

REGULATORY UPDATE

**RBI Restricts Round
Tripping through
Overseas Investments**



RBI Restricts Round Tripping Through Overseas Direct Investment

Reserve Bank of India (RBI) regulates overseas direct investment (ODI) made by Indian entities and resident individuals in Joint ventures (JV) and Wholly owned subsidiaries (WOS) outside India pursuant to Foreign Exchange Management (Transfer of Issue of any Foreign Security) Regulations, 2004 (Regulations).

RBI vide FAQs issued in May 2019 clarified that a foreign joint venture or wholly-owned subsidiary cannot be used by Indian company or resident individual to route investments back into India. The said FAQs were further updated on September 19, 2019 clarifying that Indian company or resident individuals seeking exemption from the above restriction need prior approval from RBI before entering such transactions. Please refer RBI FAQ no. 64 of ODI [Click Here](#)

This decision of RBI related to round tripping is creating problems for several Indian resident individuals who had sent money under LRS scheme and invested or are looking for fresh investment in overseas funds and Indian companies who are looking to acquire/acquired foreign companies.

RBI and Enforcement Directorate (ED), the agency which probes money laundering cases, have started questioning several resident individuals who had invested in overseas private equity, venture capital or alternate investment funds (AIFs) which may have later been invested in an Indian startup or companies or their assets. These agencies are also putting a question mark on all cross border acquisitions by domestic companies, if the foreign entity has an Indian subsidiary.

Conclusion: Resident individuals in India who are doing investments under LRS and Indian companies who are planning to invest into foreign companies and Joint ventures outside India should review such transactions as per the above RBI regulations.

DISCLAIMER:

The information contained herein is in summary form based on RBI regulations on Overseas Direct Investment regulations (ODI) and its related FAQs. The said information should be read with directions issued by RBI giving effect to above decisions. While the information is believed to be accurate to the best of our knowledge, we do not make any representations or warranties, express or implied, as to the accuracy or completeness of this information. Reader should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, invitation, advice or solicitation of any kind. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.