TEACH YOURSELF - CAIIB

SMALL & QUICK BOOK FOR CAIIB-III

(ONLY 85 PAGES BOOK COVERS BOTH THEORY & MCQ – ONLY 10 HOURS REVISION TO GET MORE THAN 60% MARKS WITH RECALLED & EXPECTED QUESTIONS)

INTERNATIONAL BANKING

(CAIIB PAPER -3: ELECTIVE)

(For 17.12.2017 Examination)

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Preface

Dear Friends,

The Globalization has opened up World Economy & the distances between Buyer & Seller are reduced considerably. The other effect which is witnessed in this scenario is banking. Hitherto, to maintain Bank account /to operate account, the customer had to visit Branch frequently. This is now reduced as Customer can open account Online, get Statement of account online & request for Cheque book on line. He has to visit Bank branch only for submitting KYC Documents & other documents.

Indian Banking is in its most exciting phases. The impact of liberalization has been wide spread and has thrown up both challenges and opportunities for bankers. Ever increasing competition is a part of professional life and the banker who is ahead of his peers in terms of knowledge skill, technology and quick response will be the winner.

Banking/Financial sector in our country is witnessing a sea change and banker's business has become more complex & difficult in this driven era of knowledge & technology. There are mass retirements happening due to superannuation & many new recruits are joining the Bank. More than 60% staff strength is newly recruited in last five to six years.

An official working in the Banking sector has to keep pace with Updated knowledge, skills & attitude, as the same is required everywhere. Employees play vital role in Banking/service organizations and they need to be transformed into Knowledge Assets to remain competitive in the dynamic environment and it is more so with Banks as they are very service sensitive. Thus it is imperative for the bank staff to serve the clientele with updated information of bank's products & services to accomplish corporate objectives.

This book titled **"TEACH YOUR SELF – CAIIB : Small & Quick Book"** is first version has many unique features to its credit & consists of all topics/latest syllabus required for CAIIB examination with clear concept & simple language with latest changes during 2017-18 (as per IIBF/ JAIIB exams. requirement) also included. This Book is divided into three modules namely Theory, MCQs & Case studies based on latest IIBF syllabus for Elective papers of CAIIB for exam. Dec. 2017. It has been seen that last so many years in CAIIB/IIBF Examination, nearly 75-85% questions are very general in nature and in this regard this book is of immense use. **Generally 60-65% theory based (knowledge Testing / conceptual grasp) and 35-40% case study / problem solving/Analytical /Logical exposition**. **This book is only 93 page books for last 6-8 hours revision to get more than 60% marks and also very helpful in solving all types of questions**. The book is prepared based on last more than 15 years of experience and pattern of questions asked in the examination. It is quickest book both for revision and fresh preparations (Only twenty four hour books) to get good scores.

All possible care is taken to provide error free information, however, readers may note that the information given herein is merely for guidance/reference and they need to refer the relevant circulars & Manuals for full details.

I express my sincere thanks to friends/colleagues for their support in encouraging the idea and contributing the required resources for release of this **TEACH YOUR SELF – CAIIB: Small & Quick Book**.

I solicit your views on the content and quality of the topics for further improvement.

I wish you all the Success and hope the study material will help in achieving the goal.

Date: 13.12.2017

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About the Author

Mr. Sanjay Kumar Trivedy (Native: Motihari, Bihar), Presently working as Chief Manager (Scale-IV) in Canara Bank, Shrigonda branch in Ahmednagar distt. of Maharashtra state. He Joined Canara Bank as DRO/PO (AEO) on 10.03.1997 and and worked in various places, starting from Maujgarh branch (1997-2000), Near Abohar(Punjab), Sirsa Main- Haryana (2000-2004), BMC, Jalandhar (2004-2006) Toiladungari, Sakchi, Jamshedpur(2006-2009), Jhalak near Chaibasa (2009-2011), J B Nagar, Andheri East , Mumbai (2011-2013) and then Faculty as well as College in charge (Principal) in Regional Staff Training College, Mumbai (2013-2016), Govt.Link Cell, Nagpur (01.05.2016 to 15.07.2017), Itwari Branch, Nagpur (17.07.2017 to 15.09.2017) and then Shrigonda Branch (Since 16.09.2017….).He won more than 200 awards in various fields of Banking by his Bank – Canara Bank, which includes twice gold coin for CASA mobilization. His best achievement was as an officer/AEO, he converted his Section: Agril Finance into Hi-tech Agril. Branch at BMC, Jalandhar and while working in Jhalak branch near Chaibasa (Jharkhand), won twice best rural banker award from NABARD during 2009-10 &2010-11 in SHG credit linkage & Farmers Club Formation. During this journey started from 1997 to till date he worked in almost all area of Banking.

Mr. Sanjay Kumar Trivedy is M.Sc. (Agril), CAIIB, PGDCA, MBA, MBA (Finance),Diploma (IIBF) in Rural Banking, Treasury, Investment and Risk Management, Commodity Derivatives for Bankers, Advanced Wealth Management, Certificate (IIBF) in Trade Finance, Certificate in Anti-Money Laundering / Know Your Customer, Certificate Examination in SME Finance for Bankers, Certificate Examination in Customer Service & Banking Codes and Standards, Certificate Examination in CAIIB - Elective Subjects (Retail Banking & Human Resource Management) & Certificate Examination in Microfinance

Mr. Sanjay Kumar Trivedy has teaching experience of more than 16 years, from Sirsa Main Branch (2000-2004) , he started teaching to his colleagues/staff and in this long journey he has given good results both in Promotion test as well as JAIIB /CAIIB examination. He has taken IIBF-JAIIB & CAIIB classes at Mumbai. He has compiled/authored more than 20 books in last three years related banking - JAIIB, CAIIB, Book on Promotion Test (all cadres), Interview , Drishti (Current Banking Topics –Interview book for Scale iv & above), Group Discussion, Certificate course on Customer Service & BCSBI, AML& KYC, MSME Finance for Bankers, Book on Abroad Posting, Confirmation Test for PO, Banking & Technology and many more books on day today banking and many more in the offing.

Mr. Sanjay Kumar Trivedy is working in a mission mode to reduce knowledge gap among bankers with objective to provide educational support free of cost to all in general and bankers in particular with objective to empower Banker colleagues specially young banker who join the bank in last more than one decade for their better productivity, Sense of satisfaction, Customer delight with ultimate increase of quality banking business for their organisations.

He can be only contacted through e-mail: sktiibf@gmail.com & whatsapp no. : 9987519725

The best way to find yourself is to lose yourself in the service of others - Mahatma Gandhi

INTERNATIONAL BANKING - INDEX

There are certain breakthrough moments when you began to think & See the field differently

(Please send Memory based questions on sktrivedycan@gmail.com; sktrivedyiibf@gmail.com)

1. ABOUT CAIIB EXAMINATION

OBJECTIVE :

CAIIB aims at providing advanced knowledge necessary for better decision making covering Treasury Management, Risk Management, Balance Sheet Management, Credit Management, International Banking, Economic Analysis etc.

ELIGIBILITY :

Candidates must have completed JAIIB or PART-1 of the Associate Examination, and their membership subscription should not be in arrears.

SUBJECTS OF EXAMINATION :

I. Compulsory Paper

1. Advanced Bank Management
2. Bank Financial Management

II. Elective Papers (Candidates to choose any one of their Choice)

1. Corporate Banking
2. Rural Banking
3. International Banking
4. Retail Banking
5. Co-operative Banking
6. Financial advising
7. Human Resources Management
8. Information Technology
9. Risk Management
10. Central Banking
11. Treasury Management

There is no exemption in any of the above subject/s for prior qualification/s.

The Institute has introduced electives to give opportunities for candidates to specialize in the vertical of their choice. Candidates may choose the elective in the area they are currently working or in the area they would like to work in future. It is suggested that the candidates may choose the elective in the area they are currently working and later move to other elective as this will enable appropriate skills / build up for handling different banking verticals.

PASSING CRITERIA :

1. Minimum marks for pass in the subject are 50 out of 100.
2. Candidates securing at least 45 marks in each subject with an aggregate of 50% marks in all subjects of examination in a single attempt will also be declared as having completed the Examination.
3. Candidates will be allowed to retain credits for the subject they have passed in a attempt till the expiry of the time limit for passing the examination as mentioned below:

TIME LIMIT FOR PASSING THE EXAMINATION :

1. Candidates will be required to pass the examination within a time limit of 2 years (i.e. 4 consecutive attempts).
2. Candidates not able to pass examination within stipulated time period of two years are required to re-enroll themselves afresh. Such candidates will not be granted credit/s for subject/s passed, if any, earlier.
3. Time limit of 2 years will start from the date of application for First attempt. Attempts will be counted irrespective of whether a candidate appears at any examination or otherwise.

EXAMINATION FEES :

Description	Fee
First attempt fee	Rs. 2,700/ Plus convenience charges and Taxes as applicable
2nd attempt fee	Rs. 1,000/ Plus convenience charges and Taxes as applicable
3rd attempt fee	Rs. 1,000/ Plus convenience charges and Taxes as applicable
4th attempt fee	Rs. 1,000/- Plus convenience charges and Taxes as applicable

Please Note : Candidates are required to Register for every attempt separately As a measure to streamline the traffic for registration, Institute will charge regular examination fee to candidates who registers for the examination during the regular open period fro registration. **For the extended days of registration, late fee of Rs.200 plus taxes, will be charged in addition to regular examination fee.** This extended days of registration, also gives candidates addition opportunity to register for the examination, having missed the regular open period of registration. The fee once paid will **NOT** be refunded or adjusted on any account.

MEDIUM OF EXAMINATION :

Candidates are allowed to attempt the examination either in Hindi or English, and should clearly fill in their choice of medium at the time of registration of application. In any case change of medium will not be allowed at a later stage.

PATTERN OF EXAMINATION :

(i) Question Paper will contain 100 objective type multiple choice questions for 100 marks including questions based on case studies

/ case lets. The Institute may however vary the number of questions to be asked for a subject. Generally 60-65% theory based (knowledge Testing / conceptual grasp) and 35-40% case study / problem solving/Analytical /Logical exposition.

(ii) The examination will be held in Online Mode only

(iii) There will NOT be negative marking for wrong answers.

(iv) Questions for the examination will be asked for :

(i) Knowledge testing (iv) Problem solving

(ii) Conceptual grasp (v) Case analysis

(iii) Analytical / logical exposition

DURATION OF EXAMINATION :

The duration of the examination will be of 2 hours. **PERIODICITY AND EXAMINATION CENTRES :**

a) Examination will be conducted on pre-announced dates published on IIBF Web Site. Institute conducts examination on half yearly basis, however periodicity of the examination may be changed depending upon the requirement of banking industry.

b) List of Examination centers will be available on the website. (Institute will conduct examination in those centers where there are 20 or more candidates.)

"CLASS OF PASS" CRITERIA :

1. The Institute will consider the FIRST PHYSICAL ATTEMPT of the candidate at the examination as first attempt for awarding class. In other words, the candidate should not have attempted any of the subject/s pertaining to the concerned examination any time in the past and has to pass all the subject as per the passing criteria and secure prescribed marks for awarding class. Candidates re-enrolling for the examination after exhausting all permissible attempts as per the time limit rule will not be considered for awarding class.
2. First Class : 60% or more marks in aggregate and pass in all the subjects in the FIRST PHYSICAL ATTEMPT
3. First Class with Distinction: 70% or more marks in aggregate and 60 or more marks in each subject in the FIRST PHYSICAL ATTEMPT.

PROCEDURE FOR APPLYING FOR EXAMINATION :

Application for examination should be registered online from the Institute's website www.iibf.org.in. The schedule of examination and dates for registration will be published on IIBF website.

STUDY MATERIAL / COURSEWARE :

The Institute has developed a courseware to cover the syllabus. The courseware(book) for the subject/s will be available at outlets of publisher/s. Please visit IIBF website www.iibf.org.in under the menu "Exam Related" for details of book/s and address of publisher/s outlets. Candidates are advised to make full use of the courseware. However, as banking and finance fields are dynamic, rules and regulations witness rapid changes. Therefore, the courseware should not be considered as the only source of information while preparing for the examinations. Candidates are advised to go through the updates put on the IIBF website from time to time and go through Master Circulars/ Master Directions issued by RBI and publications of IIBF like IIBF Vision, Bank Quest, etc. All these sources are important from the examination point of view. Candidates are also to visit the websites of organizations like RBI, SEBI, BIS, IRDAI, FEDAI etc. besides going through other books & publications covering the subject / exam concerned etc. Questions based on current developments relating to the subject / exam may also be asked. **Cut-off Date of Guidelines / Important Developments for Examinations :**

The Institute has a practice of asking questions in each exam about the recent developments / guidelines issued by the regulator(s) in order to test if the candidates keep themselves abreast of the current developments. However, there could be changes in the developments / guidelines from the date the question papers are prepared and the dates of the actual examinations.

In order to address these issues effectively, it has been decided that:

(i) In respect of the examinations to be conducted by the Institute for the period February to July of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 31st December will only be considered for the purpose of inclusion in the question papers".

(ii) In respect of the examinations to be conducted by the Institute for the period August to January of a calendar year, instructions / guidelines issued by the regulator(s) and important developments in banking and finance up to 30th June will only be considered for the purpose of inclusion in the question papers.

The table given below further clarifies the situation.

Particulars	Cut-off Date of Guidelines / Important Developments for Examination/s
or the examinations to be conducted by the Institute for the period February 2017 to July 2017	31st December 2016
For the examinations to be conducted by the Institute for the period August 2017 to January 2018	30th June 2017

TYPES OF QUESTIONS

100 Objective Type Multiple Choice Questions - carrying 100 marks – 120 minutes and question will be based on Knowledge Testing,

Conceptual Grasp, Analytical / Logical Exposition, Problem Solving & Case Analysis.

Type of Questions – Basically four types of Multiple Choice Questions asked in Exam of Which Type – A : Knowledge/Concept based Straight Questions (40-50 QUES - 0.5 MARKS EACH) ; Type – B : Problems & Solutions (15-20 QUES - 1.0 MARKS EACH); Type – C : Applied theory based Questions (15-20 QUES - 2.0 MARKS EACH) ; Type – D : Case Study & Case-lets based Questions (10-15 QUES - 2.0 MARKS EACH)

QUESTIONS MODELS : TYPES OF QUESTIONS

Type – A : MULTIPLE CHOICE – QUESTIONS & ANSWERS

The Best Method for assessing working capital limit used by the bank for seasonal Industries is :

1. Operating Cycle Method, 2. Projected Networking Method, 3. Projected Turn over Method & 4. Cash Budget Method

Type – B : MULTIPLE CHOICE – PROBLEMS & SOLUTIONS

Mr. Ram Kumar is having overdraft account with Canara bank upto Rs.100,000. The present Debit Balance in the account was Rs. 80550.00. The bank has received attachment order from Income tax deptt. For Rs. 16,200.00. What can the bank do in this situation ?

- Unless the bank is a debtor, there can be no attachment and an unutilized overdraft account does not render the bank a debtor (but creditor) & hence can not attach.

Type – C : MULTIPLE CHOICE – APPLIED THEORY – QUES. & ANS

Financial Institution wish to have the money lent by them repaid in time. Secured advances sanctioned by banks possess what kind of security ?

- Secured Advances have impersonal security i.e. Tangible Security

Type –D : MULTIPLE CHOICE – CASE STUDIES & CASE LETS (PROBLEMS & SOLUTIONS)

Economic development of a country to a large extent depends upon Agril. & Industrial sectors. Development of agril. Depends upon irrigation facilities while industrial development on availability of power,good transport and fast communication facilities. All these are called infrastructure. Read the caselet & explain which industries constitute infrastructure ?

a. Energy, Transport & Communication

b. Irrigation, construction of bridges & dams over Rivers & stable govt. at Centre.

c. Availability of Funds for PMEGP , SJSRY & Indira Awas Yojana

CAIIB EXAMINATION –DEC 2017

Examination DATE	TIME	SUBJECTS
03/12/2017 Sunday	ONLINE - Will be given in the admit Letter	Advanced Bank Management
10/12/2017 Sunday	ONLINE - Will be given in the admit Letter	Bank Financial Management
17/12/2017 Sunday	ONLINE - Will be given in the admit Letter	Corporate Banking Rural Banking International Banking Retail Banking Co-operative Banking Financial Advising Human Resources Management Information Technology Risk Management Central Banking Treasury Management

2. SYLLABUS: CAIIB ELECTIVE PAPER – III

INTERNATIONAL BANKING

SYLLABUS:

The details of the prescribed syllabus which is indicative are furnished in the booklet. However, keeping in view the professional nature of examinations, all matters falling within the realm of the subject concerned will have to be studied by the candidate as questions can be asked on all relevant matters under the subject. Candidates appearing for the examination should particularly prepare themselves for answering questions that may be asked on the latest developments taking place under the various subject/s of the said examination although those topics may not have been specifically included in the syllabus. The Institute also reserves to itself the right to vary the syllabus / rules / fee structure from time to time. Any alterations made will be notified from time to time. Further, questions based on current developments in banking and finance may be asked. Candidates are advised to refer to financial news papers / periodicals more particularly "IIBF VISION" and "BANK QUEST" published by the Institute

Module - A: International Banking and Finance

1) International Banking

i) Global Trends and developments in International Banking
ii) International Financial Centres, Offshore Banking Units, SEZs.
iii) Profitability of International Banking operations
iv) Correspondent Banking and inter - Bank Banking
v) Investment Banking, Wholesale Banking, Retail Banking, Merchant Banking
vi) International Financial Institutions : IMF, IBRD, BIS, IFC, ADB
vii) Legal and regulatory aspects
viii) Risk Management

2) International Finance

i) Fundamental Principles of Lending to MNCs, documentation and Monitoring
ii) International Credit Policy Agencies and Global Capital Markets
iii) Raising resources : Availability features and risks of various Equity and debt products like ECBs, ADRs, ECCBs and other types of Bonds etc, Syndication of loans
iv) Project and infrastructure Finance : Investments both in India (FII & FDI) and abroad, Joint ventures abroad by Indian Corporates. Investment opportunities abroad for resident Indians.
v) Financing of mergers and acquisitions

Module - B : Foreign Exchange Business

i) Foreign Exchange Management Act (FEMA) and its philosophy
ii) Different types of Exchange Rates
iii) RBI and FEDAI : their role in regulating Foreign Exchange Business of Banks / other Authorised Dealers.
iv) Rules regarding rate structure, cover operations, dealing room activities and risk management principles, including correspondent Bank arrangements.
v) NRI customers and various banking and investment products available to them under FEMA.
vi) Remittance facilities

Module - C : International Trade

1) Regulations covering international trade

i) Various Aspects of International Trade, Government policies, DGFT and their schemes, Customs procedures, Banks' role in implementing these policies and schemes

ii) WTO- its impact

iii) Balance of payment, balance of trade, Current account and capital account convertibility.

iv) Documents used in Trade : bill of exchange, invoice, Bill of lading, Airways bill, Insurance policy etc.

v) Role of Banks in foreign Trade

vi) Letters of credit; importance in international trade, various types of LCs, settlement of disputes, UCP 600, INCOTERMS.

vii) Exchange control relating to foreign trade. Returns required to be submitted to RBI

2) Import / Export Finance

i) Laws governing trade finance viz, FEMA, NIAct, Indian stamp Act, EXIM policy, RBI / FEDAI guidelines

ii) Role of Banks, including EXIM Bank, in financing Foreign Trade, various facilities to Exporters and importers including project finance, Forfaiting and Factoring

iii) Risks involved in foreign trade finance : Country risk, Currency risk, Exchange risk, legal risk etc, Role of ECGC.

Module - D : Derivatives

1. Treasury operations of banks and corporates
2. Derivatives as hedging instruments, types of instruments available in Indian Market.
3. RBI rules and guidelines regarding derivatives
4. Mathematics of derivative valuation and pricing
5. Risk assessment of derivatives, Lessons from recent crisis in derivatives market

3. THEORY PART- INTERNATIONAL BANKING

Foreign Exchange is a commodity. Forex transactions (sale/purchase) are regulated in India under : FEMA 1999.Objective of FEMA: To facilitate external trade and orderly management and development of inter-bank forex markets in India. Inter-bank forex market regulated in India by : RBI. Inter-bank forex market timing: 9 am to 5 pm (Saturday-closed).Foreign Currency rates are fixed in India by: Market forces of demand and supply (Higher demand - higher rate).Foreign trade is regulated by: DGFT. In India direct rates is used W.e.f. 1.8.1993.

The world trade, export and import of commodities, cross-border movement of manpower and capital, travel and tourism and export of services, all necessitate the need for exchange of currency of one country to the currency of another country. The export of goods manufactured in India, to USA, is paid in US dollars, where the exporter needs to convert the USD proceeds of the bill into Indian rupees. Similarly, import of capital goods from Germany into India, billed in Euro, is to be paid in Euro, by converting Indian rupees into Euro. Thus conversion of currencies from the currency of invoice to the home currency of the exporters will be generally required for all cross border trades. *This is Foreign Exchange.* For the Indian exporter or the importer, the US dollars or Euro is foreign exchange, while for the American (buyer of Indian goods) or the German (seller of capital goods), Indian rupee is foreign exchange. Thus, in today's world, when nations push for greater inflow or outflow of goods, capital or services, foreign exchange has become an integral part of the world financial system. The term Foreign Exchange is more broadly used to denote foreign currency, i.e. currency of any country, as well as the exchange of currency of one country into that of another.

Foreign Exchange is a commodity. Forex transactions (sale/purchase) are regulated in India under : FEMA 1999.Objective of FEMA: To facilitate external trade and orderly management and development of inter-bank forex markets in India. Inter-bank forex market regulated in India by : RBI. Inter-bank forex market timing: 9 am to 5 pm (Saturday-closed).Foreign Currency rates are fixed in India by: Market forces of demand and supply (Higher demand - higher rate).Foreign trade is regulated by: DGFT. In India direct rates is used W.e.f. 1.8.1993,.

MEANING OF FOREIGN EXCHANGE

As per Foreign Exchange Management Act 1999, foreign exchange means: "the foreign currency and includes deposits, credits and balance payable in any foreign currency, drafts, travellers cheques, letter of credit or bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency, drafts, travellers cheques, letter of credit or bills of exchange drawn by banks, institutions or persons outside India, but payable in Indian currency".

In other words, the foreign exchange stock include foreign currency assets, balances kept abroad, instruments payable in foreign currency and instruments drawn abroad but payable in Indian currency. *In exchange rate system, the foreign currencies are just like commodities having varying prices. These currencies are sold and purchased to settle transactions between various parties in various countries.*

FEATURES OF FOREIGN EXCHANGE MARKETS

Foreign exchange markets are composed of individuals, business organisations, banks, investors, users, arbitrageurs etc. who buy or sell foreign exchange. The features of these markets are:

- ✓ These markets exist around the globe.
- ✓ There are no boundaries for the markets as the markets are communication system based.
- ✓ The markets are very dynamic and by an estimate, there is fluctuation every 4 second or even earlier.
- ✓ The markets open Monday through Friday (Saturday and Sunday being closed days).
- ✓ In India, the inter-bank markets open at 9 a.m. and close at 5 p.m:
- ✓ The markets operate round the clock in one or other part of the globe due to different time zones.
- ✓ Geographically the markets extend from Tokyo & Sydney in the East to London & New York in the West.
- ✓ When the European markets open, there is already launch time for Indian markets. When Indian markets close, the US markets are about to open. Just before close of US markets, the Tokyo or Singapore markets are about to open.
- ✓ Participants in FC markets : (a) Central Banks (b) commercial banks (c) investment banks or funds (d) foreign exchange brokers (e) companies and (f)

FACTORS DETERMINING EXCHANGE RATES These factors can be (i) Fundamental reasons (2) Technical reasons (3) Speculation.

Fundamental Reasons: These affect the basic economic and monetary policies of Govt. They normally affect the long term rates and include:

- ✓ Balance of payment position of the country (surplus leads to stronger currency and deficit weakens a currency).
- ✓ Economic growth rate of the GDP of the country (high growth rate leads to imports and fall in value of the currency)
- ✓ Fiscal policy followed by the country (expansionary policy leads to high economic growth).
- ✓ Monetary policy of the country.
- ✓ Interest rate structure prevalent in the country (high domestic rates lead to appreciation in currency rate).

Technical Reasons:

- ✓ Govt. controls — Lead to unrealistic value of a currency resulting in violent rates.
- ✓ Freedom on capital movement or restrictions on capital movement. (capital moves from low yielding
- ✓ to higher yielding currencies and affect the currency rates.
- ✓ Speculation : Expectation of devaluation of currency — speculators will short sell the currency and buy back at a low rate later on. Speculative transactions provide depth and liquidity to the market.

EXCHANGE RATE MECHANISM

Exchange rate is the rate at which one currency is converted into another currency (1 USD = Rs.5o.55). The price of one currency (USD here), is quoted in terms of another (Rs.). Exchange rate is a very dynamic rate and varies from minute to minute across the world, for a no. of reasons.

Liberalisation - During 1991 there was devaluation of rupee in 2 stages and wef March 1, 1992 liberalised exchange rate management system (LERMS) was introduced. Resultantly all forex transactions are put through by Authorised Dealers at market determined rates of exchange. All FEX receipts are to be retained by ADs without surrendering to RBI and all FEX receipts and payments are regulated by Exchange Control.

Direct quotation - From 1993 dollar has been the intervention currency and the method of quotation has been changed to Direct method wef Aug 1, 1993.

Buying & Selling Rates

An authorised dealer makes purchases of foreign currency (FC) and also sells it. When a bank purchases FC it is referred to as a purchase transaction for FC concerned (inflow of FC) on which buying rate is used. Encashment of a `travellers' cheque by a bank, is a purchase transaction as in such transaction, the bank acquires FC and parts with the home currency.

When a bank sells FC it acquires home currency and parts with FC (outflow of FC) on which selling rate is used. Issuing of a travellers' cheque is a sale transaction.

DIFFERENT TYPES OF EXCHANGE RATES

Fixed Rates: It is official rate fixed by monetary authority of a country (RBI in India). It is fixed to one or more currencies.

Floating Rate: It is a system where the exchange rates are determined by the conditions of demand for and supply of the forex in the market. The rates fluctuate freely in the line with the demand and supply without any restrictions on buying and selling. Under this rate no par value is declared.

Flexible Rate: In this system the exchange rate is fixed but it is frequently adjusted in line with the market conditions.

Inter-Bank Rates : In the inter-bank market, the rates are quoted both for the buying and selling the currency *like* (43.20/40), that indicates that for one $, the market buying rate is F.s.43.20 and the selling rate Rs.43.4o. The quoting bank indicates that it is ready to buy dollar at Rs.43.20 and sell at

The thumb rule for the bank is "by low and sell high". This indicates the said bank would pay lesser amount of rupees when dollars are purchased and take more rupees, while selling the same.

Bid And Offered Rates or 2-Way Rates : Banks quote 2 FC rates. One of these is the rate at which bank is ready to buy (bid rate) and the other is the rate at which bank is ready to sell (offered rate). In quotation for USD = 43.20/30, the first part (43.20) is the purchase rate of the bank and the 2nd pa,t (43.30) is the selling rate. .

Card Rates: Card rates are calculated at the beginning of each day, based on the current rates in the inter-bank market and cross rates in the international market. The rates are quoted by the authorized dealers to the clients for various currencies for different kinds of transactions i.e. buying and selling of cheques, drafts etc From spot rates and forward margins in various currencies, the banks able to calculate the rates which are conveyed to branches.

Cross Rates : When rate for a particular currency is not available, it can be calculated through another common currency, which is called cross rate mechanism.

For example USD/INR rate is Rs.46.00/10 and GBP/USD is 1.6000/10. The GBP/INR rate shall be 73.6000/8061 (calculated as 46 x 1.60 = 73.60 and 46.10 x 1.6010 = 73.8061).

EXCHANGE RATE QUOTATIONS

Exchange quotations come under two categories i.e. direct quotation and indirect quotation. In India, wef August 2, 1993, the system prevalent is of direct quotation.

DIRECT QUOTATION: FC is expressed as fixed unit and home currency in variable unit. Example - 1 US $ = Rs.49.10.

With a view to make profit, the rule to be followed for this quotation is buy low and sell high.

INDIRECT QUOTATION: FC is expressed in variable quantity and home currency in fixed unit. Example - Rs.ioo = USD 1.52.

To make profit, the rule followed for this quotation is buy high and sell low.

SPOT TRANSACTIONS & FORWARD TRANSACTIONS

In a contract, the actual payment in rupees and receipt in FC (say US $) may take place on the same day, two days later or a month later or more.

Value dating : While quoting the rates, the banks take into account the time factor i.e. how much time is going to be taken to get the purchased currency credited to the NOSTRO account abroad. This date is known as value date. There are 3 time frames for this i.e. cash value, torn value and spot value.

Cash Value: When the payment in rupees and receipt in US $ takes place on the same day, it is called a cash transaction or value today.

Tom value and spot value: When the payment is rupees and receipt in US $ takes place after some time (due to time involved in administration of the transaction) it may be tom rate (where deal is settled on the immediately succeeding working day) and spot transaction when it is settled within next 2 days.

Date of Contract	Delivery Date / settlement date	Rate to be used
Oct 12, 2017	Oct 12, 2017	Cash/ Ready Rate
Oct 12, 2017	Oct 13, 2017	Tom Rate
Oct 12, 2017	Oct 14, 2017	TT or Spot Rate
Oct 12, 2017	Dec 12, 2017	Forward

Forward transaction: When the payment in rupees and receipt in US $ takes place on some predetermined future day after next 2 days, it is called a forward transaction.

A forward contract for delivery two months means the exchange of currencies shall be completed after two months from date of contract.

Premium or discount on forward transactions: The forward rate of a currency is normally either costlier or cheaper than its spot rate. The difference between the spot rate and forward rate is called forward margin or swap points. When the forward margin is at premium the forward rate will be higher/costlier than the spot rate. Similarly, if the forward margin is at a discount, the forward rate shall be lower or cheaper than the spot rate.

Under a **direct quotation, the premium** is added to the spot rate for reaching the forward rate and discount is deducted from the spot rate to arrive at the forward rate.

Example : Spot price is USD = Rs.5o.10 / 50.20. 3 months premium is 51/55 paise. This means that 3 months USD forward would be quoted at 50.61 / 50.75. In this case USD is at a premium and Indian Rupee is at a discount.

Factors determining premium and discount : (a) rate of interest prevailing at home centre and the concerned foreign currency centre — currency earning higher ROT will be at a discount, (b) demand and supply position of the FC, (c) speculation about spot rates and (d) exchange control regulations.

Summary of Exchange Rate Application

Rate	Transaction
TT Selling Rate	When handling of documents by the bank are not involved. It is calculated on the basis of interbank selling rate by adding exchange margin. It will be applied for • All clean outward remittances such as DD,TC etc • Cancellation of purchase such as bills purchased, returned unpaid • Cancellation of clean inward remittances • Cancellation forward purchase contract • Outward remittance against import documents received directly by the importers.
Bill Selling Rate	When transactions involve handling of documents such as payment for import documents, bill selling rate is applied. • Retirement of import bills even if proceeds of these bills are by way of DD or TT. • Crystallization of Documentary Import Bills.
TC/Currency selling rate	For selling of Travellers cheque or foreign currency.
TT Buying rate	It is calculated after deducting exchange margin from Inter-bank buying rate. For example; • Cancellation of outward TT, MT etc • Clean inward remittances where cover funds are already received from abroad • Conversion of proceeds of instruments that are sent for collection • Cancellation of forward sale contract
Bills Buying rate	It is calculated by adding the forward premium for transit and usance period rounded off to lower month and reducing the exchange margin from spot buying rate like purchase, discount and negotiation of bills.

TC/ Currency buying rate	For travelers cheque and currency buying.

EXCHANGE ARITHMETIC -
Calculation of FC rates requires high degree of accuracy as the errors can result into substantial loss of revenue. There are certain basic terms in the process which need to be understood properly;
Chain Rule : The fixing of rate of exchange between the foreign currency and Indian rupee through the some other currency, where direct relationship is not available, is done by a method known as 'chain rule'. The rate thus obtained is the 'cross rate' between these currencies.
Per Cent and per Mille : The per cent is proportion of per hundred. 2% is two parts in each 100 parts. A per mille is proportion of per 1000. 2 per mille means 2 parts in each Rs.1000.
Value date : It is the date on which a payment of funds or entry to an account actually becomes effective. *Example :* In case of Telegraphic transfer it become effective same day i.e. the delivery of both currency takes place same day.
Arbitrage : It means simultaneous sale and purchase of a currency in two different markets at different rates to make trading profits (by purchasing at lower and selling at higher price). If it involves only 2 markets (centres) it is called *simple arbitrage.* If it involves more than 2 markets it is called *compound arbitrage.*

DEALING ROOMS OPERATIONS IN IN FOREIGN EXCHANGE
The Dealers in foreign exchange are actually involved in buying and selling of various currencies and undertaking certain other related activities. The dealing room functions as a *profit centre.* There are 3 types of offices (i) Front Office (2) Back Office and (3) Mid office.
1. Front Office: The dealer maintains 2 types of positions (1) funds position and (2) currency position.
The funds position comprises inflow and outflow of funds. A mismatch could create the interest rate risk position in the form of interest payment in NOSTRO account or loss of interest income for the credit balance. The currency position emerges on sale or purchase of various currencies in merchant or inter-bank transactions. The open position can expose the dealer to a FC rate fluctuation risk. The dealer is required to operate within the positions fixed by the bank for this purpose.
The FC position takes into account all components of forex such as (a) mirror account of the currency (b) foreign currency notes (c) import suspense account (d) spot and forward positions.
"2. Back-office : Back office within the dealing room, takes care of processing of deals, reconciliation and accounts.
3. Mid-office : Within dealing room, it deals with the risk management and fixation of risk parameters for dealing room operations. It an independent function.
Valuation of forex profit/loss : RBI has approved the guidelines on Uniform Standard Accounting Practices for valuation of forex profits / losses by ADs, which are issued by FEDAI. According to these guidelines, the banks are to undertake valuation at end of each month.

Management & control of dealing room and Risk Management in Foreign Exchange
As per RBI directives, the banks are required to frame their own guidelines for this purpose including fixation of suitable limits for open positions.

Different kinds of risks leading to Foreign Exchange Risk
Classification of Persons Authorised to deal in Foreign Exchange : Under FEMA, 1999, RBI prescribes guidelines for authorised dealers and other persons while handling forex transactions. RBI issues licences to banks & financial institutions. RBI also authorises no. of established firms, companies, hotels etc. to deal in foreign currency. They are called Money Changers.Those entities which can buy and sell FC notes, coins, Travellers' cheques are called Full fledged Money Changers and those authorised to buy only, are called Restricted Money Changers. As per RBI's guidelines issued in 2005, ADs and MCs are called Authorised persons, which are divided into following categories:
1.AD Category-I (comprising Commercial, State & Urban Coop Banks)- All current and capital account transactions according to RBI directions issued from time-to-time. (No Change).
2.Authorised Dealers Category-II (Upgraded FFMCs, Coop Banks, RRBs and others): Specified non-trade related current account transactions as at paragraph 3 below as also all the activities permitted to Full Fledged Money Changers. Any other activity as decided by the Reserve Bank.
3.Authorised Dealers Category-III (Select Financial and other Institutions) Transactions incidental to the foreign exchange activities undertaken by these institutions.
4.Full Fledged Money Changers (FFMCs) (comprising Dept. of Posts , Urban Co-op. Banks and other FFMCs)

FOREIGN EXCHANGE DEALERS' ASSOCIATION OF INDIA (FEDAI)
FEDAI is a non-profit making body promoted in 1958 with RBI's approval. ADs are its members. It prescribes guidelines and rules for market operations. RBI guidelines for ADs in respect of operations and risk management of their owns assets and liabilities that can be offered to clients
1.AD Category I banks may open/close Rupee accounts (non-interest bearing) in the names of their overseas branches or correspondents without prior reference to the Reserve Bank. Opening of Rupee accounts in the names of branches of Pakistani banks operating outside Pakistan requires specific approval of the Reserve Bank.

2.Funding of Accounts of Non-resident Banks : AD Category I banks may freely purchase foreign currency from their overseas correspondents/branches at on-going market rates to lay down funds in their accounts for meeting their bonafide needs in India.
3.Overdrafts / Loans to Overseas Branches/ Correspondents : AD Category I banks may permit their overseas branches/ correspondents temporary overdrawals not exceeding Rs.500 lakhs in aggregate, for meeting normal business requirements. This limit applies to the amount outstanding against all overseas branches and correspondents in the books of all the branches of the authorised AD Category I bank in India. This facility should not be used to postpone funding of accounts. If overdrafts in excess of the above limit are not adjusted within five days a report should be submitted to RBI within 15 days from the close of the month, stating the reasons thereof. Such a report is not necessary if arrangements exist for value dating.
4.Rupee Accounts of Exchange Houses : Opening of Rupee accounts in the names of Exchange Houses for facilitating private remittances into India requires approval of the Reserve Bank. Remittances through Exchange Houses for financing trade transactions are permitted upto Rs.5,00,000 per transaction.
5.Investments: AD Category I banks are free to undertake investments in overseas markets up to the limits approved by their Board. Such investments may be made in overseas money market instruments and/or debt instruments issued by a foreign state with a residual maturity of less than one year and rated at least as AA (-) by Standard & Poor / FITCH IBCA or Aa3 by Moody's. For the purpose of investments in debt instruments other than the money market instruments of any foreign state, bank's Board may lay down country ratings and country - wise limits separately wherever necessary.
6. Use of FCNR-B balances : AD Category I banks may also invest the un-deployed FCNR (B) funds in overseas markets in long-term fixed income securities subject to the condition that the maturity of the securities invested in do not exceed the maturity of the underlying FCNR (B) deposits.
7. **Surplus in NOSTRO accounts:** Foreign currency funds representing surpluses in the NOSTRO accounts may be utilised for:
making loans to resident constituents for meeting their foreign exchange requirements or for the Rupee working capital/capital expenditure needs of exporters/ corporates who have a natural hedge or a risk management policy for managing the exchange risk subject to the prudential/interest-rate norms, credit discipline and credit monitoring guidelines in force.
extending credit facilities to Indian wholly owned subsidiaries/ joint ventures abroad in which at least 51 per cent equity is held by a resident company, subject to the guidelines issued by Reserve Bank (Department of Banking Operations & Development).
8. Loans/Overdrafts : All categories of overseas foreign currency borrowings of AD Category I banks, (except for borrowings at (c) below), 'including existing External Commercial Borrowings and loans/overdrafts from their Head Office, overseas branches and correspondents and overdrafts in NOSTRO accounts (not adjusted within five days), shall not exceed **100** per cent of their unimpaired Tier I capital or USD 10 million (or its equivalent), whichever is higher. The aforesaid limit applies to the aggregate amount availed of by all the offices and branches in India from all their branches/correspondents abroad and also includes overseas borrowings in gold for funding domestic gold loans. If drawals in excess of the above limit are not adjusted within five days, a report, should be submitted to Reserve Bank of India, within 15 days from the close of the month
9. Small and Medium Enterprises (SMEs) having direct and / or indirect exposures to foreign exchange risk can book / cancel / / roll over forward contracts without production of underlying documents to manage their exposures effectively
10. Resident individual to hedge their foreign exchange exposures arising out of actual or anticipated remittances, both inward and outward, can book forward contracts, without production of underlying documents, up to a limit of USD 10,00,0o0 (Oct 2015), based on self declaration. The contracts may be permitted to be booked up to tenors of one year only.
AD Category I banks may also allow **importers and exporters to book forward contracts** on the basis of a declaration of an exposure and based on past performance up to the average of the previous three financial years' (April to March) actual import/export turnover or the previous year's actual import/export turnover, whichever is higher

1. BASICS OF FOREX DERIVATIVES

Any activity you indulge in is associated with uncertainty which may result in some loss or some gain. In financial parlance, risk is associated with a loss that is expected to be incurred due to happening or non happening of certain events. It is an unplanned event with financial consequences resulting in loss or reduced earnings. The risk could be more or less depending upon the area of operation, volume, number of players, etc. The arena of international trade and foreign exchange operations is also prone to risks, mainly due to the complex nature of transactions, the individual characteristics of different currencies as also a vast area of operations. Like in any other human activity, risk cannot be avoided in international trade and foreign exchange operations. While in the international trade buyer risk, seller risk, shipping risk, etc., keep the parties on vigil, the foreign exchange operations arp plagued with exchange risk, settlement risk, liquidity risk, country risk, sovereign risk, interest rate risk, and operational risk. Risk and return have a direct relationship between them in as much as higher risks means higher returns. In the process of earning higher returns, one can enhance the risks beyond manageable levels. Therefore, risks needs to be accepted and managed effectively and efficiently to minimize the adverse effect and maximize the profit/goals of the organization.

RISKS IN INTERNATIONAL TRADE

Risk means probability of loss arising out of uncertainty about an event. An activity may turnout to be profitable and may result into loss also. The risk in a currency transactions or commodity transaction arises due to exposure undertaken by the bank concerned. The level of risk may be higher in case of international trade because it is surrounded by a no. of risks due to vast area of operation where the buyers and sellers are spread in different countries, the goods and value goods can more in opposite direction, there could be movement in the currency of the seller's and buyer's country.

Various kinds of risk involved in international trade include buyer risk, seller risk and shipping risk.

Buyer risk : The risk which a seller is exposed to and arises on account of buyer's non-acceptance of the goods / non-payment / delayed payment etc. The transaction is considered to be complete only when the buyer accepts the goods and seller gets the payment.

Seller risk : The risk that a buyer is exposed to and arises on account of non-shipment of goods by the seller OR delayed shipment OR shipment of poor quality of goods.

Shipping risk : The risk that buyer and seller are exposed to and arises on account of mishandling of goods, abandonment of goods, wrong delivery of goods, delivery of goods at another destination by the intermediary like shipping company, handling agent, port authorities etc.

Other risk : The buyer and seller can face other risks also in international trade that may include the settlement risk, competition risk, price risk, legal risk etc.

DIFFERENT KINDS OF RISKS RELATED TO FOREX TRANSACTIONS

Foreign exchange operations face large no. of different type of risk due to a variety of reasons such as location of forex markets without any single location, markets existing in different time zones, frequent fluctuations in the foreign currency rates, effect of policies of the government and central banks of the related country etc.

Foreign exchange exposure: The exposure can be classified into 3 categories:

1. *Transaction exposure :* This arises on account of normal business operation. A transaction in foreign exchange can exposure a firm to currency risk, when compared to the value in home currency.
2. *Translation exposure :* It arises on valuation of assts and liabilities created through foreign exchange and receivables or payable in home currency, at the end of accounting period. These are notional and not actual.
3. *Operating exposure :* These are the factor external to a firm such as change in competition, reduction in import duty, reduction in prices by other country exporters etc.

Exchange rate risk : Even the major currencies may experience substantial exchange rate movements over relatively short periods of time. These can alter the balance sheet of a bank if the bank has assets or liabilities domiciled in those currencies. An adverse movement of the rate can alter the value of the foreign exchange holdings, if not covered properly. The dealers have to cover the position immediately.

Positions in a foreign currency : When the assets and the outstanding contracts to purchase that currency are more than the liabilities plus and the outstanding contracts to sell that currency.

- Long or overbought position : When the purchases (and outstanding contracts to purchase) are more than the sale (the outstanding contracts to sell).
- Short position or oversold position : When the purchases (and outstanding contracts to
purchase) are less than the sale (the outstanding contracts to sell).

- **Overbought or oversold position :** It is called open position
- **Covering of position risk :** The position is covered by fixing suitable limits (such as daylight position limit, overnight position limit, single deal limit, gap-for-ward mismatch limits).
- **Prudent limit prescribed by RBI for open position :** RBI has given discretion to bank Boards to fix their own open position limits according to their own requirement, expertise and other related considerations.

Pre-settlement risk : It is the risk of failure of the counter party, due to bankruptcy or closure or other risk, before maturity of the contract. This may force the bank to cover the contract at the ongoing market rates resulting into loss due to difference prevailing between the contracted rate and rate at which the contract covered.

Settlement risk: Payment/delivery of one currency and received of other currency by both the parties. Settlement risk is the risk of failure of the counter party during the course of settlement due to time zone differences between the two currencies which are to be exchanged. For example, if a bank in the earlier time zone (say **in** Australia) performs its obligation and delivers the currency and a bank in a later time zone (say USA) fails to deliver or delivers with delay, the loss may be caused to the bank in the earlier time zone.

Foreign exchange settlement risk is also called temporal risk or Herstatt risk (named after failure of Bankhaus Herstatt in Germany)

The settlement risk can be taken care of by operating the system on a single time basis and also on real time gross settlement (RTGS) basis.

Liquidity risk: The liquidity risk is where a market does not have the capacity to handle, at least **without** significant adverse impact on the price, the volume of whatever the borrower buys or sells at the time he want to deal. Inability to meet debt when they fall due could be another form of such risk.

For example, if there is deal of UK Pound purchase against the rupee and the party selling the UK Pound is short of pound in its NOSTRO account, it may default in payment or it may meet its commitment by borrowing at a very high cost.

Country risk: It is the risk that arises when a counter party abroad, is unable to fulfill its obligation due to reasons other than the normal risk related to lending or investment.

For example, a counter party is willing and capable to meet its obligation but due to restrictions imposed by the govt. of the country or change in the polices of the govt., say on remittances etc. is unable to meet its repayment / remittance capacity. Country risk can be very high in case of those countries that are having foreign exchange reserve problem.

Banks control country risk by putting restrictions on overall exposure, country exposure.

Country risk is in addition to normal credit risk. While the normal credit risk is due to failure on meeting obligation on the part of counterparty on its own, the country risk arises due to actions initiated by the Govt. of that country due to which counterparty **is not** able to perform its part.

Sovereign risk : It is larger than country risk. It arises when the counterparty is a foreign govt. or its agency and enjoys sovereign immunity under law of that country. **Due to** this reason, legal **action** cannot be taken against that counterparty. This risk can be reduced through disclaimers **and** by imposing 3'd country jurisdictions.

Interest rate risk: The potential cost of adverse movement of interest rates that the bank faces on its deposits and other liabilities or currency swaps, forward contracts etc. is called interest rate risk. This risk arises on account of adverse movement of interest rates or due to interest rate differentials. The bank may face adverse cost on its deposit **or** adverse earning impact on its lending and investments due to such change in interest rates.

Interest rate can be managed by determining the interest rate scenario, undertaking appropriate sensitivity exercise to estimate the potential profit or losses based on interest rate projections.

Gap risk : Banks on certain occasions are not able to match their forward purchase and sales, borrowing and lending which creates a mismatch position, which is called gap risk. The gaps are required to be filled by paying or receiving the forward differential. These differentials are **the** function of interest rates.

The gap risk can be managed by using derivative products such as interest rate swaps, currency swaps, forward rate agreements.

Fledging risk: This occurs when one fails to achieve a satisfactory hedge for one's exposure, either because it could not be arranged or as the result of an error. One may also be exposed to basic risk where the available hedging instrument closely matches but does not exactly mirror or track the risk being hedged.

Operational risk : It is a potential catch that includes human errors or defalcations, loss of documents and records, ineffective systems or controls and security breaches, how often do one consider the disaster scenario.

Legal, jurisdiction, litigation and documentation risks including netting agreements and cross border insolvency. Which country's laws regulate individual contracts and the arbitration of disputes ? Could a plaintiff take action against a borrower in an overseas court where they have better prospects of success or of higher awards ? There is a growing and widespread belief that, whatever goes wrong, someone else must pay. The compensation culture whatever its justification or cause, is becoming a big problem for many businesses.

