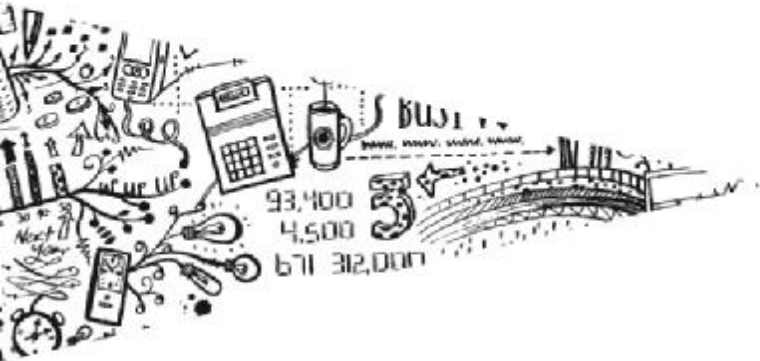


6 July 2011

EY Regulatory Alert

Redemption of Foreign Currency Convertible Bonds



Background

Keeping in view the need to provide a window to facilitate refinancing of Foreign Currency Convertible Bonds (FCCBs) by the Indian companies who may be facing difficulty in meeting the redemption obligations, the Reserve Bank of India (RBI) has decided to allow Indian companies to refinance/ restructure the outstanding FCCBs issued by them under the automatic route.

The RBI has vide A. P. (DIR Series) No.1 dated 4 July 2011 (Circular), enabled companies with outstanding debt to raise funds via fresh External Commercial Borrowings (ECBs) and FCCBs, subject to certain conditions.

Key conditions

Authorised Dealer Category - I (AD Category - I banks) can allow Indian companies to refinance the outstanding FCCBs, subject to compliance with the terms and conditions, some of which are set out hereunder:

- ▶ Fresh ECBs/ FCCBs shall be raised with the stipulated average maturity period and applicable all-in-cost being as per the extant ECB Guidelines;
- ▶ The amount of fresh ECB/ FCCB shall not exceed the outstanding redemption value at maturity of the outstanding FCCBs;

- ▶ The fresh ECB/ FCCB shall not be raised six months prior to the maturity date of the outstanding FCCBs;
- ▶ The purpose of ECB/ FCCB shall be clearly mentioned as 'Redemption of outstanding FCCBs' in Form 83 at the time of obtaining Loan Registration Number from the RBI;
- ▶ The designated AD - Category I bank should monitor the end-use of funds;
- ▶ ECB/ FCCB beyond USD 500 million for the purpose of redemption of the existing FCCB will be considered under the approval route; and
- ▶ ECB/ FCCB availed of for the purpose of refinancing the existing outstanding FCCB will be reckoned as part of the limit of USD 500 million available under the automatic route as per the extant norms.

Further, as per the Circular, restructuring of FCCBs involving change in the existing conversion price is not permissible. Proposals for restructuring of FCCBs not involving change in conversion price will, however, be considered under the approval route depending on the merits of the proposal.

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