



RBI/2014-15/340

A.P. (DIR Series) Circular No. 46

December 8, 2014

To

All Category – I Authorised Dealer banks

Madam/Sir,

Foreign Direct Investment (FDI) in India – Review of FDI policy –Sector Specific conditions- Defence

Attention of Authorised Dealer Category – I (AD Category-I) banks is invited to Regulation 14 and Annex B of Schedule 1 to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified vide [Notification No. FEMA 20/2000-RB dated May 3, 2000](#), as amended from time to time. In terms of Schedule 1 to the Notification *ibid*, Foreign Direct Investment (FDI) up to 26 per cent is permitted under Government route in Defence industry subject to license under the Industries (Development & Regulation) Act, 1951. Proposals for FDI above 26 per cent would be subject to approval of Cabinet Committee on Security on case to case basis, wherever it is likely to result in access to modern and ‘state-of-art’ technology in the country.

2. The extant FDI policy for defence sector has since been reviewed. Department of Industrial Policy and Promotion (DIPP) has now provided a list of defence items as finalised by Department of Defence Production, Ministry of Defence and has clarified that items not in the list would not require industrial license for defence purposes. Dual use items, having military as well as civilian applications, other than those specially mentioned in the list, would also not require Industrial License from Defence angle. Department of Defence Production, Ministry of Defence, has finalised the ‘Security Manual for Licensed Defence Industry’.

3. Further, on a review, effective from August 26, 2014, foreign investment i.e. FDI, FIIs, RFPIs, NRIs, FVCIs and QFIs upto 49% under government route shall be permitted in defence sector subject to the conditions specified in the Press Note 7 (2014 Series) dated August 26, 2014. Portfolio investment (RFPI/FII/NRI/QFI) and FVCI investment will not

exceed 24% of the total equity of the investee company. Portfolio investment will be under automatic route.

4. The listed investee company engaged in defence sector, in accordance with the guidance provided by the Press Note 7 (2014 Series) , shall immediately allocate limits for portfolio investment for RFPI (including QFI and FII), NRI (not exceeding 10%) and FVCI within the default portfolio investment limit of 24% being permitted now and approach Reserve Bank, Central Office, Foreign Investment Division, Mumbai so that allocated limits can be monitored by the Reserve Bank.

5. A copy each of Press Note No.3 , No.6, No. 7 (2014 Series) dated June 26, 2014, July 8, 2014 and August 26, 2014 respectively issued in this regard by DIPP, Ministry of Commerce & Industry, Government of India are enclosed.

6. Reserve Bank has since amended the Principal Regulations through the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (Thirteenth Amendment) Regulations, 2014 notified vide [Notification No. FEMA. 319/2014-RB dated September 5, 2014](#), c.f. G.S.R. No. 799(E) dated November 13, 2014.

7. Authorised Dealer banks may bring the contents of this circular to the notice of their constituents and customers concerned.

8. 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,

(B.P. Kanungo)
Principal Chief General Manager