FAQ'S

Funding Options

External Commercial Borrowings

1. How can one channel External Commercial Borrowing loans?

External Commercial Borrowing (ECB) can be raised either under the automatic route or under the approval route. For the automatic route, a case is examined by the Authorised Dealer (AD) Category-I bank. Under the approval route, the borrower is required to send the request to the Reserve Bank of India (RBI) through the AD for examination. While the regulatory provisions are mostly similar, some differences between the two routes include the amount of borrowing, eligibility of the borrowers and the permissible end-uses. For more information, click here.

2. What is the currency of raising ECBs?

ECB can be raised in Indian Rupees (INR) and / or any convertible currency. Any entity raising INR denominated ECB is not permitted to convert the liability arising out of this ECB into foreign currency liability in any manner or assuming foreign currency risk is any manner by either entering into a derivative contract or otherwise. Please refer to Link for more information.

3. Could a qualified borrower raise crisp External Commercial Borrowings under Track II for reimbursement of existing Rupee named External Commercial Borrowings?

Refinancing of Rupee denominated ECB with Foreign Currency denominated ECB under Track II is not permitted. For more information, click here.

4. Can External Commercial Borrowing be used for making contribution in Limited Liability Partnership?

No, it is not permitted under any track. For more information, click here.

5. Can ECB be availed for repayment of domestic INR loan?
Yes, provided the ECB is raised under the Track II and III of the ECB framework. However, it is not permitted for NBFCs, developers of SEZs/NMIZs, NBFC-MFIs, NGOs and not for profit companies. Please refer to link1 or link2 for more information.

6. Can External Commercial Borrowing be used for importing services?

No, ECB is not permitted for import of services. For more information, click here.

7. What are the various types of ECB?

ECB includes Loans, Securitized instruments, Buyers’ and supplier’s credit, Foreign Currency Convertible Bonds (FCCBs). Financial Lease and Foreign Currency Exchangeable Bonds (FCEBs). For more information, click here.

8. Can External Commercial Borrowing be used for funding real estate?

No, no activity under real estate is permitted as eligible end use for raising ECB. For more information, click here.

9. What is the earliest when an External Commercial Borrowing can be matured?

Minimum average maturity period (MAMP) is three years for all external commercial borrowings (ECB). However, for ECB raised from foreign equity holder and utilised for specific purposes, as detailed in sub-section 2.1 of the Annex, the MAMP is five years. Similarly, for ECB up to INR 3.5 b per financial year raised by manufacturing sector, which has been given a special dispensation, the MAMP is one year. For more information, click here.

10. Are the shipping/airline companies allowed to raise External Commercial Borrowing for import of second hand vessels?

Yes, shipping and airline companies can raise external commercial borrowings (ECB) for import of vessels and aircrafts, however, only under Track I of the ECB framework. For more information, click here.
11. What is the ECB Framework?

The framework for raising loans through ECB comprises the following three tracks: Track I: Medium term foreign currency denominated ECB with minimum average maturity of 3/5 years. Track II: Long term foreign currency denominated ECB with minimum average maturity of 10 years. Track III: Indian Rupee (INR) denominated ECB with minimum average maturity of 3/5 years. Please refer to section 2.1 of link for more information.

12. What does External Commercial Borrowing (ECB) denote?

ECBs are commercial loans raised by eligible resident entities from recognised non-resident entities conforming to parameters such as minimum maturity, permitted and non-permitted end-uses, maximum all-in-cost ceiling, etc. For more information, click here.

13. Are AD Category I banks permitted to allow creation of charge on immovable assets, movable assets, financial securities and issue of corporate and/or personal guarantees in favour of overseas lender / security trustee, to secure the ECB?

Yes, AD Category I banks are permitted to allow creation of charge on immovable assets, movable assets, financial securities and issue of corporate and/or personal guarantees in favour of overseas lender / security trustee, to secure the ECB to be raised / raised by the borrower, subject to satisfying themselves that: i. the underlying ECB is in compliance with the extant ECB guidelines, ii. there exists a security clause in the Loan Agreement requiring the ECB borrower to create charge, in favour of overseas lender / security trustee, on immovable assets / movable assets / financial securities / issuance of corporate and / or personal guarantee, and iii. No objection certificate, as applicable, from the existing lenders in India has been obtained. Please refer to section 2.6 of link for additional information.

14. Whether the minimum average maturity period under the Track I of the ECB framework solely decided on the basis of amount of ECB? What about ECB raised under the Track II?

