

FEMA Ke Fundae

#FamiliarwithFEMA

BASICS OF TRADE CREDIT (Part 2 of 3)

Issue No :62

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Topics already covered in Part 1 :-

- What is Trade Credit
- Forms of Trade Credit
 - Suppliers' Credit
 - Buyers' Credit
- Routes of raising Trade Credit
 - Automatic Route
 - Approval Route



For Part 1, refer the below link:-



Aman- Importer

Hi Mr. FEMA Gyani. I understood about the trade credit and the routes of raising it. Now can you tell me is there any time limit for repayment of trade credit?

Yes Aman. The **repayment of trade credit** depends upon whether you are importing capital goods or Non Capital goods.



The FEMA Gyani

For Import of Capital Goods:

Upto 3 Years

For Import of Non-Capital Goods:

For Shipyards/ Shipbuilders

Upto 3 Years

For Others

Upto 1 Year

or

Operating Cycle

Whichever is less.

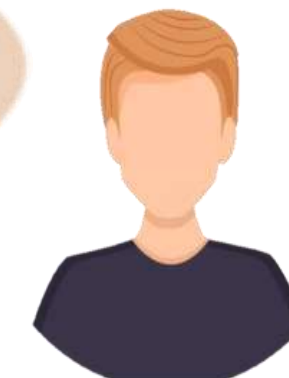




Aman

Okay, got it. What is the interest rate that is required to be paid on such Trade Credit?

Under TC Framework, the maximum limit of cost of Borrowing (**All-in-cost ceiling**) should be within the applicable ceiling at all times.



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1

If TC is raised in **Indian Rupee** then the ceiling shall be: **Benchmark Rate + 250 bps spread.**

All-in-COST CEILING LIMITS

2

If TC is raised in **Foreign Currency** then the ceiling shall be as follows:

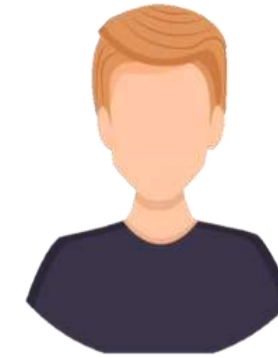
For existing TCs linked to LIBOR whose benchmarks are changed to ARR:
Benchmark Rate + 350 bps spread

For new TCs:
Benchmark rate + 300 bps spread



Aman

Okay, but what is the meaning of ALL-in-COST and What is Benchmark Rate?



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All-in-COST

Costs Includible

rate of interest,
other fees,
expenses,
charges,
guarantee fees
whether paid in foreign currency or INR

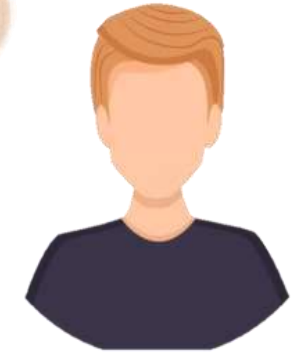
Costs Excludible

Withholding tax payable in INR





In case of FCY, ECB/TC, Benchmark rate refers to any widely accepted interbank rate applicable to the currency of borrowing.



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Aman

Okay, Got that. One more question. My exporter is asking me to keep some security for taking Trade Credit. So what all assets can I give as security?

Okay Aman. I will tell you about what all assets can be kept as security.



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The following can be kept as security to avail TC

ASSETS

GUARANTEES



Immovable assets
(excluding land in
SEZs)

Movable assets
(including
financial assets)

TC can be secured by foreign banks as well as by the overseas branches of Indian banks and bank guarantees can be given by the ADs.
(not more than a maximum period of the amount of TC.)

corporate or personal guarantee for raising trade credit





Aman

Got it. As I wish to avail trade credit in foreign currency, how am I supposed to determine such exchange rate?

Exchange Rate will be based upon whether the trade credit is raised in **Foreign Currency** (FCY denominated TC) or **Indian Rupee** (INR denominated TC).



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FCY - denominated TC

Exchange Rate **prevailing on the date of agreement** b/w the parties concerned

Or

At an exchange Rate which is **<** the rate prevailing on the date of agreement, if consented to by the TC lender.

INR denominated TC

Exchange rate prevailing on the **date of settlement.**



Aman

Got it. But due to the market fluctuations, I am afraid of facing foreign currency exposure risk. Can it be minimized by any way?

