

Corpsec Hotline

July 28, 2006

LIBERALIZATION OF INVESTMENT BY MUTUAL FUNDS IN OVERSEAS SECURITIES

The Reserve Bank of India ("RBI") vide A.P. (DIR Series) Circular No. 3 dated July 26, 2006 ("Circular") has liberalized certain conditions with respect to the investments that can be made by the mutual funds registered with the Securities and Exchange Board of India ("SEBI") in overseas securities.

Present situation:

Presently, mutual funds, registered with SEBI are permitted to invest in American Depository Receipts, Global Depository Receipts of Indian companies, rated debt instruments, and also in the equity of overseas companies listed on a recognized stock exchange overseas and having a shareholding of at least 10 percent in a listed Indian company.

Changes:

The following are the changes that have been brought into effect by the RBI vide the Circular:

- The requirement of 10 percent reciprocal shareholding in the listed Indian companies by such overseas companies has been dispensed with.
- The aggregate ceiling for overseas investment by mutual funds, registered with SEBI, is increased from USD 1 billion to USD 2 billion with immediate effect.
- It has been decided to allow a limited number of qualified Indian mutual funds to invest cumulatively up to USD 1 billion in overseas Exchange Traded Funds as may be permitted by the SEBI.

Implication and effect

The changes with respect to the investments that the Mutual Funds can now make overseas will enable the Mutual Funds to expand their investments in overseas securities.

- Kartik Ganapathy & Anupam Prasad

You can direct your queries or comments to the authors

Source: A.P. (DIR Series) Circular No. 3 dated July 26, 2006

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