

**PRESS RELEASE**

Dated: 17<sup>th</sup> July, 2007

Subject: Review and Amendment of Companies (Issue of Indian Depository Receipts) Rules, 2004

The Central Government (M/o Corporate Affairs), in exercise of powers under section 642 read with section 605A of the Companies Act, 1956 had prescribed the Companies (Issue of Indian Depository Receipts) Rules, 2004 (IDR Rules) which allowed issue of Indian Depository Receipts by foreign companies. These rules provide, inter alia, for (a) Eligibility for issue of Indian Depository Receipts (IDRs) (b) Procedure for making an issue of IDRs (c) Other conditions for the issue of IDRs (d) Registration of documents (e) Conditions for the issue of prospectus and application (f) Listing of IDRs (g) Procedure for transfer and redemption (h) Continuous Disclosure Requirements (i) Distribution of corporate benefits. SEBI, as capital market regulator, in view of authorization available to it under IDR Rules, also has issued a circular dated 3/4/2006 in this regard indicating other eligibility conditions for issuers.

2. Requests were received from SEBI and some stakeholders for review of certain requirements provided in the IDR Rules. These were examined and a draft Notification alongwith an Explanatory Memorandum was placed on the website of the Ministry for comments. Besides, comments of D/o Economic Affairs, SEBI, apex Chambers of Trade & Industry and Professional Institutes (ICAI, ICSI and ICWAI) etc. were obtained. After due consultation necessary changes have been made in IDR Rules vide notification (No. GSR 480(E)) dated 11<sup>th</sup> July, 2007. The following are Highlights of the changes made in the IDR Rules:-

- Network and market capitalization ceilings have been provided for as the eligibility conditions for IDR Issuers instead of earlier network and turnover based ceilings. This change is with a view to facilitate better reflection of the financial sustainability/liquidity of the securities to be issued.
- A new eligibility condition requiring the Issuer to have a continuous trading record or history on a stock exchange in its parent country for at least three immediately preceding years has been introduced. This would ensure that Issuer is a known entity with a trading track record in a capital market.
- The earlier eligibility condition requiring Issuer to be making profits for at least five preceding years has been aligned with the Companies Act, 1956 and brought at par with the condition in this regard for domestic issues. The new condition provides that Issuer should have a track record of distributable profits in terms of section 205 of the Companies Act, 1956, for at least three out of immediately preceding five years. Further the earlier requirement of declaration of a minimum rate of dividend for last five years and a minimum 2:1 debt equity ratio have been omitted as these conditions, being specific to

individual companies who may have adopted different dividend policies as permissible under their respective jurisdictions, can not be applied across the board.

- The procedure in respect of approval by SEBI on IDR Applications has been restructured and made time bound.
  - It has been provided that number of underlying equity shares offered in a financial year through IDR offerings shall not exceed 25 per cent of the post issue number of equity shares of the company. Earlier the condition in this regard was that IDRs issued in any financial year shall not exceed 15 per cent of its paid-up capital and free reserves.
  - The requirement in respect of continuous disclosure, which earlier provided that the quarterly audited financial results should be prepared and published in newspapers in the manner specified by the listing conditions, has been reviewed in light of the position that auditing regulation in various jurisdictions do not provide for quarterly audited financial results. Besides, such publication may not take place in newspapers in the electronic era. It is now provided that the quarterly audited results or unaudited results may be prepared and subjected to limited review by the auditors of the Issuing Company and approved by its Board of Directors and disclosed. The manner of publication has been left to be specified in the listing conditions to be laid down by the Indian Stock Exchange as per framework determined by SEBI.
  - The information, as may be specified by SEBI, in respect of listing, trading record or history of the Issuing Company on all the stock exchanges, whether situated in its parent country or elsewhere would also be required to be disclosed by the Issuer in its Offer document.
  - Other matters related or incidental to the above including procedural aspects to enable clarity in the rules concerning compliance requirements have also been made.
3. A copy of Notification (No: GSR 480(E)) dated 11<sup>th</sup> July, 2007 is enclosed. A copy of this Press Release and the enclosed notification have also been placed on the website of this Ministry viz [www.mca.gov.in](http://www.mca.gov.in)

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