

RBI allows automatic approval for foreign investment in PE, VC funds

The funds in which investment allowed include AIFs, InvITs and REITs.

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In an effort to further boost the investment environment in the country, Reserve Bank of India (RBI) issued a notification to grant automatic approval route for foreign investment in investment vehicles including alternative investment funds (AIFs), infrastructure investment trusts (InvITs) and real estate investment trusts (REITs).



“A person resident outside India, including Registered Foreign Portfolio Investor (RFPI) or a non-resident Indian (NRI) may acquire, purchase, hold, sell or transfer units of an investment vehicle,” the banking regulator said.

The initiative to allow free movement of foreign capital by the central bank comes just months after the government had opened a new fundraising window allowing foreign investors to invest in REITs.

Though the alternative investment funds had been in operation since August 2012, the funds had to take prior approval from the Foreign Investment Promotion Board (FIPB) to raise capital from abroad.

Earlier this year, SEBI had allowed 158 entities to set up AIFs in India.

While the amendments to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 allowed for transfer of shares between the parties without any prior approval from the RBI, the bank said these ease of foreign investment won't be applicable for limited liability partnerships (LLPs) as it would be difficult to determine the ownership and control in such structures.

The RBI in its guidelines stipulated that managers or sponsors for AIFs which are pooled investment vehicles should be Indian citizens.

While the exclusion of LLPs is a bit of a disappointment as a majority of AIFs belong to the category, the news in general is a big relief for fund managers and startups alike.

"With the FDI allowed in venture funds and private equity, local fund management shall flourish. It is a masterstroke played to ease access of risk capital for startups and unlisted companies. I expect local fund managers to conceptualise non-tech or manufacturing focused funds too," said Sunil K Goyal, founder of YourNest Angel Fund.

"This is a positive development and it is hoped that it is followed up with tweaks to the tax laws to address certain vexed tax issues surrounding these investment vehicles," said Kalpesh Maroo, partner, BMR & Associates.

<http://www.vccircle.com/news/alternative-investment/2015/11/20/rbi-allows-automatic-approval-foreign-investment-pe-vc-funds>