



RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2013-2014/428
A.P. (DIR Series) Circular No.84
To

January 6 , 2014

All Category - I Authorised Dealer banks

Madam/Sir,

**Issue of Non convertible/ redeemable bonus preference shares or debentures -
Clarifications**

Attention of Authorised Dealers Category- I (AD Category-I) banks is invited to Regulation (2ii) and Regulation 5 of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 notified vide [Notification No.FEMA.20/2000 -RB dated May 3, 2000](#), as amended from time to time, in terms of which equity shares, compulsorily and mandatorily convertible preference shares and compulsorily and mandatorily convertible debentures are treated as a part of share capital for the purpose of Foreign Direct Investment.

2. Reserve Bank of India has been receiving references from some Indian companies regarding issue of non-convertible/ redeemable bonus preference shares or debentures to non-resident shareholders from the general reserve under a Scheme of Arrangement by a Court, under the provisions of the Companies Act, as applicable. So far, Reserve Bank has been granting permission for such issuances on a case-to-case basis. On a review and with a view to rationalizing and simplifying the procedures, it has been decided that an Indian company may issue non-convertible/redeemable preference shares or debentures to non-resident shareholders, including the depositories that act as trustees for the ADR/GDR holders, by way of distribution as bonus from its general reserves under a Scheme of Arrangement approved by a Court in India under the provisions of the Companies Act, as applicable, subject to no-objection from the Income Tax Authorities.

3. The above general permission to Indian companies is only for issue of non-convertible/ redeemable preference shares or debentures to non-resident shareholders by way of distribution as bonus from the general reserves. The issue of preference shares(excluding non-convertible/redeemable preference shares) and convertible debentures (excluding optionally convertible/partially convertible debentures) under the FDI scheme would continue to be subject to [A.P. \(DIR Series\) Circular Nos.73](#) and [74](#) dated June 8, 2007 as hitherto.

4. Reserve Bank of India has since amended the Regulations and notified vide [Notification No.FEMA.291/2013-RB dated October 4, 2013](#) notified vide G.S.R. No.818 (E) dated December 31, 2013.

5. AD Category - I banks may bring the contents of the circular to the notice of their constituents concerned.

6. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Rudra Narayan Kar)
Chief General Manager-in-Charge