BRIEF NOTE ON THE REVISED FC-GPR AND THE INTRODUCTION OF ANNUAL RETURN ON ASSETS AND LIABILITIES

Background

All the Indian entities desirous of issuing shares to non-residents have to undertake the automatic RBI route by furnishing Form FC-GPR as per the format laid down by Reserve Bank of India (RBI). The Form primarily comprises of

- **Part - A** – To be filed by the company through its Authorised Dealer Category – I bank with the Regional Office of the RBI under whose jurisdiction the Registered Office of the company making the declaration is situated as in when the shares / convertible debentures are issued to the foreign investor.
- **Part- B** -- Annual return to be submitted by 31st of July every year by all companies, pertaining to all investments by way of direct/portfolio investments/re-invested earnings/others in the Indian company made during the previous years (all the investments made in all the previous years up to date of submission). The details of the investments to be reported detail all the foreign investments made into the company which is outstanding as on the date of the balance sheet as well as the details of overseas investments in the company by way of Direct / portfolio investment.

With effect from March 15, 2011, Part- B of the FC-GPR has been discontinued with and in lieu of which an Annual Return on Foreign Assets and Liabilities (Annual Return) has been notified by RBI for submission by the companies having received Foreign Direct Investment and/or which have made Overseas Direct Investment in the previous year(s), including the latest financial year.

This notification has come out in less than a month from RBI's last revision of Part B of the FC-GPR . The Annual Return proposes to capture more data as compared to the Part B and has been introduced with a view to have a much more wider and comprehensive sight of the FDI statistics (both inward and outward) as is apparent from the table below briefing the inclusions in the Annual Report. Further the same is required to be submitted with the Department of Statistics & Information Management by July 15 every year.

Comparison between New Format of Annual Return & Part B of FC GPR

	New Aspects added henceforth in Annual Return	Part B – FC-GPR
Section I – identification Particulars	a) Block IA- **Total Paid up Capital of Indian Company** b) Block IB- **Free Reserves & Surplus and retained profit** c) Nature of Business along with NIC Code is also required.(NIC Code is not mandatory) d) Details of Foreign Collaboration if any.	Part B asked for general identification particulars which included the credentials of the company and details of changes with regard to already furnished information.
Section II – Foreign Liabilities	Foreign Liabilities deals with investments by non-residents into Indian companies under the FDI route as well as the **Portfolio Investment Scheme route**, **Financial Derivatives** and other investments in the form of Trade credits, etc. The disclosure relating to **FDI in India** is now split into: a) Investments where there is 10% or more equity participation b) Less than 10% equity participation. (The figures are required to be produced for the March ended previous year , March ended Current year and the December ended current year also.	(Part B required the outstanding capital investments of 10% or more only) (Further the details are required only for the March ended previous year & March ended Current year)
	For the aforesaid equity participation the term equity and other capital is further subdivided into two parts 1. 1. Claims on Direct Investor – Represents investments by the Indian Company in the Direct Investor, also referred as **reverse investment**. 2. Liabilities to Direct Investor – Represents **Equity participation** by the Direct Investor	(In part B there is no such bifurcation of Equity and other capital)
	(Equity and other Capital will be calculated by subtracting the Claim on direct investor from liabilities to Direct Investor) Further 3 separate heads are created under the new format:	(In part B the details of Foreign Liabilities & Foreign Assets are merged in the single head Portfolio & Other Investments.
	1. Portfolio Investment – to furnish the details of outstanding Investments by Non Resident Investors under Portfolio Investment Scheme in India.	Same in the earlier part B

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<tr><td></td><td>2. Financial Derivatives – Furnish the details of Outstanding Foreign Liabilities on account of Financial derivatives.

3. Other investments – residual category that include all financial Outstanding's liabilities.</td><td>Details of Notional Value of the Financial derivatives is also required.

Concept of Short Term Trade Credit is not so elaborated.</td></tr>
<tr><td>Section III – Foreign Assets</td><td>Pertains to direct investments** made overseas under the ODI scheme as well as the outstanding investments other than those made under ODI scheme.

Similar changes as laid in the Foreign Liabilities section above instated in the section on Foreign Assets also.

Additional changes :
- Detailed section on Equity Capital, Free Reserves and Surplus of Direct Investment Enterprise Abroad (Block 6)and Contingent Foreign Liabilities (Block 7)

a) Name & Address of the subsidiary(s) in India along with the amount of retained profit/ loss of the subsidiary in India during current FY</td><td></td></tr>
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****Direct Investment** – Direct investment is a category of international investment in which a resident entity in one economy (Direct Investor ("DI")) acquires a lasting interest in an enterprise resident in another economy (Direct Investment Enterprise ("DIE")). It consists of two components, viz., Equity capital and Other Capital. Equity Capital under Direct Investment – This has been defined to covers Equity in branches and all shares (except non-participating preferred shares) in subsidiaries and associates; Contributions such as the provision of machinery, land & buildings by a direct investor to a DIE by equity participation; Acquisition by a DIE of shares in its direct investor, termed as Reserve investment (ie claims on DI).

Reverse Investment – A new concept introduced in the Annual Return wherein if the reporting Indian company also holds the equity shares in its DI company abroad and if its share is less than 10 per cent of equity capital of DI company, then it is called as reverse investment. Likewise, if the non-resident DIE also holds the equity shares in Indian reporting company (DI) and if its share is less than 10 per cent of equity capital of reporting company, then it is called as reverse investment.

Other Capital under Direct Investment – Other capital (inter-company debt transactions) component of direct investment covers the outstanding liabilities or claims arising due to borrowing and lending of funds, investment in debt securities including non-participating preference shares, trade credits, financial leasing, share application money, between direct investors and DIEs and between two DIEs that share the same Direct Investor.

<u>METHODOLOGY FOR VALUATION OF FOREIGN LIABILITIES AND FOREIGN ASSETS</u>

• Debt securities should be valued at market price, while all other types of debt, viz., loan, trade credit, deposits, and other accounts payable / receivable should be valued at **nominal value**.

• For the valuation of the outstanding investment, use the corresponding end March/ end-December **market price/exchange rate.**

• For listed companies, the **share price** on the closing date of reporting period to be used for valuation of Equity.

• For unlisted companies, concept of "Own Funds at Book Value (OFBV)" for valuation of Equity. OFBV reflects the value of enterprise recorded in the book of Direct Investment Enterprise. To put in simple terms, OFBV is based on the books of the direct investment enterprise and can be seen on its balance sheet as shareholder‘s equity. The definition of OFBV contains paid-up capital, all types of reserves and net value of non-distributed profits and losses (including result for the current year).

<u>Example</u>

Suppose company's paid up capital = **Rs.** 250 million, with FDI 50% (i.e. **Rs.** 125 million)

Accumulated reinvested earnings = **Rs.** 75 million

Revaluation of land & shares = **Rs.**159 million

Total = **Rs.** 484 million

Therefore, Equity investment by foreign direct investor based on OFBV method is **Rs.** 242 million (50 % of **Rs.** 484 million).

MISC. REQUIREMENTS

- In case of group companies, a consolidated return covering all the branches/offices in India is to be furnished.

- Balance sheet for the reporting year of the entity is to be enclosed along with the return. In case the balance sheet is not audited, the information may be submitted based on the un-audited balance sheet and the audited balance sheet is required to be submitted in due course

- In case there are major differences in the reported/returned figures, a revised return may be submitted along with a copy of the balance sheet. The time limit for filing a revised return is, however, not prescribed

- The amounts are to be disclosed as on March 31 of the previous year, December 31 of the current year and March 31 of the current year