

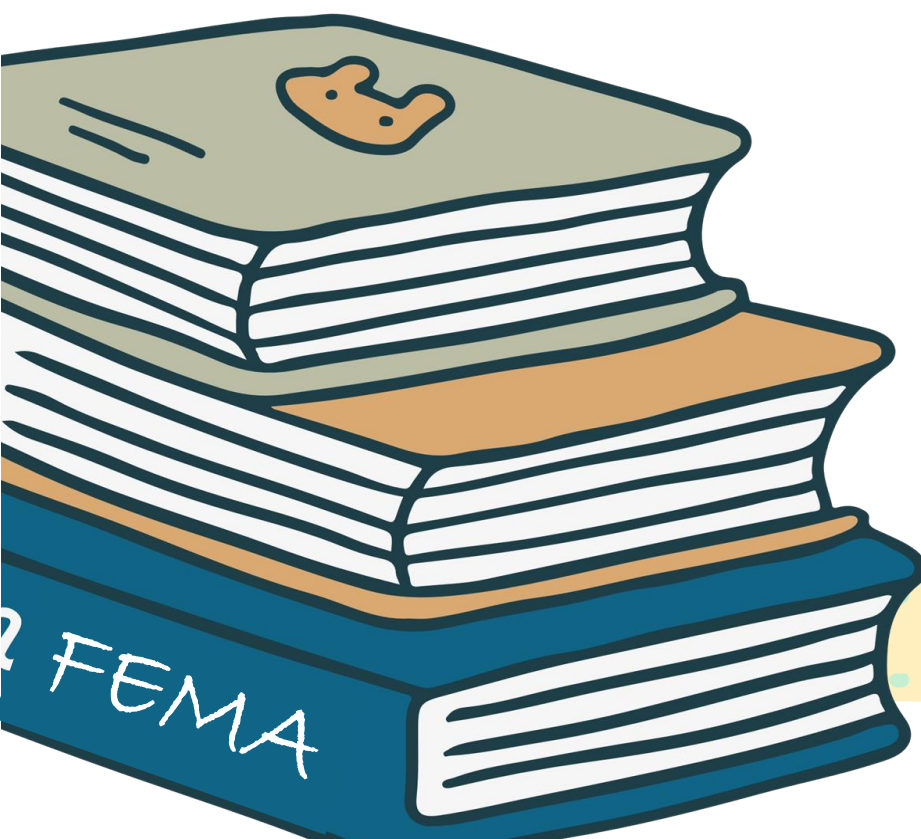
FEMA Ke Fundae

#FamiliarwithFEMA

Merchanting
trade
transactions

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Issue no: 137

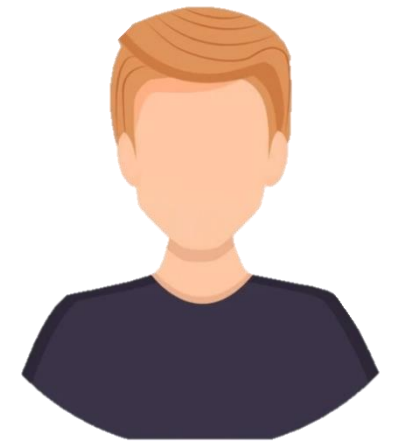




**Rohan
(Director)**

Hello Mr. FEMA Gyani, I'm Rohan, the director of Kapoor Pvt. Ltd., a company that trades in industrial goods, including steel. We will be procuring goods from a Chinese manufacturer and then selling them to a European buyer. Could you help us understand the rules and guidelines for this transaction under FEMA?

Absolutely! This is the concept of merchant trading, where goods are traded between an overseas buyer and seller without physically entering India. In this scenario, your entity, Kapoor Pvt. Ltd., acts as an intermediary in such transactions.

