

**Reserve Bank of India
Foreign Exchange Department**

Draft framework on External Commercial Borrowings (ECB)

The basic objective of the extant External Commercial Borrowings (ECB) policy is to supplement domestic capital for creation of capital assets in the country, limited by considerations for capital account management. With the above objective in view, the ECB regime has been progressively liberalised over the years, allowing different entities to raise ECB. Within the overarching stance of calibrated approach to the capital account liberalisation, an attempt has now been made to replace the ECB policy with a more rational and liberal framework, keeping in view the evolving domestic as well as global macroeconomic and financial conditions, challenges faced in external sector management and the experience gained so far in administering the ECB policy.

2. The basic thrust of the revised framework is to retain more qualitative parameters for the normal (foreign currency denominated) ECB and to provide more liberal dispensation for long term borrowings in foreign currency. As in Rupee denominated ECB, the currency risk lies with the lender / investor, the framework provides for minimal control for these borrowings. Thus, the proposed ECB framework will have the following broad contours:

- i. **Basic Structure:** Retention of the existing basic structure of ECB framework for normal foreign currency borrowings with certain liberalisations made based on experience. The restrictions on eligible borrowers, end-use (i.e. capital expenditure), maturity (not less than 3 / 5 years) and all-in-cost (linked to a spread over LIBOR) for such ECBs will continue.
- ii. **Lenders/investors:** Expansion of the list of recognised lenders to include entities having long term interest in India. Overseas regulated financial entities, pension funds, insurance funds, sovereign wealth funds and similar other long term investors are included in the list of recognised lenders for long term funding into India.
- iii. **Long term foreign currency borrowing:** Prescription of only a negative list of end uses for long term foreign currency borrowings (minimum maturity of 10 years).
- iv. **Rupee denominated borrowings:** Prescription of more liberal stipulation for Rupee denominated ECBs with only minimum maturity stipulations. The borrowing can be accessed for all purposes save a small negative list.

3. The detailed framework is given in the Annex.

4. A framework for issuance of Rupee denominated bonds overseas will be announced separately.

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ECB parameter	Revised framework for normal ECB	Framework for Long term borrowings	Framework for Rupee denominated borrowings
	(I)	(II)	(III)
Eligible borrowers	<p>As existing</p> <p>All entities permitted as per existing guidelines, which include among others,</p> <ul style="list-style-type: none"> i. Companies in infrastructure sector, manufacturing sector and select services sectors registered under the Companies Act, 1956/2013. Units of Special Economic Zones (SEZs); ii. NBFCs-AFCs and NBFCs-IFCs, complying with the regulatory framework of the RBI; iii. SIDBI; iv. Companies engaged in miscellaneous services viz. research and development (R&D), training (other than educational institutes) and companies supporting infrastructure (but not providing logistics services, consultancy services and doing 	Same as in column (I)	<p>Same as in column (I).</p> <p>Addition</p> <p>Real Estate Investment Trusts (REITs) and Infrastructure Investment Trusts (InviTs) will also be eligible under column III.</p>

ECB parameter	Revised framework for normal ECB	Framework for Long term borrowings	Framework for Rupee denominated borrowings
	(I)	(II)	(III)
	<p>trading business);</p> <p>v. Entities engaged in micro finance activities.</p> <p>2. Existing carve outs like ECB for airlines companies, ECB for affordable housing will continue. Same will be the case for entities like Exim Bank of India, National Housing Bank, etc. to raise ECB.</p>		
Types of borrowing	<p>No change</p> <p>Borrowing through</p> <p>i. Bank loans;</p> <p>ii. Securitized instruments</p> <p>a. floating rate notes / fixed rate bonds;</p> <p>b. non-convertible, optionally convertible or partially convertible preference shares;</p> <p>iii. FCCB;</p> <p>iv. FCEB, etc.</p> <p>will continue.</p>	As in column (I)	As in column (I)
Recognised lenders / investors	<p>As existing</p> <p>i. International banks;</p> <p>ii. International capital markets;</p> <p>iii. Multilateral financial institutions (such as IFC, ADB, etc.) / regional financial institutions and Government owned development financial institutions;</p>	As in column (I)	As in column (I)

