

Issuance of Rupee Denominated Bonds Overseas

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1. Who can issue?
2. Where can these bonds be issued?
3. Who can subscribe or invest in such bonds?
4. Can Indian banks issue these bonds?
5. Can Indian banks participate in the process of issuance of Rupee denominated bonds overseas in any other manner?
6. What would be the minimum maturity of such bonds?
7. Whether the Rupee bonds can provide option for prepayment to the issuer?
8. Can bonds be placed privately?
9. Is there any ceiling on the all-in-cost of such bonds?
10. Where to submit applications for issuance of Rupee Denominated Bonds?
11. For what all purposes the proceeds of Rupee bonds can be used?
12. Are there any requirements in respect of end-uses not mentioned at 11 above?
13. Whether sale / transfer / pledge of bonds permitted?
14. What is the meaning of integrated township and affordable housing projects for the purpose of end-use of proceeds of the bonds?
15. Can proceeds from issuance of Rupee bonds overseas be used for other real estate activities other than what is given at 11 above?
16. Whether the non-resident investor will be eligible to hedge their exposure?
17. What will be the exchange rate for foreign currency-Rupee conversion for such bonds?
18. Whether ECB liability: equity ratio, as applicable for raising ECB from foreign equity holder, is applicable in case of Rupee denominated bonds?
19. What are the reporting requirements in respect of such bonds?
20. Can an entity issuing Rupee denominated bonds overseas, assume foreign currency risk on account of liabilities arising out of these bonds?
21. Whether the framework of External Commercial Borrowings (ECB) overlaps the framework for issuance of Rupee Denominated bonds overseas?

1. Who can issue?

Any corporate (entity registered as a company under the Companies Act, 1956/ 2013) or body corporate (entity specially created out of a specific act of the Parliament) and Indian banks are eligible to issue Rupee denominated bonds overseas. Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InvITs) coming under the regulatory jurisdiction of the Securities and Exchange Board of India (SEBI) are also eligible. Other resident entities like Limited Liability Partnerships and Partnership firms, etc. are also not eligible to issue these bonds.

2. Where can these bonds be issued?

The Rupee denominated bonds can only be issued in a country and can only be subscribed by a resident of a country:

that is a member of Financial Action Task Force (FATF) or a member of a FATF-Style Regional body; and whose securities market regulator is a signatory to the International Organization of Securities Commission's (IOSCO's) Multilateral Memorandum of Understanding (Appendix A Signatories) or a signatory to bilateral Memorandum of Understanding with the SEBI for information sharing arrangements; and

should not be a country identified in the public statement of the FATF as:

- (i) A jurisdiction having a strategic Anti-Money Laundering or Combating the Financing of Terrorism deficiencies to which counter measures apply; or
- (ii) A jurisdiction that has not made sufficient progress in addressing the deficiencies or has not committed to an action plan developed with the Financial Action Task Force to address the deficiencies.

3. Who can subscribe or invest in such bonds?

The Rupee denominated bonds can be subscribed / invested by an investor who is a resident of a country satisfying criteria given at [2 above](#) or by Multilateral and Regional Financial Institutions where India is a member country. However, related party within the meaning as given in Ind-AS 24 cannot subscribe or invest in or purchase such bonds.

4. Can Indian banks issue these bonds?

Yes, Indian banks can issue these bonds in the forms of (i) Perpetual Debt Instruments (PDI) qualifying for inclusion as Additional Tier 1 capital and debt capital instruments qualifying for inclusion as Tier 2 capital, and (ii) Long term Rupee Denominated Bonds overseas for financing infrastructure and affordable housing. Indian banks should ensure that Rupee denominated bonds issued by them overseas conform to the provisions contained in the [Master Circular DBR.No.BP.BC.1/21.06.201/2015-16 dated July 01, 2015](#) on Basel III Capital Regulations and [Circular DBOD.BP.BC.No. 25/08.12.014/2014-15 dated July 15, 2014](#) on 'Guidelines on Issue of Long Term Bonds by Banks – Financing of Infrastructure and Affordable Housing' issued by the Reserve Bank and as amended from time to time.

5. Can Indian banks participate in the process of issuance of Rupee denominated bonds overseas in any other manner?

Indian banks are also permitted to act as arranger / underwriter for issuance of these bonds provided their holdings (which would be subject to applicable prudential norms), while performing these functions, is not more than 5 per cent of the issue size beyond 6 months from the date of issue. Indian banks, are, however, not permitted to perform any other role, including trading and market making, in respect of these bonds. Further, for bonds issued by an Indian bank, another Indian bank cannot act as an underwriter.

