

## Corpsec Hotline

March 28, 2006

### RBI'S FIRST STEP TOWARDS CAPITAL ACCOUNT CONVERTIBILITY

Earlier this month, the Prime Minister of India, Mr. Manmohan Singh, asked the Finance Minister and the Reserve Bank of India ("RBI") to prepare a road map towards full capital account convertibility, by July 31, 2006. In pursuance of which the RBI has set up a committee headed by Mr. S.S. Tarapore, former deputy governor of the RBI.

The RBI, commencing its journey down the road towards full capital account convertibility has issued circular RBI/2005-06/ 338 A.P. (DIR Series) Circular No. 29, dated March 27, 2006 ("**Circular**"), with a view to granting more operational flexibility to Indian corporates by liberalizing the rules governing corporate guarantees and disinvestments as well as easing the regulatory regime for overseas investment by proprietary concerns.

The significant changes proposed under the Circular are:

#### Guarantees

Previously, only promoter companies are allowed to offer guarantees on behalf of their wholly-owned subsidiaries (WOS) and joint ventures (JVs) without prior approval of the RBI, i.e. under the automatic route.

Under the new regime, Indian corporates may offer any form of guarantee - corporate or personal / primary or collateral / guarantee by the promoter company / guarantee by group company, sister concern or associate company in India subject to the following requirements: (i) the financial commitment is within the overall prescribed ceiling for overseas investment, (ii) the amount of the guarantee is specified upfront, and (iii) the same is reported to RBI, in Form ODR.

#### Overseas Investments by Proprietorship Concerns

Prior to the Circular, only a company incorporated in India, a body created under an Act of Parliament, a partnership firm registered under Indian Partnership Act, 1932, or any other entity notified by the RBI was eligible to invest in an overseas JV/WOS.

Now, proprietary / unregistered partnership firms may set up a JV/WOS outside India with the prior approval of the RBI if they satisfy certain eligibility criteria detailed in the annexure to the Circular, which includes inter alia that (i) the partnership / proprietorship firm must be a DGFT recognised Star Export House, i.e. having exports exceeding Rs.15 crore per annum, (ii) the partnership / proprietorship firm must have a proven track record, and (iii) the amount of investment must not exceed 10% of the average of the past three years exports or 200% of the net owned funds of the Indian firm, whichever is lower.

- **Kishore Joshi & Siddharth Shah**

You can direct your queries or comments to the authors

Source: RBI Circular - RBI/2005-06/ 338 A.P. (DIR Series) Circular No. 29, dated March 27, 2006

#### DISCLAIMER

The contents of this hotline should not be construed as legal opinion. View detailed disclaimer.

This Hotline provides general information existing at the time of preparation. The Hotline is intended as a news update and Nishith Desai Associates neither assumes nor accepts any responsibility for any loss arising to any person acting or refraining from acting as a result of any material contained in this Hotline. It is recommended that professional advice be taken based on the specific facts and circumstances. This Hotline does not substitute the need to refer to the original pronouncements.

This is not a Spam mail. You have received this mail because you have either requested for it or someone must have suggested your name. Since India has no anti-spamming law, we refer to the US directive, which states that a mail cannot be considered Spam if it contains the sender's contact information, which this mail does. In case this mail doesn't concern you, please unsubscribe from mailing list.

## Research Papers

### Mergers & Acquisitions

July 11, 2025

### New Age of Franchising

June 20, 2025

### Life Sciences 2025

June 11, 2025

## Research Articles

### 2025 Watchlist: Life Sciences Sector India

April 04, 2025

### Re-Evaluating Press Note 3 Of 2020: Should India's Land Borders Still Define Foreign Investment Boundaries?

February 04, 2025

### INDIA 2025: The Emerging Powerhouse for Private Equity and M&A Deals

January 15, 2025

## Audio

### CCI's Deal Value Test

February 22, 2025

### Securities Market Regulator's Continued Quest Against "Unfiltered" Financial Advice

December 18, 2024

### Digital Lending - Part 1 - What's New with NBFC P2Ps

November 19, 2024

## NDA Connect

Connect with us at events, conferences and seminars.

## NDA Hotline

Click here to view Hotline archives.

## Video

### Reimagining CSR: From Grant Giving to Blended Finance & Outcome Based Funding

June 16, 2025

### Courts vs Bankruptcy code: The

