

Recommended Models

Taking into account the specifics of current regulatory frameworks in India and Russia and in light of the existing settlement mechanisms in place, we propose to recommend the following models which could be used by eligible banks for settlement of trade between India and Russia.

In Russian regulatory framework the term “eligible bank” corresponds to the term “licensed bank”, which means a credit institution, created in accordance with Russian legislation, which can carry out banking operations by virtue of the license provided by the Central Bank of the Russian Federation. Vnesheconombank as a state corporation has a special status and is also considered as an “eligible bank” for the purpose of this Report.

In Indian regulatory framework the term “eligible bank” corresponds to the term “Authorized Dealer banks” as defined in Section 10 (1) of the Foreign Exchange Management Act (FEMA), 1999.

Recommended Model I

Separate Nostro accounts should be maintained by the eligible banks in India with the eligible banks in Russia for the purpose of settlement of trade transactions under the mechanism. Exporters in Russia opting for this settlement mechanism would raise invoices in RUB; submit documents to one of the eligible banks (Indian or Russian) for negotiations to receive payment in RUB. Eligible banks in both countries would establish correspondent relations and will be permitted to hedge currency risk and extend trade credit to non-residents to the extent of the outstanding trade. This will prevent any built up of balances by non-residents and/or access to the domestic money and capital markets.

Similarly, eligible Russian banks (including the subsidiaries of Indian banks in Russia) will open VOSTRO accounts with the eligible banks in India (including branches of Russian banks in India if applicable) for the settlement of transactions under this Bilateral Trade mechanism. Exporters from India opting for this settlement mechanism would raise invoices in INR; submit documents to their local bank in India for negotiations. Importers in Russia will settle payment through their own eligible bank in Russia, which will deal with onward conversion and remittance of INR to Vostro account with banks in India. Alternatively importer's bank can also debit the importer's account

with RUB equivalent to the INR invoice amount and remit INR directly to exporter's bank in India through their correspondent bank in India, or their branch in India, or the branch of a Russian bank in India.

For export transactions from India, there will be no exchange transactions as invoice is denominated in INR. Accordingly, there will be no requirement of forward cover too. For import transactions by India, the existing exchange transaction mechanism will be adequate. On due date, payment will be effected by debiting equivalent INR from the importer account and remitting RUB to Nostro accounts with Russian banks.

Eligible transactions:

- Export/Import transactions between two countries.
- Trade related transfer of funds for a resident/firm/corporate from one country to a resident/firm/corporate of another country.

Settlement:

(i) Exchange Rate: USD/RUB and USD/INR cross rates shall be applied to arrive at the RUB/INR exchange rate.

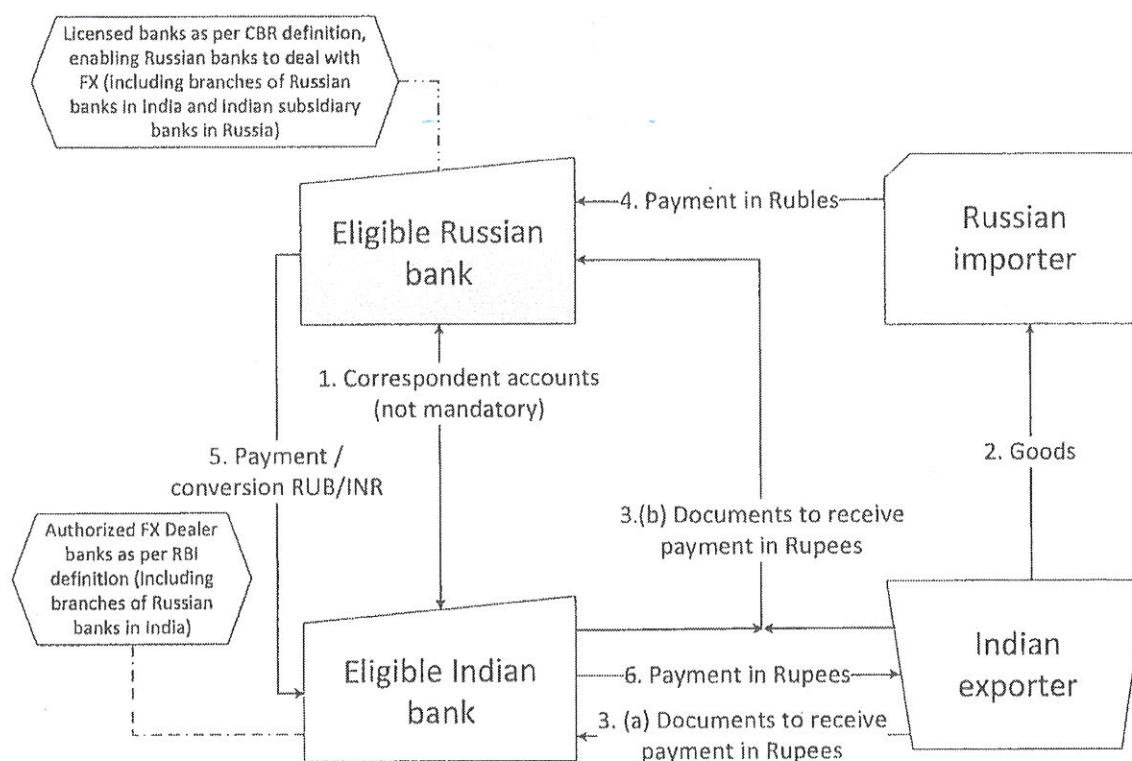
(ii) Export from India (Usance/Sight) - No exchange transactions is involved as contract/invoice is denominated in INR. No forward cover is required to be booked by exporter.