ECB parameter	Revised framework for normal ECB	Framework for Long term borrowings	Framework for Rupee denominated borrowings
	(I)	(II)	(III)
	<p>iv. Export credit agencies;</p> <p>v. Suppliers of equipment;</p> <p>vi. Foreign equity holders.</p> <p>Addition:</p> <p>vii. Overseas regulated financial entities;</p> <p>viii. Pension funds;</p> <p>ix. Insurance funds;</p> <p>x. SWFs and similar long term investors.</p> <p>2. The lenders for the entities engaged in micro finance activities will accordingly get expanded.</p>		
Exclusions / Restrictions	<p>As existing</p> <p>Banks including cooperative banks / other Financial Institutions (FIs), individuals and non-corporates will not be eligible to raise ECB.</p> <p>Change</p> <p>Participation of Indian banks as ECB lenders will be subject to prudential norms issued by the Reserve Bank.</p>	As in column (I)	As in column (I)
Maturity	<p>Change</p> <p>Minimum average maturity of:</p> <p>i. 3 years for ECB upto USD 50 mn or equivalent;</p> <p>ii. 5 years for ECB more than USD 50 mn or equivalent.</p>	Minimum average maturity (for loans) / minimum maturity (for bonds) of 10 years	As in column (I)

ECB parameter	Revised framework for normal ECB	Framework for Long term borrowings	Framework for Rupee denominated borrowings
	(I)	(II)	(III)
All-in-cost	Change 50 bps less than the existing provisions and will be subject to periodic review.	50 bps higher than what is permitted under column (I)	To be commensurate with the prevailing market conditions
End-uses	<p>As existing</p> <ul style="list-style-type: none"> i. Capital expenditure, modernisation / expansion, import of capital goods, etc. ii. Working capital / repayment of Rupee loans with conditions, as hitherto. <p>Addition</p> <ul style="list-style-type: none"> iii. To repay trade credit taken for period upto 3 years for capital expenditure; iv. For payment towards capital goods already shipped / imported but not paid; v. Purchase of second hand domestic capital goods / plant / machinery; vi. On-lending to infra-Special Purpose Vehicles; vii. Overseas direct investment in Joint Venture/ Wholly Owned Subsidiaries by Core Investment Companies coming under the 	<p>All purposes excluding the following:</p> <ul style="list-style-type: none"> i. Real estate activities other than development of integrated township / affordable housing projects; ii. Investing in capital market and using the proceeds for equity investment domestically; iii. Activities prohibited as per FDI guidelines; iv. On-lending to other entities with any of the above objectives; v. Purchase of land 	As in column (I)

ECB parameter	Revised framework for normal ECB	Framework for Long term borrowings	Framework for Rupee denominated borrowings
	(I)	(II)	(III)
	viii. regulatory framework of RBI; For on-lending to infrastructure sector and for import and / or domestic purchase of equipment for the purpose of giving the same on hire purchase, as loans against hypothecation or leasing to infrastructure sector by all NBFCs (subject to minimum 75% hedging).		
Individual limits	As existing Annual limits for automatic route. Prior approval of RBI beyond these limits.	As in column (I)	As in column (I)
Hedging	As existing No mandatory hedging for entities where no hedging requirements have been presently prescribed.	As in column (I)	Overseas investors will be allowed to hedge their exposure in onshore markets. Back to back hedging will also be allowed.
Leverage ratio	No change Existing provisions of ECB policy will continue for FIs and Foreign Equity Holders.	As in column (I)	As in column (I)
Reporting requirement	No change Existing provisions of ECB policy will continue.	As in column (I)	As in column (I)
Parking of proceeds	No change Existing provisions of ECB policy will continue.	As in column (I)	As in column (I)
Security / guarantee	No change Existing provisions of ECB	As in column (I)	As in column (I)

ECB parameter	Revised framework for normal ECB	Framework for Long term borrowings	Framework for Rupee denominated borrowings
	(I)	(II)	(III)
	policy will continue.		
Conversion into equity	No change Existing provisions of ECB policy will continue.	As in column (I)	As in column (I)
Corporates under investigation	No change Existing provisions of ECB policy will continue.	As in column (I)	As in column (I)
Prepayment	As existing Existing provisions for prepayment will continue to be applicable. Addition Part-prepayment of ECB including part-prepayment through fresh ECB will also be permitted subject to conditions.	As in column (I)	As in column (I)
Refinancing	Change Refinancing of existing ECB with a fresh ECB with higher all-in-cost (but within the ceiling) will now be permitted.	As in column (I)	As in column (I)
Tax treatment	As per Income Tax Act	As in column (I)	As in column (I)