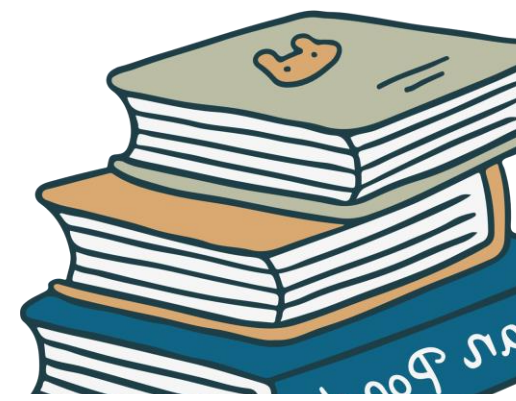


The FEMA Gyani

I understand. So, can we trade steel, and what are the goods that can be involved in these transactions?



**Rohan
(Director)**



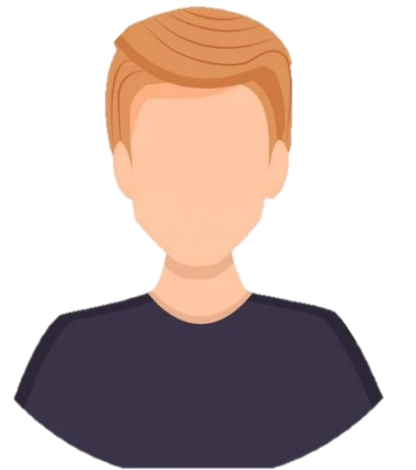
Yes, you can trade steel. However, the goods involved in the transaction must be those that are permitted for export or import under the prevailing Foreign Trade Policy (FTP) at the time the contract is made.



**Rohan
(Director)**

The Foreign Trade Policy is a comprehensive policy developed by DGFT that sets guidelines and instructions regarding the import and export of goods in India. You can easily go through this policy by visiting the following link:

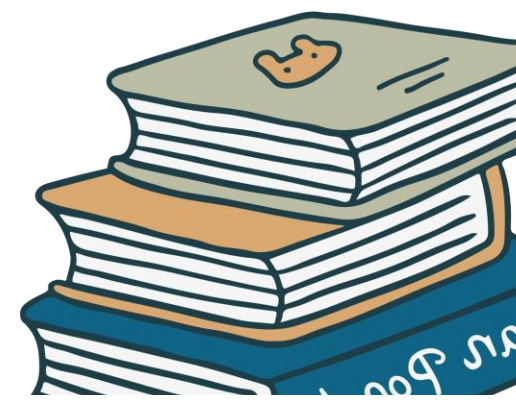
<https://www.dgft.gov.in/CP/?opt=ft-policy>.



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Okay, got it! So, can we conduct these types of transactions through our Indian banks?

Yes, both the export and import legs of the transaction must be routed through the same AD Category-I bank. The bank will be responsible for verifying the authenticity of documents such as invoices, packing lists, transport documents, and insurance documents to ensure that the transaction is legitimate.





**Rohan
(Director)**

Great information! So, what is the timeline within which these types of transactions need to be completed?

The entire transaction must be completed within 9 months, from the date of commencement to completion. Additionally, your foreign exchange outlay—i.e., the import payment and export receipt—should not exceed 4 months.



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Commencement and Completion Date

Commencement of the transaction is the **earlier** of:

1. The **shipment date**,
2. The **receipt of export payment**, or
3. The **payment for import**.

Completion of the transaction is the **later** of:

1. The **shipment date**,
2. The **receipt of export payment**, or
3. The **payment for import**.





**Rohan
(Director)**

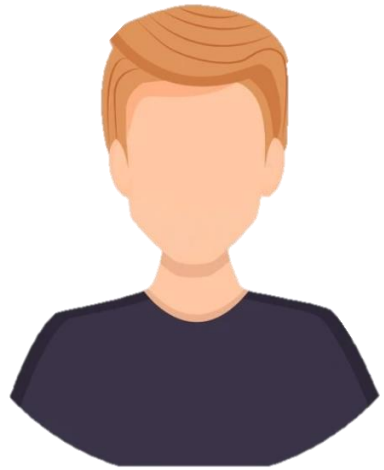
Okay, got it. So, what credit facilities are available to us to fund these transactions?

