

POLICY

[Money Transfer Service Scheme](#)

[Import of Goods](#)

UCBs

[Loans and Advances to Directors](#)

[Ceiling on Unsecured Advances of UCBs Enhanced](#)

[Recognition of Loan Impairment](#)

[CRR](#)

[Penal Interest on Shortfall in CRR](#)

FOREX

[Supply of goods by SEZs to Units in DTA](#)

POLICY

Money Transfer Service Scheme

The Reserve Bank has issued guidelines for money transfer service scheme (MTSS). MTSS is a quick and easy way of transferring personal remittances from abroad to beneficiaries in India. Only personal remittances, such as, remittances towards family maintenance and remittances favouring foreign tourists visiting India would be permissible under the scheme. The scheme envisages a tie-up between reputed money transfer companies abroad and agents in India who would disburse the funds to the beneficiaries at ongoing exchange rates. The scheme does not envisage the repatriation of such inward remittances. The Indian agent would also not be allowed to remit any amount on account of exchange loss to the overseas principal.

Authorised dealers (ADs), full fledged money changers (FFMCs) or registered non-banking financial companies (NBFCs), IATA approved travel agents having minimum net worth of Rs.25 lakhs, desirous of becoming agents for MTSS, require the Reserve Bank's approval prior to entering into such an arrangement. The agent would be allowed to open a special rupee account with an AD through which all the remittances disbursed under the scheme, are to be routed. The Indian agent has to pay the beneficiary first on instructions from the overseas principal and within a day or two the amount and his commission, would be reimbursed by the overseas principal, through normal banking channels. The guidelines to be followed by prospective Indian agents while applying for the Reserve Bank's permission are indicated below :

Guidelines for seeking permission for MTS

The agent in India should be an AD, FFMC, registered NBFC or an IATA approved travel agent having minimum net worth of Rs.25 lakhs. If the agent is an NBFC, they should incorporate a clause in the memorandum and articles of association that they can undertake money transfer activities.

Information/documents to be submitted

Alongwith the application, the agent should submit information/ documents as follows -

- (i) An undertaking that the agent/directors is/are not under investigation by any law enforcing agency.
- (ii) Name and address of the overseas principal with whom the MTS will be conducted.
- (iii) Full details of the operation of the scheme by the overseas principal. (The Reserve Bank's permission would be country specific).
- (iv) List of branches in India and their addresses where MTS would be conducted by the agent.
- (v) Estimated volume of business per month/year under the scheme.
- (vi) Balance sheet and profit and loss account for the last two financial years, if available.

Selection criteria

The overseas principal should -

- (i) be a registered entity licensed by the central bank/government or any other regulatory authority for carrying on money transfer activities. Where money transfer is an unlicensed activity, the principal should be licensed/supervised by any other regulatory/supervisory body in the host country;
- (ii) be registered with the trade/industry bodies;
- (iii) have a good rating from one of the reputed credit rating agencies; (iv)submit confidential reports from two banks; and
- (iv) submit a report certified by independent chartered accountants, regarding steps taken to comply with anti-money laundering norms in the host country.

Collateral

Collateral equivalent to three days' average drawings or USD 50,000, whichever is higher, should be kept by the overseas principal with the designated bank in India. The minimum amount of USD 50,000 should be kept as a foreign currency deposit while the balance amount may be kept in the form of a bank guarantee. The adequacy of collateral amounts should be reviewed half yearly on the basis of remittances received during the past six months.

Other conditions

- (i) Only personal remittances should be allowed under this arrangement. Donations/contributions to charitable institutions/ trusts should not be remitted through this arrangement.
- (ii) A cap of USD 2500 has been placed on individual transaction under the scheme. Amounts up to Rs.50,000 may be paid in cash. Any amount exceeding this limit should be paid by means of a cheque/demand draft/pay order, etc., or credited directly to the beneficiary's account only.

- (iii) A single individual can receive only twelve remittances in a year.

In exceptional circumstances, where the beneficiary is a foreign tourist, higher amounts may be disbursed in cash. Full record of such transactions should be preserved for scrutiny by the auditors/ inspectors.

Import of Goods

With a view to liberalising and simplifying the procedure for import, the Reserve Bank has issued revised guidelines regarding import of goods, merchanting trade and import of currency. While the entire circular is available on the RBI website (www.rbi.org.in) a summary is reproduced below.

As Import trade is regulated by the Directorate General of Foreign Trade (DGFT), ADs while undertaking import transactions, should ensure that imports into India are in conformity with the Export-Import Policy in force and Foreign Exchange Management (Current Account Transactions) Rules, 2000 framed by the Government of India and the directions issued by the Reserve Bank under Foreign Exchange Management Act (FEMA) from time to time.

