



भारतीय रिजर्व बैंक

RESERVE BANK OF INDIA

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RBI/2013-14/568

DBOD.No.BP.BC.107/21.04.048/2013-14

April 22, 2014

The Chairman and Managing Director/Chief Executive Officer
All Scheduled Commercial Banks
(Excluding Local Area Banks and Regional Rural Banks)

Dear Sir,

**Fund/Non-Fund based Credit Facilities to
Overseas Joint Ventures / Wholly Owned Subsidiaries /
Wholly owned Step-down Subsidiaries of Indian Companies**

Please refer to our circular [DBOD.IBD.BC.No.96/23.37.001/2006-07 dated May 10, 2007](#), in terms of which banks were permitted to extend fund/non-fund based credit facilities to overseas Joint Ventures (JV)/Wholly Owned Subsidiaries (WOS)/Wholly owned Step-down Subsidiaries (WoSDS) of subsidiaries of Indian companies upto 20 per cent of their unimpaired capital funds (Tier I and Tier II capital) subject to certain conditions. The resource base for such lending should be funds held in foreign currency accounts, such as FCNR(B), EEF, RFC etc., in respect of which banks have to manage the exchange risk.

2. Further, as per paragraph 5(b) of Notification No.FEMA 8/2000-RB dated May 3, 2000, Authorised Dealer Banks were permitted to extend guarantees to or on behalf of overseas JV/WOS of an Indian company in connection with its business. In terms of [A.P. \(DIR Series\) Circular No.29 dated March 27, 2006](#), guarantees issued by banks in India in favour of overseas JV/WOS of Indian companies would be subject to prudential norms issued by the Reserve Bank from time to time.

3. The above measures were intended to assist Indian companies in their overseas business. However, it has been observed that banks are extending non-fund based credit facilities like guarantees/stand-by letter of credits/letter of comforts etc. on behalf of JV/WOS/WoSDS for purposes which are not connected with their business, rather, in certain cases, used to avail foreign currency loans for repayment of Rupee loans.

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हिंदी आसान हैं, इसका प्रयोग बड़ाइए

4. Accordingly, it is advised that, banks, including overseas branches/subsidiaries of Indian banks, shall not issue standby letters of credit/guarantees/letter of comforts etc. on behalf of overseas JV/WOS/WoSDS of Indian companies for the purpose of raising loans/advances of any kind from other entities except in connection with the ordinary course of overseas business. We further advise that while extending fund/non-fund based credit facilities to overseas JV/WOS/WoSDS of Indian companies in connection with their business, either through branches in India or through branches/subsidiaries abroad, banks should ensure effective monitoring of the end use of such facilities and its conformity with the business needs of such entities.

5. In terms of circular [A.P. \(DIR Series\) Circular No.134 dated June 25, 2012](#), Indian companies in the manufacturing and infrastructure sector were allowed to avail of external commercial borrowings (ECBs) for repayment of Rupee loans availed of from domestic banking system and / or for fresh Rupee capital expenditure, under the approval route, subject to satisfying certain conditions. However, if the ECB is availed from overseas branches/subsidiaries of Indian banks, the risk remains within the Indian banking system. It has, therefore, been decided that repayment of Rupee loans availed of from domestic banking system through ECBs extended by overseas branches/subsidiaries of Indian banks will, henceforth, not be permitted.

6. As per instructions contained in paragraph 4(1)(i) of [Notification No.FEMA 8/2000-RB dated May 3, 2000](#), Authorised Dealer Banks have been allowed to issue guarantees in respect of a debt, obligation or other liability incurred by an exporter, on account of exports from India. It was intended to facilitate execution of export contracts by the exporter and not for other purposes. It has, however, come to our notice that some exporter borrowers are using export advances, received on the strength of guarantees issued by Indian banks, for repayment of loans availed of from Indian banks. This is a clear violation of our instructions except in cases where banks have received approvals under FEMA and banks are advised to desist from such practices.

Yours faithfully,

(Rajesh Verma)
Chief General Manager