



PIONEER ONE

JUST A MINUTE (JAM)

FEMA Refresher | December 2022

RBI MASTER DIRECTION – IMPORT OF GOODS AND SERVICES

What are Master directions?

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.

This newsletter is a collection of the most important and relevant points given in the Master direction on import of goods and services issued by RBI.

Important points to note in the Master direction:

- At the outset, the primary parties involved in an import transaction are the foreign supplier, the Indian recipient, financial intermediary also called as the Authorised dealer/AD bank and the Reserve Bank of India which often acts as an approving authority.
- Import trade is regulated by the Directorate General of Foreign Trade (DGFT) under the Ministry of Commerce & Industry, Department of Commerce, Government of India.

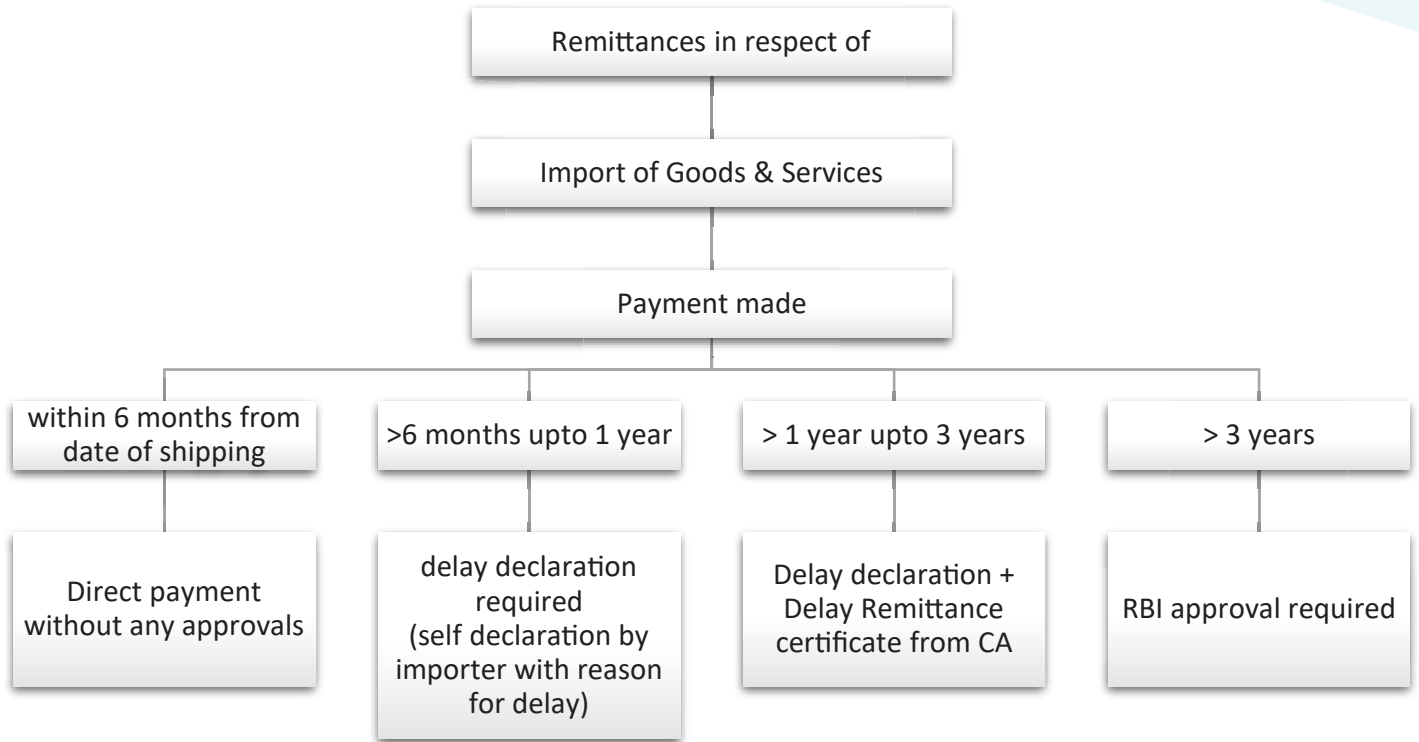
What do you mean by KYC guidelines?

- KYC guidelines aka Know Your Customer standards are designed to protect financial institutions against fraud, corruption, money laundering and terrorist financing.
- KYC involves several steps to:
 - Establish customer identity;
 - Understand the nature of customers' activities and qualify that the source of funds is legitimate; and
 - Assess money laundering risks associated with customers.
- Long story short, KYC in the view point of a customer for an import transaction is submitting valid identification and other proofs as maybe required by the bank. In case of artificial persons (viz. company, LLP etc.), the KYC of Authorised signatories should be submitted to the bank.

What is the time limit for making payment for imports?

- Remittances against imports should be completed not later than **6 months** from the date of shipment.
- AD banks can consider granting extension of time for settlement of import dues up to a period of six months at a time (maximum up to the period of three years)
- Any import payment beyond 3 years will require prior approval from the RBI.