Import of Goods

ADs may adhere to “Know Your Customer” (KYC) guidelines issued by the Reserve Bank in all their dealings. Where specific regulations do not exist, ADs may be governed by normal trade practices.

Applications by persons, firms and companies for making payments exceeding USD 500 or its equivalent, towards imports into India must be made on appropriate form A 1.

Import Licences

ADs should not open letters of credit (L/C) or allow remittances for import of goods in favour of those included in the negative list unless the importer submits a licence marked ‘For Exchange Control purposes’. Special condition, if any, attached to such licence should strictly be adhered to. Exchange Control copy of the import licence submitted by importer for opening of L/C or making remittance, when fully utilised, should be retained by ADs and should be preserved till its scrutiny by the internal auditors or inspectors is completed.

Obligation of Purchaser of Forex

- (i) Any person acquiring foreign exchange is permitted to use it either for the purpose mentioned in the declaration made by him to an AD or for any other purpose for which acquisition of exchange is permissible under FEMA, or rules or regulations framed under it.
- (ii) Where foreign exchange acquired has been utilised for import of goods into India, the AD should ensure that importer furnishes an evidence of import to his satisfaction.
- (iii) In case payment for import is made by way of credit to nonresident account of the

overseas exporter maintained with a bank in India, AD should ensure compliance with provision regarding end-use of the acquired foreign exchange.

Time Limit for Settlement of Import Payments

- (i) As per existing regulations, remittances against imports should be completed not later than six months from the date of shipment except in cases where amounts are withheld towards guarantee of performance, etc. Accordingly, deferred payment arrangements including payments beyond a period of six months from date of shipment are treated as external commercial borrowings (ECBs). For deferred or delayed payment of imports, ADs may adhere to the instructions issued in May 2000 and September 2002.
- (ii) Sometimes, settlement of import dues may be delayed due to disputes, financial difficulties, etc. ADs may permit interest in respect of such delayed payments. ADs may allow remittances against import of books without restriction of time limit, provided, interest is paid.

Advance Remittance

ADs may allow advance remittance for import of goods without any ceiling subject to the following conditions :

- a) If the amount of advance remittance exceeds USD 1,00,000 or its equivalent, an unconditional, irrevocable standby L/C or a guarantee from an international bank of repute situated outside India or a guarantee of an AD in India, if such a guarantee is issued against the counter-guarantee of an international bank of repute situated outside India, is obtained.
- b) Physical import of goods into India is made within six months (three years in case of capital goods) from the date of remittance and the importer gives an undertaking to furnish documentary evidence of import within fifteen days from the close of the relevant period.
- c) If the goods are not imported, the AD should ensure that the amount of advance remittance is repatriated to India or is utilised for any other purposes for which release of exchange is permissible under FEMA.

Interest on Import Bills

ADs may allow payment of interest at the prescribed rate on usance bills or overdue interest for a period of less than three years from the date of shipment without the Reserve Bank's prior approval.

Remittances against Replacement Imports

Where goods are short-supplied, damaged, short-landed or lost in transit and the Exchange Control copy of the import licence has already been utilised to cover the opening of a L/C against the original goods which have been lost, the original endorsement to the extent of the value of the lost goods may be cancelled by ADs and fresh remittance for replacement imports permitted without reference to the Reserve Bank. The fresh remittance may be permitted provided, the insurance claim relating to the lost goods has been settled in favour of the importer.

It may be ensured that the consignment being replaced is shipped within the validity period of the licence.

Guarantee for Replacement Import

In case replacement goods for a defective import are being sent by the overseas supplier before the defective goods imported earlier are reshipped out of India, ADs may issue guarantees at the request of importer client for despatch/return of the defective goods, according to their commercial judgement.