(iii) Import in India (Usance/Sight) - Exchange transaction mechanism will remain the same as is followed presently in case of any other freely convertible currency. Exchange rate for RUB/INR may be obtained by the branch from their treasury for sight/forward contract payment. On due date, payment will be effected by debiting equivalent INR from importer account and remitting RUB to the Indian bank's a/c proposed with the Russian bank.

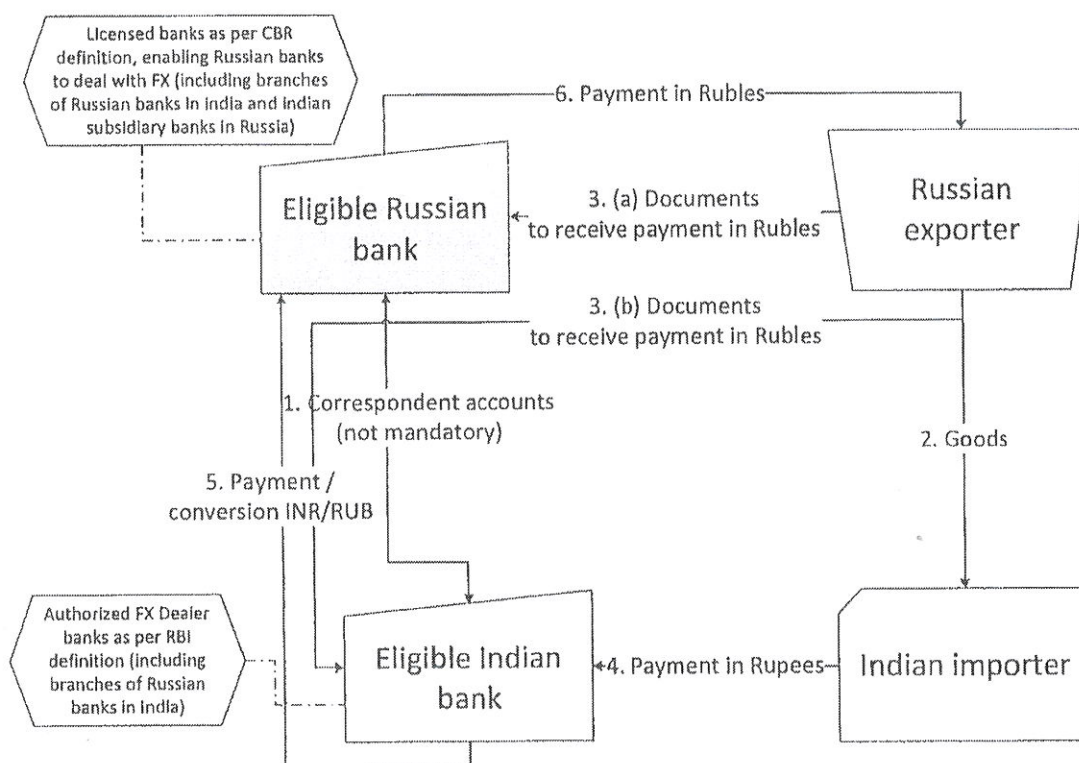
The arrangement may be limited for short term (up to 360 days) trade transactions, to begin with.

