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THE MINISTRY OF FINANCE NOTIFIES THE FOREIGN EXCHANGE MANAGEMENT (NON-DEBT INSTRUMENTS) (THIRD AMENDMENT) RULES, 2026

The Ministry of Finance (Department of Economic Affairs), through Notification No. S.O. 3030(E) dated June 12, 2026, has notified the Foreign Exchange Management (Non-debt Instruments) (Third Amendment) Rules, 2026 ("**Amendment Rules**"), amending the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 ("**NDI Rules**").

The Amendment Rules significantly expand the portfolio investment framework under the NDI Rules by extending the investment regime previously available only to Non-Resident Indians ("**NRIs**") and Overseas Citizens of India ("**OCIs**") to all individual persons resident outside India. It also aligns investments by such individuals with the broader FPI and FDI framework, while introducing enhanced safeguards relating to ownership, control and beneficial ownership.

Collectively, these changes seek to facilitate broader participation by foreign investors in Indian capital markets while maintaining regulatory safeguards aimed at ensuring transparency, accountability and oversight of cross-border investments.

Key Highlights:

1. **Shift from NRI/OCI-specific to "*individual person resident outside India*":**
   The Amendment Rules replace the existing NRI/OCI-specific framework under Chapter V of the NDI Rules with a broader regime applicable to "*individual persons resident outside India*", including NRIs and OCIs.
   This change significantly expands the category of foreign investors eligible to access the portfolio investment route under Schedule III and is expected to facilitate greater participation by non-resident individuals in Indian listed securities.

2. **Enhanced Ownership and Beneficial Ownership Safeguards:**
   The Amendment Rules introduce an express requirement for prior Government approval where an investment or transfer results in the transfer of ownership or control of a listed Indian company to:
   - an entity incorporated in, or a citizen of, a country sharing a land border with India; or
   - an investment where the beneficial owner is a citizen of such country.

   Notably, the concept of "*beneficial owner*" has now been expressly linked to the Prevention of Money Laundering Act, 2002 and the Prevention of Money Laundering (Maintenance of Records) Rules, 2005, thereby formally incorporating the anti-money laundering framework into the assessment of beneficial ownership under the NDI Rules.

3. **Alignment with FPI-FDI Classification Principles:**
The Amendment Rules align investments made under Schedule III with the existing FPI framework by incorporating the concept of an "**investor group**", as defined under the SEBI (Foreign Portfolio Investors) Regulations, 2019. The amendments further reaffirm the existing distinction between portfolio investments and foreign direct investment by providing that where the prescribed 10% threshold is crossed, the investment may be reclassified as FDI, subject to compliance with the applicable FDI framework.

4. **Revised Investment Limits and Reclassification Mechanism for Listed Companies**:
The Amendment Rules provides that an individual person resident outside India may, on a repatriation basis, purchase or sell equity instruments of a listed Indian company and other securities subject to Schedule III. The Amendment Rules prescribe the following limits:
    - Individual holding limit: less than 10% of the paid-up equity share capital of a listed company on a fully diluted basis; and
    - Aggregate holding limit: 24% of the paid-up equity share capital of a listed company on a fully diluted basis.

    Where an individual investor's holding reaches or exceeds the 10% threshold, the excess must be divested within five trading days, failing which the entire investment in the relevant company will be reclassified as FDI. The amendments also introduce a safe harbour, under which temporary breaches arising during the divestment or reclassification period will not constitute a contravention of the NDI Rules.

Overall Impact:

The Amendment Rules represent a notable policy shift aimed at broadening foreign participation in Indian capital markets by extending access to the portfolio investment route beyond NRIs and OCIs. From a regulatory perspective, the amendments also reflect a continued emphasis on transparency of ownership and control structures.

The Amendment Rules are expected to facilitate broader foreign participation in Indian listed companies while preserving the regulatory safeguards that underpin India's foreign investment framework.

The official notification dated June 12, 2026 can be accessed **here**.

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