RISK MANAGEMENT

For management of risk, the bank concerned has to frame a details policy, fix specific limit structure for various risks and operations, a sound management information system and specified control, monitoring and reporting process.

The process of risk management begins from the Board of Directors, which approves a policy for management of various types of risk which a bank may be exposed to.

The risk management policy of a bank should cover the goals and objectives, delegation of powers and responsibilities, activities to be undertaken, level of acceptable risk, authority to undertake such functions and system of review.

In India, RBI issued ICG i.e. Internal Control Guidelines for foreign exchange business covering dealing room operations, code of conduct for dealers, brokers, set up of the dealing room, back office and risk management structure.

According to these guidelines, the banks are required to fix limits on exposures as under:

- **Overnight limit :** The maximum amount a bank can keep overnight when the markets in its time zone are closed.
- **Daylight limit :** It is the maximum amount the bank can expose itself at any time during the day, for meeting the needs of the customers and also its own trading operations.
- **Gap limit :** It is the maximum inter-period exposure that a bank can take.
- **Counter party limit :** The maximum amount that a bank can expose itself to a particular party (called counterparty)
- **Country limit :** It covers max exposure on a single country.
- **Dealer limit :** This is the maximum amount that a dealer can keep exposed during the operating hours.
- **Stop loss limit :** This is the maximum loss limit for adverse movement of rates.
- **Deal size limit :** This is the maximum amount of size of a deal that can be made to restrict operational risk on large size deals.
- **Settlement risk :** Maximum amount of exposure to any entity, maturing on a single day.

DERIVATIVES

In India, different derivatives instruments are permitted and regulated by various regulators, like Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and Forward Markets Commission (FMC). Broadly, RBI is empowered to regulate the interest rate derivatives, foreign currency derivatives and credit derivatives.

Definition : A derivative is a financial instrument:

(a) whose value changes in response to the change in a specified interest rate, security price, commodity price, foreign exchange rate, index of prices or rates, a credit rating or credit index, or similar variable (sometimes called the 'underlying');

(b) that requires no initial net investment or little initial net investment relative to other types of contracts that have a similar response to changes in market conditions; and

(c) that is settled at a future date.

For regulatory purposes, derivatives have been defined in the Reserve Bank of India Act, as "an instrument, to be settled at a future date, whose value is derived from change in interest rate, foreign exchange rate, credit rating or credit index, price of securities (also called "underlying"), or a combination of more than one of them and includes interest rate swaps, forward rate agreements, foreign currency swaps, foreign currency-rupee swaps, foreign currency options, foreign currency-rupee options or such other instruments as may be specified by the Bank from time to time.

Derivatives Markets

There are two *distinct groups* of derivative contracts:

Over-the-counter (OTC) derivatives: Contracts that are traded directly between two eligible parties, with or without the use of an intermediary and without going through an exchange.

Exchange-traded derivatives: Derivative products that are traded on an exchange.

Participants : Participants of this market can broadly be classified into two functional categories, namely, (a) users (who participates in the derivatives market to manage an underlying risk) and (b) the market-maker who provides continuous bid and offer prices to users and other market-makers. A market-maker need not have an underlying risk.

Purpose : Derivatives serve a useful risk-management purpose for both financial and nonfinancial firms. It enables transfer of various financial risks to entities who are more willing or better suited to take or manage them.

Users can undertake derivative transactions to hedge - specifically reduce or extinguish an existing identified risk on an ongoing basis during the life of the derivative transaction - or for transformation of risk exposure, as specifically permitted by RBI.

CORRESPONDENT BANKING AND NRI ACCOUNTS

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)

The Foreign Exchange Management Act 1999 (FEMA) was enacted on December 02, 1999 to replace Foreign Exchange Regulation Act (FERA) 1973. The Act came into on June 01, 2000 and extends to the entire country, all branches, offices, agencies outside India - those owned or controlled by a person residing in India.

Objective of FEMA : (i) Facilitating external trade and payments and (ii) for promoting the orderly development and maintenance of foreign exchange market in India.

Authorised persons (APs)

All transactions can be carried by residents and non-residents through APs. An AP may be a dealer (Authorised Dealer of Category I, II or Category III) or a money-changer. It may be an off-shore banking unit or any other person appointed under the Act. RBI issues licences to authorised person. It can revoke the authorisation if the person fails to comply with the conditions.

Classification of Persons Authorised to deal in Foreign Exchange

1. AD Category-I (comprising Commercial, State & Urban Coop Banks) : All current and capital account transactions according to RBI directions issued from time-to-time.
2. Authorised Dealers Category-II (Upgraded FFMCs, Coop Banks, RRBs and others):
   Specified non-trade related current account transactions as at paragraph 3 below as also all the activities permitted to Full Fledged Money Changers. Any other activity as decided by RBI.
3. Authorised Dealers Category-III (Select Financial and other Institutions): Transactions incidental to the foreign exchange activities undertaken by these institutions.
4. Full Fledged Money Changers (FFMCs): (comprising Dept. of Posts , Urban Co-op. Banks and other FFMCs)

RBI powers under FEMA

RBI can prohibit, restrict and regulate various transactions such as transfer or issue of any foreign security by a resident of India and by a person residing outside India., borrowing or lending in foreign exchange, borrowing or lending in rupees between a resident in India and a person outside India, deposits between residents in India and residents outside India, export, import or holding of currency or currency notes, transfer of immovable property outside India other than a lease not exceeding five years, by a person resident in India, giving guarantee or surety in respect of any debt obligation or other liability incurred by person resident in Indian to a person outside India and vice-versa, etc.

CORRESPONDENT BANKING

Correspondent banking: It is relationship between two banks having mutual accounts with each other or one of them is having account with other. OR a relationship and servicing of banking needs, as agent without having account relationship.

Benefit of correspondent banking: Through correspondent banking, a bank is able to handle business in another city or country through local banks acting as agent. The system eliminates the need to have global network branches that involves high costs. Hence bank can take advantage of the business opportunities in other countries.

Functions handled by correspondent banks:

(a) account services such as (a) clearing house functions, (b) collections, payments, (c) overdrafts, (d) loan facility and (e) investment services

(b) other services such as (a) LC advising, (b) LC confirmation, (c) Bankers acceptances, (d) issue of guarantees, (e) forex services, (f) custodial services etc.

Types of accounts opened under correspondent banking: These accounts include NOSTRO, VOSTRO, LORO accounts.

NOSTRO account: This is an account of a bank in another country (say SBI's account in New York with Citibank). This is called "our account with you".

VOSTRO account: This is an account of a foreign bank in India. (say Citibank's account in New Delhi with SRI). This is called "your account with us".

LORO account: This is an account of a bank in another country which is used by a 3.[3] bank (say for BoB, SBI's account in New York with Citibank). This is called "Their account with them".

Mirror account: Mirror account is shadow (like a copy) of the NOSTRO account. The entries in this account are used for reconciliation purpose.

ELECTRONIC MODES OF TRANSMISSION / PAYMENT

SWIFT: SWIFT stands for Society for Worldwide Inter-bank Financial Telecommunication. It provides secured telecommunication of financial messages amongst banks and financial institutions, throughout the world. Authentication of messages is done through bilateral key exchange. The cost of sending message is only 1/4th of the conventional talex system.

CHIPS: CHIPS stands for "Clearing House Inter-bank payment system'. It is a major payment system in USA, being used by major banks. **It** is operative in New York only.

Fedwire: This is a payment system operated by Federal Reserve Bank of US operated all over USA.

ABA number: It is the no. allotted by Federal Reserve of USA to banks participating in Fedwire, to identify the senders and receivers of payment.

CHAPS: CHAPS, the Clearing House Automated Payments System is British equivalent to CHIPS, handling receipts and payments in London. It is used by a large no. of banks in UK.

Target: It stands for Trans-European Automated Real-time Gross Settlement Express Transfer system in EURO payment system comprising 15 national RTGS systems working in Europe.

RTGS-plus: RTGS plus is German hybrid clearing systems and operating as an European oriented RTGS and payment system.

EBA-EURO-1: It is a netting system with focus on cross border Euro payments.

RTGS in India: RBI implemented RTGS in India. It functions on line. Banks maintain a pool account with RBI for inflow and outflow of funds through RTGS. Minimum amount is Rs.2 lac for RTGS.

NEFT in India: It is an electronic funds transfer system which functions on a batch basis. There are no amount ceilings.

<u>Types of Persons :</u>Non-Resident: As per FEMA, a person who is not a resident, is called a non-resident.

<u>Person resident in India</u>

(i) a person residing in India for more than one hundredand eighty-two days during the course of the preceding financial year but does not include

(A) a person who has gone out of India or who stays outside India, in either case

(a) for or on taking up employment outside India, or

(b) for carrying on outside India a business or vocation outside India, or

(c) for any other purpose, in such circumstances as would indicate his intention to stay outside India for an uncertain period;

(B) a person who has come to or stay in India, in either case, otherwise than

(a) for or on taking up employment in India, or

(b) for carrying on in India a business or vocation in India, or

(c) for any other purpose, in such circumstances as would indicate his intention to stay in India for an uncertain period;

(ii) any person or body corporate registered or incorporated in India,

(iii) an office, branch or agency in India owned or controlled by a person resident outside India,

(iv) an. office, branch or agency outside India owned or controlled by a person resident in India;

<u>Non-Resident Indian (NRI) :</u> He is a person resident outside India who is a citizen of India. Indian students abroad, also treated NRIs.

<u>Person of Indian Origin (PIO) :</u> A person resident outside India who is a citizen of any country other than Bangladesh or Pakistan and :

a) Who was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955; or

b) Who belonged to a territory that became part of India after the 15th day of August, 1947; or

c) Who is a child or a grandchild or a great grandchild of a citizen of India or of a person referred to in clause (a) or (b); or

d) Who is a spouse of foreign origin of a citizen of India or spouse of foreign origin of a person referred to in clause (a) or (b) or (c)

Non Residents and their Accounts

NS Thor a Manjot's CAIIB- International Banking Module-A (Assignment-03) : Correspondent Banking Et NRI accounts 20

Resident: As per section 2(v) of the FEMA 1999, a person is called resident in India if he stays in India for more than 182 days during the preceding financial year except those who have gone out of India for taking up employment outside India or for carrying on a business or vocation outside India or for any other purpose indicating his intention to stay abroad for indefinite period.

NON Resident: Person resident outside India means a person who is not resident in India.

- Person of Indian Origin: A. Person of Indian Origin is one who is presently not a national of Pakistan or Bangladesh and: (a) who at anytime held an Indian passport; or (b) he himself, either of his parents or any of his grandparents was a citizen of India by virtue of Constitution of India or the Citizenship Act,1955 ; or (c) the person is a spouse of Person of Indian Nationality / Origin.
- Overseas Corporate Bodies are those in which at least 60% shareholding is of NRI. OCBs are not allowed to open NRI accounts.
- Students who go abroad for studies have also been given the facility of opening NRI accounts.

Non-resident accounts are of 3 types (a) Non Resident ordinary (b) Non Resident (External) (c) Foreign Currency Non Resident (Bank) account. Salient features of these accounts are as under:

FEATURES OF NRI DEPOSITS Foreign Currency Non-Resident (Bank) Account (FCNR(B) A/c) — (w.e.f. 15.5.1993)

Account holder: NRI of Indian nationality or origin (RBI approval for Bangladesh entities/Pakistan entities and citizens).

- **Joint account:** Can be of two or more NRIS. With close resident relatives, joint account (Former, or Survivor) can be opened. Relatives can operate a/c as power of attorney holder for local withdrawals or remittance abroad in name of account holder.
- **Currencies:** Any freely convertible currency.
- **Type of account:** FDR only (a) 1 year and above, less than 2 years (b) 2 years and above less than 3 years (c) 3 years and above less than 4 years (d) 4 years and above less than 5 years (e) 5 years only. RD, SB or CA is not allowed.
- **Repatriation:** Principal and interest permitted.
- **Source of funds:** Foreign Inward remittance (FIR) or transfer from NRE-RA account (at TT selling rate)
- **Interest rate and interest payment:** Ceiling rate fixed by RBI (presently LIBOR + 2% (1 year to less than 3 years) and LIBOR + 3% (for 3 years to 5 years w.e.f. 01.03.14). No interest payment if cancellation before one year. For one year deposit,. no compounding of interest. For above one year, compounding on 180 days basis. Interest payment on 360 days in year basis. On floating ROI, half yearly reset is allowed.
- **Fund or non-fund Rupee loan:** Up to value of FDR with proper margin to the depositor or 3rd party. Margin / interest rate bank discretion. Loans proceeds to be credited to NRO account. Loans can be repaid from FCNR, NRE or NRO account balances. Banks should not mark any type of lien, direct or indirect,
against these deposits. Premature payment not allowed if loan is granted. FC loan can be given in India or abroad.
- **Nomination** facility is available.
- **Income Tax:** Interest is not taxable. TDS not applicable.
- **Additional ROI** not allowed to Staff (Jul 18, 2012)
- **At the request of the depositor,** banks can permit remittance of the maturity proceeds to third parties outside India, provided bank is satisfied about the bonafides of the transaction.

Non-Resident External (Rupee Account)

- **Account holder:** NRIs of Indian nationality or origin (RBI approval for Bangladesh entities/Pakistan citizens and entities).
- **Joint account:** Can be in the names of two or more NRIs. With close resident relatives, joint account (Former or Survivor) can be opened. Relatives can operate a/c as power of attorney holder for local withdrawals or remittance abroad in name of account holder.
- **Currencies:** Indian rupee by converting foreign currency.
- **Type of account:** Current, saving or FDR. FDR period at discretion of banks.
- **Repatriation:** Principal and interest permitted.
- **Source of funds:** Foreign Inward remittance (FIR) or transfer from FCNR-B account (at 'TT buying rate) or transfer of repatriable funds from NRO account
- **Interest rate and interest payment :** Bank discretion but not more than domestic deposit (deregulated w.e.f. Dec 16, 2011).
- **Rupee loan:** Same as in case of FCNR-B account.
- **Nomination** facility is available.
- **Income Tax:** Interest is not taxable. TDS not applicable.
- **Additional ROI** not available to Staff w.e.f. Jul 18, 2012.
- **Important Notes** (a) PoA holders cannot credit foreign currency notes and foreign traveller'schequesin NRE accounts. (b) Banks may credit the proceeds of account payee cheques/ demand drafts / bankers' cheques, issued against encashment of foreign currency to the NRE account of the NRI account holder where the instruments issued to the NRE account holder are supported by encashment certificate issued by AD Category-I / Category-IL

Non-Resident Ordinary Account (NRO)

- **Account holder:** NRIs or Person of Indian Origin (individuals & not entities from Bangladesh, can be allowed without RBI permission w.e.f. 11.2.13 Pakistan citizen not to be allowed). Foreign students can also open NRO accounts (RBI 20.09.13).
- **Joint a/c :** Allowed with resident individuals.
- **Currencies** Indian rupee.
- **Account:** Current, saving, RD or FDR. FDR 7 days to10 years.
- **Repatriation:** Interest and current income is permitted. Remittance, including of sale proceeds of immovable property also allowed @ USD 1 million per financial year for bonafide purposes.

- **Source of funds:** New account can be opened with Foreign Inward remittance. Existing account of an NRI opened when he was resident, will be designated as NRO by the bank.
- **Interest rate:** Bank discretion. Not more than domestic deposit interest rates.
- **Nomination** facility is available.
- **Income Tax:** Interest is taxable. TDS provisions applicable for all interest payments (FD/SB account).
- **Transfer of repatriable amount from NRO to NRE** permitted (May 8, 2012) within USD 1 million /FY subject to payment of tax, as applicable.
- **Additional ROI** not allowed to Staff (Jul 18, 2012)
- **Rupee loan** Up to value of FDR with proper margin to depositor or 3rd party. FC loan or loan abroad not permitted.
- **Power of attorney:** The facility of operation of accounts by PA holder is permitted for local withdrawals or remittance abroad in name of account holder.

Accounts of Foreign Students in India

- NRO account can be opened on the basis of passport, photo and admission letter, for KYC purpose. Local address proof to be provided within 30 days, when monthly withdrawal will be up to Rs.50000 and foreign inward remittance up to USD 1000. On receiving local address proof, normal operations can be allowed.

NRO Accounts Of Foreign Nationals of Non- Indian Origin on a visit to India

- NRO (current/savings) a/c max 6 months. Source and use of funds: Funds remitted from outside India through banking channel or by sale of forex brought into India. All payments' to residents exceeding INR 50,000 by means of cheques / pay orders / demand drafts.
- Remittance : The balance may be converted by AD bank into foreign currency for payment to the account holder at the time of his departure from India provided the account has been maintained for a period not exceeding 6 months and the account has not been credited with any local funds, other than interest accrued thereon. If account maintained for more than 6 months, account holder to seek permission on plain paper from Regional Office of RBI.
- Accounts of Foreign nationals resident in India Foreign nationals resident in India can open and maintain a resident Rupee account in India in terms of Notification No.5/2000-RB dated May 3, 2000 viz., Foreign Exchange Management (Deposit) Regulations, 2000, as amended from time to time.

Accounts of residents Resident Foreign Currency Account (RFC)

- Account holder: A resident in India who was earlier an NRI (at least one year stay abroad) and became resident again on or after 18.04.92
- Source of funds: (a) Forex received as pension/ superannuation /other benefits from employer abroad (b) Realization of assets held abroad (c) Forex acquired as gift or inheritance from person who was NRI (d) Existing FCNR account or NRE-FD to be converted to RFC FD at discretion of account holder before or after maturity.
- Joint account: It can be single account. With close resident relatives, joint account can be opened as FORMER or SURVIVOR account.
- Type of account : Savings, Current, Fixed Deposit (min 7 days and max 10 years)
- Repatriation is permitted.
- Interest rates: The banks are free to determine ROI.
- Use of funds: No restrictions

Resident Foreign Currency (Domestic) Account - RFC(D)

- Account holder: Resident Individuals
- Source of funds: Foreign exchange acquired, (a) while on a visit abroad (b) from any person on visit to India or honorarium or gift or for services or settlement of any lawful obligation (c) by way of honorarium or gift while on a visit abroad (d) representing unspent foreign exchange acquired during travel abroad. Amount to be converted in rupees, latest by last day of next month.
- Type of account : Only current account
- Interest : No interest payable on this deposit
- Use of funds: For all permitted transactions.

Exchange Earner's Foreign Currency Account (EEFC Account)

- Account holder : Exporters of goods and services, resident in India
- Source of funds: Up to 100% of forex earnings can be kept in the account. But amount to be converted in rupees, latest by last day of next month.
- Use of funds: Balance can be transferred to NRE/FCNR account on change of status from resident to non-resident. Funds can be used for adjustment of pre-shipment loans.
- Loan: No loan can be allowed against the balances in such account.
- Type of account: Current account, single or joint (FORMER or SURVIVOR) with close resident relatives.
- Interest : No Interest is payable

LIBERALISED REMITTANCE SCHEME (LRS) FOR RESIDENT INDIVIDUALS

- RBI introduced LRS on Feb 04, 2004. Major changes were made by RBI in LRS w.e.f. 01.06.2015 (based on Govt. notification 15.05.15).
- **Eligibility:** All resident individuals including minors and non-individuals are eligible. Remittances under the facility can be consolidated in respect of family members subject to individual family members complying with the terms and conditions.

- It is mandatory to have PAN number to make remittances beyond USD 25000.00 for current account transaction and for all capital account transactions.
- Forex can be purchased from authorised person which indude AD Category-1 Banks, AD Category-2 and Full Fledged Money Changers.
- **Capital Accounts transactions** Remittances up to USD 250,000 per financial year can be allowed for permissible capital account transactions as under: I) opening of foreign currency account abroad; ii) purchase of property abroad; iii) making investments abroad; iv) setting up Wholly owned subsidiaries and Joint Ventures abroad; v) loans including in Indian Rupees to Non-resident Indians relatives as defined in Companies Act, 2013.
- **Current account transactions:** All facilities (Including private/business visits) for remittances have been subsumed under overall limit of USD 250,000/FY.
- **Facilities for Individuals:** Individuals can avail of forex facility for the following purposes within the limit of USD 250000.

Additional remittance shall require prior approval of RBI. Private visits to a country (except Nepal & Bhutan),Gift or donation. Going abroad for employment or immigration. Maintenance of close relatives abroad ,Travel for business, or attending a conference or specialized training or for meeting medical expenses, or check-up abroad, or for accompanying as attendant to a patient going abroad for medical treatment/ check-up. Expenses for medical treatment abroad , Studies abroad ,

- Any other current account transaction
- Exception: For immigration, medical treatment and studies abroad, the individual may avail of exchange facility in excess of LRS limit if required by a country of emigration, medical institute offering treatment or the university, respectively.
- Facilities for persons other than individual: Donations up to 1% of forex earnings in previous 3 FY or USD 5,000,000, whichever is less, for: creation of Chairs in reputed educational institutes, contribution to funds (not being an investment fund) promoted by educational institutes; and technical institution/body/ association in the field of activity of the donor Company.
- Commission, per transaction, to agents abroad for sale of residential flats or commercial plots in India exceeding USD 25,000 or 5% of inward remittance whichever is more.
- Remittances exceeding USD 10,000,000 per project for any consultancy services for infrastructure projects and USD 1,000,000 per project, for other consultancy services procured from outside India.
- Remittances exceeding 5% of investment brought into India or USD 100,000 whichever is higher, by an entity in India by way of reimbursement of pre-incorporation expenses.
- **Loan facility:** Banks **should not extend** any kind of credit facilities to resident individuals to facilitate remittances under the Scheme.
- **Remittances not available under the scheme:**
- Remittance for any purpose specifically prohibited under Schedule-I (like purchase of lottery/sweep stakes, tickets, prescribed magazines etc.) or item restricted under Schedule II of FEMA (Current A/c Transactions) Rules, 2000.

 Remittances made to Bhutan, Nepal, Mauritius or Pakistan.

- Remittances made to countries identified by the Financial Action Task Force (FATF) as "non cooperative countries and territories" as available on FATF website (viz Cook Islands, Egypt, Guatemala, Indonesia, Myanmar, Nauru, Nigeria, Philippines and Ukraine) or as notified by RBI.
- Remittances to individuals and entities identified as posing significant risk of committing acts of terrorism as advised separately by RBI to the banks.
- **Reporting of the transactions:** The remittances made will be reported in the R-Return in the normal course.

Rules related to release / remittance of foreign exchange to residents

- AD banks can release forex to residents in India as per Rules framed u/s Sec 5 of FEMA. Forex cannot be released for Schedule I transactions. For Schedule II transactions, Govt. permission is required. For Schedule III transactions, forex can be released up to specified limit by AD banks. Beyond that limit, approval of RBI is required.
- **Nepal & Bhutan** - Forex for any kind of travel to or for any transaction with persons resident in Nepal and Bhutan cannot be released. Any amount of Indian currency can be used. Highest denomination of currency note can be Rs.100.
- Up to Rs.25000, any denomination is allowed.
- **Form of foreign currency:** 1. Coins, currency notes and traveller's cheques. Currency notes/coins can be up to US$ 3000. The balance can be traveller's cheque or banker's draft.
- For Iraq and Libya currency notes and coins can be obtained up to US$ 5000 or its equivalent.
- For Iran, Russian Federation, and other Republics of Commonwealth of Independent Countries, no ceiling.
- **Mode of purchase:** In cash up to Rs.50, 000/-. Above this, payment by way of a crossed cheque/banker's cheque/pay order/demand draft / debit card / credit card only.
- **Surrender of unused forex:** Currency notes and travellers' cheques within 180 days of return.
- **Retention of unused forex :** US$2,000 or its equivalent. There is no restriction on residents for holding foreign currency coins.
- **Use of International Credit Card (ICC):** Use of the ICCs / ATMs/ Debit Cards can be made for personal payments and for travel abroad for various purposes, only up to specified limits.
- **Export / Import of Indian currency by Residents or non-residents:** Up to Rs. 25000 each to or from any country other than Nepal or Bhutan (Pakistan & Bangladesh Rs.10000).
- **Import of Foreign exchange from abroad:** Any amount subject to declaration on CDF.

- **Mandatory CDF:** Where total amount exceeds US$ 10,000 (or its equivalent) and/or value of foreign currency notes exceeds US$ 5,000, declaration should be made to the Customs Authorities through Currency Declaration Form (CDF), on arrival in India.
- **Application for purchase of FC:** Form A2. It is not required up to $ 25000. A2 to be preserved by banks for one year for verification by Auditors. endorsement on Passport : It is not mandatory for Authorised
- Dealers to endorse the amount of foreign exchange sold for travel abroad on the passport of the traveller. However, if requested by the traveller, AD may record under its stamp, date and signature, details of foreign exchange sold for travel.

DOCUMENTARY LETTERS OF CREDIT

A Letter of Credit/Documentary Credit is a very common and familiar instrument, used for trade settlements across the globe. It is a link between buyers and sellers, reinforcing the buyer's integrity by adding to it, his banker's undertaking to pay, while sellers need to make shipments of goods specified and present shipping documents to banks, before getting the payment. Thus, for international trade, where buyers and sellers are far apart in two different countries, or even continents, the letter of credit acts as a most convenient instrument, giving assurance to the sellers of goods for payment and to the buyers for shipping documents, as called for under the credit.

In order to bring uniformity in matters pertaining to letters of credit documents and transactions, International Chambers of Commerce (ICC), *established in 1919 and headquartered in Paris, has framed uniform rules and procedures for issuance and handling of transactions under letters of credit,* so that parties to letters of credit transactions uniformly interpret various terms and are bound by a common rule. These rules and procedures are called *Uniform Customs and Practices for Documentary Credits (UCPDC).* The UCPDC was first brought out in 1933, and has been revised from time to time in 1951, 1962, 1974, 1983, 1993 with the last revision in 2007. The current update of UCPDC is the publication No. 600 of ICC, which has been implemented with effect from 1.7.2007.

DEFINITION OF LETTER OF CREDIT

A documentary credit or/and letter of credit, (DC or LC) can be defined as a signed or an authenticated instrument issued by the buyer's banker, embodying an undertaking to pay to the seller a certain amount of money, upon presentation of documents, evidencing shipment of goods, as specified, and compliance of other terms and conditions.

An LC can also be defined as an undertaking issued by the bank, on behalf of the importer or the buyer, in favour of the exporter or the seller, that, if the specified documents, showing that a shipment has taken place, or a service has been supplied, are presented to *the issuing bank or its nominated bank,* within the stipulated time, *the exporter/seller* will be paid *the amount specified.*

Thus, in an LC transaction, following parties are involved:

(i) The buyers/importers or the applicant — **on whose behalf LC is opened,**
(ii) The sellers/exporters or the **beneficiary of the LC,**
(iii) The opening bank (buyers bank), **who establishes the LC**
(iv) The advising bank (bank in sellers country), **who acts as an agent of the issuing bank and authenticates the LC.**
(v) The confirming bank — **who undertakes to pay on behalf of the issuing bank,**
(vi) The negotiating bank (sellers bank or bank nominated by the opening bank),
(vii) Reimbursing bank — **who reimburses the negotiating or confirming bank.**

The advising bank, confirming bank and the negotiating bank could be the same

Operation of letter of credit

1. Buyer and seller enters into a contract for sale of goods or providing of services. The transaction is covered by LC.
2. On request of the buyer i.e. applicant, LC is issued by Opening Bank in favour of Beneficiary and sent to advising bank instead of sending directly to beneficiary.
3. After authentication of LC, the advising bank sends the LC to beneficiary.
4. After receiving LC, the beneficiary manufacturers the goods and makes shipment and prepares documents, as mentioned in LC.
5. Documents are presented by beneficiary to nominated bank for negotiation. Negotiating bank makes payment against these documents and claims payment on due date from opening bank.
6. Opening bank makes payment to negotiating bank and recovers the payment from applicant.

TYPES OF LETTERS OF CREDITS

Documents against Payment LC or Sight LC	DP LCs or Sight LCs are those where the payment is made against documents on presentation. (DA = Documents against payment, DP=Documents against acceptance)

Documents against acceptance or us ance	DA LCs or Acceptance LCs are those, where the payment is to be made on the maturity date in terms of the credit. The documents of title to goods are delivered to applicant merely on acceptance of documents for payment. (DA = Documents against payment, DP=Documents against acceptance)
Deferred Payment LC	It is similar to Usance LC but there is no bill of exchange or draft. It is payable on a future date if documents as per LC are submitted.
Irrevocable and revocable credits	The issuing bank can amend or cancel the undertaking if the beneficiary consents. A revocable credit is one that can be cancelled or amended at any time without the prior knowledge of the seller. If the negotiating bank makes a payment to the seller prior to receiving notice of cancellation or amendment, the issuing bank must honour the liability.
With or without re-course	Where the beneficiary holds himself liable to the holder of the bill if dishonoured, is considered to be with-recourse. Where he does not hold Himself liable, the credit is said to be without-recourse. *As per RBI directive dated Jan 23, 2003, banks should not open LCs and purchase / discount / negotiate bills bearing the 'without recourse' clause.*
Restricted LCs	A restricted LC is one wherein a specified bank is designated to pay, accept or negotiate.
Confirmed Credits	A credit to which the advising or other hank at the request of the issuing bank adds confirmation that payment will be made. By such additions, the confirming bank steps into the shoes of the issuing bank and thus the confirming bank negotiates documents if tendered by the beneficiary.
Transferable Credits	The beneficiary is entitled to request the paying, accepting or negotiating bank to make available in whole or part, the credit Cu one or more other parties (Article 48 of UCPDC). For partial transfer to one or more second beneficiary/ies the credit must provide for partial shipment.
Back to back credits	A back to back credit is one where an exporter received a documentary credit opened by a buyer in his favour. He tenders the same to the bank in his country as a cover for opening another LC in favour of his local suppliers. The terms of such credit would be identical except that the price may be lower and validity earlier.
Red Clause Credits	A red clause credit also referred to a packing or anticipatory credit has a clause permitting the correspondent bank in the exporter's country to grant advance to beneficiary at issuing bank's responsibility. These advances are adjusted from proceeds of the bills negotiated.
Green Clause Credits	A green clause LC permits the advances for storage of goods in a warehouse in addition to pre-shipment advance.
Stand-by Credits	Standby credits is similar to performance bond or guarantee, but issued in the form of LC. The beneficiary can submit his claim by means of a draft accompanied by the requisite documentary evidence of performance, as stipulated in the credit.
Documentary or clean credits	When LC specifies that the bills drawn under LC must accompany documents of title to goods such as RRs or MTRs or Bills of lading etc. it is termed as Documentary Credit. If any such documents are not called, the credit is said to be Clean Credit.
Revolving Credits	These provide that the amount of drawings made thereunder would be reinstated and made available to the beneficiary again and again for further drawings during the currency of credit.
Instahnent credit	It is a letter of credit for the full value of goods but requires shipments of specific quantities of goods within nominated period and allows for part-shipment. In case any instalment of shipment is missed, credit will not be available for that and subsequent instalment unless of LC permits the

VARIOUS DOCUMENTS UNDER LETTER OF CREDIT

Liability of an opening bank in a letter of credit arises, when the beneficiary delivers the documents strictly drawn as per terms of the letter of credit. There documents include the following:

Bill of exchange	This is the basic document which requires to be discharged by making the payment. It is defined u/s 5 of NI Act. The right to draw this document is available to beneficiary and the amount, tenor etc. has to be in terms of the credit.
Invoice	This document provides relevant details of the sale transaction, which is made in the name of the applicant, by the beneficiary. The details regarding, quantity, price, specification etc. should be same as mentioned in the letter of credit.
Transport Documents	This is a document which evidences the despatch of the goods by the beneficiary, by handing over the goods to the agent of the applicant, which may be a ship, railways or a transport operator, who issues documents such as such as bill of lading, railway receipt, transport receipt. Other documents could be Airway Bill or Postal or courier receipt.
Insurance documents	The despatched goods are required to be insured for transit period. Insurance policy or insurance certificate should be signed by the company or underwriter or their agent. Amount, kinds of risk etc. should be same as mentioned in the letter of credit.

Other documents	The letter of credit may also specify other documents to be presented along with the above documents which may include certificate of origin, certificate from health authorities etc.

DIFFERENT TYPES KINDS OF BILL OF LADING

- Received for shipment Bill of lading: It is an acknowledgment that the goods have been received by the ship owners for shipment. It is not considered safe document for negotiation.
- On-board Bill of lading : It acknowledges that the goods have been put on board of the shipment. This is considered safe for negotiation purpose.
- Short form bill of lading : Where the terms and conditions of carriage are not printed on the bill of lading and a reference to another document containing terms and conditions is made on the bill.
- Long form bill of lading : Where all terms and conditions of carriage are given on the document itself.
- Clean bill of lading : Which bears no superimposed clause or notation that expressly declares the defective condition of goods or packaging. This is considered safe for negotiation purpose.
- Claused bill of lading : Which bears superimposed clause or notation that expressly declares the defective condition of goods or packaging. Ship owner can disclaim his liability on loss to goods in case of such BL. Hence it is not considered safe.
- Through Bill of lading : That covers the entire voyage covering several modes of transport. There is no guarantee of the carriers for safe carriage of goods.
- Straight bill of lading BL that is issued directly in the name of the consignee, where the goods will be delivered to the consignee.

Chartered party bill of lading : Issued to a Chartered party who has hired the space in the vessel. **Liability of Issuing Bank**

As per UCPDC, an irrevocable Credit constitutes an definite undertaking of the Issuing Bank. Hence:

i. if the Credit provides for sight payment — to pay at sight,

ii. if the Credit provides for deferred payment — to pay on the maturity date(s) determinable in accordance with the stipulations of the Credit,

iii. if the Credit provides for acceptance to accept Draft(s) drawn by the Beneficiary on the Issuing Bank and pay at maturity, or

iv. if the Credit provides for negotiation — to pay without recourse to drawers and/or bona fide holders, Draft(s) drawn by the Beneficiary and/or document(s) presented under the Credit. A Credit should not be issued available by Draft(s) on the Applicant. The Credit nevertheless calls for Draft(s) on the Applicant, banks will consider such Draft(s) as an additional document(s).

Advising Bank's Liability

As per UCPDC, a credit may be advised to a Beneficiary through another bank (the 'Advising Bank') without engagement on the part of the Advising Bank. If that bank, elects to advise the Credit, shall take reasonable care to check the apparent authenticity of the Credit which it advises. If the bank elects not to advise the Credit, it must so inform the Issuing Bank without delay. If the Advising Bank cannot 'establish such apparent authenticity it must inform, without delay, the bank from which the instructions appear to have been received that it has been unable to establish the authenticity of the Credit and if it elects nonetheless to advise the Credit it must inform the Beneficiary that it has not been able to establish the authenticity of the Credit.

Liability of the Confirming Bank

A confirmation of an Irrevocable Credit by another hank (the 'Confirming Bank') upon the authorisation or request of the Issuing Bank, constitutes a definite undertaking of the Confirming Bank, in addition to that of the Issuing Bank. Hence:

i. if the Credit provides for sight payment — to pay at sight,

ii. if the Credit provides for deferred payment — to pay on the maturity date(s) determinable in accordance with stipulations of the Credit.

iii. if the Credit provides for acceptance to accept Draft(s) drawn by the Beneficiary on the Confirming Bank and pay them at maturity,

iv. if the Credit provides for negotiation — to negotiate without recourse to drawers and/or bona fide holders, Draft(s) drawn by the Beneficiary and/or document(s) presented under the Credit. A Credit should not be issued available by Draft(s) on the Applicant. If the Credit nevertheless calls for Draft(s on the Applicant, banks will Consider such Draft(s) as an additional document(s).

Examination of Documents

As per UCPDC, a Banks must examine all documents stipulated in the Credit with reasonable care to ascertain whether or not they appear, on their face, to be in compliance with the terms and conditions of the Credit. Documents, which appear on their face to be inconsistent with one another, will be considered as not appearing on their face to be in compliance with the terms and conditions of the Credit. Documents not stipulated in the Credit will not be examined by banks. If they receive such documents, they shall return them to the presenter or pass them on without responsibility.

Time for scrutiny of documents: The Issuing Bank, the Confirming Bank, if any, or a Nominated Bank acting on their behalf, shall each have a reasonable time, *not to exceed 5 banking days* following the day of receipt of the documents, to examine the documents and determine whether to take up or refuse the documents and to inform the party from which it received the documents accordingly.

Insurance Documents

As per UCPDC, the:

A Insurance documents must appear on their face to be issued and signed by insurance companies or underwriters or their agents.

B If the insurance document indicates that it has been issued in more than one original, all the originals must be presented unless otherwise authorised in the Credit.

C Cover notes issued by brokers will not be accepted, unless specifically authorised in the Credit.

D Unless otherwise stipulated in the Credit, banks will accept an insurance certificate or a declaration under an open cover pre-signed by insurance companies or underwriters or their agents. If a Credit specifically calls for an insurance certificate or a declaration under an open cover, banks will accept, in
lieu of thereof, an insurance policy.

E Unless otherwise stipulated in the Credit, or unless it appears from the insurance document that the cover is effective at the latest from the date of loading on board or dispatch or taking in charge of the goods, banks will not accept an insurance document which bears a date of issuance later than the date of loading on board or dispatch or taking in charge as indicated in such transport document.

F: i. Unless otherwise stipulated in the Credit, the insurance document must be expressed in the same currency as the Credit.

ii. Unless otherwise stipulated in the Credit, the minimum amount for which the insurance document must indicate the insurance cover to have been effected is the CIF (cost insurance and freight (...'named port of destination')) or CIP
(carriage and insurance paid to (...'named place of destination')) value of the goods, as the case may be, plus 10%, but only when the CIF or CIP value can be determined from the documents on their face. Otherwise, banks will accept as such minimum amount 110% of the amount for which payment, acceptance or negotiation is requested under the Credit, or 110% of the gross amount of the invoice, whichever is the greater.

Commercial Invoices

As per UCPDC:

A Unless otherwise stipulated in the Credit, commercial invoices

i. must appear on their face to be issued by the Beneficiary named in the Credit, and

ii. must be made out in the name of the Applicant, and

iii. need not be signed.

B Unless otherwise stipulated in the Credit, banks may refuse commercial invoices issued or amounts in excess of the amount permitted by the Credit. Nevertheless, if a bank authorised to pay, incur a deferred payment undertaking, accept Draft(s), or negotiate under a Credit accepts such invoices, its decision will be binding upon all parties, provided that such bank has not paid, incurred a deferred payment undertaking, accepted Draft(s) or negotiated for an amount in excess of that permitted by the Credit.

C The description of the goods in the commercial invoice must correspond with the description in the Credit. In all other documents, the goods may be described in general terms not inconsistent with the description of the goods in the Credit.

Bank-to-Bank Reimbursement Arrangements as per UCPDC

As per UCPDC: A If an Issuing Bank intends that the reimbursement to which a paying, accepting or negotiating bank is entitled, shall be obtained by such bank (the 'Claiming Bank'), claiming on another party (the `Reimbursing Bank'), it shall provide such Reimbursing Bank in good time with the proper instructions or authorisation to honour such reimbursement claims.

B Issuing Banks shall not require a Claiming Bank to supply a certificate of compliance with the terms and conditions of the Credit to the Reimbursing Bank.

C An Issuing Bank shall not be relieved from any of its obligations to provide reimbursement if and when reimbursement is not received by the Claiming Bank from the Reimbursing Bank.

D The Issuing Bank shall be responsible to the Claiming Bank for any loss of interest if reimbursement is not provided by the Reimbursement Bank on first demand, or as otherwise specified in the Credit, or mutually agreed, as the case may be.

E The Reimbursing Bank's charges should be for the account of the Issuing Bank. However, in cases where the charges are for the account of another party, it is the responsibility of the Issuing Bank to so indicate in the Original Credit and in the reimbursement authorisation. In cases where the Reimbursing Bank's charges are for the account of another party they shall be collected from the Claiming Bank when the Credit is drawn under. In cases where the Credit is not drawn under, the Reimbursing Bank's charges remain the obligation of the Issuing Bank.

UNIFORM CUSTOMS AND PRACTICES FOR DOCUMENTARY CREDITS UCPDC-600

Uniform Customs and Practices for Documentary Credits - 600 (referred to as UCP-600), prepared by ICC, Paris by revising the UCPDC-500, is being implemented wef July 01, 2007. It is 6th revision of the Rules since first promulgation in 1933. The new document has 39 Articles (against 49 of UCPDC500) with supplement for Electronic Presentation covering 12 eArticles. UCPDC-600, shall be applicable to LCs that expressly indicate that these are subject to UCPDC-600.

ARTICLES OF UCPDC-boo

Article-1 : UCPDC-boo apply to any LC when its text expressly indicates that it is subject to these rules. The rules are binding on all parties thereto unless expressly modified or excluded by the credit.

Article-2: Definitions : Advising bank, Applicant, Banking day, Beneficiary, Complying presentation, Confirmation, Confirming bank, Credit, Honour, Issuing bank, Negotiation, Nominated, Presentation, Presenter.

Article-3 Interpretations:

- A credit is irrevocable even if there is no indication to that effect.
- Branches of a bank in different countries are separate banks.
- The expression "on or about" will be interpreted as an event to occur during a period of 5 calendar days before until 5 calendar days after the specified date, both start and end dates included.
- The terms "first half" and "second hal' of a month shall be construed respectively as the 1st to the 15th and the 16th to the last day of the month, all dates inclusive.
- The terms "beginning", "middle" and "end" of a month shall be construed respectively as the 1st to the loth, the nth to the loth and the 21st to the last day of the month, all dates inclusive.

Article-4 Credits v. Contracts: A credit is a separate transaction from the sale. Banks are not concerned with or bound by such contract, even if any reference is included in the LC.

Article-5 Documents v. Goods: Banks deal with documents and not with goods, services or performance to which documents relate.

Article-6 Availability, Expiry Date and Place for Presentation: A credit must state an expiry date for presentation. An expiry date for negotiation is deemed expiry date for presentation which must be made on or before the expiry date.

Article-7 Issuing Bank Undertaking: If stipulated documents are presented to the nominated bank or to the issuing bank, the issuing bank must honour.

Article-8 Confirming Bank Undertaking: The confirming bank must honour the credit. It must reimburse another nominated bank that has negotiated a complying presentation and forwarded the documents to the confirming bank.

Article-9 Advising of Credits and Amendments: A credit and any amendment may be advised to a beneficiary through an advising bank. An advising bank advises the credit and any amendment without any undertaking to negotiate. By advising the credit, the advising bank signifies that it has satisfied itself as to the apparent authenticity of the credit and the advice accurately reflects the terms and conditions of the credit or amendment received.

Article-io Amendment: A credit can neither be amended nor cancelled without the agreement of the issuing bank, the confirming bank and the beneficiary. Partial acceptance is not allowed and will be deemed to be notification of rejection of the amendment.

Article-it Tele transmitted and Pre-Advised LC and Amendments: An authenticated teletransmission will be deemed to be the operative credit or amendment, and any subsequent mail confirmation shall be disregarded. If it states "full details to follow" the tele-transmission will not be operative credit or amendment.

Article-12 Nomination: By nominating a bank to accept a draft or incur a deferred payment undertaking, an issuing bank authorizes that nominated bank to prepay or purchase a draft accepted or a deferred payment undertaking incurred by that nominated bank.

Article-13 Bank-to-Bank Reimbursement Arrangements.: If a credit states that reimbursement is to be obtained by a nominated bank, the credit must state if the reimbursement is subject to the ICC rules in effect on the date of issuance of the credit.

Article-14 Standard for Examination of Documents:

(a) A nominated bank and issuing bank shall each have a maximum of **5 banking days** following the day of presentation to determine if the documents are in order.

(b) A presentation must be made by or on behalf of the beneficiary not later than **21 calendar days** after the date of shipment as described in these rules, but in any event not later than the expiry date of the credit.

(c) A document may be dated prior to the issuance date of the credit, but must not be dated later than its date of presentation.

Article-15 Complying Presentation: a. When an issuing bank or confirming bank determines that a presentation is complying, it must honour or negotiate the documents.

Article-16 Discrepant Documents, Waiver and Notice:

a. When a nominated bank determines that a presentation does not comply, it may refuse to honour or negotiate.

b. When an issuing bank determines that a presentation does not comply, it may approach the applicant for a waiver of discrepancies.

Article-17 Original Documents and Copies: a. At least one original of each document stipulated in the credit must be presented.

Article-i8 Commercial Invoice: (a) A commercial invoice, must appear to have been issued by the beneficiary; made out in the name of the applicant, made out in the same currency as the credit; and need not be signed. (b) The description of the goods, service or performance in a commercial invoice must correspond with that appearing in the credit.

Article-19 Transport Document Covering at Least Two Different Modes of Transport: The date of issuance of the transport document will be deemed to be the date of dispatch, taking in charge or shipped on board, and the date of shipment.

A transport document indicating that trans-shipment will or may take place is acceptable, even if the credit prohibits trans-shipment.

Article-2o Bill of Lading: a. A bill of lading, must indicate that the goods have been shipped on board a named vessel at the port of loading stated in the credit. The date of issuance of the bill of lading will be deemed to be the date of shipment.

Article-21 Non-Negotiable Sea Waybill: It must indicate that the goods have been shipped on board a named vessel at the port of loading stated in the credit.

Article-22 Charter Party Bill of Lading: It must indicate that the goods have been shipped on board a named vessel at the port of loading stated in the credit. The date of issuance of the charter party bill of lading will be deemed to be the date of shipment.

Ai-tide-23 Air Transport Document: It must appear to indicate that the goods have been accepted for carriage and indicate the date of issuance. This date will be deemed to be the date of shipment.

Artiele-24 Road, Rail or Inland Waterway Transport Documents: These must indicate the date of shipment or the date the goods have been received for shipment, dispatch or carriage at the place stated in the credit. The date of issuance of the transport document will be deemed to be the date of shipment.

Article-25 Courier Receipt, Post Receipt of Certificate of Posting: A courier receipt evidencing receipt of goods for transport, must indicate a date of pick-up or of receipt or wording to this effect. This date will be deemed to be the date of shipment.

Article-26 "On Deck", "Shipper's Load and Count", "Said by Shipper to Contain" and Charges Additional to Freight: A transport document must not indicate that the goods are or will be loaded on deck. A clause on a transport document stating that the goods may be loaded on deck is acceptable.

Article-27 Clean Transport Document: A clean transport document is one bearing no clause or notation expressly declaring a defective condition of the goods or their packaging.

Article-28 Insurance Document and Coverage: An insurance document can be an insurance policy, an insurance certificate or a declaration under an open cover. Cover notes will not be accepted

(b) The date of the insurance document must be no later than the date of shipment, unless it appears from the insurance document that the cover is effective from a date not later than the date of shipment

(c) The insurance document must be in the same currency as the credit (d) If there is no indication in the LC of the insurance coverage required, the amount of insurance coverage must be at least no% of the CIF or CIP value of the goods.

Article-29 Extension of Expiry Date or Last Day for Presentation: If the expiry date of a credit or the last day for presentation falls on a day when the bank to which presentation is to be made is closed, the expiry date or the last day for presentation, as the case may be, will be extended to the

first following banking day. In such case, a nominated bank must provide a statement on its covering schedule that the presentation was made within the time limits extended in accordance with article 29. The latest date for shipment will not be extended as a result of article 29.

Article-30 Tolerance in Credit Amount, Quantity and Unit Prices:

(a) The words "about" or "apprx" used in connection with the amount of LC or the quantity or the unit price stated in the LC are to be construed as allowing a tolerance not to exceed 10% more or 10% less than the amount, the quantity or the unit price to which they refer.

(b) A maximum tolerance of 5% more or 5% less than the quantity of the goods is allowed, where the credit does not state quantity in terms of a stipulated no. of packing units or individual items and the total amount of the drawings does not exceed the amount of LC.

