

Derecognition of Overseas Corporate Bodies as an Investor Class
A.P.(DIR Series) Circular No.14 (Sep 16, 2003)

Reserve Bank of India
Exchange Control Department
Central Office
Mumbai-400 001

A.P.(DIR Series) Circular No.14

September 16, 2003

To

All Authorised Dealers in Foreign Exchange

Dear Sirs / Madam

Derecognition of Overseas Corporate Bodies as an Investor Class

It has been decided in consultation with the Government, to derecognise Overseas Corporate Bodies (OCBs) in India as an eligible 'class of investor' under various routes/schemes available under extant Foreign Exchange Management Regulations.

2. This decision is a follow up of the review of investment activities of OCBs in India, carried out by Reserve Bank on the basis of the recommendations of the Joint Parliamentary Committee on Security Market Scam. On the basis of the said review, it has been decided in consultation with the Government that: (a) the ban imposed on OCBs under Portfolio Investment Scheme (PIS) in November 2001 shall continue, (b) **OCBs as a 'class of investor' entity** shall not be allowed to make fresh investments in India under various routes/schemes available under extant Foreign Exchange Management Regulations and facility of opening fresh NRE and FCNR (B) and NR(O) accounts shall also be withdrawn and (c) **unincorporated entity** also shall not be allowed to make fresh investments under Foreign Direct Investment Scheme including the Automatic Route.

3. Accordingly, it has been decided that with immediate effect -

- a) An unincorporated entity and OCB shall not make fresh investment under FDI Scheme (including Automatic Route). However, the unincorporated entities and OCBs may continue to hold shares and convertible debentures till they are sold / redeemed.
- b) OCBs shall not undertake purchase of shares / convertible debentures on non-repatriation basis. However, the OCBs may continue to hold the shares / convertible debentures purchased on non-repatriation basis till they are sold / redeemed.
- c) OCBs shall not undertake purchase of Government dated securities or treasury bills or units of domestic mutual funds or units of Money Market Mutual Funds in India or National Plan / Savings Certificates both on repatriation and non-repatriation basis. However, the OCBs may continue to hold these securities till they are sold.

- d) A person resident outside India including OCBs shall not transfer by way of sale or gift, the shares or convertible debentures held by them to another OCB.
- e) OCBs shall not purchase equity or preference shares or convertible debentures offered on right basis by an Indian company.
- f) A person resident in India shall not borrow in foreign currency from OCBs.
- g) An Indian company shall not borrow in rupees on repatriation and non-repatriation basis from OCBs by way of investment in Non-convertible Debentures (NCDs).
- h) An Indian company, a proprietorship concern or a firm in India shall not accept deposits from OCBs on non-repatriation basis.
- i) OCBs shall not open and maintain Non-Resident (External) Rupee Account (NRE), Foreign Currency (Non-Resident) Account (Banks) [FCNR(B)] Accounts and Non-Resident Ordinary Rupee (NRO) Deposit Account with Authorised Dealers in India.

All existing NRE (Savings, Current) Accounts of the OCBs (other than the accounts referred to in para 4 below) shall be closed forthwith and balances repatriated strictly as originally authorised, expeditiously. The existing NRE Deposits (Recurring or Fixed), FCNR (B) Accounts and Non-Resident Ordinary Rupee (NRO) Deposit (Recurring or Fixed) Account may be permitted to continue till original maturity. The maturity proceeds of NRE Deposits and FCNR (B) shall be repatriated expeditiously.

No new NRE / FCNR / NRO Accounts in the name of OCBs shall be opened and no renewal of deposits shall be made.

4. It may be noted that instructions given by the Reserve Bank not to allow operations in the accounts of specific OCBs without prior permission of the Bank, shall continue to be operative.
5. As regards investment on repatriation basis (including investment related income which is repatriable) ADs may allow repatriation as authorised. As regards investment on non-repatriation basis, ADs shall arrange to obtain requests for disposal of funds from their OCB clients and seek the specific approval of the Reserve Bank in this regard, on a case to case basis.
6. In terms of AP (DIR Series) Circular No.13 dated November 29, 2001, the ban imposed on OCBs under PIS will continue. However, they shall continue to hold the shares and convertible debentures purchased under PIS till such time these are sold on Stock Exchange in India.
7. Notifications amending the relevant Foreign Exchange Management Regulations are being issued separately.
8. Authorised Dealers may bring the contents of the Circular to the notice of their constituents and customers concerned.

9. The directions contained in this Circular have been issued under Section 10 (4) and Section 11 (1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

Yours faithfully,

Grace Koshie
Chief General Manager