

ACM

**MEMORANDUM OF PROCEDURE FOR CHANNELING TRANSACTIONS
THROUGH ASIAN CLEARING UNION**

1. Introduction

This edition of the Memorandum details the revised procedure to be followed by the AD Category-I banks for handling transactions to be cleared through Asian Clearing Union (ACU).

2. Handling of ACU Transactions

All transactions to be cleared through the ACU will be handled by AD Category-I banks in the same manner as other normal foreign exchange transactions. All AD Category-I banks in India have been permitted to handle ACU transactions. AD Category-I banks may freely enter into correspondent arrangements with banks in the other countries participating in the Clearing Union.

3. Eligible Instruments of Payment

The Asian Monetary Units (AMUs) is the common unit of account of ACU and be denominated as 'ACU Dollar', 'ACU Euro' and, 'ACU Yen', which shall be equivalent in value to one US Dollar, one Euro and one Japanese Yen, respectively. All instruments of payment shall be denominated in AMUs. Settlement of such instruments may be made by AD Category-I banks through operation on ACU Dollar, ACU Euro and ACU Yen Accounts.

4. ACU Dollar Accounts, ACU Euro and ACU Yen Accounts

- (i) The essence of the procedure for settlement of eligible transactions through the ACU is that a large part of the transactions, as possible, should be settled directly through the accounts maintained by AD Category-I banks with banks in the other participating countries and vice versa; only the spill-overs in

either direction being required to be settled by the Central Banks in the countries concerned through the Clearing Union.

- (ii) AD Category-I banks are permitted to settle commercial and other eligible transactions in much the same manner as other normal foreign exchange transactions. The procedures for opening letters of credit, negotiation of documents, etc., in respect of trades in convertible currencies are applicable for trades routed through the ACU mechanism.
- (iii) To facilitate settlement of transactions through the ACU in this manner, AD Category-I banks may freely open with their branches/correspondents 'ACU Dollar', 'ACU Euro' and 'ACU Yen' accounts. These must be kept distinct from U.S. Dollar, Euro and Japanese Yen accounts respectively, if any, maintained for settlement of transactions taking place outside the Clearing Union. The terms ACU Dollar, ACU Euro and ACU Yen are specifically being used in order to identify the use of U.S. Dollar, Euro and Japanese Yen respectively in relation to ACU transactions. Otherwise, there is no distinction, value-wise, between ACU Dollar and the U.S. Dollar, between ACU Euro and the Euro and ACU Yen and the Japanese Yen.
- (iv) AD Category-I banks should ensure that at all times the balances maintained in the ACU Dollar, ACU Euro and ACU Yen accounts are commensurate with the requirements of their normal exchange business and funds rendered surplus should be repatriated to India regularly.

5. Mechanism for settlement through the Union

- (i) The Reserve Bank has been undertaking to receive and pay U.S. Dollars, effective 1st January 1996 and Euros, effective 1st January 2009, from/to AD Category-I banks for the purpose of funding or for repatriating the excess liquidity in the ACU Dollar and ACU Euro accounts respectively, maintained by the AD Category-I banks with their correspondents in the other participating countries. Similarly, the Reserve Bank has also been receiving and delivering U.S. Dollar and Euro amounts for absorbing liquidity or for funding the ACU Dollar (vostro) and ACU Euro (vostro) accounts respectively, maintained by the AD Category-I banks on behalf of their

overseas correspondents. The Reserve Bank shall, effective from March 06, 2020, undertake to receive and pay Japanese Yen also for both the purposes mentioned above.

- (ii) Funding of ACU Dollar, ACU Euro and ACU Yen account maintained with a correspondent bank in another ACU participant country will continue to be effected by the Reserve Bank only after receiving an intimation that equivalent amount of U.S. Dollar, Euro and Japanese Yen is being credited to its account with the Federal Reserve Bank of New York, New York, its account with the Deutsche Bundesbank, Frankfurt and Bank of India, Tokyo Branch respectively, by the AD Category-I bank on the value date. Similarly, Reserve Bank will continue to arrange for payment of US Dollar, Euro and Japanese Yen from its accounts with the Federal Reserve Bank of New York, New York, the Deutsche Bundesbank, Frankfurt and Bank of India, Tokyo Branch respectively, to the account of the correspondent of the AD Category-I bank, in case it has received intimation of surrender of surplus funds to the other participant Central Bank on behalf of the AD Category-I bank in India.

