

# ESTABLISHMENT OF BRANCH/LIAISON/PROJECT OFFICES IN INDIA

## **Application to RBI**

Companies incorporated outside India, desirous of opening a Liaison/Branch office in India have to make an application in form FNC-1 to the Reserve Bank of India, along with the following documents:

- English version of the certificate of incorporation / Registration or Memorandum & Articles of Association attested by Indian Embassy/ Notary Public in the country of Registration.
- Latest Audited Balance Sheet of the applicant entity.

## **Liaison Offices**

Companies which are incorporated outside India can establish liaison office in India with the specific approval of the Reserve Bank. A Liaison Office (also known as Representative office) can undertake only liaison activities, i.e. it can act as a channel of communication between Head Office abroad and parties in India. It is not allowed to undertake any business activity in India and cannot earn any income in India. Expenses of such offices are to be met entirely through inward remittances of foreign exchange from the Head Office outside India. The role of such offices is, therefore, limited to collecting information about possible market opportunities and providing information about the company and its products to the prospective Indian customers. Permission to set up such offices is initially granted for a period of 3 years and this may be extended from time to time by the Regional Office of RBI under whose jurisdiction the office is set up. A Liaison Office

can undertake the following activities in India:

- 1) Representing in India the parent company/group companies.
- 2) Promoting export import from/to India.
- 3) Promoting technical/financial collaborations between parent/group companies and companies in India.
- 4) Acting as a communication channel between the parent company and Indian companies.

Liaison/representative offices have to file an Annual Activity Certificate from a Chartered Accountant to the Regional Office of RBI. The Certificate is obtained to ensure that the Liaison Office has undertaken only those activities that have been approved by RBI.

## **Liaison Office of Foreign Insurance Companies**

Foreign Insurance companies can establish Liaison Offices in India after obtaining approval from the Insurance Regulatory and Development Authority. Such Insurance companies have been given general permission under FEMA for establishing Liaison Offices in India.

## **Branch Offices**

Companies incorporated outside India and engaged in manufacturing or trading activities are allowed to set up Branch Offices in India with specific approval of the Reserve Bank. Such Branch Offices are permitted to represent the parent/group companies and undertaking the following activities in India: (1)  
Export/import of goods

- (2) Rendering professional or consultancy Services.
- (3) Carrying out research work, in which the Parent company is engaged.
- (4) Promoting technical or financial collaborations between Indian companies and parent or overseas group company.
- (5) Representing the parent company in India and acting as buying/selling agent in India.
- (6) Rendering services in Information Technology and development of software in India.
- (7) Rendering technical support to the products Supplied by parent/group companies.

Retail trading activities of any nature is not allowed for a Branch Office in India.

A branch office is not allowed to carry out manufacturing, processing activities in India, directly or indirectly. Branch offices are permitted to acquire property for their own use and to carry out the permitted/ incidental activities but not for leasing or renting out the property. However, entities from Pakistan, Bangladesh, Sri Lanka, Afghanistan, Iran or China are not allowed acquire immovable property in India even for a Branch Office.

These entities are allowed to take such property on lease basis only for a period not exceeding five years. Entities from Nepal are allowed to establish only Liaison Offices in India.

Profits earned by the Branch Offices are freely remittable from India, subject to payment of applicable taxes.

Branch office has to submit annual activity certificates from chartered accountants to RBI.

### **Branch Office In Special Economic Zones (SEZs)**

RBI has given general permission to foreign companies for establishing branch/unit in Special Economic Zones (SEZs) to undertake manufacturing and service activities. The general permission is subject to the following conditions:

- 1) such units are functioning in those sectors where 100 Per cent FDI is permitted,
- 2) such units comply with part XI of the companies Act (Section 592 to 602),
- 3) such units function on a stand-alone basis,

In the event of winding-up of business and for remittance of winding-up proceeds, the branch shall approach an Authorized Dealer Category-I Bank with the documents as mentioned in “Closure of Office” except the copy of RBI approval.

### **Branches of Banks**

Foreign Banks do not require approval from RBI under FEMA, if such Bank has obtained necessary approval under the provisions of the Banking Regulation Act, 1949 from the Reserve Bank.

### **Project Offices**

Reserve Bank has granted general permission to foreign companies to establish Project Offices in India, provided they have secured a contract from an Indian company to execute a project in India, and

- (a) the project is funded directly by inward remittance from abroad; or
- (b) the project is funded by bilateral or multilateral International Financing Agency; or
- (c) the project has been cleared by an appropriate authority; or
- (d) a company or entity in India awarding the

Contract has been granted Term Loan by a Public Financial Institution or a bank in India for the project.

However, if the above criteria are not met, the foreign entity has to approach RBI to obtain approval.

#### **Opening of Foreign Currency Account**

AD Category-I Banks can open non-interest bearing Foreign Currency Account for Project Office in India subject to the following:

- a) The Project Office has been established in India, with the general/ specific permission of Reserve Bank, having the requisite approval from the concerned project Sanctioning Authority,
- b) The contract under which the project has been sanctioned, specifically provides for payment in foreign currency,
- c) Each Project has only one Foreign Currency Account,
- d) The permissible debits to the account shall be payment of project related expenditure and credits shall be foreign currency receipts from the Project Sanctioning Authority, and remittances from parent/group company Abroad or bilateral/multilateral international financing agency.
- e) The responsibility of ensuring that only the approved debits and credits are allowed in the Foreign Currency Account shall rest solely with the concerned branch of the AD. Further, the account shall be subject to 100 per cent scrutiny by the Concurrent Auditor of the respective AD banks.
- f) The Foreign Currency Account has to be closed at the completion of the Project.