No, the applicable minimum average maturity period for an ECB under Track I would be decided not only from the amount of ECB but also from the all-in-cost of the ECB. For example, for an ECB of amount less than $ 50 million, if the all-in-cost is exceeding Libor + 300 bps per annum, the applicable
minimum maturity period would be 5 years. Any ECB raised under Track II of the ECB framework, irrespective of the amount, should have minimum average maturity of 10 years. Please refer to link1 or link2 for more information.

15. What are the Individual Limits of amount of ECB which can be raised in a financial year under automatic route?

a) Up to $ 750 million or equivalent for the companies in infrastructure and manufacturing sectors, Non-Banking Financial Companies -Infrastructure Finance Companies (NBFC-IFCs), NBFCs-Asset Finance Companies (NBFCAFCs), Holding Companies and Core Investment Companies. b) Up to $ 200 million or equivalent for companies in software development sector. c) Up to $ 100 million or equivalent for entities engaged in micro finance activities. d) Up to $ 500 million or equivalent for remaining entities. ECB proposals beyond aforesaid limits will come under the approval route. For computation of individual limits under Track III, exchange rate prevailing on the date of agreement should be taken into account. In case the ECB is raised from direct equity holder, aforesaid individual ECB limits will also subject to ECB liability: equity ratio requirement. For ECB raised under the automatic route, the ECB liability of the borrower (including all outstanding ECBs and the proposed one) towards the foreign equity holder should not be more than four times of the equity contributed by the latter. For ECB raised under the approval route, this ratio should not be more than 7:1. This ratio will not be applicable if total of all ECBs raised by an entity is up to $ 5 million or equivalent. Please refer to section 2.4.6 of link for more information.

16. What are the hedging requirements under External commercial borrowing?

Companies in infrastructure sector, Non-Banking Financial Companies -Infrastructure Finance Companies (NBFC-IFCs), NBFCs-Asset Finance Companies (NBFCAFCs), Holding Companies and Core Investment Companies (CICs) are eligible borrowers. These companies are required to: Have a board-approved risk management policy and will require to keep their ECB exposure hedged 100 per cent at all times in case the average maturity is less than 5 years. Further, the designated AD Category-I bank shall verify that 100 per cent hedging requirement is complied with during the currency of ECB and report the position to RBI through ECB 2 returns. Lastly, the entities raising ECB under the provisions of tracks I and II are required to follow the guidelines for hedging issued, if any, by the concerned sectoral or prudential regulator in respect of foreign currency exposure. For more information, click here.

17. What are the guidelines for Parking of ECB proceeds?
ECB proceeds are permitted to be parked abroad as well as domestically in the manner given below:

Parking of ECB proceeds abroad: ECB proceeds meant only for foreign currency expenditure can be parked abroad pending utilization. Till utilisation, these funds can be invested in the following liquid assets: a) Deposits or Certificate of Deposit or other products offered by banks rated not less than AA (-) by Standard and Poor/ Fitch IBCA or Aa3 by Moody’s. b) Treasury bills and other monetary instruments of one year maturity having minimum rating as indicated above and c) Deposits with overseas branches/ subsidiaries of Indian banks abroad. Parking of ECB proceeds domestically: ECB proceeds meant for Rupee expenditure should be repatriated immediately for credit to their Rupee accounts with AD Category I banks in India. ECB borrowers are also allowed to park ECB proceeds in term deposits with AD Category I banks in India for a maximum period of 12 months. These term deposits should be kept in unencumbered position. Please refer to section 2.9 of link for more information.

18. What are the conditions for Conversion of ECB into equity?

Conversion of ECBs, including those which are matured but unpaid, into equity is permitted subject to the following conditions: i) The activity of the borrowing company is covered under the automatic route for Foreign Direct Investment (FDI) or approval from the Foreign Investment Promotion Board (FIPB), wherever applicable, for foreign equity participation has been obtained as per the extant FDI policy. ii) The conversion, which should be with the lender’s consent and without any additional cost, will not result in breach of applicable sector cap on the foreign equity holding. iii) Applicable pricing guidelines for shares are complied with. iv) Reporting requirements are fulfilled. v) If the borrower concerned has availed of other credit facilities from the Indian banking system, including overseas branches/ subsidiaries, the applicable prudential guidelines issued by the Department of Banking Regulation of RBI, including guidelines on restructuring are complied with. vi) Consent of other lenders, if any, to the same borrower is available or at least information regarding conversions is exchanged with other lenders of the borrower. Please refer to section 2.10 of link for more information.