(c) Even when partial shipments are not allowed, a tolerance not to exceed 5% less than the amount of the credit is allowed, provided that the quantity of the goods, if stated in the credit, is shipped in full and a unit price, if stated in the credit, is not reduced or that sub-article 30 (b) is not applicable.

Article-31 Partial Drawings or Shipments: Partial drawings or shipments are allowed.

Article-32 Instalment Drawings or Shipments: If a drawing or shipment by instalments within given periods is stipulated in the credit and any instalment is not drawn or shipped within the period allowed for that instalment, the credit ceases to be available for that and any subsequent instalment.

Article-33 Presentation Time: A bank has no obligation to accept a presentation outside of its banking hours.

Article-34 Disclaimer on Effectiveness of Documents: A bank assumes no liability or responsibility for the form, sufficiency, accuracy, genuineness, falsification or legal effect of any document, or for the general or particular conditions stipulated in a document or superimposed thereon; nor does it assume any liability or responsibility for the description, quantity, weight, quality, condition, packing, delivery, value or existence of the goods, services or other performance represented by any document, or for the goods faith or acts or omissions, solvency, performance or standing of the consignor, the carrier, the forwarder, the consignee or the insurer of the goods or any other person.

Article-35 Disclaimer on Transmission and Translation: A bank assumes no liability or responsibility for the consequences arising out of delay, loss in transit, mutilation or other errors arising in the transmission of any messages or delivery of letters or documents, when such messages, letters or documents are transmitted or sent according to **the** requirements stated in the credit, or when the bank may have taken the initiative in the choice of the delivery service in the absence of such instructions in the credit.

Article-36 Force Majeure: A bank assumes no responsibility for consequences arising out of the interruption of its business by

Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes or lockouts or causes beyond its control.

Article-37 Disclaimer for Acts of an Instructed Party: A bank utilizing the services of another bank for the purpose of giving effect to the instructions of the applicant does so for the account and at the risk of the applicant.

Article 38- Transferable Credits: A transferable credit may be made available in whole or in part to 2nd beneficiary at the request of the first beneficiary. It cannot be transferred at the request of a second beneficiary. The first beneficiary can substitute its own invoice and draft for those of a second beneficiary for an amount not in excess of LC.

Article-39 Assignment of Proceeds: The beneficiary can assign any proceeds to which it may be or may become entitled under the credit.

eUCP : Supplement to UCPDC for Electronic Presentation (Version IA)

eUCP has been created to take care of the demand of the market for the presentation of electronic documents or for a mixture of paper documents and electronic presentation. It provides definitions permitting UCP 60o terminology and providing rules to allow both sets of rules to work together.

Article el of eUCP narrates the scope of eUCP. eUCP also deals with relationship of eUCP and UCP 600 (e2), definitions (e3), format (e4), presentation (e5), examination (e6), notice of refusal (e7), originals and copies (e8), date of issuance (e9), transport (elo), corruption of electronic record after presentation (en) and additional disclaimer of liability for presentation of electronic records under eUCP (e12).

INTERPRETATIONS USED IN UCPDC-600

- A **credit is irrevocable** even if there is no indication to that effect.
- On or about — Such expression will be interpreted as a stipulation that an event is to occur during a period of 5 calendar days before until 5 calendar days after the specified date, both start and end dates included.
- The words `to', 'until', 'from' and 'between' when used to determine a period of shipment include the date mentioned and the words 'before' and 'after' exclude the date mentioned.
- The words 'from' and 'after' when used to determine a maturity date exclude the date mentioned.
- The terms 'first half and 'second half of a month shall be construed respectively as the 1st to the 15th and the 16th to the last day of the month, all dates inclusive.
- The terms 'beginning', 'middle' and 'end' of a month shall be construed respectively as the ist to $_{10}$th, the 11th to the 20th and the 21St to the last day of the month, all dates inclusive.
- Branches in different countries are considered to be separate banks.
- The date of issuance of the transport documents will be deemed to date of despatch, taking in charge or shipped on board and the date of shipment. If the transport document indicates, by stamp or notation, a date of despatch taking in charge or shipped on board, this date will be deemed to the date of shipment.
- Trans-shipment means unloading from one means of conveyance and reloading to another means of conveyance (whether or not in different modes of transport) during the carriage, from the place of dispatch taking in charge or shipment to the place of final destination stated in the credit.
- A clean transport documents is one bearing no clause of notation expressly declaring a defective condition of the goods or their packaging.
- If there is no indication in the credit about insurance coverage, amount of insurance coverage must be at least 110% of CIF or CIP value of the goods.

Uniform Rules for Bank-to-Bank Reimbursements under Documentary Credits (URR725) URR-725 prepared by International Chamber of Commerce replaced URR-525 w.e.f. 1.10.2008.

URR-725 apply to any bank-to-bank reimbursement when the text of the reimbursement authorization expressly indicates that it is subject to these rules. They are binding on all parties thereto, unless expressly modified or excluded by the reimbursement authorization. The issuing bank is responsible for indicating in the LC that reimbursement is subject to these rules. For the purpose of these rules, the following terms have the meaning specified in this article may be used in the singular or plural as appropriate.

a. 'Issuing bank' means the bank that has issued a credit and the reimbursement authorization under that credit.

b. 'Reimbursing bank' means the bank instructed or authorized to provide reimbursement pursuant to a reimbursement authorization issued by the issuing bank.

c. 'Reimbursement authorization' means an instruction or authorization, independent of the Credit, issued by an issuing bank to a reimbursing bank to reimburse a claiming bank or if so requested by the issuing bank, to accept and pay a time draft drawn on the reimbursing bank.

d. 'Claiming bank' means a bank that honours or negotiates a credit and presents a reimbursement claim to the reimbursing bank. 'Claiming bank' includes a bank authorized to present a reimbursement claim to the reimbursing bank on behalf of the bank that honours or negotiates.

e. For the purpose of these rules, branches of a bank in different countries are considered to be separate banks.

Responsibility of the issuing Bank : The issuing bank is responsible for providing the information required in these rules in both the reimbursement authorization and the credit, and is responsible for any consequences resulting from non-compliance with this provision.

Other important features:

- All reimbursement authorizations and reimbursement amendments must be issued in the form of an authenticated tele-transmission or a signed letter.
- An issuing bank shall not require a certificate of compliance with the terms and conditions of the credit in the reimbursement authorization.
- A reimbursing bank will assume no responsibility for the expiry date of a credit and, if such date is provided in the reimbursement authorization, it will be disregarded.
  The issuing bank must cancel its reimbursement authorization for any unutilized portion of the credit to which it refers, informing the reimbursing bank without delay.
- the issuing bank may issue a reimbursement amendment or cancel a reimbursement authorization at any time upon sending notice to that effect to the reimbursing bank.
- the issuing bank must reimburse the reimbursing bank for any reimbursement claims honoured or draft accepted by the reimbursing bank prior to the receipt by it of a notice of cancellation or reimbursement amendment.
- An authorization or request by the issuing bank to the reimbursing bank to issue a reimbursement undertaking is irrevocable. ("irrevocable reimbursement authorization") and must (in addition to the requirement of article I for incorporation of reference to these rules) contain the following (credit number, currency and amount, additional amounts payable and tolerance, if any, full name and address of the claiming bank to which the reimbursement undertaking should be issued, latest date for presentation of a claim, including any usance period, parties responsible for charges.
- If the latest date for presentation of a claim fails on a day when the reimbursing bank is closed, the latest date for presentation of a claim will be extended to the first following banking day.
- A reimbursement undertaking cannot be amended or cancelled without the agreement of the claiming bank.
- A reimbursing bank shall have a maximum of 3 banking days following the day of the reimbursement claim to process the claim. A reimbursement claim received outside banking hours will be deemed to be received on the next following banking day.
- if the reimbursing bank determines not to reimburse, either because of a non-conforming claim under a reimbursement undertaking or for any reason whatsoever under a reimbursement authorization, it shall give notice to that effect by telecommunication or, if that is not possible, by other expeditious means, no later than the close of the third banking day following the day of receipt of the claim. Such notice shall be sent to the claiming bank and the issuing bank and, in the case of a reimbursement undertaking, it must state the reasons for non-payment of the claim.
- A reimbursing bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism by any strikes or lockouts or any other causes beyond its control.
- A reimbursing bank's charges are for the account of the issuing bank.
- Any claim for loss of interest. Loss of value due to any exchange rate fluctuations, revaluations or devaluations are between the claiming bank and the issuing bank, unless such losses result from the non performance of the reimbursing bank under a reimbursement undertaking.

INTERNATIONAL COMMERCIAL TERMS (INCOTERMS)

INCO terms are a series of international sales terms, published by International Chamber Of Commerce (ICC) and widely used in international commercial transactions. These are accepted by governments, legal authorities and practitioners worldwide for the interpretation of most commonly used terms in international trade. This reduces or removes altogether, uncertainties arising from different interpretation of such terms in different countries. They closely correspond to the **U.N.** Convention on contracts for the international sale of goods. The first version of INCO terms was introduced in 1936. INCO terms 2010 (8th edition) were published on Sept 27, 2010 and these came into effect wef Jan 1, 2011.

Main changes in INCOTERMS 2010

I. Removal of 4 terms (DAF, DES, DEQ and DDU) and introduction of 2 new terms (DAP - Delivered at Place and DM - Delivered at Terminal). As a result, there will be a total of 11 terms instead of 13 (2 additions, DAP and DAT and 4 deletions, DAF, DDU, DEQ and DES).

2. Creation of 2 classes of INCOTERMS - (1) rules for any mode or modes of transport and (2) rules for sea and inland waterway [INCOTERMS 2000 had 4 categories namely E (covering departure), F (covering main carriage unpaid), C (covering main carriage paid) and D (covering arrival)].

Class-1 terms

1. **EXW** means that a seller has the goods ready for collection at his premises (works, factory, warehouse, plant) on the date agreed upon. The buyer pays transportation costs and bears the risks for bringing the goods to their final destination. This term places the greatest responsibility on the buyer and minimum obligations on the seller.

2. **FCA — Free Carrier** (named places) : The seller hands over the goods, cleared for export, into the custody of the first carrier (named by the buyer) at the named place. This term is suitable for all modes of transport, including carriage by air, rail, road, and containerized / multi-modal sea transport.

3. **CPT—Carriage Paid To** (named place of destination): (The general/containerized/ multimodal equivalent of CFR) The seller pays for carriage to the named point of destination, but risk passes when the goods are handed over to the first carrier.

4. **CIP — Carriage and Insurance Paid** (To) (named place of destination): The containerized transport/multimodal equivalent of CIF. Seller pays for carriage and insurance to the named destination point, but risk passes when the goods are handed over to the first carrier.

5. **DAP :** delivered at place

6. **DAT :** delivered at terminal

7. **DDP — Delivered Duty Paid** (named destination place): This term means that the seller pays for all transportation costs and bears all risk until the goods have been delivered and pays the duty. Also used interchangeably with the term "Free Domicile". It is the most comprehensive term for the buyer. In most of the importing countries, taxes such as (but not limited to) VAT and excises should not be considered prepaid being handled as a "refundable" tax. Therefore VAT and excise usually are not representing a direct cost for the importer since they will be recovered against the sales on the local (domestic) market.

Class-2 terms

8. **FAS — Free Alongside Ship** (named loading port): The seller must place the goods alongside the ship at the named port. The seller must clear the goods for export. Suitable for maritime transport only but NOT for multimodal sea transport in containers. This term is typically used for heavy-lift or bulk cargo.

9. **FOB —** Free on board (named loading port): The seller must themselves load the goods on board the ship nominated by the buyer, cost and risk being divided at ship's rail. The buyer must instruct the seller the details of the vessel and port where the goods are to be loaded, and there is no reference to, or provision for, the use of a carrier or forwarder.

10. **CFR or CNF — Cost and Freight** (named destination **port):** Seller must pay the costs and freight to bring the goods to the port of destination. The risk is transferred to the buyer once the goods have crossed the ship's rail. Maritime transport only and Insurance for the goods is NOT included. Insurance is at the Cost of the Buyer.

11. **CIF — Cost, Insurance and Freight** (named destination port): Exactly the same as CFR except that the seller must in addition procure and pay for insurance for the buyer (Maritime transport only).

Operational aspects of Negotiation and payment

1. **Crystallisation of foreign currency liability : On** receipt of documents from nominated bank, the issuing bank is required to make payment immediately for sight LCs and on due date in case of usance LC. If there is delay, the bank converts foreign currency liability into rupee liability maximum within ro days from due date, at bills selling rate or at forward rate, if booked.

2. **Evidence of import :** The importer in India is required to submit Bill of Entry or other documents of evidence of import of goods. If there is delay beyond 6 months from date of payment, in submission of the document of evidence, the bank is required to report the matter to RBI by submitting a half-yearly return on Form BEF within 15 days.

Standby Letter of Credit (Guarantee)

In certain countries like USA, the bank guarantees are not used. To cover trade transactions, standby LC is used as a substitute for bank guarantee. In such LC there are minimum documents such as proof of delivery or proof of non-performance or simple claim form. In India, this LC has been allowed by RBI after adoption of International Standby Practices (ISP-98), which is a set of rules, relating to standby LC and formulated by International Chamber of Commerce.

Issue of Standby LC by ADs in India : As per RBI guidelines, such LC can be issued as a document of promise in respect of non-performance situation especially as a substitution to the guarantee which ADs are allowed to issue under **FEMA. Such a LC can be in** respect of debt or obligation or other liability incurred by

(1) an exporter on account of exports into India

(2) owned to a person resident **in** India by a person resident outside India for a bona fide trade transaction duly covered by a counter guarantee of a bank of international repute

(3) exporters may also opt to receive standby LC in respect of exports from India. The facility of issuing standby LC can be extended on selective basis to following category of importers:

1. Independent power producers / importers of crude oil and petroleum products.
2. Special category of importers (Export houses, trading houses, star trading houses, 100% EOUs
3. Public sector undertakings or Public limited companies with good track record.

Invocation. : Beneficiary should claim payment by submitting proper documents which may include copy of invoice, non-negotiable set of documents, copy of inspection certificate etc.

While opening standby LCs, the banks should also observe International Standby Practices-1998.

FACILITIES FOR EXPORTERS AND IMPORTERS

In India, Export trade is regulated by the Directorate General of Foreign Trade (DGFT), which functions under the Ministry of commerce and Industries, of Government of India. While the policies and procedures required to be followed for export trade are announced by the DGFT, financing of export trade and facilities granted under FEMA regulations are governed by the RBI regulations/guidelines. Similarly, import trade is also governed by DGFT, with regulations relating to imports and other payments, as provided under FEMA, are governed by RBI regulations.

Exchange Control regulations as well as Imports and Exports Trade Control regulations are applicable to all transactions related to international trade. The Reserve Bank of India, with powers delegated under FEMA 1999, regulates the Exchange Control and receipts/payments of foreign exchange part through various guidelines, FEMA amendments, while the office of the Director General of Foreign Trade (DGFT), regulates the Trade Control part, through the Exim Policy and periodic announcements with a view to expand or control the international business of the country.

The Reserve Bank of India also governs the broad parameters of the guidelines in financing of exporters, to make available credit to exporters at international levels of interest rates to enable them to compete in the international markets.

Similarly, guidelines and procedural requirements for import of goods, so as to guard the precious foreign exchange reserves on one hand and to expand the base for improved technology and competitive environment, are also covered in the Exim Policy for import of goods and services. The authorized dealer has to ensure compliance of several guidelines including not allowing the banned or restricted items of export/import, without proper approvals.

Importer-exporter code number : All persons engaged in export-import trade is required to obtain IEC number from DGFT. It is a registration number and is to be quoted in all declarations etc.

Manner of receipt of export proceeds: (i) The amount can be received through AD Banks in the form of (a) Bank draft, pay order, banker's or personal cheques (b) Foreign currency notes/travellers' cheques from the buyer during his visit to India. (c) Payment out of funds held in the FCNR/NRE account maintained by the buyer (d) International Credit Cards of the buyer (e) Wef Jan oz, 2009, Asian Clearing Union participants can settle their transactions in ACU Dollar or in ACU Euro (equivalent in value to one US Dollar and one Euro, respectively).

Realisation and Repatriation of export proceeds:

(a) Units in SEZs, EHTPs, STPs, l00% EOU: max 9 months

(b) Exported to a warehouse established outside India : Max 15 months from the date of shipment of goods; and

(c) Other cases: With effect from 9 months.

Offices and Immovable Property for Overseas Offices:

For setting up of the office, AD-I banks may allow remittances towards initial expenses up to 15% of the average annual sales/income or turnover during the last 2 financial years or up to 25% of the net worth, whichever is higher. For recurring expenses, remittances up to 10% of the average annual sales/income or turnover during the last 2 financial years may be sent.

Advance Payments against Exports: The exporter shall ensure that the shipment

of goods is made within one year;

ii. the rate of interest payable on the advance payment does not exceed London Inter-Bank Offered Rate (LIBOR) + loo basis points.

Part Drawings /Undrawn Balances: Where it is the practice to leave a small part of the invoice value undrawn for payment after adjustment due to differences in weight, quality, etc. to be ascertained after arrival AD-I banks may negotiate the bills, subject to a maximum of lo% of the full export value.

Opening / Hiring of Ware houses abroad: Banks may grant permission for opening / hiring warehouses abroad if export outstanding does not exceed 5% of exports made during the previous financial year and applicant has a minimum export turnover of USD loo,o00/- during the last financial year.

Operational Guidelines for banks

Delay in submission of shipping documents : If documents are presented after the prescribed period of adays, banks may handle them without prior approval of RBI if satisfied with the reasons for the delay.

Export Bills Register : Banks should maintain Export Bills Register. Details of GR /SDF /PP /SOFLEX form number, due date of payment, the fortnightly period of R Supplementary Return with which the ENC statement covering the transaction was sent to RBI, should be available. Banks are to give bill numbers on a financial year basis.

Follow-up of Overdue Bills : Where bills remain outstanding, beyond the due date and the exporter fails to arrange proceeds within 12 months or seek extension of time, matter should be reported to RBI.

The copies of GR Forms should, be held by banks until the full proceeds are realised.

Report to RBI: Banks should furnish a statement in Form XOS, to the RBI (end of June and Dec), giving details of all export bills outstanding beyond 6 months from the date of export, in triplicate, within 15 days from the close of the relative half-year *(from Dec 2015, submission of this statement has been discontinued).*

Reduction in Invoice Value on Account of Prepayment of Usance Bills: Banks may allow cash discount to the extent of amount of proportionate interest on the unexpired period of usance.

Reduction in Invoice Value in other cases :

(i) In case of a bill negotiated or sent for collection, if its amount is to be reduced, banks may allow reduction, if it does not exceed 2596 of invoice value.

(ii) For exporters in the export business for more than 3 years, reduction can be without any percentage ceiling (subject to the conditions that the export outstandings do not exceed **5%** of the average annual export realisation during the preceding 3 financial years).

Change of buyer/consignee: Prior **RBI** approval is not required if goods are to be transferred to a different buyer due to default by original buyer if reduction in value, if any, does not exceed 25% of the invoice value and the realisation of export proceeds is not delayed beyond the period of 12 months.

Extension of time and Self write-off by the exporters: For export proceeds due within the prescribed period during a financial year, exporters can write off (including reduction in invoice value) outstanding export dues and extend the prescribed period of realisation beyond 12 months or further, if the aggregate value of such export bills written-off (including value reduction) and bills extended for realisation does not exceed 1096 of the export proceeds due during the financial year. Within a month from the close of the financial year, exporters should submit a statement of export proceeds due, realised and not realised to the AD-I banks concerned.

Extension of Time: AD- I banks can extend the period of realisation of export proceeds beyond 12 months from the date of export, up to a period of 6 months, at a time. For extension **beyond one** year, the total outstanding of the exporter does not exceed USD one million or io% of the average export realisations during the preceding 3 financial years, whichever is higher.

Write off by AD Category — I banks: Banks can allow write off if the amount has remained outstanding for one year or more and the aggregate amount of write off allowed during a financial year does not exceed 10% of the total export proceeds realised by the concerned exporter during the previous financial year.

AD-I banks are to send a statement in form EBW to RBI, indicating details of write offs etc., every half year ended 31st March and 30th September within **15** days from the date of completion of the relevant half year.

Exporters' Caution List: Banks are advised by RBI whenever exporters are cautioned. Banks should obtain prior approval of **RBI** for issuing guarantees for caution-listed exporters.

EXPORT CREDIT

Exports involve movement of goods and services and matching settlements in various currencies. The movement of goods and services is regulated by Trade Control Authority such as Director General of Foreign Trade (through Foreign Trade **Development** and Regulation Act, Exim Policy Handbook), the movement of currency is regulated by Reserve Bank (through Foreign Exchange issue Regulations, Exchange Control Manual). The negative list of exported goods and services are grouped under the category of prohibited items, canalised items and restricted **items.**

Rupee Pre-shipment Credit/Packing Credit

'Pre-shipment / Packing Credit' means a loan or advance provided by a bank to an exporter for financing the purchase, processing, manufacturing or packing of goods prior to shipment / working capital expenses towards rendering of services on the basis of export order from an overseas buyer.

Period of Advance: (i) The period can be decided by the banks on the basis of time required for procuring, manufacturing or processing and shipping the relative goods / rendering of services.

(ii) If advances are not adjusted by submission of export documents within **36o** days from the date of advance, **the** advances will cease to qualify for concessive rate of interest to the exporter **ab** initio.

Disbursement of Packing Credit : Each packing credit sanctioned is to be maintained as separate account for the purpose of monitoring period of sanction and end-use of funds.

Liquidation of Packing Credit: The packing credit is to be liquidated out of proceeds of bills drawn for the exported commodities on its purchase, discount etc. (conversion of pre-shipment credit into post-shipment credit). It can also be repaid / prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent exports have actually taken place.

Where partial domestic sale is involved: For the credit covering such non-exportable portion, banks are to charge interest rate applicable to the domestic advance from the date of advance.

(b) Export of deoiled /defatted cakes: Advances can be given against HPS groundnut and deoiled / defatted cakes to the extent of the value of raw materials required even though the value exceeds the value of export order. The advance in excess of the export order is required to be adjusted either in cash or by sale of residual by-product oil within a period not exceeding **3o** days from the date of advance to be eligible for concessional rate of interest.

Operational flexibility for good track record exporters:

(a) Repayment / liquidation of packing credit with export documents relating to any other order covering the same or any other commodity exported by the exporter. (b) The existing packing credit may also be marked-off with proceeds of export documents against which no packing credit has been drawn by the exporter.

`Running Account Facility (to other than sub-suppliers)

(i) Banks can extend this facility, without insisting on prior lodgement of letters of credit / firm export orders to exporters having good track record and to EOUs / Units in FTZ/EPZs/SEZs. In these cases the LC / firm orders should be produced within a reasonable period.

(ii) Banks should mark off individual export bills, when received for negotiation / collection, against the earliest outstanding pre-shipment credit on 'First In First Out' (FIFO) basis. Individual pre-shipment credit should not go beyond 36o days from the date of advance. Facility should not be granted to sub-suppliers.

Export Credit against proceeds of Cheques/Drafts representing advance payment for Exports: Where exporters receive direct remittances from abroad by means of cheques, drafts etc. in payment for exports, banks may grant export credit at concessive interest rate **to** exporters of good track record till the realisation of proceeds of the cheque, draft etc. received from abroad.

Packing Credit to Sub-Suppliers: It can be shared between an Export Order Holder (EOH) and sub-supplier of raw materials, components etc. of the exported goods as in the case of EOH and manufacturer suppliers.

Export of Services: Credit can be provided to exporters of all the 161 tradable services covered under the General Agreement on Trade in Services (GATS) where payment for such services is received in free foreign exchange. The provisions applicable to export of goods apply mutatis mutandis to export of services.

Export credit Refinance : It was available earlier but from February 2015, it has been withdrawn.

POST-SHIPMENT RUPEE EXPORT CREDIT

'Post-shipment Credit' advance is granted to an exporter of goods / services from India, from the date of extending credit after shipment of goods / rendering of services to the date of realisation of export proceeds. **It** can mainly take the form of -

(i) Export bills purchased/discounted/negotiated.

(ii) Advances against bills for collection.

(iii) Advances against duty drawback receivable from Government.

Liquidation of Post-shipment Credit: It is to be liquidated by the proceeds of export bills received from abroad for goods exported / services rendered. It can be repaid out of balances in EEFC A/c as or from proceeds of other unfinanced (collection) bills.

Period : (i) In the case of demand bills, the period of advance shall be the Normal Transit Period (NTP) as specified by **FEDAI.**

(ii) In case of usance bills, credit can be granted for a maximum duration of 9 months, in normal cases, from date of shipment inclusive of Normal Transit Period (NTP) and grace period, if any. (iii) 'Normal transit period' means the average period normally involved from the date of negotiation / purchase / discount till the receipt of bill proceeds in the NOSTRO account of the bank concerned, as prescribed by FEDAI from time to time. It **is** not to be confused with the time taken for the arrival of goods at overseas destination.

Advances against Undrawn Balances on Export Bills: Banks can grant advances against undrawn balances at concessional rate of interest for a maximum period of go days only provided such remittances are received within **180** days after the expiry of NTP. For the period beyond go days, the rate of interest specified for the category 'ECNOS' at post-shipment stage may be charged.

Advances against Retention Money: Banks can grant advances against retention money for supplies portion of the contract. Where the retention money is payable within a period of one year from the date of shipment, banks should charge prescribed concessive rate of interest up to a maximum period of go days. Where the retention money is payable after a period of one year from the date of shipment, the banks can decide the rate of interest.

Export on Consignment Basis: Export on consignment basis should be at par with exports on outright sale basis on cash terms in matters regarding the rate of interest to be charged by banks on post-shipment credit.

Export of Goods for Exhibition and Sale: Banks may provide finance to exporters against goods sent for exhibition **and** sale abroad in the normal course in the first instance, and after the sale is completed, allow the benefit of **the** concessive rate of interest on such advances, both at the pre-shipment stage and at the post-shipment stage, up to the stipulated periods, by way of a rebate.

Post-shipment Credit on Deferred Payment Terms: Credit can be extended for a period exceeding one year, in respect of export of capital and producer goods as specified by **RBI.**

Export credit Refinance : It was available earlier but from February 2015, it has been withdrawn.

Advances against Duty Drawback Entitlements

Banks may grant post-shipment advances to exporters against duty drawback entitlements and covered by ECGC guarantee, as provisionally certified **by** Customs Authorities pending final sanction and payment. It can also be made available to exporters against export promotion copy of the shipping bill containing the EGM Number issued by the Customs Department. These advances would be eligible for concessional rate of interest but not less than base rate of the bank. Refinance from RBI up to a maximum period of go days from the date of advance which was available earlier has been withdrawn w.e.f. 07.02.15.

EXPORT CREDIT IN FOREIGN CURRENCY

Pre-shipment Credit in Foreign Currency (PCFC)

The scheme is an additional window for providing pre-shipment credit. The objective is to make credit available to exporters at internationally competitive rates. It will be applicable **to** only cash exports. The instructions with regard to Rupee Export Credit apply to export credit in Foreign Currency also.

Options with the exporter to avail export finance:

(a) to avail of pre-shipment credit in rupees and then the post-shipment credit either in rupees or discounting/ rediscounting of export bills under **EBR** Scheme.

(b) to avail of pre-shipment credit in foreign currency and discount/ rediscounting of the export bills in foreign currency under EBR

Scheme.

(c) to avail of pre-shipment credit in rupees and then convert drawals into PCFC at the discretion of the bank.

Choice of currency

(a) The facility may be extended in one of the convertible currencies viz. US Dollars, Pound Sterling, Japanese Yen, Euro, etc.

(b) Banks can extend PCFC in one convertible currency in respect of an export order invoiced in another convertible currency. The risk and cost of cross currency transaction will be that of the exporter.

(d) The applicable benefit to the exporters will accrue only after the realisation of the export bills. **Source of Funds for Banks**

(i) The foreign currency balances in EEFC Accounts, RFC(D) and FCNR-B OR under Escrow Accounts and Exporters Foreign Currency Accounts.

(ii) Foreign currency borrowings

a. Banks may negotiate lines of credit with overseas banks. The rate of interest should not exceed 250 basis points above LIBOR/ EURO LIBOR / EURIBOR.

b. Banks may avail of lines of credit from other banks in India. ROI from borrower would be at discretion of banks w.e.f. 5.5.2012.

Spread

(i) The spread for pre-shipment credit in foreign currency will be related to the international reference rate such as LIBOR/EURO LIBOR/EURIBOR (6 months).

(ii) The lending rate to the exporter to be decided by banks by linking to LIBOR / EURO LIBOR/EURIBOR, excluding withholding tax.

(iii) LIBOR / EURO LIBOR / EURIBOR rates are normally available for standard period of 1, 2, 3, 6 and 12 months. Banks may quote rates on the basis of standard period if PCFC is required for periods less than 6 months. However, while quoting rates for non-standard period, banks should ensure that the rate quoted is below the next upper standard period rate.

(iv) Banks may collect interest on PCFC at monthly intervals against sale of foreign currency or out of balances in EEFC accounts or out of discounted value of the export bills if PCFC is liquidated.

Period of Credit

(i) The PCFC will be available for a maximum period of 36o days. Any extension of the credit will be subject to the same terms and conditions as applicable for extension of rupee packing credit.

Liquidation of PCFC Account

PCFC can be liquidated out of proceeds of export documents on their submission for discounting/rediscounting under the EBR Scheme or by grant of foreign currency loans (DP Bills). It can also be repaid / prepaid out of balances in EEFC A/c as also from rupee resources of the exporter to the extent exports have actually taken place.

Running Account Facility for All Commodities

Banks can extend the 'Running Account' facility under the PCFC Scheme to exporters for all commodities, on the lines of the facility available under rupee credit.

Refinance : Banks will not be eligible for any refinance from RBI against export credit under the PCFC scheme.

Post-shipment Export Credit in Foreign Currency

Banks may utilise the foreign exchange resources available with them in EEFC accounts, RFC accounts, FCNR-B Accounts, to discount usance bills and retain them in their portfolio without resorting to rediscounting. Banks can also rediscount export bills abroad at rates linked to international interest rates at post-shipment stage.

Bankers' Acceptance Facility :

Banks may arrange a "Bankers Acceptance Facility" (BAF) for rediscounting the export bills without any margin and duly covered by collateralised documents.

Each bank can have its own BAF limit(s) fixed with an overseas bank or a rediscounting agency or an arrangement with any other agency such as factoring agency on 'without recourse' basis only.

The exporters, on their own, can arrange for themselves a line of credit with an overseas bank or any other agency (including a factoring agency) for discounting their export bills direct.

Eligibility Criteria

(i) The Scheme will cover mainly export hills with ilsanre. period up to 180 days from the date of shipment.

In case borrower is eligible to draw usance bills for periods exceeding 180 days, Post-shipment Credit under the EBR may be provided beyond 180 days.

(ii) The facility under the Scheme of Rediscounting may be offered in any convertible currency.

Refinance : Banks will not be eligible for refinance from the RBI against export bills discounted/ rediscounted under the Scheme.

Gold Card Scheme for Exporters

With the objective of simplifying the access to bank credit by exporters, RBI worked out the Scheme that envisages certain additional benefits based on the record of performance. The major features of the scheme are as under:

Eligibility criteria for issue of gold cards:

- All credit worthy exporters (including in the small and medium sector) with good track record in the opinion of the concerned bank, are eligible.
- Exporters whose accounts have been classified as Standard continuously for a period of 3 years and there are no irregularities / adverse features in the conduct of account, are to be treated good track record, for the purpose of the scheme.
- Exporters that are black listed by ECGC or included in RBI's defaulters/caution list or that are making losses for the past 3 years are not eligible. (The condition relating to overdue exports bills in excess of 10% of current year's turnover, withdrawn during Sept 2009) Credit limit fixation for

issue of gold card:

- Taking into account the anticipated export turnover and track record of the exporter, the banks can determine need-based finance with a liberal approach.
- The in-principle limit will be sanctioned for a period of 3 years with a provision for automatic renewal subject to fulfillment of terms and conditions. In case of misuse of the card or violation of the terms, the banks will have the right to recall the card at any time.
- Banks may decide the terms and conditions including interest rate with a softer bias towards gold card holders, through a transparent mechanism.
- Gold Card holders would be given preference in the matter of granting of packing credit in foreign currency. Banks will consider granting term loans in foreign currency in deserving cases out of their FCNR (B), RFC etc. funds. (Banks may not grant such loans from their overseas borrowings under the 25% window of overseas borrowings.)

Time frame for disposal of the applications: Fresh proposals : 25 days, renewals : 15 days and ad. hoc limits: 7 days.

Stand-by limits: A stand-by limit of not less than 20% of the assessed limit may be additionally made available to facilitate urgent credit needs for executing sudden order. For seasonal commodities, the peak and off-peak levels may be appropriately fixed to meet the sudden orders.

Loan application format : Banks should have rationalized and simplified loan application forms to capture only such relevant particulars, that are relevant for sanction of export credit limits. Format devised by IBA may be adopted by banks with suitable modification, for this purpose.

Norms for inventory : For unanticipated export orders, norms may be relaxed, taking into account the size and nature of the export order.

Rate of interest : Banks to provide best rates possible on the basis of their rating and past performance.

ECGC guarantee : These exporters may be exempted from obtaining ECGC guarantee under Packing Credit Guarantee-Sectoral scheme, in deserving cases, at discretion of the bank. The norms in respect of collateral security may be relaxed while granting credit facilities to these exporters.

Other facilities : The facility of further value addition to their cards through supplementary services like ATMs, Internet banking, international debit/credit cards may be decided by the issuing bank.

Charges: Charges should be lower for gold card exporters than those provided to other exporters. Service charges at flat rate of o.196 may be charged on inter-bank foreign currency borrowing for lending to exporters.

Interest on Export Credit

Banks can decide the lending rate on export credit at or above the Base Rate with effect from July 1, 2010.

ECNOS : For Export Credit Not Otherwise Specified (ECNOS) in the Interest Rate structure, banks are free to decide the rate of interest. Banks should not charge penal interest in respect of ECNOS.

Interest Rate on Export Credit in Foreign Currency

Banks can fix their own rates of interest with reference to ruling LIBOR, EURO LIBOR or EURIBOR, wherever applicable

Interest **Equalization Scheme for Rupee Pre-shipment and Post-shipment credit** The Govt. approved the scheme to remain in force for 5 years w.e.f 1st April, 2015.

(a) The rate of interest equalisation is 3% p.a. It is available on Rupee Export Credit.
(b) It is for all exports under 416 tariff lines [ITC (HS) code of 4 digit) and exports by MSMEs for all ITC(HS) codes. It is not be available to merchant exporters.
(c) Banks are to pass on the benefit upfront.
(d) Ministry of Commerce and Industry will place funds in advance with RBI for a requirement of one month and reimbursement would be made on a monthly basis through a revolving fund system.
(e) Eligible exports should meet the criteria of minimum processing for goods (called 'Originating from India' as per Foreign Trade Policy 2015-20).

Procedure to claim reimbursement:
The sector-wise consolidated monthly reimbursement claim for interest equalisation should be submitted to RBI Central Office within 15 days from the end of the respective month.

RBI shall send a monthly report to Deptt of Commerce/DGFT indicating reimbursement made commodity wise/bank wise.

EXPORT DECLARATION FORMS

Exporters, in all eases, have to declare before the Customs authority, full export value of the goods and affirm that the full value will be received within the prescribed period in the prescribed manner. Declaration in duplicate in case of export of goods is before the Commissioner of Customs. Duplicate is given to exporter, who submits it to Customs alongwith cargo. After certifying the quantity for shipment, this duplicate is returned to exporters for submitting to AD at the time of negotiation.

In case of software export, the declaration is before the Designated Official of Ministry of Information Technology in triplicate.

Presently there are 4 types of export declaration forms in use, such as:

EXPORT DECLARATION FORMS

Form	Where to use
EDF Form	Export of goods by post or other than by post. (Previously form SDF was also used, but it has been discontinued from May 2015)
SOFTEX Form	In case of export of computer software in non-physically form.

EXEMPTIONS FROM DECLARATIONS

Notwithstanding anything contained in regulation 3, export of goods or services may be made without furnishing the declaration in the following cases, namely:

1. Trade samples of goods and publicity material supplied free of payment;
2. Personal effects of travellers, whether accompanied or unaccompanied;
3. Ship's stores, trans-shipment cargo and goods supplied under the orders of central government or of such ornftErti a:5 may be appointed by the central government in this behalf or of the military, naval or air force authorities in India for military, naval or air force requirements;
4. By way of gift of goods accompanied by a declaration by the exporter that they are not more than five lakhs rupees in value;
5. Aircrafts or aircraft engines and spare parts for overhauling and/or repairs abroad subject to their reimport into India after overhauling /repairs, within a period of six months from the date of their export;
6. Goods imported free of cost on re-export basis;
7. Goods not exceeding US$ 1000 or its equivalent in value per transaction exported to Myanmar under the baiter trade agreement between the central government and the government of Myanmar;

Export of goods not involving any foreign exchange transaction directly or indirectly requires the waiver of GR/PP procedure from the Reserve Bank.

DIAMOND DOLLAR ACCOUNT

Under the scheme of Government of India, firms and companies dealing in purchase / sale of rough or cut and polished diamonds / diamond studded jewellery, with track record of at least 2 years in import or export of diamonds and having an average annual turnover of Rs. 3 crores or above during the preceding three licensing years (licensing year is from April to March) are permitted to transact their business through Diamond Dollar Accounts and may be allowed to open not more than five (5) Diamond Dollar Accounts with their banks. Accordingly, eligible firms and companies may apply for permission through their Authorised Dealer bank to the Reserve Bank of India.

EXCHANGE EARNERS' FOREIGN CURRENCY (EEFC) ACCOUNT

i) A person resident in India may open with, an Authorised Dealer bank in India, an account in foreign currency called the Exchange Earners' Foreign Currency (EEFC) Account.

ii) The limits of eligible credits to the EEFC accounts are 100 per cent. FC amount credited in the account is to be converted in to rupees by end of the month next to the month of credit.

iii) This account shall be maintained only in the form of non-interest bearing current account and no credit facilities, either fund-based or non-fund based, shall be permitted against the security of balances held in EEFC accounts by the Authorised Dealers banks.

iv) The eligible credits represent inward remittance received through normal banking channel, other than the remittance received pursuant to any undertaking given to the Reserve Bank or which represents foreign currency loan raised or investment received from outside India or those received for meeting specific obligations by the account holder.

v) Payments received in foreign exchange by a unit in Domestic Tariff Area (DTA) for supplying goods to a unit in Special Economic Zone out of its foreign currency account are to be treated as eligible foreign exchange earnings for the purpose of credit to the EEFC account.

vi) Authorised Dealer banks may, till further notice, permit their exporter constituents to extend trade related loans / advances to overseas importers out of their EEFC balances without any ceiling as amended from time to time.

vii) Authorised Dealer banks may permit exporters to repay packing credit advances whether availed in Rupee or in foreign currency from balances in their EEFC account and / or rupee resources to the extent exports have actually taken place.

IMPORTS INTO INDIA

Import of Goods and Services into India is allowed in terms of Section 5 of FEMA 1999. Import trade is regulated by the DGFT. AD-1 banks are to ensure that the imports are in conformity with the Foreign Trade Policy and Foreign Exchange Management (Current Account Transactions) Rules, 2000 framed by Govt of India and the directions issued by RBI under FEMA 1999, from time to time.

General Guidelines for imports

Import payment application : For payments, exceeding USD 5000 or its equivalent, Form A-1 was to be used. From February 2015 onwards, submission of Form-Ai has been dispensed with.

Import Licences : AD-1 banks can open LC on the basis of Exchange Control copy of licence and allow remittances for import (except for goods included in the negative list which require licence).

Obligation of Purchaser of Foreign Exchange

Where forex is used for import of goods, AD—I banks are to ensure that the importer furnishes evidence of import viz., Exchange Control copy of the Bill of Entry, Postal Appraisal Form or Customs Assessment Certificate, etc.

Time Limit for Settlement of Import Payments: Normal imports maximum 6 months from the date of shipment.

Deferred payment arrangements including suppliers and buyers credit (6 months up to a period of less than 3 years): As per RBI procedural guidelines.

Operational Guidelines for Imports Advance Remittance: Import of Goods

(a) If the amount exceeds USD 100,000, an unconditional, irrevocable standby LC or a guarantee from an international bank outside India or a guarantee of an AD—I bank in India, if such a guarantee is issued against the counter-guarantee of an international bank of repute situated outside India.

(b) where the importer (other than a PSU) is unable to obtain bank guarantee from overseas suppliers, the requirement of the bank guarantee may not be insisted upon for advance remittances up to USD 5,000,000.

(c) PSU not in a position to obtain a guarantee from an international bank of repute is to obtain a specific waiver for the bank guarantee from the Ministry of Finance for amount exceeding USD loo, 000.

(d) Advance Remittance for Import of Rough Diamonds without any limit and without bank guarantee or standby LC, by an importer (other than PSU), for import of rough diamonds into India from specified mining companies.

(e) Advance Remittance for Import of Aircrafts/Helicopters and other Aviation Related purchases without obtaining a bank guarantee or a standby LC, up to USD 50 million.

Advance Remittance for the import of services AD—I bank may allow advance

remittance:

(a) Where the amount of advance exceeds USD 500,000 or its equivalent, a guarantee from a bank of international repute situated outside India, or a guarantee from an AD-I bank in India, if such a guarantee is issued against the counter-guarantee of a bank of international repute situated outside India, should be obtained from the overseas beneficiary.

Interest on Import Bills: AD-I bank may allow payment of interest on usance bills or overdue interest for a period of less than 3 years from the date of shipment at the rate prescribed for trade credit from time to time.

Receipt of Import Bills/Documents:

AD-1 bank can make remittances where import bills have been received directly by the importers from the overseas supplier, in the following cases:

(i) value of import bill does not exceed USD 300,000.

(ii) received by wholly-owned Indian subsidiaries of foreign companies from their principals.

(iii) received by Status Holder Exporters.

(iv) received by all limited companies.

Receipt of import documents by the AD-I bank directly from overseas suppliers : Bank may receive bills directly from the overseas supplier if bank is fully satisfied about the financial standing/status and track record of the importer customer.

Evidence of Import

Physical Imports

(i) where value of forex exceeds USD 100,000, AD-I bank is to ensure that the importer submits :-

(a) Exchange Control copy of the Bill of Entry for home consumption, or (b) Exchange Control copy of the Bill of Entry for warehousing, in case of 100% Export Oriented Units, or (c) Customs Assessment Certificate or Postal Appraisal Form, as declared by the importer to the Customs Authorities, where import has been made by post, as evidence that the goods for which the payment was made have actually been imported into India.

(ii) In respect of imports on D/A basis, AD-I bank can allow maximum 3 months from the date of remittance, to the importer to submit the evidence of import.

Non Physical Imports : A certificate from Chartered Accountant that the software / data / drawing/ design has been received by the importer, may be obtained.

Verification and Preservation: Internal inspectors or auditors should carry out verification of the documents evidencing import which should be preserved by banks for a period of one year from the date of its verification.

Follow up for Import Evidence

(i) If importer does not furnish any documentary evidence of import, within 3 months from the date of remittance involving foreign exchange exceeding USD100,000, the AD- bank should rigorously follow-up for next 3 months.

(ii) AD-I bank should forward a statement on half-yearly basis (end of June & Dee), in form BEF furnishing details of import transactions, exceeding USD 100,000 in respect of which importers have defaulted in submission of appropriate document evidencing import within 6 months to **RBI,** within 15 days from the close of the half-year to which the statement relates.

(iii) Bank need not follow up submission of evidence of import involving amount of USD 100,000 or less.

[As per Ministry of Finance notification (31.03.2016), w.e.f. 01.04.16, the 'Bill of Entry' has been replaced by an 'Integrated Declaration, covering all information for import clearance. The Importer is to submit the declaration electronically to a single entry point, i.e. Customs Gateway (ICEGATE). The importers will submit AD Code of the bank that will be making outward remittance of foreign exchange for imported goods].

Issue of Bank Guarantee: AD-I banks can issue guarantee on behalf of importer customers.

Gold Loans: Nominated agencies / authorised banks can import gold on loan basis for on lending to exporters of jewellery under this scheme.

Supplier's Credit

Under supplier credit contracts the exporter supplier extends a credit to the buyer importer of capital goods. The terms can be down payment with the balance payable in instalments. The interest on such deferred payments will have to be paid on the rates determined at the time of entering into such arrangement. The deferred payments are supported by the promissory notes or bills of exchange often carrying the guarantee of importer's bank. To finance the credit given to the importer under such arrangement, the exporter raises a loan from his banker under the export credit schemes in force. In general, the export credit insurance will be an inherent part of the mechanism.

Buyer Credit

In a buyer credit transaction, the buyer importer raises a loan from a bank in the exporter's country under the export credit scheme in force on the terms conforming to the OECD consensus. The loan is drawn to pay the exporter in full and thus for the exporter, the transaction is a cash sale. Another form of the buyer

credit arrangement is, for a bank in the exporter's country, to establish a line of credit in favour of a bank or financial institutions, in the importing country. The later makes available, loans under the line of credit to its importer clients for the purchase of capital goods from the credit giving country. In India EXIM Bank makes available supplier/buyer credits and also extends line of credit to foreign financial institutions to promote exports of capital goods from India.

FACTORING

The arrangement in which short term domestic receivables on sale of goods or services are sold to an agency (known as a factor), is called the factoring. Presently two bank backed factoring companies i.e. SBI Factors and Canara Bank Factors are engaged in business of factoring, in association with SIDBI.

2 It has been introduced in India during 1991 on the Report of Kalyanasundrama Committee.

3 The factor performs the functions such as purchase of receivables, maintaining the sales or receivables ledgers, submitting sales account to the creditors, collection of debt on due dates, after collection, to return the reserve money to the seller and provide consultancy services to the customer in respect of marketing, finance and production.

4 The advantages of factoring are:

a: All the sales practically become cash sales to the seller

b: Money blocked with sundry debtors becomes available for business.

c: The seller also gets rid of collection of the receivables

d: His working capital management becomes efficient which also reduce his cost and in turn improve the possibility of better profits.

Process of Factoring

The seller of goods sells on credit basis to a reputed buyer and gets the invoices accepted for payment from the buyer.

These invoices are then assigned to a financial institution called factor, which discounts these invoices and makes payment to the seller of goods.

On due date, the factor recovers the payment from the buyer of the goods.

In case of non payment, the loss is borne by the factor in case of without recourse factoring

FORFAITING

Forfaiting represents the purchase of obligations, which fall due at some future date and arise from delivery of goods (or services) in export transactions, without recourse to the previous holder of the obligation.

Under forfaiting, the forfeiter deducts interest in advance for the whole period of credit and disburses the net proceeds to the exporter. The sole responsibilities of the exporter is to manufacture and deliver the goods to the importer, which creates a valid payment obligation of the importer.

The forfaiting originated when trade between Western and Eastern Europe was re-established during the early 6os. The growing importance of trade with developing countries in Africa, Asia and Latin America boosted the forfaiting market to an international level.

Forfaiting and Factoring : Factoring is suitable for financing smaller and short term receivables with credit period between go to iBo days, whereas forfaiting is used to finance capital goods' exports with credit terms between a few months to io years. Factoring covers the commercial risk, whereas forfaiting additionally covers the political and transfer risk.

Process of forfaiting:

- The exporter approaches the forfaitor, willing to undertake forfaiting.

