RBI bans FDI establishments from Mauritius

written by iasexam.com | 09/10/2020

After the government restricted the foreign direct investment (FDI) from China without any clarity on the threshold, the Reserve Bank of India (RBI) has now said that it does not want Mauritius based funds to provide foreign direct investment to the Indian non-banking financial companies (NBFCs) sector.

The sector is cash-starved and the private equity and venture capital industry focussed on this space are largely using Mauritius as a choice of jurisdiction.

Key Highlights

- The Reserve Bank of India (RBI), in a letter to the industry body for venture capital and private equity funds, has said that finance companies cannot be set up with foreign direct investment (FDI) from Mauritius and other such jurisdictions that do not meet the benchmarks laid down by the Financial Action Task Force.

- Indian manufacturing or any other non-financial services companies have no such restrictions on FDI. Also, foreign portfolio investors (FPIs) from such jurisdictions are free to register with the Securities & Exchange Board of India (SEBI) to trade on Indian stock exchanges.

- However, according to RBI, the rules are tighter for finance companies since they are permitted to leverage several times their equity with public funds.

- According to people in the know, the RBI stance originates from suspected round-tripping of funds by promoters of Indian companies. However, this rule can hurt genuine business initiatives.

SOURCE: *Economic Times*