

November 4, 2005

To
All Banks Authorised to deal in Foreign Exchange

Madam/Sir,

External Commercial Borrowings (ECB)

Attention of Authorised Dealer banks is invited to paragraphs 1(B)(i)(a) and 1(B)(v) in the Annex to A.P.(DIR Series) Circular No.5 dated August 1, 2005 regarding eligible borrowers and issuance of guarantee, standby letter of credit, letter of undertaking or letter of comfort relating to External Commercial Borrowings (ECB), under the Approval Route.

2. It has been decided to clarify/modify the ECB policy as indicated below:
 - (i) Currently, ECB proposals of financial institutions dealing exclusively with infrastructure or export finance are considered by the Reserve Bank on a case by case basis under the Approval Route. This practice will continue. However, it is clarified that Special Purpose Vehicles (SPVs) or any other entity, notified by the Reserve Bank, set up to finance infrastructure companies/projects exclusively will also be treated as financial institutions and ECB by such entities will be considered under the Approval Route on a case by case basis.
 - (ii) With a view to facilitating capacity expansion and technological upgradation in the Indian textile industry after the phasing out of Multi-Fibre Agreement, banks will be allowed to issue guarantees, standby letters of credit, letters of undertaking or letters of comfort in respect of ECB by textile companies for modernization or expansion of their textile units. Such applications will be considered under the Approval Route subject to prudential norms.
3. The amended ECB policy will come into force with immediate effect. This is subject to review.

4. Necessary amendments to the Foreign Exchange Management (Borrowing or Lending in Foreign Exchange) Regulations, 2000 dated May 3, 2000 are being issued separately.

5. Authorised Dealer banks may bring the contents of this circular to the notice of their constituents and customers.

6. The direction contained in this circular has been issued under section 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully,

Vinay Baijal
Chief General Manager