reserve Bank / Special Committee	To be left to banks' discretion - only restriction to be Section 25 of BR Act.	<ul style="list-style-type: none"> Indian commercial banks are allowed to extend credit/ non-credit facilities (<i>viz.</i>, letters of credit and guarantees) to Indian JVs/WOSs abroad subject to certain conditions (<i>i.e.</i>, up to 10 per cent of Tier I Capital).
4. Buyers' credit/ acceptance for financing importers/ their bankers for buying goods and services from India.	Depending on amount cleared by ADs/EXIM Bank/ Working Group. FERA approval required from the Reserve Bank.	To be allowed subject only to Section 25 of BR Act.	<ul style="list-style-type: none"> Commercial banks have been permitted to provide, at their discretion, buyers credit/acceptance finance to overseas parties for facilitating exports of goods and services from India subject to certain conditions.
5. Accept deposits and extend loans denominated in foreign currencies from /to individuals (only rupee settlement).	Not allowed other than under existing foreign currency deposit schemes.	To be allowed without any ceilings - assets/liabilities mismatch to be taken into overall open position/gap limits.	<ul style="list-style-type: none"> The facility of foreign currency loans in India against the security of funds held in FCNR (B) deposit account to the account holders only, subject to certain conditions, has been extended. RFC(D) Account can be credited with/opened out of foreign exchange earned and/or gifts received from close relatives (as defined in the Companies Act) and repatriated to India through normal banking channels by resident individuals. Foreign exchange earnings could be through export of goods and/or services, royalty, honorarium, etc.
6. Forfaiting	EXIM Bank alone was permitted by the Reserve Bank to do forfaiting	All ADs should be permitted to undertake forfaiting.	<ul style="list-style-type: none"> ADs have been permitted to introduce scheme of forfaiting of medium term export receivables on lines similar to the scheme operated by EXIM Bank.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
B. Banks – Non-Residents			
1. Rupee accounts of non-resident banks	Used only for merchant based transactions - investments not allowed. Overdrafts allowed up to Rs.150 lakhs for normal business requirements for temporary periods.	Forward cover to be allowed to the extent of balances. Cancelling/ rebooking to be allowed. The present over draft limit could be increased and limited investments may be allowed in rupee accounts. In Phase III, non-residents may be allowed to freely open rupee accounts with banks in India without any restrictions on their operations.	<ul style="list-style-type: none"> Banks may permit their overseas branches / correspondents temporary overdrawals not exceeding Rs. 500 lakh in aggregate for meeting normal business requirements. This limit applies to the amount outstanding against all overseas branches and correspondents in the books of all branches of the bank in India.
III. NON BANKS-FINANCIAL			
A. Non-Banks-Financial - Residents			
1. SEBI Registered Indian investors (including mutual funds) investments overseas	Not allowed	Overall ceiling of US\$ 500 million and the ceiling should be so operated that a few large funds do not pre-empt the overall amount. Overall ceiling to be increased to US \$ 2 billion by Phase III.	<ul style="list-style-type: none"> Mutual Funds were being permitted on application, after obtaining necessary permission from SEBI, to invest in ADRs/GDRs of Indian companies and rated debt instrument in overseas market. Recently, they have also been permitted to invest in equity of overseas company, subject to conditions applicable to corporates/ Individuals as indicated above. The existing overall cap of US\$ 500 million fixed for investment abroad has also been raised to US\$ one billion. This facility is available till further notice. Mutual funds having the approval from SEBI for undertaking such investments, need not obtain separate approval from the Reserve Bank.
2. All India Financial Institutions	Borrowings from overseas markets or investments abroad subject to the Reserve Bank / Government prior approval	(i) Borrowings more than one year to continue within ECB ceiling with Government approval.	<ul style="list-style-type: none"> Borrowings permitted within ECB ceilings.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
		(ii) Short-term borrowings to be allowed subject to limits. Investments in short-term instruments to be permitted within limits up to the extent of liabilities maturing within one month in Phase I, three months in Phase II and six months in Phase III.	
