

Foreign Exchange Developments

October 2007

(i) Exchange Earner's Foreign Currency (EEFC) Account- Liberalisation

In terms of the existing provisions, a person resident in India is permitted to open and maintain with an authorized dealer in India a Foreign Currency Account known as Exchange Earner's Foreign Currency (EEFC) Account subject to the terms and conditions of the Exchange Earner's Foreign Currency Account Scheme specified in the Schedule to FEMA Notification No.10

In view of the recent global and domestic developments and with a view to give an opportunity to small and medium enterprises to manage the challenges in the global markets, it has been decided, in consultation with Government of India, to permit all exporters to earn interest on EEFC accounts to the extent of outstanding balances of US \$ 1 million per exporter. Accordingly, EEFC account holders are now permitted to maintain outstanding balances to the extent of US \$ 1 million in the form of term deposits up to one year maturing on or before 31st October 2008. The rate of interest may be determined by the banks themselves.

This is a purely temporary measure and valid up to October 31, 2008 and would be subject to further review.

[AP. (DIR Series) Circular No.13 dated
October 06,2007]

(ii) Anti-Money Laundering Guidelines

In view of the difficulties expressed by Money Changers Association in implementing

some of the guidelines issued vide A P. (DIR Series) Circular No.18{AP. (FL Series) Circular No.OH dated December 2. 2005 and A P. (DIR Series) Circular No.39{A P.(FI: Series) Circular No.02} dated June 26. 2006, the following instructions have been amended:

- (a) In terms of paragraph 4 (c) of the Annex to A P. (DIR Series) Circular No.39 {A.P.(FL Series) Circular No.02} dated June 26, 2006 requests for payment in cash by foreign visitors / non-resident Indians may be acceded to the extent of USD 2000 or its equivalent. This limit has been raised to USD 3000. All other provisions of paragraph 4(c) of the Annex to the Circulars remain unchanged.
- (b) In terms of paragraph 6 of Annex to A P. (DIR Series) Circular No.18 {AP. (FL Series) Circular No.01} dated December 2, 2005, relationship with a business entity like a company / firm should be established only after obtaining and verifying suitable documents in support of the name, address and business activity, such as certificate of incorporation under the Companies Act 1956, Memorandum of Association, Articles of Association, registration certificate of a firm (if registered), partnership deed, etc. It has now been decided that in addition to the above mentioned documents, PAN Card may also be accepted as a suitable document for establishing the relationship with the company / firm. All other provisions of paragraph 6 of the Annex to

forementioned circular shall remain unchanged.

[A.P. (DIR Series) Circular No. 14 dated October 17,2007]

(iii) Booking of Forward Contracts – Liberalisation

Under the extant FEMA provisions, persons resident in India have been allowed to enter into forward contracts on the basis of underlying exposures. Further, exporters and importers have also been allowed to book forward contracts on the basis of declaration of exposures and based on past performances, subject to specified conditions.

As announced in the Annual Policy Statement for the Year 2007-08 (paras 142 and 143), with a view to provide greater flexibility to the Small and Medium Enterprises (SME) sector and resident individuals, it has been decided to further liberalise the scope and range of forward contracts to facilitate such entities to hedge their foreign currency exposures on a dynamic basis.

Small and Medium Enterprises (SMEs) (para 142)

In order to enable Small and Medium Enterprises (SMEs), having direct and/or indirect exposures to foreign exchange risk to manage their exposures effectively, it has been decided to allow AD Category - I banks to permit such entities to book/cancel/rebook/roll over forward contracts without production of underlying documents, subject to conditions.

Resident Individuals (para 143)

In order to enable resident individuals to manage/hedge their foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, it has been decided to permit them to book forward contracts, without production of underlying documents, up to a limit of USD 100,000, based on self declaration. The contracts booked under this facility would normally be on a deliverable basis. However, in case of mismatches in cash flows or other exigencies, the contracts booked under this facility may be allowed to be cancelled and re-booked. The notional value of the outstanding contracts should not exceed USD 100,000 at any time. Further, the contracts may be permitted to be booked up to tenors of one year only.

[A.P. (DIR Series) Circular No. 15 dated
October 29, 2007]

(iv) Exim Bank's Line of Credit (LOC) of USD 10 million to Government of the Republic of Senegal for IT Training Project

Export-Import Bank of India (Exim Bank) has concluded an Agreement dated July 2, 2007 with the Government of the Republic of Senegal, making available to the latter, a Line of Credit (LOC) of USD 10 million (USD Ten million) for financing exports of eligible goods and services including consultancy services for the Information Technology Training Project in the Borrower's country and which are eligible for export under the Foreign Trade Policy of the Government of India. Out of the total credit by Exim Bank under this Agreement, the goods and services of the value of at least 85 per cent of the contract price shall be supplied by the seller from India.

[A. P. (OIR Series) Circular No. 16 dated
October 31, 2007]