19. What is the procedure for applying for Loan Registration Number?

Any draw-down in respect of an ECB as well as payment of any fees / charges for raising an ECB should happen only after obtaining the LRN from RBI. To obtain the LRN, borrowers are required to submit duly certified Form 83, which also contains terms and conditions of the ECB, in duplicate to the designated AD Category I bank. In turn, the AD Category I bank will forward one copy to the Director, Balance of Payments Statistics Division, Department of Statistics and Information Management (DSIM), Reserve Bank of India, Bandra-Kurla Complex, Mumbai – 400 051, 22Contact numbers
022-26572513 and 022-26573612. Copies of loan agreement for raising ECB are not required to be submitted to the Reserve Bank. Please refer to section 2.12.1 of link for more information.

20. How can one report changes in terms and conditions of ECB?

Permitted changes in ECB parameters should be reported to the DSIM through revised Form 83 at the earliest, in any case not later than 7 days from the changes effected. While submitting revised Form 83 the changes should be specifically mentioned in the communication. Please refer to 2.12.2 of link for more information.

21. How is average maturity period calculated?

You may refer to link for illustration purposes.

22. Can ECB be raised under Track III for general corporate purpose (including working capital)? What will be its minimum average maturity period?

Yes, ECB can be raised under Track III (i.e. INR denominated ECB) for general corporate purpose (including working capital). The minimum average maturity period will be 3 years for ECB up to $ 50 million or equivalent and 5 years for ECB beyond $ 50 million or equivalent. For more information, click here.

23. How is reporting of actual transactions to be done?

The borrowers are required to report actual ECB transactions through ECB 2 Return through the AD Category I bank on monthly basis so as to reach DSIM within seven working days from the close of month to which it relates. Changes, if any, in ECB parameters should also be incorporated in ECB 2 Return. Format of ECB 2 Return is available at Annex III of Part V of Master Directions – Reporting under Foreign Exchange Management Act. Please refer to section 2.12.3 of link for more information.

24. What are the requirements for converting External Commercial Borrowings/Lump entirety Fee/Royalty etc. into Equity?

The conversion of External Commercial Borrowings (ECB) in convertible foreign currency into equity is subject to the following conditions: The activity of the Company is covered under the Automatic Route.
for FDI or the Company has obtained Government approval for foreign equity. The foreign equity after conversion of ECB into equity is within the sectoral cap, if any. Pricing of shares is as per the provision of section (2), Annexure 3 of the Consolidated FDI Policy. Compliance with the requirements prescribed under any other statute and regulation in force. The conversion facility is available for ECB availed under the Automatic or Government Route and is applicable to ECB, due for payment or not, as well as secured/unsecured loans availed from non-resident collaborators. For more information, click here.

25. Can an eligible borrower simultaneously raise ECBs under Track I and Track II?

Yes, as long as the ECBs are in compliance with the ECB guidelines for the respective tracks as per RBI guidelines. Please refer to link1 or link2 for more information.

26. What are the end-use prescriptions for ECB raised under track II and Track III?

Track II: 1. The ECB proceeds can be used for all purposes excluding the following: i. Real estate activities ii. Investing in capital market iii. Using the proceeds for equity investment domestically; iv. On-lending to other entities with any of the above objectives; v. Purchase of land.

Track III: 1. NBFCs can use ECB proceeds only for: a. On-lending for any activities, including infrastructure sector as permitted by the concerned regulatory department of RBI; b. providing hypothecated loans to domestic entities for acquisition of capital goods/equipment; and c. providing capital goods/equipment to domestic entities by way of lease and hire purchases.

2. Developers of SEZs/ NMIZs can raise ECB only for providing infrastructure facilities within SEZ/ NMIZ. 3. NBFCs-MFI, other eligible MFIs, NGOs and not for profit companies registered under the Companies Act, 1956/2013 can raise ECB only for on-lending to self-help groups or for microcredit or for bonafide micro finance activity including capacity building. 4. For other eligible entities under this track, the ECB proceeds can be used for all purposes excluding the following: i. Real estate activities ii. Investing in capital market iii. Using the proceeds for equity investment domestically; iv. On-lending to other entities with any of the above objectives; v. Purchase of land.

Please refer to section 2.4.5 of the link.

27. Can ECB be raised under Track II for general corporate purpose (including working capital)? What will be its minimum average maturity period?

