REDEMPTION OF INDIAN DEPOSITORY RECEIPTS (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.

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

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

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:

Automatic fungibility of IDRs is not permitted. 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.

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

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** (i.e. if the annualized trading turnover in IDRs during the six calendar months immediately preceding the month of redemption is less than 5% of the listed IDRs) on the stock exchange(s) in India.

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 30 days** from the date of such public announcement.

f. The redemption of IDRs shall be **completed within a period of 30 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.

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http://spsmiter.blogspot.com/2011/06/redemption-of-indian-depository.html