B. Non-Banks – Non-Residents			
1. FIIs			
(a) Portfolio Investment	Investments in secondary market allowed once FII is registered with SEBI subject to 24 per cent ceiling (can be increased to 30 per cent at the option of the company) which includes portfolio investment by NRIs, FIIs and OCBs with a 10 per cent limit for individual FIIs and 1 per cent by individual NRIs/ OCBs. FERA approval is given by the Reserve Bank, and is valid for a period of five years.	To be allowed without the Reserve Bank's prior approval. Designated ADs would be required to report to the Reserve Bank.	<ul style="list-style-type: none"> A registered FII/SEBI approved sub-account of FII is permitted to purchase/sell the shares and convertible debentures of an Indian company under portfolio investment scheme by the Reserve Bank subject to certain conditions : <ol style="list-style-type: none"> The total holding of each FII/SEBI approved sub-account of FII shall not exceed 10 per cent of the total paid-up equity capital or 10 per cent of the paid up value of each series of convertible debentures issued by the Indian company. The aggregate holding of all FIIs/sub-accounts of FIIs shall not exceed 24 per cent of the paid-up equity capital or paid-up value of each series of convertible debentures. The limit of 24 per cent could be increased to sectoral cap/statutory ceiling as applicable by the Indian company by passing a resolution by its Board of Directors followed by passing of special resolution to that effect by its General Body.
(b) Primary market investment/private placement	Primary market offering/private placement allowed with the Reserve Bank approval up to 15 per cent of the new issue/ capital.	The Reserve Bank's approval not required. Designated ADs to report to the Reserve Bank.	<ul style="list-style-type: none"> General permission granted to registered FIIs to purchase shares / convertible debentures of an Indian company through offer / private placement subject to specified ceiling.
(c) Disinvestment	<ol style="list-style-type: none"> Disinvestment through stock exchange allowed freely. Other routes of disinvestment require the Reserve Bank's approval 	The Reserve Bank approval for disinvestment to be dispensed with.	Action deferred.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
(d) Investment in Debt Instruments	Permitted to invest in dated Government securities of Central and State Governments (excluding Treasury Bills) both in primary and secondary markets. ECB ceiling included FII investment in rupee debt instruments. The debt funds of FIIs are also allowed to invest in corporate debt securities (non-convertible debentures, Bonds, <i>etc.</i>) listed or to be listed. FIIs can invest in equity and debt in the ratio of 70:30. Debt funds of FIIs can invest up to 100 per cent in debt instruments subject to a ceiling prescribed by SEBI.	Maturity restrictions on investments in debt instruments (including treasury bills) to be removed. FII investments in rupee debt securities to be kept outside ECB ceiling but could be part of a separate ceiling.	<ul style="list-style-type: none"> A registered FII is permitted to purchase/sell dated Government Securities, Treasury Bills, non-convertible debentures/ bonds issued by an Indian company and units of domestic mutual funds subject to the following : <ol style="list-style-type: none"> The FII shall restrict allocation of its total investment between equity and debt instruments in the ratio of 70:30. If the FII desires to invest up to 100 per cent in dated Government Securities, it shall form a 100 per cent debt fund and get such a fund registered with SEBI.
IV. INDIVIDUALS			
A. Individuals-Residents			
1. Foreign currency denominated deposits with banks/ corporates in India (only rupee settlement)	Not permitted.	To be permitted without ceiling.	<ul style="list-style-type: none"> Residents have been permitted to open, hold and maintain with ADs in India a non-interest bearing current account in foreign currency to be known as Resident Foreign Currency (Domestic) (RFC) Account out of foreign exchange acquired in the form of currency notes, bank notes and travellers' cheques from the specified sources. This is in addition to existing facility of RFC account and retention of foreign exchange in cash or travellers' cheques upto US \$ 2,000 or its equivalent.
2. Financial capital transfers including for opening current/ chequeable accounts	Not permitted.	To be allowed in phases with US \$ 25,000 per annum in Phase I, US \$ 50,000 in Phase II and US \$ 1,00,000 per annum in Phase III.	<ul style="list-style-type: none"> Resident individuals have been permitted to invest in overseas companies listed on a recognised stock exchange and which have the shareholding of at least 10 per cent in an Indian company listed on a recognised stock exchange in India (as on 1st January of the year of the investment). Such investments shall not exceed 25 per cent of the Indian company's net worth, as on the date of latest audited balance sheet without any monetary limit.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
			<ul style="list-style-type: none"> Resident individuals have been permitted to invest within the respective ceilings as applicable in rated bonds/fixed income securities. The rating should be at least A-1/AAA by Standard and Poor or P-1/Aaa by Moody's or F1/AAA by Fitch IBCA etc. for short term obligation and corresponding rating for long term ones.
