

## Insights and Commentary from Dentons

The combination of Dentons and Link Legal offers our clients access to 12,700+ lawyers in 200+ locations and 80+ countries around the world.

This document was authored by representatives of Link Legal prior to our combination's launch and continues to be offered to provide clients with the information they need to do business in an increasingly complex, interconnected and competitive marketplace.

Grow | Protect | Operate | Finance

April 2023



# CORPORATE LEGAL DEVELOPMENTS

NEWSLETTER JULY 2022

Weekly Insights & Updates

25 July 2022

## SEBI

### 1. Government declares “zero coupon zero principal instruments” as securities

**July 15, 2022:** Following the setting up of the Social Stock Exchange (“SSE”), the Ministry of Finance *vide* Gazette notification dated July 15, 2022, has declared “zero coupon zero principal instruments” as securities under the Securities Contracts (Regulation) Act, 1956 (“SCRA”). Zero coupon zero principal instruments mean instruments issued by Not-for-Profit Organisations (“NPOs”) which shall be registered with the SSE segment of recognised stock exchanges.

In September 2021, SEBI approved the creation of SSE, a regulated funding platform for listing NPOs. SEBI also cleared a framework for raising funds by such NPOs on the SSE. The framework contemplated the introduction of a security in the form of a zero coupon zero principal bond. As the name suggests, a zero coupon zero principal bond shall have zero coupon and no principal payment at maturity, thus making it different from conventional bonds. While a conventional bond provides a fixed interest/repayment on the funds raised through the various contractual arrangements, zero coupon zero principal bonds do not offer such returns but promise a social return to the funder.

Pursuant to this notification by the Ministry of Finance, zero coupon zero principal instruments will now be governed by the rules and regulations made by the Securities and Exchange Board of India.

Link [here](#).

## RBI

### 1. International Trade Settlement in Indian Rupees (INR)

**July 11, 2022:** The Reserve Bank of India (“RBI”), *vide* its circular RBI/2022-2023/90 A.P. (DIR Series) Circular No.10 issued to Cat-I Authorised Dealer (AD) banks, wherein it has been decided to put in place an additional arrangement for invoicing, payment, and settlement of exports/imports in INR, with immediate effect. This decision has been made to promote the growth of global trade with emphasis on exports from India and to support the increasing interest

of global trading community in INR.

Before putting in place this mechanism, AD banks shall require prior approval from the Foreign Exchange Department of Reserve Bank of India, Central Office in Mumbai.

The broad framework for cross-border trade transactions in INR under Foreign Exchange Management Act, 1999 (FEMA) is as delineated below:

- a. **Invoicing:** All exports and imports under this arrangement may be denominated and invoiced in Rupee (INR).
- b. **Exchange Rate:** Exchange rate between the currencies of the two trading partner countries may be market determined.
- c. **Settlement:** The settlement of trade transactions under this arrangement shall take place in INR in accordance with the procedure laid down in the said circular (enlisted below).

In terms of Regulation 7(1) of Foreign Exchange Management (Deposit) Regulations, 2016, AD banks in India have been permitted to open Rupee Vostro Accounts. Accordingly, for settlement of trade transactions with any country, AD bank in India may open Special Rupee Vostro Accounts of correspondent bank/s of the partner trading country.

In order to allow settlement of international trade transactions through this arrangement, it has been decided that:

- a. Indian importers undertaking imports through this mechanism shall make payment in INR which shall be credited into the Special Vostro account of the correspondent bank of the partner country, against the invoices for the supply of goods or services from the overseas seller /supplier.
- b. Indian exporters, undertaking exports of goods and services through this mechanism, shall be paid the export proceeds in INR from the balances in the designated Special Vostro account of the correspondent bank of the partner country.

The key provisions under the said circular have been enlisted below:

**i. Documentation:** The export / import undertaken and settled in this manner shall be subject to usual documentation and reporting requirements.

**ii. Advance against exports:** Indian exporters may receive advance payment against exports from overseas importers in Indian rupees through the above Rupee Payment Mechanism. Before allowing any such receipt of advance payment against exports, Indian Banks shall ensure that available funds in these accounts are first used towards payment obligations arising out of already executed export orders / export payments in the pipeline. The said permission would be in accordance with the conditions mentioned in para-C.2 on Receipt of advance against exports under Master Direction on Export of Goods and Services 2016 (as amended from time to time). In order to ensure that the advance is released only as per the instructions of the overseas importer, the Indian bank maintaining the Special Vostro account of its correspondent bank shall, apart from usual due diligence measures, verify the claim of the exporter with the advice received from the correspondent bank before releasing the advance.