Yes, ECB can be raised under Track II for general corporate purpose (including working capital). The minimum average maturity period will be 10 years. Please refer to link for more information.
28. What are the end-use prescriptions for ECB raised under track I?

i) ECB proceeds can be utilised for capital expenditure in the form of: a) Import of capital goods including payment towards import of services, technical know-how and license fees, provided the same are part of these capital goods. b) Local sourcing of capital goods. c) New project. d) Modernisation/expansion of existing units. e) Overseas direct investment in Joint ventures (JV)/Wholly owned subsidiaries (WOS). f) Acquisition of shares of public sector undertakings at any stage of disinvestment under the disinvestment programme of the Government of India. g) Refinancing of existing trade credit raised for import of capital goods. h) Payment of capital goods already shipped/imported but unpaid. i) Refinancing of existing ECB provided the residual maturity is not reduced. ii) SIDBI can raise ECB only for the purpose of on-lending to the borrowers in the Micro, Small and Medium Enterprises (MSME sector), where MSME sector is as defined under the MSME Development Act, 2006, as amended from time to time. iii) Units of SEZs can raise ECB only for their own requirements. iv) Shipping and airlines companies can raise ECB only for import of vessels and aircrafts respectively. v) ECB proceeds can be used for general corporate purpose (including working capital) provided the ECB is raised from the direct/indirect equity holder or from a group company for a minimum average maturity of 5 years. vi) NBFC-IFCs and NBFCs-AFCs can raise ECB only for financing infrastructure. vii) Holding Companies and CICs shall use ECB proceeds only for on-lending to infrastructure Special Purpose Vehicles (SPVs). viii) ECBs for the following purposes will be considered only under the approval route a) Import of second hand goods as per the Director General of Foreign Trade (DGFT) guidelines. b) On-lending by Exim Bank. Please refer to section 2.4.5 of link.

29. Whether the restrictions in respect of the eligibility of borrowing entities also applicable to Start-ups?

No, any entity which is recognised as a Start-up by the Central Government as on date of raising ECB, would be eligible to raise ECB, irrespective of its business activities.

30. What does the term framework division mean with the end goal of ECB?

For the purpose of raising ECB, Infrastructure Sector has the same meaning as given in the Harmonised Master List of Infrastructure sub-sectors approved by the Government of India vide Notification F. No. 13/06/2009-INF as amended/updated from time to time. Further, for the purpose of ECB, Exploration, Mining and Refinery sectors are also deemed as in the infrastructure sector. For more information, click here.
31. What is the currency of borrowing in case of ECBs?

ECB can be raised in Indian Rupees (INR) and/or any convertible currency. Any entity raising INR denominated ECB is not permitted to convert the liability arising out of this ECB into foreign currency liability in any manner or assuming foreign currency risk in any manner by either entering into a derivative contract or otherwise. For more information, click here.

32. What are the end-utilize solutions for ECB raised under track I?

1) Investment in real estate or purchase of land 2) Investment in capital market. 3) Investment in capital market. For more information, click here.

33. Where can one get the details of extant External Commercial Borrowings (ECB) and Trade Credits (TC) framework?

Master Direction No. 5 on ‘External Commercial Borrowings, Trade Credits and Structured Obligations dated March 26, 2019 may be referred to for guidance on the extant framework on ECB and TC. ECBs and TCs raised under the prior frameworks should continue to be in compliance with the corresponding guidelines applicable at the time of availing the ECBs and TCs. For more information, click here.

34. What are the routes ECB can be raised in?

Under the (External Commercial borrowing) ECB/Trade Credit (TC) framework, ECB/TC can be raised either under the automatic route or under the approval route. Under the approval route, the prospective borrowers are required to send their requests to the RBI through their banks for examination.

35. What is the procedure of raising ECB?

Entities looking to raise ECB may approach the RBI with an ECB application form in prescribed format for examination through their AD Category I bank. Cases shall be considered keeping in view the overall guidelines, macroeconomic situation and merits of the specific proposals. ECB proposals received by the RBI above certain threshold limit (re-fixed from time to time) would be placed before the Empowered Committee set up by the Reserve Bank. The Empowered Committee will have
external as well as internal members and the Reserve Bank will take the decision based on the
t Recommendation of the Empowered Committee. Entities desirous to raise ECB under the automatic
route may approach an AD Category I bank with their proposal along with duly filled Form 83. Formats
of ECB Form and Form 83 are available at Annex I and II respectively of Part V of the Master
Directions Reporting under Foreign Exchange Management Act, 1999. For more information, click
here

36. **Who are eligible lenders under ECB framework?**

Lender for ECB purposes should be: A resident of Financial Action Task Force (FATF) [or
International organization of Securities commissions (IOSC) compliant country Multilateral and
regional financial institution where India is a member country Individuals, if they are foreign equity
holders or for subscription to bond/debentures listed abroad Foreign branches / subsidiaries of Indian
Banks – only for FCY ECB except FCCBs and FCEBs

37. **What is the meaning of “all-in-cost”?**

All-in-cost shall include rate of interest, other fees, expenses, charges, guarantee fees, ECA charges,
whether paid in foreign currency or INR but will not include commitment fees and withholding tax
payable in INR. In the case of fixed rate loans, the swap cost plus spread should not be more than the
floating rate plus the applicable spread

