



FOREIGN EXCHANGE LAWS

N. A. SHAH
BULLETIN

May 2018


N. A. SHAH ASSOCIATES LLP
Chartered Accountants



INDEX

1. Amendments in the External Commercial Borrowings (ECB) regulations..... 4
2. Investment by Foreign Portfolio Investors (FPI) in Debt..... 5
3. Liberalized Remittance Scheme (LRS) 5

EXECUTIVE SUMMARY

- RBI has provided relaxations in existing External Commercial Borrowing Framework including expanding the list of eligible borrowers.
- Revision in changes in Investment Limits and other conditions for FPIs in debt in India have been made.
- RBI has mandated daily reporting of LRS transactions by the banks so as to have improved monitoring & compliance with LRS limit.

1. Amendments in the External Commercial Borrowings (ECB) regulations

RBI in consultation with Government of India has rationalised and liberalised the guideline as under:

- a. All-in-cost ceiling for ECB under all tracks and Rupee denominated bonds (RDBs) will be 450 basis points over the benchmark rate. The benchmark rate will be 6 month USD LIBOR (or applicable benchmark for respective currency) for Track I and Track II, and prevailing yield of the Government of India securities of corresponding maturity for Track III (Rupee ECBs) and RDBs.
- b. ECB liability to Equity Ratio has been increased to 7:1 under the automatic route where ECB is raised from direct foreign equity holder. However, the ratio is not applicable if total of all ECBs by the entity is up to USD 5 million or equivalent.
- c. Eligible borrowers' list subject to conditions has been expanded to include Housing Finance Companies and Port Trusts which can raise ECB under all tracks and in case of Track I ECB, it should be 100% hedged at all time. Companies engaged in the business of Maintenance, Repair and Overhaul and freight forwarding have been permitted to raise only ECBs denominated in INR.
- d. For end-use instead of having positive and in some cases negative list, only negative list for all Tracks is prescribed.
 - i. Negative End Use List for All the Tracks
 - Investment in real estate or purchase of land except when used for affordable housing as defined in Harmonised Master List of Infrastructure Sub-sectors notified by Government of India, construction and development of SEZ and industrial parks/integrated townships
 - Investment in capital market
 - Equity investment
 - On-lending to entities for the above activities
 - ii. Additional Negative End Use List for Track I and Track III*
 - Working capital purposes
 - General corporate purposes
 - Repayment of Rupee loans

- On-lending to entities for the above activities

*conditions not to apply when ECB is raised from Direct and Indirect equity holders or from a Group company, and provided the loan is for a minimum average maturity of five years.

2. Investment by Foreign Portfolio Investors (FPI) in Debt

- FPIs permitted to invest in Corporate Bonds with minimum residual maturity of above one year.
- FPIs have been restricted to invest in partly paid instruments.
- Concentration limits for investment in Government securities, SDLs and corporate debt securities has been introduced for individual and related FPI investments as under:

| FPI Category | Limits |
|----------------|--|
| Long Term FPIs | 15% of prevailing investment limit for that category |
| Other FPIs | 10% of prevailing investment limit for that category |

- Relaxations have been introduced as a one-time measure for FPIs having investments in excess of the concentration limit on the effective date.
- Single/ Group investor-wise limit in corporate bonds have been introduced as under:

| Type | Investment Limit |
|--------------------------------|------------------|
| Single Issue of Corporate Bond | 50% |
| Single Corporate | 20% |

3. Liberalized Remittance Scheme (LRS)

Currently, transactions under Liberalized Remittance Scheme (LRS) are being permitted by AD banks based on the declaration made by the remitter. In order to improve monitoring and also to ensure compliance with the LRS limits, it has been decided with immediate effect that AD banks on daily basis will be reporting transactions undertaken by individuals under LRS. The data will be accessible to all the other ADs.

The contents provided in this newsletter are for information purpose only and are intended, but not promised or guaranteed, to be correct, complete and up-to-date. The firm hereby disclaims any and all liability to any person for any loss or damage caused by errors or omissions, whether such errors or omissions result from negligence, accident or any other cause.

From:

N. A. Shah Associates LLP
Chartered Accountants

Address: B 41-45, Paragon Centre, Pandurang Budhkar Marg, Mumbai – 400013.

Tel: 91-022-4073 3000, Fax: 91-022-4073 3090

E-mail Id: info@nashah.com