#### **Intermittent Remittances by Project**

#### **Offices in India**

AD Category-I branch can permit intermittent remittances by Project Offices pending winding up/completion of the project provided they are satisfied with the bonafide of the transaction, subject to the following:

- a) The Project Office submits an Auditors/ Chartered Accountants Certificate to the effect that sufficient provisions have been made to meet the liabilities in India including Income Tax etc.
- b) An undertaking from the Project Offices that the remittance will not, in any way, affect the completion of the project in India and that any shortfall of funds for meeting any liability in India will be met by inward remittance from abroad.

Inter Project transfer of funds requires prior permission of the concerned Regional Office of the Reserve Bank under whose jurisdiction the Project Office is situated.

#### **General Conditions**

Partnership/Proprietary concerns set up abroad are not allowed to establish Branch/ Liaison Office in RBI.

Branch/Liaison/Project Offices are allowed to open non-interest bearing current accounts in India. Such Offices are required to approach their Authorised Dealers for opening the accounts.

Transfer of assets of Liaison/Branch Office to subsidiaries or other Liaison/Branch Offices is allowed with specific approval of the Central Office of RBI.

#### **Closure of Offices**

At the time of winding up of the Liaison Offices, the company has to approach the respective Regional Office of the Reserve Bank with the

documents

- Copy of the Reserve Bank's permission for establishing the Office in India
  - Auditor's certificate
- (i) Indicating the manner in which remittable amount has been arrived and supported by a statement of assets and liabilities of the applicant, and indicating the manner of disposal of assets.
- (ii) Confirming that all liabilities in India including arrears of gratuity and other benefits to employees etc. of the branch/office have either fully met or adequately provided for;
- (iii) Confirming that no income accruing from sources outside India (including proceeds of exports) has remained unrepatriated to India;
- No-objection or Tax clearance certificate from Income tax authority for the remittance; and
  - Confirmation from the applicant that no legal proceedings in any Court in India are pending and there is no legal impediment to the remittance.

Once RBI's Regional Office grants approval AD Category-I Banks can allow remittance of surplus.

At the time of closure of Branch Offices, the entities have to approach the Central Office of the Reserve Bank for approval, with the same set of documents as mentioned above.

FREQUENTLY

ASKED

## QUESTIONS (FAQS)

### **Q.1. How can foreign companies open Liaison/Project/Branch office in India?**

**A.1.** Foreign company can set up Liaison/Branch Offices in India after obtaining approval from Reserve Bank of India. Reserve Bank of India has given general permission to foreign companies to establish Project Offices in India subject to certain conditions.

### **Q.2. What is the procedure to be followed for obtaining Reserve Bank's approval for opening Liaison Office/ Representative Office?**

**A.2** A Liaison office can carry on only liaison activities, i.e. it can act as a channel of communication between Head Office abroad and parties in India. It is not allowed to undertake any business activity in India and cannot earn any income in India. Expenses of such offices are to be met entirely through inward remittances of foreign exchange from the Head Office abroad. The role of such office is therefore, limited to collecting information about possible market opportunities and providing information about the Company and its products to the prospective Indian customers.

The companies desirous of opening a liaison office in India may make an application in form FNC-1 along with the documents mentioned therein to Foreign Investment Division, Foreign Exchange Department, Reserve Bank of

India, Central office Mumbai. This form is available at [www.rbi.org.in](http://www.rbi.org.in)  
Permission to set up such offices is initially granted for a period of 3 years and this may be extended from time to time by the Regional Office in whose jurisdiction the office is set up. Liaison/Representative offices have to file an Activity Certificate on an annual basis from a Chartered Accountant to the concerned Regional Office of the Reserve Bank of India, stating that the Liaison office has undertaken only those activities permitted by Reserve Bank of India.

### **Q.3. What is the procedure for setting up Project Office?**

**A.3** • Foreign companies are granted projects in India by Indian entities. General Permission has been granted by Reserve Bank of India Vide Notification No. FEMA 95/ 2003-RB dated July 2, 2003 to foreign companies to open Project Office/s in India provided they have secured from an Indian company, a contract to execute a project in India, and

- the project is funded directly by inward remittance from abroad; or
- the project is funded by a bilateral or multilateral International Financing Agency; or
- the project has been cleared by an appropriate authority; or
- a company or entity in India awarding the contract has been granted Term Loan by a Public Financial Institution or bank in India for the project.
- However, if the above criteria are not met, or if the parent entity is established in Pakistan, Bangladesh,

Sri Lanka, Afghanistan, Iran or China, such applications have to be forwarded to Central Office of the Foreign Exchange Department of the Reserve Bank at Mumbai for approval.

### **Q.4. What is the procedure for setting up Branch office?**

**A.4** Reserve Bank permits companies engaged in manufacturing and trading activities abroad to set up Branch Office in India for the following purposes:

- To represent the parent company/ other foreign companies in various matters in India e.g. acting as buying/ selling agents in India.
- To conduct research work in the area in which the parent company is engaged.
- To undertake export and import activities and trading on wholesale basis
- To promote possible technical and financial collaborations between the Indian companies and overseas companies
- Rendering professional or consultancy services
- Rendering services in Information technology and development of software in India
- Rendering technical support to the products supplied by the parent/ Group companies. .
- A branch office is not allowed to carry out manufacturing, processing activities directly/ indirectly. A Branch office is also not allowed to undertake Retail Trading activities of any nature in India. Branch Offices have to submit Activity Certificate

from a Chartered Accountant on an annual basis to the Central Office of FED. For annual remittance of profit Branch office may submit required documents to an authorised dealer. • Permission for setting up branch offices is granted by the Reserve Bank of India. Reserve Bank of

India considers the track record of the Applicant Company, existing trade relations with India, the activity of the company proposing to set up office in India as well as financial position of the company while scrutinising the application.