Yes. You can minimize the risk **by hedging** with keeping in mind that there shall be **board approved risk management policy** in your entity.



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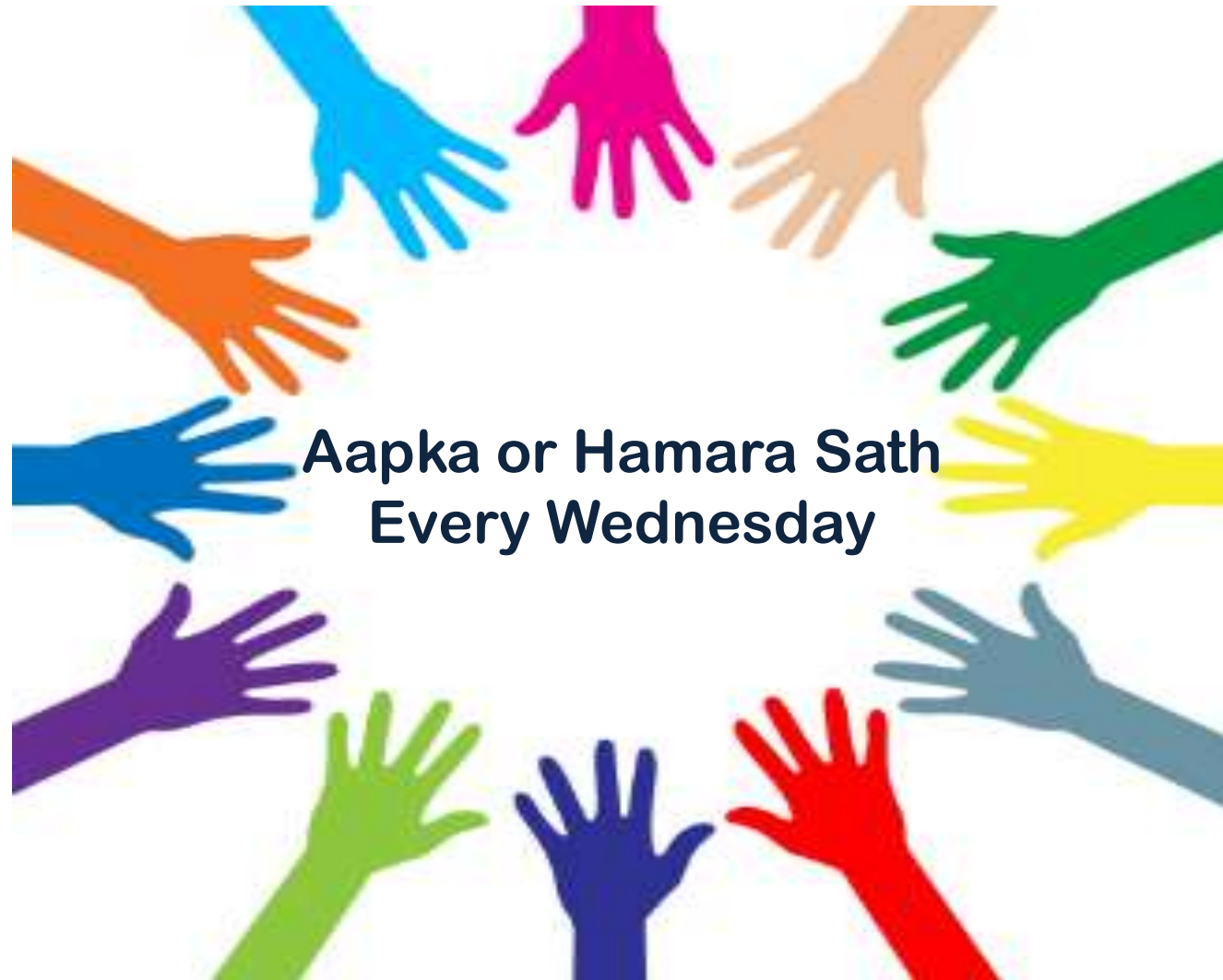


In the next part, we will **Trade Credit in SEZ/DTA/FTWZ, Reporting Requirements.**

**To be continued
next WEDNESDAY...**



Thank You



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Comments

Feedbacks

Suggestions



<https://in.linkedin.com/company/jsoca>

WEBSITE

<https://jainshrimal.com/>



International Tax Gyan
WhatsApp group



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