- (iii) In the case of funding of ACU Dollar, ACU Euro and ACU Yen accounts maintained by foreign commercial banks with the AD Category-I banks in India, Reserve Bank on receipt of an advice from participant Central Bank will arrange to credit U.S. Dollar, Euro and Japanese Yen amounts to the Nostro Accounts of the AD Category-I banks. The AD Category-I banks will credit the U.S. Dollar, Euro and Japanese Yen amounts to the ACU Dollar, ACU Euro and ACU Yen accounts respectively, of the foreign commercial banks of the participating countries concerned on the value date. Similarly, the AD Category-I banks will receive instructions from their overseas correspondents to surrender excess liquidity in their ACU Dollar, ACU Euro and ACU Yen accounts to the Reserve Bank. In such cases the AD Category-I banks will have to actually remit the U.S. Dollar, Euro and Japanese Yen amounts to the account of Reserve Bank with the Federal Reserve Bank of New York, New York, Deutsche Bundesbank, Frankfurt and Bank of India, Tokyo Branch respectively, on the value date and Reserve Bank will arrange to advise the other participant Central Banks to make available the U.S.

Dollar, Euro and Japanese Yen amounts to the commercial banks in their countries.

6. Applicability of Foreign Exchange Regulations

Operations conducted in and through the ACU Dollar, ACU Euro and ACU Yen accounts will be subject to compliance with all the FEMA regulations and the specific provisions of this Memorandum.

7. Eligible Payments

Transactions that are eligible to be made through ACU are payments –

- (a) from a resident in the territory of one participant to a resident in the territory of another participant;
- (b) for current international transactions as defined by the Articles of Agreement of the International Monetary Fund;
- (c) permitted by the country in which the payer resides;
- (d) not declared ineligible under paragraph 8 of this Memorandum; and
- (e) for export/import transactions between ACU member countries on deferred payment terms.

Note:- Trade transactions with Myanmar may be settled in any freely convertible currency, in addition to the ACU mechanism.

8. Ineligible Payments

The following payments are not eligible to be settled through ACU –

- (a) payments between Nepal and India and Bhutan and India;
- (b) payments which are not on account of current international transactions as defined by the International Monetary Fund, except to the extent mutually agreed upon between Reserve Bank and the other participants; and
- (c) such other payments as may be declared by the ACU to be ineligible for being channelled through the clearing facility.

9. Rate of Exchange for U.S. Dollar, Euro and Japanese Yen

Under the revised procedure, the Reserve Bank will receive and pay U.S. Dollar, Euro and Japanese Yen from/to the AD Category- banks in respect of transactions described in paragraph 5 above and there will be no corresponding payment/receipt of Indian rupees. **In other words, no exchange rates will be announced for the purpose of putting through the transactions relating to the ACU, as has been the policy since 1st January 1996.**

10. Hours of business

The hours for receiving applications for funding of ACU Dollar, ACU Euro and ACU Yen accounts in overseas participant countries or surrendering of surplus liquidity in the ACU Dollar, ACU Euro and ACU Yen accounts of their overseas correspondents maintained in India will be the regular business hours of the Reserve Bank. **No application will be received on Saturdays.**

11. Minimum and Multiple amounts for transactions with Reserve Bank

The minimum amounts and the multiples in which Reserve Bank will receive and pay U.S. Dollar/ Euro/ Japanese Yen will continue to be U.S. \$ 25,000/, € 25,000/-/ ¥ 25,000 and U.S. \$ 1,000/-, € 1, 000/-, ¥ 1,000/-respectively.

12. Procedure for business with Reserve Bank

- (i) Reserve Bank's Department of External Investments & Operations (DEIO) at Mumbai will undertake ACU transactions.
- (ii) Requests from AD Category-I banks for funding of their ACU Dollar, ACU Euro and ACU Yen accounts with commercial banks in participating countries should be made in duplicate in form ACU-1 to DEIO, Mumbai. The acceptance of the offer will be conveyed on the duplicate copy of the letter of offer. Such offers should be accompanied by confirmation that equivalent amount of US Dollar, Euro and Japanese Yen is being credited to Reserve Bank's account with Federal Reserve Bank of New York, New York, Deutsche Bundesbank, Frankfurt and Bank of India Tokyo Branch respectively, on the value date. Reserve Bank will advise the Central Bank

in the concerned participating country to deliver the contracted amount on the value date to the correspondent bank indicated by the AD Category-I bank. To obviate the possibility of delay in putting through the transaction, AD Category-I banks may inform their correspondents of the particulars of the transactions such as expected amount, value date, etc.

- (iii) AD Category-I banks may wish to repatriate the excess liquidity in their ACU Dollar, ACU Euro and ACU Yen accounts maintained with their branches / correspondents in other participating countries. They will arrange through their branches/correspondents for surrendering of such liquidity to the participant Central Bank. Upon receipt of an advice from the participant Central Bank, DEIO, Mumbai will make available U.S. Dollar, Euro and Japanese Yen on the value date through the Federal Reserve Bank of New York, New York, Deutsche Bundesbank, Frankfurt and Bank of India, Tokyo Branch.

