

Trade Settlement in INR

A.P. (DIR Series) Circular No. 10 dated July 11, 2022

In order to promote global trade with emphasis on exports from India and to support increasing interest of global trade community in INR, it has been decided to put in place additional arrangement for invoicing, payment and settlement of exports / imports in INR. AD Bank shall obtain prior approval of RBI (FED, Central Office, Mumbai) before putting this mechanism in place.

Broad framework for same is as delineated below:

- a. Invoicing: all imports and exports may be denominated and invoices in rupee (INR).
- b. Exchange Rate: exchange rate between currencies of two trading partner countries may be market determined.
- c. Settlement: The settlement shall take place in INR.

AD Banks are permitted to open Rupee Vostro Accounts in terms of Regulation 7(1) of Deposit Regulations. In order to allow settlement through this arrangement it has been decided that:

- a. Indian importers shall make payment in INR which shall be credited to special vostro account of correspondent bank of partner country, against invoice for supply of goods or services from the overseas supplier / seller.
- b. Indian exporters, shall be paid export proceeds in INR from the balances in the designated vostro account of the correspondent bank of the partner country.

Documentation:

Export/Import undertaken and settled shall be subject to usual documentation and reporting requirements. Letter of credit and other trade related documentation may be decided mutually between banks of the partner trading countries under overall framework of Uniform Customs and Practice Documentation Credits (UCPDC) and incoterms.

Advance against Exports:

Advance against exports can be received in Indian rupees. Before allowing any such receipt of advance against exports Indian banks must ensure that available funds in these accounts are first used towards payment obligations arising out of already executed export orders / export payments in pipeline. The permission for advance against export shall be in accordance with conditions mentioned in para C.2 of Master Direction on Export of Goods and Services 2016.

In order to ensure that the advance is released only as per the instructions of the overseas importer, the Indian bank maintaining the Special Vostro account of its correspondent bank shall, apart from usual due diligence measures, verify the claim of the exporter with the advice received from the correspondent bank before releasing the advance.

Setting off of export receivables:

'Set-off' of export receivables against import payables in respect of the same overseas buyer and supplier with facility to make/receive payment of the balance of export receivables/import payables, if any, through the Rupee Payment Mechanism may be allowed, subject to the conditions mentioned in para C.26 on Set-off of export receivables against import payables under Master Direction on Export of Goods and Services 2016.

Bank Guarantee: Issue of Bank Guarantee for trade transactions, undertaken through this arrangement, is permitted subject to adherence to provisions of FEMA Notification No. 8, as amended from time to time and the provisions of Master Direction on Guarantees & Co-acceptances.

Use of Surplus Balance: The Rupee surplus balance held may be used for permissible capital and current account transactions in accordance with mutual agreement. The balance in Special Vostro Accounts can be used for:

- (a) Payments for projects and investments.
- (b) Export/Import advance flow management
- (c) Investment in Government Treasury Bills, Government securities, etc. in terms of extant guidelines and prescribed limits, subject to FEMA and similar statutory provision.

Reporting Requirements: Reporting of cross- border transactions need to be done in terms of the extant guidelines under FEMA 1999.

Approval Process: The bank of a partner country may approach an AD bank in India for opening of Special INR VOSTRO account. The AD bank will seek approval from the Reserve Bank with details of the arrangement. AD bank maintaining the special Vostro Account shall ensure that the correspondent 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.

Asian Clearing Union (ACU) Mechanism – Indo-Sri Lanka Trade

A.P. (DIR Series) Circular No. 9 dated July, 2022

The extant provisions of Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2016 have been reviewed and in terms of clause b of sub-Regulation 2 of Regulation 3 and clause c of sub-Regulation 2 of Regulation 5 of said regulations, it has been decided that all eligible current account transactions including trade transactions with Sri Lanka may be settled in any permitted currency outside the ACU mechanism until further notice.

Overseas Foreign Currency Borrowings of Authorised Dealer Category I Banks

A.P. (DIR Series) Circular No. 8 dated July 07, 2022

As announced in paragraph 4 of the press release on “Liberalisation of Forex Flows” dated July 06, 2022, AD Cat-I banks can utilize the funds raised from overseas foreign currency borrowings between July 08, 2022 and October 31, 2022 (both dates included) in terms of paragraph Part-C(5)(a) of the Master Direction - Risk Management and Inter-Bank Dealings dated July 05, 2016, as amended from time to time, for lending in foreign currency to constituents in India.

