CORPORATE CONNECT

PRESS NOTE 3 OF 2020 REVISITED

The Union Cabinet on March 10, 2026, approved changes in guidelines on inward foreign investments from countries sharing a land border with India ("**LBC**"). Subsequently, on March 15, 2026 the DPIIT, Ministry of Commerce and Industry issued Press Note No. 2 (2026 Series) ("**PN-2 2026**"). The proposed amendments will take effect from the date of the corresponding Foreign Exchange Management Act, 1999 ("**FEMA**") notification.

Foreign investments from LBC investors were first regulated during the COVID-19 pandemic to curb opportunistic takeovers/acquisitions of Indian companies under Press Note No. 3 of 2020 ("**PN-3**"). As per PN-3, any foreign investments from LBC, and direct or indirect transfers of ownership of an Indian entity that resulted in beneficial ownership transferring to an investor from an LBC, were subject to prior government approval. In the absence of a definition of beneficial ownership under the PN-3 the yardstick for determining the beneficial ownership by the market participant was aligned with the threshold of 10% of shares or capital or profits provided under the Prevention of Money Laundering (Maintenance of Records) Rules, 2005 ("**PML Rules**") and 10% of shares or voting rights based on the definition of *"Significant Beneficial Owner"* under the Companies Act, 2013.

Key Changes to the FDI Policy, notified via PN-2 2026:

(a) The expression *'beneficial owner'* has been assigned the same meaning as under the Prevention of Money-laundering Act, 2002, and shall be determined as per Rule 9(3) of the PML Rules;

(b) The beneficial ownership shall be vested in LBCs, only if the citizen(s) and/or entity(ies) incorporated or registered in LBCs can directly or indirectly hold rights/entitlements:

(i) exceed 10% thresholds prescribed under Rule 9(3) of the PML Rules over an investor entity which is incorporated or registered in a country other than a country LBCs; or

(ii) which enable them to exercise control over the investor entity referred to above; or

(iii) which enable them to exercise ultimate effective control over the investee entity in any manner.

Accordingly, any investment with beneficial ownership not construed as to be vested in LBCs under the aforesaid conditions will not be subject to prior Government approval. However, such investments are made subject to reporting requirements in the format as per the standard operating procedure laid down by DPIIT.

Cabinet Decision on Expedited Approval:
The Union Cabinet has approved a defined timeline of 60 days for the expedited clearance of proposals for LBC investments in specific manufacturing sectors/activities of capital goods, electronic capital goods, electronic components, polysilicon and ingot-wafer subject to condition that majority shareholding and control of the investee entity shall be with resident Indian citizen(s) and/or resident Indian entity(ies) owned and controlled by resident Indian citizen(s), at all times. It is important to note that provisions pertaining to the defined timeline do not form part of the PN-2 2026 and remain only a cabinet decision as of now.

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