- The transaction covers the export, the price of which is receivable over a medium term and it is covered by a bank guarantee or aval.
- The forfaitor stipulates an expiry date during which the exporter will make the shipment, prepare the documents and present the documents.
- The exporter gets payment immediately on presentation of documents.
- The forfaitor recovers the interest for the money, the charges for political, commercial and country risk and other incidental costs.
- The importer becomes liable for the cost of contract and receives the credit from forfaitor for a given no. of years, at a given interest rate.
- The importer's obligation is guaranteed by a bank guarantee or aval.

Security for forfaiting: The drafts (in the form of promissory notes or accepted bills of exchange) covering the transaction, are guaranteed by a bank aval (co-acceptance of bills of exchange or of promissory notes by the bank) or a bank guarantee (as a separate guarantee bond), promising to pay the amount on the given date, in the event of non-payment by the original debtor (i.e. importer). The guarantor is usually an internationally active bank, resident in the importer's country which can ascertain the importer's creditworthiness first-hand.

Repayments : The repayments are by periodic instalments, usually on 6 months intervals. The total period may range up to 7-10 years.

Instrument : Promissory Note / Bill of Exchange is issued for each installment of the supplier's credit that evidences the existence of a claim of the exporter on the importer as a result of delivery of goods and services.

Currency: The debt is denominated in a freely convertible currency. Documentation:

Normally, the following documents are required:

(a) Copy of supply contract or payment terms,

(b) Copy of signed commercial invoice,

(c) Copy of shipping documents,

(d) Letter of assignment and notification to the guarantor,

(e) Irrevocable bank guarantee or aval from internationally recognised bank.

Without Recourse Clause: By transferring the drafts, the exporter also transfers his claim to the forfaiter. This is done by the exporter by way of an endorsement in favour of the forfaiter. The endorsement excludes the endorsee's right of recourse against the previous holder of the draft.

Advantages of Forfaiting: 1.100 % risk cover as the forfaiter covers the (a) country risk (b) currency risk (c) commercial risk (d) interest rate risk.

2. Instant Cash : The forfaitor generates instant cash for the exporter that relieves his balance sheet and improves liquidity_

RISKS IN FOREIGN TRADE – ROLE OF ECGC

A risk can be defined as an unplanned event with financial consequences resulting in loss or reduced earnings. An activity which may give profits or result in loss may be called a risky proposition, due tc the uncertainty or unpredictability of the activity or trade in future. While, in human life, the risk is related to illness, impairedness or loss of life, in commercial and business activities, the business profit or loss would depend upon how the business is run or its affairs managed. In other words it can be defined as the uncertainty of the outcome. A risk in any currency, commodity or an object is due to any exposure in that particular currency, commodity or the object. Like currency risk, Commodity price risk, Interest rate risk, etc. it is an integral part of international trade.

International trade is affected by a number of additional risks, more than those that affect domestic trade. This is because of its vast arena of operations, where the buyer and the seller are located it different countries, the goods and the value of goods move in opposite directions, the currency of the country of the buyer and the currency of the country of the seller have their own values which undergc frequent change frequently, while the invoicing may be in a third currency, acceptable to both. Sometime: it is possible to identify, isolate and quantify the risks, while at other times, it may not be possible to do so.

Risk stands for probability of loss arising out of uncertainty about an event. An activity may turnout to be profitable and may result into loss also. The risk in a currency transactions or commodity transaction arises due to exposure undertaken by the bank concerned. The level of risk may be higher in case of international trade because it is surrounded by a no. of risks due to vast area of operation where the buyers and sellers are spread in different countries, the goods and value goods can more in opposite direction, there could be movement in the currency of the seller's and buyer's country.

Various kinds of risk that is involved in international trade include buyer risk, seller risk and shipping risk.

Buyer risk : The risk which a seller is exposed to and arises on account of buyer's non-acceptance of the goods OR non-payment OR delayed payment etc. The transaction is considered to be complete only when the buyer accepts the goods and seller gets the payment.

Seller risk : The risk that a buyer is exposed to and arises on account of non-shipment of goods by the seller OR delayed shipment

OR shipment of poor quality of goods.

Shipping risk : The risk that buyer and seller are exposed to and arises on account of mishandling of goods, abandonment of goods, wrong delivery of goods, delivery of goods at another destination by the intermediary like shipping company, handling agent, port authorities etc.

Other risk : The buyer and seller can face other risks also in international trade that may include the settlement risk, competition risk, price risk, legal risk ctc.

Credit risk: It relates to non-payment of the export consignment by the buyer due to his creditworthiness, such as financial problem, default, insolvency etc.

Legal and documentation risks including netting agreements and cross border insolvency. Which country's laws regulate individual contracts and the arbitration of disputes ? Could a plaintiff take action against a borrower in an overseas court where they have better prospects of success or of higher awards? There is a growing and widespread belief that, whatever goes wrong, someone else must pay. The compensation culture whatever its justification or cause, is becoming a big problem for many businesses.

Country risk: It is the risk that arises when a counter party abroad, is unable to fulfill its obligation due to reasons other than the normal risk related to lending or investment. For example, a counter party is willing and capable to meet its obligation but due to restrictions imposed by the govt. of the country or change in the polices of the govt., say on remittances etc. is unable to meet Its repayment / remittance capacity. Country risk can be very high in case of those countries that are having foreign exchange reserve problem.

Banks control country risk by putting restrictions on overall exposure, country exposure.

Operational risk : It is a potential catch that includes human errors or defalcations, loss of documents and records, ineffective systems or controls and security breaches, how often do one consider the disaster scenario.

Country Risk

RBI has desired vide its circular dated Feb 19, 2003 that banks should formulate appropriate, well documented and clearly defined 'Country Risk Management' (CRM) policies which should address the issues of identifying, measuring, monitoring and controlling country exposure risks.

- For the time being, only in respect of a country, where wef March 31, 2005, a bank's net funded exposure is i% or more of its total assets, the bank is required to formulate the CRM policy for dealing with that country risk problems.
- ECGC adopts a 7 fold classification. RBI has advised banks that till banks move over to internal rating systems, they may use the 7 category classification followed by ECGC for the purpose of classification and making provisions for country risk exposures. The ECGC classification are: Al-Insignificant Risk, A2-Low risk. B1-Moderately Low risk, B2-Moderate Risk, Ci-Moderately high risk, C2-High Risk and D-Very High Risk
- Bank Boards may set country exposure limits (to be reviewed periodically) in relation to the bank's regulatory capital (Tier I + Tier H). RBI may, if it becomes necessary, prescribe a prudential aggregate country exposure limit for the higher risk categories.
- Banks shall make provisions, with effect from the year ending 31 March 2003, on the net funded country exposures on a graded scale ranging from o. 25 to ioo per cent, according to the risk categories (for the time being for the country, where a bank's net funded exposure is 1 per cent or more of its total assets)
- The provision for country risk shall be in addition to the provisions required to be held according to the asset classification status of the asset. In the case of 'loss assets' and 'doubtful assets', provision held, including provision held for country risk, may not exceed 10096 of the outstanding.

Need for export credit insurance

Payments for exports are open to risks even at the best of times. The risks have assumed large proportions today due to the far-reaching political and economic changes that are sweeping the world. An outbreak of war or civil war may block or delay payment for goods exported. A coup or an insurrection may also bring about the same result. Economic difficulties or balance of payment problems may lead a country to impose restrictions on either import of certain goods or on transfer of payments for goods imported. In addition, the exporters have to face commercial risks of insolvency or protracted default of buyers. The commercial risks of a foreign buyer going bankrupt or losing his capacity to pay are aggravated due to the political and economic uncertainties. Export credit insurance is designed to protect exporters from the consequences of the payment risks, both political and commercial, and to enable them to expand their overseas business without fear of loss.

Export Credit Guarantee Corporation of India Limited (ECGC) — Role and Products Export Credit Guarantee Corporation of India Limited, was established in the year 1957 by the Government of India to strengthen the export promotion drive by covering the risk of exporting on credit.

Being essentially an export promotion organization, it functions under the administrative control of the Ministry of Commerce & Industry, Department of Commerce, Government of India. It is managed by a Board of Directors comprising representatives of the Government, Reserve Bank of India, banking, insurance and exporting community.

ECGC is the 5th largest credit insurer of the world in terms of coverage of national exports. The present paid-up capital of the company is Rs.800 crores and authorized capital Rs.1.000 crores. What does ECGC do?

- Provides a range of credit risk insurance covers to exporters against loss in export of goods and services.
- Offers guarantees to banks and financial institutions to enable exporters to obtain better facilities from them.
- Provides Overseas Investment Insurance to Indian companies investing in joint ventures abroad in the form of equity or

loan How does ECGC help exporters?

- Offers insurance protection to exporters against payment risks
- Provides guidance in export-related activities
- Makes available information on different countries with its own credit ratings
- Makes it easy to obtain export finance from banks/financial institutions
- Assists exporters in recovering bad debts
- Provides information on credit-worthiness of overseas buyers

ECGC Policies

1. SCR or Standard Policy

Shipments (Comprehensive Risks) Policy, commonly known as the Standard Policy, is the one ideally suited to cover risks in respect of goods exported on short-term credit, i.e. credit not exceeding 180 days. This policy covers both commercial and political risks from the date of shipment. It is issued to exporters whose anticipated export turnover for the next 12 months is more than Rs.50 lacs. (The appropriate policy for exporters with an anticipated turnover of Rs.5o lacs or less is the Small Exporter's Policy, described separately).

What are the risks covered under the Standard Policy?

Under the Standard Policy, ECGC covers, from the date of shipment, the following risks:

a. Commercial Risks Insolvency of the buyer. Failure of the buyer to make the payment due within a specified period, normally four months from the due date. Buyer's failure to accept the goods, subject to certain conditions.

b. Political Risks

Imposition of restriction by the Government of the buyer's country or any Government action, which may block or delay the transfer of payment made by the buyer.

War, civil war, revolution or civil clisturban *ens* in the buyer's country. New import restrictions or cancellation of a valid import license in the buyer's cuuntiy.

Interruption or diversion of voyage outside India resulting in payment of additional freight or insurance charges which can not be recovered from the buyer.

Any other cause of loss occurring outside India not normally insured by general insurers, and beyond the control of both the exporter and the buyer.

2. Small Exporters Policy

The Small Exporter's Policy is basically the Standard Policy, incorporating certain improvements in terms of cover, in order to encourage small exporters to obtain and operate the policy. It is issued to exporters whose anticipated export turnover for the period of one year does not exceed Rs.50 lacs.

Period of Policy: Small Exporter's Policy is issued for a period of 12 months, as against 24 months in the case of Standard Policy.

Minimum premium: Premium payable will be determined on the basis of projected exports on an annual basis subject to a minimum premium of Rs. 2000/- for the policy period.

No claim bonus in the premium rate is grnu led every year at the rate of 5% (as against once in two years for Standard Policy at the rate of 10%).

Declaration of shipments: Shipments need to be declared quarterly (instead of monthly as in the case of Standard Policy).

Declaration of overdue payments: Small exporters are required to submit monthly declarations of all payments remaining overdue by more than 6o days from the due date, as against 3o days in the case of exporters holding the Standard Policy.

Percentage of cover: For shipments covered under the Small Exporter's Policy ECGC will pay claims to the extent of 95% where the loss is due to commercial risks and 100% if the loss is caused by any of the political risks (Under the Standard Policy, the extent of cover is 9o% for both commercial and political risks).

Waiting period for claims: The normal waiting period of 4 months under the Standard Policy has been halved in the case of claims arising under the Small Exporter's Policy.

Change in terms of payment of extension in credit period: In order to enable small exporters to deal with their buyers in a flexible manner, the following facilities are allowed:

A small exporter may, without prior approval of ECGC convert a D/P bill into DA bill, provided that he has already obtained suitable credit limit on the buyer on D/A terms.

Where the value of this bill is not more than Rs.3 lacs, conversion of D/P bill into D/A bill is permitted even if credit limit on the buyer has been obtained on D/P terms only, but only one claim can be considered during the policy period on account of losses arising from such conversions.

. A small exporter may, without the prior approval of ECGC extend the due date of payment of a D/A bill provided that a credit limit on the buyer on D/A terms is in force at the time of such extension.

Resale of unaccepted goods: If, upon non-acceptance of goods by a buyer, the exporter sells the goods to an alternate buyer without obtaining prior approval of ECGC even when the loss exceeds 25% of the gross invoice value, ECGC may consider payment of claims upto an amount considered reasonable, provided that ECGC is satisfied that the exporter did his best under the circumstances to minimize the loss.

In all other respects, the Small Exporter's Policy has the same features as the Standard Policy.

3. Specific Shipment Policy - Short Term(SSP-ST)

Specific Shipment Policies - Short Term (SSP-ST) provide cover to Indian exporters against commercial and political risks involved in export of goods on short-term credit not exceeding 180 days. Exporters can take cover under these policies for either a shipment or a few shipments to a buyer under a contract. These policies can be availed of by

(i) exporters who do not hold SCR Policy and

(ii) by exporters having SCR Policy,

in respect of shipments permitted to be excluded from the preview of the SCR Policy. What are the different types of SSP (ST)?

Different types of SSP (ST)

.Specific Shipments (commercial and political risks) Policy - short-term. Specific Shipments (political risks) Policy - short-term.

. Specific Shipments (insolvency & default of L/C opening bank and political risks) Policy short-term.

4. Export (Specific Buyers) Policy

Buyer-wise Policies - Short Term (BP-ST) provide cover to Indian exporters against commercial and political risks involved in export of goods on short-term credit to a particular buyer. All shipments to the buyer in respect of whom the policy is issued will have to be covered (with a provision to permit exclusion of shipments under LC). These policies can be availed of by

(i) exporters who do not hold SCR Policy and ii) by exporters having SCR Policy,

In case all the shipments to the buyer in question have been permitted to be excluded from the purview of the SCR Policy.

What are the different types of BP (ST)?

- Buyer-wise (commercial and political risks) Policy - short-term
- Buyer-wise (political risks) Policy - short-term.

. Buyer-wise (insolvency & default of L/C opening bank and political risks) Policy - short-term.

5. Buyer Exposure Policies

Presently, in the policies offered to exporters premium is charged on the export turnover, though the Corporation's exposure on each buyer is controlled through a system of approval of credit limits on the buyer for covering commercial risks. While this suits the small and medium exporters, many large exporters having large number of shipments have been complaining about the volume of returns to be filed under the policy necessitating the deployment of their resources for this purpose and also resulting in possible unintentional omissions or commissions in such reporting, which have an impact on the settlement of claims. There has been a demand for simplification of the procedures as well as for rationalization of the premium structure. Considering the requirements of such exporters, the Corporation has decided to introduce policies on which premium would be charged on the basis of the expected level of exposure. Two types of exposure policies — one for covering the risks on a specified buyer and another for covering the risks on all buyers- are offered.

Two types of Exposure policies are offered, viz,

- Exposure (Single Buyer) Policy — for covering the risks on a specified buyer and

. Exposure (Multi Buyer) Policy — for covering the risks on all buyers.

What does an Exposure (Single Buyer) Policy cover?

An exporter can choose to obtain exposure based cover on a selected buyer. The cover would be against commercial and political risks attached to the buyer for both non-LC and LC transactions. A separate Buyer Exposure Policy will be issued for each buyer covering all the exports to be made to the buyer during a period of twelve months. If the exporter has opted for commercial and political risks cover, failure of the LC opening bank in respect of exports against LC will also be covered, for the banks with World Rank (WR) up to 25,00o as per latest Banker's almanac. For covering any bank with ranking beyond that level, the exporter has to obtain specific approval from the branch, which issued the policy prior to making the shipment. For covering the political risks only, in respect of LC transactions or shipments to associates, Buyer Exposure policy with endorsement restricting the cover to political risks only with significantly less premium is offered. This policy can be availed by exporters holding Standard Policy in respect of any of their buyers. Shipments to the buyers covered under Buyer Exposure Policies would be excluded from the purview of the Standard Policy. Risks covered would be same as covered under the existing Buyer-wise Policy.

6. Export Turnover Policy

Turnover policy is a variation of the standard policy for the benefit of large exporters who contribute not less than Rs. ro lacs per annum towards premium. Therefore **all** the exporters who will pay a premium of Rs. to lacs in a year are entitled to avail of it.

In what respects is the turnover policy different from a standard policy?

The turnover policy envisages projection of the export turnover of the exporter for a year and the initial determination of the premium payable on that basis, subject to adjustment at the end of the year based on actuals. The policy provides additional discount in premium with an added incentive for increasing the exports beyond the projected turnover and also offers simplified procedure for premium remittance and filing of shipment information. It also provides for higher discretionary credit limits on overseas buyers, based on the total premium paid by the exporter under the policy. The turnover policy is issued with a validity period of one year. In most of the other respects the provisions relating to standard policy will apply to turnover policy.

7. Consignment Exports Policy

Economic liberalization and gradual removal of international barriers for trade and commerce are opening up various new avenues of export opportunities to Indian exporters of quality goods. One of the methods being increasingly adopted **by** Indian exporters is consignment exports where the goods are shipped and held in stock overseas ready for sale to overseas ready for sale to overseas buyers, as and when orders are received. To protect the Indian Exporters from possible losses when selling goods to ultimate buyers, it was decided to introduce Consignment Policy Cover.

There are two policies available for covering consignment export viz; Consignment Exports (Stock-holding Agent) ▪ Consignment Exports (Global Entity Policy)

Under what circumstances, Consignment Exports (Stock Holding Agent) Policy cover can be availed of?

A consignment Exports (Stock-holding Agent) Policy will be appropriate for each exporter — stock holding agent combination provided the following criteria are satisfied.

- Merchandise are shipped to an overseas entity in pursuance of an agency agreement;
- The overseas agent would be an independent and separate legal entity with no associate/sister concern relationship with the exporter;

The agent's responsibilities could be any or all of the following, viz., receiving the shipment, holding the goods in stock, identifying ultimate buyers and selling the goods to them in accordance with the directions, if any, of his principal (exporter); and

The sales being made by the agent would be at the risk and on behalf of the exporter (whether or not such sales are in the agent's own name or otherwise) in consideration of a commission or some similar reward or compensation on sales completed.

Financial Guarantees of ECGC

1. Export Credit Insurance Packing Credit

Eligibility: A bank or a financial institution authorized to deal in foreign exchange can obtain the Individual Packing Credit Cover for each of its exporter clients who has been classified as a standard asset and whose CR is acceptable to ECGC.

Period Of Cover: 12 months

Eligible Advances: All packing credit advances as per RBI guidelines.

Protection Offered: Against losses that may be incurred in extending packing credit advances due to protracted default or insolvency of the exporter-client.

Percentage Of Cover: 66-2/3%

Premium: 12 paise per Rsaoo p.m. on the highest amount outstanding on any day during the month.

Maximum Liability: 66-2/3% of the Packing Credit Limit sanctioned to the account being covered.

Important Obligations Of The Bank: Monthly declaration of advances granted and payment of premium before loth of the succeeding month. Approval of the Corporation for extension of due date beyond 36o days from due date to be obtained. Default to be reported within 4 months from due date or extended due date of advances, if not recovered, filing of claim within 6 months of the Report of Default. Recovery action after payment of claim and sharing of recovery.

Highlights: Bank can take the cover selectively.

EXPORT CREDIT INSURANCE-EXPORT PRODUCTION FINANCE (ECIB-EPF)

Eligibility: Any bank or financial institution authorized to deal in foreign exchange can obtain the Export Production Finance Cover for each of its exporter clients who has been classified as a standard asset and whose CR is acceptable to ECGC.

Period Of Cover: 12 months.

Eligible Advances: Advances granted at pre-shipment stage over and above FOB value.

Protection Offered: Against losses that may be incurred in extending packing credit advances to the full extent of cost of production due to protracted default or insolvency of the exporter-client.

Percentage Of Cover: 66-2/3%.

Premium: 12 paise per Rs.loo p.m. on the highest amount outstanding on any day during the month.

Maximum Liability: 66-2/3% of the Packing Credit Limit sanctioned to the account being covered.

Important Obligations Of The Bank: Monthly declaration of advances granted and payment of premium before toth of succeeding month. Approval of the Corporation for extension of due date beyond 36o days from due date to be obtained. Default to be reported within 4 months from due date or extended due date of advances, if not recovered, filing of claim within 6 months of the Report of Default. Recovery action taken after payment of claim followed by sharing of recovery.

Highlights: Bank can take the cover selectively. Banks having ECIB-WTPC are eligible for concessionary premium rate and higher percentage of cover as applicable.

Export Credit Insurance-Individual Post -Shipment (ECIB -INPS)

Eligibility: Any bank or financial institution who is an authorized dealer in foreign exchange can obtain the Individual Post-shipment Export Credit Cover in respect of each of its exporter-clients

who is holding the Standard Policy of ECGC **WITHOUT** any exclusion. **Period Of Cover:** 12 months

Eligible Advances: All post-shipment advances given through purchase, negotiation or discount of export bills or advances against bills sent on collection.

Protection Offered: Against losses that may be incurred in extending post-shipment advances due to protracted default or insolvency of the exporter-client.

Percentage Of Cover: 75% for advances against bills drawn on buyers other than associates and 6o96 for advances against bills drawn on associates.

Premium: 6 paise per Rs. **100** p.m. payable on the highest amount outstanding on any day during the month.

Maximum Liability: 75% of the Post-shipment Limits of the account.

Important Obligations Of The Bank: Monthly declaration of advances granted and payment of premium before loth of succeeding month. Approval of the Corporation for extension of due date beyond 180 days from due date to be obtained. Default to be reported within 4 months from due date or extended due date of advances, if not recovered, filing of claim within 6 months of the Report of Default. Recovery action after payment of claim and sharing of recovery.

Highlights: Bank can take the cover selectively.

Export Credit Insurance-Export Finance (ECIB-EF)

Eligibility: Any bank authorized to deal in foreign exchange can obtain the Export Finance Cover in respect of its exporter-client who has been classified as a standard asset and whose CR is acceptable to ECGC.

Period Of Cover: 12 months.

Eligible Advances: Advances against incentives such as cash assistance, duty drawback, etc., receivable at post-shipment stage.

Protection Offered: Against losses that may be incurred in extending post-shipment advances against incentives due to protracted default or insolvency of the exporter-client.

Percentage Of Cover: 75%

Premium: 6 paise per Rs.100 p.m. on the highest amount outstanding on any day during the month.

Maximum Liability: 75% of the post-shipment limit sanctioned to the account.

Important Obligations Of The Bank: Monthly declaration of advances granted and payment of premium before roth of succeeding month. Approval of the Corporation for extension of due date beyond 360 days from due date to be obtained. Default to be reported within 4 months from due date or extended due date of advances, if not recovered, filing of claim within 6 months of the Report of Default. Recovery action after payment of claim and the subsequent sharing of recovery.

Highlights: Banks can take the cover selectively. Banks having ECIB-WTPS are eligible for concessionary premium rate and higher percentage of cover as applicable.

Export Credit Insurance-Export Performance (ECIB-EP)

Eligibility: For banks holding ECGC Whole-turnover Packing Credit Cover (ECIB-WTPC), cover under EP shall be considered for all their standard accounts irrespective of credit ratings. In respect of other banks, it shall be only for standard accounts with acceptable credit ratings.

Period Of Cover: As per the period of the bank guarantee.

Eligible Cover: Bank guarantee issued in support of export obligations to EPCs, CBs, STC, MMTC or recognized Export Houses, Bid Bond, Performance Bond, Customs, Central Excise and Sales Tax Authorities, L/Cs opened for purchase/import of raw materials in respect of export transactions.

Protection Offered: Against losses that the bank may suffer on account of bank guarantees given by it on behalf of exporters and due to protracted default or insolvency of the exporter-client

Percentage Of Cover: 75%

Premium: 6.5 paise per Rs.100 p.m. on the Bank guarantee value and period. **Maximum Liability:** 75% of the

Cover value.

important Obligations Of The Bank: Premium is payable in advance. Approval of the Corporation for any extension in the period of the bank guarantee to be obtained. If the exporter fails to meet the payment as and when the guarantee is invoked or when it falls due under L/C, necessary steps to be taken for recoveries, including recall of advances and institution of legal proceedings. Default to be reported within 4 months from due date or extended due date of advances, if not recovered, filing of claim within 6 months of the Report of Default. Recovery action after payment of claim and the subsequent sharing of recovery.

Highlights: Bank can take the cover selectively.

Special Schemes of ECGC

1. Transfer Guarantee

When a bank in India adds its confirmation to a foreign Letter of Credit, it binds itself to honour the drafts drawn by the beneficiary of the Letter of Credit without any recourse to him provided such drafts are drawn strictly in accordance with the terms of the Letter of Credit. The confirming bank will suffer a loss if the foreign bank fails to

reimburse it with the amount paid to the exporter. This may happen due to the insolvency or default of the opening bank or due to certain political risks such as war, transfer delays or moratorium, which may delay or prevent the transfer of funds to the bank in India. The Transfer Guarantee seeks to safeguard banks in India against losses arising out of such risks.

Transfer Guarantee is issued, at the option of the bank to cover either political risks alone, or both political and commercial risks. Loss due to political risks is covered upto go% and loss due to commercial risks upto 75%.

2. Exchange Fluctuation Risk Cover

The Exchange Fluctuation Risk Cover is intended to provide a measure of protection to exporters of capital goods, civil engineering contractors and consultants who have often to receive payments over a period of years for their exports, construction works or services. Where such payments are to be received in foreign currency, they are open to exchange fluctuation risk as the forward exchange market does not provide cover for such deferred payments.

Exchange Fluctuation Risk Cover is available for payments scheduled over a period of 12 months or more, upto a maximum of 15 years. Cover can be obtained from the date of bidding right up to the final instalment. At the stage of bidding, an exporter/contractor can obtain Exchange Fluctuation Risk (Bid) Cover. The basis for cover will be a reference rate agreed upon. The reference rate can be the rate prevailing on the date of bid or rate approximating it, The cover will be provided initially for a period of twelve months and can be extended if necessary. If the bid is successful, the exporter/contractor is required to obtain Exchange Fluctuation (Contract) cover for all payments due under the contract. The reference rate for the contract cover will be either the reference rate used for the Bid Cover or the rate prevailing on the date of contract, at the option of the exporter/contractor. If the bid is unsuccessful 75 percent of the premium paid by the exporter/contractor is refunded to him.

3. Maturity Factoring

Factoring is the purchase of accounts receivables. The supplier (exporter) assigns his accounts receivables in favour of the Factor and gives notice of assignment to the debtor. Factoring provides

- Financing, by way of pre-payment of the receivables;
- Sales ledger maintenance;
- Collection of receivables/recovery of bad debts and
- Credit protection against bad debts.

When pre-financing is provided but no credit protection is guaranteed by the Factor, (i.e. the client will be required to refund the amount pre-financed, together with interest thereon in the event of failure/insolvency of the debtor), it is called recourse factoring.

When no pre-financing of the receivables is done, but the Factor undertakes to pay the amount due only on maturity of the credit period, it is called maturity factoring.

ECGC has introduced non-recourse maturity export factoring

ROLE OF EXIM BANK, RESERVE BANK OF INDIA, EXCHANGE CONTROL IN INDIA — FEMA AND FEDAI AND OTHERS

The objective of this chapter is to understand the functions and role of EXIM Bank, Reserve Bank of India, FEMA and its important provisions, FEDAI and other related agencies in the development and control of international banking business in India.

International banking and trade involves transactions between two countries, currencies and as such are controlled, supervised, regulated and supported by the central bank of the country, while assisted and supported by various other agencies like EXIM bank, insurance companies, ECGC, FEDAI, etc.

The control and support functions make the trade and markets grow in a manner, which best suits the country, as also is in line with the broad policy framework of the nation — monetary and fiscal, which include value of currency, balance of payment and trade, the needs and capabilities of the country.

Export Import Bank of India (Exim Bank)

Exim Bank was established during 1982 under Exim Bank Act 1981 as a principal institution for providing financial assistance and services in import and export trade in India.

The activities of Exim Bank are divided into following:

1. Financing Programs
2. Deferred payment export / project programs
3. Assistance to project exports/turnkey projects/ construction projects
4. Other services and program
5. Exim Bank line of credit programs for other countries Financing programs

1. For importers and exporters:

a. to provide supplier credit (to help them to provide deferred credit to overseas buyers)
b. to provide consultancy and technology services (financial assistance to exporters offering such services abroad)
c. to provide pre-shipment credit (for execution of contracts with manufacturing cycle of above 6 months.
d. project finance to export oriented units (which exports min 25% of annual sale)
e. import finance (for export related imports)
f. overseas investment finance (to Indian companies for equity participation in joint ventures) It also facilitates

financing of medium-term export bills through forfaiting.

2. For banks:

a. export bills rediscounting (period of bills max 180 days.)
b. MSE Export bill rediscounting
c. Refinance of export credit
d. Refinance of term loans (up to i00% of TL given to export oriented units)

e. guarantees (for borrowing abroad)

3. For foreign governments, importers and institutions:

a. overseas buyer's credit (for import of Indian goods and services on credit basis)
b. lines of credit (to foreign governments for import of Indian goods and services on credit basis)
c. re-lending facilities to overseas banks (to international banks to provide credit to thcir customers for import of Indian goods).

Deferred payment export / project programs

Deferred payment exports are those exports where the payments are to be received after normal 12 months period for realization of export proceeds. There are two categories i.e. Group A (capital and production goods) and Group B (consumer durable and industrial manufacture).

For availing the services, the services, the exporter's bank approves the projects up to a given limit. Beyond that amount, the proposals are approved by Exim Bank.

Assistance to project exports/turnkey projects/ construction projects

Project exports refers to export of engineering goods on deferred payment basis including execution of turnkey projects.

a. Turnkey projects : These are the projects that involve supply of equipment along with related service starting from design to erection and commission.
b. Construction projects: These involve civil works and also supply of construction material. These projects include roads, railway lines, dams etc.
c. Funded facilities: These including allowing pre-shipment credit in foreign currency to finance cost of imported inputs. Post-shipment credit is also provided on deferred payment basis.

Other services and program These services include the following:

a. consultancy and technology services
b. overseas investment finance
c. import loans
d. international merchant banking services
e. export marketing fund (it is a fund created by Govt. of India and Exim Bank is a nodal agency)
f. product liability insurance
g. export vendor development lending program.

FOREIGN EXCHANGE MANAGEMENT ACT (FEMA)

The Parliament passed the Foreign Exchange Management Act 1999 (FEMA) on December 02, 1999 to replace Foreign Exchange Regulation Act (FERA) 1973, to deal with foreign exchange matters. The Act came into effect wef June 01, 2000 and extends to the entire country, all branches, offices, agencies outside India - those owned or controlled by a person residing in India.

Objective of FEMA : (i) Facilitating external trade and payments and (ii) for promoting the orderly development and maintenance of foreign exchange market in India.

Administration of FEMA

U/s 11 of FEMA 1999, RBI :

1) can give direction with regard to making payment in foreign currencies and also issue rules, guidelines, notifications or directions.
2) For contravention of these, RBI can impose penalty up to Rs.10000. The penalty may extend up to RS.2000 per day, in case of continuation of the contravention.

RBI powers under FEMA :

RBI has responsibility to maintain external value of Rupee. It can issue directions under FEMA.

It has powers to prohibit, restrict and regulate the following:

a transfer or issue of any foreign security by Indian resident and by a person residing outside India.

b transfer or issue of any security or foreign security by any branch, office or agency in India owned by a person outside India.

c any borrowing or lending in foreign exchange

d any borrowing or lending in rupees between a resident in India a person outside India.

e deposits between residents in India and residents outside India.

f export, import or holding of currency or currency notes

g transfer of immovable property outside India other than a lease not exceeding five years, by resident in India

h Acquisition or transfer of immovable property in India, other than a lease by a person resident outside India.

i giving guarantee or surety in respect of any debt obligation or other liability incurred by person resident in Indian to a person outside India and vice-versa.

Different types of returns Galled by RBI

Name and contents of the return	Summary name
Fortnightly data on foreign exchange operations	R Return
Statement showing balances in NOSTRO & VOSTRO account	BAL Statement

Data on transactions for FCNR- B	STAT-5 (discontinued Mar 2015)
Data on transactions in NRE / NRO accounts	STAT-8 (discontinued Mar 2015)
Consolidated data on Non-resident deposit accounts	NRDSCR
Quarterly data on all international assets and liabilities	IBS
Half yearly statement on export outstanding showing all overdue export bills remaining unrealized	XOS (discontinued Dec 2015)
Statement showing details of imports where remittances have been affected but proof of imports (bill of entry) not submitted	BEF (discontinued Jun 2016)
Daily data on foreign exchange dealing room operations	FEMIS

Transactions

All transactions are to be through an authorised person i.e. Authorised Dealer or Full Fledged Money Changer. No person can make any payment to or for the credit of any person residing outside India in any manner and he shall not receive any payment by order or on behalf of any person, resident outside India, except through the authorised person.

Transactions can be classified in two categories i.e. current account and capital account.

Current Account Transactions

These transactions mainly related to import and export of goods and services. There are four categories of these transactions:

a prohibitory category which include transactions with Nepal and Bhutan, remittance of earnings from lottery/racing etc., commission on exports under the rupee state credit route or exports against equity in a joint venture abroad etc.

b schedule II transactions, requiring government approvals.

c transactions in schedule III where the authorised dealers (ADs) can allow remittance up to the prescribed limits and RBI permission requirement will be for remittance exceeding the limit.

d all other current account transactions for which the ADs can allow remittance without monetary limit. The exporters and importers can get most of their transactions through the ADs and there will be fewer cases for permission from RBI.

Capital Account Transactions as notified by RBI under FEMA

a investment in foreign securities,

b raising foreign currency loans in India and abroad

c transfer of immovable property outside India

d issuing guarantees in favour of a resident outside India

e taking out an insurance policy from an insurance company outside India.

f sale and purchase of foreign exchange derivatives in India and abroad and commodity derivatives abroad by an Indian resident.

g maintenance of foreign currency accounts in India and abroad by an Indian resident,

h export, import and holding of currency/currency notes, loans and overdrafts/borrowing from a person residing outside India,

i loans and overdrafts to a person residing outside India and remittance outside India of capital assets of an Indian residents.

j investment in issue of security by a body corporate or an entity in India and investment by way of contribution to the capital of a firm or a proprietorship concern or an association of persons in India.

k Acquisition and transfer of immovable property in India,

1 issuing guarantee in favour of or on behalf of and Indian resident,

m deposits between an Indian resident and a person residing outside India

n maintenance of foreign currency a/cs in India and remittance outside India of capital assets in India of a person residing outside India.

FOREIGN EXCHANGE REMITTANCE FACILITIES FOR RESIDENTS

AD banks can release foreign exchange to residents in India as per Rules framed u/s Sec 5 of FEMA. Forex cannot be released for Schedule I transactions. For Schedule II transactions, Govt. permission is required. For Schedule III transactions, forex can be released up to specified limit by AD banks. Beyond the said limits, approval of RBI is required.

Nepal & Bhutan - No release of forex for any kind of travel to or for any transaction with persons resident in Nepal and Bhutan.

Other requirements for obtaining / spending foreign exchange Source to purchase: AD and full-

fledged money changers.

Form of foreign currency: Currency notes/coins only up to US$ 300o. Balance as traveller's cheque or banker's draft. For Iraq and Libya currency notes and coins not exceeding US$ 5000 or its equivalent. For Iran, Russian Federation, and other Republics of Commonwealth of Independent Countries, no ceiling.

Time for purchase: Forex to be used within 180 days of purchase. To be surrendered if not to be used within 180 days.

Mode of purchase: In cash up to Rs.50,000/-. Above this, payment by way of a crossed cheque/banker's cheque/pay order/demand draft / debit card / credit card only.

Surrender of foreign exchange: Currency notes and travellers' cheques within 180 days of return.

Retention of foreign exchange : US$2,000 or its equivalent, lawfully acquired.

Forex coins : There is no restriction on residents holding foreign coins.

Use of International Credit Card (ICC): Use of the ICCs / ATMs/ Debit Cards can be made for making personal payments and for travel abroad in connection with various purposes only to the extent of the limits specified.

Export / Import of Indian currency to or fi'0111. abroad : Up to Rs. 25000 to or from any country other than Nepal or Bhutan. Any amount in denomination not exceeding Rs.ioo, from Nepal or Bhutan. Import of Foreign exchange from abroad: Any amount subject to declaration. Declarations: Where currency notes or travellers cheques exceed US$ 10,000 (or its equivalent) and/or the value of foreign currency notes exceeds US$ 5,000, the amount should be declared to the Customs Authorities through Currency Declaration Form (CDF), on arrival in India.

Application Form A-2 : It is not required for remittances up to $ 25000. A2 to be preserved by banks for one year for verification by Auditors.

Endorsement on Passport : It is not mandatory for Authorised Dealers to endorse the amount of foreign exchange sold for travel abroad on the passport of the traveller. However, if requested by the traveller, they may record under their stamp, date and signature, details of foreign exchange sold for travel.

Remittance /Release by ADs without RBI reference, for Individuals

Purpose for which Forex required	US$
Liberalised Remittance Scheme — Per person for: (1) gift, (2) donation, (3) investment, (4) property purchase (5) private visit (6) business trip (7) maintenance expenses of relative. Permitted capital account transactions under LRS: (1) opening of FC account abroad, (2) purchase of property abroad (3) investment abroad, (4) setting up WOS-311 (5) Loans to NRI in FC or Indian currency. No loan for capital a/c transaction and bank account one year old.	250000/FY (1.6.15)
Over and above LRS limit : (1) Medical Treatment on self declaration basis up to USD 2.5 lac (Beyond $ 2.5 lac on the basis of estimates of doctor/hospital) (2) Studies abroad (per academic session) on self declaration basis up to USD 2.5 lac (Beyond $ 2.5 lac on the basis of estimates of university) (3) Immigration (beyond USD 250000, on the basis of letter from Immigration Authority)	Need based Need based Need based

FFMC can release for private visit and business trip only)

Remittance Release by ADs without RBI reference, for non-Individuals

Donation — Max 1% of forex earning in previous 3 years or	50,000,000
Commission to agent per transaction sale of property (5% of inward remittance)	25000
Consultancy service for infrastructure Consultancy service for others	10,000,000 1,000,000
Reimbursement of pre-incorporation expense on investment brought in India (5% of investment)	100000

FOREIGN CURRENCY DEPOSIT ACCOUNTS FOR RESIDENT INDIANS

Resident Foreign Currency Account (RFC)

1. Account holder: A resident in India who was earlier an NRI (at least one year stay abroad) and became resident again on or after 18.04.92
2. Source of funds: (a) Foreign exchange received as pension/ superannuation /other benefits from employer abroad (b) Realisation of assets held abroad (c) Foreign exchange acquired as gift or inheritance from person who was NRI (d) Existing FCNR account or NRE-FD to be converted to RFC FD at discretion of account holder before or after maturity.
3. Joint account : Permitted with returning Indian. (with close resident relative also in Former / Survivor style).
4. Type of account : Savings, Current, Fixed Deposit (min 7 days and max io years)
5. Repatriation is permitted.
6. Interest rates : The banks are free to determine interest rates.
7. Use of funds: No restrictions

Resident Foreign Currency (Domestic)) Account RFC(D)

1. Account holder: Resident Individuals

2. Source of funds: Foreign exchange acquired, (a) while on a visit abroad (b) from any person on visit to India or honorarium or gift or for services or settlement of any lawful obligation (c) by way of honorarium or gift while on a visit abroad (d) representing unspent foreign exchange acquired during travel abroad

3. Type of account : Only current account.

Amount deposited to be converted into rupees by last day of the next month.

4. Interest : No interest payable on this deposit

5. Use of funds : For all permitted transactions.

Exchange Earner's Foreign Currency Account(EEFC Account)

1. Account holder : Exporters of goods and services, resident in India. Joint account with close resident relative also permitted in Former / Survivor style.

2. Source of funds : Up to l00% of foreign exchange earnings can be placed in the account.

2. *Use* of funds : Balance can be transferred to NRE/FCNIR amount on change of status from resident to non-resident. Funds can be used for adjustment of pre-shipment loans.

4- Loan: No loan can be allowed against the balances in such account. 5. Type of account :

Only current account.

Amount deposited in a particular month, to be converted into rupees by last day of the next month.

6. Interest : No interest is payable

FOREIGN EXCHANGE DEALERS' ASSOCIATION OF INDIA (FEDAI)

PEDAL a non-profit making body was established during 1958 to take over the functions of the then Exchange Banks Association.

Objective of FEDAI : To regulate the dealings of and between ADs.

Functions of FEDAI: Major functions include (1) to frame uniform rules for a level playing field (b) granting accreditation to forex brokers.

All ADs are required to mandatorily abide by the FEDAI rules. FEDAI rules relate to operations in foreign exchange for having uniformity in dealings. Important rules are provided as under:

Rule 1 Hours of business	Each AD to fix its own working hours with approval of its management.
Rule 2 Exports	**Crystallisation of export bills -** Banks have discretion to crystalise the export bills. Earlier it used to be 30 days on expiry of normal transit period. **Normal transit period -** NTP for all bills in foreign currencies is 25 days. For rupee bills drawn under LC where reimbursement is provided at the same centre - 3 days. Other centre in India - 7 days. For rupee bill not drawn under I C - 711 days. **Payment of interest -** AD to pay interest to exporter for delay in payment on export bill sent for collection and realized, if the delay is more than the prescribed period.
Rule 3 Imports	**Import bills retirement -** Banks will apply bank's bills selling rate ruling on date of retirement. **Crystalisation:** All foreign bills under LC I not retired on receipt, shall be crystallized into rupee liability on 10th day after date of receipt of documents.
Rule 4 Clean instruments	**Conversion :** Inward remittance up to an amount of Rs.1 lac to be converted into Rupee immediately. Above this amount, conversion to be doneafter getting instructions of the beneficiary. **Compensation:** For delay in payment of inward remittance beyond 10 days from date of receipt of remittance or if advice of receiptis not sent within 3 days, compensation at 2% p.a. above SB rate.
Rule 5 Forward contract	1. Contracts to be of definite amounts and periods. 2. Contract must state the first and last date of contracts. 3. Option of delivery is with merchant, whether he is buyer or seller. 4. Banks to pay/recover SWAP difference in case of early delivery. 5. For extension of contracts, contracts to be cancelled at appropriate selling or buying rate and re-booked at current rates. 6. Contracts can be cancelled on or before maturity against recovery of difference. 7. Where customer does not request for cancellation, overdue contract to be cancelled on rh day after the maturity date.
Rule 6 Exchange brokers	Business to be undertaken through accredited exchange brokers.
Rule 7 Inter-bank TT settlements.	1.Buyer bank to pay rupee equivalent on value date as per seller bank's instruction. 2.Seller bank to arrange delivery of foreign currency funds on value date into NOSTRO account as per instructions of buyer bank. 3.In case of default or delay in settlement of rupees or foreign currency, the banks to make compensation to the other party.

EXTERNAL COMMERCIAL BORROWING

ECBs are the borrowings by eligible resident entities from recognised non-resident entities. These can be Bank loans, Securitized instruments (e.g. floating rate notes and fixed rate bonds, non- convertible, optionally convertible or partially convertible preference shares / debentures), Buyers' credit, Suppliers' credit, Foreign Currency Convertible Bonds (FCCBs), Financial Lease; and Foreign Currency Exchangeable Bonds (FCEBs — only under approval route).

RBI circulated revised ECB policy on Nov 30, 2015. The salient features are:

Tracks : The framework comprises 3 tracks:

Track I : Medium term foreign currency denominated ECB with Minimum Average Maturity (MAM) of 3/5 years.

Track II : Long term FC denominated ECB with MAIVI of io years.

Track III : Indian Rupee denominated ECB with MAM of 3/5 years.

Min Average Maturity (MAM) Period

(a) *Track-i : i)* 3 years for ECB upto USD 50 million or its equivalent and ii) 5 years for ECB beyond USD 5o million or its equivalent.

(b) *Track-2 :* 10 years.

(c) *Track-3 :* as per Track-1 All-in-Cost (MC)

(a) *Track-i :* For ECB with MAM period of 3 to 5 years - 300 basis points p.a. over 6 month LIBOR or applicable bench mark for the respective currency. For ECB with average maturity period of more than 5 years — 450 basis points p.a. over 6 month LIBOR or applicable bench mark for the respective currency.

ii. Penal interest, if any, for default or breach of covenants should not be more than 2% over and above the contracted rate of interest.

(b) *Track-2 :* i. Maximum spread over the bench mark will be 500 basis points per annum. ii. Remaining conditions will be as given under Track I.

(c) *Track-3 :* In line with market conditions.

Individual Limits:

i. The individual limits of ECB under the automatic route per financial year for all the 3 tracks are as under:

1. Upto USD 750 million or equivalent for the companies in infrastructure and manufacturing sectors;
2. Upto USD 200 million or equivalent for companies in software development sector;
3. Upto USD loo million or equivalent for entities engaged in micro finance activities; and
4. Upto Soo million or equivalent for remaining entities.

i. ECB proposals beyond aforesaid limits will come under the approval route. For computation of individual limits under *track III,* exchange rate prevailing on the date of agreement should be taken into account.

iii. These limits are separate from the limits allowed under the framework for issuance of Rupee denominated bonds overseas.

Currency of Borrowing

i. Can be in any convertible currency or Indian Rupees.

ii. Change of currency from one convertible foreign currency to other convertible foreign currency as well as to INR is freely permitted. Change of currency from INR to any foreign currency is, however, not permitted.

iv. Change of currency of ECB into INR can be at the exchange rate prevailing on the date of the agreement between the parties concerned for such change or at an exchange rate which is less than the rate prevailing on the date of agreement if consented to by the ECB lender.

Hedging Requirements

The entities raising ECB under the provisions of tracks I and II are required to follow the guidelines issued, if any, by the concerned sectoral or prudential regulator.

Security for raising ECB

i. AD Cat I banks can allow creation of charge on immovable assets, movable assets, financial securities and issue of corporate and / or personal guarantees in favour of overseas lender / security trustee, to secure the ECB subject to certain conditions.

Debt Equity Ratio: The borrowing entities will be governed by the leverage ratio prescribed, if any, by the sectoral or prudential regulator concerned.

ECB liability: Equity Ratio : In case of ECB raised from direct equity holder under the automatic route, the ECB liability of the borrower (including all outstanding ECBs and the proposed one) towards the foreign equity holder should not be more than 4 times of the equity contributed by the latter. For ECB raised under the approval route, this ratio should not be more than 7:1. This ratio will not be applicable if total of all FrEs raised by an entity is upto USD 5 million or equivalent.

Parking of ECB proceeds

i. ECB proceeds meant only for foreign currency expenditure can be retained abroad pending utilization.

ii. ECB proceeds meant for Rupee expenditure should be repatriated immediately which can be parked in term deposits with AD Cat I banks in India for a max period of 12 months.

Conversion of ECB into equity :

Conversion of ECB into equity is permitted subject to certain conditions.

Reporting Arrangements: Any draw-down as well as payment of any fees / charges for raising an ECB should happen only after obtaining the LRN from RBI, which can be obtained by submitting Form 83. In addition, the borrowers are to submit a copy of duly certified ECB 2 Return through the AD Cat I bank on monthly basis within seven working days.

GLOBAL DEPOSITORY RECEIPTS & AMERICAN DEPOSITORY RECEIPTS

A GDR or ADR means any instrument in the form of a Depository receipt or certificate by whatever name it is called, created by the Overseas Depository Bank (ODB) outside India and issued to non-resident investors against the issue of ordinary shares or foreign currency convertible bonds of issuing company.

2 These are negotiable instruments denominated in US $ representing a non-US company's publicly traded, local currency equity shares.

3 The issue of such instruments involves the delivery of ordinary shares of an Indian company to a domestic custodian bank in India, which in turn instructs an overseas depository bank to issue GDR/ADR on a predetermined ratio.