Such lending shall be subject to the end-use prescriptions as applicable to External Commercial Borrowings (ECBs) in terms of paragraph 2.1(viii) of the Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations dated March 26, 2019, as amended from time to time. This facility will be available till the maturity / repayment of the overseas foreign currency borrowings.

1. RBI NOTIFICATION NO. RBI/2022-23/76 DOR.CRE.REC.No.49/09.22.010/2022-23 DATED JUNE 23, 2022

Master Circular - Housing Finance for UCBs

RBI has consolidated and updated all the instructions / guidelines on the subject issued till date in the Master Circular. (Refer <https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12344&Mode=0>) since the last Master Circular DCBR.BPD.(PCB) MC No.9/09.22.010/2015-16 dated July 1, 2015 issued on the captioned subject (available at RBI website <https://rbi.org.in/>).

2. RBI NOTIFICATION NO. RBI/2022-23/78 DOR.STR.REC.51/21.04.048/2022-23 DATED JUNE 28, 2022

Provisioning Requirement for Investment in Security Receipts (SRs)

- Please refer to clause 77 of the Master Direction – Reserve Bank of India (Transfer of Loan Exposures) Directions, 2021 (“MD-TLE”).
- In order to provide a glide path to the entities which were kept out of the ambit of circular “Guidelines on Sale of Stressed Assets by Banks” dated September 1, 2016 and ensure smooth implementation of clause 77 of the MD-TLE, it is advised as under in respect of valuation of investments in SRs outstanding on the date of issuance of MD-TLE (September 24, 2021):
 - The difference between the carrying value of such SRs and the valuation arrived at as on the next financial reporting date after the date of issuance of MD-TLE, in terms of clause 77 of the MD-TLE, may be provided over a five-year period starting with the financial year ending March 31, 2022 - i.e. from FY2021-22 till FY2025-26.
 - Subsequent valuations of investments in such SRs on an ongoing basis shall, however, be strictly in terms of the provisions of MD-TLE.
- All lending institutions shall put in place a board approved plan to ensure that the provisioning made in each of the financial years in compliance of clause 2(a) above is not less than one fifth of the required provisioning on this count.
- Valuation of investments in SRs made after the issuance of MD-TLE shall be strictly in terms of the provisions thereunder.
- All other provisions of the MD-TLE shall continue to be applicable, as hitherto.

3. RBI NOTIFICATION NO. RBI/2022-23/80 CO.DPSS.POLC.No.S-590/02-14-006/2022-23 DATED JULY 4, 2022

Requirement for obtaining prior approval in case of takeover / acquisition of control of non-bank PSOs and sale / transfer of payment system activity of non-bank PSO

- A reference is invited to Reserve Bank of India (RBI) instructions contained in paragraph 5.10 of Master Directions on Prepaid Payment Instruments dated August 27, 2021, paragraph 5.2 of Guidelines on Regulation of Payment Aggregators and Payment Gateways dated March 17, 2020 and paragraph 3.1 of Annex-A to White Label ATM Guidelines dated June 20, 2012.
- The operations of non-bank PSOs (authorised to operate any Payment System) have been reviewed and they shall require prior approval of RBI in the following cases –
 - Takeover / Acquisition of control, which may / may not result in change of management.
 - Sale / Transfer of payment activity to an entity not authorised for undertaking similar activity.
- The non-bank PSOs shall inform RBI within 15 calendar days in the following cases –
 - Change in management / directors.
 - Sale / Transfer of payment activity to an entity authorised for undertaking similar activity.
- Details of the requirements are given in Annex-1.
- This directive is issued under Section 10 (2) read with Section 18 of Payment and Settlement Systems Act, 2007 (Act 51 of 2007) and shall come into effect immediately. (<https://www.rbi.org.in/scripts/NotificationUser.aspx?Id=12348&Mode=0>).

4. RBI NOTIFICATION NO. RBI/2022-23/81 DoR.RET.REC.52/12.07.160/2022-23 DATED JULY 06, 2022

Inclusion of “Unity Small Finance Bank Limited” in the Second Schedule of the Reserve Bank of India Act, 1934

It is advised that "Unity Small Finance Bank Limited" has been included in the Second Schedule to the Reserve Bank of India Act, 1934 vide Notification DoR.LIC.No.S543/16.13.216/2022-23 dated April 28, 2022 and published in the Gazette of India (Part III - Section 4) dated July 02-July 08, 2022.

