

**Indian Direct Investment Outside India**  
**[A.P. (DIR Series) Circular No.23]**

**Reserve Bank of India**  
**Exchange Control Department**  
**Central Office**  
**Mumbai 400 001**

February 19, 2002

A.P. (DIR Series) Circular No.23

To,  
All Authorised Dealers in Foreign Exchange

Madam/Sirs,

**Indian Direct Investment Outside India**

Attention of authorised dealers is invited to Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2000 notified by the Reserve Bank vide Notification No. FEMA 19/RB-2000 dated 3<sup>rd</sup> May 2000 as amended from time to time.

2. In terms of Regulation 6 of the Notification, Indian parties are permitted to make direct investment in Joint Venture (JV) or Wholly Owned Subsidiary (WOS) outside India subject to their complying with the conditions specified therein. In this connection, it is clarified that the general permission under Regulation 6 does not include investment proposals which envisage setting up a holding company or a Special Purpose Vehicle abroad, which would in turn set up one or more step down subsidiaries as operating units. Accordingly authorised dealers are advised that overseas investment proposals through a two-tier structure, as explained above would require prior approval of the Reserve Bank.

3. In terms of clause (v) of Sub-regulation (2) of Regulation 6, Indian parties included in the Reserve Bank's Caution List are not eligible to make overseas investments under the automatic route. It is clarified that this restriction is also applicable to Indian parties which are defaulters to the banking system in India and whose names appear in the Defaulters List published/circulated by the Reserve Bank. Authorised Dealers may, while allowing remittances under the automatic route, satisfy themselves that the Indian party proposing to make the investment is not included

in the defaulters' list. Indian parties whose name appear in the defaulters' list may be advised to apply to the Reserve Bank for prior approval for the investment.

4. Authorised Dealers may bring the contents of this Circular to the notice of their constituents concerned.

5. The directions contained in this circular have been issued under Section 10 (4) and Section 11 (1) of the Foreign Exchange Management Act 1999 (42 of 1999).

Yours faithfully,

**Grace Koshie**  
**Chief General Manager**