

August 21, 2008

To

All Authorised Dealer Category – I Banks

Madam / Sir,

Foreign Exchange Management Act, 1999-
Advance Remittance for Import of Goods - Liberalisation

Attention of Authorised Dealer Category – I (AD Category-I) banks is invited to A. P. (DIR Series) Circular No.106 dated June 19, 2003 and A. P. (DIR Series) Circular No.15 dated September 17, 2003, in terms of which –

- (i) AD Category – I banks are permitted to make advance remittance without any limit on behalf of their importer constituents for import of goods [cf paragraph A.6 of A. P. (DIR Series) Circular No.106 dated June 19, 2003].
- (ii) For advance remittance exceeding USD 100,000 or its equivalent, AD Category – I banks are required to obtain an unconditional, irrevocable standby Letter of Credit or a guarantee from an international bank of repute situated outside India or a guarantee of an AD Category – I bank in India, if such a guarantee is issued against the counter guarantee of an international bank of repute situated outside India [cf paragraph A.6 (a) of A. P. (DIR Series) Circular No.106 dated June 19, 2003].
- (iii) In cases where the importer (other than a Public Sector Company or a Department / Undertaking of the Government of India / State Government) is unable to obtain bank guarantee from overseas suppliers and the AD Category – I bank is satisfied about the track record and bonafides of the importer, the requirement of the bank guarantee / standby letter of credit may not be insisted upon for advance remittance up to USD 1,000,000 or its equivalent. AD Category – I banks may frame their own internal guidelines to deal with such cases as per a suitable policy framed by the bank's Board of Directors [cf A. P. (DIR Series) Circular No.15 dated September 17, 2003].

2. With a view of simplifying the procedures, it has been decided to enhance the limit of USD 1,000,000 mentioned in paragraph (iii) above to USD 5,000,000 or its equivalent, with immediate effect.

3. All payments towards advance remittance for imports shall be subject to the following conditions :

a) The importer is a customer of the AD Category – I bank.

b) The customer's account is fully compliant with Reserve Bank's extant KYC / AML guidelines. KYC and due diligence exercise should be done by the AD Category - I banks for the Indian importer entity as well the overseas manufacturer / supplier.

c) The AD Category - I banks should undertake the transactions based on their commercial judgment and after being satisfied about the bonafides of the transactions.

d) Advance payments should be made strictly as per the terms of the sale contract and should be made directly to the account of the manufacturer / supplier concerned.

e) Physical import of goods into India should be made within six months (three years in case of capital goods) from the date of remittance and the importer should give an undertaking to furnish documentary evidence of import, within fifteen days from the close of the relevant period.

f) AD Category – I banks should follow up submission of documentary evidence for import into India.

g) In the event of non-import of goods, AD Category – I banks should ensure that the amount of advance remittance is repatriated to India or is utilised for any other purposes for which release of exchange is permissible under the Act, Rules or Regulations made there under.

5. The other instructions issued vide A. P. (DIR Series) Circular No.106 dated June 19, 2003 and A. P. (DIR Series) Circular No.15 dated September 17, 2003 shall remain unchanged.

6. Advance remittance for import of rough diamonds and import of aircraft/helicopters/other aviation related products shall be governed by the instructions issued vide A. P. (DIR Series) Circular No. 34 dated March 2, 2007, A. P. (DIR Series) Circular No.77 dated June 29, 2007 and A. P. (DIR Series) Circular No. 08 dated August 21, 2008 issued in this regard.

7. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

8. 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) and is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

(Salim Gangadharan)
Chief General Manager-in-Charge