4 The GDR/ADR can be sold outside India in their existing form. The underlying shares (arising after redemption of GDR/ADR) can also be sold in India.

5 While ADRs are listed on the US stock exchanges, the GDRs are usually listed on a European stock exchange.

6 A GDR/ADR may evidence one or more GDS/ADS. Each GDS/ADS represent underlying share of Issuing company.

Foreign Currency Convertible Bonds (FCCB)

FCCB is an instrument for raising foreign currency funds by companies.

FCCBs are fully or partly convertible bonds, that give right to the holder to convert the amount into equity shares, at a pre-agreed price.

Indian companies are permitted to issue FCCBs in terms of RBI guidelines.

SWAP

It is a transaction where the bank purchases or sells the foreign currency simultaneously, for different maturities, say purchase of spot and sale of forward or vice-versa OR purchase of two month forward and sale of three month forward (which is called forward to forward swap). Compared to ordinary deals, in a swap deal, the difference between the buying and selling rates is ignored and buying and selling is done at the same rate.

For example, bank A sells to bank B, Euro 2 million, delivery 2 months. This is an outright forward sale deal for bank A. Bank B may accept the deal at Rs.46.5o being three months forward buying rate. Bank A also purchases spot Euro 2 million from bank C, which is a spot purchase for bank A. Bank C may accept the deal at its spot selling rate of say Rs.46.5o. These two contracts are two simple forward contracts. In this example, if both the sale and purchase had been done with bank B by bank A being two legs of the same contract, this would have resulted.in a swap deal i.e. buying spot and selling forward by bank A and selling spot and buying forward by bank B.

ARBITRAGE

A foreign currency is generally quoted at different rates in different market due to uncertainties prevailing. The banks may purchase and sell foreign currency in different centres to take advantages of these rate differentials. Such transactions are called arbitrage operation.

For example, purchase of US dollars 25000 in Mumbai at prevailing rate of Rs.47 per dollar, for Rs.11,75,000.00 and sale at Rs.47.10 in New York for Rs.11,77,500, the gain of Rs.25oo is arbitrage gain.

4. LATEST RBI POLICY GUIDELINES ON INTERNATIONAL BANKING

EDPMS - Issue of eBRC

As per circular dated 01.01.2016, related to As per RBI circular dated 01.01.2016, related to implementation and operationalisation of Export Data Processing and Monitoring System (EDPMS) of RBI as also circular dated 28.07.14, reporting of data related to realisation of export proceeds i.e. ENC and Schedule 3 to 6 files was discontinued with effect from the first fortnight of September 2014 after implementation of EDPMS. In terms of circrulated dated May 26, 2016, banks were advised to carry out appropriate changes in their IT system / operating procedure immediately, report subsequent export transactions in EDPMS and also capture the details of advance remittances (including old outstanding inward remittances) received for exports in EDPMS.

AD Category-I banks have been directed by RBI on Sept 15, 2017, to update the EDPMS with data of export proceeds on "as and when realised basis" and, with effect from October 16, 2017 generate Electronic Bank Realisation Certificate (eBRC) only from the data available in EDPMS, to ensure consistency of data in EDPMS and consolidated eBRC.

Investment by Foreign Portfolio Investors (FPI) in Govt. Securities: Medium Term Framework Revision of Limits for the quarter Oct-Dec 2017 On Sept 28, 2017, RBI increased the limits for investment by FPIs for the quarter October-December 2017 by INR 80 billion in Central Government Securities and INR 62 billion in State Development Loans. The revised limits are allocated as per the framework modified by RBI on 03.07.17 is given as under.

Limits for FPI investment in Government Securities Existing limit : (Rs. in billion)

	General	Long Term	Total	Grand Total
Central Govt.	1877	543	2420	
State Govts	285	46	331	2751
Limite for Quarter Dec 2017				
Central Govt.	1897	603	2500	
State Govts	300	93	393	2893

The revised limits will be effective from October 3, 2017.

Issuance of Rupee Denominated Bonds (RDBs) Overseas On Sept 22, 2017, RBI brought modification relating to issuance of Rupee denominated bonds overseas under External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency. In terms of the revision in consultation with the Government of India, the amount of issuances of RDBs from the limit for investments by FPIs in corporate bonds with effect from October 3, 2017 is to be excluded. Consequently, reporting requirement in the form of additional email for RDB transactions for onward reporting to

Investment by Foreign Portfolio Investors in Corporate Debt Securities – Review Currently, the limit for investment by Foreign Portfolio Investors (FPIs) in corporate bonds is Rs. 244,323 crore. This includes issuance of Rupee denominated bonds overseas (Masala Bonds) by resident entities of Rs. 44,001 crore (including pipeline). The Masala Bonds are presently reckoned both under Combined Corporate Debt Limit (CCDL) for FPI and External Commercial Borrowings (ECBs).

On a review and to further harmonise norms for Masala Bonds issuance with the ECB guidelines, RBI made the following changes on

Sept 22, 2017:

1. With effect from October 3, 2017, Masala bonds will no longer form a part of the limit for FPI investments in corporate bonds. They will form a part of the ECBs and will be monitored accordingly. Eligible Indian entities proposing to issue Masala Bonds may approach Foreign Exchange Department, Reserve Bank of India, Central Office, Mumbai.
2. The amount of Rs.44,001 crore arising from shifting of Masala bonds will be released for FPI investment in corporate bonds over the next two quarters as specified hereunder:

Limit for FPI Investments in Corporate Bonds Amount(Rs.crore)

1. Current FPI limits for corporate bonds (including masala bonds) : 2,44,323

(a) of which Masala bonds (including pipeline): 44,001

2. FPI limit after shifting Masala bonds to ECB (1-(a)) : 2,00,322
3. Additional limit for Q3 FY18 : 27,000
4. FPI limit for corporate bonds from 03 Oct 2017 (2+3) : 2,27,322

(of which reserved for investment by long term FPIs in infrastructure : 9,500)

5. Additional limit for Q4 FY18 : 17,001

FPI limit for corporate bonds from January 01, 2018 (4+5) : 2,44,323 (of which reserved for investment by long term

Foreign Direct Investment (FDI-LLP) in Limited Liability Partnerships (LLP)

RBI notified the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (2nd Amendment) Regulations, 2017 on 03.03.2017, relating to Foreign Direct Investment (FDILIP) in Limited Liability Partnerships (LIP). The summary is provided.

1. Eligible Investors: A person resident outside India or an entity incorporated outside India (other than in Pakistan or Bangladesh), not being a Foreign Portfolio Investor or Foreign Institutional Investor or Foreign Venture Capital Investor registered as per SEBI guidelines, may contribute foreign capital by way of capital contribution or acquisition / transfer of profit shares in the capital structure of an LLP.

2. Eligible investment : Contribution to the capital would be an eligible investment. The investment by way of `profit share' will fall under the category of reinvestment of earnings

3. Eligibility of a LLP : FDI is permitted, subject to following conditions;

a) FDI is permitted under the automatic route in LLPs operating in sectors where 100% FDI is allowed through the automatic route.

b) An Indian company or an LLP, having foreign investment, will be permitted to make downstream investment in another company or LP engaged in sectors in which 100% FDI is allowed under the automatic route. Onus shall be on the Indian company / LLP accepting downstream in estment to ensure compliance with the above conditions.

c) A company having foreign nvestment can be converted into an LIP under the automatic route only if it is engaged in a sector where foreign investment up to 100% is permitted under automatic route.

4. Pricing : FDI by way of capital contribution or by way of acquisition / transfer of profit shares, would have to be more than or equal to the fair price as worked out with internationally accepted / adopted norms as per market practice and a valuation certificate to that effect shall be issued by the Chartered Accountant or Cost Accountant or by an approved valuer from the panel maintained by the Central Government.

In case of transfer of capital contribution / profit share from a resident to a non-resident, the transfer shall be for a consideration equal to or more than the fair price of capital contribution / profit share of an LLP. Further, in case of transfer of capital contribution / profit share from a non-resident to resident, the transfer shall be for a consideration which is less than or equal to the fair price of the capital contribution / profit share of an LLP.

5. Mode of payment : Payment shall be made:

(i) by way of inward remittance through banking channels; or

(ii) by debit to NRE / FCNR(B) account of the person concerned, with an AD - I bank in accordance with Foreign Exchange Management (Deposit) Regulations, 2016, as amended from time to time.

6. Reporting : (i) Reporting of investment in LLPs and disinvestment/transfer of capital contribution or profit shares between a resident and a non-resident may be made in a manner as prescribed by RBI.

(ii) All LLPs having received FDI in previous year(s) including the current year, shall submit to RBI, by 15th day of July of each year, a report titled 'Annual Return on Foreign Liabilities and Assets' as specified by RBI.

Funding Limits of FLCs

As per circular dated March 02, 2017, RBI had advised banks that FLCs and rural branches can avail funding support from the Financial Inclusion Fund (FIF) for the financial literacy camps to the extent of 60% of the expenditure of the camp subject to a maximum of Rs.15,000/- per camp.

On a review, the FIF Advisory Board has revised (on 13.07.17) the funding support available to banks to the extent of 60% of the expenditure of the camp subject to a maximum of Rs.5,000/- per camp

Foreign Exchange Management (Export and Import of Currency) Regulations, 2015 :RBI on 04.02.16, issued following clarifications: **A. Export and import of Indian currency and currency notes**

a) Any person resident in India,

i. may take outside India (other than to Nepal and Bhutan) currency notes of Govt. of India and RBI notes up to an amount not exceeding Rs.25,000.
ii. may take or send outside India (other than to Nepal and Bhutan) commemorative coins not exceeding two coins each.
iii. who had gone out of India on a temporary visit, may bring into India at the time of his return from any place outside India (other than from Nepal and Bhutan), currency notes of Govt. of India and RBI notes up to an amount of Rs.25,000.

b) Any person resident outside India, not being a citizen of Pakistan or Bangladesh, and visiting India,

i. may take outside India currency notes of Govt. of India and RBI notes up to an amount not exceeding Rs.25,000 per person
ii. may bring into India currency notes of Govt. of India and RBI notes up to an amount not exceeding Rs.25,000 (Rupees Twenty Five Thousand only) per person

B. Import of Foreign Exchange into India A person,

i. may send into India without limit foreign exchange in any form other than currency notes, bank notes and travelers cheques;
ii. may bring into India from any place outside India without limit foreign exchange

subject to the condition that such person makes, on arrival in India, a declaration to the Customs authorities in Currency Declaration Form (CDF). It shall not be necessary to make such declaration where the aggregate value of the foreign exchange in the form of currency notes, bank notes or travelers cheques brought in by such person at any one time does not exceed US$10,000 (US Dollars ten thousand) or its equivalent and/ or the aggregate value of foreign currency notes brought in by such person at any one time does not exceed US$ 5,000 (US Dollars five thousand) or its equivalent.

C. Export and Import of currency to or from Nepal and Bhutan A person may

i. take or send out of India to Nepal or Bhutan, currency notes of Govt. of India and RBI notes (other than notes of denominations of above Rs.100 in either case) provided that an individual travelling from India to Nepal or Bhutan can carry RBI notes of denomination Rs.500/- and/or Rs.1000/- up to a limit of Rs.25,000/- ;
ii. bring into India from Nepal or Bhutan, currency notes of Govt. of India and RBI notes (other than notes of denominations of above Rs.100 in either case) ;
iii. take out of India to Nepal or Bhutan, or bring into India from Nepal or Bhutan, currency notes being the currency of Nepal or Bhutan.

D. Prohibition on Export of Indian Coins

No person shall take or send out of India the Indian coins which are covered by the Antique and Art Treasure Act, 1972.

INDIAN PARTY FROM MAKING DIRECT INVESTMENT PROHIBITED *EXTANT GUIDELINES: At present, there is no restriction on an Indian party with regard to the countries, where it can make Overseas Direct Investment.

***REVISED GUYIDELINES:** In order to align the instructions with the objectives of Financial Action Task Force (FATF), the Reserve Bank on January 25, 2017, on a review, has decided to prohibit an Indian party from making direct investment in an overseas entity (set up or acquired abroad directly as Joint Venture/Wholly Owned Subsidiary (JV/ WOS) or indirectly as step down subsidiary located in the countries identified by the FATF as "non co-operative countries and territories".

TRANSFER OR ISSUE OF ANY FOREIGN SECURITY AMENDED : The Reserve Bank on Jan. 17, 2016 has decided to make the following amendments in the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004: 'Indian Party shall make no direct investment in an overseas entity [set up or acquired abroad directly as JV/WOS or indirectly as Step Down Subsidiary] located in the countries identified by the Financial Action Task Force (FATF) as "non co-operative countries and territories" as per list available on FATF website or as notified by the RBI of India from time to time.'

TRANSFER OR ISSUE OF SECURITY BY A PERSON RESIDENT OUTSIDE INDIA AMENDED : The Reserve Bank on January 10, 2017 has made the following amendments in the Foreign Exchange Management (Transfer or issue of Security by a Person Resident outside India) Regulations, 2000. In the amended version, the following new regulation has been inserted:

Issue of Convertible Notes by Start-up Companies:

* A person resident outside India (other than an individual who is citizen of Pakistan or Bangladesh or an entity which is registered / incorporated in Pakistan or Bangladesh), may purchase convertible notes issued by an Indian start-up company for an amount of twenty five lakh rupees or more in a single tranche.

Explanation: For the purpose of this Regulation, a 'start-up company' means a private company incorporated under the Companies Act and recognised by the Deptt. of Industrial Policy and Promotion, Ministry of Commerce and Industry.

a) A start-up company engaged in a sector where foreign investment requires Government approval may issue convertible notes to a non-resident only with approval of the Government.
b) A start-up company issuing convertible notes to a person resident outside India shall receive the amount of consideration by inward remittance through banking channels or by debit to the NRE / FCNR (B) / Escrow account maintained by the person concerned in accordance with the Foreign Exchange Management (Deposit) Regulations, 2016.

c) Provided that an escrow account for the above purpose shall be closed immediately after the requirements are completed or within a period of six months, whichever is earlier. However, in no case continuance of such escrow account shall be permitted beyond a period of six months.

d) NRIs may acquire convertible notes on non-repatriation basis in accordance with the Principal Regulations.

A person resident outside India may acquire or transfer, by way of sale, convertible notes, from or to, a person resident in or outside India, provided the transfer takes place in accordance with the pricing guidelines as prescribed by RBI

Prior approval from the Government shall be obtained for such transfers in case the startup company is engaged in a sector which requires Government approval.

e) The start-up company issuing convertible notes shall be required to furnish reports as prescribed by Reserve Bank.

CONVERTIBLE NOTES: Convertible Note means an instrument issued by a Start-up Co evidencing receipt of money initially as debt which is repayable at the option of the holder or which is convertible into such number of equity share of such Start-up Co's within a period not exceeding 5 years from the date of issue of the convertible note upon occurrence of specified events as per the other terms and conditions agreed to and indicated in the instrument.

Evidence of Import under Import Data Processing and Monitoring System (IDPMS)

Extant guidelines of RBI outline the procedure, mode/manner of payment for imports and submission of related returns. According to this procedure, Bill of Entry (BoE) data is received in IDPMS from Customs Department for EDI ports and from NSDL for SEZ on daily basis. BoE data for non-EDI ports are entered by AD Category – I bank of the importer on receipt of BoE (importer's copy) and then the bank uploads the data in IDPMS through "Manual BOE reporting" process. In order to enhance ease of doing business and reduce transaction costs, RBI decided (Jan 12) to discontinue submission of hardcopy of Evidence of Import documents i.e. BoE, with effect from December 01, 2016, as it is available in IDPMS. The revised procedures are as set out below:

i. AD Category – I bank will enter BoE details (BoE number, port code and date) as received from the importer and download the BoE message data from "BOE Master" in IDPMS. Thereafter, match and settle the BoE data with Outward Remittance Message (ORM) associated with the payment for import as per the message format "BOE Settlement" in IDPMS. Multiple ORMs can be settled against single BoE and also multiple BoE(s) can be settled against one ORM.

ii. In respect of imports on 'Delivery against Acceptance' basis, on request of importer, AD Category – I bank shall verify the evidence of import from IDPMS at the time of effecting remittance of import bill.

iii. On settlement of ORM with evidence of import, AD Category – I bank shall in all cases issue an acknowledgement slip to the importer containing the following particulars:

1. importer's full name and address with code number ;
2. number and date of BoE and the amount of import; and

a recap advice on number and amount of BoE and ORM not settled for the importer.

iv. The importer needs to preserve the printed 'Importer copy' of BoE as evidence of import and acknowledgement slip for future use.

The extant instructions and guidelines for Evidence of Import in Lieu of Bill of Entry will apply mutatis mutandis. The evidence of import in lieu of BoE in permitted/ approved conditions will be created and uploaded by AD Category – I bank of the importer in the form of BoE data as per message format "Manual BOE reporting" in IDPMS.

Follow-up for Evidence of Import : AD Category – I banks shall continue to follow up for outward remittance made for import (i.e. unsettled ORM) in terms of extant guidelines and instructions on the subject. In cases where relevant evidence of import data is not available in IDPMS on due dates against the ORM, AD Category – I bank shall follow up with the importer for submission of documentary evidence of import. Similarly, if BoE data is not settled against ORM within the prescribed period AD Category – I banks shall follow up with the importer in terms of extant instructions.

Verification and Preservation: Internal inspectors and IS auditors (including external auditors appointed by AD Category – I bank) should carry out verification and IS audit and assurance of the "BOE Settlement" process in IDPMS. Data and process followed by AD Category – I bank for "BOE Settlement" should be preserved in terms of the guidelines under Cyber Security Framework in the bank. However, in respect of cases which are under investigation by investigating agencies, the data, process and/or documents may be destroyed only after obtaining clearance from the investigating agency concerned.

Export Data Processing and Monitoring System (EDPMS) – Additional modules for caution listing of exporters, reporting of advance remittance for exports and migration of old XOS data To simplify the procedure for filing returns on a single platform and for better monitoring, RBI decided (26.05.16) to integrate the following returns (wef 15.06.16) with EDPMS, in operation since March 1, 2014.Export Data Processing and Monitoring System (EDPMS) – Additional modules for caution listing of exporters, reporting of advance remittance for exports and migration of old XOS data To simplify the procedure for filing returns on a single platform and for better monitoring, RBI decided (26.05.16) to integrate the following returns (wef 15.06.16) with EDPMS, in operation since March 1, 2014.

a) Caution / De-caution Listing of Exporters : AD banks can access the updated list of caution listed exporters through EDPMS on daily basis. Criteria for cautioning / de-cautioning in EDPMS are as under:

i. The exporters would be caution listed if any shipping bill against them remains open for more than two years (from date of shipment) in EDPMS. If bills are realised and closed or extension for realisation is granted, the exporter will automatically be de-caution listed.

ii. The exporters can also be caution listed on the recommendation of AD banks. RBI will caution / de-caution the exporters in such cases.

b) Reporting of Advance Remittance for Exports: RBI decided to capture the details of advance remittances received for exports in EDPMS. Banks will have to report all the inward remittances including advance as well as old outstanding inward remittances received for export of goods / software to EDPMS. The quarterly return presently being submitted by banks for delay in utilization of advances received for export has been discontinued.

c) Export Outstanding Statement (XOS): With effect from March 01, 2014, details of all export outstanding bills can be obtained from the EDPMS. AD banks were required to report the old outstanding bills prior to Mar 01, 2014 in XOS on half yearly basis as at the end of June and December every year. To reduce the reporting burden of AD Banks, RBI decided to migrate the XOS data reported by the AD banks for HY ended Dec 2015 onwards to EDPMS and discontinue separate reporting of XOS for the subsequent periods. AD banks should mark off / close the XOS data pertaining to pre March 01, 2014 as and when amount has been realised.

PURCHASE AND SALE OF SECURITIES : With a view to providing flexibility in regard to the manner in which non-convertible debentures/bonds issued by Indian companies can be acquired by Foreign Portfolio Investors (FPIs), the RBI on Dec. 28, 2016 has decided to allow them to transact in such instruments either directly or in any manner as per the prevalent / approved market practice.

FRA AND IRS WITHDRAWAL OF FORTNIGHTLY RETURN : In a step towards rationalisation of returns, the Reserve Bank has advised banks that the requirement to submit fortnightly return on the Forward Rate Agreement (FRA) and Interest Rate Swap (IRS) was withdrawn with immediate effect.

Accordingly, banks need not send the hard copy of the return to the Reserve Bank. The existing procedure for reporting Overthe-Counter (OTC), Foreign Exchange and Interest Rate Derivative transactions to the trade repository hosted by Clearing Corporation of India Ltd (CCIL) shall continue.

MULTILATERAL AND REGIONAL FI INVESTORS

In order to provide more choices of investors to Indian entities issuing Rupee denominated bonds abroad, the Reserve Bank has permitted multilateral and regional financial institutions (FIs) where India is a member country, to invest in Rupee denominated bonds.

EXCHANGE TRADED CURRENCY DERIVATIVES (ETCD)

With a view to enabling additional hedging products for Non Resident Indians (NRIs) to hedge their investments in India so that they can hedge the currency risk arising out of their investments in India, the Reserve Bank has permitted them to access the ETCD market.

The following are the terms and conditions to be followed:

- NRIs shall designate an authorised dealer (AD) category-I bank for the purpose of monitoring and reporting their combined positions in the Over-the-counter (OTC) and ETCD segments;
- NRIs may take positions in the currency futures / exchange traded options market to hedge the currency risk on the market value of their permissible (under FEMA, 1999) Rupee investments in debt and equity and dividend due and balances held in NRE accounts;
- The exchange / clearing corporation will provide details of all transactions of the NRI to the designated bank;
- The designated bank will consolidate the positions of the NRI on the exchanges as well as the OTC derivative contracts booked with them and with other AD banks. The designated bank shall monitor the aggregate positions and ensure the existence of underlying Rupee currency risk and bring transgressions, if any, to the notice of the Reserve Bank of India/Securities and Exchange Board of India (SEBI);
- The onus of ensuring the existence of the underlying exposure shall rest with the NRI concerned. If the magnitude of exposure through the hedge transactions exceeds the magnitude of underlying exposure, the concerned NRI shall be liable to such penal action as may be taken by Reserve Bank of India under the Foreign Exchange Management Act (FEMA), 1999.
- Currently, NRIs are permitted to hedge their Rupee currency risk through OTC transactions with AD banks.

- **STATUS HOLDERS:** Government of India vide amendment has notified that the Status Holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to an annual limit of Rs. 10 lakh or 2% of average annual export realization during preceding three licensing years whichever is **lower**.
- **ACQUISITION & TRANSFER OF IMMOVABLE PROPERTY:**

A) PERSON RESIDENT IN INDIA: The RBI has advised AD banks that acquisition or transfer of any immovable property outside India by a person resident in India would require prior approval of Reserve Bank with few exceptions like, Property held outside India by a foreign citizen resident in India; Property acquired by a person on or before July 8, 1947 and held with the permission of Reserve Bank; Property acquired by way of gift or inheritance from specified persons; Property purchased out of funds held in Resident Foreign Currency (RFC) account held in accordance with the Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015; etc.

B) **INDIAN COMPANY:** An Indian company having overseas offices may acquire immovable property outside India for its business and residential purposes provided total remittances do not exceed the following limits prescribed for initial and recurring expenses, respectively: a)15 per cent of the average annual sales / income or turnover of the Indian entity during the last two financial years or up to 25 per cent of the net worth, whichever is higher;

b) 10 per cent of the average annual sales/ income or turnover during the last two financial years.

- **POSSESSION & RETENTION OF FOREIGNCURRENCY:**

A) The RBI has advised AD Banks on the limits for possession or retention of foreign currency or foreign coins, as under:

a) Possession without limit of foreign currency and coins by an authorised person within the scope of his authority;

b) Possession without limit of foreign coins by any person;

c) Retention by a person resident in India of foreign currency notes, bank notes and foreign currency travellers' cheques not exceeding US$ 2000 or its equivalent in aggregate, provided that such foreign exchange was acquired by him:

- While on a visit to any place outside India by way of payment for services not arising from any business in or anything done in India; or
- From any person not resident in India and who is on a visit to India, as honorarium or gift or for services rendered or in settlement of any lawful obligation; or
- Represents unspent amount of foreign exchange acquired by him from an authorised person for travel abroad.

B) RBI also advised that a person resident in India but not permanently resident therein may possess without limit foreign currency in form of currency notes, bank notes and travellers cheques, if such foreign currency was acquired, held or owned by him when he was resident outside India and, has been brought into India in accordance with the regulations made under the Act.

- **SETTLEMENT OF EXPORT / IMPORT TRANSACTIONS IN CURRENCIES NOT HAVING A DIRECT EXCHANGE RATE:** To further liberalize the procedure and facilitate settlement of export and import transactions where the invoicing is in a freely convertible currency, RBI has decided that AD Category-I banks may permit settlement of such export and import transactions (excluding those put through the ACU mechanism), subject to conditions as under:

a) Exporter / Importer shall be a customer of the AD Bank.

b) Signed contract / invoice is in a freely convertible currency.

c) The beneficiary is willing to receive the payment in the currency of beneficiary instead of the original (freely convertible) currency of the invoice / contract / Letter of Credit as full and final settlement.

d) AD bank is satisfied with the bonafides of the transactions;

e) The counterparty to the exporter / importer of the AD bank is not from a country or jurisdiction in the updated FATF Public Statement on High Risk & Non Co-operative Jurisdictions on which FATF has called for counter measures.

- **EXTERNAL COMMERCIAL BORROWINGS (ECB):**

RBI has decided to make the following changes in the ECB framework:

a) Companies in Infrastructure sector, Non-Banking Financial Companies Infrastructure Finance Companies (NBFC-IFCs), NBFCs-Asset Finance Companies (NBFC-AFCs), Holding Companies and Core Investment Companies (CICs) will also be eligible to raise ECB under Track I of the framework with minimum average maturity period of 5 years, subject to 100 per cent hedging.

b) Companies in Infrastructure sector shall utilize the ECB proceeds raised under Track I for the end uses permitted for this Track. NBFCs-IFCs and NBFCs-AFCs will, however, be allowed to raise ECB only for financing infrastructure.

i)Holding Companies and CICs shall use ECB proceeds only for on-lending to infrastructure Special Purpose Vehicles (SPVs).

ii) The individual limit of borrowing under the automatic route for aforesaid companies shall be as applicable to the companies in the Infrastructure sector (currently USD 750 million).

iii) Companies in infrastructure sector, Holding Companies and CICs will continue to have the facility of raising ECB under Track II of the ECB framework subject to the prescribed conditionalities.

On the ECB framework, RBI has further clarified that:

a) The designated AD Category-I banks may, under the powers delegated to them, allow refinancing of ECBs raised under the previous ECB framework, provided the refinancing is at lower all-in-cost, the borrower is eligible to raise ECB under the extant ECB framework and residual maturity is not reduced (i.e. it is either maintained or elongated).

b) ECB framework is not applicable in respect of the investment in Non-convertible Debentures (NCDs) in India made by Registered Foreign Portfolio Investors (RFPIs).

c) Minimum average maturity of Foreign Currency Convertible Bonds (FCCBs)/ Foreign Currency Exchangeable Bonds (FCEBs) is 5 years irrespective of the amount of borrowing. Further, the call and put option, if any, for FCCBs shall not be exercisable prior to 5 years.

- **FOREIGN DIRECT INVESTMENT (FDI) IN INDIA**

The extant FDI policy for Insurance sector has since been reviewed by the Govt. of India and enhanced the limit of foreign investment in insurance sector **from 26 to 49 percent under the automatic route** covering Insurance Co, Insurance Brokers, Third Party Administrators' Surveyors and Loss Assessors.

- **ESTABLISHMENT IN INDIA OF A BRANCH OFFICE OR LIAISON OFFICE OR A PROJECT OFFICE**

A) Prohibition against opening a branch office or a liaison office or a project office or any other place of business in India: No person resident outside India shall without prior approval of the RBI open in India a branch office or a liaison office or a project office or any other place of business by whatever name called except as laid down in these Regulations:

Provided that

a) A banking company resident outside India; b) An insurance company resident outside India; c) A company resident outside India shall not require any approval under these Regulations to establish a branch office in the Special Economic Zones to undertake manufacturing and service activities, subject to the conditions that such branch offices are functioning in those sectors where 100% FDI is permitted.

B) Approval for opening a branch office or a liaison office or a project office or any other place of business in India:

a) A person resident outside India can establish a branch office or a liaison office in India provided it meets the following:

i) **For Branch Office** - a profit making track record during the immediately preceding five financial years in the home country and net worth of not less than USD 100,000 or its equivalent.

ii) **For Liaison Office** - a profit making track record during the immediately preceding three financial years in the home country and net worth of not less than USD 50,000 or its equivalent.

- **GRANT OF EDF WAIVER FOR EXPORT OF GOODS:**

* Government of India vide amendment has notified that the Status Holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to an annual limit of Rs.10 lakh or 2% of average annual export realization during preceding three licensing years whichever is **lower**.

* The Reserve Bank on August 25, 2016 clarified that in cases where a derivative contract is restructured, the mark-to-market value of the contract on the date of restructuring should be cash settled.

* The Reserve Bank has permitted banks to raise funds through issuance of rupee denominated bonds overseas for the various specified purposes.

* The Reserve Bank on April 21, 2016 has decided, in consultation with the Government of India, to allow foreign investment in the units of Investment Vehicles registered and regulated by SEBI or any other competent authority.

* The Reserve Bank on October 6, 2016 advised all category-I authorised dealer (AD) banks that Import Data Processing and Monitoring System (IDPMS) would go live with effect from October 10, 2016, used for reporting and monitoring of the import transactions.

- **ECBs BY STARTUPS:**

* With a view to boosting innovation and promoting job creation, the Reserve Bank of India has permitted Startups to raise external commercial borrowings (ECBs) of up to $3 million in a financial year under ECB framework

The minimum average maturity period will be 3 years. Lender / investor shall be a resident of a country who is either a member of Financial Action Task Force (FATF) or a member of a FATF-Style Regional Bodies. The borrowing should be denominated in any freely convertible currency or in Indian Rupees (INR) or a combination thereof. In case of borrowing in INR, the non-resident lender, should mobilise INR through swaps/outright sale undertaken through an AD Category-I bank in India.

* Startups raising ECB in foreign currency, whether having natural hedge or not, are exposed to currency risk due to exchange rate movements and hence are advised to ensure that they have an appropriate risk management policy to manage potential risk arising out of ECBs.

- **FOREIGN INVESTMENT IN OTHER FINANCIAL SERVICES:**

The Reserve Bank has advised to allow foreign investment up to 100 per cent under the automatic route in 'Other Financial Services'. Other Financial Services will include activities which are regulated by any financial sector regulator such as RBI, SEBI, IRDAI, PFRDA, NHB or any other financial sector regulator as may be notified by the Govt. Such foreign investment shall be subject to conditionalities, including minimum capitalisation norms, as specified by the concerned Regulator/ Government Agency.

- **FOREIGN VENTURE CAPITAL INVESTOR (FVCI):**

In order to further liberalise and rationalise the investment regime for Foreign Venture Capital Investor (FVCI), any FVCI which has obtained registration under the SEBI Regulations, 2000, will not require any approval from RBI and can invest in Equity or equity linked instrument or debt instrument issued by an Indian 'start-up' irrespective of the sector in which the start-up is engaged. A startup will mean an entity (private limited company or a registered partnership firm or a limited liability partnership) incorporated or registered in India not prior to five years, with an annual turnover not exceeding INR 25 crores in any preceding financial year, working towards innovation, development, deployment or commercialization of new products, processes or services driven by technology or intellectual property & satisfying stipulated conditions.

Foreign Exchange Management (FC Accounts by persons Resident in India) Regulations 2015

Further to extant guidelines, RBI decided (23.06.16) that an Indian startup, having an overseas subsidiary, may open a FC account with a bank outside India for crediting to the account, the foreign exchange earnings out of exports/sales made. The balances held in such accounts, to the extent they represent exports from India, shall be repatriated to India within prescribed period for realization of exports. In addition, payments received in foreign exchange by an Indian startup arising out of sales/ export made by the startup or its overseas subsidiaries will be a permissible credit to EEFC account maintained in India by the startup.

Further, any insurance/ reinsurance company registered with the Insurance Regulatory and Development Authority of India (IRDAI) may open a foreign currency account with a bank outside India to carry out insurance/ reinsurance business.

Memorandum of Procedure for channeling transactions through Asian Clearing Union (ACU)

In terms of Memorandum (17.02.10), the minimum amounts and the multiples in which RBI receives and pays U.S. Dollar/ Euro was fixed as $ 25000/ Euro 25000 and $ 1000/ Euro 1000, respectively. RBI decided (26.05.16) to revise the minimum amount and the multiples in which RBI will receive and pay for the purpose of funding or for repatriating the excess liquidity in the ACU Dollar and ACU Euro accounts to $ 500 / Euro 500.

Information on Investment in Commercial Papers and Unhedged Foreign Currency Exposures of the Borrowers to Credit Information Companies On recommendations of Committee to Recommend Data Format for Furnishing of Credit Information to Credit Information Companies (Chairman: Shri Aditya Puri) RBI decided (23.06.16) to capture the information on CPs and UFCE: *Commercial papers :* The information on CPs issued by the companies shall be reported on a monthly basis to all the four credit information companies (CICs) by the bank which has been designated as the Issuing and Payment Agent (IPA) for the particular CP issue. If there are multiple IPAs for a single CP issue, they shall report to the CICs, the details pertaining to the portion of the issue which is with them. The IPA shall also report any default in the redemption of the relevant CP issue. It is clarified that the investing credit institutions need not report the information on CPs to the CICs.

Unhedged Foreign Currency Exposures : The information regarding UFCE of individual borrowers shall be reported on a quarterly basis to all the four CICs by the lending bank (in the case of solo lenders) /consortium leader (in the case of consortium arrangements)/largest lender (in the case of multiple lending arrangements). This information shall be reported in the Credit Facility (CR) Segment of Commercial Data format. The reporting requirements is effective from July 1, 2016 i.e. from the credit information reports showing the position for the month of June 2016.

Investment in CICs :RBI advised (19.05.2016) that investment directly or indirectly by any person, whether resident or otherwise, in a CIC, shall not exceed 10% of the equity capital of the investee company. RBI may consider allowing higher FDI limits to entities which have an established track record of running a Credit Information Bureau in a well regulated environment:

1. up to 49%, if their ownership is not well diversified (i.e. one or more shareholders each hold more than 10% of voting rights in the company)
2. up to 100%, if their ownership is well diversified or

If their ownership is not well diversified, at least 50% of the directors of the investee CIC in India, are Indian nationals/ Non-Resident Indians/ Persons of Indian Origin subject to the condition that one third of the directors are Indian nationals resident in India.

3. The investor company should preferably be a listed company on a recognised stock exchange. FII/FPI investment would be permitted subject to the conditions that:

1. A single entity should directly or indirectly hold below 10% equity;
2. Any acquisition in excess of 1% will have to be reported to RBI as a mandatory requirement;
3. FIIs/FPIs investing in CICs shall not seek a representation on the Board of Directors based upon their shareholding.

4. In case the investor in a Credit Information Company in India is a wholly owned subsidiary (directly or indirectly) of an investment holding company, the conditions as at (2) and (3) above will be applied to the operating group company that is engaged in credit information business and has undertaken to provide technical know-how to the Credit Information Company in India.

Rupee Drawing Arrangement - Submission of statement/returns under XBRL : In terms of extant guidelines, AD Cat- I banks were required to submit statement E on total remittances received every quarter. RBI advised (19.05.16) the AD Cat-1 banks to report the above statement in eXtensible Business Reporting Language (XBRL) system from the quarter ending June 2016.

Opening and Maintenance of Rupee / Foreign Currency Vostro Accounts of Non-Resident Exchange Houses: Rupee Drawing Arrangement : The extant RBI guidelines relating to above aspects regarding collateral cover under Speed Remittance Procedure (SRP), stipulate that the Exchange Houses (EH) shall keep with the AD Category - I bank a cash deposit in any convertible foreign currency equivalent to 3 days' estimated drawings on which market related interest rate may be paid. The EH can also keep the said collateral in the form of guarantees from a bank of international repute. The adequacy of collateral should be reviewed by the AD Category - I bank at regular intervals. These requirements were relaxed and the collateral requirement was brought down to one day's estimated drawings.

To further streamline the remittance arrangement under SRP and make remittances cost-effective, RBI decided (28.04.16) to do away with the mandated requirement of maintenance of collateral or cash deposits by the Exchange Houses with whom the banks have entered into the Rupee Drawing Arrangement. The AD banks are free to determine the collateral requirement, if any, based on factors, such as, whether the remittances are pre-funded, the track record of the Exchange House, whether the remittances are effected on gross (real-time) or net (file transfer) basis, etc., and may frame their own policy in this regard.

Investment Advisory Services by Banks Investment Advisory Services (IAS) is defined and regulated by SEBI under the SEBI (Investment Advisors) Regulations, 2013, and entities offering these activities need to be registered with SEBI. In view of the same RBI advised (21.04.16) that henceforth, banks cannot undertake IAS departmentally. Accordingly, banks desirous of offering these services may do so either through a separate subsidiary set up for the purpose or one of the existing subsidiaries after ensuring that there is an arm's length relationship between bank and the subsidiary. The sponsor bank should obtain specific prior approval of Department of Banking Regulation before offering IAS through an existing subsidiary or for setting up a subsidiary for this purpose. (Setting up of any subsidiary will, as hitherto, be subject to the extant guidelines on para-banking activities of banks).

All bank sponsored subsidiaries offering IAS will be registered with SEBI and regulated as per the SEBI (Investment Advisors) Regulations, 2013, and shall adhere to all relevant SEBI rules and regulations in this regard.IAS provided by the bank sponsored subsidiaries should only be for the products and services in which banks are permitted to deal in as per Banking Regulation Act, 1949.

Foreign Investment in units issued by Real Estate Investment Trusts, Infrastructure Investment Trusts and Alternative Investment Funds RBI decided (21.04.16) to allow foreign investment in the units of Investment Vehicles registered and regulated by SEBI or any other competent authority which include:

- Real Estate Investment Trusts registered /regulated under SEBI Regulations 2014;
- Infrastructure Investment Trusts registered / regulated under SEBI Regulations;
- Alternative Investment Funds registered / regulated under SEBI Regulations 2012. The salient features of the new investment regime are:

1. A person resident outside India including a Registered Foreign Portfolio Investor (RFPI) and a Non-Resident Indian (NRI) may invest in units of Investment Vehicles.
2. The payment shall be made by an inward remittance through the normal banking channel including by debit to an NRE or an FCNR account.
3. Purchased units may be sold/transferred/redeemed as per RBI/SEBI regulations.
4. Downstream investment by an Investment Vehicle shall be regarded as foreign investment if Sponsor or Manager or Investment Manager is not Indian 'owned.
5. If sponsors or managers or investment managers are in a form other than companies or LLPs, SEBI shall determine whether it is foreign owned and controlled.
6. Downstream investment by an Investment Vehicle that is reckoned as foreign investment shall have to conform to the sectoral caps and conditions / restrictions.
7. Downstream investment in an LLP by an Investment Vehicle that is reckoned as foreign investment has to conform to the provisions of Schedule 9 of the Principal Regulations as well as the extant FDI policy for foreign investment in LLPs.
8. An Alternative Investment Fund Category III with foreign investment shall make portfolio investment in only those securities in which a RFPI is allowed to invest.
9. The Investment Vehicle receiving foreign investment shall be required to make such report and in such format to RBI or SEBI as prescribed by them from time to time. RBI has clarified that foreign investment in units of REITs registered and regulated under the SEBI (REITs) Regulations, 2014 will not be included in "real estate business" for the purpose of these regulations.

Acceptance of deposits by Indian companies from a person resident outside India for nomination as Director

In terms RBI notification dated 01.04.16, no person resident in India shall accept any deposit from, or make any deposit with, a person resident outside India. U/s 160 of Companies Act, 2013, a person who intends to nominate himself or any other person as a director in an Indian company is to place a deposit with that company. RBI clarified (13.04.16) that keeping deposits with an Indian company by persons resident outside India, as per Section 160 of the Companies Act, 2013, is a current account (payment) transaction and does not require any approval from RBI. All refunds of such deposits, arising in the event of selection of the person as director or getting more than 25% votes, shall be treated similarly.

Grant of EDF Waiver for Export of Goods Free of Cost :

In terms of circular dated 26.04.2003, GR waive to exporters for export of goods free of cost was enabled. The facility was extended to the Status through Foreign Trade Policy 2004-2009, in terms of which Status Holders were entitled to export freely exportable items on free of cost basis for export promotion subject to an annual limit of Rs 10 lakh or 2% of average annual export realization during preceding three licensing years, whichever is **higher**.

Government of India on June 4, 2015, notified that the Status Holders shall be entitled to export freely exportable items on free of cost basis for export promotion subject to an annual limit of Rs 10 lakh or 2% of average annual export realization during preceding three licensing years whichever is **lower**. AD Category – I banks can consider requests from Status Holder exporters for grant of Export Declaration Form (EDF) waiver, for export of goods free of cost based on the revised norm.

Issuance of Rupee denominated bonds overseas – Multilateral and Regional Financial Institutions as Investors Further to extent guidelines on External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than ADs, about the criteria of recognized investors in the Rupee denominated bonds issued overseas, in order to provide more choices of investors to Indian entities issuing Rupee denominated bonds abroad, RBI decided on Feb 16, 2017, to also permit Multilateral and Regional Financial Institutions where India is a member country, to invest in these Rupee denominated bonds.

Forward Rate Agreement (FRA) and Interest Rate Swap (IRS)

As per extent notification, banks are to submit a fortnightly return on FRA/IRS to Monetary Policy Department with a copy to various RBI departments. In a further step towards rationalization of returns, RBI decided (Feb 16) to withdraw the said return with immediate effect. The banks have been advised to stop sending the hardcopy of the said return to RBI. The existing procedure for reporting OTC Foreign exchange and Interest Rate Derivative transactions to the trade repository hosted by CCIL shall continue.

Prohibition on Indian Party from making direct investment in countries identified by the Financial Action Task Force (FATF) as "Non Co- operative countries and territories" : At present, there is no restriction on an Indian Party with regard to the countries, where it can undertake Overseas Direct Investment. In order to align, the instructions with the objectives of FATF. On a review RBI decided (Jan 25) to prohibit an Indian Party from making direct investment in an overseas entity (set up or acquired abroad directly as JV/ WOS or indirectly as step down subsidiary) located in the countries identified by the FATF as "non co-operative countries and territories" as per list available on FATF website www.fatf-gafi.org or as notified by RBI.

Prohibition on Indian Party from making direct investment in countries identified by the Financial Action Task Force (FATF) as "Non Co-operative countries and territories" At present, there is no restriction on an Indian Party with regard to the countries, where it can undertake Overseas Direct Investment. In order to align, the instructions with the objectives of FATF, on a review, RBI decided (Jan 25) to prohibit an Indian Party from making direct investment in an overseas entity (set up or acquired abroad directly as JV/ WOS or indirectly as step down subsidiary) located in the countries identified by the FATF as "non co-operative countries and territories" as per list available on FATF or as notified by the RBI from time to time.

Post Office (Postal Orders/Money Orders), 2015 : Further to notification dated December 29, 2015 RBI, on 04.02.16, granted general permission to any person to buy foreign exchange from any post office in India in the form of postal order or money order.

•PARTICIPATION IN CURRENCY FUTURES MARKET :RBI has decided to permit stand-alone Primary Dealers (PDs) to deal in currency futures contracts traded on recognized exchanges subject to the following conditions:

Eligibility:

a) Exposure to currency futures will be treated as a non- core activity for PDs and only PDs having a minimum Net Owned Fund of Rs.250 crore or any amount as prescribed for undertaking diversified activity will be allowed to participate in currency futures.

b)As prescribed in the existing guidelines on capital adequacy standards, the capital charge for market risk for the non-core activities (including currency futures) which are expected to consume capital should not be more than 20 per cent of the NOF as per last audited balance sheet.

Position Limits: PDs are permitted to take long and short positions in the currency futures market with or without having an underlying exposure subject to the position limits specified by the exchanges. However, the aggregate gross open positions across all contracts in all the stock exchanges in the respective currency pairs shall not exceed the limits prescribed by RBI

Purchase and sale of securities other than shares or convertible debentures of an Indian company by a person resident outside India In terms of notification dated 03.05.2000, eligible investors, viz., SEBI registered Foreign Institutional Investors (FIIs), Qualified Foreign Investors (QFIs), registered Foreign Portfolio Investors (FPIs) and long term investors registered with SEBI, may purchase securities indicated in Schedule 5 on repatriation basis and subject to such terms and conditions as may be specified by the SEBI and RBI from time to time. With a view to providing flexibility in regard to the manner in which non-convertible debentures/bonds issued by Indian companies can be acquired by FPIs, RBI decided (Dec 27, 2016) to allow them to transact in such instruments either directly or in any manner as per the prevalent/approved market practice.

Exchange facility to foreign citizens RBI decided (25.11.16) that foreign citizens (i.e. foreign passport holders) can exchange forex for Indian currency notes up to a limit of Rs. 5000 per week till Dec 15, 2016 subject to the tenderer submitting a self-declaration that this facility has not been availed of during the week. The Authorized Person (APs) shall keep the passport details and the above declaration on record. APs may also ensure that the total value of such exchange to Indian currency notes does not exceed Rs.5000/- during the week.

Investment by FPI in corporate debt securities : As per extant guidelines, Foreign Portfolio Investors (FPI) can invest only in listed or to-be-listed debt securities. Investment in unlisted debt securities is permitted only in case of infrastructure sector companies. RBI decided (17.11.16) to expand the investment basket of eligible instruments for investment by FPIs under the corporate bond route to include the following:

i. Unlisted corporate debt securities in the form of non-convertible debentures/bonds issued by public or private companies subject to minimum residual maturity of 3 years and end use-restriction on investment in real estate business, capital market and purchase of land.

ii. Securitised debt instruments as under:

1. any instrument issued by a special purpose vehicle set up for securitisation where banks, FIs or NBFCs are originators; and/or
2. any certificate or instrument issued/listed as per SEBI Regulations on Public Offer and Listing of Securitised Debt Instruments, 2008.

Investment by FPIs in the unlisted corporate debt securities and securitised debt instruments shall not exceed Rs. 35,000 crore within the extant investment limits prescribed for corporate bond from time to time which currently is Rs. 2,44,323 crore. Further, investment by FPIs in securitised debt instruments shall not be subject to the minimum 3-year residual maturity requirement. The revised norms will be reviewed after one year.

Investment by Foreign Portfolio Investors (FPI) in Government Securities : The limits for investment by foreign portfolio investors (FPI) in Government securities were last increased in terms of the Medium Term Framework MTF) announced on 29.03.16. Accordingly, the limits for the next half year are proposed to be increased in two tranches, each of Rs. 100 billion from October 3, 2016 and January 2, 2017 respectively. The limits for State Development Loans (SDLs) are proposed to be increased in two tranches, each of Rs.35 billion, from October 3, 2016 and January 2, 2017 respectively. 4. The revised limits over the next two quarters would be as under (INR billion):

Central Govt. Securities	All FPIs	Addl for Long term	Total	State Loans	Total
Existing Limit	1440	560	2000	140	2140
w.e.f. 03.10.16	1480	620	2100	175	2275
w.e.f. 02.01.17	1520	680	2200	210	2410

The operational guidelines relating to allocation and monitoring of limits will be issued by the Securities and Exchange Board of India (SEBI).

