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After 7 Mths Wait, RBI Allows FDI in LLPs

Will issue norms soon even though corporate affairs ministry rules out changes in LLP Act

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The Reserve Bank of India has agreed to notify foreign direct investment rules in limited liability partnerships, a form of business organization that is popular globally but has not taken off in India.

The government had last year allowed foreign investors to pick up stakes in LLPs through the 100% automatic FDI approval route but the proposal did not take effect as the RBI did not notify the rules under the Foreign Exchange Management Act. The central bank considered LLPs a 'loose structure'.

"We had sought certain clarifications from the government. Now that we have received them, the RBI will shortly issue the guidelines," a RBI spokesperson told ET.

However, officials in the ministry of corporate affairs reiterated that no changes will be made to the LLP Act. "We have repeatedly written to the RBI to revise its stance on LLPs and the existing Act. We are hopeful that they would soon be notified," a senior ministry official said.

Under the Limited Liability Partnership Act, 2008, LLPs combine the benefits of a company and a partnership firm. Unlike regular partnerships, an LLP partner is not responsible or liable for another partner's negligence.

The Department of Industrial Policy and Promotion, the nodal FDI policymaking body, had issued a press note allowing FDI into LLP last year. However, pending notification by the RBI companies were left confused whether to invest in such firms or not.

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Foreign investment in LLPs has been dismal so far. Till date, the Foreign Investment Promotion Board has approved only three applications inviting ₹45.14 crore worth of foreign funds.

"There are many (potential) investors but a lack of coordination between the policy-making and policy-implementing bodies has led to uncertainty," said Hitendra Mehta, partner at Vaish Associates Advocates. "It is imperative that the RBI issues a notification taking cognizance of the LLP structure to facilitate FDI, attracting greater overseas funds into capital-intensive sectors and global best practices in the country."

LLPs are very popular globally because they offer tax advantages, lower cost of formation and easier exit options. For instance, LLPs are not subjected to dividend distribution tax and depreciation provision, and pay less tax as compared to companies. Yet, in India, LLPs have failed to take off and only 6,738 of them are in operation.