3. Loans from non-residents	Residents were allowed to obtain interest free loans on non-repatriation basis from non-resident relatives for personal and business purposes other than investment. Other cases need the Reserve Bank approval.	To be allowed to borrow up to US \$ 250,000 per entity in Phase I, US \$ 500,000 per entity in Phase II and US \$ one million per entity in Phase III with payment of interest not exceeding LIBOR without restriction on period of loan, use of funds and repatriation of loan/ interest.	<ul style="list-style-type: none"> A person resident in India (not a company) is permitted to borrow in rupees on non-repatriation basis from a non-resident Indian or person of Indian origin resident outside India subject to certain conditions. Residents have been permitted to borrow upto US \$ 250,000 from their close relatives, resident outside on repatriation basis provided the loan is free of interest and is repayable after one year.
B. Individuals: Non-Residents			
1. Capital transfers from non repatriable assets held in India (including Non-Resident Ordinary (NRO) and Non-Resident Non-Repatriable Rupee Deposits NR(NR)RD accounts)	Not allowed; however, a few cases allowed on sympathetic grounds.	To be allowed in phases with US \$ 25,000 per annum in Phase I, US \$ 50,000 in Phase II and US \$ 1,00,000 per annum in Phase III.	<ul style="list-style-type: none"> To provide full convertibility of deposit schemes for non-resident Indians and rationalise the existing non-resident deposit schemes, Non-Resident Non-Repatriable Rupee Deposits NR(NR)RD and Non-Resident Special Rupee (NRSR) Account schemes have been discontinued with effect from April 1, 2002. The maturity proceeds of the deposit under NR(NR)RD shall be credited to the account holders Non-Resident (External) Rupee account (NRE) and the maturity proceeds of the NRSR will be credited to the account holders' NRO account. The existing dispensation of permitting transfer of funds out of NRO accounts for different purposes such as education, medical, sale proceeds of immovable property, assets of foreign nationals including retired employees/ widows of Indian citizens resident outside India and assets in India acquired by NRIs/PIOs by way of inheritance/legacy, has been removed. Instead ADs have been permitted to allow remittance upto US \$ one million in a year, subject to Indian taxes. However, if the assets represent sale proceeds of immovable property, the present requirement that the property should have been held for 10 years continues. In case property is sold, having been held for less than ten years, remittance can be made if the sales proceeds have been held by NRIs/PIO for the balance period.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
			<ul style="list-style-type: none"> NRIs/PIOs have been permitted to utilise the funds in their NRO accounts to the extent of card limit, for settlement of International Credit Card charges in respect of cards issued by banks in India.
2. Foreign Direct Investment in India (other than in real estate)	<p>a) FDI for NRIs with repatriation benefits are to be cleared by the Reserve Bank/ Government under FDI policy.</p> <p>b) FDI for other non-resident individuals are to be cleared by Government and the Reserve Bank.</p>	No Reserve Bank permission for FDI subject to reporting by ADs.	<ul style="list-style-type: none"> Government of India have since substantially expanded foreign investment under the "RBI's Automatic Route" to include all items/activities, except certain items, (<i>i.e.</i>, 6 prohibited items and 12 items included in the negative list) for investment under FDI and NRI investment, subject to sectoral caps. Investment under automatic route requires reporting of the transaction to the Reserve Bank within 30 days. Investments exceeding these sectoral caps or investment in sectors in the negative list requires approval from FIPB. A registered broker in India may purchase shares of an Indian company on behalf of person resident outside India for the purpose of converting the shares so purchased into ADRs/GDRs subject to certain conditions. Existing non-resident shareholders have been permitted to apply for issue of additional equity shares or preference shares or convertible bonds over and above their rights entitlement, subject to sectoral cap.
3. Portfolio Investment in India through stock exchanges	Allowed to NRIs within the 24 per cent ceiling (can be increased to 30 per cent at the option of the company) which includes portfolio investment by NRIs, FIIs and OCBs subject to approval by the Reserve Bank which is given for a period of five years. The investment restricted to 1 per cent by individual NRIs/ OCBs and 10 per cent by individual FIIs.	Allowed to all non-residents without the Reserve Bank's prior approval. Designated ADs would be required to report to the Reserve Bank.	<ul style="list-style-type: none"> An NRI is permitted to purchase/ sell shares and/or convertible debentures of an Indian company through a registered broker on a recognised stock exchange provided : <ul style="list-style-type: none"> (i) the NRI routes all his transactions through designated branch of an AD in India. (ii) the paid-up value of shares purchased by NRIs/ both on repatriation/non-repatriation basis does not exceed 5 per cent of the total paid-up capital of the company concerned. (iii) the paid-up value of each series of convertible debentures both on repatriation/non-repatriation basis does not exceed 5 per cent of the total paid-up value of each series of the convertible debentures of the company concerned.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
			<p>(iv) The aggregate paid-up value of shares of the company purchased by NRIs does not exceed 10 per cent of the total paid-up capital and in the case of convertible debentures, the aggregate paid-up value of the each series of debentures purchased by NRIs does not exceed 10 per cent of the total paid-up value of each series of the convertible debentures of the concerned company.</p> <ul style="list-style-type: none"> • The above ceilings of 10 per cent can be raised to 24 per cent if a Special Resolution to that effect is passed by the General Body of the Indian company concerned. • The facility to NRIs/FIIs/FVCIs to purchase shares or convertible debentures of an Indian company, which is engaged in Print Media Sector has been withdrawn. The restriction is also applicable to purchase of shares and convertible debentures of NRIs on non-repatriation basis.
