EXCHANGE CONTROL

DECEMBER 2003

1. Export of Goods and Services

With a view to simplifying and liberalising the procedure and providing full flexibility to exporters, all the exporters (including Status Holder exporters) have been allowed to extend the prescribed period of realisation beyond 180 days or further period as applicable and write-off (including reduction in invoice value) ten per cent of outstanding export dues, subject to certain conditions. This facility will be available in respect of export proceeds falling due from January 1, 2004. In the case of exports where Reserve Bank has prescribed longer period of realisation, the said facility would be available for exports made prior to July 2003, but proceeds of which are due for realisation within the prescribed period of one year.

2. Indirect/Direct Investment in JVs/WOSs Abroad

With a view to simplifying and liberalising the present policy of overseas direct investment, the existing guidelines pertaining to the following areas have been modified and conveyed to all Authorised Dealers for implementation :-

- Investment by Partnership Firms in India.
- Investment through Special Purpose Vehicle (SPV) under the Automatic route.
- Investment by way of share swap.
- Direct Investment Abroad in Financial Services Sector Activities.
- Diversification of activity/step down investments by JV/WOS established by an Indian party.
- Transfer by way of sale of shares of a JV/WOS outside India.
- The reporting requirement has also been modified accordingly.

3. Overseas Direct Investment

Indian listed companies have been permitted to disinvest their investment in Joint Ventures (JVs)/Wholly Owned Subsidiaries (WOSs) abroad even in cases where such disinvestment may result in write-off of the capital invested to the extent of 10 per cent of the previous year's export realisation. Other terms and conditions and reporting requirements remain unchanged.

4. Indian Students Studying Abroad - Revision in the Residential Status

It has been decided to treat Indian students studying abroad as Non-Resident Indians. As non-residents, they are now eligible for receiving remittances from India up to USD 100,000 from their close relatives in India, towards maintenance, which could include remittances towards their studies, up to USD 1 million out of sale proceeds/ balances in their account maintained with an Authorised Dealer in India, as also all other facilities available to NRIs under FEMA. Educational and other loans availed of by such students as residents in India, can be allowed to continue.

5. Booking of Forward Contracts by Exporters/Importers

Eligible limit for exporters/importers for booking forward contacts on the basis of declaration of an exposure has been revised to be the average of the past three years' export/import turnover or the previous year's turnover, whichever is higher. The forward contracts so booked and outstanding at any point of time shall not exceed 50% (raised from 25%) of the eligible limit without any cap, provided that any amount in excess of 25% of the eligible limit shall be only on a deliverable basis. These limits shall be computed separately for export/import transactions.

6. Hedging of Overseas Direct Investments

Resident entities having overseas direct investments have been permitted to hedge the exchange risk arising out of such investments. Accordingly, Authorised Dealers have been advised to enter into forward/option contracts with residents who wish to hedge their overseas direct investments (in equity and loan), subject to certain specified conditions.

7. Advance Remittance for Imports

Authorised Dealers have been advised that a Public Sector Company or a Department/ Undertaking of the Central/State Government/s which is not in a position to obtain a guarantee from an international bank of repute against an advance payment, is required to obtain a specific waiver for the bank guarantee from the Ministry of Finance, Government of India before making advance remittance exceeding USD 100,000.

8. Exim Bank's Line of Credit of USD 200 million to seven Iranian Banks

The Export-import Bank of India (Exim Bank) has concluded on January 25, 2003, an agreement with seven Iranian banks designated by Bank Markazi Jomhouri Islami Iran, *viz*. Bank Mellat, Bank Melli Iran, Bank Saderat Iran, Bank Sepah, Bank Tejarat, Bank of Industry & Mine and Export Development Bank of Iran making available to these banks a Line of Credit (LOC) upto an aggregate sum of USD 200 million (U.S. dollor Two hundred million only). The credit agreement has become effective from September 15, 2003 and is available for financing export from India of eligible capital goods and related services of Indian origin to buyers in Iran. The terminal date for conclusion of individual Letters of Agreement is December 31, 2005.

9. Foreign Exchange Management (Insurance) Regulations, 2000 - Life Insurance Memorandum (LIM)

Resident beneficiaries of insurance claims/ maturity/surrender value, settled in foreign currency have been permitted to open and credit the proceeds thereof to their RFC (Domestic) Accounts instead of RFC Accounts as permitted earlier.

Non-Resident Indian Policy Holders, who are beneficiaries of insurance claims/maturity or surrender value settled in foreign currency in respect of policies issued by Insurance Companies in India and registered with Insurance Regulatory and Dvelopment Authority to conduct insurance business, have been permitted to credit the proceeds to the RFC Account opened by them on their becoming residents.

10. Purchase/Sale of Share and/or Convertible Debentures by SBEI registered Foreign Institutional Investors (FIIs) under Portfolio Investment Scheme (PIS)

SEBI registered FIIs/sub-accounts of FIIs have been permitted to buy/sell equity shares/ debentures of Indian companies (excluding companies engaged in the print media sector), units of domestic mutual funds, dated Government Securities and Treasury Bills through stock exchanges in India at the ruling market price, invest/trade in exchange traded derivative contracts, and also to buy/sell shares and debentures *etc*. of listed/unlisted companies otherwise than on stock exchange at a price approved by SEBI/Reserve Bank as per certain terms and conditions prescribed. For the purpose of FII investment, Government Securities would include dated securities of both Government of India and State Governments, of all maturities, and Treasury Bills of Government of India. Investment in Government dated securities and Treasury Bills by FIIs may be made either in the primary market (at the auction/floatation) or in the secondary market.

11. Release of Foreign Exchange for Miscellaneous Remittances

With a view to further simplifying the procedure of resident individuals, the limit for foreign exchange remittance for miscellaneous purposes without documentation formalities, has been raised from USD 500 TO USD 5000. The resident individual has only to make a simple application to their bank (authorised dealer) furnishing basic information such as names and addresses of the applicant and the beneficiary, and amount and purpose of remittance. The payment towards foreign exchange is, however, to be made by cheque drawn on the applicant's bank account or by Demand Draft.

12. Indo-Sri Lanka Credit Agreement dated October 15, 2003 for USD 30 Million

The Government of India have made available the second tranche of USD 30 million out of the line of credit of USD 100 Million extended to the Government of the Republic of Sri Lanka under the credit agreement between the two Governments dated January 29, 2001. The credit of USD 30 million will be available to the Government of Sri Lanka for importing from India capital goods of Indian manufacture including original spare parts and accessories purchased together with the capital goods and included in the original contract as also consultancy services, consumer durables and certain food items.