

**Merchanting Trade Transactions – Clarifications - Short term credit
A.P. (DIR Series) Circular No.4 (July 19, 2003)**

**Reserve Bank Of India
Exchange Control Department
Central Office
Mumbai - 400 001**

A.P. (DIR Series) Circular No.4

July 19, 2003

To

All Authorised Dealers in Foreign Exchange

Madam/Sirs,

Merchanting Trade Transactions – Clarifications - Short term credit

Attention of authorised dealers is invited to the provisions of A.P.(DIR Series) circular No.25 dated September 27, 2002 regarding simplification of procedure for financing imports into India by way of Suppliers' or Buyers' Credit. It is clarified that short term credit either by way of suppliers' credit or buyers' credit, as envisaged in the aforementioned circular is not available for merchanting trade or intermediary trade transactions.

2. While undertaking bonafide merchanting trade transactions on behalf of their trader clients, authorised dealers should ensure that the terms of payment for the import leg and the export leg of the transactions are such that :

- i) the liability for the import leg of the transaction is extinguished by the payment received for the export leg of the transaction **without any delay**; and
- ii) the entire merchant trade transaction is completed within a period of 6 months.

3. Authorised dealers may bring the contents of this circular to the notice of their constituents concerned.

4. The directions contained in this circular have been issued under section 10(4) and section 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999).

Yours faithfully,

**Grace Koshie
Chief General Manager**