

Union Cabinet approves certain relaxations to Foreign Direct Investment by Countries that Share Land Borders with India

On March 10, 2026, the Union Cabinet approved certain modifications and relaxations to the Foreign Direct Investment (“FDI”) framework by providing a definitive criteria for interpretation of beneficial ownership and a few relaxations to the application process in relation to investments in critical sectors for investors from Countries Sharing Land Borders with India (“**Land Bordering Countries**”). While these amendments to the FDI framework has been approved by the Union Cabinet, it is yet to be notified by the Department for Promotion of Industry and Internal Trade, Ministry of Commerce and Industry.

Background

DPIIT, on April 17, 2020, had issued Press Note 3 (2020 Series) (“**PN3**”) to amend the Consolidated FDI Policy of 2020 (“**FDI Policy**”). The objective behind PN3 was to prevent opportunistic acquisitions of distressed or strategic Indian assets during the COVID-19 pandemic.

Under this framework: (a) any entity from a Land Bordering Country; or (b) the beneficial owner of an investment in India who is located in or is a citizen of such a country, is required to obtain prior approval of the Government of India (“**Government Approval**”) before making investments in India. Furthermore, any transfer of the existing or future FDI in an Indian entity that results in beneficial ownership shifting to individuals or entities from these countries must also obtain prior Government Approval.

Proposed amendments to the FDI Policy

Introduction of a definition and criteria for determining beneficial ownership

Under PN3, there was no clear definition of ‘beneficial ownership’. The PN3 did not specify thresholds or parameters for assessing the criteria for beneficial ownership, which led to varying interpretations that relied on definitions and interpretations of ‘significant beneficial ownership’ under the Companies (Significant Beneficial Owners) Rules, 2018, and the thresholds specified in the Prevention of Money Laundering Rules, 2005.

This ambiguity led to a large number of FDI applications submitted to the Government for approval, resulting in significant delays and extended timelines for investments from Land Bordering Countries.

Under the proposed amendments:

1. the beneficial ownership will be assessed at the investor entity level; and

2. non-controlling beneficial ownership up to 10% from Land Bordering Countries will be allowed under the automatic route (i.e., without prior the Government Approval), subject to sectoral caps, entry routes, attendant conditions. Such investments will be subject to the reporting of relevant details by the investee entity to the DPIIT.

Expedited clearance of investments from Land Bordering Countries in specific sectors

Under the proposed amendments, investment proposals from the Land Bordering Countries in certain manufacturing sectors such as capital goods, electronic components, polysilicon, and ingot-wafer production will be processed and decided within 60 (sixty) days (this list of specified sectors may be revised by the Committee of Secretaries under the Cabinet Secretary).

For such investments, the investee company must ensure that the majority shareholding and control remain with resident Indian citizens or resident Indian entities owned and controlled by resident Indian citizens, at all times.

Conclusion

The proposed relaxations are expected to provide a positive impact on the Indian economy and encourage FDI from Land Bordering Countries within the regulatory safeguards of PN3. Importantly, the introduction of a clear definition and threshold for determining beneficial ownership addresses the ambiguity that previously existed in PN3 and provides greater clarity to investors. Further, permitting automatic route investments of up to 10% non-controlling beneficial ownership from Land Bordering Countries is a big step up towards smoothing investment flows from Land Bordering Countries.

In addition, the amendments reflect the Government's commitment to a predictable and transparent investment regime. By clarifying ownership criteria and streamlining approval timelines, the policy strengthens regulatory efficiency and investor confidence. This balanced approach ensures that while India remains vigilant on national security concerns, it continues to project itself as an open and facilitative economy for responsible foreign investment.

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This Prism has been prepared by:



Sajai Singh
Partner



Mary Julie John
Partner



Shilpa Shankar
Associate



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40 Ranked Lawyers



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21 Ranked Lawyers



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20 Ranked Lawyers



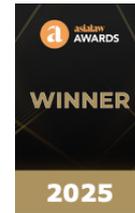
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