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SECURITIES AND EXCHANGE BOARD OF INDIA

Know Your Client (KYC) requirements for Foreign Portfolio Investors (FPIs).

The Securities Exchange Board of India **("SEBI")** vide Circular CIR/IMD/FIIC/11/2014 ("Circular") dated June 16, 2014 makes reference to balance the KYC norms in respect of Foreign Portfolio Investors **("FPIs").** In light of the Circular it has been decided that:

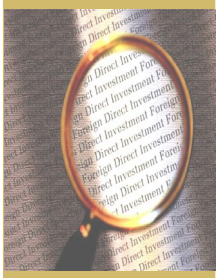
A. Designated Depository Participants ("**DDPs**") are advised to share the relevant KYC documents with the banks concerned based on written authorization from the FPIs.

B. The KYC documents furnished by FPIs to DDPs may be transferred to the concerned bank through the authorized representative.

C. The documents that are transferred should be verified against the originals or notarized wherever applicable. Records of transfer of the documents must be maintained at the bank as well as the DPP level under the signatures of the transferor and transferee entities.

Investment by FPIs in Non-Convertible / Redeemable preference shares or debentures of Indian companies

SEBI has vide its Circular No. CIR/IMD/FIIC/13/2014 dated June 17, 2014 issued under Section 11(1) of the SEBI Act, 1992, pursuant to the RBI Circular No. RBI/2013-14/1632 dated June 06, 2014, decided with immediate effect:



A. To permit an Indian company to 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;

B. To permit all Foreign Portfolio Investors ("**FPIs**") to invest on repatriation basis in such aforementioned securities by an Indian company listed on recognized stock exchange in India;

C. To reckon all investments by FPIs in the abovementioned securities against the Corporate Debt Investment Limits i.e. US $ 51 billion.

Participation of FPIs in the currency derivatives segment and position Limits for currency derivative contracts

In view of the RBI circular No. 148 dated June 20, 2014 wherein pursuant to the notification dated May 21, 2014 on Foreign Exchange Management (Foreign Exchange Derivative Contracts) (Amendment) Regulations, 2014, FPIs are allowed to invest in securities to enter into currency futures or exchange traded currency options contracts,

subject to terms and conditions mentioned therein, SEBI has decided to :

A. Permit FPIs to trade in currency derivatives segment of stock exchanges subject to certain conditions and restrictions with respect to taking long and short positions in permitted currency pairs;

B. Primary onus of ensuring such compliance with above provisions shall rest with the FPIs;

C. In order to enable monitoring of positions, this Circular imposes certain reporting mandates on Clearing corporations and Custodians of securities;

With respect to the participation of the Domestic clients, certain monetary conditions are imposed with respect to the RBI A.P. (DIR Series) Circular no. 147 dated June 20, 2014. Further the onus of compliance being rested solely on the Clients, the stock brokers are also required to comply wherever necessary under the RBI circular and they are mandated to notify both this Circular and RBI circular to their clients

Further, this Circular prescribes the revised position limits for stock brokers, clients and different categories of the FPIs and penalties are stipulated for the violation of such position limits. Conditions imposed by earlier SEBI Circulars dealing with conditions other than those dealt within this circular shall remain unchanged and in force. Stock Exchanges and Clearing Corporations are given the discretion to specify additional safeguards /conditions to manage risks and ensure orderly trading. Depositories are also directed to forward this Circular to Designated Depository Participants ("**DDPs**") who in turn shall notify the FPIs registered with them.

This Circular directs the Stock Exchanges and Clearing Corporations to take "necessary steps" (such as amendments to the bye-laws, rules and regulations) to establish a system for its implementation and communicate to SEBI the status thereof.

MINISTRY OF CORPORATE AFFAIRS

Matters relating to appointment and qualifications of Directors and Independent Directors

The Ministry of Corporate Affairs ("**MCA**") has vide Circular no. 14/2014 ("Circular") dated June 9, 2014 has provided for clarifications on appointment and qualifications of Directors and Independent Directors ("**ID**"). The clarifications are as under:

A. Under Section 149(6)(c) of the Companies Act, 2013 ("**Act**") it has been clarified that, in case of the transactions entered into under section 188 of the Act which deals with the transactions in ordinary course of business at arms-length price does not consist of related party transactions.