Evidence of Import

- (i) In case of all imports, where value of foreign exchange remitted/ paid for import into India exceeds USD 25,000 or its equivalent, it is obligatory on the part of the AD through whom the relative remittance was made, to ensure that the importer submits appropriate documents evidencing the import.
- (ii) Where imports are made in non-physical form, i.e., software or data through internet/datacom channels and drawings and designs through e-mail/fax, a certificate should be obtained from a chartered accountant that the software/data/drawing/design has been received by the importer.
- (iii) In respect of imports on documents against acceptance (D/A) basis, ADs should insist on production of evidence of import at the time of effecting remittance of import bill. If importers fail to produce documentary evidence due to genuine reasons, such as, non-arrival of consignment, delay in delivery/customs clearance of consignment, etc., ADs may, if satisfied with the genuineness of request, allow reasonable time, not exceeding three months from the date of remittance, to the importer to submit the evidence of import.
- (iv) ADs should in all cases acknowledge receipt of evidence of import.
- (v) Internal inspectors or auditors (including external auditors appointed by ADs) should carry out 100 per cent verification of the documents evidencing import, e.g. Exchange Control copies of bills of entry or postal appraisal forms or customs assessment certificates, etc.
- (vi) Documents evidencing import into India should be preserved by ADs for a period of one year from the date of their verification. In cases which are under investigation by investigating agencies, the documents should be destroyed only after obtaining clearance from the investigating agency.
- (vii) ADs may accept either Exchange Control copy of bill of entry for home consumption or a certificate from the chief executive officer or auditor of the company that the goods for which remittance was made have actually been imported into India provided :
 - the amount of foreign exchange remitted is less than USD 1,00,000 or its equivalent,
 - the importer is a company listed on a stock exchange in India and whose net worth is not less than Rs.100 crore as on the date of its last audited balance sheet,or
 - the importer is a public sector company or an undertaking of the Government of India or its departments.

This facility may also be extended to autonomous bodies, including scientific bodies/academic institutions whose accounts are audited by the Comptroller and Auditor General of India.

Follow up

- (i) In case an importer does not furnish any documentary evidence of import, within three months from the date of remittance involving foreign exchange exceeding USD 25,000, the AD should rigorously follow-up for the next three months, including sending registered letters to the importer for submission of appropriate document.
- (ii) ADs should forward to the Reserve Bank a half-yearly statement in form BEF furnishing details of import transactions, exceeding USD 25,000 in respect of which importers have defaulted in submitting appropriate documents evidencing import, within six months from the date of remittance.

Receipt of Import Bills/Documents

- (i) Import bills and documents should be received from the banker of the supplier by the banker of the importer in India. ADs should not, therefore, make remittances where import bills have been received directly by the importers from the overseas supplier, except in the following cases
 - (a) Where the value of import bill does not exceed USD 10,000.
 - (b) Import bills received by wholly-owned Indian subsidiaries of foreign companies from their principals.
 - (c) Import bills received by super star trading houses, star trading houses, trading houses, export houses, 100 per cent export oriented units/units in free trade zones, public sector undertakings and limited companies.
 - (d) Where the value of import bill does not exceed USD 25,000 in respect of import of books and magazines, life saving drugs/equipments by hospitals, etc., and imports by reputed research and other development institutions.
 - (e) Import bills received by all limited companies, viz., public limited, deemed public limited and private limited companies.
- (ii) In all other cases, at the request of importer clients, ADs may receive bills direct from the overseas supplier up to USD 25,000 provided the AD is fully satisfied about the financial standing/ status and track record of the importer customer. Before extending the facility, the AD should obtain a report on each individual overseas supplier from the overseas banker or reputed credit agency.

Import of Gold/Platinum/Silver by Nominated Banks/Agencies

Import of gold/platinum/silver on consignment basis - Gold-Platinum-Silver may be imported by the nominated agencies/banks on consignment basis where the ownership will remain with the supplier and the importer (consignee) will be acting as an agent of the supplier (consignor). Remittances towards the cost of import should be made as and when sales take place and in

terms of the provisions of agreement entered into between the overseas supplier and nominated agency/bank.

Import of gold/platinum/silver on unfixed price basis - The nominated agency/bank may import gold on outright purchase basis on the condition that although ownership of the gold shall be passed on to the importer at the time of import itself, the price of gold shall be fixed later, as and when the importer sells the gold to the users.

Import factoring

ADs may enter into arrangements with international factoring companies of repute, preferably members of Factors Chain International, without the Reserve Bank's approval subject to compliance with the extant requirements.

Merchanting Trade

ADs may take necessary precautions in handling merchanting trade transactions or intermediary trade transactions to ensure that (a) goods involved in the transactions are permitted to be imported into India, (b) such transactions do not involve foreign exchange outlay for a period exceeding three months, and (c) all rules, regulations and directions applicable to export out of India are complied by the export leg and all rules, regulations and directions applicable to import are complied with by the import leg of merchanting trade transactions. ADs are also required to ensure timely receipt of payment for the export leg of such transactions.

Import of Currency

Import of currency, including cheques, is governed by the regulations made by the Reserve Bank under FEMA 1999, and FEMA (Export and Import of Currency) Regulations 2000.

