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- Foreign Investment Impetus: Withdrawal of Press Note No.18
- Proposed Restrictions on Private Equity Funds of Foreign Banks which have a Presence in India

» Foreign Investment Impetus: Withdrawal of Press Note No.18

Press Note No. 18, a deterrent to foreign investment, has been proposed to be withdrawn ahead of Prime Minister Manmohan Singh's US visit next week. This proposal is in accordance with the Finance Ministry's recommendations made last year.

Under Press Note 18, the automatic route for Foreign Direct Investment and/or technology collaboration was not available to those foreign collaborators who have or had any previous joint venture or technology transfer/trade-mark agreement in the same or allied field in India (prior Indian collaborator), unless such foreign collaborator took the prior consent of the prior Indian collaborator and approached the FIPB (Foreign Investment Promotion Board) for clearance.

This veto power of the prior Indian collaborator had led to roadblocks in various proposals for new investments by foreign companies.

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» Proposed Restrictions on Private Equity Funds of Foreign Banks which have a Presence in India

RBI [Reserve Bank of India] has proposed that the private equity investment arms/funds of foreign banks which have a presence in India may not be allowed to pick up more than 5% stake in other private sector domestic banks.

However, where the equity funds of such foreign banks wish to invest in more than 5% of the share capital of a private Indian Bank, RBI's permission would have to be sought and the same would be considered on a case to case basis.

It has been further proposed that where such foreign banks through their private equity arm hold more than 5% of the equity share capital of a private Indian bank, then they may be given three years to dilute their stakes to the 5% limit. Some of the foreign banks have received feelers with regard to the same from RBI.

The 5% shareholding restriction would also apply to FIIs of foreign banks, which have a presence in India.

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