B. In case of remuneration of ID, it is clarified that, section 149(6)(c) of the Act does not include receipt of remuneration by ID from one or more companies by the way of fees, reimbursement of expenses for participation in the Board or other meetings, profit related commission which is approved by the members.

C. In case of appointment of ID it is clarified that, section 149 (11) of the Act provides that, the tenure of an ID on the commencement of the Act will not be counted for his appointment or holding office under the Act. But, in case of transitional period of one year provided under Section 149(5) of the Act, it is necessary that if the existing ID's are appointed again, the appointment shall be in accordance with the provisions of section 149(10)/(11) read with Schedule IV of the Act with one year from April 1, 2014.

D. It is clarified that as provided in Section 149 (10) of the Act, an ID can be appointed for a term of "upto five consecutive years". However, an ID may be appointed for a period of less than five years. Section 149 (11) of the Act provides that, no person shall hold the office for more than "two consecutive terms" regardless of the fact

that the appointment in these two consecutive terms is less than ten years. ID should have the cooling off period of three years before re-appointment.

E. With reference to the appointment of IDs under para IV(4) of Schedule IV of the Act (Code of IDs) it is clarified that the letter of appointment for Independent Directors should be formalised through letter of appointment.

Applicability of Permanent Account Number ("PAN") requirements for Foreign Nationals.

MCA has vide Circular no. 16/2014 dated June 10, 2014 has provided for the requirement of PAN for Foreign Nationals. Any foreign National who is a promoter or subscriber of the Company since incorporation shall be obliged to have PAN. In case the Foreign National does not have a PAN, a declaration in the prescribed format has to be furnished as an attachment to Form (INC -7). However, the Resident Director of the company will be required to submit the PAN details at the time of incorporation of the Company.

Amendment to Companies (Declaration and payment of Dividend) Amendment Rules, 2014

MCA has vide Circular dated June 12, 2014 has amended the provisions provided under Section 123(1) read with Section 469 of the Act.

The Companies (Declaration and Payment of Dividend) Rules, 2014 in rule 3, for sub-rule (5) has been substituted as under:

" (5) No Company shall declare dividend unless carried over previous losses and

depreciation not provided in previous year or years are set off against profit of the Company in the current year "

Clarification relating to share transfer forms

MCA has vide Circular no. 19/2014 dated June 12, 2014 has provided for clarifications on issues pertaining to share transfer forms and delegation of powers by the board.

MCA clarified stating that, any share transfer form if executed before April 1, 2014 and submitted to the company with the prescribed time as provided under the Companies Act, 1956 should be considered and accepted by the companies for transfers. In case the share transfer form is not submitted within the prescribed time, the company may demand reasonable cause of delay of submission. Also in the case of non-acceptance of the share transfer form by the company, the same has to be intimated by the company within the prescribed time. Also, in accordance with sections 179 & 180 of the Act and regulation 71 of table "F" of Schedule I, it is clarified to delegate powers to Committee of Directors to issue duplicate share certificates subject to regulations imposed by the Board.

Clarification with regard to voting through electronic means

MCA has vide Circular no. 20/2014 dated June 17, 2014 has provided clarification on Section 108 of the Act read with rule 20 of the Companies (Management and Administration) Rules, 20l4 ("**Rules**") which pertains to the exercise of voting through electronic means ("**e-voting**"). The Circular provides that the provisions for e-voting shall not be treated as mandatory till December 31, 2014. In addition, certain clarifications are provided in respect of e-voting which can be viewed in the circular hyperlinked herewith.

Clarifications with regard to provisions of Corporate Social Responsibility ("CSR") under section 135 of the Companies Act, 2013.

MCA has vide Circular no. 21/2014 dated June 18, 2014 has clarified on the provisions relating to Section 135 of the Act on the Corporate Social Responsibility Policy Rules, 2014 along with the details of the activities to be undertaken under Schedule VII of the Act. Brief outlooks of the clarifications are as provided herein under:

A. All the CSR activities undertaken must be in consonance of the provisions of Schedule VII of the Act. The CSR policy must adhere to Schedule VII and the items included therein must be interpreted on a broader level.