Foreign investment in Other Financial Services

At present foreign investment up to 100%, under automatic route, in Non-Banking Finance Companies (NBFCs) engaged in the 18 activities listed therein is allowed. RBI decided (20.10.16) to allow foreign investment up to 100% under the automatic route in ‘Other Financial Services’ which activities regulated by any financial sector regulator viz. RBI, SEBI, IRDAI, PFRDA, NHB or any other financial sector regulator. Such investment shall be subject to conditionalities, specified by the concerned Regulator/ Government Agency. Other salient features of the revised regulatory framework are as under:

1. In activities which are not regulated or partly regulated by any financial sector regulator or where there is lack of clarity regarding regulatory oversight, foreign investment will be allowed up to 100% under the Govt. approval route.

Foreign investment in an activity specifically regulated by an Act, will be restricted to foreign investment levels/limits, if any, specified in that Act.

Quarterly reporting system- Foreign branches/ subsidiaries/ joint ventures/ associates of Indian banks

As per RBI Circular dated March 24, 2008 foreign branches/ subsidiaries/ joint ventures/ associates of Indian banks were required to submit quarterly return for reporting of profit and asset size of overseas operations of the bank. On a review RBI decided (30.06.16) to discontinue the submission of the said return w.e.f. June 30, 2016.

Settlement System under Asian Clearing Union (ACU)

As per extant RBI directions dated 26.12.2008, the participants in ACU mechanism have the option to settle their transactions either in ‘ACU Dollar’ or in ‘ACU Euro’. The ‘ACU Dollar’ and ‘ACU Euro’ is equivalent in value to one US Dollar and one Euro, respectively. RBI advised banks (30.06.16) that the payment channel for processing ‘ACU Euro’ transactions is under review. Hence, it has become necessary to temporarily suspend operations in ‘ACU Euro’ w.e.f July 01, 2016. Accordingly, all eligible current account transactions including trade transactions in ‘Euro’ are permitted to be settled outside the ACU mechanism until further notice.

5. LATEST MCQs ON INTERNATIONAL BANKING (RBI GUIDE LINES BASED QUESTIONS)

01 The rate of interest equalisation available on Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit is ___ % per annum:
(a)2% **(b)** 3% **(c)** 4% **(d)** 5%
02 The duration of interest equalisation scheme for Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit is ____ w.e.f 01.04.2015: **(a)**5 years **(b)** 4 years **(c)** 3 years **(d)** 1 year
03 The benefit of interest equalisation scheme for Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit is not available to which of the following:
(a)SEZ exporters **(b)** Warehouse exports **(c)** merchant exporters**(d)** gold card holder exporters
04 Banks can submit the claims to RBI under interest equalisation scheme for Pre-Shipment Rupee Export Credit and Post-Shipment Rupee Export Credit on ______ basis, within ____:
(a)quarterly, within 20 days **(b)** monthly, within 15 days **(c)** half-yearly, within 25 days **(d)** annually, within 30 days
05 A person resident outside India can establish a branch office in India provided it has a profit making track record during the immediately preceding 5 financial years in the home country and net worth of not less than ____ or its equivalent.
(a) USD 100000 **(b)** USD 75000 **(c)** USD 50000 **(d)** USD 25000
06 A person resident outside India can establish a liaison office in India provided it has a profit making track record during the immediately preceding 3 financial years in the home country and net worth of not less than ___ or its equivalent.
(a) USD 100000 **(b)** USD 75000 **(c)** USD 50000 **(d)** USD 25000
07 AD Category - I banks can approve Clean Credit i.e. credit given by a foreign supplier to its Indian customer / buyer, without any Letter of Credit (Suppliers' Credit) / Letter of Undertaking (Buyers' Credit) / Fixed Deposits from any Indian financial institution for import of Rough, Cut and Polished Diamonds, for a period not exceeding 180 days from the date of shipment.
(a) 90 days **(b)** 180 days **(c)** 270 days **(d)** 360 days
08 As per extant FDI policy for Insurance sector, the limit of foreign investment in insurance sector has been enhanced ___ under the automatic route : **(a)** from 24% to 49% **(b)** from 26% to 49% **(c)** from 49% to 74% **(d)** from 49% to 75%
09 A no. of reports are required to be sent to RBI on XBRL. XBRLstands for:
(a) eXtensible Bank Reporting Language **(b)** eXtensible Business Reporting Language
(c) eXpress Business Reporting Language **(d)** eXpress bank Reporting Language
10 RBI may consider allowing FDI to entities having an established track record of running a Credit Information Bureau in a well regulated environment.
(a) up to 49% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 10% of voting rights in the company)
(b) up to 26% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 10% of voting rights in the company)
(c) up to 74% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 10% of voting rights in the company)
(d) up to 26% if their ownership is not well diversified (i.e., one or more shareholders each hold more than 5% of voting rights in the company)
11 RBI may consider allowing FDI to entities having an established track record of running a Credit Information Bureau in a well regulated environment.
(a) up to 26% if their ownership is well diversified **(b)** up to 49% if their ownership is well diversified
(c) up to 74% if their ownership is well diversified **(d)** up to 100% if their ownership is well diversified
12 Who is a 'Non-resident Indian (NRI)' ?
(a) a person resident outside India **(b)** a person resident outside India who is a Person of Indian origin
(c) a person resident outside India who is a citizen of India **(d)** c and d both
13 A 'Person of Indian Origin (PIO)' is a person resident outside India who is a citizen of any country other than Bangladesh or Pakistan or such other country as may be specified by the Central Government, satisfying the following conditions (which one is not correct):
(a) Who was a citizen of India by virtue of the Constitution of India or the Citizenship Act, 1955
(b) Who is a child or a grandchild or a great grandchild of a citizen of India
(c) Who is a spouse of foreign origin of a citizen of India **(d)** a and b only
14 Any person resident outside India, having a business interest in India, may open an ___ account in Indian Rupee with Authorized Dealers for the purpose of putting through bona fide transactions in rupees:
(a) Foreign currency non-resident account **(b)** special non-resident rupee account
(c) non-resident ordinary account **(d)** non-resident external rupee account
15 The maximum period for a which special non-resident rupee account can be opened by a foreigner for business purpose is:
(a) one year **(b)** three years **(c)** five years **(d)** seven years

16 AD Category – I banks can consider granting extension of time for settlement of import dues up to a period of at a time (maximum up to the period of three years) irrespective of the invoice value for delays on account of disputes about quantity or quality or non-fulfilment of terms of contract; financial difficulties and cases where importer has filed suit against the seller. **(a)** 1 month **(b)** 2 months **(c)** 3 months **(d)** 6 months

17 While considering extension beyond one year from the date of remittance, the AD Category-1 have to ensure that the total outstanding of the importer should not exceed USD ____ or 10 per cent of the average import remittances during the preceding two financial years, whichever is lower; - **(a)** USD one lac **(b)** USD five lac **(c)** USD one million **(d)** USD ten million

18 F- TRAC of the Clearcorp Dealing Systems (India) Ltd., stands for:
(a) Forward Market Trade Reporting and Confirmation Platform **(b)** Financial Market Trade Reporting and Confirmation Platform **(c)** Financial Market Trade Requirement and Confirmation Platform **(d)** Financial Market Trade Reporting and Consolidation Platform

19 As per RBI guidelines, the exporters are caution-listed if any shipping bill remains open for more than ___ from date of shipment in RBI's EDPMS. - **(a)** 3 months **(b)** 6 months **(c)** one year **(d)** two years

20 What is full form of EDPMS? - **(a)** External data processing and monitoring system **(b)** Export data processing and monitoring system, **(c)** Export data preparing and monitoring system **(d)** Export data processing and making system

21 Separate reporting has been discontinued from HY December 2015 onwards for which of the following, because the information is available on EDPMS of RBI? -**(a)** BEF **(b)** R-return **(c)** XOS **(d)** all the above

22 For transactions under Asian Clearing Union arrangement, the minimum amount which RBI receives in USD and/or Euro is
(a) USD 25000 or Euro 25000 **(b)** USD 10000 or Euro 10000 **(c)** USD 1000 or Euro 1000 **(d)** USD 500 or Euro 500

23 For transactions under Asian Clearing Union arrangement, the minimum amount which RBI pays in USD and/or Euro is :
(a) USD 25000 or Euro 25000 **(b)** USD 10000 or Euro 10000 **(c)** USD 1000 or Euro 1000 **(d)** USD 500 or Euro 500

24 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals up to :
(a) USD 1,20,000 per Financial Year (April-March) for permittedcurrent account transaction.
(b) USD 2,50,000 per Financial Year (April-March) for permitted current account transaction only.
(c) USD 1,25,000 per Financial Year (April-March) for any permitted current or capital account transaction or a combination of both.
(d) USD 2,50,000 per Financial Year (April-March) for any permitted current or capital account transaction or a combination of both.

25. The permissible capital account transactions by an individual under LRS are: **(a)** opening of foreign currency account abroad with a bank **(b)** purchase of property abroad, **(c)** making investments abroad-acquisition and holding shares of both listed and unlisted overseas company or debt instruments; acquisition of ESOPs; investment in units of Mutual Funds, Venture Capital Funds, unrated debt securities, promissory notes; **(d)** all the above

26 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals within the prescribed limit for which of following current account transactions : (1) private visit or business trips (2) gift/donation (3) going abroad on employment, emigration or for medical treatment (4) maintenance of close relatives abroad or for studies abroad -**(a)** 1 to 4 all **(b)** 1, 2 and 4 only **(c)** 1, 2 and 3 only **(d)** 1 and 2 only

27 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals beyond the prescribed limit of USD 250000 for which of following current account transactions on the basis of additional documentation : (1) medical treatment abroad (2) studies abroad (3) emigration (4) employment abroad
(a) 1 to 4 all **(b)** 1, 2 and 4 only **(c)** 1, 2 and 3 only **(d)** 1 and 2 only

28 Under the Liberalised Remittance Scheme of RBI, loan cannot be given for remittances by resident individuals for which of following transaction : **(a)** medical treatment abroad **(b)** purchase of property abroad **(c)** donation or gift **(d)** none of the above

29 Under the Liberalised Remittance Scheme of RBI, Authorised Dealers may freely allow remittances by resident individuals by obtaining Form-A2, which is mandatory requirement if the amount of remittance is above:
(a) USD 15000 **(b)** USD 25000 **(c)** USD 30000 **(d)** in all cases

30 Under the Liberalised Remittance Scheme of RBI, it is mandatory to have PAN card to make remittances under the Scheme for capital account transactions. However, PAN card need not be insisted upon for remittances made towards permissible current account transactions up to USD ___ .- **(a)** USD 15000 **(b)** USD 25000 **(c)** USD 30000 **(d)** in all cases

31 A resident individual can lend to Non-Resident Indian or Personal of India Origin max ______ in India and amount of loan should be credited to: **(a)** Up to USD 125000 by crediting the amount to NRO account of NRI / PIO
(b) Up to USD 250000 by crediting the amount to NRO account of NRI / PIO
(c) within LRS limit of USD 250000 by crediting the amount to NRO account of NRI / PIO
(d) within LRS limit of USD 250000 by crediting the amount to NRO or NRE account of NRI / PIO

32 Outward remittance under Liberalized Remittance Scheme (LRS) of RBI are permitted to (1) Individuals (2) on behalf of Minor (3) HUF (4) Partnership (5) Company (6) Trust :- **(a)** 1 to 6 all **(b)** 1 to 3 only **(c)** 1 and 2 only **(d)** 1 only

33 Outward remittance under Liberalized Remittance Scheme (LRS) of RBI are permitted up to an amount of:
(a) USD 125000 per calendar year for permitted capital and current account transactions
(b) USD 125000 per financial year for permitted capital and current account transactions
(c) USD 250000 per financial year for permitted capital and current account transactions
(d) USD 250000 per calendar year for permitted capital and current account transactions

34 Which of the following remittance are not allowed under LRS, as capital account transactions:
(a) opening of foreign currency account abroad
(b) purchase of property or making investment in shares or debt instruments or setting up wholly owned subsidiary companies & joint ventures, **(c)** extending loans including in Indian currency to non-resident Indians who are relatives **(d)** none of the above
35 Mr. Z wants to visit a no. of European countries and has requested for obtaining foreign currency under LRS of RBI. How much amount will be available to him and how many times he can go outside India:
(a) USD 250000 per financial year without any restriction on no. of visits abroad
(b) USD 250000 per calendar year without any restriction on no. of visits abroad
(c) USD 250000 per financial year with maximum 3 visits abroad, **(d)** USD 250000 per calendar year with maximum 3 visits abroad
36 Mr. X wants to send a gift to his son residing in UK in Pound Sterling. What is the maximum amount he can remit under LRS of RBI? -- **(a)** Equivalent of USD 250000 in a calendar year **(b)** Equivalent of USD 250000 in a financial year
(c) Pound Sterling 250000 in a financial year **(d)** Pound Sterling 250000 in a calendar year
37 Outward remittance can be made by a resident Indian, as part of current account transaction up to USD 250000 for (1) donation (2) employment (3) expenses of relative (4) studies (5) immigration (6) medical treatment:
(a) 1 to 6 all **(b)** 1 only **(c)** 2 and 6 only **(d)** 4 to 6 only
38 Outward remittance can be made by a resident Indian, as part of current account transaction in excess of USD 250000 against documentary evidence for (1) donation (2) employment (3) expenses of relative (4) studies (5) immigration (6) medical treatment:
(a) 1 to 6 all **(b)** 1 only **(c)** 2 and 6 only **(d)** 4 to 6 only
39 For which of the following transactions under LRS of RBI, banks cannot give loan:
(a) medical treatment outside India **(b)** purchase of property outside India
(c) making donation in favour of a Trust outside India **(d)** all the above
40 For availing the remittance facility under LRS of RBI, the remitter is required to make application / declarations on:
(a) Form CDF **(b)** Form A-1 **(c)** Form A-2 **(d)** Form EDF
41 Resident individual can lend to non-resident Indian or Person of Indian Origin close relative under LRS of RBI for a period up to: -
(a) 6 months **(b)** one year **(c)** three years **(d)** five years
42 Under LRS of RBI, for making remittance for capital account transactions, the Indian resident should be holding account with the Authorized dealer for a period of atleast: - **(a)** three months **(b)** six months **(c)** one year **(d)** 2 years
43 As per RBI guidelines, the Foreign Portfolio Investors (FPIs) can transact in the Over-the-Counter (OTC) market for Government securities with ____ settlement.-**(a)** T + 3 **(b)** T + 2 **(c)** T + 1 **(d)** T + 0
44 Total foreign investment in an Indian company is the sum total of direct and indirect foreign investments.
(a) direct investment **(b)** indirect investment **(c)** participatory notes **(d)** a and b both
45 As per FDI Policy, Portfolio investment up to aggregate foreign investment level of ___ or sectoral/ statutory cap, whichever is lower, will not be subject to either Government approval or compliance with the sectoral conditions provided such investment does not result in change in ownership leading to control of Indian entities:- **(a)**24% **(b)** 49% **(c)** 50% **(d)**74%
46 For FDI purpose, a company or a limited liability partnership shall be considered as owned by resident Indian citizens if more than ____of the capital in it, is beneficially owned by resident Indian citizens and/or Indian companies, which are ultimately owned and controlled by resident Indian citizens.- **(a)** 24% **(b)** 49% **(c)** 50% **(d)** 74%
47 Foreign investment up to ____ under the automatic route has been permitted in the plantation sector which includes tea plantations, coffee plantations, rubber plantations, cardamom plantations, palm oil tree plantations and olive oil tree plantations. -
(a) 26% **(b)** 51% **(c)** 74% **(d)** 100%
48 Foreign investment up to ____ is allowed under the automatic route, in Non-Banking Finance Companies (NBFCs) engaged in the select 18 activities. - **(a)** 26% **(b)** 51% **(c)** 74% **(d)** 100%
49 As per extant RBI directives, the amount of permitted trade transaction, under the Rupee Drawing Arrangements (RDAs) shall not exceed Rs.___ per transaction. : - **(a)** Rs.10 lac **(b)** Rs.15 lac**(c)** Rs.25 lac **(d)** Rs.100 lac
50 Against the pre-shipment credit, the refinance is available from ___ maximum for ___ days:
(a) RBI, 90 days, **(b)** EXIM Bank, 90 days **(c)** Exim Bank, 180 days **(d)** refinance is not available

ANSWER

1	B	2	A	3	C	4	D	5	A
6	C	7	B	8	B	9	B	10	A
11	D	12	C	13	D	14	B	15	D
16	D	17	C	18	B	19	D	20	B
21	C	22	A	23	D	24	D	25	D
26	A	27	C	28	B	29	D	30	B
31	C	32	C	33	C	34	D	35	A
36	B	37	A	38	D	39	B	40	C
41	B	42	C	43	B	44	D	45	B
46	C	47	D	48	D	49	B	50	D

6. MEMORY BASED QUESTIONS 2016-17

1. Dealer entered in spot position on 25-Feb-2016 (Thursday). The funds settlement will take place on 29-Feb-2016 (exclude SAT/SUN)
2. Remittance under LRS for education. What rate to be applied : **TT selling rate**
3. As per UCPDC how much time is allowed to issuing bank and negotiating bank for scrutiny of documents?: 5 banking days
4. FATCA introduced by USA is short title of? Foreign-Account-Tax-Compliance-Act
5. Foreign students account. How much amount can be deposited or withdrawal in first 30 days?: Deposit 1000 USD; withdrawal max Rs. 50000/-
6. What rate will be applicable when F.C. received in NOSTRO account earlier : TT buying rate
7. Under UCPDC-600 what is the time period during which Issuing Bank or Nominated Bank should check the documents to ensure that these are as per LC requirement : 5 banking days.
8. A financial product, which is driving its value from another ……..financial product, is called
   a) Forward Contract. b) Swap c) Derivative; d) Currency futures**: Ans- Derivative.**
9. To reduce its foreign currency risks in case of overdue Export bill, bank should do**:** a) Forward Contract b) Option contract c) Swap **d**) Crystallization**: Ans Crystallization.**
10. Minimum and maximum period for FCNR(B) accounts: **1 year and 5 year.**
11. In which currency, FCNR(B) can be opened: **In any freely convertible foreign currency.**
12. **What is the m**inimum and maximum period for FCNR (B) : **1 year and 5 years.**
13. Full form of LRS: **Liberalized Remittance Scheme.**
14. A foreign tourist who is in India and is having USD 5,000 wants to open a/c. Which type of deposit account he can open**: NRO for a maximum period of 6 months**
15. Unspent Foreign Currency to be surrendered within**: 180 days And also can be purchased before 180 days.**
16. Packing Credit facility is available in which type of Letter of Credit**: Red Clause Letter of Credit** Number of days for examination of documents by negotiating bank under L/C by bank**: 5 Banking days.**
17. Why crystallisation of Import bill**: To extinguish foreign exchange liability by debiting the a/c and avoid exchange fluctuation risk.**
18. Interest Rate on FCNR(B) Banks is linked to: LIBOR/Swap – London Inter Bank Offered Rate.
19. EEFC - Maximum retention in foreign currency**: 100%**
20. A bank financed an exporter by discounted foreign bills but the customer did not pay amount on due date. Bank wanted reverse the transaction. What rate bank will bank apply?**: TT Selling rate.**
21. Which Letter of Credit is similar to Bank Guarantee**: Stand by LC.**
22. Full form of UCPDC**: Uniform Customs & Practices for Documentary Credits.**
23. How much inward remittance can be credited to EEFC a/c**: 100% of export proceeds.**
24. What is the rate applied for crystallization of Export Bills discounted into Rupee Liability**: TT Selling Rate.**
25. Deemed Exports means: **Goods supplied do not leave the country and the payment for such supplies is received either in Indian rupees or in free foreign exchange.**
26. Beyond what period permission of ECGC is required for extending package credit advance? **360 days.**
27. Under Liberalised Remittance Scheme (LRS) any resident individual can remit abroad upto **: $2,50,000 per person per financial year.**
28. Packing Credit facility is available in which type of Letter of Credit: Red Clause Letter of Credit.
29. Number of days for examination of documents by negotiating bank under L/C by bank: 5 Banking days.
30. Interest Rate on FCNR(B) Banks is linked to**: LIBOR/Swap – London Inter Bank Offered Rate.**
31. Which one of the following commodities has the maximum share in our imports at present: **Crude oil.**
32. A Usance bill is accepted by the attorney of the drawee. Subsequently the drawee revokes the power of attorney before the bill is due. What will you do in the case: **It is deemed to be accepted by the drawee.**
33. Imports regulator**: DGFT**
34. Minimum and maximum period for FCNR(B) accounts**: 1 year and 5 year.**
35. In which currency, FCNR(B) can be opened**: In any freely convertible foreign currency.**
36. VOSTRO account: **Account of a correspondent bank abroad with a with a domestic bank in local currency.**
37. How much foreign currency can be retained by an individual after returning from abroad: **USD 2000**.
38. How much forex can be released for business trip abroad: **USD 250000 in a financial year**
39. Maximum Forex that can be retained by an individual returning from abroad in the form of Currency notes or TC: USD 2000. Balance to be surrendered to AD branch within 180 days or deposited in RFC Account.
40. Maximum amount of remittance by an individual in a financial year under RBI Liberalised Remittance Scheme: USD 250000.
41. NRE Deposited DD of USD15000 drawn on you in his account. Which rate will be used:TT Buying Rate

42. FC rate on purchase of Foreign DD: TT buying rate
43. Which country is not a member of Asian Infrastructure Investment Bank: USA

MEMORY BASED MCQ ON INTERNATIONAL BANKING

FOREX FACILITIES TO RESIDENTS

1 Which of the following does not match in case of drawl of foreign exchange by residents:
a Schedule I transactions not permitted b Schedule II transactions — with permission of Central Govt
c Schedule III transactions with permission of RBI d none of the above

2 What is the maximum amount that AD category-1 banks can release to an Indian resident for private visit abroad:
a Rs.10000 in a financial year b USD 10000 in a calendar year
c USD 10000 per personal visit d none of the above c

3 What is the maximum amount that AD category-1 banks can release to an Indian residents for going abroad for employment: a USD 10000 b USD 25000 c USD 250000 d USD 200000

4 What is the maximum amount that AD category-1 banks can release to an Indian residents for going abroad for immigration (a) USD 10000 (b) USD 100000 (c) USD 250000 (d) amount prescribed by country of immigration:
a b or d) b a or d) c c or d d c only

5 What is the maximum amount that AD category-1 banks can release for meeting maintenance expenses of relative abroad, in a financial year:
a USD 10000 b USD 25000 c USD 250000 d USD 200000

6 What is the maximum amount that AD category-1 banks can release to an Indian residents for going abroad for business tour: a USD 10000 per trip b USD 250000 per FY c USD 100000 lump sum d USD 200000 lump sum

7. What is the maximum amount that AD category-1 banks can release to an Indian residents, on self declaration basis, for going abroad for medical treatment:
A USD 10000 per visit B USD 25000 per visit C USD 250000 D USD 200000

8. What is the maximum amount that AD category-1 banks can release (per academic year) to an Indian resident for going abroad for studies (a) USD 10000 (b) USD 25000 (c) USD 250000 per academic year (d) amount estimated by the institution abroad: A b or d whichever is higher B a or d whichever is higher C c or d whichever is higher D C only

9. Out of the total forex sold to a resident Indian, the form of currency notes in which of the following does not match:
A for Russia, Iran, CIS countries — no ceiling for amount being released in currency notes and coins
B for Iraq and Libya — Max USD 10000 can be released in currency notes and coins
C for other countries — Max USD 3000 can be released in currency notes and coins , D none of the above

10.Form A2 is used for obtaining foreign exchange (a) for import payments (b) for remittances other than imports (c) for amount up to USD 5000 (d) ' for amount above USD 25000.
aa and d are correct b a and c are correct c b and c are correct d b and d are correct

11 General permission is available to any resident individual to surrender received / realised / unspent / unused forex with in a period of : a 60 days b 90 days c 180 days d no time limit

12 For purchase of foreign exchange, the AD can accept cash (Indian Rupees), if such amount:
a does.not exceed Rs.20000 b is less than Rs.20000 only c is less than Rs.50000
d only cl does not exceed Rs.50000

13 For purchase of foreign exchange in cash, above the prescribed amount, the payment can be accepted: a crossed cheque drawn on applicant's bank or sponsoring company's bank account b banker's cheque / demand draft / payment order c debit / credit / prepaid card d any of the above

14 Under RBI's liberalised remittance scheme (LRS), the AD banks can remit up to:
a USD 25000 in a calendar year b USD 50000 in a calendar year
c USD 75000 in a financial year d USD 250000 in a financial year

15 Where an AD releases forex, what are the provisions of endorsement on the passport:
a endorsement can be done at the request of the applicant
b endorsement to be done invariably
c endorsement cannot be done even at the request of the applicant d none of the above

16 Drawl of foreign exchange by a person in India is not permitted in respect of which of the following:
a transactions given in Schedule I to FEMA b travel to Nepal and Bhutan
c transactions with persons resident in Nepal and Bhutan d all the above

'17 Which of the following can remit up to US $ 250000, under RBI's liberalized remittance scheme :

a Resident individuals only b All NRIs c Resident individual and other than individuals
d all the above
18 Any denomination of Indian currency can be taken to Nepal & Bhutan, when the amount is up to:
a Rs.5000 b Rs.10000 c Rs.15000 d Rs.20000 e Rs.25000

ANSWER -Foreign Exchange Facility to Resident

1	D	2	D	3	C	4	C	5	C	6	B	7	C	8	C	9	B	10	D
11	C	12	D	13	D	14	D	15	A	16	D	17	C	18	E				

MCQ BASED ON RECALLED QUESTIONS

1) What is the full form of UCPDC?
   a. Unilateral Customs and Practices for Demand Credit
   b. Uniform Customs and Practices for Documentary Credit
   c. Uniform Customs and Principles for Documentary Credit
   d. Uniform Customs and Practices for Demand Credit
2) Which of the following authority regulates Foreign Trade in India?
   a.DGFT **b.**SEBI **c.**EXIM Bank **d.**RBI
3) Pre-shipment credit in foreign currency can be allowed at which of the following interest rates?
   a.EURIBOR b.EURO LIBOR c. **LIBOR** d.All of the above
4) In case of deemed exports, the advance at post-shipment period is required to be liquidated within how many days? a.30 days b.60 days c.90 days d.180 days
5) Under Gold Card Scheme for exporters, the banks are required to sanction a standby limit of not less than ………………. a. 10% **b. 20%** c. 25% d. 30%
6) Who was the chairman of High Level Committee on Balance of Payment?
   a. Dr Manmohan Singh b.Deepak Mohanty c.**Dr Y V Reddy** d. Dr C Rangarajan
7) What is LERMS in terms of exchange rate mechanism?
   a. Liberalised Exchange Rate Monitoring System
   b. Liberalised Export Regime & Monitoring System
   c. **Liberalised Exchange Rate Management System** **d.**None of the above
8) Under LERMS what percentage of Forex was required to be converted at RBI official rate?
   a.Nil b.**40%** c.60% d.100%
9) Which currency is known as base currency in terms of Exchange Rate Mechanism?
   a. The currency with lowest value is base currency
   b. The currency which is freely convertible
   c. **One unit of fixed amount of currency** **d.** None of the above
10) Which currency is known as Terms Currency in terms of Exchange Rate Mechanism?
   a. The currency which is quoted as variable amount
   b. The currency which is freely convertible c. Currency which dictates terms of market
   d. None of the above
11) What is known as two way quote in exchange rate mechanism?
   a. Quoting the rates both with the buyer and with the seller
   b. Quoting the buying and selling rate at the same time
   c. Both of the above d. None of the above
12) Foreign Currency Non-Resident (Banks) account can be opened in the name of which of the following?
   a. Non-resident Indian b. Person of Indian origin c. Overseas Corporate Bodies **d. Both a and b**
13) What is the implementation date of FEMA 1999? a.31.05.1999 b.01.06.1999 c.31.05.2000 d.**01.06.2000**
14) Which of the following is not a correct type of category of Authorised Dealers under FEMA 1999?
   a. Authorised Dealer category I b. Authorised Dealer category II
   c. Authorised Dealer category III d.**Authorised Dealer category IV**
15) Drawal of foreign Exchange by a person in India is not permitted in respect of which of the following?
   a. Transactions with persons resident in Nepal and Bhutan b. Travel to Nepal and Bhutan
   c. Transactions given in Schedule 1 of FEMA **d. All of the above.**
16) Which of the following methods is applied for quoting the foreign exchange rates in India?
   a.Cross rates b.**Direct rate** **c.**Indirect rate d.Buying rate e.Selling rate
17) Overseas Corporate Bodies means:
   a) 50% by NRIs and balance by resident Indians. B) 60% by NRIs irrespective of balance holdings
   c) 70% by NRI **d.60% by NRIs and balance by Government**

18) Under, UCPDC-600, the term " Middle" of a month - a. Second week of the month b. Third week of the month **c. 11th to 20th day of the month** **d.**5th to 15th day of the month

19. As per the article 5 of the UCPDC-600, Banks deals with
a.Goods and services b.Performance of the contract c.**Documents only** **d.** None of the above.

20. Repatriation of funds held in NRO Account can be done upto………
a.USD 10000 per FY without payment of tax b.USD 100000 per FY after payment of tax
c.USD 1 million per FY after payment of tax **d.**Repatriation can‟t be done from NRO a

21. M/s Arun Exports has achieved an export performance of $5million cumulatively in current plus previous two financial years. What will be its status under FTP 2015-20?
a.One Star Export House **b.**Two Star Export House c.Three Star Export House
d.Four Star Export House **e.**Five Star Export House

22. M/s Rajeev Exports which is a Small unit as per MSME classification has achieved an export performance of $ 2 million cumulatively in current plus previous two financial years. What will be its status under FTP 2015-20?
a.**One Star Export House** **b.**Two Star Export House **c.** Three Star Export House
d.Four Star Export House **e.**Five Star Export House

23. M/s Rajeev Exports which is a Small unit as per MSME classification has achieved an export performance of $ 20 million cumulatively in current plus previous two financial years. What will be its status under FTP 2015-20?
a.**One Star Export House** b.Two Star Export House c.Three Star Export House
d.Four Star Export House e.Five Star Export House

24. The Outstanding Export bills are to be reported to RBI at:
a. Half yearly intervals at March and September b. **Half yearly intervals at June and December**
c. Quarterly intervals at the end of the quarter d. Fortnightly basis on 15th and last day of the month

25. An EEFC account can be opened as:
a.Savings Bank account b. **Current Account** c. FD/KD accounts d. SB/CA /FD/KD accounts

26. Under Whole-turnover packing Credit policy covered with ECGC i.e., ECIB-WTPC,the percentage of cover for Small Scale Exporter accounts: a.75% up to Grade percentage limit b.55% to 75% depending on the Claim percentage **c.90% of the limit**
d.65% of the limit

27. What is the eligibility criteria for defining an exporter as Small Scale Exporter as per ECIB-WTPC/WTPS of ECGC?
a.Annual export turnover upto Rs.50 lakhs **b.**Annual export turnover upto Rs.100 lakhs
c. Annual export turnover upto Rs.200 lakhs d.There is no such category

28. M/s Ramji Exports had availed Packing Credit of Rs.50 Crore from Canara Bank which is defaulted. Canara Bank wants to invoke guarantee from ECGC under WTPC. What will be the maximum amount which will be paid by ECGC under WTPC? a. 40.00 Crore b.37.50 Crore c.**32.50 Crore d.**25.00 Crore

29. M/s Sukanya Exports had availed Packing Credit of Rs.40 Crore from Canara Bank which is defaulted. Canara Bank wants to recover its dues by invoking guarantee from ECGC under WTPC. What will be the maximum amount which will be paid by ECGC under WTPC? a. 32.00 Crore b.**30.00 Crore** **c.**26.00 Crore d.20.00 Crore

30 What will be the percentage of cover available to our bank under ECIB-WTPS for amount upto Rs.1992.17 lakhs for bills drawn on non associate non policy holder exporter? a. 65% b.70% c.**75%** **d.**90%

31. The importer has to use Form A1, if the import payment exceeds:
a. USD 500000 or its equivalent b.USD 100000 or its equivalent c.USD 5000 or its equivalent d. USD 10000 or its equivalent e. **Use of Form A1 since dispensed with**

32. The time limit for settlement of usance bills under import payment for capital goods is:
a.Maximum 6 months from the date of shipment. b.Maximum 12 months from the date of shipment
c. Maximum up to the period less than 3 years. **d.**Maximum 6 months from the date of documents.

33. AD banks may approve trade credits per import transaction for individual transaction up to :
a.USD 1 million b.USD 10 million c.**USD 20 million** **d.**USD 1 billion

34. The PCFC will be available for the maximum period of :
a.90 days b.180 days c.270 days d.**360 days**

35. If all the terms and conditions of shipment are given on the bill of lading document itself, such bill of lading is called as
a. Complete bill of lading b.**Long form bill of lading** **c.**Short form bill of lading d. Straight bill of lading

36. The bill of lading which covers the entire voyage covering more than one vessel is called as:
a.Straight bill of lading b. Chartered party bill of lading c. **Through Bill of lading** Clause d .Bill of lading

37. The bill of lading which covers the entire voyage including overland journey of goods is called as:
a. Straight bill of lading b. **Combined transport bill of lading**
c. Through Bill of lading d. Claused Bill of lading

38. Any Bill of lading is safe for negotiation purposes if
a) It acknowledges that the goods have been put on board of the shipment.
b) No superimposed clause or notation that expressly declares the defective condition of the goods

c) It is an acknowledgement that the goods have been received by the ship owners for shipment.

d) Both a and b

39. In case of usance bills, the Normal Transit period (NTP) as prescribed by FEDAI is
a.5 days b.15 days c. **25 days** **d.**3 days

40 The exporter should necessarily submit the export documents to the bank within:
a. 15 days from the date of the documents b. 15 days from the date of shipment
c. 21 days from the date of the documents **d. 21 days from the date of shipment**

41. In an international trade transaction, when the seller places the goods at the side of the ship at named port and also clears the goods for Export, which Incoterms will be used?
a. FCA- Free Carrier b.FOB –Free on Board c.**FAS –Free Alongside Ship** **d.**DAP –Delivery at

42. INCOTERMS issued by ICC, Paris is called as : a. Indian company terms b. **International Commercial Terms** c.International Contract terms d.None of the above

43. Incoterms 2010 which is in practice now a day - a. 01.12.2010 b.**01.01.2011** c. 01.10.2010 d.01.05.2011

44. How many Incoterms are prescribed under INCOTERMS 2010? a. 10 b.**11** c.12 d. 13

45. Which of the following is not an Incoterms 2010 for exclusive sea and inland waterway transport?
a. FOB b.**CIP** **c.**CIF d.CFR

46. Balance of Trade means:
a. Net position of capital account b.Current account balance c.Imports less exports **d. Exports less imports**

47. A contract which affords adequate protection to an exporter or an importer against exchange risk is :
a.Hedging b.Guarantee c.Letter of Credit d.**Forward Contract**

48. The Balance in hand at the close of the day is called:
a.Short position b. Long position c. **Overnight position** d.Day light position

49. The banks which may purchase or sell foreign currency in different markets to take advantages of the rate differentials is called: a.Hedging b.SWAP c. **Arbitrage** **d.**Cover deal

50. A person does a transaction with Spot value on 28th February 2017 (Friday), then the settlement for this transaction will be done on : a.3rd March 2017 b.**4th March 2017** **c.** 5th March 2017 d. On the same day

51. Which of the following can Remittance scheme? **a. All resident individuals** **b.**Resident companies c.All NRIs Resident partnership firms d.Resident HUFs and Trusts

52. Visit by a resident Indian to which of the following countries are not eligible for obtaining foreign exchange under forex facilities to residents?
a.All SAARC countries b. All EEC countries c. All CIS countries d. Iraq and Libya e. **Nepal and Bhutan**

53. General permission is available to any resident individual to surrender received/ realised /unspent forex within a period of
a. 60 days 90 days **180 days** No time limit

54. Any resident Indian can hold/take Indian rupees during their travel abroad up to except Pakistan and Bangladesh :
a.Rs.7500 b. Rs.10000 c.**Rs.25000** **d.** No limit

55. What is the maximum amount of remittance that AD banks can make for import payment where documents are directly received by importers? a.USD 25000 b. USD 100000 c.USD 200000 d.**USD 300000**

An exporter received advance against export supply can accept the advance and pay maximum interest rate of:
a.BPLR b.BPLR + 100 bps c.LIBOR d.**LIBOR + 100 bps**

56. Under UCPDC-600, the documents must be presented by or on behalf of the beneficiary for payment, not later than ___________ after the date of shipment, but in any event not later than the expiry date of the credit
a.21 banking days **b.**21 business days c.21 working days d. calendar days

57. Under UCPDC-600, if the expiry date of a credit or the last day for presentation falls on a day when the bank to which presentation is to be made is normally closed, the expiry date or the last day for presentation, as the case may be will be:
a. the first preceding banking day b.the first following day
c. the next following business day d. the first preceding business day

58. Which of the following is NOT a capital account transaction?
a. Investment in foreign securities. b.Transfer of immovable property outside India
c. Export and import in to India **d.**Raising foreign currency loans in India and abroad

59. The foreign exchange can be released as Currency notes / Coins up to :
a. USD 3000 or its equivalent b.USD 5000 or its equivalent in case of Iraq and Libya
c. No ceiling in case of Iran, Russian Federation, and other republics of commonwealth of independent countries
d.All of the above

60. Which is not correct in case of outward remittances under Liberalised Remittance Scheme:
a.Remittance for any purpose specifically prohibited under Schedule-1 of FEMA
b. Remittances made to Bhutan, Nepal, Mauritius or Pakistan permitted
c. Remittances can be made by any Resident Corporate, Partnership firms, HUFs, Trusts etc.
d.It is mandatory to have PAN number to make remittances

61. While quoting the rates, the banks take into account the time factor i.e. how much is going to be taken to get the purchased currency credited to the NOSTRO account abroad. This date is known as:
a.Cash date b.Spot date c.Forward Date d.**Value date**

62. FCNR(B) deposits can be opened as Term deposit for the period:
a. Minimum 15 days , Maximum 10 years b.**Minimum 1 year, Maximum 5 years**
c. Minimum 1 year 1 day, Maximum 2 years d.Minimum 1 year, Maximum 10 years

63. The NRE/ NRO accounts can be opened by NRI/PIO as a joint accounts with close relatives who are resident Indian under _____________ condition:
a. Either or Survivor b.Jointly c.**Former or Survivor** **d.**Can‟t be opened with resident Indian

64. Which is true in NRO account:
a. Any person who is a resident can open the account.
b. Any person resident in Nepal and Bhutan can open.
c. Additional preferential interest rate for staff deposit not available
d. No restriction in repatriation of funds from NRO accounts

65. Resident Foreign Currency (Domestic) account can be opened as
a.Only Current account **b.**SB/ CA **c.**Term deposits only **d.**SB/CA and Term deposits

66. SIBOR means : a. Symbolic inter-bank Offered rate b. Sri Lanka Inter-bank Offered rate
c. Singapore Inter-bank Offered rate. **d.** Systematic Inter-bank Offered rate

67. The rate that Indian banks and other derivative market participants use as a benchmark for setting prices on forward rate agreements and interest rate derivatives:
a.London Inter-bank offered rate[LIBOR] b.Mumbai inter-bank offered rate[MIBOR]
c. Mumbai Inter-bank Forward Offered rate [MIFOR] **c.**Euro Inter-bank offered rate [EURIBOR]

68. Under, UCPDC –600, the words "abox"usedt"orin"apprconn amount of LC or quantity of goods, or price per unit, the LC are to be construed as allowing a tolerance not to exceed___________ the amount, quantity, or price to which they refer:
a. 15% more or 15% less than b.**10% more or 10% less than** c.5% more or 5%less than d.2% more or 2% less than

69. Under UCPDC-600, a bank assumes no responsibility for consequences arising out of the interruption of its business by the Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes or lockouts or causes beyond its control. This is called as:
a.Disclaimer **b.Force majeure** **c.**Modus operandi d.Exclusion of liability

70. Which of the following is most preferred LC for an exporter: a.Revocable b.Irrevocable and red clause c. **Irrevocable, confirmed and without recourse** d.Confirmed and standby

71. LC issued in lieu of bank guarantee, is called:
a. Red clause LC b. Green Clause LC c. **Standby LC** d.Revolving LC

72. Transferable Letter of credits can be transferred:
a. Any number of times b.**Only once** c.2 times d.5 times

73 The statutory authority which administers the Exchange Control in India:
a.Ministry of commerce b.DGFT c.FEDAI d.**RBI** **e.**FEMA

74. In foreign Exchange transaction, which of the following is the basic buying rate:
a.Bills Buying rate b.**TT Buying rate** c.FC buying rate d.Direct rate e.Interbank rate

75. Under UCPDC-600, branches of same bank in different countries are:
a.Same bank b.**Different bank** c.Associate bank d.Subsidiary bank

76. In respect of sale or purchase of foreign exchange, the following principal would be followed in direct rate:
a.Buy high b. Sell low **c. Buy low, sell high** **d.**Buy high, sell low

77. Mr. Rajiv, a resident of Bangalore, had shifted to USA for settled there itself. While in USA, he married a USA girl, Martina, What is the status of Martina as per FEMA?
a. An Indian Resident b. Foreigner c.**A person of Indian origin** d.Non-resident Indian

78. R-Return refers to returns concerning_________:
a.ALM Position b.CRR maintenance position c.NPA/SWL position d.**Foreign Exchange transactions**

79. IF the contraventions of any direction given by RBI under FEMA or to file a return as per the Act, RBI can impose additional fine that may extend up to:
a. Rs.200 per day b.Rs.500 per day c.Rs.1000 Per day d.Rs.2000 per day d.**Rs.5000 per day**

80. An exporter gets a letter of credit for export of garments to US but the expiry date of the credit falls on 15th August, which is a public holiday in India. In such circumstances, the documents for negotiation can be submitted to the negotiating bank on :
a.Succeeding working day b.**Succeeding banking day** c.Preceding business day d.Preceding banking day

81. The forward sale or purchase of foreign currency to reduce the exchange risk exposure connected with the assets or liabilities denominated in Foreign currency is called:
a.Hedging b.Squaring c.Brokering d.Spreading

82. What is the maximum amount that can be deposited in EEFC account: 25% of the exchange earned b.50% of the exchange earned c.75% of the exchange earned d.**100% of the exchange earned**

83. The gap between the buying rate and selling rate of a currency is called:
a.Bid-ask spread **b.**Dealer‟s margin **c.**Dealer‟s spread **d.**Exchange margin

84 When a dealer purchases more of a currency and is unable to dispose it off, the bank is exposed to:
a.Loss b.**Exchange risk** d.Oversold position e.Dealing risk

85. A nominated bank or issuing bank shall each have a maximum of __________following the day of presentation to determine if the documents are in order:
a.2 banking days b.5 working days c.**5 banking days** **d.**15 banking days

86. The bank which undertakes the responsibility of payment by the issuing bank and on its failure to pay is called :
a.Negotiating bank b.**Confirming bank** **c.**Reimbursing bank d.Advising Bank

87. Any LC which permits the advances for storage of goods in a warehouse in addition to pre-shipment advance is called as: a. Back to back LC b.Standby LC c.**Green Clause LC** d.Red clause LC

88. Any LC is the one that can be cancelled or amended at any time without giving prior notice to the knowledge of the beneficiary is called: a. Red Clause LC b.Stand by LC c.**Revocable LC** d.Irrevocable LC

89. Mr. Jayant is going abroad for Medical Treatment at Singapore. He is accompanied by his wife as attendant. How much foreign Exchange can be released to attendant as per FEMA:
a. USD 10000 b.USD 15000 c. USD 25000 d.USD 100000 e.**USD 250000**

90. Any Resident individuals with actual forex exposures are allowed to book forward contracts upto ______________ on declaration, subject to certain conditions:
a. USD 10,000 b.USD 100,000 c.USD 200,000 c.USD 250,000 d.**USD 1,000,000**

91. In case of Foreign Currency Non- Resident(Banks) account, the ceiling of Interest rate for the term deposits of 3 to 5 years are : a.LIBOR + 100 bps b.LIBOR+ 200 bps **c.LIBOR+ 300 bps** **d.**LIBOR + 400 bps e.No limit at all

92. Whenever the NRI visits India on his temporary visit, can render Foreign currency to his accounts exceeding __________ has to submit Currency declaration form.
a. USD 3000 b.**USD 5000** d.USD 10000 e.USD 25000

93. Any forex remittances with relates to Cultural tour as per the Schedule II of FEMA should obtain permission from which ministry for release of forex: a. Ministry of finance b.**Ministry of HRD** c.Ministry of surface transport d.Ministry of Information and Broadcasting

95. Which of the following is true with regard to borrowings in Foreign Currency from Close relatives outside India?
a. The borrowing sum not to exceed USD 250000 or its equivalent from his close relatives outside India
b. Minimum maturity period of the loan is one year c. Loan is free of interest
d. Amount of loan is received by inward remittance in free forex through normal banking channels or by debit to NRE/FCNR account of a non- resident lender. e. **All the above**

96. A person resident in India is allowed to retain foreign currency notes up to an amount of ________ or its equivalent : a. No limit b.**USD 2000** c.USD 5000 d.USD 10000

97. Currency declaration form is a declaration given to custom authorities while entering India by any person if:
a. Aggregate value of Foreign exchange in the form of Currency notes, TCs,exceeds USD 10000 or equivalent
b. Aggregate Value of Foreign Currency notes exceeds USD 5000 or its equivalent
c. Both a and b d. None of the above

98. The All-in-Cost ceilings for External Commercial Borrowings for the maturity period of three years and up to five years is: a. 6 months LIBOR plus 200 bps b.**6 months LIBOR plus 300 bps**
c. 6 months LIBOR plus 450 bps d. 6 months LIBOR plus 500 bps

99. In an export business, if the aggregate FOB realized value during the current and previous 2 financial years exceeds USD2000 million, then the export enjoys the status of :
a.One Star Export house b.Two Star Export house
c.Three Star Export house d.Four Star Export house e. **Five Star Export house**

100. The AD banks and Status holder exporters can self write off the unrealised Export bills up to:
a. 5% of the total export proceeds realized during previous calendar year
b. 10% of the total export proceeds realized during previous calendar year
c. 5% of the total export proceeds realized during previous financial year
d. 10% of the total export proceeds realized during previous financial year **e** No write off is permitted

101. The Authorised Dealers should crystallize the overdue export bills from foreign currency liability to Rupee liability by applying: a. Bill selling rate b.**TT selling rate** c..FC selling rate d.TT buying rate

102. In a letter of credit, by adding a confirmation, the confirming bank undertakes the responsibility similar to that of : a. Negotiating bank b.Advising bank c.**Issuing bank** d.Both b and c

103. Pre-shipment Credit in Foreign Currency is allowed at ________ related interest rates:
a. LIBOR **b.**SIBOR **c.**EURIBOR **d.**MIBOR

104. Which of the form does not match its purpose:
a.ETX- Seeking extension in realisation of bills from RBI
b.XOS- Statement of exports bills outstanding more than 6 months
c. EFC- Opening of Foreign Currency accounts with a bank in India or abroad by Exporters
d.BEF –Application for payment of import payment

105 Custom office returns to the exporter, which copy of the export declaration form:
a. Trade control copy b. Currency control copy c. **Exchange control copy** e. Foreign control copy

106 Advance remittance can be allowed by AD banks, against import of aircraft /helicopter/ other aviation related purchases can be allowed without bank guarantee for an amount up to:
a.USD one million b.USD five million c.USD ten million d.**USD fifty million**

107 A foreign national on a 3 months visit to India wants to open a bank account:
a. He cannot be allowed to open any account
b. He can open any type of account that he need of
c. He can open an NRE account
d. **He can open a NRO account** e Account can be opened only with RBI Permission

108. Under UCPDC-600, if the provisions of LC and the UCDPC are contradictory:
a. Provision of UCPDC would prevail over the provisions of LC
b. Provisions of LC would prevail over the provisions of UCPDC
c. Provisions favourable to the beneficiary would prevail d.
d. Provisions favourable to the applicant would prevail

109. Shipment date in a letter of credit is stipulated month". The expression means that the sh
a. 1st week of the month b.1st three days of the month c.**1st ten days of the month** d.None of the above.

