

Corpsec Hotline

January 19, 2004

SETTING UP OF BRANCH OFFICE IN SEZS

In another move aimed at attracting foreign investors, the Reserve Bank of India ("RBI") has simplified the regulations relating to the setting up of branch offices in India, subject to compliance with certain parameters.

The RBI has modified the Foreign Exchange Management (Establishment in India of Branch or Office or other Place of Business) Regulations, 2000 by granting a general permission to foreign companies to establish branch offices/Units in Special Economic Zones ("SEZ") to undertake manufacturing and service activities, subject to the fulfillment of the following conditions:

- Such units must be functioning in those sectors where 100% Foreign Direct Investment ("FDI") is permitted;
- Such units must comply with Part XI of the Companies Act, 1956, which deals with the registration with Indian regulatory authorities and other ongoing filing requirements by companies incorporated outside India;
- Such units must function on a "stand-alone basis", which means that the branch offices set up would be restricted to the SEZ only. Such branch offices would be isolated and no business activity/transaction will be allowed outside the SEZ in India, which includes branches/subsidiaries of its parent office in India; and
- In the event of winding-up of business and for remittance of winding-up proceeds, the branch/unit must comply with the guidelines as stipulated by the RBI including, an auditor's certificate, tax clearance certificate, etc.

Source: RBI A.P (DIR Series) Circular No.58

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