

RBI/2004-05/366

A.P. (DIR Series) Circular No. 34

February 18, 2005

To,

All Scheduled Commercial Banks which are
Authorised Dealers in Foreign Exchange

Madam/Sirs,

**Import of Gold on Loan Basis – Tenor of Loan
and Opening of Stand-By Letter of Credit**

Attention of Scheduled Commercial Banks, which are authorized dealers in foreign exchange, is invited to our A.D. (G.P. Series) Circular No.7 dated March 6, 1998 and A.P. (DIR Series) Circular No.2 dated July 9, 2004 wherein nominated agencies, approved banks, Export Oriented Units (EOUs) and Units in Special Economic Zones (SEZs) were permitted to import gold under different arrangements.

2. Attention of Authorised Dealers (ADs) is also invited to para 4.77.2 and para 4.77.3 of the Foreign Trade Policy (FTP) 2004-09 of the Government of India, which states that, "the export has to be completed within a maximum period of 60 days from the date of release of gold on loan basis", and that, "The exporter shall have the flexibility to fix the price and repay the gold loan within 60 days from the date of export". The Government has now, vide Public Notice No.28 / 2004-09, dated December 1, 2004 issued by Department of Commerce, Ministry of Commerce & Industry, Government of India, enhanced the period for fixing the price and repayment of the Gold Loan to 180 days from the date of export. As a result the maximum period of gold loan becomes 240 days (i.e. 60 days for manufacture and exports + 180 days for fixing the price and repayment).

3. Banks may note to comply with the following guidelines:

(i) Nominated agencies / approved banks can import gold on loan basis for on lending to exporters of jewellery under this scheme. On the other hand EOUs and units

in SEZ who are in the Gem and Jewellery sector can import gold on loan basis for manufacturing and export of jewellery on their own account only.

(ii) The maximum tenor of gold loan would be as per the Foreign Trade Policy 2004-2009, or as notified by the Government of India from time to time in this regard. The same is 240 days at present, as per the FTP and Public Notice No.28/ 2004-09 dated December 1, 2004.

(iii) ADs may open Standby Letters of Credit (SBLC) for import of gold on loan basis, wherever required, as per FEDAI guidelines dated April 1, 2003. The tenor of the SBLC should be in line with the tenor of the gold loan. It may be noted that the SBLC can be opened only on behalf of entities permitted to import gold on loan basis, viz. nominated agencies and 100% EOUs/units in SEZ who are in the Gem and Jewellery sector. Further, the SBLC should be in favour of internationally renowned bullion banks only. ADs can obtain a detailed list of internationally renowned bullion banks from the Gem & Jewellery Export Promotion Council. All other existing instructions on import of gold and opening of Letters of Credit, with usance period not exceeding 90 days, will continue to be applicable.

(iv) ADs must maintain adequate documentation with them to uniquely link all imports with the SBLC issued for the import of gold on loan basis.

4. These guidelines are issued from the foreign exchange angle only under the provisions of FEMA, 1999 and should not be construed to convey the approval by any other statutory authority or Government under any other existing laws/regulations. If further approval or permission is required from any other regulatory authority or Government under the relevant laws/regulations, the concerned entity should take the approval of the agency concerned before effecting the transaction.

5. ADs may bring the contents of this circular to the notice of their constituents and customers concerned.

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

Yours faithfully,

(F.R. Joseph)
Chief General Manager