

MEMO# 23120

December 12, 2008

Institute's Letter to the Reserve Bank of India Regarding Irrevocable Payment Commitments

[23120]

December 12, 2008

TO: INTERNATIONAL COMMITTEE No. 28-08
INTERNATIONAL INVESTING SUBCOMMITTEE No. 6-08 RE: INSTITUTE'S LETTER TO THE
RESERVE BANK OF INDIA REGARDING IRREVOCABLE PAYMENT COMMITMENTS

In December 2007 the Reserve Bank of India (RBI) issued a circular [\[1\]](#) prohibiting banks from extending fund or non-fund based facilities, such as Irrevocable Payment Commitments (IPCs), to Foreign Institutional Investors (FIIs). Initially, banks were provided until June 14, 2008, to comply with the guidelines. This deadline was extended to September 13, 2008, and then to December 13, 2008. We understand that it is uncertain whether RBI will consider a local subcustodian bank's confirmation to the clearinghouse of an FII's trade instruction prior to settlement of the foreign exchange transaction (i.e., credit of INR proceeds to the FII's cash account and confirmation of USD proceeds) as an IPC. A determination that such confirmation constitutes an IPC will create significant operational, market and legal challenges for FIIs with respect to currency conversion and the maintenance of excess long INR balances. An unfavorable determination will also have a detrimental impact on the portfolio management of FIIs.

On December 10th the Institute submitted the attached letter to RBI strongly urging RBI to determine that a local subcustodian bank's confirmation to the clearinghouse of an FII's trade instruction prior to settlement of the foreign exchange transaction does not constitute an IPC. On December 12th, RBI issued a circular further extending the deadline to comply with the requirements of the December 2007 circular until March 31, 2009. [\[2\]](#)

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[Attachment](#)

endnotes

[1] See Reserve Bank of India Circular No. DBOD.Dir.BC.57/13.03.00/2007-2008, issued December 14, 2007, available at http://rbi.org.in/scripts/BS_CircularIndexDisplay.aspx?Id=3978.

[2] See Reserve Bank of India Circular No. DBOD.No.Dir.BC.98/13.03.00/2008-2009, issued December 12, 2008, available at <http://www.rbi.org.in/scripts/NotificationUser.aspx?Id=4710&Mode=0>.

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