4. Disinvestment	Disinvestment to be approved by the Reserve Bank except where sales are made through stock exchange under portfolio investment scheme.	The Reserve Bank approval to be dispensed with.	<ul style="list-style-type: none"> • Reserve Bank has issued Notification in terms of which exemption has been granted for sale/transfer of shares, bonds, or debentures of Indian companies by NRIs/PIOs through stock exchange in cases where such transfers are made in favour of Indian citizens or PIOs resident in India or in favour of body corporate/ incorporated under any law in force in India provided the transferor had purchased/ acquired shares/bonds/ debentures in accordance with the terms and conditions prevailing under FEMA, the Reserve Bank approval granted at the time of acquisition or the Reserve Bank Notification No. FEMA 20/3.5.2000.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
V. FINANCIAL MARKETS			
1. Foreign Exchange Market			
(a) Forward Contracts	Forward contracts are allowed to be booked on the basis of business projections in respect of exporters and importers. Also forward cover allowed for non residents for limited purposes such as dividend remittance and freight/passage collections.	To allow all participants in the spot market to participate in the forward market; FIIs, non residents and non resident banks having rupee assets can be allowed forward cover to the extent of their assets in India. Banks to be allowed to quote two way in rupee to overseas banks/ correspondents both spot and forward subject to their position/ gap limits. Those with economic exposures to be allowed to participate in forward market. In Phase III, no restrictions in spot/ forward market participation.	<ul style="list-style-type: none"> Importers/exporters are now permitted to book forward contracts on the basis of declaration of an exposure upto the eligible limits (the average of the past three year's export/import turnover or the previous year's turnover, whichever is higher) subject to the condition that the contracts so booked and outstanding at any point of time shall not exceed 50 per cent (raised from 25 per cent) of the eligible limit, provided that contracts booked for amounts in excess of 25 per cent of the eligible limit shall be on a deliverable basis. Reserve Bank on application may consider permitting importers / exporters desirous of availing limits higher than the overall cap of 50 per cent to book forward contracts on the basis of past performance. ADs have been given freedom to offer the facility of rebooking of cancelled contracts to all foreign exchange exposures falling due within one year without any cap. ADs may also enter into forward contracts with residents in respect of transactions denominated in foreign currency but settled in Indian Rupees. These contracts shall be held till maturity and cash settlement would be made on the maturity date by cancellation of the contracts. Forward contracts covering such transactions once cancelled, are not eligible to be rebooked. Resident entities having overseas direct investments have been permitted to hedge the exchange risk arising out of such investments. Accordingly, ADs may enter into forward/option contracts with residents who wish to hedge their overseas direct investments (both in equity and loan), subject to verification of such exposure and provided further that the contracts are completed by delivery or rolled over on the due date. Foreign banks may hedge the entire Tier I capital held by them in Indian books subject to the conditions prescribed by the Reserve Bank.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
(b) Authorised Dealers	Authorised dealers at present are only banks.	All India Financial Institutions (FIs), which comply with the regulatory / prudential requirements and fulfill well defined criteria, should be allowed to participate as full-fledged ADs in the forex market. In Phase III, to allow select Non-Banking Financial Companies (NBFCs) to act as full fledged ADs on the basis of criteria similar to FIs.	Action deferred.
(c) Products	Currently, the only derivative in the Rupee-Dollar market is the forward contract. ADs have been allowed to enter into Rupee/Dollar currency swaps with counterparties in India subject to open position and gap limits. Cross currency derivatives and interest rate derivatives allowed for covering underlying exposures to be routed through ADs.	All derivatives including rupee based derivatives to be allowed. Futures in currencies and interest rates to be introduced with the system of screen based trading and an efficient settlement mechanism. In Phase II, direct access to overseas markets by corporates for derivatives without routing through ADs.	<ul style="list-style-type: none"> • Index based futures have been introduced. • Residents and non-residents have been permitted foreign currency rupee options to hedge currency exposures. • FIIs have been permitted to trade in all exchange traded derivative contracts approved by SEBI, subject to limits prescribed by SEBI. • NRIs have been permitted to invest in exchange trade derivative contracts approved by SEBI, out of Rupee funds held in India on non-repatriation basis, subject to limits prescribed by SEBI. Such investment is not eligible for repatriation. • Derivative products like forward rate agreements and interest rate swaps were introduced in July 1999 to enable banks, FIs and Primary Dealers (PDs) to hedge interest rate risks.
