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.