110. For advising / transfer of Export Letter of credits to Non-customer, the service charges collected are:
a. Rs. 1000/- per ELC b.Rs.750/- per ELC c.**Rs.1500/- per ELC** d.No charges to be collected

111. As per the Delegation of power, the Manager-in-charge of Medium branch/Large branch/ELB/VLB can grant loans/ advances against NRE and FCNR(B) deposits to the depositors is:
a.Rs.30 lacs b.Rs.50 lacs c.Rs.75 lacs d.**Rs.100 lacs**

112. The GR follow up charges for overdue export bills is: a.Rs.100/- per month per bill
b.**Rs.500/- per quarter or part thereof per bill** c.Rs.1000/- per bill d.No charges

113. The charges for effecting each clean outward remittance for individuals up to Rs.250000/- is:
a. Rs.100/- b.**Rs.500/-** c.Rs.1000/- d.Rs.1500/-

114. The charges collected for every request for early delivery, extension, roll over or cancellation of Forward sale/ purchase contract is:
a. Rs. 200/- per contract b.Rs.500/- per contract c.**Rs.500/- per request + swap cost and cancellation charges where applicable** d. Rs. 1000/- per request + swap cost and cancellation charges where applicable

115. Which of the following is not true with respect to receipt of advance payment for export?
a.Shipment should be made within 3 years from date of receipt of advance
b.Interest payable on advance amount should not exceed LIBOR + 100bps
c.Exporters with three years good track record can receive long term advance upto 10 years
d.Rate of interest payable on receipt of long term advance should not exceed LIBOR + 200bps

116. The rate of interest equalization available on pre shipment rupee export credit and post shipment rupee export credit is ______ % per annum. **a. 3 %** **b.**2 % **c.**4 % **d.** 5 %

117. In case of outward remittance if foreign currency ,what is the amount that can be accepted in Indian Cash
a. up to Rs 20000 **b.** less than Rs 20000 **c.**up to Rs 50000 **d.**less than Rs 500000

118. The term deposit of NRE and FCNR accounts can be opened for maximum period of ____ and ______ years :
a.1 year and 3 years respectively b.2 years and 3 years respectively
c.at bank discretion and 5 years respectively **d.**3 years and 5 years respectively

119. While issuing the bill of lading to an exporter , a shipping company stated on the bill of lading that there has been few defects in the packing of goods. What type of bill of lading it is:
a. on-board bill of lading b.**claused bill of lading** **c.**clean bill of lading d.short bill of lading

120. What is the maximum extent up to which a person resident in India can retain foreign currency and foreign coins
a. any amount of currency notes and coins b. maximum USD 2000
c. foreign currency up to USD 2000 and no limit on coins **d.**foreign currency no limit and coins up to USD 2000

121. An NRI has sold a property in Delhi; he inherited from his parents 2 years back for a total amount of USD 14, 00,000. He wants its remittance to country of his residence:
a. he can do so up to USD 1 million per financial year without any lock in period
b. he can do so up to USD 10 million per financial year without any lock in period
c. he can do so up to USD 1 million per financial year after a lock in period of 2 years

d. he can do so up to USD 1 million per financial year after a lock in period of 3 years

122. What is the amount of foreign exchange which authorized dealers can release for meeting hospitalization expenditures abroad: a.it is restricted to USD 100000 in a financial year
b. it can be any amount on the basis of self declaration without any documentary proof **c. it can be up to USD 250000 on the basis of self declaration and any amount on the basis of hospital estimate**
d. it can be up to USD 100000 on the basis of hospital estimate

123. In a letter of credit, the shipment date is mentioned as on or about June 30 ,2017. The shipment should take place: a.on last day of the June 2017 b.between 16th June and 30th June
c.between 21st June and 30th June d.**between 26th June and 5th July**

124. If in the letter of credit the term „beg, is used , it covers the period from 1st day to 10th , as per
a.LC rules b.FEDAI rules c.**UCPDC rules** d.INCO rules

125. In case of usance export bills, the maximum period that can be allowed is
a.9 months excluding NTP and grace period, if any
b.9 months including NTP and grace period, if any
c.365 days excluding NTP but including grace period, if any
d.365 days including NTP and grace period, if any

7. TEST YOUR SELF: MCQ ON INTERNATIONAL BANKING

1. Foreign Exchange Management Act (FEMA) is administered by:
(a) RBI (b) Govt. of India (c) SEBI (d) Both (a) & (b) (d) All of these

2. A license to deal in foreign exchange to authorized dealers is issued by :
(a) DGFT (b) FEDAI (c) RBI (d) EXIM Bank(e) both (a) & (c)

3. All foreign exchange transactions in India are governed by :
(a) Foreign Exchange Regulation Act, 1973 (b) Reserve Bank of India Act, 1934
(d) Foreign Exchange Management Act, 1999 (e) Banking Regulation Act,1949

4. Restricted money changers are the firms/ organizations authorized to undertake :
(a) sale of foreign currency notes, coins and travellers' cheques to the public
(b) purchase of foreign currency notes, coins and travellers' cheques from the public
(c) issue of letters of credit for their importer customers
(d) both safe and purchase of foreign currency notes, coins, travellers' cheques to / from the public
(e) either (a) or (b) above

5_ Full fledged money changers are the firms/ organizations authorized to undertake :
(a) sale of foreign currency notes, coins and travellers' cheques to the public
(b) purchase of foreign currency notes, coins and travellers' cheques from the public
(c) issue of letters of credit for their importer customers
(d) both sale and purchase of foreign currency notes, coins, travellers' cheques to I from the public
(e) either (a) or (b) above

6. Forward transaction in foreign exchange means a transaction :
(a) that is to be settled on the same day
(b) in which delivery of foreign exchange takes place on the second working day of the contract
(c) in which delivery of foreign exchange takes place on the next working day of the contract
(d) in which delivery of foreign exchange takes place beyond second working day of the contract
(e) in which delivery of foreign exchange takes place after at least 90 days beyond the day of the contract

7. Forex transactions are classified according to date of-deal and date of delivery. Which of the following is not correct regarding type of exchange transaction?
(a) cash: which is to be settled on the same day
(b) spot: delivery of foreign exchange takes place on the second working day of the contract
(c) TOM: delivery of foreign exchange takes place on the next working day of the contract
(d) Forward: delivery of foreign exchange takes place beyond second working day of the contract
(e) None of these

8. For the purpose of foreign exchange transactions, foreign banks maintain accounts with ADs in India in Indian rupees. In their mutual communications, Ads in India refer to such accounts as _______________ accounts.
(a) Loro (b) FCNR (c) Vostro (d) Nostro (e) Escrow

9. Account of a bank in India with a foreign correspondent bank abroad in foreign currency is called:
(a) Loro (b) FCNR (c) Vostro (d) Nostro (e) Escrow

10. Which of the following is not correct regarding classification of correspondent accounts?
(a) Nostro: Our account with you (b) Vostro: Your account with us
(c) Lore: Their account with them (d) None of these
11. Bank of India maintains Nostro account with Citibank in New York. Bank of Baroda also maintains Nostro account with Citibank New York. If Bank of India wants to transfer funds from its Nostro a/c to Nostro a/c of BoB, then account of BoB is called as :
(a) Nostro (b) Vostro (c) Loro (d) Kerb (e) None of these

EXCHANGE RATES

12. When Foreign currency is fixed and value of home currency is variable, it is called:
(a) Direct Rate (b) Indirect Rate (c) Cross Rate (d) Variable Rate (e) None of these
13_ When home currency is fixed and value of foreign currency is variable, it is is called:
(a) Direct Rate (b) Indirect Rate (c) Cross Rate (d) Variable Rate (e) None of these
14_ In India, which type of rate is applied?
(a) Direct Rate (b) Indirect Rate (c) fixed rate (d) Variable Rate (e) None of these
15. In India, exchange rates are decided by whom?
(a) RBI (b) FEDAI (c) IBA (d) market forces (e) None of these
16. The quotation US $ 1 = Rs. 44.40 - Rs. 44.50 is:
(a) average rate (b) indirect rate (c) direct rate (d) cross rate (e) none of these
17. When Nostro account of the bank is credited before the payment to the tenderer of foreign exchange, which of the following rates will be applied?
(a) TT Buying Rate (b) Bills Buying Rate (c) TT Selling Rate (d) Bills Selling Rate
18. When Nostro account of the bank is credited later than the payment to the tenderer of foreign exchange, which of the following rates will be applied?
(a) TT Buying Rate (b) Bills Buying Rate (c) TT Selling Rate (d) Bills Selling Rate
19. When there is outward remittance and handling of import bills is involved, which of the following rates will be applied?
(a) TT Buying Rate (b) Bills Buying Rate (c) TT Selling Rate (d) Bills Selling Rate
20. When there is sale of foreign exchange, but import bills are not handled, which rate will be applied?
(a) Clean Selling Rate (b) Cheque Selling Rate (c) TT Selling Rate (d) Bills Selling Rate
21. Why exchange rate for purchase or sale of foreign currency are most unfavourable?
(a) Holding cost of currency is high (b) Bank does not get any exchange commission
(c) Bank runs the risk of counterfeit currency (d) Both (a) & (c) (e) All of these
22. The difference between buying and selling rate quoted by an Authorised Dealer is called:
(a) Dealer's Margin (b) Dealer's spread (c) Dealer's commission (d) None of these
23. A customer wants to subscribe to a magazine published in Paris. The exchange rate for draft will be :
(a) TT buying (b) TT selling (c) Bills selling (d) Bills buying (e) none of these
24. Your non-resident customer presents a draft in foreign currency for which cover has already been provided in Nostro account. The rate of exchange to be applied to the transaction will be :
(a) TT buying *(b)* Bills selling (c) Bills buying (d) TT selling (e) none of these
25. Your importer customer has to retire his import bill. The rate of exchange to be applied will be:
(a) Bills buying (b) TT selling (c) Bills selling (d) TT buying (e) none of these
26. You had negotiated an export bill of your customer in May,2009. This bill has been returned by the overseas buyer for some reasons and the AD has to debit his customer's account with Indian rupees. The rate to be applied will be :
(a) Bills buying (b) TT selling (c) TT buying (d) Bills selling (e) none of these
27. On which of the following TT buying rate will not be applied?
(a) Payment of DD drawn on the paying bank (b) cancellation of outward TT, MT
(c) Conversion of proceeds of instruments sent for collection (d) purchase of foreign DD drawn abroad
28. On which of the following TT Selling rate will not be applied?
(a) crystallization of overdue export bills (b) crystallization of over dile import bills
(c) Issue of foreign DD/MT (d) cancellation of outward TT/MT (e) Both (b) & (d)

LETTER OF CREDIT

29. Letters of credit transactions subject to provisions of :
(a) exchange control manual of RBI (b) UCPDC, 600 (c) UCPDC,500
(d) Foreign Trade Policy, 2009 (e) 1NCOTERMS
30. Full form of UCPDC is:
(a) Uniform Contract & Practices for Documentary Credit
(b) Universal Customs & Practices for Documentary Credit
(c) Uniform Customs & Practices for Documentary Credits
(d) Universal Customs & Provisions for Documentary Credits

31. For letter of credit transactions in international trade, under UCPDC (ICC publication 600) branches of a bank in different countries are considered :
(a) another bank (b) units of the same bank (c) associate banks
(d) either (a) or (b) as per choice of beneficiary (e) either (a) or (c) as per choice of negotiating bank
32. If a credit does not indicate whether it is revocable or irrevocable, as per UCPDC, 600, it will be treated as :
(a) irrevocable (b) revocable (c) either revocable or irrevocable as per choice of beneficiary
(d) either revocable or irrevocable as per choice of applicant of the credit
(e) either (a) or (b) as per mutual consent of beneficiary and advising bank
33. If a letter of credit and UCPDC have contradictory provisions which of the following statements will be true ' in this regard:
(a) Provisions of UCPDC will prevail over those of Credit
(b) Provisions of Credit will prevail over those of UCPDC
(c) Better of the provisions of UCPDC or Credit as applicable to beneficiary will prevail
(d) Better of the provisions of UCPDC or Credit as applicable to applicant of Credit will prevail
(e) It being a disputed matter the matter will have to be referred to ICC,Paris
34. Which of the following feature(s) do/does not apply to a 'Transferable Credit'?
(a) Transferable L/C is one which is expressly written to be 'Transferable'.
(b) Transferable VC can be transferred only once but can be transferred to more than one parties.
(c) In a 'Transferable Credit' the first beneficiary has the right to substitute his own invoice(s) and draft for those of the second beneficiary.
(d) Transfer of such Credit by second beneficiary back to first beneficiary is not permitted
35. A 'Revolving Credit' means a letter of credit :
(a) which is available for use in any country
(b) covering many shipments up to a particular period of time or a particular amount or both
(c) which can be easily transferred by the beneficiary to his suppliers
(d) which allows the beneficiary packing credit in foreign currency
36. A 'Red Clause' LC is one in which :
(a) the beneficiary can avail pre-shipment finance up to the amount specified in LC.
(b) negotiation is restricted to a particular bank (c) all clauses are compulsorily printed in red
(d) there are certain restrictive clauses as to period of shipment / negotiation of bills etc
37. A 'Back to Back' letter of credit is :
(a) one on the strength of which another bank's guarantee is obtained
(b) a second set of fresh LC opened in favour of second beneficiary on the strength of original LC
(c) one backed by the government guarantee
(d) a set of two LCs printed on the back of each other (e) none of these
38. A 'Green Clause' letter of credit is an extension of: (a) transferable credit (b) confirmed irrevocable credit (c) red clause credit (d) revolving credit (e) all of the above
39. A 'Claused bill of lading' means bill of lading :
(a) containing special clauses as required under letter of credit
(b) with a clause that shipping company has a right to increase freight
(c) giving the importer right to refuse payment of freight if goods are damaged on board
(d) indicating defective condition / packing of goods (e) any one or more of the above
40. The expiry of a letter of credit is 15.07.2009. The last date of shipment mentioned in the LC is 30.06.2009. The shipment was actually made on 17.06.2009 and documents were presented on 15.07.2009. Choose the best option out of the following as per provisions of UCPDC, 600.
(a) The documents should have been presented within 7 days from date of shipment
(b) The documents can be accepted as they are presented within the validity of the letter of credit
(c) The documents should have been presented within 15 days from date of shipment
(d) The documents should have been presented within 21 days from date of shipment
(e) none of the above
41. PNB received a letter of credit Opened by a bank in Germany. It is not in a position to verify the apparent authenticity of L/C. Which of the following is true with reference to the L/C as per UCPDC,600 ?
(a) PNB must advise the credit to the beneficiary without disclosing the facts
(b) PNB may elect not to advise the credit and must so inform the issuing bank without delay
(c) PNB may elect to advise the credit to the beneficiary without recourse
(d) either (b) or (c) (e) either (a) or (b)
42. A letter of credit was issued on 1.8.2009. The bill of lading presented on 10.8.2009 under LIC was dated 25.07.2009. The LIC is silent on this aspect. AD should :
(a) accept the bill of lading, if otherwise in order (b) not accept a document dated prior to date of L/C

(c) refer the matter to the applicant of UC (d) refer the matter to issuing bank (e) none of these

43. A manufacturer exporter will prefer:
a) Transferable LC b) Irrevocable LC c) Irrevocable Confirmed LC d) Revocable LC

44. As per UCPDC 600, the words "about" or "approximately" used in connection with the amount of the credit or the quantity or the unit price stated in the credit are to be construed as allowing a tolerance not to exceed ________ % more or less than the amount, the quantity or the unit price to which they refer.
(a) 10% (b) 5% (c) 1% (d) No variation is allowed

45. In a set of documents submitted under letter of credit the date of shipment is 30. 3.2009 whereas the insurance policy is dated 3.4.2009. In this case :
(a) we may accept the documents provided necessary cover has been provided in the policy effective from date of shipment.
(b) we must refuse the documents as it is a discrepancy
(c) the date of insurance policy must be changed to be prior to the date of shipment
(d) either (b) or (c) (e) none of the above

46. The beneficiary of an irrevocable letter of credit which was advised by us requests us to add our confirmation. Under the circumstances :
(a) confirmation is added at the request of opening bank and will be done only as per the arrangement.
(b) we may do so as confirmation is usual course of business only and there is no commitment of the bank which adds the confirmation.
(c) we must add our confirmation as it was advised by us
(d) we should decline it as no confirmation is necessary on the irrevocable letter of credit and only a revocable letter of credit needs confirmation.
(e) we may do so only after obtaining indemnity from the issuing bank.

47. Our bank opened an irrevocable letter of credit and our correspondent bank abroad negotiated the bills under this LC and got the reimbursement. When the documents were presented to our importer customer, he refused to pay on the plea that goods were not as per the contract. In this case :
(a) we will verify the goods and take them into our possession
(b) we cannot recover the money from the negotiating bank because as per UCPDC we deal in documents and not in goods and will proceed to recover the amount from the importer.
(c) we will request the correspondent bank to pay back the money.
(d) either (a) or (b) (e) none of the above.

48. A letter of credit was opened by us stipulating for 'clean on board bill of lading'. While scrutinizing documents under the UC we find that the notation 'some packages torn' appears on the bill of lading. We should :
(a) accept the bill of lading as it is as per terms of UC
(b) try to rectify the irregularity with the shipping agent
(c) wait until the ship arrives and verify the goods
(d) immediately on receipt of documents, inform the negotiating bank by telex that documents are discrepant and they are held at the risk and responsibility of the negotiating bank
(e) either (b) or (c)

49. A letter of credit is opened in US dollars. The insurance document can be in :
(a) US dollars only if not otherwise stipulated in the Credit. (b) in any freely convertible currency
(c) in Indian rupees only (d) in US dollars only (e) either (b) or (c)

50. As per UCPDC 600, if there is no indication in the credit of the insurance coverage required, the amount of insurance coverage must be at least ______________ value of the goods.
(a) 110% of CIF value (b)110% of FOB value (c)100% of FOB value (d) 100% of CIF value (e) None

51. An UC calls for commercial invoice not exceeding US $ 2,00,000. As per UCPDC, 600, the invoice can be for : (a) US $ 2,00,000 (b) Upto US $ 2,20,000 (c) Upto US $ 2,10,000
(d) Upto $ 2,02,000 (e) none of the above.

52. Bank of Tokyo advised an UC to the beneficiary in India through BOB. It intends to advise an amendment through SBI. Under UCPDC :
(a) it is choice of issuing bank to select any bank for advising amendment.
(b) it has to advise amendment only through BOB
(c) it has to advise amendment through RBI only. (d) either (a) or (c) (e) none of these.

53. If a credit contains conditions without stating document(s) to be presented in compliance therewith, what should the bank do?
(a) have to seek clarification from opening bank (b) disregard the conditions as not stated
(c) obtain documents in their discretion which appear to satisfy these conditions.
(d) either (a) or (c) (e) none of the above

54. An L/C was available for shipment by monthly instalments of ready made garments from India. The shipment for March,2009 was not effected within the time available for that instalment. In this case, as per UCPDC:
(a) beneficiary of L/C can ship two instalments together in Apri1,2009
(b) the credit ceases to be available for that and subsequent insalment unless otherwise stipulated in the credit
(c) even earlier instalments will not be covered under L/C
(d) either (a) or (c) (e) the matter be referred to RBI
55. Under UCPDC 600, what is maximum number of days allowed for examination of documents by issuing bank and negotiating bank?:
(a) 5 banking days each (b) 5 days each (c) 7 banking days in total (d) 7 banking days
56. As per Article 36 of UCPDC 600, (Force Majeure clause) a bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by Acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes or lockouts or any other causes beyond its control. Which of these items has been added in UCPDC 600?:
(a) acts of terrorism (b) wars (c) riots (d) Both (a) & (b) (e) None of these
57. If 'about' or 'approximately' is not written with the quantity of, goods, a tolerance of more or less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the credit
(a) 1% (b) 5% (c)10% (d) Nil (e) None of these
58. If in a letter of credit, word about is written with the date for the submission of documents for negotiation, then up to which date documents can be submitted for negotiation?
(a) 5 days before (b) 5 days after (c) 5 days before or 5 days after (d) None of these
59. As per UCPDC 600, if on a LC date of expiry is written as by the end of June, it means
(a) 21st to 30th June (b) 30th June (c) 21st June to 29th June if 30th June is holiday (d) None
60. Unless otherwise stated in Letter of Credit, banks will accept which type of bill of lading?
a) Charter party bill of lading b) Straight bill of lading c) Received for shipment bill of lading
d) On Board bill of lading (e) None of these
61. Under Letter of Credit part amount paid to beneficiary. While paying balance amount, Importer complains against quality of goods and request the bank not to pay the amount for bills drawn under LC. What should be done by bank?:
(a) Bank should not pay as it is a case of fraud
(b) Bank should not pay as recovery will be difficult in such circumstances
(c) Bank can suspend payment, seek clarification from exporter and make payment after being satisfied. ,M
(d) Bank has to make payment as in LC transactions, banks deal in documents and not in goods.
62. In a letter of credit, it is written that documents can be negotiated on 30th June. In this case, the documents can be negotiated up to which date?
(a) on 30th June only (b) between 25th June to 30th June (c) between 26th June to 30th June
(d) between 25th June to 5th July (e) None of these
63. A letter of credit issued on the strength of another LC is called:
(a) Back to Back Credit (b) Transferable LC (c) Red Clause LC (d) Anticipatory LC
64. A Letter of credit that carries a provision (traditionally written or typed in red ink) which allows exporter to raise pre shipment credit up to a fixed sum from the advising or paying-bank at the request of issuing bank is called:
(a) Back to Back Credit (b) Transferable LC (c) Red Clause LC (d) Anticipatory LC

NON RESIDENT ACCOUNTS

65. Who of the following can open a Non-Resident Account ?
(a) An Indian national working with a foreign shipping company with his base office in Hongkong
(b) An Indian who has gone abroad to pursue higher studies
(c) An Indian who has gone abroad for medical treatment (d) all of these (e) only (a) & (b)
66. Who is called as Resident as per FEMA 1999?:
(a) A person who stayed in India for more than 182 days in the previous financial year.
(b) A person who stayed in India for minimum 182 days in the previous financial year
(c) A person who stayed in India for more than 182 days in the previous calendar year
(d) A person who stayed in India for minimum 182 days in the previous calendar year
(e) None of these
67. An NRE term deposit account can be opened for a minimum period of :
(a) 3 years (b) 5 years (c) 10 years (d) 6 months (e) 1 year
68. As per RBI guidelines FCNR (Bank) Account can be opened in :
(a) three currencies, namely Pound sterling., US dollar & Euro
(b) only two foreign currencies namely Pound sterling or US dollars
(c) four currencies, namely Pound sterling., US dollar, Euro, Japanese Yen

(d) six currencies, namely Pound sterling., US dollar, Euro, Japanese Yen, Canadian dollar & Aus dollar
(e) None of these

69. At present rate of interest on NRE term deposit for 5 years maturity as per RBI guidelines is :
(a) not exceeding 6% (b) not exceeding 250 basis points below BPLR of the bank
(c) not exceeding 250 basis points above LIBOR for USD for 3 years maturity
(d) not exceeding LIBOR for USD for 3 years maturity plus 175 basis points
(e) not exceeding 50 basis points above LIBOR for USD for 5 years maturity

70. At present rate of interest on NRE savings bank account as per RBI guidelines is :
(a) As applicable in domestic deposits
(b) not exceeding rate applicable to NRE term deposit of one year
(c) not exceeding 50 basis points above LIBOR for USD for 6 months maturity
(d) not exceeding 50 basis points above LIBOR for USD for one year maturity
(e) not exceeding 6 months LIBOR for USD

71. When an NRE FD is made for more than 5 years, interest rate will be:
(a) as applicable for 5 years (b) as applicable for 3 years
(c) Nil as NRE FD can not be for more than 3 years. (d) 3 year or 5 year as per bank discretion

72. Minimum and maximum period for which FCNR (B) term deposits can be opened is year and ____ year.
a)1,5 (b) 1,3 (c) 1,7 (d) 3, 5 (e) none of these

73. Which type of account can be opened as NRE account?
(a) Saving (b)current (c) fixed deposit (d) Both (a) & (b) only (e) All of these

74. For converting NRE Deposit to FCNR Deposit which rate would be applicable?
a) TT Buying Rate b) TT Selling Rate c)Bill Buying Rate d) Bill Selling Rate

75. NRI is defined in which of the following Acts
a)RBI Act b)Income Tax Act c)FEMA d)PML Act (e) None of these

76. A NRI can remit up to US$ in a financial year from his NRO account on account of Sale proceeds of immovable property provided it is held for at least years.
(a) 1 million, 10 years (b) 1 lakh, 5 year (c) llakh, 5 year (d) 1 million, no restriction

77. In NRO A/c, Minimum period of term deposit is :
(a) 1 year (b) 6 months (c) 7 days (d) 15 days (e) None of these

78. Which type of account can be opened as NRO account?
(a) Saving (b)current (c) fixed deposit (d) Both (a) & (b) only (e) All of these

79. In which of the following type of deposit accounts, exchange risk is borne by bank?
(a) NRO account (b) NRE account (c) FCNR account (d) Both NRE & FCNR (e) None of these

80. If FCNR deposit is for more than 1 year, interest will be compounded at what interval?
(a) monthly (b) quarterly (c) half yearly (d) after every 180 days (e) None of these

81. In which type of accounts of NRI, joint account can be opened with resident?
(a) NRO account (b) NRE account (c) FCNR account (d) RFC (e) RFC (Domestic)

82. Which of the following type of accounts can be opened only as Fixed Deposit?
(a) NRO account (b) NRE account (c) FCNR account (d) Both NRE & FCNR (e) None of these

83. Maximum loans against NRE / FCNR deposit that can be allowed by a bank is:
(a) Rs 20 lac (b) Rs 30 lac (c) Rs 50 lac (d) Rs 100 lac (e) None of these

84. What type of exchange rate is applied when foreign currency funds from FCNR(B) account are converted to NRE Saving account:
(a) Bills Buying (b) TT Buying (c) TT Selling (d) Bills Selling (e) None of these

85. In a NRE account, which of the following can not be done by Power of attorney holder?
(a) all local payments in rupees including payments for eligible investments & Remittance outside India of current income in India of the non-resident individual account holder, net of applicable taxes to the account holder himself.
(b) repatriate outside India funds in the account other than to the non-resident individual account holder
(c) make payment by way of gift to a resident on behalf of the non-resident account holder & transfer funds from the account to another NRO account.
(d) Both (b) & (c) only (e) None of these

86. For which type of accounts, STAT 5, STAT8 returns are prepared respectively?
(a) NRE, FCNR (b) FCNR & NRE (C) NRE & NRO (d) FCNR & NRO

87. A FCNR(B) deposit has been made for one year. Interest compounding will be done at the interval of (a) monthly (b) quarterly (c) half yearly (d) after 180 days(e) No compounding

88. FCNR-B, account can not be opened in which of the following currency?
(a) Singapore Dollar (b) Hongkong Dollar (c) Canadian Dollar (d) Both (a) & (b) (e) None

89. The balance along with interest is fully repatriable in which type of accounts?:

(a) NRO account (b) NRE account (c) FCNR account (d) Both NRE & FCNR (e) None of these
90. NRE account cannot be opened in which of the following currencies?
(a) Indian Rupees (b) USD (c) Euro (d) Both (b) & (c) (e) None of these

FOREIGN CURRENCY ACCOUNTS OF RESIDENTS

91. A Non-resident account holder returned to India for permanent settlement on 1.7.2009 after spending about 2 years abroad. His Non-Resident (External) account can be converted into :
(a) Non-Resident (Ordinary) account (b) Resident account (c)Resident Foreign Currency account
(d) -(b) or (c) as per his choice (e) - (a) or (c) as per his choice
92. RFC account can be opened in which type of following accounts?
(a) Saving (b)current (c) fixed deposit (d) Both (a) & (b) only (e) Any of these
93. Who can open RFC account:
(a) NRI returning to India after staying abroad for a minimum period of 1 year.
(b) Any NRI who had opened NRE or FCNR(B) account with the bank.
(c) Any resident individual (d) All of these (e) None of these
94. My uncle gave me gift of USD 20000. In which type of following accounts it can be credited?
(a) RFC (b) RFC(Domestic) (c) EEFC (d) NRE (e) None of these 100%
95. Exporters other than 100% Export Oriented Unit can deposit ___________________ % of export proceeds to Exchange Earners Foreign Currency account:
(a) 25% (b) 50% (c) 75% (d) 100% (e) None of these
96. What type of account can be opened under EEFC scheme?:
(a) Only fixed deposit (b) Only non interest bearing current account (c) Either (a) or (b)
(d) None of these as scheme has been discontinued w.e.f. 1.11.08

EXPORT CREDIT

97. Presently rate of interest on pre-shipment credit in forex (PCFC) up to 180 days is not exceeding:
(a) 200 basis points above LIBOR (b) 100 basis points above LIBOR
(c) 150 basis points above LIBOR (d) 50 points above LIBOR (e) 350 basis points below LIBOR
98. As per current guidelines of RBI, for loans sanctioned up to 30.6.2010, rate of interest on pre-shipment credit in rupees up to 270 days should not exceed :
(a) Bank Rate plus 2.5% (b) BPLR plus 1.5% (c) BPLR minus 2.5%
(d) Bank Rate minus 2.5% (e) lower of (a) and (b)
99. As per the exchange control regulations, the payment for exports should in general be realized within a period of:
(a) 12 months from date of shipment (b) 360 days from date of packing of goods
(c) 180 days from the date of shipment (d) 270 days from date of shipment
(e) 180 days from the date of receipt of consignment by the buyer in foreign country
100. Which of the following is/are not true with regard to features of Gold Card Scheme for exporters:
(a) Only exporters whose accounts have been 'Standard' continuously for 3 years are eligible
(b) Gold Card holders will be given preference is granting packing credit in foreign currency (PCFC)
(c) Time norm for disposal of fresh applications for credit under the scheme will be 25 days
(d) Gold Card for exporters will be issued for a period of 5 years (e) none of these
101. Minimum and maximum amount up to which the Gold Credit card can be issued to exporter is Rs ________ lac and Rs lac. : (a) 100,1000 (b) 50, 500 (c) 100, 5000
(d) 20,200 (e) None of these as it is based on anticipated turnover.
102. As per the exchange control regulations, the payment for exports should in general be realized within a period of : (a) 12 months from date of shipment (b) 3 months from date of shipment
(c) 6 months from the date of shipment (d) 1 month from date of shipment
(e) 45 days form date of shipment
103. Units in a special economic zone are permitted to realise and repatriate to India the full export value of goods or software within a period of.. from the date of shipment.
(a) 3 months (b) 6 months (c) 180 days (d) 360 days (e) none of these as there is no time limit
104. In respect of shipments made to Indian owned warehouses abroad established with permission of RBI, export proceeds should be realized within :
(a) 6 months (b)3 months (c) 9 months (d)15 months (e) 150 days
105. RBI monitors overdue export bills-not realized within the stipulated time by calling for a half yearly statement from ADs referred to as : (a) BEF (b)XOS (c) GTE-1 (d) ST-9 (e) ENC
106.Packing credit advances mean :
advances granted to industrial units for packing of manufactured goods for sale in India

advances granted to eligible exporters for purchase/manufacture/processing/transporting/packing etc. of goods meant for export
(c) advances granted to importers to enable them to store and subsequently sell imported goods locally
(d) any one or more of the above (e) none of the above.

107. To be eligible for packing credit advances the customer :
(a) should not be in the caution list of RBI or specific approval list of ECGC
(b) must be holding importer/exporter code number allotted by DGFT
(c) should be recognised export house (d) all above (e) both (a) and (b)

108. Packing credit advances is normally allowed for :
(a) 90 days (b) 60 days (c) 360 days (d) 180 days (e) as per requirement of the exporter

109. `Normal Transit Period ' in the context of export finance means:
(a) the number of days the documents take to reach destination
(b) the gap between period taken by the ship and the documents to reach destination
(c) the number of days taken by a ship to complete a voyage
(d) the number of days fixed by FEDAI and is the average period normally involved from date of negotiation to credit to NOSTRO account.
(e) either (a)or (b)

110. For facilities granted up to 30.6.2010, rate of interest on post shipment credit in rupees upto 180 days in respect of usance bills is :
(a) 12% (b) 15% (c) not exceeding BPLR
(d) not exceeding BPLR minus 2.5% (e) not exceeding BPLR plus 1.5%

111. Refinance for export credit from RBI is available for how many days?
(a) 90 days . (b) 180 days (c) 360 days (d) 270 days (e) None of these

112. Refinance against eligible export finance is available from :
(a) RBI (b) IDBI (c) ECGC (d) Exim Bank (e) None of these

113. On PCFC refinance is available to the extent of % of outstanding PCFC.
(a) 15% (b) 50% (c) 25% (d) Nil (e) None of these

114. For facilities granted up to 30.6.2010Concessional interest rate on Post shipment credit in rupees is permitted up to:
(a) 180 days (b) 90 days (c) 270 days (d) 360 days (e) None of these

REMITTANCES

115. Which of the following is not correct regarding Liberalised Remittance Scheme?
(a) Amount can be remitted for capital as well as current account transactions
(b) Maximum amount that can be remitted in a financial year is restricted to USD 200,000
(c) Remittance for gift and donation will be within USD 200,000 permitted under LRS
(d) Bank can allow advance to a resident individual for making remittance under this scheme
(e) None of these

116_ For outward remittance for medical expenses, estimate from the doctor or hospital is required if the remittance is more than USD : (a) 1 lac (b) 5 lac (c) 10 Lac (d) none of these as it is required in all cases

117. What is the maximum amount of inward remittance that can be done by a resident individual?
(a) USD 1 Lac (b) USD 5 lac (c) USD 10 Lac (d) None as there is no limit

118. How much amount can be released for remittance abroad for education on declaration basis and withou estimate from educational institution?
(a) USD 1 Lac (b) USD 5 lac (c) USD 10 Lac (d) None as there is no limit

119. Which of the following is true?
(a) If a bank has oversold position, Bank will gain if the rate of foreign currency rises.
(b) If a bank has oversold position, Bank will gain if the rate of foreign currency declines
(c) If a bank has oversold position, Bank will lose if the rate of foreign currency declines
(d) If a bank has overbought position, Bank will gain if the rate of foreign currency declines
(e) None of these

IMPORTS

120. ADs may allow advance remittance for import of goods without any ceiling. However, if the amount of advance remittance exceeds USD50,00,000 or its equivalent it is mandatory to obtain-
(a) unconditional irrevocable stand by UC of an international bank of repute situated outside India
(b) guarantee from an international bank of repute situated outside India

(c) guarantee of an AD in India, if such guarantee is issued against counter guarantee of an international bank of repute situated outside India
(d) any one of the above (e) either (a) or (b) only

121. BEF statement containing details of remittance exceeding USD1,00,000 where evidence of import is not furnished within 6 months from date of remittance is submitted by ADs to RBI on:
(a) monthly basis by 10^{th} of the following month
(b) quarterly basis by 15^{th} of the month following close of quarter
(c) half yearly basis for March/ September by 15^{th} of succeeding month
(d) half yearly basis as of June/ December by 15^{th} of succeeding month (e) none of these

122. Crystallisation of import bill under UC means:
(a) bill is scrutinised whether it is as per UC terms or not
(b) it is ensured that currency of IJC and insurance is the same or not
(c) converting bill amount into Indian rupees and deciding customer's liability on due date in case of usance bill and on 10^{th} day from date of receipt in case of demand bills.
(d) none of the above as the concept is gone with the termination of PSCFC

123. Application for making payment towards imports into India has to be made to authorised dealers by importers in : (a) ENC (b) R-3 (c) Form A-1 (d) Form A-4 (e) none of the above

124. Advance remittance for import of goods into India is to be allowed after obtaining guarantee from an international bank of repute situated outside India or guarantee of an AD in India against counter-guarantee of an international bank when amount of advance remittance exceeds:
(a) US $ 10,000 (b) US $ 25,000 (c) US $5,000 (d) US $ 15,000 (e) US $ 50,00,000

125. How much advance remittance is allowed for import of services without guarantee of a reputed international bank?
(a) USD 1 Lac (b) USD 5 lac (c) USD 10 Lac (d) None as there is no limit

MISCELLANEOUS

126. Which of the following types of Bill of Lading is not acceptable by a bank under LC?
(a) On Board (b) Clean (c) Charter Party (d) AN of these (e) None of these

127. Interest Subvention is available on rupee export credit at the rate of 2% for loan up to Rs but
interest rate after subvention should not be less than 7%.
(a) Rs 3 lac (b) Rs 5 lakh (c) Rs 10 lakh (d) Rs 100 lakh (e) None of these

- 128. Interest rate charged by RBI on export refinance to banks is at the rate of :
(a) Bank Rate (b) Repo Rate (c) Reverse Repo Rate (d) Base Rate (e) None of these

129. Export Refinance is provided by RBI at the rate of __________ % of eligible outstanding export credit?
(a) 15% *(b)* 25% (c) 50% (d) 100% (e) None of these

130. R Return is submitted to RBI on which of the following dates of the month?
(a) 7^{th} and 21^{51} (b) 15^{th} & last day (c) 10^{th}, 20^{th} and last day (d) None of these

131.Overdue import demand bills and usance bills are crystalised on which dates?
(a) 10^{th} day & due date (b) 15^{th} day and 30^{th} day (c) 30^{th} day and 60^{th} *day* **(d)** 10^{th} day and 60^{th} day (e) None of these

132. Which of the following is incorrect regarding export declaration forms?
(a) GR form is used for declaration of exports other than by post where custom office not linked to EDI
(b) Export Declaration form is not required to be submitted for exports up to USD 25000.
(c) Softex form is used for declaration of export of software in physical or electronic form.
(d) None of these (e) All of these

<u>ANSWER TO TEST YOUR SELF</u>

1	D	2	C	3	D	4	B	5	D	6	D	7	E	8	C	9	D	10	D
11	C	12	A	13	B	14	A	15	D	16	C	17	A	18	B	19	D	20	C
21	A	22	B	23	B	24	A	25	C	26	B	27	D	28	E	29	B	30	C
31	A	32	A	33	B	34	D	35	B	36	A	37	B	38	C	39	D	40	D
41	D	42	A	43	C	44	A	45	A	46	A	47	B	48	D	49	A	50	A
51	A	52	B	53	B	54	B	55	A	56	A	57	B	58	C	59	A	60	D
61	D	62	D	63	A	64	C	65	E	66	A	67	E	68	D	69	D	70	A
71	B	72	A	73	E	74	B	75	B	76	D	77	C	78	E	79	C	80	D

81	A	82	C	83	D	84	B	85	D	86	B	87	E	88	D	89	D	90	D
91	D	92	E	93	A	94	B	95	D	96	B	97	A	98	C	99	A	100	D
101	E	102	A	103	E	104	D	105	B	106	B	107	E	108	E	109	D	110	D
111	B	112	A	113	D	114	A	115	D	116	AQ	117	D	118	A	119	B	120	D
121	D	122	C	123	C	124	E	125	B	126	C	127	E	128	B	129	A	130	B
131	A	132	C																

8. CASE STUDY/ CASE LETS/ PROBLEMS

Case Study -1

Calculation of bills buying rate, when exchange margin and interest is also to be taken into account:

On July 5, an exporter in India, submits a USD 50000, 2 months usance bill drawn under a letter of credit, on an importer in US. The normal transit period is 25 days. The inter-bank currency rates are as under:

Spot rate : 1 USD = Rs.65.0000 5000
July forward margin = 0.3500 / 0.4000
August forward margin = 0.6000 / 0.7000
September forward margin = 0.8500 / 0.9000
October forward margin = 0.9500 / 0.9900

The exchange margin is 0.15%. Customer wants to retain 20% of the amount in a current account opened in USA. Rate of interest is 10% p.a. Calculate tl e following:

1. Rate to be quoted to the customer ,
2. Gross amount to be credited to customer account.
3. Amount of interest to be'deducted.

Solution : The bill dated Jul 05, has 25 transit period + 2 months' Usance (Aug and Sep). Hence the payment shall fall due on Sept 30. The exporter will be allowed the benefit of Sept forward margin since the payment is due on last day of Sept.

Further, interest will be recovered from the customer from the date of discount to date of realization on the amount to be credited to his account (i.e. 80% of the bill amount, as the balance is to be retained in USA).

Spot rate = 65.0000
Add Sep premium = 65.0000 + 0.8500 = 65.85
Deduct margin @ 0.15% = 65.8500 — 0.09878 = 65.75122
Final rate = 65.7500 (rounded)
Gross amount due to customer = 65.7500 x 40000* = 2630000
*(20% to be retained in USA out of 50000)
Less interest @10% for 86 days = Rs.62308.53
(2630000 x 10 x 86) / (365 x 100)
Net amount payable to exporter = Rs.2567691.46

Case Study -2

Calculation of TT selling rate when exchange margin is given: On July 5, a saving bank customer in India, requests for issue a USD 10000. The inter-bank currency rates are as under:

Spot rate : 1 USD = Rs.65.0000 / 5000
July forward margin = 0.3500 / 0.4000
Bank requires an exchange margin of 0.15%.
What rate will be quoted and how much amount will be debited to customer's account.

Solution : In this case, no handling of documents is required. Hence TT selling rate shall be used. Exchange margin will be added, since for the bank, it is a sale transaction.

Spot rate selling rate = 65.5000
Add margin @ 0.15% = 65.5000 + 0.098775 = 65.598775
Final rate = 65.6000 (rounded)
Gross amount due from customer = 65.6000 x 10000 = 656000

Case Study 3

Calculation for dishonour of export bill purchased by the bank, when exchange margin is given

An export bill of USD 10000 was purchased from an exporter at the then bills buying rate of Rs.65.80. But on due date it was not paid. Now the bank has to recover the amount from the exporter.

The inter-bank currency rates are as under:

Spot rate : 1 USD = Rs.65.0000 / 5000

July forward margin = 0.3500 / 0.4000

August forward margin = 0.6000 / 0.7000

Bank requires an exchange margin of 0.20% for TT selling rate and 0.15% for bills selling rate.
What rate will be quoted and how much amount will be debited to customer's account.
What gain has been made by the customer in the transaction.

Solution : In this case, handling of import documents is not required. For recovering the amount from export customer, the TT selling rate shall be used. Exchange margin for TT selling will be added, since for the bank, it is a sale transaction.

Inter-bank spot selling rate = 65.5000

Add TT selling margin @ 0.20% = 65.5000 + 0.1310 = 65.6310

TT selling rate = 65.6310, Amount to be debited = 65.6310 x 10000 = Rs.656310

Profit to the exporter = 658000 — 656310 = Rs.1690 (amount credited when purchased less amount recovered)

Case Study 4

Calculation of rate and amount for credit of proceeds of bill sent for collection.

An export bill of USD 10000 was sent for collection which was submitted by an exporter. On July 10, the correspondent bank credited USD 9860, the proceeds of the bills, to NOSTRO account of the collecting bank, after recovering its own charges.

The inter-bank currency rates on July 10, are as under:

Spot rate : 1 USD = Rs.65.0000 / 5000

July forward margin = 0.3500 / 0.4000

August forward margin = 0.6000 / 0.7000

Bank requires an exchange margin of 0.10% for TT buying rate and 0.15% for bills buying rate.
What rate will be quoted and how much amount will be credited to customer's account.

Solution : In this case, the bill was sent for collection. On the amount realized, the TT buying rate shall be used since the amount has already been credited to NOSTRO account of the bank. There is no need to take any forward margin in to account.
Exchange margin for U buying will be deducted, since for the bank, it is a purchase transaction.

Inter-bank spot selling rate = 65.0000

Less TT buying margin @ 0.10% TT = 65.0000 + 0.0650 = 65.0650

buying rate = 65.0650

Amount to be credited = 65.0650 x 9860 = Rs.641541

Case Study 5

Calculation of rate and amount for credit of proceeds of bill purchased from exporter

An export bill has been submitted by an exporter for USD 40000 for purchase on Sept 15. The other information is provided as under:

1. Inter-bank exchange rate is 66.5400 / 6000
2. October forward points = 0.5000 / 0.4500
3. Transit period is 15 days
4. Rate of interest is 10%
5. Exchange margin is 0.10%
6. Fineness of rates should be as per FEDAI Rules i.e. 0.0025

What rate will be quoted and how much amount will be credited to customer's account.

Solution : Exchange margin for TT buying will be deducted, since for the bank, it is a purchase transaction. Further interest at 10% for 15 days will be recovered. October forward discount shall be reduced.

Inter-bank spot buying rate = Rs.66.5400

Less margin @ 0.15% = 66.5400 - 0.06654 = 66.47346

Rate to be quoted = 66.4725 (0.0025 fineness)

Due amount = 66.4725 x 40000 = Rs.2658900

Less Interest@ 10% for 15 days = Rs.10926.99

Amount to be credited = Rs.2647973

Case Study 6

Purchase of export bill by using cross rate

An exporter tenders an export bill of Singapore Dollars 20000. At that time:

1. Inter-bank USD rate was Rs.65.5045/6070
2. Forward rate : One month, 0.2000/1500, 2 months 0.4500/3500, 3 month : 0.7000 / 6000
3. USD/SGD rate was USD1 = 1.3205 / 3225.
4. Forward rate : One month, 0.0200/0300, 2 months 0.0400/0500, 3 month : 0.0600 / 0700
5. Exchange margin is 0.10%.
6. Transit period is 25 days.
7. Interest rate is 10%

What rate will be quoted by the bank and how much amount in Indian currency, shall be credited to exporter's current account?

Solution : This involves calculation of cross rate since at the time of cancellation, the Singapore dollar / rupee rate is not available. Since it is a purchase transaction and USD forward is at a discount, one month forward discount will be taken into account.
As regards, USD/SGD, the USD is at a premium, one month forward will be taken into account, as it is a sale transaction for the bank.

Inter-bank USD rate	= Rs.65.5045
Less one month forward discount =	Rs.00.2000
Rate after forward discount	= Rs.65.3045
Less exchange margin @ 0.1%	= Rs.00.0653
Rate after exchange margin	= Rs.65.2392
Rounded (to 0.0025)	= Rs.65.2400
USD/SGD selling rate	= 1.3225
Add one month premium	= 0.0300
USD/SGD one month	= 1.3525
SGD/Rupee rate	= 65.2400 / 1.3525 = 48.20

Amount to be credited to customer account = 48.20 x 20000= Rs.964000 Less interest for 25 days @10% = 6602.74

Net amount = Rs.957397.26

Case Study 1 : Profit or loss on a swap deal.

A bank in Delhi makes a swap deal of USD 50000 by selling spot and buying one month forward. The other information is as under:

1. Inter-bank USD rate was Rs.65.5045/6070
2. One month forward rate is quoted Rs.0.25 above the spot rate.
3. Interest rate in Delhi is 10% and in New York 5% p.a.
4. Commission on the deal is 0.5 paise per Rs.100 on sale and 0.5 paise on purchase.

Calculate the gain or loss made by the bank in this deal. **Solution :** The bank has sold spot at the market buying rate of Rs.65.5045. Accordingly, the one month forward buying will be at Rs.65.7545 (65.5045 + 0.2500).