It is believed that an "at par" trade balance would facilitate successful implementation of the model in the long run.

Recommended Model I (1): Indian export to Russia



Recommended Model I (2): Russian export to India



Recommended Model II

Russian exporters opting for the settlement mechanism would raise invoices in RUB. They submit documents to their eligible Russian bank for negotiations to receive payment in RUB or submit documents for negotiations to their eligible Russian bank who can obtain reimbursement from the eligible Indian bank. Eligible banks in both countries would establish correspondent relations; eligible banks in India will be permitted to hedge currency risk.

All import payments outbound from India can be remitted in INR to the account of the eligible bank in India with RBI.

Then, there are two options:

- 1) Eligible Russian banks already have VOSTRO accounts with the eligible Indian bank in Rouble and in other currencies and are therefore not required to open VOSTRO accounts overseas for the settlement of transactions under the proposed mechanism.
- 2) Eligible Russian banks (including the subsidiaries of Indian banks in Russia) will open VOSTRO accounts with the eligible banks in India (including branches of Russian banks in India) for the settlement of transactions under the proposed mechanism.

Indian exporters opting for this settlement mechanism would raise invoices in INR; they would submit documents to their local bank in India for negotiations.

Russian importers will settle payment through their own eligible bank in Russia and pay RUB to one of the eligible banks in India for onward conversion and remittance of INR to exporter's accounts with banks in India. Alternatively importer's local bank may also debit the importer's account with RUB equivalent to the INR invoice amount and remit RUB amount to the eligible bank's Vostro account opened in the eligible bank in Russia that will make conversion and remit INR amount to exporter in India.

For export transactions from India, there will be no exchange transactions as invoice is denominated in INR. Accordingly, there will be no requirement of forward cover too. For import transactions by India, the existing exchange transaction mechanism will be adequate. On due date, payment will be effected by debiting equivalent INR from the importer account and remitting RUB to Nostro accounts with Russian banks.

Eligible transactions (same as in Model I):

- Export/Import transactions between two countries.
- Trade related transfer of funds for a resident/firm/corporate from one country to a resident/firm/corporate of another country.

Settlement (same as in Model I):

- (i) Exchange Rate: USD/RUB and USD/INR cross rates shall be applied to arrive at the RUB/INR exchange rate.
- (ii) Export from India (Usance/Sight) - No exchange transactions is involved as contract/invoice is denominated in INR. No forward cover is required to be booked by exporter.
- (iii) Import in India (Usance/Sight) - Exchange transaction mechanism will remain the same as is followed presently in case of any other freely convertible currency. Exchange rate for RUB/INR may be obtained by the branch from their treasury for sight/forward contract payment. On due date, payment will be effected by debiting equivalent INR from importer account and remitting RUB to the Indian bank's a/c proposed with the Russian bank.

The benefit of this model is that local Indian banks (i.e. banks not having presence abroad) would be dealing with the eligible banks in India via secure RTGS network, where transaction would be settled using the eligible bank's INR account with RBI. Therefore, there is no need to engage into a lengthy procedure of opening NOSTRO accounts in RUB with the eligible banks in Russia. Similarly, all of the eligible banks in Russia use a robust RUB settlement mechanism operated by the Bank of Russia, and already have bilateral NOSTRO/VOSTRO accounts with each other and bilateral settlement limits in place.

