- Insights

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Press Note 2 (2026): India Recalibrates Its Land-Border FDI Regime

Six years after Press Note 3 locked down investments from land-bordering countries, India has finally introduced a structured, risk-based framework — with a codified beneficial ownership test, a new 10% non-controlling automatic-route corridor, mandatory reporting, and fast-track approvals for critical manufacturing sectors. The rules, however, take effect only upon a formal FEMA notification.

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Background

In April 2020, India introduced Press Note 3 (2020 Series) [PN3/2020] — a sweeping restriction that mandated Government approval for all foreign investments, direct or indirect, from countries sharing a land border with India (Neighboring Countries: China, Pakistan, Bangladesh, Nepal, Bhutan, Myanmar, and Afghanistan). The measure was designed to prevent opportunistic takeovers of Indian companies during the COVID-19 pandemic. [1]

While effective as a protective measure, PN3/2020 left one critical gap: it never defined who exactly constitutes a "beneficial owner" – leaving investors, intermediaries, and regulators navigating interpretational ambiguity for nearly six years.

On March 10, 2026, the Union Cabinet approved changes to the FDI framework for Neighboring Countries. [2] Following this, on March 15, 2026, DPIIT issued Press Note No. 2 (2026 Series) [PN2/2026] formally amending Para 3.1.1 of the Consolidated FDI Policy Circular of 2020. [3]

> ***Important caveat**: The changes are not yet in force. They will become effective only from the date of the formal amendment to the Foreign Exchange Management (Non-debt Instruments) Rules, 2019 (FEMA Notification). [4]*

Three Key Changes in PN2/2026

1. **A Codified Beneficial Ownership Test**

This is the most significant structural reform. PN2/2026 now formally defines "beneficial owner" by anchoring it to the Prevention of Money Laundering Act, 2002 (Section 2(1)(fa)) and Rule 9(3) of the PMLA (Maintenance of Records) Rules, 2005 (PMLA KYC Rules). [3]

The key thresholds for identifying a Neighboring Country Beneficial Owner in a foreign investor entity are:

Entity Type	**Threshold**
Company	>10% of shares, capital, or profits; OR control (majority board appointment, management/policy decisions, voting agreements)
Partnership Firm	>10% of capital or profits; OR control over management/policy decisions
Unincorporated Association / Body of Individuals	>15% of property, capital, or profits
Trust	Identification of author, trustee, beneficiaries with ≥10% interest, and any person with ultimate effective control
No natural person identified	Senior managing official is the Beneficial Owner

> ***Practical impact**: If a Neighboring Country citizen or entity holds more than these thresholds — or exercises control — over the foreign investor, Government approval is required for the investment into India. Investments where LBC beneficial ownership is up to 10% and non-controlling are permitted under the automatic route (subject to applicable sectoral caps), but with mandatory reporting. [2]*

Key Clarification — Citizenship, not Residency

For individuals, the relevant test is citizenship of a Neighboring Country, not residency. An NRI from China living in Singapore, for instance, would still trigger the Government approval requirement if they hold >10% in the foreign investor. [3]

Trusted Jurisdiction Carve-out

Investor entities that are resident in, and listed on stock exchanges in, the following Government-notified jurisdictions — USA, Japan, South Korea, United Kingdom (excluding British Overseas Territories), France, Germany, Canada, and IFSC in India — or are subsidiaries of such listed entities, are exempt from the Beneficial Owner identification and verification requirement entirely. This is a significant facilitation for MNCs and institutional investors routing investments through these jurisdictions. [3]

2. **Compliance and Disclosure Obligations**

Investments that qualify for the automatic route (i.e., LBC Beneficial Owner ≤10%, non-controlling) are not exempt from scrutiny — they come with a mandatory reporting obligation. This reporting is to be made by the Indian investee company (not the foreign investor) to DPIIT. [3]

The format and process for reporting have not yet been prescribed; DPIIT is expected to amend the existing Standard Operating Procedure (SOP) for processing FDI proposals in due course. Indian companies receiving such investments should prepare their data collection and disclosure processes in advance.

3. **Fast-Track Clearance for Priority Sectors**

The Government has introduced a 60-day processing timeline for Government-route FDI approvals from Neighboring Country entities/citizens in the following Focus Sectors of manufacturing: [2]

- Capital goods
- Electronic capital goods
- Electronic components
- Polysilicon and ingot-wafer (critical for the solar/semiconductor supply chain)

Condition: In such investments, the majority shareholding and control of the Indian investee company must remain with resident Indian citizens and/or resident Indian entities owned and controlled by resident Indian citizens, at all times. [3] This ensures technology and capital access without ceding strategic control.

> **Note**: The 60-day timeline has been announced through the Press Release but has not been incorporated in PN2/2026 itself — its formal inclusion in the SOP is awaited.

What This Means in Practice

PN2/2026 does not dismantle India's security-driven caution around land-border investments — PN3/2020's core logic remains intact. What it does is replace blanket suspicion with a structured, risk-based framework: a clear non-controlling corridor, a codified Beneficial Ownership test, defined approval timelines for critical manufacturing, and transparency through mandatory reporting.

For businesses and investors, the message is clear: structured, transparent investment pathways are now available — but meticulous documentation of ownership structures, Beneficial Owner identification, and compliance with the forthcoming FEMA Notification and SOP revisions will be essential.

Official Reference Links:

[1] Press Note 3 (2020 Series) — DPIIT, April 17, 2020 https://cgishanghai.gov.in/pdf/PressNote3_23Nov2022.pdf
[2] PIB Press Release — Cabinet Approval, March 10, 2026 https://www.pib.gov.in/PressReleasePage.aspx?PRID=2237806
[3] Press Note 2 (2026 Series) — DPIIT Official PDF, March 15, 2026 https://www.dpiit.gov.in/static/uploads/2026/03/PN2_2026.pdf
[4] FEMA (Non-debt Instruments) Rules, 2019 — Full Text https://thc.nic.in/Central%20Governmental%20Rules/FEMA_Rules_2019.pdf