JAIN SHRIMAL & CO.

# FEMA Ke Fundae

#FamiliarwithFEMA


## Reclassification of Foreign Portfolio Investment to Foreign Direct Investment (FDI).

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**RAVI**

Hi FEMA Gyani, I recently started working in a role focusing on foreign investments at my investment banking firm. I'm trying to understand how Foreign Portfolio Investments (FPI) can be reclassified into Foreign Direct Investments (FDI). Could you help me out?

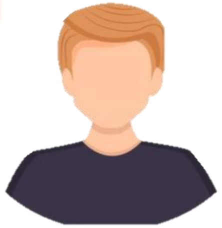
Of course, Ravi! I'd be happy to explain the operational framework for reclassifying FPI to FDI. Where would you like to start?

**The FEMA Gyani**

**RAVI**

What’s the main reason for this reclassification?

Okay, let’s break it down. Foreign Portfolio Investments (FPIs) are usually smaller stakes in companies. By the rules, they can’t own more than 10% of a company’s paid-up equity. If they accidentally cross that limit—either by buying more shares or due to some corporate action—they have two options



**The FEMA Gyani**

Sell off the excess shares to stay within the 10% limit.

Reclassify their entire holding in that company as FDI.

**RAVI**

Why can’t they just hold the extra shares as FPI?

Because the rules treat FPIs and FDIs differently. FDI investors are seen as long-term, strategic investors and must comply with stricter rules, like sectoral caps, pricing guidelines, and government approvals. Allowing FPIs to bypass those would create regulatory confusion

**The FEMA Gyani**

**RAVI**

Got it. If an FPI chooses to reclassify as FDI, what's the process?

**The FEMA Gyani**

First, the FPI needs to ensure that the sector allows FDI. Some sectors, like gambling or atomic energy, don't allow FDI at all.

Second, they must:

Get any required government approvals, especially for sensitive investments, like those from bordering countries.

Get the Indian company's consent, ensuring it's okay with having an FDI investor.

**RAVI**

Why does the Indian company's consent matter?

Because FDI investors bring more responsibilities. The company needs to ensure compliance with FDI-specific rules, like sectoral caps and restrictions.

**RAVI**

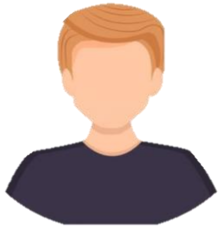
What happens next after approvals?

**The FEMA Gyani**

Once approvals are in place, the FPI tells its custodian to stop buying more shares of that company.

At this stage, we wait for everything to be finalized. Once that’s done, the reporting begins:

- If the shares causing the breach were newly issued, the company reports it in Form FC-GPR.
- If the shares were bought on the stock market, the FPI reports it in Form FC-TRS.
- The AD bank, report the reclassification to RBI.



**The FEMA Gyani**

**RAVI**

And once reporting is done?

The FPI asks its custodian to move the shares from its portfolio investment account to its FDI account. Once that’s complete, the FPI is officially an FDI investor in that company

Does this mean they can later go back to being an FPI if their holding drops below 10%?

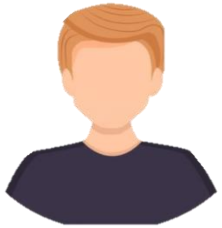
**RAVI**

**The FEMA Gyani**

No, that’s a one-way street. Once reclassified as FDI, the investment remains FDI, even if the holding falls below 10% later.

**RAVI**

Is there a time limit for all this?



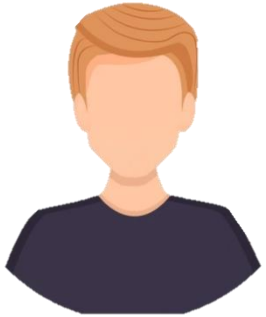
**The FEMA Gyani**

Yes. Everything—approvals, reporting, and reclassification—must be completed within five trading days of the breach. If they can’t meet the deadline, they’ll have to sell the excess shares instead.

**RAVI**

Thank you for helping me understand the topic. Wishing you a Merry Christmas!

# Thank You

The FEMA Gyani

**Comments**

**Feedbacks**

**Suggestions**

International Tax Gyan
WhatsApp group

https://in.linkedin.com/company/jscoca

WEBSITE https://jainshrimal.com/

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