PRESS RELEASE

Circular 1 of 2011, being released today, is the third edition of the Consolidated FDI Policy. One year has passed since the policy on Foreign Direct investment (FDI), was consolidated and released for the first time, effective 1.4.2010. At that time, Government had committed to updating this document every six months. The second edition was released, effective from 1.10.2010.

2. The following major changes have been incorporated in the latest consolidation:

(i) <u>Pricing of Convertible instruments</u>
(paragraph 3.2.1 of Circular 1 of 2011):

Instead of specifying the price of convertible instruments upfront, companies will now have the option of prescribing a conversion formula, subject to the FEMA/ SEBI guidelines on pricing. This would help the recipient companies in obtaining a better valuation based upon their performance.

(ii) <u>Inclusion of fresh items for issue of shares against non-cash considerations</u>
(paragraph 3.4.6 of Circular 1 of 2011):

The existing policy provides for conversion of only ECB/lump-sum fee/Royalty into equity. A discussion paper on the possibility and need for inclusion of additional items into equity had been released by DIPP in September, 2010. After stakeholder consultations, Government has now decided to permit issue of equity, under the Government route, in the following cases, subject to specific conditions:

(a) import of capital goods/ machinery/ equipment (including second-hand machinery)

(b) pre-operative/ pre-incorporation expenses (including payments of rent etc.)

This measure, which liberalises conditions for conversion of non-cash items into equity, is expected to significantly ease the conduct of business.

(iii) <u>Removal of the condition of prior approval in case of existing joint ventures/ technical collaborations in the 'same field"</u>

(paragraph 4.2.2 of Circular 2 of 2010):

A discussion paper had been released by DIPP last year on the need for review of this condition. There is a felt need to attract fresh investment and technology inflows into the country, as also to reduce the levels of State intervention in the commercial sphere. Keeping in view the above, Government has decided to abolish this condition. It is expected that this measure will promote the competitiveness of India as an investment destination and be instrumental in attracting higher levels of FDI and technology inflows into the country.

(iv) <u>Guidelines relating to down-stream investments</u>
(paragraph 4.6 of Circular 1 of 2011):

The guidelines have been comprehensively simplified and rationalised. Companies have now been classified into only two categories – ‘companies owned *or* controlled by foreign investors’ and ‘companies owned *and* controlled by Indian residents’. The earlier categorisation of *‘investing companies’*, *‘operating companies’* and *‘investing-cum-operating companies’* has been done away with.

(v) <u>Development of Seeds</u>
(paragraph 5.2.1 of Circular 1 of 2011):

In the agriculture sector, FDI will now be permitted in the development and production of seeds and planting material, without the stipulation of having to do so under ‘controlled conditions’.