B. It is hereby clarified that any CSR activity undertaken by the company must be in a project or programme mode. Any one-off events like marathons, advertisement, sponsorships of TV programmes, awards etc. will not form a part of any CSR activity.

C. Any expenses incurred by the company for fulfilment of any Statute or Act will not form a part of CSR expenses.

D. The expenses incurred by the company towards the CSR staff and volunteers of the Company towards their salaries will be considered as a part of CSR expenditure or CSR project.

E. The term "Any Financial year" under Section 135 (1) means any three preceding financial years under the Act.

F. The expenses incurred by the Foreign Holding Companies for CSR activities in India will be considered as CSR expenditure of the Indian subsidiary where the CSR expenses are routed through Indian subsidiary or in the case where the Indian subsidiary is required to do so under Section 135 of the Act.

G. The term 'Registered Trust' as provided for under Rule 4 (2) of the Act includes Trusts that are registered under the Income Tax Act, 1956 for the states wherein the registration of the Trusts is not mandatory.

H. Any contributions made to Corpus of a Trust, Society or Section 8 Companies as CSR will be considered as CSR expenditure only when the same is created for undertaking CSR activities exclusively or when the Corpus thus created is related directly to a subject that is covered under Schedule VII of the Act.

RESERVE BANK OF INDIA

Liberalised Remittance Scheme (LRS) for resident individuals-Increase in the limit from USD 75,000 to USD 125,000

The Reserve Bank of India **("RBI")** vide Circular RBI/2013-14/624 A.P. (DIR Series) Circular No.138 dated June 3, 2014 has laid down guidelines for Authorised Dealer Category- I banks ("**AD Bank**") regarding the Liberalised Remittance Scheme ("**LRS**") for Resident Individuals.

As per the Second Bi-monthly Monetary Statement of 2014 -15, the existing limit per financial year i.e from April to March increased to USD 125,000 from the earlier existing USD 75,000. The AD Banks will now be permitted to allow remittances up to USD 125,000 per financial year on any permitted current or capital account transaction or a combination of both. However, the remittances cannot be used for any illegal or prohibited activities. The other terms and conditions remain unchanged.

Foreign Investment In the Insurance sector– Amendment to the Foreign Direct investment Scheme

RBI vide Circular RBI/2013-14/629 A.P. (DIR Series) Circular No.139 dated June 5, 2014 has laid down guidelines for AD Bank by inviting their attention to Annex B of Schedule 1 of the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2000. The Notification on the Foreign Direct Investment ("**FDI**") specifies the entry route, sectoral caps and activities in which FDI is permitted. The FDI upto 26% is permitted under automatic route in the insurance sector.

The FDI policy after being reviewed, has decided that the investment by the way of FDI, investment by Foreign Institutional Investors ("**FII**") / Foreign Portfolio Investors ("**FPI**") and Non Residential Investors ("**NRI**") be permitted under automatic route in the insurance sector subject to certain conditions effectively from February 4, 2014.

Pledge of shares for business purposes in favour of Non-Banking Financial Institutions

RBI vide Circular RBI/2013-14/633 A.P. (DIR Series) Circular No.141 ("**Circular**") dated June 6, 2014 has laid down guidelines for AD Bank that the shares of an Indian Company held by non-resident investor is allowed to be pledged in favour of a bank in India in order to secure the credit facilities which is extended to the resident investee company for bonafide business purposes subject to certain conditions. The AD category-I in order to expedite the transaction has been given the powers to allow pledge of equity shares of an Indian Company which is held by a non-resident investor in accordance with the FDI policy in favour of Non-Banking Financial Companies ("**NBFCs**") whether listed or unlisted. This is done in order to secure the credit facilities that are extended to the resident investee company for bona-fide business purposes / operations. The compliance shall be as under:

A. The equity shares that are listed on a recognised Indian stock exchange/s can be pledged in favour of the NBFCs ;

B. The invocation of pledge, transfer of shares should be in accordance with the credit concentration norm as stated in the Master Circular DNBS(PD).DNBS.(PD).CC.No.333/03.02.001/2013-14 dated July 01, 2013 as amended from time to time;