1. Amount received on sale of USD 50000:

USD 50000 x 65.5045	= Rs.3275225.00
Less commission @ 0.5 paise	= Rs.163.76
Amount received	= Rs.3275061.24
Interest earned at 10% for one month	= Rs. 27292.18
Net amount received	= Rs.3302353.42

2. Principal amount + interest payable in USD

Principal amount	= USD 50000
Interest @ 5% on USD 50000 for one month	= USD 208.33
Total amount	= USD 50208.33
Amount payable in Indian currency (50208.33 x 65.7545)	= Rs.3301423.63
Add commission @ 0.5 paise	= Rs.165.07
Total amount payable	= Rs.3301588.70
3. Gain (1-2)	= Rs.764.72

Case Study 2 : Booking and cancellation of a Forward Contract

A bank in Delhi entered into a forward purchase contract for USD 10000 on Aug 16, with its customer, which is due on Nov 15, at Rs.65.8050.
Bank covered itself in the inter-bank market at Rs.65.9050.
On October 10, the customer requested the bank that the date be extended to December 15.
The rates are as under:
Spot Rate Inter-bank USD rate was Rs.65.5050/6050
Spot Sep = Rs.65.6050/7050
Spot Oct = Rs.65.7050/8050 •
Spot Nov = Rs.65.8050/9050
Spot Dec = Rs.65.9050/9950
2. Exchange margin shall be 0.20% on buying and selling transactions.
Calculate the charges that would be recovered from the customer for extension of the date.
Solution : The bank will cancel the contract and then re-book the same.

1. Cancellation of the original contract

The cancellation will be at forward sale rate for delivery November at

inter-bank forward selling rate.	= Rs.65.9050
Add exchange margin @ 0.20%	= Rs.00.1318
Total	= Rs.66.0368
Rounded to 0.0025	= Rs.66.0375

Purchase of USD at original contracted rate	= Rs.65.8050
It sells by cancellation of contract	= Rs.66.0375
Loss per USD in sale	= Rs.0.2325
Loss on total USD 10000	= Rs.2325

2. Re-booking of the contract

The re-booking of forward contract will be with delivery for December 15. The forward rate for November shall be taken as December is not a

complete month.
Forward rate to be taken for contract = Rs.65.8050
Less exchange margin @ 0.20@ = Rs.00.1316
Total = Rs.65.9366
Rounded to 0.0025 = Rs.65.9375
Hence, bank shall book a new contract at Rs.659375 and will recover Rs.2325 for cancellation of the previous contract.

CASE STUDIES

Case 1: Credits v/s contracts

Article 4, states that a credit by its nature is separate from the sale or other contract on which it is based and banks are in no way concerned with or bound by such contracts.
It also states that the issuing bank must discourage any attempt by the applicant to include the details of the contact, proforma invoice, etc, as an integral part of the LC.
Further, Article 5 of UCPDC 600, states that banks deal in documents and not in goods and services.
Even then, the applicants at times attempt to get the documents refused due to reasons, such as (i) goods not as per proforma invoice (ii) obtain stay /injunction against the opening bank to honour payment of the documents received under LC, due to the reason that the beneficiary has not sent the goods as shown, as mentioned in the contract or as given to understand.
Thus there could be a breach in the contract between the buyer and the seller, but the documents under LC could be perfectly in compliance of the terms of LC, thus making the issuing bank liable to pay / honour.
Courts, in many cases, have been putting stays /granting injunctions and stopping issuing banks to pay to the negotiating bank and debiting applicants accounts.
While issuing banks' on their own, should not, in connivance or other wise, try to excuse itself from making payments/ honoring the documents, with such reasons, which link the discrepancies to the sale contracts or the quality of goods, the National courts/ law, being above the UCPDC, they are bound to wait for the stay /injunction to be lifted before making payment to the negotiating banks.
The recovery of the amounts of documents from the applicant is altogether a separate issue, as it is a matter of taking credit risk by the opening bank on the applicant. Thus, recovery of amount from the applicant must also not be linked to the honoring of payment to the negotiating bank.

Case 2. Case of Date of documents

Bank A issues LC dated 1.10.2009, in favour of a beneficiary in UK. The last date of shipment as per LC is 15.10.2009 and last date of negotiation 31.10.2009.
The beneficiary presents documents to **Bank B,** for negotiation on 05.10.2009, with documents evidencing shipment of goods on 30.09.2009, which sends the documents to the opening bank, asking to reimburse as per LC terms.
The opening bank, on receipt of documents notices that, the shipment was made on 30.09.2009 and the invoice was dated 2.09.2009, while the inspection certificate, analysis certificate and packing list were dated 25.09.2009
The issuing bank on receipt of documents rejected the documents, notifying discrepancy that documents were dated prior to date of credit.
Article 14 i, specifically provides that documents could be dated prior to the date of LC, but should not be dated after the date of presentation.
While, the LC is silent about the date of documents, documents presented need to be dated as per LC terms, if so provided in the LC. As such, assuming that the LC did not provide for dates of the documents, the rejection by the opening bank is not as per UCPDC.

Case 3. Partial Shipments

An LC, covering shipment of 1000 cartons consisting of 15000 pieces of shirts, (readymade garments), from Chennai port to Dubai port, provides that partial shipment is not allowed.
The beneficiary hands over 500 cartons of Shirts, to the shipping company on 15.7.2009 and another 500 cartoons on 18.7.2009.
The Shipping Company issues BL for the first 500 cartons on 17.7.2009 and another BL covering 500 cartoons on 19.7.2009. Both the consignments are to be shipped by a vessel that is due to leave Chennai port on 21.7.2009. Thus the total goods under the LC , i.e. 1000 cartons, are shipped on a single vessel, but with two BLs.
The LC issuing bank, on receipt of documents drawn under the LC rejects the documents, stating the shipment is not made under one BL and as such constitutes partial shipment, which is not permitted under the LC. The issuing bank, informs the negotiating bank that goods are held at their disposal and further instructions are awaited.
As per article 31 of UCP, a presentation of documents consisting of more than one set of transport documents, covering shipment of goods on the same means of transport and has same journey, will not be considered as partial shipment, even if they indicate different dates of shipment.
As such, in the given scenario, the rejection of documents by the LC opening bank is not correct as per the Article 31 of UCP, and the bank must pay /honour the documents.

Case 4. Notice of Dishonor

The LC issuing bank on receipt of documents on 15.9.2009 (Tuesday) took two days to examine the same and referred the

documents to the applicants for their acceptance on 17.9.2009 (Thursday). The applicants came up with a discrepancy in documents, on 22.9.2009 (Tuesday) evening, stating that the documents need to be rejected as the BL was not stamped with "On board" stamp and initialed by the shipping company.
The issuing bank sent a Swift message of rejection to the negotiating bank on 23.9.2009.
On receipt of Swift message from the issuing bank, informing rejection of documents and discrepancy, as informed by the applicant, the negotiating bank referred the matter back to the opening bank stating that the message of refusal and notification of discrepancy was not received within the time period of 5 working days, and as such claimed to be reimbursed as per LC teims.
Article 16 d of UCP states that the notice of refusal and discrepancy must be given latest by the closing hours of the 5 th working day from the date of presentation. In the instant case, the opening bank was correct in sending the swift message on 23.9.2009, which was 5th working day, subsequent to the date of receipt of documents.
Since, 19th and 20th were Saturday and Sunday and 21.9.2009, being a holiday in India, on account of Ramadan ID, the opening bank was right in sending the notice of refusal / discrepancy on 23.9.2009, which was in compliance with the meaning of the said article.

CASE 5. Insurance

An LC calls for insurance from ware house to warehouse, and insurance to cover 110% of the invoice value.
Bank A negotiates and forwards documents, covering invoice for USD 17920.00 under a Multi model transport document (Combined Bill of Lading) dated 15.9.2009. to the opening bank, under the said LC. The insurance enclosed to the documents is for USD 20,000.00 and is dated 17.9.2009.
As per the Article 28 of UCP, the insurance must indicate the amount of insurance. It should be at least 110% , of the invoice value if the LC is silent on this requirement and must not be dated prior to the date of transport document.
In the given scenario, the insurance is dated after the date of multimodal transport document, which should be covering the voyage of goods from the godown of the seller, and is more than the given percentage for insurance coverage, i.e. more tan 110%.
Banks would normally accept some difference in insurance coverage which could be due to rounding off of the values/cover amount, but still can be used as a discrepancy to refuse the documents. However, a document dated after the date of shipping document, is clearly a discrepancy, and requires specific approval from the applicant.

CASE STUDY ON PRE- AND POST-SHIPMENT FINANCE

Case: A textile exporter, with estimated export sales of Rs. 300 lacs during the last year and projected sales of Rs.500 lacs for the current year, approaches the bank for granting credit facilities. The bank sanctions following facilities in the account:PCL/FBP/FUBD/FBN .... Rs. 100.00 lacs Sub limits:
PCL (25 % margin on fob value) Rs. 50.00 lacs FBP (10 % margin on bill amount) Rs. 50.00 lacs FUBD (15 % margin on bill amount) Rs. 50.00 lacs FBN (nil margin) Rs. 100.00 lacs
He gets an order for USD 50,000.00 CF, for exports of textiles- dyed/hand printed, to UK, with shipment to be made by 15.9.2009.
On 2.6.2009 he approaches the bank for releasing PCL against this order of USD 50,000.00. The bank releases the PCL as per terms of sanction.
On 31.8.2009, the exporter submits export documents for USD 48,000.00, against the order for USD 50,000.00. The documents are drawn on 30 days usance (D/A) as per terms of the order. The bank discounts the documents at the days applicable rate, adjusts the PCL outstanding and credits the balance to the exporter's account, after recovering interest up to notional due date. Interest on PCL recovered separately.
st the
The documents are realized on 29.10.2009, value date 27.10.2099, after deduction of foreign bank charges of USD 250.00. The bank adjusts the outstanding post shipment advance allowed again bill on 31.8.2009.
Bank charges interest at – PCL- 8.50 % upto 180 days, and post shipment at 8.50 % upto 90 days **and.** 10.50 % thereafter. Overdue interest is charged at 14.50%.

the USD/INR rates were as under:

— 2.6.2009: Bill Buying 48.20, bill Selling 48.40.

— 31.08.2009: TT buying 47.92, Bill buying 47.85, TT selling 48.08, Bill selling 48.15., premium for 3() days was quoted as 04/06 paise.

Now give answers to the following:

1. What is the amount that the bank allows as PCL to the exporter against the given export order, considering insurance and freight costs of 12%.

(i) Rs. 15,90,600 @ (ii) Rs. 2410000.00 (iii) Rs. 2120,800.00 (iv) Rs. 1815000

2. What exchange rate will the bank apply for purchase of the export bill for USD 48,000.00 tendered ' by the exporter:

(i) 47.89 (ii) 47.85 (iii) 47.91 (iv) 47.96

3. What is the amount of post shipment advance allowed by the bank under FUBD, for the bill submitted by the exporter:

(i) Rs.19,54,728 (ii) Rs 19,52,280 (iii) Rs.19,53,912 (iv) Rs.22,98,720

4. What will be the notional due date of the bill submitted by the exporter:

(i) 30.10.2009
(ii) 30.9.2009
(iii) 25.10.2009
(iv) 27.10.2009

5. Total interest on the export bill discounted, will be charged up to;

(i) notional due date 25.10.2009
(ii) value date of credit 27.10.2009
(iii) date of realisation 30.10.2009
(iv) date of credit to nostro account 29.10.2009

Ans. 1: USD 50,000.00 @ 48.20 = Rs.. 2410000.00 – less 12% for insurance and freight cost i.e Rs. 289,200 = Rs.21,20,800.00 (fob value of the order. Less margin 25% i.e. Rs.530,200.00 balance **Rs 15,90,600.00**
Ans. 2: 47.89– Bill buying rate on 31.8.2008 – 47.85 plus 4 paise premium for 30 days, this being a DA bill.

'**4** USD 48,000.0^0 @ 47.96 =Rs. 23,02,080.00, less 15% margin on DA bill, i.e. Rs. 345312.00
Ans.
0850:19:i161,7su6b8m.0i0tted on 31.8.2009- drawn on 30 days DA plus normal transit period of 25 days - 31.8.2009 plus 30 days plus 25 days, i.e. total 55 days from 31.3.2009 i.e. **25.10.2009**
A$_{DS}$ 5: Interest is charged up to the date the funds have been credited to the banks nostro account, the $_e$ffective date of credit is the value date of credit, i.e. **27.10.2009.**

SOME MORE CASE STUDIES / CASELETS ON INTERNATIONAL BANKING

EXCHANGE RATES

Basic Concepts

Negotiation of ,Export Bills is a purchase transaction and Retirement of Import Bills is a sale transaction for the Authorised Dealer.

In purchase lower rate will be applied and in Sale higher rate will be applied. Same will be the case for forward premium

In sale transaction exchange margin will be added but in purchase transaction exchange margin will be deducted.

Case 1

On Jan 10, 2012, the Mumbai branch of popular bank entered into following foreign currency sale and purchase transactions:

(1) With Mr. A for sale of USD 2000 to be delivered on the Jan 10.
(2) With Mr. B for purchase of USD 2000 to be delivered on Jan **11.**
(3) With Mr. C for purchase of USD 2000 to be delivered on Jan 14 (Jan 12 and 13 being bank holidays)
(4) With Mr. D for sale of USD 2000 to be delivered on Feb 11.

The inter-bank foreign currency rates on Jan 10, 2012 are as under: Cash rate or ready rate USD = Rs.45.50/60, Tom rate Rs.45.55/65, Spot rate Rs.45.60/70 and one month forward rate Rs.45.80185.

On the basis of above, answer the following questions.

01 What rate will be used for the transaction with A and what amount in Rupees will be involved:
a) Rs.45.50, Rs.91000
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

02 What rate will be used for the transaction with B and what amount in Rupees will be involved:
a) Rs.45.50, Rs:91000 --
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

03 What rate will be used for the transaction with C and what amount in Rupees will be involved:

a) Rs.45.50, Rs.91000
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

02 What rate will be used for the transaction with A and what amount in Rupees will be involved:

a) Rs.45.50, Rs.91000
b) Rs.45.55, Rs.91100
c) Rs.45.60, Rs.91200
d) Rs.45.65, Rs.91300

Ans. 1-c 2-b 3-c 4-d

Explanations:

1. It is a sale transaction. Hence, same day rate i.e. cash rate of Rs.45.60 will be used. The amount = 45.60 x 2000 = Rs.91200
2. It is a purchase transaction. Hence, next day rate (TOM Rate) of Rs.45.55 will be used. The amount = 45.55 x 2000 = Rs.91100
3. It is **a** purchase transaction. Hence, 3rd day rate (Spot Rate) of Rs.45.60 will be used. The holidays period will be excluded from counting. The amount = 45.60 x 2000 = Rs.91200
4. It is a forward sale transaction. Hence forward sale rate or Rs.45.85 will be used. The amount = 45.85 x 2000 = Rs.91700

Case 2

An exporter submitted an export bill of USD 100000 drawn on 120 days usance basis from date of shipment, which took place on Aug 03, 2012. The following further information is provided:

(1) The due date is Dec 01, 2012.
(2) The exchange margin is 0.20%.
(3) Spot inter-bank USD rate is Rs.45.00/05.
(4) Premium spot Nov 0.40/45
(5) Rate is quoted to nearest 0.25 paise and rupee amount to be rounded off
(6) Interest rate is 8% for period up to 180 days.
(7) Commission on bill purchase is 0.50%

Answer the following questions.

01 What is the rate at which the bill will-be purchased if it is a demand bill after adjustment of bank margin, without taking into account, the premium?

a) Rs.44.91 *b)* Rs.45.09 c) Rs.45.31 d) Rs.45.51

02 What is the rate at which the bill will-be purchased if it is a demand bill after adjustment of bank margin and the premium? -

a) Rs.44.91 b) Rs.45.09 c) Rs.45.31 d) Rs.45.51

03 What is the gross amount before application of interest and commission:

a) R5.4531000 b) Rs.4410174 c) Rs.4407908.50 d) Rs.4507909

04 What is the amount of the bill without bank commission

a) Rs.4531000 b) Rs.4410174 c) Rs.4407908.50 d) Rs.4407909

05 What amount will be credited to exporter's account:

a) Rs.4531000 b) Rs.4410174 c) Rs.4407922.50 d) Rs.4407909

Ans. 1-a 2-c 3-a 4-b 5-d Explanation :

1. Calculation of buying rate will be as under:

Spot rate Rs.45.00 (buying rate will be applied as it is purchase)
Less 0.20% margin Rs.00.09 Rate Rs.44.91

2. Calculation of rate will be as under:

Spot rate Rs.45.00 (buying rate will be applied as it is purchase)
Less 0.20% margin Rs.00.09 Rate Rs.44.91
Add premium Rs.00.40 (premium will be added as that benefit will be of the customer) Rate Rs.45.31

3. Calculation of rate will be as under:

Spot rate Rs.45.00 (buying rate will be applied as it is purchase) Less 0.20% margin Rs.00.09
Rate Rs.44.91 Add premium Rs.00.40 (premium will be added as that benefit will be of the customer)
Rate Rs.45.31 Amount in Rs. 45.31 x 100000 = 4531000

4. Calculation of rate will *be* as under:

Spot rate Rs.45.00 Less 0.20% margin Rs.00.09 Rate Rs.44.91
Add premium Rs.00.40 RateRs.45.31-- Gross Amount in Rs. 45.31 x 100000 = 4531000
Interest 120 days @ 8% Rs.120826 Amount 4531000 — 120826 = 4410174

5. Calculation of rate will be as under:

Spot rate Rs.45.00 Less 0.20% margin Rs.00.09
Rate Rs.44.91 Add premium Rs.00.40

Rate Rs.45.31 Amount in Rs. 45.31 x 100000 = 4531000

Interest 120 days @ 8% Rs.120826 Commission at 0.05% Rs.2265.50

Amount to be credited 4531000-120826 - 2265.50 = 4407908.50 (rounded to Rs.4407909).

Case 3

Your export customer has received an advance of US 10000 against export to UK, which the importer in UK has got credited to NOSTRO account of the bank in London. The current inter-bank market rate USD = 45.10/15. Bank retains a margin of 0.15% on purchase and 0.16% on sale. What amount will be credited to customers account:

a. Rs.451676.50 b. Rs.450323.50 c. Rs.451721.60 d. Rs.450278.40 Ans.1-b

Explanations:

1: It is a purchase transaction for the bank. Hence inter-bank purchase rate of Rs.45.10 will be used. Bank will deduct the purchase margin of 0.15%. Gross amount = 45.10 x 10000 = 451000:

Net amount which will be credited to customer's account = 451000 - 676.50 (0.15% margin) = 450323.50

Case 4

A customer wants to book the following forward contracts:

(1) Forward purchase of USD 50000 for delivery 3[1.d] month(2) Forward sale of USD 50000 for delivery 2[nd] month.

Given spot rate = 45.1000/45.1200. Premium = 1 m - 0800/0900, 2m - 1700/1900 and 3 m - 2800/2900. Exchange margin = for purchase - 0.20% and for sale - 0.25%.

01 What is the rate for forward purchase transaction:

a) 45.4233 b) 45.2705 c) 45.1795 d) 45.1700

02 What is the rate for forward sale transaction:

a) 45.4233 b) 45.3243 c) 45.4882 d) 45.3456

Ans. 1-c 2-a Explanations:

1. For purchase the spot rate = 45.1000

Add 2 m premium = 00.1700 (premium for 2 months only to be added in purchase as bill may be given on any day of 3[rd] month including on 1[st] day) Total = 45.2700

Less margin of 0.20% = 00.0905 Rate = 45.1795

2. For sale the spot rate = 45.1200 Add 2 m premium = 00.1900 (premium for full period of 2 months only to be added in sale) Total = 45.3100 Add margin of 0.25% = 00.1133 Rate = 45.4233

Case 5

Following are the Inter bank quotes on a certain date: Spot USD 1NR 44.60/65

1 month 8/10 2 month 18/20 3 month 28/30

Spot GBP USD 1.7500/7510 1month 30/20 2-month 50/40 3month 70/60

All the above differences are for the month and fixed dates and the bank margin is 3 paise.

01 An exporter has presented an export demand bill (sight document) for USD 300000 under irrevocable letter of credit. What will be the rate at which the documents will be negotiated?

a) 44.5700 b) 44.6000 c) 44.6500 d) 44.6800

02 An Exporter has submitted 60 days usance bill for USD 25000 for purchase. At what rate the document will be purchased?

a) 44.7500 b) 44.7800 c) 44.8400 ' d) 44.8700

03 Your bank has opened a letter of credit for import at the end of 2 months for GBP 30000. At what rate, the forward exchange will be booked?

a) 78,4700 b) 78,4725 c) 78,6300 d) 78,6325

04 If the exchange margin is 3 Paise for buying as well as selling, what is the bank's spread in % on customer transaction?

a) 0.2465 b) 0.3000 c) 0.6000 d) 0.6275

05 A customer tenders export bill for GBP 10,00,000 payable 45 days from sight. The transit period is 15 days he wants to retain 10% of bill value in the foreign currency. Bank's margin is 10 paise. What will be credited to customer's account?

a) 71310030 b) 70317630 c) 70110270 d) 70018510

Ans. 1-a 2-a 3-b 4-a 5-b

Explanations:

1. It is a demand bill which means the payment is immediate upon negotiation. So, spot rate will be applied, which is USD/INR SPOT 44.60/44.65.

   Being an export bill, from bank's point of view, it is a buying transaction. Hence Buying (Bid) Rate of 44.60 (and an inter-bank rate) will be applied. To arrive at the customer rate, the margin will be deducted.

   inter Bank Rate 44.6000 Less : Margin 00.0300 Customer Rate 44.5700

2. The payment terms in this case are 60 days usance. Hence, 2 months forward rate will be applied, which will be calculated as under:

Spot USDIINR 44.6000/44.6500 Forward 2 Months 00.1800100.2000 (small/Big> Premium >Add)
Total 2 Months 44.7800/44.8500 Being an export bill, from bank's point of view, it is buying of FC. Hence Buying (Bid) Rate will be applied, which is 44.78. To arrive at the customer rate, exchange margin will *be* deducted. Inter Bank Rate 44.7800
Less: Margin 00.0300
Customer Rate 44.7500

3. The fetter of credit is for 2 months. Hence, 2 months forward rate will be a applied which will be calculated on the basis of 2 Months GBP/INR rate through a cross rate (GBP/USD and USD/INR rates).
USD/INR SPOT 44.6000/44.6500 Forward 2 Months 00.1800/00.2000 (Small/Big-> Premium->Add)
Total 2 Months 44.7800/44.8500 GBP/USD SPOT 1.7500/1.7510
Forward 2 Months 0.0030/0.0020 (Big/Small-> Discount ->Less) Total 2 Months 1.7470/1.7490

It is an import transaction and from bank's point of view, it is selling. Hence selling (offer) Rate will be applied.
GBP/INR = GBPIUSD x USD /INR = 44.8500 X 1.7490 = 78.44265
This *is* an inter-bank rate. To arrive at the customer rate, exchange margin will be added.
Inter Bank Rate 78.4427 Add: Margin 00.0300 Customer Rate 78.4727 rounded to 78.4725

4. USDANIR Spot 44.6000/44.6500 inter Bank Buying Rate 44.6000
Less: Exchange Margin 00.0300 Merchant Buying Rate 44.5700
Inter bank Selling Rate 44.6500 Add: Exchange Margin 00.0300
Merchant Selling Rate 44.6800
% Spread = ((Selling Rate-Buying Rate) X 100)1 /{(Selling Rate + Buying Rate)/2}
=((44.68-44.57)X100))/{44.68+44.57)/21 = 00.11 X 100/44.625 = 0.2465 %

5. The Bill period is 45 Days. The transit period is 15 Days.

Total period is 2 months. Hence, 2 months forward rate will be applied. 2 Months GBP/INIR rate is required for which cross-rate will be calculated.
USD/INR SPOT 44.6000/44.6500 Forward Points 2 Months 00.1800/00.2000 (Small/Big-> Premium -> Add)
Spot 2 Months 44.7800/44.8500 GBP/USD SPOT 1.7500/1.7510
Swap Points 2 months 0.0030/0.0020 (Big/Small-> Discount->Less) Outright 2 Months 1.7470/1.7490
Being an export from bank's point of view, it is Buying. Hence Buying (Bid) Rate will be applied).
GBP/INRBID = GBP/USDBID X USD/INRSID = 44.7800 X 1.7470 = 78.2307
This is an inter-bank rate. To arrive at the Customer Rate, Exchange margin will be deducted.
Inter Bank Rate 78.2307 Less: Margin 00.1000 Customer Rate 78.1307
The bill is for 10,00,000 GBP. Of this, the customer wants to retain 10% in EEFC account. Hence he would be converting 9,00,000 GBP. For 9,00,000 GBP, his account would be credit with = 78.1307 X 900000 = Rs.70317630

Case 6

An importer customer, wants to retire an import bill of Pound Sterling 100000 drawn under letter of credit opened by you, and payable on demand on Oct, 12.2012. The TT margin is 0.10%. The inter-bank rates are GBP/USD = 1.5975/1.6000 and USD/1NR = Rs.44.90/45.00. On the basis of given information, answer the following questions.

01 What rate will be quoted by the bank for this transaction in terms of GBP/INR without taking into account the TT margin:
a) Rs.71.7276 *b)* Rs.71.9085 c) Rs.72.0000 d) Rs.72.0720

02 What rate will be-quoted by the bank for this transaction in terms of GBP/1NR after taking into account the TT margin:
a) Rs.71.7276 b) Rs.71.9085 c) Rs.72.0000 d) Rs.72.0720

03 What amount will be debited to cash credit or overdraft or current account of the customer for retirement of this bill:
a) Rs.7000000 b) Rs.7207200 c) Rs.7218300 d) Rs.7222070

04 If this bill is not retired by the importer customer, the crystallization of this import bill will be on which of the following dates:
a) Oct 12, 2012 b) Oct 21, 2012 c) Oct 22, 2012 d) Nov 12, 2012

Ans. 1-c 2-d 3-b 4-c

Explanations:

1. This is a sale transaction for the bank. Bank will purchase pounds (GBP) at market selling rate and will sell the USD to the customer to purchase pounds. The rate taken will be 1.6000 and 45.00. Hence the GBP/INR = 1.6000 x 45.00 = 72.00. Further bank will add margin of 0.10% which will be 0.0720. The total rate = 72.00 + 0.720. The customer would pay = 72.072 *x* 100000 = Rs.7207200
2. This is a sale transaction for the bank. Bank will purchase pounds (GBP) at market selling rate and will sell the USD to the customer to purchase pounds. The rate taken will be 1.6000 and 45.00. Hence the GBP/INR = 1.6000 x 45.00 = 72.00. Further bank will add margin of 0.10% which will be 0.0720. The total rate = 72.00 + 0.720= 72.072.
3. This is a sale transaction for the bank. Bank will purchase pounds (GBP) at market selling rate and will sell the USD to the customer to purchase pounds. The rate taken will be 1.6000 and 45.00. Hence the GBP/1NR = 1.6000 x 45.00 = 72.00. Further bank will add margin of 0.10% which will be 0.0720. The total rate = 72.00 + 0.720. The customer would pay = 72.072 x 100000 = Rs.7207200
4. The bill is to be paid on demand Le. Oct 12, 2012. As per FEDAI rule, where the demand import bills drawn under LC are not retired on demand, these are required to be crystallized within 10 days from the date of demand. Hence the latest date by which it should be crystallized

is Oct 22, 2012. (For usance import bills the crystallisation will be done on due date.

Case 7

On Apr 15, 2012, XYZ Ltd expects to receive USD 20000 within July 2012. The company wants to book a forward contract for July 2012. The USD/1NR inter-bank spot rate is Rs.45.10/20. The forward premium is 18/20 paise for May, 31/33 for June and 45/47 for July. The margin to be retained by the bank is 0.10 paise per USD.

01 What is the FC rate at which the forward contract will be booked if the margin is not taken into account:

a) Rs.45.31 *b)* Rs45.41 c) Rs.45.55 d) Rs.45.57

02 What is the FC rate at which the forward contract will be booked if the margin is taken into account

a) Rs.45.31 b) Rs45.41 c) Rs.45.55 d) Rs.45.57

Ans. 1-b 2-a

Explanations:

1. For calculating the forward, the bank will take into account the forward premium for June as amount can be *received* on any day in July including f[t] July. Thus the premium amount *is* 31 paise. The rate would be:

Spot rate = 45.10 Forward premium for June = 00.31 (premium for July will not be paid as delivery is during July) Total = 45.41

2. For calculating the forward, the bank will take into account the forward premium for June as amount can be

received on any day in July including 1^{st} July. Thus the premium amount is 31 paise. The rate would be:

Spot rate	=	45.10
Forward premi	=	00.31
Total	=	45.41
Less Margin	=	00.10
Rate to be	=	45.31

Case 8

The importer requests on Sep 01, 2012 to book a forward contract for payment of an import bill of USD 50000 due for *Dec* 15, 2012. Spot rate USD/INR = 45.10/20. Forward premium for Sep 10/14 paise, Oct 22/24 paise, Nov 33/35 paise, Nov to Dec 15-12/14 paise. Bank is to charge margin of 0.20%.

01 Without taking into account the margin, the rate that will be quoted by the bank is :

a) Rs.45.2000 b) Rs.45.5500

c) Rs.45.6900 d) Rs.45.7814

01 By taking into account the margin, the rate that will be quoted by the bank is :

a) Rs.45.2000 b) Rs.45.5500

c) Rs.45.6900 d) Rs.45.7814-

Ans. 1-c 2-d

Explanations:

1. This is FC sale transaction. Hence bank will use the Spot rate = 45.20. and premium up to Dec 15, will be added. The rate would be:45.20 margin of 0.20% i.e. 0.09138 is added, the rate would be = 45.7814.

To calculate the rate Nov premium + 0.35 + 0.14 = 45.69. When the

2. This is FC safe transaction. Hence bank will use the Spot rate = 45.20. and premium up to Dec 15, will be added. The rate would be:45.20 margin of 0.20% i.e. 0.09138 is added, the rate would be = 45.7814.

To calculate the rate Nov premium + 0.35 + 0.14 = 45.69. When the

Case 9

Your correspondent bank in UK wants to credit Rs.50 million in its NOSTRO account maintained by you in New Delhi. The bank is ready to credit the equivalent USD in you NOSTRO account in London. The inter-bank rate is USD rate is Rs.45.10/15. If exchange margin is ignored, how much amount, the correspondent bank will credit to the NOSTRO account in London and at what rate.

a 1108647.45 b. 1107419.71 c 1107022.13 d. inadequate information to make the calculation.

Ans. 1-a

Explanations:

For the bank, it is a purchase transaction as bank is purchasing dollar and giving rupee. Hence the rate that will be applicable is Rs.45.10. The FC value of Rs.50 million = 50000000/45.10 = 1108647.45.

Case 10

M/s XYZ imported goods worth Japanese Yen (JPY) 50 million. They request to remit the amount. The USDANR rate is Rs.45.1500/1700 and USD/JPU is 91.30/50. The bank will load a margin of 0.20%.

01 What rate will be quoted (per 100 yen)?

a) Rs.49.0456 b) Rs.49.4743 c) Rs.49.5730 d) Rs.49.8712

02 What amount the importer has to pay in Indian currency?

a) Rs.2472100 b) Rs.2478500 c) Rs.2428400 d) Rs.2408300

Ans. 1-c 2-b Explanations:

1. JPY is to be sold against rupees for which no direct rate is available. It will be calculated as a cross rate. Bank need to buy JPY against USD *and* USD against rupees. Hence the following rate will be used for USD/INR 45.1700 (the market selling rate) and for USD/JPY 91.30 (the market selling rate being lower in this case).
   Rate = 45.1700/91.30 = 0.494743 and for JPY 100 the same will be Rs 49.4743 (As per FEDAI Rules, JPY is quoted as per 100 yen)
2. JPY is to be sold against rupees for which no direct rate is available. It will be calculated as a cross rate. Bank need to buy JPY against USD and USD against rupees. Hence the following rate will be used for USD/INR 45.1700 (the market selling rate) and for USD/JPY 91.30 (the market selling rate being lower in this case).
   Rate = 45.1700/91.30 = 0.494743 and for JPY 100 the same will be Rs 49.4743 (As per FEDAI Rulet, JPY is quoted as per 100 *yen)*.
   To this margin of 0.20% will be added which works out to 0.0989.
   Hence the rate will be 49.4743 + .0989 = 49.5732 rounded of to 49.5730
   Total Rupee payment = 5,00,00,000 x 49.573/100= 24786500

Case 11

Bank had booked a forward purchase contract 3 months back at Rs.45.60, for delivery 3 days later for USD 10000. Due to delay in realization of export bill, the customer has requested-for cancellation of the contract and re-book it for one month fixed date or option contract beginning one month from spot date. The inter-bank spot rate is 45.2000/2200. One month forward premium is 0800/1000 paise. The TT selling and buying margin 0.20%

01 What will be the rate at which the contract will be cancelled:

a) 45.2200 b) 45.2000 c) 45.3104 d) 45.3908

02 What amount will be debited or credited to customer account being difference:

a) Rs.3202 debited b) Rs.3202 credited c) Rs.2996 credited d) Rs.2996 debited

03 At what rate, the contract would be re-booked:

a) 45.2200 b) 45.2000 c) 45.3104 d) 45.3908

Ans. 1-c 2-c 3-c Explanations:

1. The contract will be cancelled at TT selling rate i.e. 45.2200+0.20% margin i.e 0.0904 = 45.3104
   The amount at contracted rate of 45.60 = 45.60 x 10000 = 456000 The amount at cancelled rate of 45.3104=453104
   Difference = Rs.2996, which would *be* credited to customer account.
2. The contract will be cancelled at TT selling rate i.e. 45.2200+0.20% margin = 0.0904 = 45.3104
   The amount at contracted rate of 45.60 = 45.60 x10000 = 456000 The amount at cancelled rate of 45.3104=453104
   Difference = Rs.2996, which would be credited to customer account.
3. For booking of contract, the spot rate = 45.2000
   Add one month premium = 00.0800
   Total = 45.2800
   Less inter-bank margin at 0.20% = 00.0905
   Rate = 45.1895

FOREX RISK MANAGEMENT

Case- 12

international Bank successfully contracted an FCNR (B) deposit of 10 million USD for a period of 5 years. Out of these funds, the bank retains USD 4 million as deposit with a high rated US bank in its NOSTRO account and converts the remaining amount to Indian currency at prevailing USD rate = Rs.46. On the basis of the given information, answer the following questions:

01 f the foreign currency rate moves to Rs.46.50:

a) the bank.will gain Rs. 3 mio (million) b) the bank will lose Rs. 3 mio (million)
c) the bank will gain Rs.6 mio (million) d) the bank will lose Rs.6 mio (million)

02 What type of position the bank is having presently after this transaction?

a) an oversold position of USD 4 million b) an oversold position of USD 6 million c) an overbought position of USD 6 million d) an overbought position of USD 6 million

03 If the foreign currency rate moves to Rs.45.00:

a) the bank will gain Rs. 3 mio (million) b) the bank will loss Rs. 3 mio (million) c) the bank will gain Rs.6 mio (million) d) the bank will loose Rs.6 mio (million)

04 The square its position, the bank will have to undertake which of the following transaction?

a) Acquire USD assets of at least USD 6 million b) Acquire USD assets of at least USD 4 million
c) Acquire USD liabilities of at least USD 4 million d) Acquire USD liabilities of at least USD 6 million

05 If the bank decides to invest the amount received as FCNR deposit in a 3-year US govt. security at 6 months LIBOR related rate of interest, the bank faces the following type of risk?

a) foreign exchange risk b) liquidity risk c) basis risk d) no risk

Ans. 1-b 2-b 3-c 4-a 5-c

CASE STUDIES ON LETTER OF CREDIT

Case 1

M/s Exports Private Limited have received a letter of credit for export-of textile items for an amount of $ 50000 approximately. The company manufactured the goods, made the shipment and presented the documents for negotiation to the negotiating bank for a total invoice value of $ 52356. The negotiating bank refused to negotiate the document as the amount exceeded the amount of letter for credit. What is the position of exporter in the given situation:

a) Negotiating bank has all discretion to point out any discrepancy. Hence, it need not pay.
b) The discrepancy pointed out by the negotiating bank is not correct. Hence it should pay.
c) The negotiating bank should seek advice of the opening bank in such matters
d) The information given is incomplete to take a decision.

Answer:

Solution : The decision of the negotiating bank in refusing to negotiate. the documents on the basis of variation in the amount is not correct. As per Article 30 of Uniform Customs and Practices for Documentary Credits 600, the words "about" or "approximately" used in connection with the amount of the credit or the quantity or the unit price stated in the credit, are to be construed as allowing a tolerance not to exceed 10% more or 10% less, than the amount, the quantity or the unit price to which they refer.

Hence the amount stated in the invoice is well within the tolerance of 10% and objection raised by the bank is not correct.

Case 2

M/s Exports Private Limited received a letter of credit for export of certain products but the letter of credit does not state the quantity in terms of a stipulated number of packing units or individual items. The exporter manufactured the goods and presented the documents for negotiation which have been negotiated by the negotiating bank. However, the opening bank refused to honour the documents on the premise that there is variation of around 3 percent in the quantity of goods supplied. The negotiating bank demands the return of money from the exporter. What is the exporter's position in this case:

a) Once the documents have been found correct, the negotiating bank cannot ask for refunds of the money from the beneficiary
b) If the applicant refuses to pay, the beneficiary will have to return the money
c) The objection raised by the opening bank is justified and this should have been seen by the negotiating bank before hand
d) The opening bank's objection is not justified and it has to pay the documents

Answer:

Solution: The demand of the negotiating bank for refund of the money from the exporter is not justified. As per provisions of Artide 30 of Uniform Customs and Practices for documentary Credits (UCPDC-600), a tolerance not to exceed 5% more or 5% less than the quantity of the goods is allowed, provided the credit does not state the quantity in terms of a stipulated number of packing units or individual items and the total amount of the drawings does not exceed the amount of the, credit. In the given case, the quantity variation falls within the tolerance level. The negotiating bank, instead of seeking refund from the exporter should take up the matter with the issuing bank for payment.

Case3

International Bank, New Delhi received a letter of credit issued by a bank in UK in favour of M/s Exports Private Limited, a customer of International Bank. The negotiation is restricted to International Bank. On the date of receipt of LC, riots took place in the locality Where the branch of the bank is located. As a result the LC could not be advised by the bank to the exporter immediately. Later on when the situation became normal the bank advised the LC to the exporter but by that time the expiry date for negotiation of documents had expired. The exporter insists on negotiation of documents by the International Bank, as delay is not on the part of the exporter but on the part of International Bank. What is the position of the International Bank vis-à-vis the exporter in the given situation:

a) International Bank is liable due to which it should negotiate the documents
b) Exporters Pvt Limited has the right to get the payment of the documents
c) International Bank is not liable
d) Given information is not enough to take any decision

Answer: c

Solution: The insistence of the exporter to negotiate the documents is not correct when the date of negotiation of the LC has expired. As per Article 36 of Uniform Customs and Practices for Documentary Credits (UCPDC 600), a bank assumes no liability or responsibility for the consequences arising out of the interruption of its business by acts of God, riots, civil commotions, insurrections, wars, acts of terrorism, or by any strikes.or lockouts or any other causes beyond its control. A bank will not, upon resumption of its business, honour or negotiate under a credit that expired during such interruption of its business. Under the given circumstances, the bank has no obligation to negotiate the documents and make the payment since the credit has-expired. The beneficiary has to get the negotiation date extended by amendment of the LC.

Case 4

M/s Exports Private Limited have received a letter of credit in their favour for export of certain goods to UK. The date of expiry of the credit is around 31st December 2011. Since the process involved in manufacturing of goods was little longer, the exporter could present the documents for negotiation on 3rd January 2012. The documents were negotiated by the negotiating bank under reserve to which the exporter objected. In the opinion of the exporter, there is no deficiency in the documents and in the opinion of the bank, the documents have not been presented for negotiation in time. What is the position of the bank and the exporter:

a) Bank has to negotiate the documents as it gets 5 banking days to check the documents and the documents have been presented during that period.
b) The beneficiary has the right to present the documents within 5 calendar days since date is written as around Dec 31. Hence, the negotiating bank cannot refuse payment
c) The bank is not under obligation to negotiate the document as the last date for negotiation is over
d) The bank should seek instruction of the opening bank and applicant and move accordingly.

Answer:

Solution: The stand taken by the bank that the documents have been presented after expiry date, is not correct. As per Article 3 (Interpretations) of Uniform Customs and Practices for Documentary Credits (UCPDC 600), the expression 'ton or about" or similar, will *be* interpreted as a stipulation that an event is to occur during a period of five calendar days before until five calendar days after the specified date, both start and end dates included. The documents have been presented by the exporter within 3 calendar days after the specified date i.e. Dec 31, 2011. Hence, the bank should negotiate the documents if otherwise in order.

Case 5

Popular Bank issued an LC of USD 50000 on Jan 05, 2012, in favors of John and John of London. The last date for shipment is Jan 15 and last date for negotiation is Jan 31, 2012. The goods were shipped on Jan 02, 2012 and documents were presented for shipment by the beneficiary for negotiation to South Hall Bank on Jan 14, 2012, which were negotiated on Jan 16, 2012. When the documents were sent to Popular Bank for reimbursement by the South Hall Bank, the opening bank found the following discrepancies:

1. The date of shipment as Jan 02, 2012 while the date of LC was Jan 05, 2012.
2. The date of invoice was Jan 03, 2012 and date of packing list and inspection certificate was Dec 31, 2011. The opening bank returned the documents to the negotiating bank.

a) The return is not justified due to which the negotiating bank should send the documents back to opening bank for payment
b) The return is justified, as the date of LC is subsequent to date of documents
c) The return is justified, as the date of different documents is different
d) The opening bank should seek opinion of the applicant and then take decision

Answer: a

Solution: The discrepancies pointed out by the opening bank are not justified. As per Article 14 of UCPDC 600, *the* documents under an LC can be dated prior to the date of LC but these should not be dated later than the date of presentation. Further, Data in **a** document, when read in context with the credit, the document itself and international standard banking practice, need not be identical to, **but** must not conflict with, data in that document, any other stipulated document or the credit. Therefore, if the documents do not carry any other discrepancy, the opening bank or the applicant cannot refuse payment, on this basis.

Case 6

An LC provides for shipment of 500 pieces of trousers in 200 cartons. It also provides that partial shipment is not allowed. The beneficiary hands over 100 cartons to the shipping company on Jul 10 *and* another 100 cartons on Jul 16. Two bills of fading with dates Jul 10 and Jul 16, are issued. The cartons are to be carried in a single vessel to sail on Jul 20.

The documents are negotiated by the negotiating bank but these are returned back by the opening bank, stating that the LC did not permit partial shipment:

a) Opening bank cannot be forced to pay because the part shipment is not permitted
.b) Opening bank should pay, as it is not partial shipment, since vessel is one
c) By negotiating defective documents, the negotiating bank has made mistake, hence it cannot force the
- opening bank to reimburse

d) Negotiating bank has made mistake. It should recover the payment from the beneficiary

Answer:

Solution: As per Article 31 of UCPDC 600, documents with 2 or more sets of transport documents covering shipment of goods on the same means of transport and same journey, are not considered partial shipment. Hence, the stand taken by the opening bank is not correct.

Case 7

Universal Bank (the issuing bank) received the documents under LC from Popular Bank (the negotiating bank) on Dec 22 (Tuesday). **It** took one day to check the documents and forwarded the documents for acceptance by the applicant. On Dec 29, the applicant pointed out that the insurance policy was in a currency different from the one as mentioned in LC. (Dec 25 was a holiday due to Xmas and Dec 27 was Sunday). The opening bank immediately informed the negotiating bank about this discrepancy by way of an Email and sought directions for disposal of the documents. The negotiating bank pointed out that the opening bank could convey the objection if any, within 5 days and not later, due to which it should make the payment:

a) Observation made by the negotiating bank is not correct. It has received the objection in time.

b) Observation made by the negotiating bank is correct. Opening bank has conveyed the objection 2 days late.

c) Observation made by the negotiating bank is not correct. It should convey this to the beneficiary and recover the amount

d) Loss would be to the account of applicant, as he took more than 5 days.

Answer: a

Solution: As per Article 16 of UCPDC, the issuing bank gets 5 banking days to determine whether the documents carry discrepancy or not. Dec 25 being Xmas holiday and Dec 27 being Sunday (which are to be excluded from counting), the issuing bank conveyed the discrepancy within 5 banking days. Hence negotiating bank cannot refute the claim of the opening bank.

EXPORT FINANCE

Case- 8

An exporter approaches the popular bank for pre-shipment loan with estimated sales of Rs.100 lakh. The bank sanctions a limit of Rs.50 lakh, with following margins: Pre-shipment loan on FOB value — 25%; Foreign Demand Bill -10%; Foreign usance bilis —20%.

The firm gets an order for **USD 50,000** (CIF) to Australia. On 1.1.2011 when the USD/INR rate was Rs.43.50 per **USD,** the firm approached the Bank for releasing pre-shipment loan (PCL), which is released.

On 31.3.2011, the firm submitted export documents, drawn on sight basis for USD 45,000 as full and final shipment. The bank purchased the documents at Rs.43.85, adjusted the PCL outstanding and credited the balance amount to the firm's account, after recovering interest for Normal Transit Period (NTP). The documents were realized on 30.4.2011 after deduction of foreign bank charges of USD 450. The bank adjusted the outstanding post shipment advance. against the bill. Bank charged interest for pre-shipment loan @ 7% up to 90 days and, @ 8% over 90 days up to 180 days. For Post shipment credit, the Bank charged interest @ 7% for demand bills and @7.5% for usance (D/A) documents up to 90 days and @ 8.50% thereafter and on all over dues, interest @ 10%.

01 What is the amount that the Bank can allow as PCL to the exporter against the given export order, considering the profit margin of **10% and** insurance and freight cost of 12%?

a) Rs.2200000 b) Rs.1650000 c) R6.1485000 d) Rs.1291950

02 What is the amount of post shipment advance that can be allowed by the Bank under foreign bills purchased, for the bill submitted by the exporter?

a) Rs.19,80,000 b) Rs.17,75,925 c) Rs.19,73,250 d) Rs.21,92,500

03 What will be the period for which the Bank charges concessional interest on DP bills, from date of purchase of the bill?

a) 90 days b) 25 days c) 31 days d) Up to date of realization

04 in the above case, when should the bill be crystallized (latest date), if the bill remains unrealized for over two months, from the date of purchase (ignore holidays)?

a) On 30.4.2011 b) On 24.4.2011 c) On 24.5.2011 d) On 31.5.2011

05 What rate of interest will be applicable for charging interest on the export bill at the time of realization, for *the* days beyond Normal Due Date (NDD)?

a) 8% *b) 7%* c) 7.5% d) 10%

Ans. 1-d 2-c 3-b 4-c 5-d Explanations:

1. FOB value =

CIF Value i.e. 50000x43.5 =		2175000
Deduct Insurance & freight 12% of 2175000	=	261000
Balance	=	1914000
Deduct profit margin 10% of 1914000	=	191400
Balance	=	1722600
Less Margin 25%	=	430650
PCL	=	1291950

2. 45000 x 43.85 = 1973250
3. Concessional• rate will be charged for normal transit period of 25 days and there after overdue interest will be charged.
4. Crystallisation will be done when the bill becomes overdue after 25 days of normal transit period. Date of overdue will be 25.4.2011. if bill remains overdue, it will be crystalised within 30 days i.e. up to 24.5.2011.
5. Rate of interest will be 10% as the overdue interest is stated as 10% in the question.

***** BEST OF LUCK *****