

RBI discontinues LoUs and LoCs for Trade Credits

This is in reference to the paragraph 2 of A.P. (DIR Series) Circular No. 24 dated November 1, 2004 and paragraph No. 5.5 of Master Direction No.5 dated January 1, 2016 on 'External Commercial Borrowings, Trade Credit, Borrowing and Lending in Foreign Currency by Authorised Dealers and Persons other than Authorised Dealers' (Master Direction), as amended from time to time, on the issuance of LoUs/ LoCs/ guarantees for Trade Credits for imports into India under delegated powers of AD banks.

On a review of the extant guidelines, **it has been decided by RBI to discontinue the practice of issuance of Letters of Undertaking (LoUs)/ Letters of Comfort (LoCs) for Trade Credits for imports into India by AD Category –I banks with immediate effect.** Letters of Credit and Bank Guarantees for Trade Credits for imports into India may continue to be issued subject to compliance with the provisions contained in Department of Banking Regulation Master Circular No. DBR. No. Dir. BC.11/13.03.00/2015-16 dated July 1, 2015 on "Guarantees and Co-acceptances", as amended from time to time.

AD Category-I banks may bring the contents of this circular to the notice of their constituents and customers. The aforesaid Master Direction No. 5 dated January 01, 2016 will be updated to reflect the changes. The changes will be applicable from the date of issuance of this circular. 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.

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Warm regards,

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