38. **What is the ceiling prescribed for ECB?**

The ceiling prescribed For TC is benchmark rate plus 250 basis points spread For ECB is
benchmark rate plus 450 basis points spread Benchmark rate in case of FCY ECB/TC refers to six-
months London Inter-bank Offered rate (LIBOR) of different currencies or any other six-month
interbank interest rate applicable to the currency of borrowing, for e.g., Euro Inter-bank Offered Rate
(EURIBOR). Benchmark rate in case of Rupee denominated ECB/TC will be prevailing yield of the
Government of India securities of corresponding maturity

39. **What are the conditions to be fulfilled in relation to Minimum Average Maturity Period
(MAMP)?**

ECB raised by manufacturing sector: One year (for ECB up to US$50 million or equivalent per FY)
ECB raised from foreign equity holder: Five years (if utilized for working capital purposes, general corporate purposes or repayment of rupee loans) Others: Three years

40. What are the requirements in respect of currencies of ECB?

ECB can be raised in Indian Rupees (INR) and / or any convertible currency. Further, any entity raising INR denominated ECB shall not be permitted to convert the liability arising out of this ECB into foreign currency liability in any manner or assume foreign currency risk in any manner by either entering into a derivative contract or otherwise.

41. What is the currency in which ECBs can be raised?

External Commercial Borrowing (ECB) can be raised in Indian Rupees (INR) and/ or any convertible currency. Any entity raising INR denominated ECB is not permitted to convert the liability arising out of this ECB into foreign currency liability in any manner or assuming foreign currency risk in any manner by either entering into a derivative contract or otherwise. For more information, click here.

42. Can proceeds of External commercial borrowing raised under Track I of the framework be used for payment of overdue import bills?

No, though proceeds from external commercial borrowing (ECB) raised under Track I can be utilized for the purposes, among others, such as refinancing of existing trade credit raised for import of capital goods and payment of capital goods already shipped but unpaid, the borrowing are not prescribed for payment of overdue import bills. For more information, click here.

43. How can one raise loans through ECB?

The framework for raising loans through external commercial borrowings (ECB) comprises the following three tracks: Track I: Medium-term foreign currency denominated ECB with minimum average maturity of 3/5 years (exception of minimum average maturity of 1 year for manufacturing sector companies) Track II: Long-term foreign currency denominated ECB with minimum average maturity of 10 years Track III: Indian Rupee (INR) denominated ECB with minimum average maturity of 3/5 years (exception of minimum average maturity of 1 year for manufacturing sector companies. For more information, click here
44. **What are the Reporting prerequisites for converting External commercial borrowing into equity?**

In case of partial or full conversion of ECB into equity, the reporting to the RBI will be as under: For partial conversion, the converted portion is to be reported to the concerned Regional Office of the Foreign Exchange Department of RBI in Form FC-GPR prescribed for reporting of FDI flows, while monthly reporting to DSIM in ECB 2 Return will be with suitable remarks "ECB partially converted to equity". For full conversion, the entire portion is to be reported in Form FC-GPR, while reporting to DSIM in ECB 2 Return should be done with remarks ECB fully converted to equity. Subsequent filing of ECB 2 Return is not required. For conversion of ECB into equity in phases, reporting through ECB 2 Return will also be in phases. For more information, click here.

45. **Who are the eligible borrowers under ECB framework?**

All entities except a Limited Liability Partnership are allowed to obtain ECB as per the prescribed guidelines.

46. **What are the reporting requirements under ECB?**

Borrowings under ECB Framework are subject to following reporting requirements apart from any other specific reporting required under the framework:

- **Loan Registration Number (LRN):** Any drawdown in respect of an ECB should happen only after obtaining the LRN from the RBI. To obtain the LRN, borrowers are required to submit duly certified Form ECB, which also contains terms and conditions of the ECB, in duplicate to the bank.

- **Changes in terms and conditions of ECB:** Changes in ECB parameters in consonance with the ECB norms, including reduced repayment by mutual agreement between the lender and borrower, should be reported to the DSIM through revised Form ECB at the earliest, in any case not later than seven days from the changes effected. While submitting revised Form ECB the changes should be specifically mentioned in the communication.

- **Monthly reporting of actual transactions:** The borrowers are required to report actual ECB transactions through Form ECB 2 Return (Annex II) through the AD Bank on monthly basis so as to reach DSIM within seven working days from the close of month to which it relates. Changes, if any, in ECB parameters should also be incorporated in Form ECB 2 Return.