C. (i) The AD Bank may obtain a board resolution 'ex ante', passed by the Board of Directors of the investee company, that the loan proceeds received consequent to pledge of shares will be utilised by the investee company for the declared purpose;

(ii) The AD Bank may also obtain a certificate 'ex post', from the statutory auditor of investee company, that the loan proceeds received consequent to pledge of shares, have been utilised by the investee company for the declared purpose;

D. SEBI disclosure norms have to be followed by the Indian company;

E. The credit concentration norms should not be breached by the NBFC. In case of breach on invocation of pledge, the shares be sold and the breach be rectified within a period of 30 days.

Foreign investment in India – participation by registered Foreign Portfolio Investors ("FPI"), SEBI registered long term investors and Non Resident Indians ("NRIs") in non-convertible/redeemable preference shares or debentures of Indian companies

RBI vide Circular RBI/2013-14/632 A.P. (DIR Series) Circular No.140 ("**Circular**") dated June 6, 2014 has laid down guidelines for AD Bank to draw their attention to Schedule 5 to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000 wherein the registered FPIs, FII, Qualified Institutional Investors ("**QFIs**") and long term investors with Securities Exchange Board of India ("**SEBI**") are allowed to purchase on repatriation basis Government Securities, non-convertible debentures ("**NCDs**") or bonds issued by Indian Companies subject to terms and conditions as provided for by RBI and SEBI from time to time. The present limit stands at USD 51 billion for FIIs/FPIs, QFIs and long term investors registered with SEBI.

The Indian Companies are also permitted to issue non- convertible/redeemable preference shares/ debentures to non-resident shareholders inclusive of the depositaries which act as trustees for ADR/ GDR holders (American Depository Receipts and Global Depository Receipts) by way of distribution of bonus from the general reserves under the scheme

of arrangement pursuant to the provisions of the Companies Act which is approved by the Court in India which is subject to obtaining no-objection from the income tax authorities. It is now been decided to allow the FIIs, QFIs, long term investors with SEBI- Sovereign Wealth Funds, Multilateral Agencies, Pension/Insurance/ Endowment Funds, foreign central Banks to invest on repatriation basis, in non-convertible/redeemable preference shares or debentures issued by an Indian company and listed on the recognised stock exchanges in India with the overall limit of USD 51 billion as Corporate Debt.

Transfer of assets of Liaison Office ("LO") / Branch Office ("BO") / Project Office ("PO") of a foreign entity either to its Wholly Owned Subsidiary ("WOS") / Joint Venture ("JV") / Others in India– Delegation of powers to AD Banks

RBI vide Circular RBI/2013-14/640 A.P. (DIR Series) Circular No.142 ("**Circular**") dated June 12, 2014 has laid down guidelines for AD Bank to draw their attention to the Notification dated March 1, 2012 Circular No. 88 wherein approval of RBI is required for transferring assets of LO or BO to their subsidiaries or other LO or BO or to any other entity.

Currently the AD Banks are allowed to close the accounts of LO/BO and repatriate the surplus balances. It is now decided that, the powers pertaining to transfer of assets to AD Banks subject to the compliance of the following conditions:

A. LO/BO's proposal to be considered should have complied with the specified operational guidelines along with prescribed documents.

B. Certificate of Statutory Auditor with specified details of the assets to be transferred. The sale consideration should not be more than the book value in each case.

C. The assets acquired should be only through inward remittances and no intangible assets like goodwill, pre-operative expenses should be included. The AD Bank must ensure that no revenue expenses such as lease hold improvements incurred by LO/BOs are capitalised and transferred to JV/WOS.

D. AD bank to ensure payment of all applicable taxes while permitting transfer of assets.

E. Transfer of assets to be allowed by AD banks only when the foreign entity wants to close the LO/BO/PO operations in India.

F. Credits to the bank accounts of LO/BO/PO on account of such transfer of assets will be treated as permissible credits.

G. The relevant documents are to be preserved separately for scrutiny by their own auditors and RBI auditors.

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Warm Regards,

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