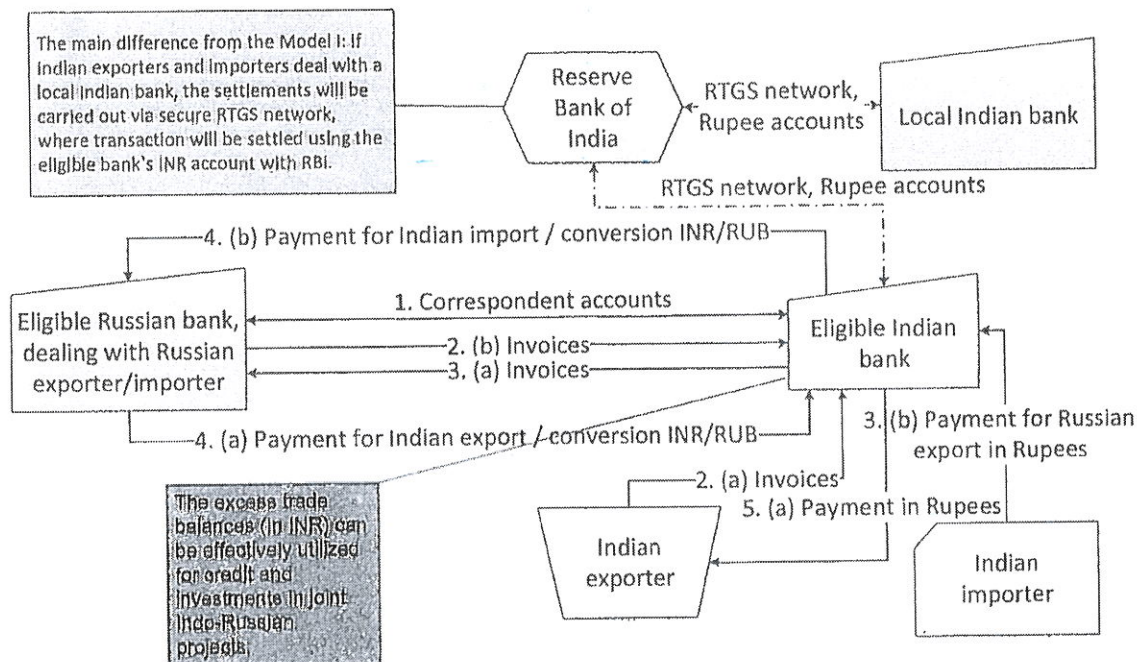
The other important benefits are:

- 1) Currency risk is minimized by using a tight payment window;
- 2) The model is universal and can accommodate any currency remittance in addition to national currencies, depending on compliance and other regulatory issues;
- 3) The excess trade balances (in INR) can be effectively utilized for credit and investments in joint Indo-Russian projects.

At the initial stage, the arrangement may be limited for short-term (up to 360 days) trade transactions.

Similarly to Model I, it is believed that an "at par" trade balance would facilitate successful implementation of the model in the long run.

Recommended Model II



Settlements in specific cases where the currency of payment differs from the currency of the contract

In cases where the participants of trade desire to effect and receive payments in the currency different from the currency of the contract, the relevant changes in the contracts should be introduced. If required by the national regulation, those changes should be approved by the authorized state agencies. Upon carrying out these procedures, the partners can further proceed with the settlement of the contract, using one of the above models if they wish so.

Резюме доклада совместной российско-индийской рабочей группы по расчетам в национальных валютах

Совместная российско-индийская рабочая группа по расчетам в национальных валютах была создана в рамках Российско-Индийской подкомиссии по банковским и финансовым вопросам. Ее целью было изучение возможностей расширения расчетов в национальных валютах и создание моделей, способных повлиять на взаимную торговлю России и Индии.

Рабочая группа изучила законодательства России и Индии и пришла к выводу, что текущие условия в целом не препятствуют развитию расчетов в национальных валютах. Некоторые предложения, например, о повышении информированности резидентов о возможностях использования рубля и рупии, были сформулированы и представлены в докладе.

Рабочая группа пришла к выводу, что, несмотря на определенный прогресс в развитии сотрудничества между российскими и индийскими коммерческими банками, необходимо и дальше усиленно развивать его. В силу того, что роль банков при осуществлении расчетов является ключевой, рабочая группа рекомендует им расширять взаимодействие.

Для достижения этой цели рабочая группа предлагает две модели расчетов в национальных валютах, которые основаны на существующей коммерческой практике и могут быть использованы заинтересованными российскими и индийскими банками и их клиентами. Эти модели разработаны в соответствии с национальными законодательствами, никаких регулятивных барьеров в их использовании нет. Рабочая группа отмечает, что модели не являются обязательными и могут модифицироваться любыми заинтересованными лицами.

Рабочая группа пришла к выводу, что при осуществлении расчетов по внешнеторговым контрактам выбор валюты делается участниками торговли. Факторы, препятствующие развитию расчетов в национальных валютах, например, волатильность обменного курса, носят временный характер, и в долгосрочной перспективе более широкое использование национальных валют приведет к развитию, диверсификации и балансировке взаимной торговли между Россией и Индией.