5. RBI NOTIFICATION NO. RBI/2022-23/82 DOR.SOG (SPE).REC.No 53/13.03.000/2022-23 DATED JULY 06, 2022

Master Direction on Interest Rate on Deposits - Foreign Currency (Non-resident) Accounts (Banks) Scheme [FCNR(B)] and Non-Resident (External) Rupee (NRE) Deposit

- Please refer to the instructions regarding interest rates on FCNR (B) deposits contained in Section 19 of the Master Direction (MD) on Interest Rate on Deposits dated March 03, 2016 and Section 18 of the Master Direction (MD) on Interest Rate on Deposits dated May 12, 2016. In this connection, banks are advised that with effect from July 07, 2022, the interest rate ceiling applicable to FCNR (B) deposits is being temporarily withdrawn for incremental FCNR (B) deposits mobilized by banks for the period until October 31, 2022.
- Further, in terms of Section 15 (d) and Section 14 (d) of the above-mentioned MDs respectively, interest rates on NRE deposits shall not be higher than those offered by the banks on comparable domestic rupee term deposits. In this regard, the said restriction with respect to interest rates offered on incremental NRE deposits mobilized by banks shall be temporarily withdrawn with effect from July 07, 2022, for the period until October 31, 2022. The above relaxation shall not be applicable to Ordinary Non-Resident (NRO) Deposits.
- These concessions will be subject to review.
- All other instructions in this regard shall remain unchanged.

6. RBI NOTIFICATION NO. RBI/2022-23/83 DOR.RET.REC.54/12.01.001/2022-23 DATED JULY 06, 2022.

Section 42 of the Reserve Bank of India Act, 1934 and Section 18 and 24 of the Banking Regulation Act, 1949 – FCNR (B)/NRE Term deposits - Exemption from maintenance of CRR/SLR

- At present, banks are required to include all Foreign Currency Non-Resident (Bank) [FCNR (B)] and Non-Resident (External) Rupee (NRE) deposit liabilities for computation of Net Demand and Time Liabilities (NDTL) for maintenance of CRR and SLR.
- Banks are advised that with effect from the reporting fortnight beginning July 30, 2022, incremental FCNR (B) deposits as also NRE Term deposits with reference to base date of July 1, 2022, mobilised by banks will be exempt from maintenance of CRR and SLR. To amplify, if a bank had total FCNR (B) deposit of say USD 100 as on the base date, and mobilises an incremental deposit of say USD 20, that portion of USD 20 will not be part of liabilities reckoned for the purpose of NDTL computation for CRR and SLR maintenance with effect from the fortnight beginning July 30, 2022. The same principle will apply for calculation of NRE Term deposits for exemption from maintenance of CRR/SLR requirements. However, any transfer from Non-Resident (Ordinary) (NRO) accounts to NRE accounts will not qualify for such exemptions.
- The above exemptions are valid for deposits raised till November 04, 2022. The exemption on reserves maintenance will be available for the original deposit amounts till such time the deposits are held in the bank books.

7. RBI NOTIFICATION NO. RBI/2022-23/86 FMRD.FMID.No.04/14.01.006/2022-23 DATED JULY 07, 2022.

'Fully Accessible Route' for Investment by Non-residents in Government Securities – Additional specified securities

- Please refer to paragraph 3 of the press release on "Liberalisation of Forex Flows" dated July 06, 2022 regarding inclusion of additional 'specified securities' under the Fully Accessible Route (FAR) for investments in Government securities by non-residents.
- The Reserve Bank introduced the FAR in pursuance of the announcement made in the Union Budget 2020-21 that certain specified categories of Central Government securities would be opened fully for non-resident

investors without any restrictions, apart from being available to domestic investors as well, vide A.P. (DIR Series) Circular No. 25 dated March 30, 2020. The Government Securities that were eligible for investment under the FAR ('specified securities') were notified by the Bank, vide circular no. FMRD.FMSD.No.25/14.01.006/2019-20 dated March 30, 2020.

- In addition, it has been decided to designate the two securities listed in the following Table as well as all new issuances of Government securities of 7-year and 14-year tenors as 'specified securities' under the FAR. Accordingly, these securities will, henceforth, be eligible for investment under the FAR.

