



COMMERCIAL/CORPORATE

Investment Sans Frontiers: Cabinet Refines PN3 FDI Regime With Beneficial Ownership Test And Fast-track Approvals

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PUBLISHED 11 March 2026

Executive summary

The Union Cabinet has approved targeted amendments to the foreign direct investment (FDI) framework applicable to investors from countries sharing land borders with India (LBCs), originally introduced via Press Note 3 of 2020 (PN3). The revised regime introduces a codified “Beneficial Owner” (BO) test aligned with the Prevention of Money Laundering Rules, 2005, carves out a 10 percent noncontrolling BO threshold for automatic route investments, and provides an expedited approval window for specified manufacturing sectors, while retaining core national security safeguards.

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Beneficial ownership: definition and new thresholds

- **Alignment with PML Rules, 2005**

The amended policy incorporates, by reference, the definition and criteria for determining “Beneficial Owner” that are widely used by the investing community under the Prevention of Money Laundering (Maintenance of Records) Rules, 2005. This creates a harmonised BO standard across investment and antimoney laundering frameworks, reducing interpretational divergence.

- **BO test at investor-entity level**

The BO test will now be applied at the level of the investor entity, rather than through an openended lookthrough of all upstream layers in every instance. This focuses the analysis on the beneficial ownership profile of the direct investor, simplifying compliance and diligence for funds and corporates with complex global structures.

- **10 percent non-controlling BO under automatic route**

Investments where LBC investors hold only a noncontrolling beneficial ownership of up to 10 percent in the investor entity will be permitted under the automatic route, subject to:

- Applicable sectoral caps;
- Prescribed entry routes; and
- Relevant attendant conditions under the FDI Policy.

Such investments will not require prior government approval solely on account of this limited LBC nexus, but will be subject to reporting of relevant information and details by the Indian investee entity to DPIIT. This effectively creates a safe harbour for nonstrategic, noncontrolling LBClinked capital within clearly defined limits.

Expedited clearance for specified manufacturing sectors

- **60day decision timeline**

Proposals involving LBC investments in specified manufacturing sectors/activities – namely capital goods, electronic capital goods, electronic components, and polysilicon and ingotwafer, will be processed and decided within 60 days. This is intended to accelerate decisionmaking in capitalintensive, technologyheavy segments that are critical to India’s manufacturing and supply chain ambitions.

- **Dynamic sector list under CoS**

The Committee of Secretaries (CoS) under the Cabinet Secretary is empowered to revise the list of specified sectors/activities from time to time. This allows the government to adapt the fasttrack list in line with evolving strategic and industrial policy priorities, without requiring a full overhaul of the core framework.

- **Indian control requirement**

In these fasttrack cases, majority shareholding and control of the Indian investee entity must, at all times, remain with:

- Resident Indian citizen(s); and/or
- Resident Indian entity(ies) owned and controlled by resident Indian citizen(s).

This ensures that while LBClinked capital can participate, ultimate control remains firmly with resident Indian stakeholders, mitigating strategic and security concerns.

PN3 background and policy recalibration

- **Original PN3 regime (17.04.2020)**

PN3 was introduced to curb opportunistic takeovers/acquisitions of Indian companies in the wake of the COVID19 pandemic. It mandated that:

- Any entity of a country sharing a land border with India, or
- Any investment into India where the beneficial owner is situated in, or is a citizen of, such a country, could invest only under the Government route. Further, any transfer of ownership of existing or future FDI resulting in beneficial ownership falling within such jurisdictions also required prior government approval.

- **Impact on non-strategic, minority investors**

Over time, the blanket applicability of PN3 to situations where LBC investors had only nonstrategic, noncontrolling interests was perceived as adversely affecting investment flows from global investors, including private equity and venture capital funds. Minority or passive LBClinked positions, with no effective control or strategic influence, were nonetheless caught in a timeconsuming approval process, dampening deal appetite and timelines.

- **Current amendments as a calibrated response**

The new guidelines specifically respond to these concerns by:

- Introducing an objective BO standard (via PML Rules, 2005);
- Creating a 10 percent noncontrolling BO safe harbour under the automatic route; and
- Fasttracking decisions in defined highpriority manufacturing sectors, while retaining Indian majority control.

Expected benefits and policy impact

The amendments are expected to:

- Provide greater clarity and predictability for investors and Indian businesses on when PN3style restrictions are triggered and when investments may proceed automatically.
- Enhance ease of doing business by reducing unnecessary approvals for lowrisk, noncontrolling LBClinked investments, particularly those channelled through global funds such as PE/VC platforms.
- Enable higher FDI inflows, access to new technologies, and greater domestic value addition, especially in capitalintensive manufacturing and electronics supply chains.
- Support expansion of domestic firms and deeper integration with global supply chains, strengthening India's positioning as a preferred investment and manufacturing destination.
- Supplement domestic capital, reinforce the objectives of Atmanirbhar Bharat, and contribute to faster overall economic growth by enabling "investment sans frontiers" within a clearly ringfenced risk framework.

Investment perspective: a calibrated reopening for LBC capital, with particular emphasis on Chinese investment

From an investment perspective, the revised PN3 FDI framework significantly broadens the pathway for entities from all land?border countries to participate in the India growth story, with the most meaningful easing for China?linked and China?exposed investors that previously faced the tightest constraints. By prioritising fasttrack approval for select manufacturing proposals while preserving majority Indian ownership, India not only expands market access, structuring options, and execution certainty for incoming investors, but also reinforces its appeal as a more predictable, scalable, and strategically resilient hub for longterm capital.

For more details, write to us at: contact@indialaw.in

Reference:

[\[Press Release\] Cabinet approves changes in guidelines on investments from countries sharing land border with India](#)

Frequently Asked Questions

What did the Cabinet change in the PN3 FDI regime?

The Union Cabinet approved targeted amendments to the FDI framework for investors from countries sharing a land border with India (originally introduced via Press Note 3 of 2020). The revised regime adds a codified 'Beneficial Owner' test aligned with the PMLA Rules, 2005, a 10% non-controlling BO threshold for automatic-route investments, and an expedited approval window for specified manufacturing sectors, while retaining national security safeguards.

What is the new 10% Beneficial Owner threshold under the automatic route?

Investments where land-border-country investors hold only a non-controlling beneficial ownership of up to 10% in the investor entity are permitted under the automatic route (subject to sectoral caps, prescribed entry routes and attendant conditions) without prior government approval solely on account of that limited nexus, but with reporting to DPIIT by the Indian investee.

Which investors does Press Note 3 (PN3) apply to?

PN3 applies to foreign direct investment from investors of countries that share a land border with India (land border countries, or LBCs), requiring government scrutiny aimed at safeguarding against opportunistic takeovers and national security risks.

How quickly will approvals be decided for specified manufacturing sectors?

The amended regime provides an expedited clearance with a 60-day decision timeline for proposals involving LBC investment in specified manufacturing sectors/activities.

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