You can use short-term credit for merchant trading transactions. This credit can be in the form of either supplier's credit or buyer's credit. It is available for merchanting or intermediary trade transactions, including the discounting of export leg LCs by an AD bank, similar to import transactions

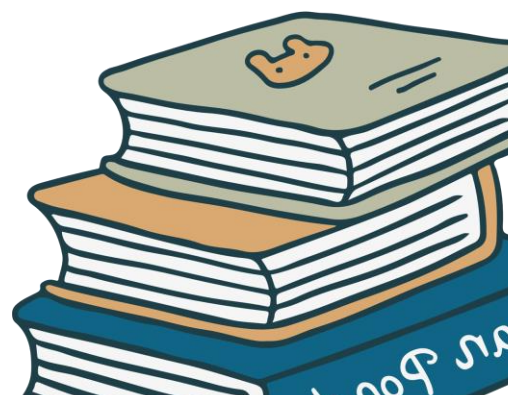
Okay, understood. What are the points we should keep in mind before entering into such transactions?



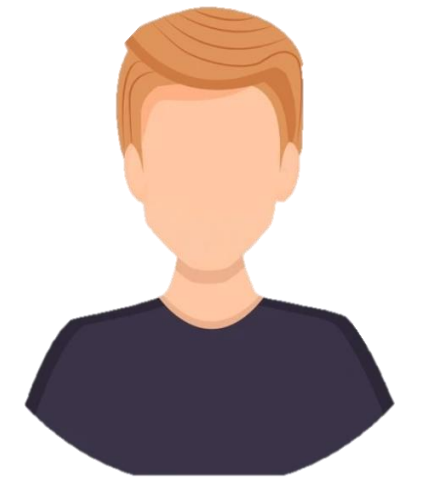
**Rohan
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☐ Sure, here are the key points you should be aware of regarding merchanting transactions:



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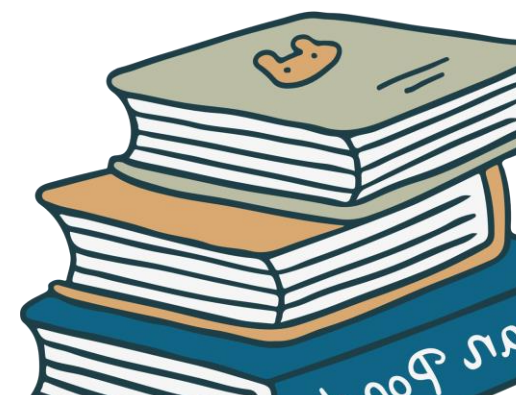
1. You must be a genuine trader of goods, not just a financial intermediary.

1. The inward remittance from the overseas buyer should preferably be received first, with the outward remittance to the overseas supplier made subsequently.

1. Your AD bank will need to ensure one-to-one matching for each merchanting or intermediary trade transaction.

1. The AD bank is required to report any defaults in the transaction legs to the concerned Regional Office of the RBI on a half-yearly basis.

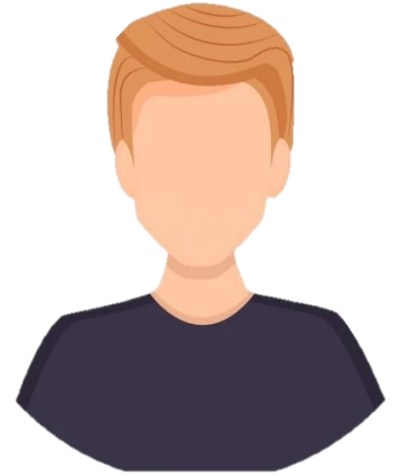
1. In the case of repeated defaults (three or more in a year), the ADs will prevent you from entering into further merchanting or intermediary trade transactions.





**Rohan
(Director)**

Great! What if we receive an advance against merchanting trade, and how can we use this advance?