Table: Additional 'specified securities' under the Fully Accessible Route		
Sr. No.	ISIN	Security
1	IN0020220011	7.10% GS 2029
2	IN0020220029	7.54% GS 2036

- The Directions contained in this circular have been issued under Section 45W of Chapter IIID of the Reserve Bank of India Act, 1934 and are without prejudice to permissions/ approvals, if any, required under any other law.
- These Directions shall be applicable with immediate effect.

8. RBI NOTIFICATION NO. RBI/2022-23/87 A.P. (DIR Series) Circular No.07 DATED JULY 07, 2022

Investment by Foreign Portfolio Investors (FPI) in Debt - Relaxations

- Attention of Authorised Dealer Category-I (AD Category-I) banks is invited to the paragraph 3 of the press release on "Liberalisation of Forex Flows" dated July 06, 2022 regarding relaxations in the regulatory regime under the Medium-Term Framework. A reference is also invited to:
 - the Foreign Exchange Management (Debt Instruments) Regulations, 2019 notified vide Notification No. FEMA. 396/2019-RB dated October 17, 2019, as amended from time to time, and the relevant directions issued thereunder; and the A.P. (DIR Series) Circular No. 31 dated June 15, 2018 (hereinafter, Directions), as amended from time to time.
- In terms of paragraphs 4(b)(i) and 4(b)(ii) of the Directions, short-term investments by an FPI in government securities (Central Government securities, including Treasury Bills and State Development Loans) and corporate bonds shall not exceed 30% of the total investment of that FPI in any category. It has been decided that investments by FPIs in government securities and corporate bonds made between July 08, 2022 and October 31, 2022 (both dates included) shall be exempted from the limit on short-term investments till maturity or sale of such investments.
- In terms of paragraph 4(b)(ii) of the Directions, FPI investments in corporate bonds were subject to a minimum residual maturity requirement of one year. It has been decided to allow FPIs to invest in commercial papers and non-convertible debentures with an original maturity of up to one year, during the period between July 08, 2022 and October 31, 2022 (both dates included). These investments shall be exempted from the limit on short-term investments till maturity or sale of such investments.
- AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

- The Directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions/approval, if any, required under any other law.
- These Directions shall be applicable with immediate effect.

9. RBI NOTIFICATION NO. RBI/2022-23/88 A. P. (DIR Series) Circular No. 08 DATED JULY 07, 2022

Overseas foreign currency borrowings of Authorised Dealer Category-I banks

- Attention of Authorised Dealer Category-I (AD Cat-I) banks is invited to the Foreign Exchange Management (Borrowing and Lending) Regulations, 2018 [Notification no. FEMA 3(R)/2018-RB dated December 17, 2018] and Master Direction - Risk Management and Inter-Bank Dealings dated July 05, 2016, as amended from time to time.
- As announced in paragraph 4 of the press release on "Liberalisation of Forex Flows" dated July 06, 2022, AD Cat-I banks can utilise the funds raised from overseas foreign currency borrowings between July 08, 2022 and October 31, 2022 (both dates included) in terms of paragraph Part-C(5)(a) of the Master Direction - Risk Management and Inter-Bank Dealings dated July 05, 2016, as amended from time to time, for lending in foreign currency to constituents in India. Such lending shall be subject to the end-use prescriptions as applicable to External Commercial Borrowings (ECBs) in terms of paragraph 2.1(viii) of the Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations dated March 26, 2019, as amended from time to time. This facility will be available till the maturity / repayment of the overseas foreign currency borrowings.
- The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

10. RBI NOTIFICATION NO. RBI/2022-2023/89 A.P. (DIR Series) Circular No. 09 DATED JULY 08, 2022

Asian Clearing Union (ACU) Mechanism – Indo-Sri Lanka trade

- Attention of Authorised Dealer Category – I (AD Category-I) banks is invited to Regulations 3 and 5 of Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2016 in terms of which export / import transactions between ACU member countries are to be routed through the ACU mechanism.
- The extant provisions have been reviewed and in terms of clause b of sub-Regulation 2 of Regulation 3 and clause c of sub-Regulation 2 of Regulation 5 of Foreign Exchange Management (Manner of Receipt and Payment) Regulations, 2016, it has been decided that all eligible current account transactions including trade transactions with Sri Lanka may be settled in any permitted currency outside the ACU mechanism until further notice.
- The above instructions shall come into force with immediate effect. AD Category-I banks may bring the contents of this circular to the notice of their constituents concerned.
- The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

11. RBI NOTIFICATION NO. RBI/2022-2023/90 A.P. (DIR Series) Circular No.10 DATED JULY 11, 2022.

International Trade Settlement in Indian Rupees (INR)

- In order to promote growth of global trade with emphasis on exports from India and to support the increasing interest of global trading community in INR, it has been decided to put in place an additional arrangement for invoicing, payment, and settlement of exports / imports in INR. Before putting in place this mechanism, AD banks shall require prior approval from the Foreign Exchange Department of Reserve Bank of India, Central Office at Mumbai.

