



N. A. SHAH ADVISORY SERVICES LLP

BULLETIN

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EXECUTIVE SUMMARY

- ◆ Considering increasing interest of global trading community in Indian Rupees (INR) and to promote global trade, RBI has introduced a mechanism for settlement of international trades in INR.
- ◆ RBI has relaxed investment norms applicable to FPIs for investment in government securities and corporate bonds.

SETTLEMENT OF INTERNATIONAL TRADES IN INR

With an effort to promote global trade, particularly with an emphasis on exports from India, RBI has introduced a new framework for cross border trade transactions. Under this framework, invoicing, payment and settlement of exports and imports may take place in INR. However before having such mechanism in place, the authorised dealer shall obtain prior approval from the RBI. Below are the key highlights of the framework:

- ◆ Permission to Open Special Rupee Vostro¹ Account (Vostro Account):
 - Indian Authorised Dealer Banks (AD Banks) have been permitted to open Vostro account of correspondent bank/s of the partner trading country for settlement of trade transactions with the said country. Pursuant to this,
 - Indian importers shall make payment in INR to the credit of Vostro Account of the correspondent bank of the partner country, against the invoices from the overseas seller.
 - Similarly, Indian exporters shall be paid the export proceeds in INR from the balances in Vostro Account of the correspondent bank of the partner country.

- ◆ Advance against exports:
 - Indian exporters may receive advance payment from overseas importers in INR through the above-mentioned mechanism. However, the said advance will be first adjusted against any pending receivable towards already executed export orders.
 - Further, to ensure that the advance is released only as per the instructions of the overseas importer, AD Banks shall verify the claim of the exporter with the advice received from the correspondent bank before releasing the advance.

- ◆ Usage of Surplus Balance:
 - Any surplus balance lying in the Vostro account can be used for permissible capital and current account transactions such as payment for projects and

¹ Vostro account is an account that a correspondent bank holds on behalf of another bank.


investments, export/import advance flow management and Investment in Government Treasury Bills, Government securities, etc.

◆ Other Considerations:

- Extant guidelines under FEMA Act, 1999 shall be applicable to setting-off of export receivables, bank guarantee, reporting requirements, and documentation in relation to the above mechanism.

RELAXATIONS TO FOREIGN PORTFOLIO INVESTORS (FPIS)

- ◆ RBI has provided interim relaxation for FPIs, where FPIs can invest, without any limit, in government securities and corporate bonds without the condition to hold such investment for a minimum prescribed period, as opposed to a cap of 30% for such type of investment. This relaxation is applicable for investment made between 8th July 2022 and 31st October 2022.
- ◆ Further, RBI has allowed FPIs to invest in commercial papers and non-convertible debentures with an original maturity of up to one year between July 08, 2022 and October 31, 2022 (both dates included).



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