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# RBI opens gates for investors, companies to invest in overseas funds

The RBI issued a circular on Friday amending the Foreign Exchange Management (Overseas Investment) Directions, 2022, lifting several restrictions



File Image (Photo: PTI)

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Investors and companies based in India will now be able to invest in overseas funds, including those set up in the United States and Singapore, without any restrictions. The move follows an amendment by the Reserve Bank of India (RBI) last week regarding Overseas Portfolio Investments (OPIs).

The RBI on Friday issued a circular amending the Foreign Exchange Management (Overseas Investment) Directions, 2022, lifting several restrictions.

The amendments remove restrictions, which permitted Indian Limited Partners (LPs) to invest only in units issued by overseas funds. Now, investment is allowed in any instrument, regardless of its form whether in units or not.

The changes do away with the condition that the investment could only be made in funds that were directly regulated by the financial regulator of the host country and not those regulated through their investment managers (IMs).

For instance, regulators in Singapore and the US (for some cases), regulate the fund manager rather than the fund.

"These were much-awaited clarifications. Post issuance of the OI directions, resident Indian individuals were not able to honour their capital calls received from certain overseas funds, including exempt funds in the US and the variable capital companies in Singapore. Such funds should now be able to receive funds from resident individuals, subject to satisfying the AD banks, either under law or by way of documentation, that their activities are regulated in the home country through their registered/ regulated IMs," said Prakhar Dua, lead, Financial Services and Regulatory Practice, Nishith Desai Associates.

Industry experts said that owing to the restrictions, new funds had to be set up in jurisdictions such as Cayman Islands and Mauritius to ensure that investments from Indian LPs would be possible.

Additionally, the regulatory change will also give General Partners the flexibility to establish their funds in commercially favourable jurisdictions without having to worry about whether Indian investments would be permitted.

"RBI's move would offer resident Indian investors and corporates a choice to invest in a Singapore-domiciled fund directly thereby taking advantage of its global fund management expertise and reputation of a world-class, stable investment jurisdiction. Investors could also benefit from the wide variety of funds that in turn invest into different assets classes such as real estate, private equity, credit, and so on," said Anand Singh, founder, Elios Financial Services and a member of Capital Market Task Force, FSC Mauritius.

The norms will also remove the ambiguity around the fund being set up as trusts, companies, and partnerships.

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