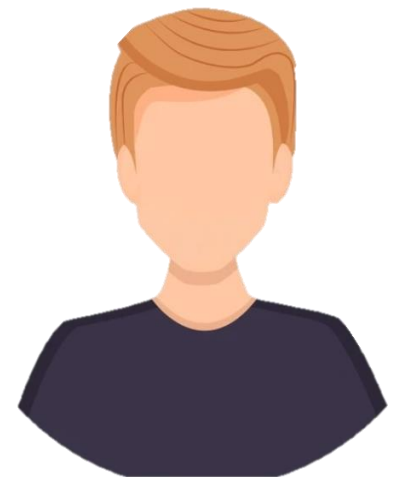
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Yes, you can receive an advance. If an advance payment is received against the export leg, it should be kept in a separate deposit or current account, either in foreign currency or Indian Rupees.

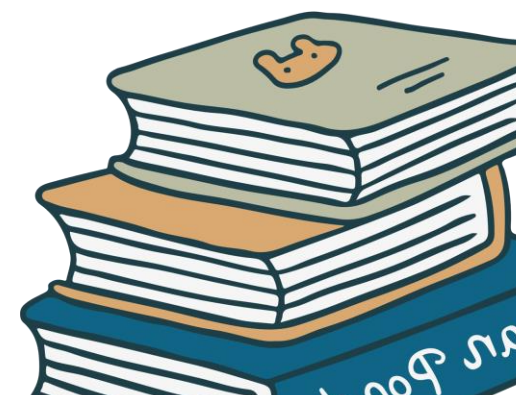


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(Director)**

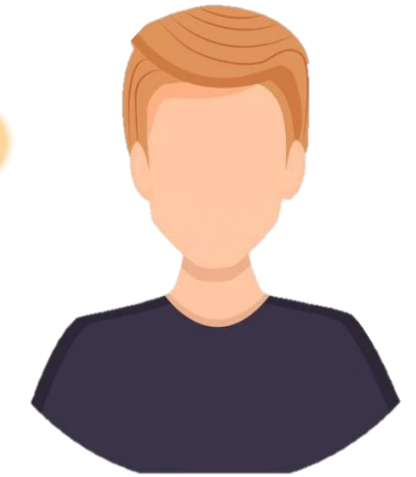
Sounds good. Now, where do we need to report these types of transactions?



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Merchant trading transactions need to be reported in the R-Return on a gross basis under the Foreign Exchange Transactions Electronic Reporting System (FETERS) by AD Bank under the following purpose codes :



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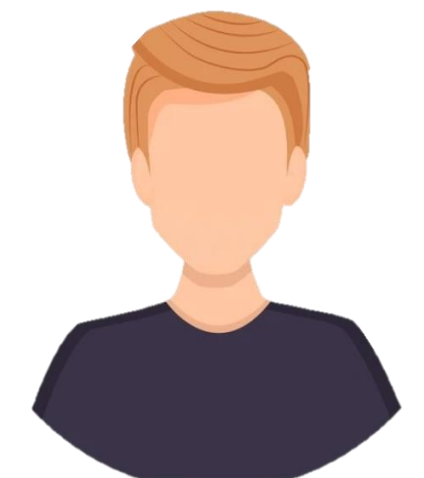
•**Export Leg Code:**
•**P0108** – Goods sold under merchanting or receipt against export leg of merchanting trade.

•**Import Leg Code:**
•**S0108** – Goods acquired under merchanting or payment against import leg of merchanting trade.



