

September 27, 2005

To  
All Banks Authorised to Deal in Foreign Exchange

Madam/Sir,

**Import of Aircraft on Operating Lease - Security Deposits**

Attention of Authorised Dealer banks (ADs) is invited to the A.P. (DIR Series) Circular No.24 dated March 1, 2002 wherein ADs have been permitted to remit lease rentals and open letter of credit (LC) towards security deposit for acquisition of aircraft by airline companies on operating lease.

2. Airline companies in India have been approaching the Reserve Bank to allow remittances towards security deposit with lessor for payment of lease rentals without a standby letter of credit / guarantee from a reputed international bank abroad / guarantee of an AD in India against the counter-guarantee of a reputed international bank abroad [cf: para A.6 (a) of the Master Circular dated July 01, 2005 on Import of Goods and Services].

3. It has now been decided that ADs may permit airline companies (other than a Public Sector company or a Department/Undertaking of the Government of India/State Government/s) to remit up to USD 1,000,000 (US Dollar one million only) per aircraft towards security deposit (for payment of lease rentals) with lessor for import of aircraft / aircraft engine / helicopter on operating lease without a standby letter of credit or a guarantee from a reputed international bank abroad or a guarantee of an AD in India against the counter-guarantee of a reputed international bank abroad subject to following conditions:

- (i) The AD is satisfied about the bona fides of the transaction.
- (ii) The airline company has obtained necessary approval from appropriate authority like Ministry of Civil Aviation/Director General of Civil Aviation, Government of India for importing the aircraft/helicopter on operating lease.
- (iii) Remittance is permitted as per the Policy on Advance Remittances approved by the Board of Directors of the bank or with the specific approval of the Board of Directors of the bank.
- (iv) The final maturity of the security deposit should not be beyond the date of the last instalment towards lease rental or date of return of the aircraft / helicopter to the lessor, whichever is later. If required, the deposit amount may be adjusted towards lease rentals. However, the balance security deposit, if any, should be repatriated before expiry of the lease period.

4. In case of an airline company in the Public Sector or a Department/Undertaking of the Government of India/State Government/s, ADs may permit remittance of amount exceeding USD 1,00,000 (US Dollar one hundred thousand only) per aircraft towards security deposit (for payment of lease rentals) with lessor subject to conditions (i) to (iv) in paragraph 3 above and a specific waiver of bank guarantee from the Ministry of Finance, Government of India.

5. Authorised Dealer banks 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 sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

**(Vinay Baijal)**  
**Chief General Manager**