6. What would be the minimum maturity of such bonds?

The minimum maturity period for Masala Bonds raised up to USD 50 million equivalent in INR per financial year should be 3 years and for bonds raised above USD 50 million equivalent in INR per financial year should be 5 years. In case the subscription to the bonds/ redemption of the bonds is in tranches, minimum average maturity period should be 3/5 years, as mentioned above.

7. Whether the Rupee bonds can provide option for prepayment to the issuer?

The bonds cannot have any optionality clause for prepayment before completing applicable maturity.

8. Can bonds be placed privately?

Yes, the bonds can either be placed privately or listed on exchanges as per host country regulations.

9. Is there any ceiling on the all-in-cost of such bonds?

The all-in-cost ceiling for such bonds will be 300 basis points over the prevailing yield of the Government of India securities of corresponding maturity.

10. Where to submit applications for issuance of Rupee Denominated Bonds?

Applications for issuance of Rupee Denominated Bonds, whether under Automatic Route or Approval route, by eligible Indian entities will be submitted to Foreign Exchange Department, Central Office, Mumbai of the Reserve Bank through AD Bank only.

11. For what all purposes the proceeds of Rupee bonds can be used?

The proceeds can be used for all purposes except for the following:

Real estate activities other than for development of integrated township / affordable housing projects;

Investing in capital market and using the proceeds for equity investment domestically;

Activities prohibited as per the Foreign Direct Investment (FDI) guidelines;

On-lending to other entities for any of the above objectives; and

Purchase of land.

12. Are there any requirements in respect of end-uses not mentioned at 11 above?

End-uses should also be in compliance with other applicable laws and regulations and should be permitted by respective sectoral regulator.

13. Whether sale / transfer / pledge of bonds permitted?

Yes, sale / transfer / pledge of bonds overseas is freely permitted provided conditions at [question No. 2](#) and [3](#) are satisfied.

14. What is the meaning of integrated township and affordable housing projects for the purpose of end-use of proceeds of the bonds?

The term Integrated township will mean township as defined in the extant FDI policy. Affordable housing projects will also be as defined in the extant FDI policy.

15. Can proceeds from issuance of Rupee bonds overseas be used for other real estate activities other than what is given at 11 above?

No.

16. Whether the non-resident investor will be eligible to hedge their exposure?

The non-resident investors will be eligible to hedge their exposure in Rupee denominated bonds through permitted derivative products with AD Category - I banks in India. The investors can also access the domestic market through branches / subsidiaries of Indian banks abroad or branches of foreign banks with Indian presence abroad on a back to back basis.

17. What will be the exchange rate for foreign currency-Rupee conversion for such bonds?

The foreign currency-Rupee conversion will be at the market rate on the date of settlement of transactions undertaken for issue and servicing of the bonds, including its redemption.

18. Whether ECB liability: equity ratio, as applicable for raising ECB from foreign equity holder, is applicable in case of Rupee denominated bonds?

No.

19. What are the reporting requirements in respect of such bonds?

Bonds can be issued only after obtaining Loan Registration Number (LRN) from the Reserve Bank as applicable to ECBs. Borrowers are required to submit duly certified Form 83 in duplicate to the designated AD Category I bank. In turn, the AD Category I bank will forward one copy to the Director, Balance of Payments Statistics Division, Department of Statistics and Information Management (DSIM), Reserve Bank of India, Bandra-Kurla Complex, Mumbai – 400 051 for obtaining LRN. The reporting through ECB 2 Return will also be required. Additionally, the borrower is required to fulfil reporting requirements/ maintain details of issuance of such bonds as required by government or by other regulators/ bodies/ Acts.

20. Can an entity issuing Rupee denominated bonds overseas, assume foreign currency risk on account of liabilities arising out of these bonds?

Any entity issuing Rupee denominated bonds overseas is not permitted to convert the liability arising out of the bonds into a foreign currency liability in any manner or assume foreign currency risk in any manner by either entering into a derivative contract or otherwise.

21. Whether the framework of External Commercial Borrowings (ECB) overlaps the framework for issuance of Rupee Denominated bonds overseas?

No. The two frameworks run separately. For example, limit of borrowing under the ECB framework would be separate from the borrowing under the framework for issuance of Rupee Denominated bonds overseas.

