

Foreign Exchange Developments

April 2007

Export of Goods and Services Refund of Export Proceeds – Liberalisation

Earlier refund of export proceeds were permitted to be allowed by AD Category - I banks provided such goods are re-imported into India on account of poor quality, *etc.*, and evidence of re-import has been submitted. With a view to liberalising the procedure further, AD Category - I banks, through whom the export proceeds were originally realised, may henceforth, consider requests for refund of export proceeds of goods exported from India and being re-imported into India on account of poor quality, subject to certain terms and conditions.

[A.P. (DIR Series) Circular No.37 dated
April 5, 2007]

Overseas Direct Investment – Rationalisation

- a) Acquisition of shares by an Indian party of a foreign company, engaged in a bonafide business activity, in exchange of ADRs/GDRs issued to the latter in accordance with the scheme for issue of Foreign Currency Convertible Bonds and Ordinary Shares (through Depository Receipt Mechanism) Scheme, 1993, shall now be considered as an accepted mode of overseas direct investment.
- b) Pledge of shares of the overseas JV/WOS to an overseas lender – In order to provide operational flexibility to Indian parties for availing fund based and non-fund based facilities overseas, Indian parties are now permitted to transfer by

way of pledge, the shares held in overseas JV/WOS, to an overseas lender, provided the lender is regulated and supervised as a bank and the total financial commitments of the Indian party remain within the limit stipulated by Reserve Bank for overseas investments.

[A.P. (DIR Series) Circular No.41 dated April 20, 2007]

External Commercial Borrowings (ECB)

As announced in the Annual Policy Statement for the year 2007-08, with a view to providing greater flexibility to the corporates in managing their liquidity and interest costs dynamically, the existing limit for prepayment of ECB has been enhanced from USD 300 million to USD 400 million subject to compliance with the minimum average maturity period as applicable to the loan.

[A.P. (DIR Series) Circular No.44 dated April 30, 2007]

Remittance Towards Donation by Corporates – Liberalisation

As announced in the Annual Policy Statement for the year 2007-08 and with a view to further liberalise the procedure and provide greater flexibility for remittance by corporates towards setting up of chairs abroad, AD Category-I banks are now permitted to make remittances on account of donations by corporates for specified purposes. The remittances are subject to a limit of 1 per cent of the foreign exchange

earnings during the previous three financial years or USD 5 million, whichever is less.

[A.P. (DIR Series) Circular No.45 dated April 30, 2007]

Remittance for Consultancy Services – Liberalisation

As announced in the Annual Policy Statement for the year 2007-08 and with a view to further liberalise the procedure and provide greater flexibility, the limit for remittance by AD Category – I banks on behalf of Indian companies for consultancy service procured from outside India for executing infrastructure projects has been raised from USD 1 million per project up to USD 10 million per project. In all other cases, the existing limit of USD 1 million, per project, for any consultancy service procured from outside India, will continue.

[A.P. (DIR Series) Circular No.46 dated April 30, 2007]

Reimbursement of Pre-incorporation Expenses – Liberalisation

As announced in the Annual Policy Statement for the year 2007-08 and with a view to liberalise the procedure further and providing greater flexibility, AD Category – I banks are now permitted to allow remittance of foreign exchange towards reimbursement of pre-incorporation expenses incurred in India up to 5 per cent of the investment brought into India or USD 100,000, whichever is higher, on the basis of certification from statutory auditors.

[A.P. (DIR Series) Circular No.47 dated April 30, 2007]

Opening of Foreign Currency Accounts in India by Ship-manning/ Crew-management Agencies

As announced in the Annual Policy Statement for the year 2007-08, AD Category – I banks are now permitted to allow ship manning/crew managing agencies that are rendering services to shipping companies incorporated outside India, to open and maintain non-interest bearing foreign currency accounts in India for the purpose of undertaking transactions in the ordinary course of its business, subject to certain terms and conditions.

[A.P. (DIR Series) Circular No.48 dated
April 30, 2007]

Overseas Investment by Venture Capital Funds (VCFs)

Reserve Bank of India, in consultation with the Securities and Exchange Board of India (SEBI), has permitted Indian Venture Capital Funds (VCFs), registered with SEBI, to invest in equity and equity-linked instruments of off-shore venture capital undertakings, subject to an overall limit of USD 500 million and to such terms and conditions as may be stipulated by SEBI in this regard.

[A.P. (DIR Series) Circular No.48 dated
April 30, 2007]