2. Government Securities market	A number of measures have been taken to strengthen the market for Government Securities such as a move towards market related rates of interest, introduction of auctions and new instruments and measures to develop the secondary market through Primary Dealers (PDs) and Satellite Dealers (SDs).	i) Access to FIIs in Treasury Bill market; (ii) the Reserve Bank to develop Treasury Bill market offering two-way quotes; (iii) Government Securities (including Treasury Bills) futures to be introduced; (iv) the Reserve Bank to provide Liquidity Adjustment Facility to PDs through Repos and Reverse Repos and (v) number of PDs and SDs to increase.	<ul style="list-style-type: none"> • FIIs were permitted to purchase/sell Treasury Bills and Government dated Securities • Role of Primary Dealers have been increased. • New auction based instruments introduced. • Floating Rates Bonds (FRBs) benchmarked to the 364 day treasury bill yields and a 10 year loan with embedded call and put options exercisable on or after 5 years from the date of issue were introduced.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
		<p>Progressive increase in share of PDs in underwriting. Commission to PDs to be related to underwriting commitment. (vi) Government to initiate action for setting up of an Office of Public Debt (OPD) (vii) Delivery Versus Payment (DVP) system to be fully automated for all securities on a real time basis with proper safeguards for ensuring that risks are controlled.</p>	<ul style="list-style-type: none"> • FIs were allowed to set up 100 per cent debt funds to invest in Government dated securities in both primary and secondary markets. • A practice of pre-announcing a calendar of treasury bills and government securities auctions to the market was introduced. • The Negotiated Dealing System (NDS) was operationalised in February 2002 to enable on line electronic bidding facility in the primary auctions of Central/ State Government securities, Open Market Operation (OMO)/LAF auctions, screen based electronic dealing and reporting of transactions in money market instruments, including repo and to facilitate information on trades with minimal time lag. • Retail trading of Government Securities at select stock exchanges commenced in January 2003. • Improvements in transparency of operations and data dissemination.
3. Gold	<p>There were restrictions on import of gold. There were only three channels through which import of gold was allowed.</p> <p>(i) Through canalising agencies (ii) through returning NRIs and (iii) through special import licences.</p>	<p>(i) Banks and financial institutions fulfilling well defined criteria to be allowed to operate freely both in domestic and international markets; (ii) Sale of gold by banks and FIs included under (i) above to be freely allowed to all residents; (iii) Banks to be allowed to offer gold denominated deposits and loans; (iv) Banks fulfilling well-defined criteria may be allowed to mobilise household gold and provide working capital gold loans to jewellery manufacturers as also traders; (v) Banks may be allowed to offer deposit schemes akin to GAPs (gold accumulation plans).</p>	<ul style="list-style-type: none"> • Banks fulfilling certain criteria have been permitted to import gold. Banks have been permitted to accept gold under the Gold Deposit Scheme. • Banks have been permitted to use exchange traded and Over the Counter (OTC) hedging products to manage their price risk.

Item	Position at the time of Report	Recommendation of the Committee	Measures undertaken
1	2	3	4
4. Participation in international commodity markets.	Not allowed.	To be allowed.	<ul style="list-style-type: none"> Indian entities having genuine underlying exposure have been permitted to access international commodity exchanges for Exchange Traded Futures Contract/ Options (purchase only) for hedging commodity price. Hedging of oil & petroleum products permitted since September 2000. Further, Indian entities have also been permitted to use OTC future contracts based on average prices. They have been permitted to hedge exposures to bullion prices arising from export commitments in the London Bullion Market (through London Bullion Market Association approved brokers) besides recognised international exchanges. General permission has been granted to entities in Special Economic Zones (SEZs) for undertaking hedging transactions in the international commodity exchanges/markets to hedge their commodity price risks on import/export, provided, such transactions are undertaken on stand-alone basis. (By "Stand-alone" it is meant that units in the SEZs would be completely isolated from financial contacts with their parent or subsidiaries in the mainland or within the SEZs as far as their import/export transactions are concerned). Foreign banks have been given freedom to make their own decision as regards the timing to hedge their Tier I capital held in Indian books.