FIDC

Finance Industry Development Council

(A body incorporated as a Self Regulatory Organisation for Registered NBFCs – AFCs)

October 03, 2008

Shri.P. Chidambaram
Finance Minister
Government of India
North Block
New Delhi - 110 001.

Respected Sir,

SUB: Simplification of Overseas Direct Investment process for NBFCs

Indian overseas investment policies have been progressively liberalized and simplified to meet the changing needs of a growing economy. With the increased liberalization in the outbound investments policy, the Indian corporate houses have embarked on their long awaited journey to go global, primarily for the following reasons:

1. To attain size for attaining the economies of scale and thus competing in the global arena.
2. To gain new markets and customers,
3. To acquire new skill sets, and
4. To obtain access to natural resources.

Domestic Financial Sector

With the entry of large foreign banks and financial institutions in India and increased international competition, the domestic financial companies should also be allowed a level playing field. Further, with the growth of the Indian industrial MNCs in overseas markets, it has become all the more necessary for Indian financial institutions to have presence in countries where their Indian clients require financial services, more particularly from Indian financial services companies because of familiarity and better understanding. The Indian financial institutions should, therefore, be permitted and facilitated, **in form and in spirit**, to go overseas to access international markets for raising various resources and tap business opportunities.

Under the existing outbound FDI regulations[1], a financial institution including a Non Banking Financial Company (NBFC) is permitted to make investments in an entity outside India in the financial services sector as

[1] Notification No FEMA 19/ RB 2000 dated 3rd May, 2000 and Notification No FEMA 120/ RB 2004 dated 7th June, 2004.

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per the automatic route subject to fulfilling certain conditions, one of which is to obtain prior approval of the Indian Regulator viz. the Reserve Bank of India (RBI).

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It has been the general experience that an approval from RBI for this purpose takes anywhere between 1-3 years' time frame. Thus, while in form the Government has permitted ODIs for NBFCs, the objectives have not been met in spirit, leading to loss of business opportunities

With a view to encourage the Indian financial services sector, we request an exemption be made from prior RBI approval for **Specified Indian NBFCs** for making investments / financial commitments in entities outside India engaged in the financial sector **up to 400%** of the net worth of the Specified Indian NBFC.

Specified Indian NBFC' could be an NBFC which must fulfill the following conditions:

?? Net worth greater than **Rs 100 crores**

?? Has earned net profit during the preceding three financial years from the financial service activities.

?? Has fulfilled the prescribed prudential norms relating to capital adequacy.

Specified Indian NBFCs, with profitable track record, are competent and sufficiently evolved to make mature and calculated business decisions and accordingly, the risk of diminution in net worth of the Indian NBFC is significantly reduced. Moreover, this category of NBFCs (Deposit taking – NBFC-D or Non Deposit taking Systemically Important – NBFC-ND-SI) are already subject to RBI's prudential norms and other regulations and also report to RBI on regular basis.

The Automatic route will provide greater freedom and flexibility to the leading Indian NBFCs to enter the global arena on an opportunistic basis. They should not be required to disclose sensitive information about their acquisition targets to various intermediaries, which in many instances, have disrupted the projects.

We request you to kindly consider our request and, if necessary, call for a meeting to offer any clarifications you may require.

We are extremely thankful for your support to the NBFC Sector and trust that our submissions will receive your kind and favourable consideration as in the past.

Thanking You.

Yours sincerely

For **FINANCE INDUTRY DEVELOPMENT COUNCIL**

MAHESH THAKKAR
DIRECTOR GENERAL

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Dr. D. Subbarao
Goveror
Reserve Bank of India
Central Office Building, 18th Floor,
Shahid Bhagat Singh Road,
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Under the existing outbound FDI regulations[2], a financial institutions including a Non Banking Financial Company (NBFC) is permitted to make investments in an entity outside India in the financial services sector as per the automatic route subject to fulfilling certain conditions, one of which is to obtain prior approval of the Indian Regulator viz. the Reserve Bank of India (RBI).

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