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FOREIGN INVESTMENT FOR ASSET RECONSTRUCTION COMPANY



The Department of Industrial Policy and Promotion (DIPP) has released Press Note No.4 (2016 series) on May 6, 2016 ("Press Note") which has amended 'Consolidated FDI Policy Circular of 2015' relating to Asset Reconstruction Companies (ARCs) under the automatic route from **present 49% to 100%**.

'Consolidated FDI Policy Circular of 2015' prescribed FDI in ARC under automatic route upto 49% of paid up capital and beyond 49% Government approval was required.

With the aforesaid amendment foreign direct investment is now allowed upto 100 % under automatic route in ARCs.

The following are some condition for Investment

1. **Person resident outside India** can invest in the capital of ARC registered with RBI, up to **100% on the automatic route**.
2. Investment limit of a sponsor in the shareholding of ARC will be governed by the provision of the Securitization and Reconstruction of Financial Asset and Enforcement of Security Interest Act (SARFAESI).
3. The total shareholding of individual **foreign institutional investors (FII)/foreign portfolio investors (FPIs) shall be below 10 %** of the total paid-up capital.
4. FII/FPIs have been permitted to invest up to 100 % of each tranche in security receipts issued by ARCs, subject to RBI directions/guidelines.

Our Views

This move by DIPP is good news for ARCs as well for Companies struggling for funds as banks refuse to give steep discounts on the stressed assets and the ARCs have to make an upfront payment of 15% of the cost of the asset.

For details press note please follow the following link
http://dipp.nic.in/English/acts_rules/Press_Notes/pn4_2016.pdf

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