13. Transactions between AD Category-I banks and Reserve Bank for Account of Correspondent Banks

- (i) Banks in the other participating countries may fund their accounts with AD Category-I banks in India by transfer of U.S. Dollars, Euros and Japanese Yen through their Central Banks. On receipt of transfer instructions from the concerned Central Bank, Reserve Bank will arrange to transfer the amount indicated in the transfer instruction from their account with Federal Reserve Bank of New York, New York, Deutsche Bundesbank, Frankfurt and Bank of India, Tokyo Branch to the correspondent of the AD Category-I bank. The AD Category-I bank may then arrange to credit the ACU Dollar, ACU Euro and ACU Yen account of its correspondent bank on the value date.
- (ii) Correspondent banks of AD Category-I banks may also request AD Category-I banks to transfer amounts from their ACU Dollar, ACU Euro and ACU Yen accounts to Reserve Bank for account of the Central Bank in the participating country. Requests from AD Category-I banks for repatriation of these surplus funds should be made in duplicate in form ACU-2 to DEIO, Mumbai. The acceptance of the offer will be conveyed on the duplicate copy of the letter of offer. Such offers should also be accompanied by confirmation

that equivalent amount of US Dollar, Euro and Japanese Yen is being credited to Reserve Bank account with Federal Reserve Bank of New York, New York, Deutsche Bundesbank, Frankfurt and Bank of India, Tokyo Branch respectively, on the value date. Reserve Bank will advise the participant Central Bank to provide equivalent amount of US Dollars, Euros and Japanese Yen to the concerned bank in that country.

- (iii) The AD Category-I banks must ensure that deliveries of U.S. Dollar, Euro and Japanese Yen amounts are duly made on the value date to the account of Reserve Bank with Federal Reserve Bank of New York, New York, Deutsche Bundesbank, Frankfurt and Bank of India, Tokyo Branch respectively, in respect of transactions of funding their ACU Dollar /ACU Euro/ ACU Yen account or repatriation of excess liquidity from the ACU Dollar/ACU Euro /ACU Yen vostro accounts maintained with them. If the U.S. Dollar, Euro and Japanese Yen amount is not delivered on the due date, interest will be charged at the appropriate penal rate for the number of days of default.

NOTE

Requests from AD Category-I banks to fund their ACU Dollar, ACU Euro and ACU Yen accounts with commercial banks in participating countries as well as to repatriate the excess liquidity in the ACU Dollar, ACU Euro and ACU Yen accounts of their correspondent banks maintained with them would be accepted in ACU 1 and ACU 2 formats respectively, by DEIO, Mumbai on 'Tom' basis also, in addition to 'Spot' basis. AD Category-I banks desirous of availing the facility of booking transactions on 'Tom' basis, should submit their applications to the DEIO, Mumbai **before 4.00 P.M., a day prior to Value Date.**

ACU - 1 [Paragraph 12(ii) of ACM]

(To be submitted in duplicate)

The Chief General Manager,
Reserve Bank of India,
Department of External Investments & Operations, Mumbai.

Dear Sir,

Asian Clearing Union

We, hereby undertake to deliver for the account of
the Reserve Bank of India with FRBNY/Deutsche Bundesbank, Frankfurt/ Bank of
India, Tokyo Branch with U.S.\$/ Euro/ Japanese Yen
(.....) for * Spot/Tom delivery on
(in words) (value date)

Kindly arrange to credit the foreign currency amount to our account No.....
.....with.....
(Name of correspondent bank and its Bank Identifier Code (BIC)) through
.....
(Name of participant Central Bank and office)

Yours faithfully,

Manager

strike out whichever is not necessary.

ACU – 2 [Paragraph 13(ii) of ACM]

(To be submitted in duplicate)

The Chief General Manager,
Reserve Bank of India,
Department of External Investments & Operations, Mumbai.

Dear Sir,

Asian Clearing Union

Please arrange to pay U.S. \$/ Euro/ Japanese Yen..... (.....)
(in words)

to through the Asian Clearing Union for
(Name of the Central Bank and office)

account of on
(commercial bank in participating country and its BIC) (value date)

being excess amount repatriated.

2. We undertake to deliver U.S. \$/ Euro/ Japanese Yen(.....)
(in words)

to your account with FRBNY/ Deutsche Bundesbank, Frankfurt/ Bank of India,
Tokyo Branch through our correspondents on the value date.

Yours faithfully,

Manager