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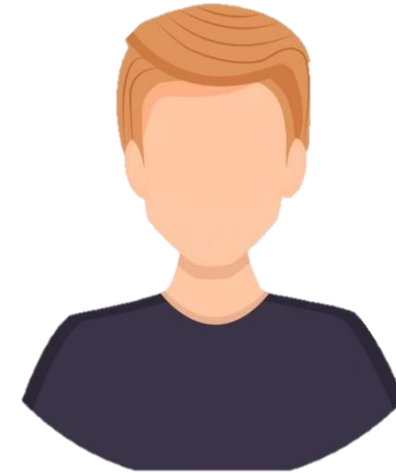
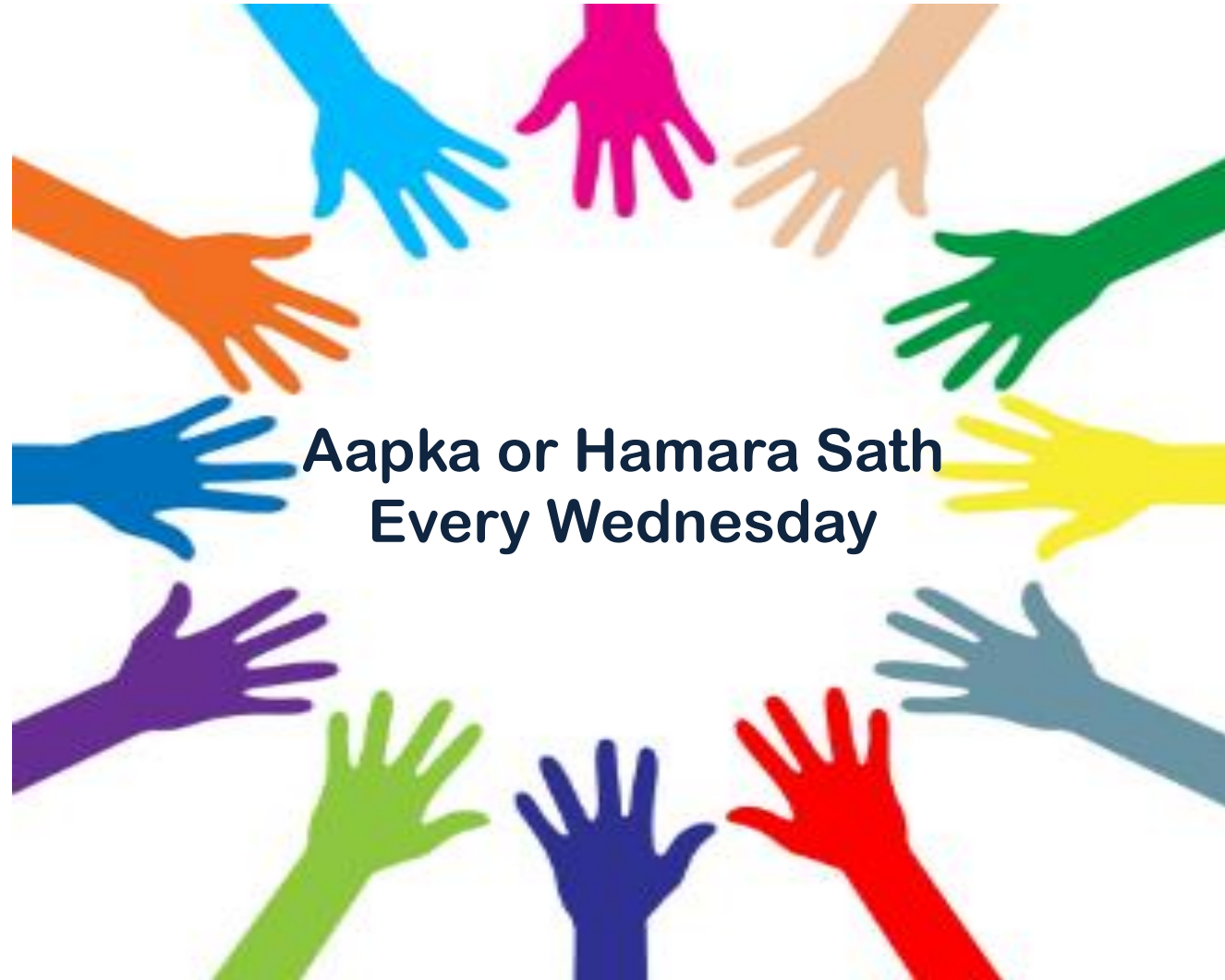
Thankyou so much for helping me understand these guidelines.



The FEMA Gyani

I'm happy I could assist you, Rohan!

Thank You



The FEMA Gyani

Comments

Feedbacks

Suggestions



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

WEBSITE

<https://jainshrimal.com/>



International Tax Gyan   
WhatsApp group



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