

File No. 5/03/2013-CL-V
Ministry of Corporate Affairs
Government of India

5th Floor, A wing, Shastri Bhawan.
Dr. R.P.Road, New Delhi.

Dated: 14.03.2013

All Regional Directors,
All Registrar of Companies,
All Stakeholders.

Subject: Clarification under Section 372A(3) of the Companies Act, 1956.

It is observed from the Budget 2013-14 authorizes Union Govt to raise Rs. 50,000 crores (Tax Free Bonds). These bonds carry a lower rate of interest, currently in the range of 6.75% to 7.50% which is tax free under Section 10(15) (iv)(h) of the Income Tax Act, 1961. Such bonds were also provided for in Budget 2012-13, but the response had been poor due to restrictions under Section 372A(3) of the Companies Act, 1956.

2. Ministry of Finance had drawn the attention of this Ministry to Section 372A (3) of the Companies Act with a view to effectively implement the announcement made in the Budget. Section 372A (3) of the Act inter-alia provides that “*No loan to any body corporate shall be made at a rate of interest lower than the prevailing bank rate, being standard rate made public under section 49 of the Reserve Bank of India Act, 1934 (2 of 1934)*”.

3. It is hereby clarified that in cases where the effective yield (effective rate of return) on tax free bonds is greater than the yield on prevailing bank rate, there is no violation of Section 372A(3) of Companies Act, 1956.

4. This circular is effective from the date of issue.

5. This issues with the approval of Hon'ble Corporate Affairs Minister.


(J.N. Tikku)
Joint Director
23073067

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1. All Concerned
2. PS to CAM
3. PPS to Secretary, PS to Additional Secretary
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5. E-Governance Cell for uploading this Circular in MCA-21.