

UAE's Exit from FATF Grey List

Source: BL

Why in News?

The recent removal of the **United Arab Emirates (UAE)** from the <u>Financial Action Task Force (FATF)</u> grey <u>list</u> has sparked optimism for investment landscapes, particularly in India's <u>Non-Banking Financial</u> <u>Companies (NBFCs).</u>

How does the UAE's Exit from Grey List Impact Investments in Indian NBFCs?

- Investment Policies: A Reserve Bank of India (RBI) circular in 2021 outlined investment regulations for NBFCs, distinguishing between investments from compliant and non-compliant FATF jurisdictions.
 - Investments from non-compliant jurisdictions faced restrictions on acquiring significant influence in Indian NBFCs.
- Impact on UAE Investors: The UAE's removal from the FATF grey list facilitates easier investment for UAE-based investors in Indian NBFCs.
- Cross-Border Investment Facilitation: The eased restrictions encourage cross-border investments between India and the UAE, benefiting both the countries' financial sectors.
- Increase in FPI and FDI: The UAE's exit may reduce <u>Know Your Customer (KYC)</u> requirements for <u>foreign portfolio investment (FPIs)</u> from the region, potentially boosting FPI inflows into India (expected to double).
 - Removal of UAE from grey list may lead to increased <u>foreign direct investment (FDI)</u>
 contributing to economic growth. This competition could drive innovation and attract more
 investments to both regions.

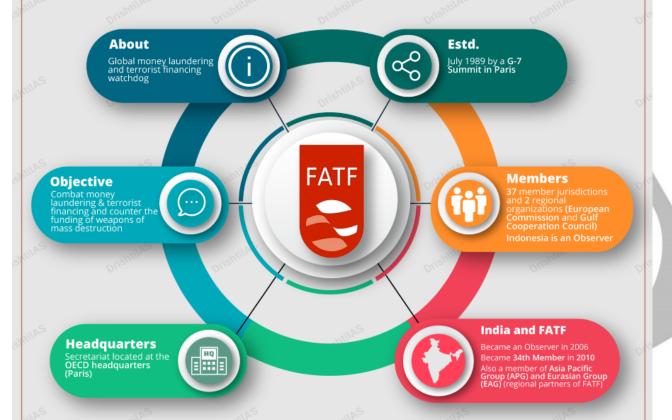
What is a Non-Banking Financial Company (NBFC)?

- About: An NBFC is a company registered under the Companies Act, 1956, involved in various financial activities such as providing loans and advances, acquiring shares, stocks, bonds, debentures, and securities issued by the government or local authorities.
 - NBFCs do not include institutions primarily engaged in:
 - Agricultural or industrial activities
 - Purchase or sale of goods (other than securities)
 - Providing services
 - Dealing in immovable property.
- Difference Between Banks & NBFCs:
 - While banks can accept demand deposits from customers, NBFCs are not permitted to do so.
 - NBFCs are not part of the payment and settlement system, unlike banks.
 - NBFCs cannot issue cheques drawn on themselves, which banks are authorised to do.
 - The deposit insurance facility provided by Deposit Insurance and Credit Guarantee Corporation is not available to NBFC depositors, unlike bank depositors.

What is FATF?



Financial Action Task Force



FATF Lists

Grey List:

- Aka "Increased Monitoring List"
- Includes countries considered safe haven for supporting terror funding and money laundering
- Serves as a warning that the country may enter the blacklist

Black List:

- Includes Non-Cooperative Countries or Territories (NCCTs) that support terror funding and money laundering activities
- Countries Iran, North Korea and Myanmar

Consequences of being Greylisted:

- Economic sanctions from financial institutions affiliated with FATF (IMF, World Bank, ADB)
- Problem in getting loans from such financial institutions and countries
- Reduction in international trade
- International boycott

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