

A P (DIR Series)nCIRCULAR NO 13/RBI.

Dated: September 10, 2015

Trade Credit Policy - Rupee (INR) Denominated trade credit

Attention of Authorized Dealer Category - I (AD Category - I) banks is invited to Schedule III to the Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000 notified vide Notification No. FEMA 3/2000-RB dated May 03, 2000 read with Regulation 6(3) of the said Regulations regarding raising of trade credit (buyers' credit / suppliers' credit) from overseas supplier, bank and financial institution for import of capital and non-capital goods into India.

2. With a view to providing greater flexibility for structuring of trade credit arrangements, it has been decided that the resident importer can raise trade credit in Rupees (INR) within the following framework after entering into a loan agreement with the overseas lender:

i. Trade credit can be raised for import of all items (except gold) permissible under the extant Foreign Trade Policy

ii. Trade credit period for import of non-capital goods can be upto one year from the date of shipment or upto the operating cycle whichever is lower

iii. Trade credit period for import of capital goods can be upto five years from the date of shipment

iv. No roll-over / extension can be permitted by the AD Category - I bank beyond the permissible period

v. AD Category - I banks can permit trade credit upto USD 20 mn equivalent per import transaction

vi. AD Category - I banks are permitted to give guarantee, Letter of Undertaking or Letter of Comfort in respect of trade credit for a maximum period of three years from the date of shipment

vii. The all-in-cost of such Rupee (INR) denominated trade credit should be commensurate with prevailing market conditions

viii. All other guidelines for trade credit will be applicable for such Rupee (INR) denominated trade credits

3. Overseas lenders of Rupee (INR) denominated trade credits will be eligible to hedge their exposure in Rupees through permitted derivative products in the on-shore market with an AD Category - I bank in India. Necessary guidelines for hedging will be issued separately.

4. AD Category – I banks may bring the contents of this Circular to the notice of their constituents and customers.

5. The directions contained in this circular have been issued under Section 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/ approvals required, if any, under any other law.

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(B P Kanungo)

Principal Chief General Manager