RBI/2015-16/319          February 11, 2016
A.P. (DIR Series) Circular No. 52

To,

All Authorised Dealer Category – I Banks

Madam/Sir,

Regulatory Relaxations for Startups- Clarifications relating to Issue of Shares

Attention of Authorised Dealer Category - I (AD Category-I) banks is invited to the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, notified by the Reserve Bank vide Notification No. FEMA 20/2000-RB dated 3rd May 2000, as amended from time to time.

2. Pursuant to paragraph 14 of the Sixth Bi-Monthly Monetary Policy Statement for 2015-16, Reserve Bank of India vide Press Release dated February 2, 2016, had announced that in case of startups, certain permissible transactions under the existing regulatory framework shall be clarified. One of the issues related to issue of shares without cash payment by the investor through sweat equity or against any legitimate payment owed by the company remittance of which does not require any permission under FEMA, 1999.

3. Accordingly, the following is clarified:

a. Issue of shares without cash payment through sweat equity: Reserve Bank of India vide Notification No. FEMA.344/2015 RB dated June 11, 2015 has permitted Indian companies to issue sweat equity, subject to conditions, inter-alia, that the scheme has been drawn either in terms of regulations issued under the Securities Exchange Board of India Act, 1992 in respect of listed companies or the Companies (Share Capital and Debentures) Rules,
2014 notified by the Central Government under the Companies Act 2013 in respect of other companies.

b. Issue of shares against legitimate payment owed: Reserve Bank of India vide Notification No. FEMA.315/2014-RB dated July 10, 2014, has permitted Indian companies to issue equity shares against any other funds payable by the investee company (e.g. payments for use or acquisition of intellectual property rights, for import of goods, payment of dividends, interest payments, consultancy fees, etc.), remittance of which does not require prior permission of the Government of India or Reserve Bank of India under FEMA, 1999 subject to conditions relating to adherence to FDI policy including sectoral caps, pricing guidelines, etc. and applicable tax laws (cf. paragraph 3 of Schedule 1 to Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2015).

4. Authorised Dealer banks may bring the contents of this circular to the notice of their constituents and customers concerned and advise them to refer to the above notifications for further details.

5. 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,

(B. P. Kanungo)
Principal Chief General Manager