**iii. Setting-off of export receivables:** 'Set-off' of export receivables against import payables in respect of the same overseas buyer and supplier with facility to make/receive payment of the balance of export receivables/import payables, if any, through the Rupee Payment Mechanism may be allowed, subject to the conditions mentioned in para C.26 on Set-off of export receivables against import payables under Master Direction on Export of Goods and Services 2016 (as amended from time to time).

**iv. Bank Guarantee:** Issue of Bank Guarantee for trade transactions, undertaken through this arrangement, is permitted subject to adherence to provisions of FEMA Notification No. 8, as amended from time to time and the provisions of Master Direction on Guarantees & Co-acceptances.

**v. Use of Surplus Balance:** The Rupee surplus balance held may be used for permissible capital and current account transactions in accordance with mutual agreement. The balance in Special Vostro Accounts can be used for:

- a. Payments for projects and investments.

- b. Export/Import advance flow management.
- c. Investment in Government Treasury Bills, Government securities, etc. in terms of extant guidelines and prescribed limits, subject to FEMA and similar statutory provision.

**vi. Reporting Requirements:** Reporting of cross- border transactions need to be done in terms of the extant guidelines under FEMA 1999.

**vii. Approval Process:** The bank of a partner country may approach an AD bank in India for opening of Special INR Vostro account. The AD bank will seek approval from RBI with details of the arrangement. AD bank maintaining the special Vostro Account shall ensure that the correspondent bank is not from a country or jurisdiction in the updated FATF Public Statement on High Risk & Non-Co-operative Jurisdictions on which FATF has called for counter measures.

Link [here](#).

## Authors

**Nusrat Hassan**  
Co-Managing Partner  
[nusrat@linklegal.in](mailto:nusrat@linklegal.in)

**Ambuj Sonal**  
Associate Partner  
[ambuj.sonal@linklegal.in](mailto:ambuj.sonal@linklegal.in)

**Abhinav Anand**  
Senior Associate  
[abhinav.anand@linklegal.in](mailto:abhinav.anand@linklegal.in)

**Sayantani Dutta**  
Partner  
[sayantani.dutta@linklegal.in](mailto:sayantani.dutta@linklegal.in)

**Tanvi Pande**  
Senior Associate  
[tanvi.pande@linklegal.in](mailto:tanvi.pande@linklegal.in)

**Meghna Punjabi**  
Associate  
[meghna.punjabi@linklegal.in](mailto:meghna.punjabi@linklegal.in)

## FIRM'S RECOGNITION



## OUR OFFICES

### DELHI

Aiwan-e-Ghalib Complex,  
Mata Sundri Lane,  
New Delhi 110 002, India  
Tel: +91 11 4651 1000

### BENGALURU

#10, First Floor, 12th Main,  
Palace Road,  
Vasanth Nagar,  
Bengaluru – 560 052, India  
Tel: +91 80 4123 1072

### CHENNAI

1B, First Floor 17-A,  
Diamond Business Center,  
Kalakshetra Road,  
Chennai – 600 041, India  
Tel: +91 44 4271 9731

### MUMBAI

21/22, Second Floor,  
Free Press House,  
Free Press Journal Road,  
215, Nariman Point,  
Mumbai – 400 021, India  
Tel: +91 22 6633 6791/6625 2222

### HYDERABAD

1st Floor, MC Design House,  
Plot No. 27, Rohini Layout,  
HITEC City, Madhapur,  
Hyderabad – 500 081, India  
Tel: +91 40 3516 8987, +91 40 3516 8988

### NEW YORK

57 West, 57th Street,  
4th Floor, New York,  
NY 10019  
Tel: (212) 389-6290/ (212) 389-6281/  
(212) 381-1057



## **ABOUT DENTONS**

Dentons is designed to be different. As the world's largest global law firm with 21,000 professionals in over 200 locations in more than 80 countries, we can help you grow, protect, operate and finance your business. Our polycentric and purpose-driven approach, together with our commitment to inclusion, diversity, equity and ESG, ensures we challenge the status quo to stay focused on what matters most to you.

**[www.dentons.com](https://www.dentons.com)**

© 2023 Dentons. Dentons is a global legal practice providing client services worldwide through its member firms and affiliates. This publication is not designed to provide legal or other advice and you should not take, or refrain from taking, action based on its content. Please see [dentons.com](https://www.dentons.com) for Legal Notices.