Extension of credit / non-credit facilities to Indian Joint Ventures (JVs)/ Wholly Owned Subsidiaries (WOSs) abroad and extension of buyer's credit and acceptance finance to overseas parties by banks in India

DBOD.IBS.BC. 94/23.37.001/2002-03

April 8, 2003

All Scheduled Commercial Banks
(excluding RRBs and LABs)

Dear Sir,

Extension of credit / non-credit facilities to Indian Joint Ventures (JVs)/ Wholly Owned Subsidiaries (WOSs) abroad and extension of buyer's credit and acceptance finance to overseas parties by banks in India

Please refer to our circulars DBOD.IBS.BC. 104/23.37.001/ 98-99 dated November 12, 1998 and DBOD.IBS. 1707/23.37.001/98-99 dated January 21,1999 in terms of which banks were permitted to extend credit / non-credit facilities to Indian Joint Ventures / Wholly Owned Subsidiaries abroad up to the extent of 5% of their unimpaired Tier - I capital, subject to certain terms and conditions. The above facility was permitted to banks to provide additional avenues for deployment of funds held in FCNRB, EEFC, RFC etc. accounts.

2. As per the existing Exchange Control regulations, vide paragraph-2 of the A.P.(DIR Series) Circular No. 63 dated December 21, 2002, Authorised Dealers are now free to undertake investments in overseas markets subject to limits approved by their respective Boards.

3. In view of the above, it has now been decided to revise the ceiling_from 5% of the unimpaired Tier - I capital to 10% of banks' unimpaired capital funds (Tier I and Tier II capital) for banks to offer credit/non-credit facilities to Indian Joint Ventures / Wholly Owned Subsidiaries abroad. The following conditions

stipulated in our circular referred to above for such facilities will, however, remain unchanged:

(i) Loan will be granted only to those joint ventures where the holding by the Indian company is more than 51%.

(ii) Proper systems for management of credit and interest rate risks arising out of such cross border lending are in place.

(iii) Section 25 of the Banking Regulation Act, 1949 is complied with.

(iv) The resource base for such lending should be funds held in foreign currency accounts such as FCNR(B), EEFC, RFC etc. in respect of which banks have to manage exchange risk.

(v) Maturity mismatches arising out of such transactions are within the overall gap limits approved by RBI.

(vi) All existing safeguards / prudential guidelines relating to capital adequacy, exposure norms etc. applicable to domestic credit / non-credit exposures are adhered to.

The above facility is subject to review, after one year.

4. Further, as already stipulated in our above circular, the loan policy for such credit / non-credit facility should be, inter alia, keeping with the following:

(a) Grant of such loans is based on proper appraisal and commercial viability of the projects and not merely on the reputation of the promoters backing the project. Non-fund based facilities should be subjected to the same rigorous scrutiny as fund based limits.

(b) The countries where the joint ventures / wholly owned subsidiaries are located should have no restrictions applicable to these companies in regard to obtaining foreign currency loans or for repatriation etc. and should permit non-resident banks to have legal charge on securities / assets abroad and the right of disposal in case of need.

5. Please acknowledge receipt.

Yours faithfully,
(B. Mahapatra)
Chief General Manager