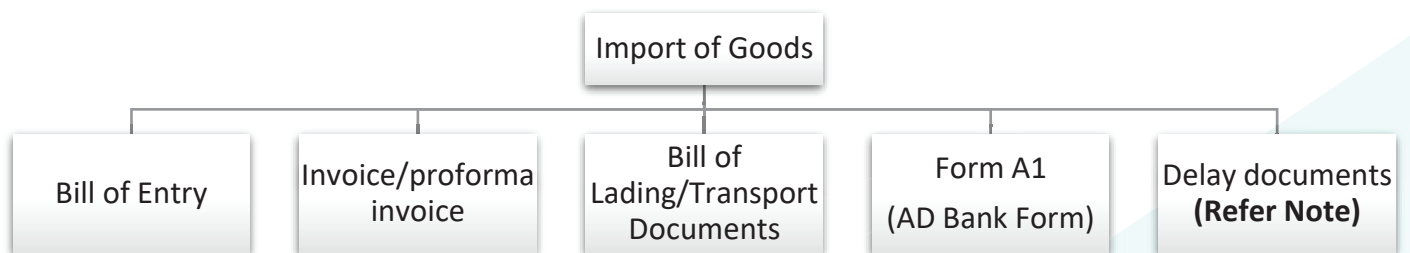
Practical application of Master direction during import payment



Note:

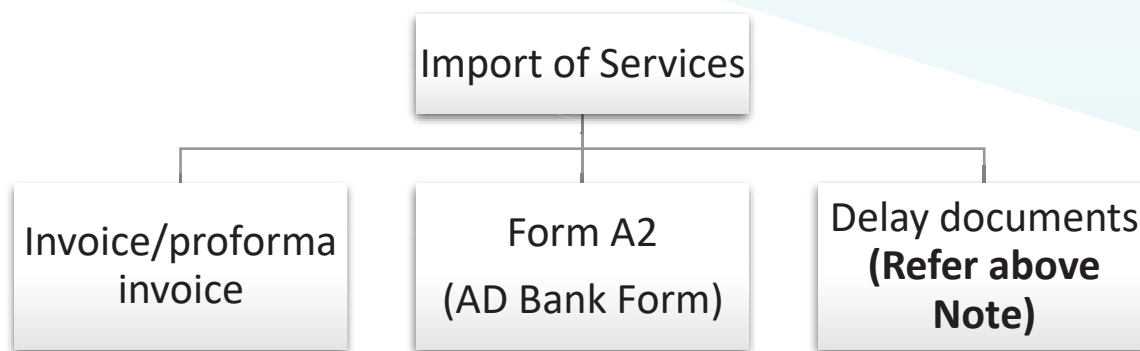
As per the RBI Master direction, RBI approval is required only on expiry of 3 years from the date of shipping. However, it is pertinent to note that banks have started asking for RBI approval for payments after expiry of 1 year. (This is subjective and varies from bank to bank).

What are the documents required for making import payment?



Note:

Delay declaration (self-declaration) – if delay exceeds 6 months but upto 1 year
 Delay declaration + CA certificate – if delay exceeds 1 year but upto 3 years
 RBI approval – If delay exceeds 3 years



Advance remittance for Import of Goods:

- Advance remittance is allowed upto USD 200,000
- For any amount exceeding USD 200,000 an irrevocable letter of credit/guarantee from an international Bank Is required.
- However, in cases where importer is unable to obtain bank guarantee from overseas suppliers, the AD bank can allow remittances upto USD 5 Million if it is satisfied about the track record and bonafides of the importer.

Advance remittance for Import of Services:

- Advance remittance is allowed upto USD 500,000
- For any amount exceeding USD 500,000 an irrevocable letter of credit/guarantee from an international Bank Is required.

Interest on Import Bills

- Interest on delayed payment is allowed for a period of less than 3 years from the date of shipment.

Interest is allowed at the rate prescribed for trade credit from time to time.

Receipt of import documents by the importer directly from overseas suppliers

- Import bills and documents should be received from the banker of the supplier by the banker of the importer in India.
- AD Category – I bank should not, therefore, make remittances where import bills have been received directly by the importers from the overseas supplier, *except in the following cases:*
 - Where the value of import bill does not exceed USD 300,000.
 - Import bills received by wholly-owned Indian subsidiaries of foreign companies from their principals.
 - Import bills received by Status Holder Exporters as defined in the Foreign Trade Policy, 100% Export Oriented Units / Units in Special Economic Zones, Public Sector Undertakings and Limited Companies.
 - Import bills received by all limited companies viz. public limited, deemed public limited and private limited companies.

What is IDPMS?

- IDPMS aka Import Data Processing and Monitoring System is a comprehensive data processing and monitoring platform for imports.
- IDPMS has two data sources,
 - Data from the customs house – BOE details
 - Data from the bank – Import payment details
- When goods are imported and BOE is generated, the data gets imported into the IDPMS and will remain there unless payment is made and the entry is knocked off.
- In cases of advance, the payments get updated in the IDPMS and will remain open unless the user submits proof of importation.
- This means that any pending entry in the IDPMS means that either the settlement or import activity is pending.
- Before introduction of IDPMS, multiple payments for a single BOE cannot be made which has changed after introduction of IDPMS.
- It has to be noted that IDPMS is database relating to import of goods only and does not contain any transactions relating to import of services.

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