JMP Advisors

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NEWS ALERT

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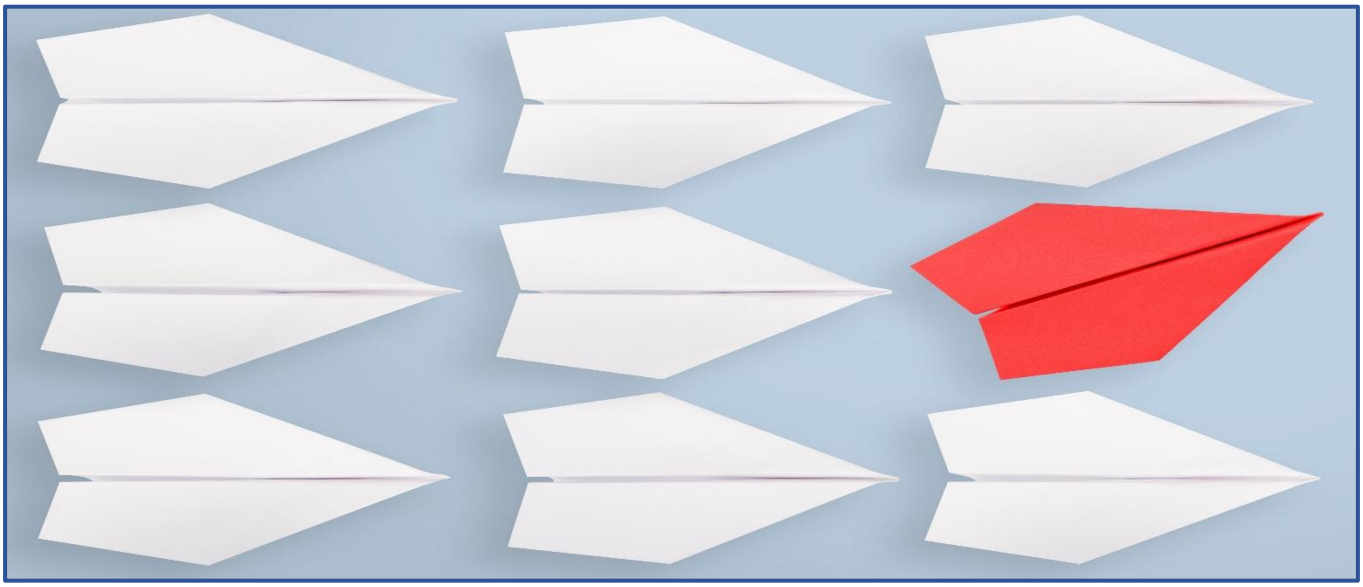

Changes in FDI policy relating to investments from countries sharing land border with India

The Foreign Direct Investment ('FDI') regime in India underwent a significant shift in 2020, when the Government introduced additional safeguards for investments originating from countries sharing a land border with India ('Specified Countries'). Such investments were brought under the Government approval route to curb opportunistic takeovers during the COVID-19 pandemic period.

In March 2026, a Press Release[1] was issued which proposed that investors from Specified Countries with a non-controlling Beneficial Ownership ('BO') of up to ten percent would be allowed under the automatic route, subject to applicable sectoral caps, entry routes and related conditions.

It was also proposed that investment proposals from the Specified Countries in certain sectors such as capital goods manufacturing, electronic capital goods, electronic components, polysilicon and ingot-wafer shall be processed and decided within 60 days. In such cases, majority shareholding and control of the investee entity shall always remain with resident Indian citizen(s) and/or resident Indian entity(ies) that are owned and controlled by resident Indian citizen(s).

Later in March 2026, the Department for Promotion of Industry and Internal Trade ('DPIIT') has issued Press Note 2 (2026 Series)[2], introducing amendments aimed at clarifying and streamlining the existing FDI policy.

A key amendment addresses the longstanding ambiguity surrounding the determination of BO. The Press Note proposes to align the definition of BO with the framework prescribed under the

[1] Press Release ID 2237806 dated 7 March 2026

[2] DPIIT F. No. 5(5)/2020-FDI Policy (Pt-1) dated 15.03.2026

Prevention of Money laundering Act, 2002 and the Prevention of Money-laundering (Maintenance of Records) Rules, 2005 ('PMLA Rules').

The amendment has materially changed the criteria for determining whether the BO is in an LBC. Previously, the conditions were considered to be satisfied even where the BO was located in a Specified Country. In this context, the Press Note clarifies that BO will be considered to be vested in Specified Countries where a citizen or entity incorporated/registered in such country:

- holds beneficial ownership beyond the prescribed thresholds under the PMLA Rules; or
- exercises control over the investor entity; or
- has ultimate effective control over the investee entity in any manner

Additionally, the Press Note introduces compliance in a format to be specified by DPIIT for investments that do not otherwise require prior Government approval. These will operate alongside existing conditions relating to sectoral caps, entry routes, and other applicable regulatory requirements under the FDI policy

Should you wish to discuss any of the above issues in detail or understand the applicability to your specific situation, please feel free to reach out to us on coe@jmpadvisors.in.

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