Ashoka Pillar Series Currency Notes

Currency notes in Ashoka Pillar series were first introduced in the post-independence era in 1949. These currency notes had the Ashoka Pillar emblem incorporated as a watermark in the watermark window on the left side of the notes. The Ashoka Pillar watermark is visible when the notes are held against normal light. The printing of the Ashoka Pillar series notes continued till 1994-96 when new notes in the Mahatma Gandhi series with additional security features were issued in all denominations. The Mahatma Gandhi series notes contain the portrait of Mahatma Gandhi on the right side of the note. A table indicating the first issue of various denominations of the Ashoka Pillar Series currency notes is given below :

Denomination	Year of first issue
Rs.1	1949
Rs.2	1950
Rs.5	1950
Rs.10	1950
Rs.20	1972

Rs.50	1975
Rs.100	1950
Rs.500	1987

UCBs

Loans and Advances to Directors

The Reserve Bank has prohibited primary (urban) co-operative banks (UCBs) from extending loans and advances (both secured and unsecured) to the directors, their relatives and firms/concerns/ companies in which they are interested. UCBs may allow existing advances extended prior to April 29, 2003, to continue up to the date when they are due. The advances, should not, however, be renewed or extended further.

A number of instances had come to the notice of the Reserve Bank where, some UCBs ran into financial problems due to the concentrated exposures built up by UCBs to the directors, their relatives or firms in which they are interested in and these accounts becoming non-performing assets.

The Joint Parliamentary Committee which had enquired into the stock market scam and relating matters, in its report had recommended that, in order to prevent irregularities of the kind which surfaced in some co-operative banks examined by it, a full ban should be imposed on granting of loans and advances to the directors, their relatives and firms in which they are interested.

Ceiling on Unsecured Advances of UCBs Enhanced

The ceiling on unsecured advances granted by grade one UCBs to any single borrower/connected group has been enhanced as under :

Category of Advances	Non-scheduled UCBs whose DTL are		Scheduled UCBs
	Less than Rs. 10 crore	Rs. 10 crore and above	
All types of unsecured advances including clean bills/multani hundis purchased/discounted and drawals allowed against cheques sent for collection.	Rs. 50,000	Rs. 1,00,000	Rs. 2,00,000

The enhanced ceiling would not be applicable to UCBs classified as grade II or III or IV. They would continue to be governed by the ceiling indicated below :

Type of UCB	Ceiling on Unsecured Advances
UCB with demand and time liabilities (DTL) of less than Rs. 10 crore	Rs. 25,000
UCB with DTL of Rs. 10 crore and above	Rs. 50,000

The total unsecured advances granted by a UCB should not, at any time, exceed the overall

ceiling of 33.33 per cent of the bank's DTL.

It is also further advised that, all secured advances, except those which are made for amounts not exceeding Rs. 5,000 and for a temporary period up to 30 days in emergent cases, should be against the personal security of another member, who is not a director of the bank.

Recognition of Loan Impairment

All UCBs have been advised that gold loans and small loans up to Rs. one lakh are exempted from the 90 days norm for recognition of loan impairment. These loans would continue to be governed by the 180 days norm for classification as NPA even after March 31, 2004.

With a view to moving towards international best practices and to ensure greater transparency, UCBs were earlier advised to classify an asset as non-performing, if the interest and/or instalment of principal remain overdue for a period of more than 90 days from the year ending March 31, 2004.

CRR

The cash reserve ratio (CRR) to be maintained by scheduled state co-operative banks and regional rural banks (RRBs) on total DTL has been reduced by 0.25 percentage points from 4.75 per cent to 4.50 per cent from the fortnight beginning June 14, 2003.

Penal Interest on Shortfall in CRR

All scheduled state co-operative banks and RRBs have been advised that the penal interest charged on the amount of shortfall in the maintainance of CRR, has been revised from the close of business on April 29, 2003. The revised penal interest is, bank rate plus 3 percentage points (i.e., 9.00 per cent) or bank rate plus 5 percentage points (i.e., 11.00 per cent) depending upon the duration of the shortfall.

FOREX

Supply of goods by SEZs to Units in DTA

Units in domestic tariff areas (DTAs) have now been permitted to purchase foreign exchange from ADs for making payment towards goods supplied to them by units in special economic zones (SEZs).

In November 2002, this facility was extended to units in DTAs for making payment towards goods supplied to them by 100 per cent export oriented units (EOUs), electronic processing zones (EPZs), electronic hardware technology parks (EHTPs) and software technology parks (STPs).

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