

## Indian Cabinet Eases FDI Rules in Relation to Investments from Countries that Share a Land Border with India under “Press Note 3”

11 March 2026

### Introduction

On 10 March 2026, the Government of India issued a press release (Press Release) indicating that Union Cabinet (Cabinet) has approved amendments to the foreign direct investment (FDI) regime in India with respect to for investments into India with beneficial ownership originating from countries sharing land borders with India (LBCs) under a regulation known as “Press Note 3” (PN3).

The Cabinet also approved introduction of defined timelines for approvals in certain sectors. Although this is, at present, just a policy decision and the implementing regulations still need to be put in place, it signals a calibrated policy shift and provides long-awaited clarity to the market around an issue that has affected previous M&A transactions.

A summary of the existing framework, the proposed regulatory changes and their potential implications are set out below.

### Earlier Restrictions: The PN3 Regime

#### 1. Current PN3 Regime – Broad Investment Restrictions

Introduced during the COVID-19 pandemic in 2020, PN3 mandated that direct or indirect transfers of ownership of an Indian entity that resulted in beneficial ownership shifting to an investor from an LBC jurisdiction would require Government approval. Crucially, PN3 did not define the concept of “beneficial ownership” and did not prescribe any de minimis threshold. As a result, even relatively small minority interests held by shareholders in LBCs could potentially trigger the Government approval requirement.

This created practical challenges for several market participants. For example, financial investors with investors from these jurisdictions (including global private equity funds) or listed companies could inadvertently fall within the PN3 framework if they had investors or shareholders from LBC jurisdictions. The market had sought the introduction of a threshold to provide certainty, but until now, there was no such clarity. In the interim, some market participants took the view that PN3 applied only to investments above 10% by drawing analogies to thresholds under the Prevention of Money Laundering Rules, 2005 (Anti-Money Laundering Rules).

However, there was no explicit mention of this threshold in the law and there were instances where the Government sought to apply PN3 even where the beneficial ownership from LBCs was below this threshold.

#### 2. Restrictions on Directors from LBCs: Security Clearance Mandatory

Separately, the Companies (Appointment and Qualification of Directors) Amendment Rules, 2022 introduced additional requirements in relation to individuals from LBC jurisdictions who wish to serve as directors of Indian companies.

Under these rules, individuals who are citizens of countries sharing a land border with India must obtain security clearance from the Ministry of Home Affairs before being appointed as directors of Indian companies. These requirements operate independently of the PN3 investment approval framework.

## What Has Changed in the New FDI Guidelines

### 1. Clear Definition of Beneficial Ownership

The Press Release refers to non-controlling beneficial ownership from LBC jurisdictions of up to 10% not requiring approval. In effect, Cabinet has approved changes that would align PN3 to the view that the beneficial ownership test should be linked to the threshold under the Anti-Money Laundering Rules as discussed above.

This clarification addresses a long-standing concern on the part of global private equity funds (who sometimes have investors from LBCs) as well as listed companies (who may have minor levels of shareholding from LBC jurisdictions).

Of course, this is just a policy decision at this stage and much depends on the detail of the implementing regulations, once they are notified (see "*Are the changes in force*" below).

### 2. Expedited Clearance for Select Manufacturing Sectors

The Press Release also refers to a defined timeline for processing certain PN3 approvals. Investments from LBC jurisdictions in the manufacturing of capital goods, electronic capital goods, electronic components, polysilicon and ingot-wafer are to be processed within 60 days.

In this regard, the earlier standard operating procedures applicable to all PN3 Government approvals already provided an 8 weeks' approval timeline. Although timelines for approvals have, in general accelerated over the last two years, these timelines were not met in practice. Therefore, it remains to be seen how significant a change this is in practice and what the impact on timing of approvals will be in other sectors.

## Are the Changes in Force?

Not yet.

At present, the announcement reflects a policy decision of the Cabinet communicated through the Press Release. For the changes to take effect, they will need to be incorporated into the formal FDI framework and the Foreign Exchange Management (Non-Debt Instruments) Rules, 2019 (NDI Rules).

There is no indication yet as to timing of the inclusion of enabling provisions in the NDI Rules. There are certain other regulatory changes, such as the increase in the insurance foreign direct investment cap to 100% (related Ergos are available [here](#), [here](#) and [here](#)) which are also awaiting inclusion in the NDI Rules, and there is some market speculation that the Government is considering further simplification of some of the FDI requirements, so it is possible that the Government may undertake one comprehensive amendment to deal with all of these.

## Remaining Grey Areas

### 1. Director-Level Restrictions Remain Fully Intact

Despite the proposed liberalisation, the existing security clearance requirements applicable to directors from LBC jurisdictions under the **Companies (Appointment and Qualification of Directors) Amendment Rules, 2022 are yet to be addressed**. At the moment, these requirements appear to remain unchanged.

### 2. Level of beneficial ownership and chains of ownership

While beneficial ownership is now better defined, the Press Release indicates that the test is at the investor level. Therefore, careful consideration will need to be given to how the proposed amendment applies to chains of ownership. For instance, consider a situation where the investor is held as a subsidiary of a group holding company in an LBC, which itself held by an ultimate parent which is not in an LBC. This 'group holding company' structure does not appear to be explicitly addressed in the Press Release and, unless this issue is dealt with in the implementing regulations, it will continue to need consideration. Similarly, there may be potential issues in multi-layered fund structures, which will continue to need careful consideration on a case-by-case basis'.

### 3. "Control" overlay

The Press Release states that "Investors with non-controlling LBC Beneficial Ownership of up to 10 percent shall be permitted under the automatic route" and also discusses the PN3 being previously needed to curb opportunistic acquisitions and takeovers. Given this regulatory focus, contractual control rights, information rights, and indirect influence may need consideration. For investments not exceeding 10%, it may be that there are a limited set of circumstances where the contractual rights rise to the level of control, so this may be relatively manageable issue in practice, but certainly one to bear in mind in structuring deals.

### 4. Grandfathering

The Press Release does not refer to the grandfathering of this to cover previous transactions as well, so it remains to be seen as to whether the implanting regulations will cover this aspect.

## Conclusion

The amendments approved by the Cabinet reflect a recalibration of India's investment policy that market participants have been seeking for some time. By clearly defining beneficial ownership, opening the automatic route for minor LBC stakes, and creating a structured 60-day approval regime, the Government has signalled commitment to ease of doing business. These changes will be welcomed by the market and this will provide deal certainty in large number of investments and M&A deals and the hope is that implementing regulations will be brought into force quickly. However, it remains to be seen as to whether the Government also ease the director-level restrictions for nationals of LBCs and whether the regulations address some of the grey areas set out above. The practical impact of these changes will depend on the specific regulatory changes made to NDI Rules to give effect to this policy decision, so market participants should closely watch this space.

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