



MASTER DIRECTIONS

The Reserve Bank of India has started issuing Master Directions on all regulatory matters beginning January 2016. The Master Directions consolidate instructions on rules and regulations framed by the Reserve Bank under various Acts including banking issues and foreign exchange transactions. The process of issuing Master Directions involves issuing one Master Direction for each subject matter covering all instructions on that subject. Any change in the rules, regulation or policy is communicated during the year by way of circulars/press releases. The Master Directions will be updated suitably and simultaneously whenever there is a change in the rules/regulations or there is a change in the policy. All the changes will get reflected in the Master Directions available on the RBI website along with the dates on which changes are made. Explanations of rules and regulations will be issued by way of Frequently Asked Questions (FAQs) after issue of the Master Directions in easy to understand language wherever necessary. The existing set of **Master Circulars** issued on various subjects will stand withdrawn with the issue of the Master Direction on the subject.

(810 kb)

Master Direction – Import of Goods and Services (Updated as on May 31, 2022)

RBI/FED/2016-17/12

FED Master Direction No. 17/2016-17

January 1, 2016
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To

All Authorised Dealer Category – I banks and Authorised Banks

Madam / Dear Sir,

Master Direction – Import of Goods and Services

Import of Goods and Services into India is being allowed in terms of Section 5 of the Foreign Exchange Management Act 1999 (42 of 1999), read with Notification No. G.S.R. 381(E) dated May 3, 2000 viz. Foreign Exchange Management (Current Account Transaction) Rules, 2000. These Regulations are amended from time to time to incorporate the changes in the regulatory framework and published through amendment notifications.

2. Within the contours of the Regulations, Reserve Bank of India also issues directions to Authorised Persons under Section 11 of the Foreign Exchange Management Act (FEMA), 1999. These directions lay down the modalities as to how the foreign exchange business has to be conducted by the Authorised Persons with their customers/constituents with a view to implementing the regulations framed.

3. Instructions issued on import of goods and services into India have been compiled in this Master Direction. The list of underlying circulars/ notifications which form the basis of this Master Direction is furnished in the Appendix. Reporting instructions can be found in Master Direction on reporting (Master Direction No. 18 dated January 01, 2016).

4. It may be noted that, whenever necessary, Reserve Bank shall issue directions to Authorised Persons through A.P. (DIR Series) Circulars in regard to any change in the Regulations or the manner in which relative transactions are to be conducted by the Authorised Persons with their customers/ constituents. The Master Direction issued herewith shall be amended suitably simultaneously.

Yours faithfully,

(Vivek Srivastava)
Chief General Manager

Master Direction 17 – Import of Goods and Services

INDEX

- Section I - Introduction
- Section II - General Guidelines for imports
 - B.1. General Guidelines
 - B.2. Remittances for Import Payments
 - B.3. Import Licenses
 - B.4. Obligation of Purchaser of Foreign Exchange
 - B.5. Time Limit for Settlement of Import Payments
 - B.6. Import of Foreign exchange / Indian Rupees
 - B.7. Third Party Payment for Import Transactions
 - B.8. Issue of Guarantees by an Authorised Dealer
- Section III - Operational Guidelines for Imports
 - C.1. Advance Remittance
 - C.2. Interest on Import Bills

The nominated agency/bank may allow import of platinum and silver, on outright purchase basis subject to the condition that although ownership of the same shall be passed on to the importers at the time of import itself, the price shall be fixed later as and when the importer sells to the user.

C.13. Import Factoring

(i) AD Category – I bank may enter into arrangements with international factoring companies of repute, preferably members of Factors Chain International, without the approval of Reserve Bank.

(ii) They will have to ensure compliance with the extant foreign exchange directions relating to imports, Foreign Trade Policy in force and any other guidelines/directives issued by Reserve Bank in this regard.

