



**भारतीय रिज़र्व बैंक**  
**RESERVE BANK OF INDIA**

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RBI/2024-25/90  
A.P. (DIR Series) Circular No. 19

November 11, 2024

To

All Category – I Authorised Dealer Banks

Madam / Sir

**Operational framework for reclassification of Foreign Portfolio Investment to  
Foreign Direct Investment (FDI)**

Attention of Authorised Dealer (AD) Category - I banks is invited to the Foreign Exchange Management (Non-debt Instruments) Rules, 2019, (hereinafter referred to as 'Rules') notified by the Central Government on October 17, 2019.

2. We draw your attention to Schedule II to the Rules which prescribes that investment made by foreign portfolio investor along with its investor group (hereinafter referred to as 'FPI') shall be less than 10 percent of the total paid-up equity capital on a fully diluted basis. Further, FPI investing in breach of the prescribed limit shall have the option of divesting their holdings or reclassifying such holdings as FDI. In this regard, an operational framework for such reclassification of foreign portfolio investment by FPI to FDI is provided in the [Annex](#). The AD Category-I banks may accordingly facilitate the reporting of such transactions as per this framework.

3. These directions will become operative with immediate effect. AD Category-I banks may bring the contents of this circular to the notice of their customers / constituents concerned.

4. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully

**(Dr. Aditya Gaiha)**  
Chief General Manager-In-Charge

## **Annex**

### **Operational framework for reclassification of Foreign Portfolio Investment by FPI to FDI**

Reference may be drawn to Schedule II of FEM (NDI) Rules, 2019 (hereinafter referred as “Rules”) which prescribes that investment made by the FPI shall be less than 10 percent of the total paid-up equity capital on a fully diluted basis (hereinafter referred as “prescribed limit”). In terms of Para 1(a)(iii) of Schedule II of the Rules, any FPI investing in breach of the prescribed limit shall have the option of divesting their holdings or reclassifying such holdings as FDI subject to the conditions specified by the RBI and SEBI within five trading days from the date of settlement of the trades causing the breach (hereinafter referred as “prescribed time”). In case the FPI intends to reclassify its foreign portfolio investment into FDI, the FPI shall follow the operational framework as given below:

- 1) The facility of reclassification shall not be permitted in any sector prohibited for FDI.
- 2) The FPI concerned shall obtain the following approvals/concurrence before intending to acquire equity instruments beyond the prescribed limit:
  - i) Necessary approvals from the Government, as applicable, including approvals required in case of investment from land bordering countries and ensure that the acquisition beyond prescribed limit is made in accordance with the provisions applicable for FDI, which means that investment should be in adherence to entry route, sectoral caps, investment limits, pricing guidelines, and other attendant conditions for FDI under Schedule I to the Rules.
  - ii) Concurrence of the Indian investee company concerned for reclassification of the investment to FDI to enable such company to ensure compliance with conditions pertaining to sectors prohibited for FDI, sectoral caps and government approvals, wherever applicable, under the Rules.
- 3) The FPI shall clearly articulate its intent to reclassify existing foreign portfolio investment held in a company into FDI and shall provide the copy of the necessary approvals and concurrence to its Custodian pursuant to which the Custodian shall freeze the purchase transactions by such FPI in equity instruments of such Indian company, till completion of the reclassification:

Provided that where the necessary prior approvals/concurrence have not been obtained by the FPI, the investment beyond the prescribed limit shall be compulsorily divested within the prescribed time.



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- 4) For reclassification, the entire investment held by such FPI shall be reported within the timelines as specified under [Foreign Exchange Management \(Mode of Payment and Reporting of Non-Debt Instruments\) Regulations, 2019](#), in the following manner:
- i) By the Indian company in form FC-GPR where the investment beyond the prescribed limit is resulting from fresh issuance of equity instruments by an Indian company to such FPI.
  - ii) By the FPI in form FC-TRS, where the investment beyond the prescribed limit is due to acquisition of equity instruments by such FPI in the secondary market.
  - iii) AD bank concerned shall report the amount of reclassified foreign portfolio investment as divestment under the LEC (FII) reporting.
- 5) Post completion of reporting as above, the FPI shall approach its Custodian with a request for transferring the equity instruments of the Indian company from its demat account maintained for holding foreign portfolio investments to its demat account maintained for holding FDI. After ensuring that the reporting for reclassification is complete in all aspects, the custodian shall unfreeze the equity instruments and process the request. The date of investment causing breach in such cases shall be considered as the date of reclassification. Thereafter, the entire investment of the FPI in the Indian company shall be considered as FDI and shall continue to be treated as FDI even if the investment falls to a level below ten percent subsequently. The Foreign Portfolio investor along with its investor group shall be treated as a single person for the purpose of reclassification of foreign portfolio investment.
- 6) In terms of the provisions contained in Schedule II to the Rules, the reclassification or divestment of the holdings, as the case may be, shall be completed within the prescribed time.
- 7) Post reclassification of foreign portfolio investment to FDI, the said investment shall be governed by Schedule I to the Rules.

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