- The broad framework for cross border trade transactions in INR under Foreign Exchange Management Act, 1999 (FEMA) is as delineated below:
 - **Invoicing:** All exports and imports under this arrangement may be denominated and invoiced in Rupee (INR).
 - **Exchange Rate:** Exchange rate between the currencies of the two trading partner countries may be market determined.
 - **Settlement:** The settlement of trade transactions under this arrangement shall take place in INR in accordance with the procedure laid down in Para 3 of this circular.
- In terms of Regulation 7(1) of Foreign Exchange Management (Deposit) Regulations, 2016, AD banks in India have been permitted to open Rupee Vostro Accounts. Accordingly, for settlement of trade transactions with any country, AD bank in India may open Special Rupee Vostro Accounts of correspondent bank/s of the partner trading country. In order to allow settlement of international trade transactions through this arrangement, it has been decided that:
 - Indian importers undertaking imports through this mechanism shall make payment in INR which shall be credited into the Special Vostro account of the correspondent bank of the partner country, against the invoices for the supply of goods or services from the overseas seller /supplier.
 - Indian exporters, undertaking exports of goods and services through this mechanism, shall be paid the export proceeds in INR from the balances in the designated Special Vostro account of the correspondent bank of the partner country.
- **Documentation:** The export / import undertaken and settled in this manner shall be subject to usual documentation and reporting requirements. Letter of Credit (LC) and other trade related documentation may be decided mutually between banks of the partner trading countries under the overall framework of Uniform Customs and Practice for Documentary Credits (UCPDC) and incoterms. Exchange of messages in safe, secure, and efficient way may be agreed mutually between the banks of partner countries.
- **Advance against exports:** Indian exporters may receive advance payment against exports from overseas importers in Indian rupees through the above Rupee Payment Mechanism. Before allowing any such receipt of advance payment against exports, Indian Banks shall ensure that available funds in these accounts are first used towards payment obligations arising out of already executed export orders / export payments in the pipeline. The said permission would be in accordance with the conditions mentioned in para-C.2 on Receipt of advance against exports under Master Direction on Export of Goods and Services 2016 (as amended from time to time). In order to ensure that the advance is released only as per the instructions of the overseas importer, the Indian bank maintaining the Special Vostro account of its correspondent bank shall, apart from usual due diligence measures, verify the claim of the exporter with the advice received from the correspondent bank before releasing the advance.
- **Setting-off of export receivables:** 'Set-off' of export receivables against import payables in respect of the same overseas buyer and supplier with facility to make/receive payment of the balance of export receivables/import payables, if any, through the Rupee Payment Mechanism may be allowed, subject to the conditions mentioned in para C.26 on Set-off of export receivables against import payables under Master Direction on Export of Goods and Services 2016 (as amended from time to time).
- **Bank Guarantee:** Issue of Bank Guarantee for trade transactions, undertaken through this arrangement, is permitted subject to adherence to provisions of FEMA Notification No. 8, as amended from time to time and the provisions of Master Direction on Guarantees & Co-acceptances.
- **Use of Surplus Balance:** The Rupee surplus balance held may be used for permissible capital and current account transactions in accordance with mutual agreement. The balance in Special Vostro Accounts can be used for:

- Payments for projects and investments.
 - Export/Import advance flow management
 - Investment in Government Treasury Bills, Government securities, etc. in terms of extant guidelines and prescribed limits, subject to FEMA and similar statutory provision.
- **Reporting Requirements:** Reporting of cross- border transactions need to be done in terms of the extant guidelines under FEMA 1999.
- **Approval Process:** The bank of a partner country may approach an AD bank in India for opening of Special INR VOSTRO account. The AD bank will seek approval from the Reserve Bank with details of the arrangement. AD bank maintaining the special Vostro Account shall ensure that the correspondent 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.
- The above instructions shall come into force with immediate effect. AD banks may bring the contents of this Circular to the notice of their constituents and customers concerned.
- The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act (FEMA), 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.