



NEWS ALERT

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FDI in Multi-Brand Retail May Get 100% Backing

The commerce and industry ministry is likely to propose allowing 100% foreign direct investment (FDI) in multi-brand retail, signaling a major reform milestone and paving the way for large global supermarket groups such as Wal-Mart, Carrefour and Tesco to have a deeper engagement with India. But mindful of the intense debate such a plan could trigger, it will suggest stiff local sourcing requirements and mandatory investments in backward linkages to make it more palatable to constituencies opposed to foreign retail presence in the sector. "We are preparing a paper that will be placed for public debate in some time," a senior official of the Department of Industrial Policy and Promotion (DIPP), the nodal body for foreign investment policy said.

Although the earlier view within the department was to keep the FDI limit at 51%, the same as in single-brand retail, it has since veered around to pitching it much higher and even pegging it at 100% to have an intense debate on the subject, the official said. A final decision on the cap will be taken after deliberations with the consumer affairs ministry, the nodal department for the retail sector, he said.

The Securities & Exchange Board of India (SEBI) has recommended a change in current rules to allow holders of American depository receipts (ADRs) and global depository receipts (GDRs) issued by Indian corporates to exercise their voting rights, raising the possibility of increased shareholder activism in future.

Depository receipts, or DRs, are securities issued to overseas investors by Indian companies. In September 2009, the capital market regulator had brought holders of such securities under the takeover code. Investors or holders of ADRs/GDRs are entitled to vote on the shares underlying or representing the receipts, but their rights are restricted by the clauses in the 'terms of issue' or agreements between the holders of these instruments and the issuers. In reality, their voting rights are as good as having none.



Large Indian companies could likely report a sharp fall in the valuation of their assets as new accounting norms prompt these firms to reassess the fair value of their units, a mandatory condition under globalised reporting standards. Adoption of the International Financial Reporting Standards, or IFRS, a modern accounting system that Indian companies have to migrate to from next year, could see local firms publicly admit to any erosion in the value of their subsidiaries or other assets — like Vodafone, which recently shaved off \$3.2 billion (about Rs 14,600 crore) from its Indian unit due to adverse market conditions.

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