



Regulatory Alert Stay Ahead...

RBI tightens norms for issue of Rupee- Denominated Bonds overseas

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Background

In 2015, Reserve Bank of India (RBI) permitted Indian entities to issue rupee-denominated bonds overseas (RDBOs, popularly known as masala bonds), so as to access funds from foreign investors in Indian currency. With a view to align the various elements of the ECB framework, RBI has, on 07 June 2017, made amendments to the provisions in respect of maturity period, all-in-cost ceiling and recognized lenders (investors) of RDBOs.

The highlights of the amendments regarding issuance of RDBOs which are effective from 7 June 2017 are summarized below.

Highlights of the amendments

Sr. No	Parameter	Framework
1	Review of proposals by RBI, Mumbai	Proposals with regard to borrowing by eligible Indian entities by issue of RDBOs will be examined by the Foreign Exchange Department, Central Office of RBI, Mumbai and shall be forwarded through AD bank (earlier there was no such requirement of RBI approval)
2	Maturity period	<ul style="list-style-type: none">• Minimum original maturity period of 3 years for RDBOs raised up to \$50 million equivalent in INR per financial year; and• Minimum original maturity period of 5 years for RDBOs raised above \$50 million equivalent in INR per financial year. (earlier it was 3 years)
3	Recognized Investors	Entities permitted as investors should not be a 'related party' as defined under IND-AS 24 and accordingly, they cannot subscribe or invest in or purchase RDBOs. (earlier related parties were considered as eligible investors)
4	All-in cost ceiling	300 basis points over and above prevailing yield of government of India securities having corresponding maturity. (earlier condition stated that it should commensurate with the prevailing market conditions)

Conclusion

The amendments would align provisions of RDBOs with the ECB framework. Foreign entities, which come under the ambit of related parties and are investing in Indian entities through the RDBO issue, will not be recognized as eligible investors and would be required to invest through other possible alternatives like ECB, NCDs etc. Further, proposals for raising funds by issue of RDBOs would now be subject to RBI approval.

Source: RBI A.P. (DIR Series) Circular No.47 dated June 07, 2017

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Contacts

Ahmedabad

19th Floor, Shapath - V
SG Highway,
Ahmedabad – 380 015.
Tel: + 91 (079) 6682 7300
Fax: + 91 (079) 6682 7400

Bangalore

Deloitte Centre, Anchorage II,
100/2, Richmond Road,
Bangalore 560 025.
Tel: +91 (080) 6627 6000
Fax: +91 (080) 6627 6010

Chennai

No.52, Venkatanarayana Road,
7th Floor, ASV N Ramana Tower,
T-Nagar,
Chennai 600 017.
Tel: +91 (044) 6688 5000
Fax: +91 (044) 6688 5050

Coimbatore

Shanmugha Manram
41, Race Course,
Coimbatore
Tamil Nadu - 641018
Tel: + 91 (0422) 439 2801
Fax: +91 (0422) 222 3615

Delhi/Gurgaon

Building 10,
Tower B, 7th Floor,
DLF Cyber City,
Gurgaon 122 002
Tel : +91 (0124) 679 2000
Fax : + 91 (0124) 679 2012

Hyderabad

1-8-384 and 385, 3rd Floor,
Gowra Grand S.P.Road,
Begumpet,
Secunderabad – 500 003.
Tel: +91 (040) 6603 2600
Fax: +91 (040) 6603 2714

Kolkata

Bengal Intelligent Park Building
Alpha, 1st floor, Block EP and GP
Sector V, Salt Lake Electronics
Complex,
Kolkata - 700 091.
Tel : + 91 (033) 6612 1000
Fax : + 91 (033) 6612 1001

Mumbai

Indiabulls Finance Centre,
Tower 3, 28th Floor,
Elphinstone Mill Compound,
Senapati Bapat Marg, Elphinstone
(W),
Mumbai – 400013
Tel: + 91 (022) 6185 4000
Fax: + 91 (022) 6185 4101

Pune

106, B-Wing, 7th Floor,
ICC Trade Tower,
Senapati Bapat Road,
Pune – 411 016.
Tel: + 91 (020) 6624 4600
Fax: +91 (020) 6624 4605



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