

**RESERVE BANK OF INDIA
FOREIGN EXCHANGE DEPARTMENT
CENTRAL OFFICE
MUMBAI-400 001**

**RBI/2005-06/203
A.P. (DIR Series) Circular No.16**

November 11, 2005

To

All Banks Authorised to Deal in Foreign Exchange

Madam/Sir,

Foreign Investments in Asset Reconstruction Companies (ARC)

Attention of Authorized Dealers is invited to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified by the Reserve Bank of India vide Notification No.20 dated 3rd May 2000 as amended from time to time.

2. Foreign Direct Investments in Asset Reconstruction Companies (ARCs)

In consultation with Government of India, it has been decided to permit persons/ entities eligible under the Foreign Direct Investment (FDI) route, other than FIIs to invest in the equity capital of Asset Reconstruction Companies (ARCs) registered with the Reserve Bank of India. A copy of the press release dated November 8, 2005 issued by the Government is enclosed.

It is clarified that in the ARCs, only Foreign Direct Investment will be permitted. However, investments by Foreign Institutional Investors (FIIs) will not be permitted.

Accordingly, Foreign Investment Promotion Board (FIPB) would henceforth consider applications from eligible persons/entities under the FDI route to invest in the paid up equity capital of Asset Reconstruction Companies which are registered with the Reserve Bank of India subject to the following conditions:

- (a) Maximum foreign equity shall not exceed 49% of the paid up equity capital of the ARC.

- (b) Where investment by any individual entity exceeds 10% of the paid up equity capital, ARC should comply with the provisions of Section 3(3) (f) of Securitization and Reconstruction of Financial Assets and Enforcement of Security Interest Act, 2002 (SARFAESI Act).

3. Investments in Security Receipts issued by ARCs

It has also been decided to grant general permission to Foreign Institutional Investors (FIIs) registered with Securities and Exchange Board of India (SEBI) to invest in Security Receipts (SRs) issued by Asset Reconstruction Companies (ARCs) registered with RBI. FIIs can invest upto 49 per cent of each tranche of scheme of Security Receipts subject to condition that investment of a single FII in each tranche of scheme of SRs shall not exceed 10 per cent of the issue.

4. The policy on FDI in ARCs would be subject to review after two years and that of FII investment in SRs would be reviewed after one year.

5. Necessary amendments to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) are being issued separately.

6. Authorised Dealer banks may bring the contents of this circular to the notice of their constituents and customers concerned.

7. The direction contained in this circular has been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

(Vinay Baijal)
Chief General Manager