C.14. Merchanting Trade³⁸

C.14.1. AD banks may handle the Merchanting Trade Transactions (MTT) subject to the following guidelines:

- i. For a trade to be classified as merchanting trade, goods acquired shall not enter the Domestic Tariff Area.
- ii. Considering that in some cases, the goods acquired may require certain specific processing/ value-addition, the state of goods so acquired may be allowed transformation subject to the AD bank being satisfied with the documentary evidence and bonafides of the transaction.
- iii. The MTT shall be undertaken for the goods that are permitted for exports / imports under the prevailing Foreign Trade Policy (FTP) of India as on the date of shipment. All rules, regulations and directions applicable to exports (except Export Declaration Form) and imports (except Bill of Entry) shall be complied with for the export leg and import leg respectively.
- iv. AD bank shall satisfy itself with the bonafides of the transactions. Further, KYC and AML guidelines shall be scrupulously adhered to by the AD bank while handling such transactions.
- v. The entire merchanting trade is to be routed through the same AD bank. The AD bank shall verify the documents like invoice, packing list, transport documents and insurance documents (if originals are not available, Non-negotiable copies duly authenticated by the bank handling documents may be taken) and satisfy itself about the genuineness of the trade. The AD bank may, if satisfied, rely on online verification of Bill of Lading/ Airway Bill on the website of International Maritime Bureau or Airline web check facilities. However, the AD bank shall ensure that the requisite details are made available /retrievable at the time of Inspection/Audit/investigation of the transactions.
- vi. The entire MTT shall be completed within an overall period of nine months and there shall not be any outlay of foreign exchange beyond four months. The commencement date of merchanting trade shall be the date of shipment / export leg receipt or import leg payment, whichever is first. The completion date shall be the date of shipment / export leg receipt or import leg payment, whichever is the last.
- vii. Short-term credit either by way of suppliers' credit or buyers' credit may be extended for MTT to the extent not backed by advance remittance for the export leg, including the discounting of export leg LC by the AD bank, as in the case of import transactions. However, Letter of Undertaking (LoU)/ Letter of Comfort (LoC) shall not be issued for supplier's/ buyer's credit.
- viii. Any receipts for the export leg, prior to the payment for import leg, may be parked either in Exchange Earners Foreign Currency (EEFC) account or in an interest-bearing INR account till the import leg liability arises. It shall be strictly earmarked/ lien-marked for the payment of import leg and the liability of the import leg, as soon as it arises, shall be extinguished out of these funds without any delay. If such receipts are kept in interest-bearing INR account, hedging thereof may be allowed by the AD bank at the request of its customer, as per extant regulations. No fund/non-fund-based facilities shall be extended against these balances.
- ix. In case of discounting of export leg LC where payment for import leg is still to be made (even if partially), the proceeds shall be utilized in the manner prescribed at point no. 2 (viii) above.
- x. Payment for import leg may also be allowed to be made out of the balances in EEFC account of the merchant trader.
- xi. Merchanting traders may be allowed to make advance payment for the import leg on demand made by the overseas supplier. In case where inward remittance from the overseas buyer is not received before the outward remittance to the overseas supplier, AD bank may handle such transactions based on its commercial judgement. It may, however, be ensured that any such advance payment for an import leg beyond USD 500,000/- per transaction, shall be made against Bank Guarantee / an unconditional, irrevocable standby Letter of Credit from an international bank of repute. Overall prudential limits on allowing such advance payments by a customer may be fixed by the AD bank.
- xii. Letter of Credit to the supplier for the import leg is permitted against confirmed export order, keeping in view the foreign exchange outlay of four months and completion of the MTT within nine months and subject to compliance with the instructions issued by Department of Banking Regulation on "Guarantees and Co-acceptances", as amended from time to time.
- xiii. AD bank shall ensure one-to-one matching in case of each MTT and report defaults in any leg by the traders to the concerned Regional Office of the Reserve Bank, on half yearly basis in the format as annexed, within 15 days from the close of each half year, i.e. June and December;
- xiv. Merchant traders with outstanding of 5% or more of their annual export earnings shall be liable for caution listing.

C.14.2 The merchanting traders shall be genuine traders of goods and not mere financial intermediaries. Confirmed orders must be received by them from the overseas buyers. AD banks shall satisfy themselves about the capabilities of the merchanting trader to perform the obligations under the order. The merchanting trade shall result in profit which shall be determined by subtracting import payments and related expenses from export proceeds for the specific MTT.

C.14.3 Write-off of unrealized amount of export leg:

- i. AD bank may write-off the unrealized amount of export leg, without any ceiling, on the request made by the Merchanting trader, in the following circumstances:
 - a. The MTT buyer has been declared insolvent and a certificate from the official liquidator specifying that there is no possibility of recovery of export proceeds has been produced.
 - b. The goods exported have been auctioned or destroyed by the Port / Customs / Health authorities in the importing country and a certificate to that effect has been produced.