

Corpsec Hotline

April 22, 2003

AMENDMENT TO THE PUBLIC COMPANIES (TERMS OF ISSUE OF DEBENTURES AND RAISING LOANS WITH OPTION TO CONVERT SUCH DEBENTURES OR LOANS INTO SHARES) RULES, 1977

The Central Government amended the Public Companies (Terms of issue of Debentures and raising Loans with Option to convert such Debentures or Loans into Shares) Rules, 1977 ("Rules") vide notification number G.S.R. 275(E) dated April 1, 2003 ("Amendment") to increase the scope of these Rules. Under Section 81(3)(a) of the Companies Act, 1956 ("Act"), a company is required to obtain the prior approval of the Central Government in order to convert outstanding debentures or loans into shares. However, the Rules exempts companies from the Central Government approval requirement if it fulfils certain requirements such as the debentures or loans are raised either through private subscription or through the issue of a prospectus to the public or if a public financial institution either underwrites or subscribes to such debentures or the raising of loans, as the case may be etc. The Amendment now extends this exemption from the requirements of seeking a prior Central Government approval for conversion to loans or debentures that are underwritten by, subscribed to or sanctioned by scheduled banks. The Amendment goes on to define a scheduled bank as a bank, which is included in the Second Schedule to the Reserve Bank of India Act, 1934 but excluding co-operative, regional rural and foreign banks. However, no financial institution or scheduled bank may convert debentures or loans into shares unless, the company concerned has defaulted in the redemption or repayment of such debentures of loans and the company has been given notice of at least 30 days prior to the intended date of conversion of the debentures or loans into shares.

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