NEWS ALERT

10 July 2026

India widens investment opportunities to foreign individual investors: Key changes to the Non-Debt Instruments Framework[1];

In a significant move to deepen foreign participation in Indian capital markets, the Government of India and the Reserve Bank of India (RBI) have introduced a series of amendments in June 2026 to the Foreign Exchange Management (Non-Debt Instruments) framework ('NDI Rules'). The most notable change comes through the Foreign Exchange Management (Non-Debt Instruments) (Third Amendment) Rules, 2026, notified on 12 June 2026.

i. A landmark shift in investor eligibility

The investments under Schedule III on a repatriation basis were available only to Non-Resident Indians ('NRIs') and Overseas Citizens of India ('OCIs'). The amendment replaces references to 'NRI or OCI' with the broad category of 'an individual person resident outside India, including an NRI or an OCI.'

As a result, all individual persons resident outside India ('PROIs') are now eligible to invest in and transfer equity instruments and other eligible securities of listed Indian companies through recognised stock exchanges in India on repatriation basis, subject to prescribed conditions.

ii. Transfer of Securities

The amendments provide greater flexibility for foreign individual investors. A PROI holding equity instruments of an Indian company or units on repatriation basis, is permitted to transfer such holdings through sale or gift to another PROI.

[1] Notification S.O. 3030(E)

However, prior Government approval will continue to be required where the Indian company operates in a sector that requires Government approval under the foreign investment regime.

iii. Land Border safeguards

While investor participation has been widened, the Government has retained safeguards for investments linked to countries sharing a land border with India.

Prior approval of Government remains mandatory where:

- an investment or transfer results in the transfer of ownership or control of an Indian company to an entity or citizen of a country sharing a land border with India; or

- the beneficial owner of the investment is a citizen of such a country. The concept of 'beneficial owner' is aligned with the framework under the Prevention of Money Laundering Act, 2002.

iv. Revised Investment Limits

Individual Investment Limit

The holding of any PROI must remain:

- below 10% of the total paid-up equity capital of an Indian company on a fully diluted basis; or

- below 10% of the paid-up value of each series of debentures, preference shares or share warrants

Aggregate Investment Limit

The combined holdings of all individual PROIs under Schedule III must not exceed:

- 24% of the paid-up equity capital on a fully diluted basis; or
- 24% of each series of debentures, preference shares or share warrants.

Cross-Aggregate Limit

The total holding of an individual PROI in a listed Indian company, whether acquired as a Foreign Portfolio Investor ('FPI') under Schedule II, as a PROI under Schedule III, or under any other schedule under the NDI Rules, must remain below the prescribed individual threshold of 10%.

Where such shareholding is 10% or more, specific corrective measures become applicable.

v. Structured mechanism to address breach of investment limits

Mandatory divestment

Where a PROI or a FPI acquires securities that result in a holding of 10% or more as mentioned in the cross-aggregate limit, the excess position must be divested within five trading days from the date of settlement of the transaction that caused the breach.

Reclassification as Foreign Direct Investment

If the investor does not divest within the prescribed period:

- the entire investment of that investor in the company will be reclassified as Foreign Direct Investment ('FDI'); and

- the investor will not be permitted to make any further portfolio investments in that company.

  Where a PROI's holding is reclassified as FDI, the investment will need to comply with the full range of FDI conditions applicable under the NDI Rules including inter alia entry routes, sectoral caps and reporting obligations.

Reporting Obligation

The concerned investor must, through the designated branch of the Authorised Dealer (AD), notify the depositories and the investee company within seven trading days from the date of settlement of the trades causing the breach. Importantly, a breach of the aggregate or sectoral limit on account of such acquisition, for the period between the acquisition and the sale or conversion to FDI within the prescribed time, shall not be reckoned as a contravention under the NDI Rules.

Reporting and payment framework aligned with the NDI Rules[2]

Following the NDI amendments, the RBI issued the Foreign Exchange Management (Mode of Payment and Reporting of Non-Debt Instruments) (Amendment) Regulations, 2026 on 13 June 2026 to align payment and reporting requirements with the expanded investor base.

i. Remittance of consideration amounts for investments by PROI on repatriation basis

Previously NRIs or OCIs were allowed to remit investment consideration by inward remittance from abroad through banking channels or out of funds held in account maintained as per Foreign Exchange Management (Deposit) Regulations, 2016 ('Deposits Regulations').

As per the amendment, investors may also make such investments using funds held in any repatriable deposit account or repatriable rupee account maintained in accordance with Deposit Regulations.

The sale proceeds (net of taxes) of equity instruments may be remitted outside India or may be credited to designated rupee account. Further, the sale proceeds (net of taxes) of units of mutual funds and subscription to National Pension System by NRIs/OCIs may be remitted outside India or may be credited to any account maintained in accordance with the Deposit Regulations.

ii. Remittance of consideration amounts for purchase or subscription of equity shares of Indian companies listed on an international exchange

The foreign investors purchasing or subscribing to equity shares of Indian companies listed on international exchanges were previously allowed to remit investment consideration by inward remittance from abroad through banking channels or out of funds held in foreign currency account maintained in accordance with Deposit Regulations.

The amendment provisions now provide an additional funding option. Investors may also make such investments using funds held in any repatriable deposit account or repatriable rupee account maintained in accordance with Deposit Regulations.

The sale proceeds (net of taxes) of the equity shares may be remitted outside India or may be credited to the bank account of the permissible holder maintained in accordance with the Deposit Regulations.

iii. Reporting Requirement: Introduction of Form LEC (IFI)

Authorised Dealer Category-I Banks are required to report purchases and transfers of equity instruments undertaken by PROIs under new Form LEC (IFI) – Individual Foreign Investor. This replaces the earlier Form LEC (NRI).

[2] Notification No. FEMA. 395(4)/2026-RB

FDI Reforms Reshape India's Insurance Sector[3]

The Ministry of Finance has amended the Foreign Exchange Management (Non-debt Instruments) Rules, 2019, introducing significant changes for the insurance sector. Foreign direct investment (FDI) in insurance companies and insurance intermediaries is now permitted up to 100% under the automatic route, subject to IRDAI approval and compliance with the Insurance Act, 1938. The limit for the Life Insurance Corporation of India (LIC) remains capped at 20%.

Insurance intermediaries with majority foreign ownership must be structured as limited liability companies under the Companies Act, 2013.The rules also mandate that at least one key managerial position in companies with foreign investment must be held by a resident Indian citizen, disclose group payments and bring in advanced technological and managerial expertise.

Fresh allotment or transfer of shares to non-resident investors will need to adhere to applicable valuation norms (such as fair valuation requirements) and other pricing conditions notified under these rules and related RBI directions.

Where an entity, whose primary business is outside the insurance area, is permitted by IRDAI to work as an insurance intermediary, the foreign equity cap applicable to its primary sector shall continue to apply. Further, revenue from non-insurance business for such entities should remain above 50% of total revenue in each financial year.

These reforms aim to attract greater foreign participation, enhance competitiveness, and strengthen regulatory oversight in India's insurance landscape.

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[3] Notification S.O. 2186(E)

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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