



CIRCULAR

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June 03, 2011

To
All Stock Exchanges
All Depositories
All Registered Merchant Bankers
All Registered Registrars to an Issue/STA
All Registered Custodians

Dear Sir/Madam,

Sub: Redemption of Indian Depository Receipts (IDRs) into Underlying Equity Shares

1. In order to facilitate foreign issuers to raise funds from the Indian capital markets through IDRs and enable investors in the domestic market to have investment opportunities in the securities of major multi-national companies listed on well-developed markets, a legal framework was created by the Ministry of Corporate Affairs (MCA), Reserve Bank of India (RBI) and SEBI.
2. Pursuant to the same, Standard Chartered PLC came out with its IDR issue in May 2010 and the said IDRs have been listed on BSE and NSE on June 11, 2010. In terms of disclosures in their offer document on "ability to withdraw shares" from the IDR Facility and to deposit further shares into the IDR Facility, it has been stated as under:-

"Pursuant to the terms of the RBI Circular, IDRs are not redeemable into underlying equity shares before the expiry of a one-year period from the date of issue of the IDRs. The SEBI Regulations and the RBI Circular state that automatic fungibility of IDRs is not permitted. Therefore, fungibility of IDRs into the underlying Shares would be permitted only after the expiry of the one year period from the date of issue of the IDRs and subsequent to obtaining RBI approval on a case-by-case basis. Further, two-way fungibility (the ability to purchase existing Shares on the London Stock Exchange and/or the Hong Kong Stock Exchange and deposit them into the IDR programme) is not currently permitted. Additionally, in terms of the RBI Circular, at the time of redemption/conversion of IDRs into underlying shares, the Indian holders (persons resident in India) of IDRs are required to comply with the provisions of the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004."



3. Since the one year period is nearing completion, it has become necessary to put in place, the framework for redemption of IDRs.

4. The relevant legal/regulatory provisions of fungibility of IDRs are as under:-

Rule 10 of Companies (Issue of Indian Depository Receipts) Rules, 2004:-

“Procedure for Transfer and redemption of IDRs:-

A holder of IDRs may transfer the IDRs or may ask the Domestic Depository to redeem these IDRs, subject to the provisions of the Foreign Exchange Management Act, 1999 and other laws for the time being in force.”

RBI’s circular dated July 22, 2009:-

“Fungibility:-

Automatic fungibility of IDRs is not permitted.

Period of redemption:-

IDRs shall not be redeemable into underlying equity shares before the expiry of one year period from the date of issue of IDRs.”

Regulation 100 of Chapter X of SEBI (ICDR) Regulations, 2009:-

“IDRs shall not be automatically fungible into underlying equity shares of issuing company.”

5. The extant regulatory frame work does not permit fungibility but only redemption. Therefore, allowing redemption freely in the absence of two way fungibility could result in reduction of number of IDRs listed, thereby impacting its liquidity in the domestic market.

6. In view of the above, it has been decided, in consultation with the RBI, that:

a. After the completion of one year from the date of issuance of IDRs, redemption of the IDRs shall be permitted only if the IDRs are infrequently traded on the stock exchange(s) in India.

Explanation- For this purpose, IDRs shall be deemed to be “infrequently traded” if the annualized trading turnover in IDRs during the six calendar months immediately preceding the month of redemption is less than five percent of the listed IDRs.

b. The issuer company shall test the frequency of trading of IDRs on a half yearly basis ending on June and December of every year.



- c. When the IDRs are considered “infrequently traded” on the above basis, it shall be the trigger event for redemption.
 - d. The issuer company shall make a public announcement in an English and Hindi language newspaper with wide circulation in the prescribed format (including brief details about the trigger of the redemption event, time period for submission of application and the approach for processing the applications) as well as notify the stock exchanges. Such announcement shall be made within seven days of closure of the half year ending on which the liquidity criteria is tested. A suitable format for this purpose shall be prescribed by the stock exchange(s).
 - e. The IDR holders may submit their application to the domestic depository for redemption of IDRs within a period of thirty days from the date of such public announcement.
 - f. The redemption of IDRs shall be completed within a period of thirty days from the date of receipt of application for redemption.
 - g. Pursuant to such redemption, the domestic depository shall notify the revised shareholding pattern of the issuer company to the concerned stock exchanges within seven days of completion of the process of redemption.
7. All intermediaries are directed to comply with the instructions contained in this circular.
 8. This circular shall be applicable with immediate effect.
 9. This circular is issued in exercise of the powers conferred under Section 11 read with Section 11A of the Securities and Exchange Board of India Act, 1992.
 10. This circular is available on SEBI website at www.sebi.gov.in under the categories “*Legal Framework*” and “*Issues and Listing*”.

Yours faithfully,

Sunil Kadam
General Manager
+91-22-26449630
sunilk@sebi.gov.in