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Analysing developments impacting business

DISCONTINUATION OF REPORTING OF NON-RESIDENT GUARANTEE FOR DOMESTIC FINANCING

28 June 2022 As a part of its ongoing endeavour to reduce compliance burden on regulated entities by, *inter alia*, removing redundant and repetitive filings and instructions, the Reserve Bank of India (RBI) on 9 June 2022 notified that authorised dealer category I banks (AD Banks) will not be required to file returns for guarantees availed and invoked from non-resident entities, with effect from the quarter ending June 2022. Accordingly, the Master Direction - External Commercial Borrowings, Trade Credits and Structured Obligations (ECB Directions) and Master Direction - Reporting under Foreign Exchange Management Act, 1999 (FEMA Reporting Directions) were updated on 9 June 2022 to reflect this change.

Background

The RBI had set up the Regulations Review Authority initially in April 1999 to review the extant regulations and notifications and reporting mechanisms on the basis of the feedback received from stakeholders, public, banks and other financial institutions. In light of the effectiveness of the recommendations of the initial Regulations Review Authority, the RBI set up another regulations review authority under the leadership of M. Ranjeshwar Rao, the deputy governor (RRA 2.0) for a period of 1 year from 1 May 2021. The primary focus of RRA 2.0 was to streamline regulatory instructions, reduce compliance burden of the regulated entities by simplifying procedures and reducing reporting requirements, wherever possible. The RRA 2.0 set up an Advisory Group under the chairmanship of Swaminathan J., Managing Director, State Bank of India.

Basis the extensive discussions between RRA 2.0, the Advisory Group, internal and external stakeholders, the RRA 2.0, as a part of its first set of recommendations recommended withdrawal of 150 circulars in November 2021 which was followed by a second set of recommendations in February 2022, being withdrawal of 100 circulars. To implement some of the above-mentioned recommendations of RRA 2.0, on the same day, RBI proposed to discontinue the return named 'Details of guarantee availed and invoked of from non-resident entities' (Overseas Guarantee Return) which dealt with reporting by authorised dealer banks of non-resident guarantees for fund based and non-fund based facilities (such as letters of credit/guarantees/letter of undertaking/letter of comfort) entered into between two persons resident in India.

In relation to the above, RBI has finally discontinued the Overseas Guarantee Return from the quarter ending June 2022 and amended the ECB Directions and FEMA Reporting Directions, accordingly.

Amendments to ECB Directions

Part III (Structured Obligations) of the ECB Directions have been amended to discontinue the quarterly reporting requirements from the AD Banks of the details of guarantees availed of/ invoked, by all its branches. These details of guarantees were required to be furnished to the RBI in the format specified by RBI under the FEMA Reporting Directions.

Amendments to Reporting Directions

The contents of Part X (Guarantees) and Annexure I of Part X of FEMA Reporting Directions which provided the format for Overseas Guarantee Return have been deleted/discontinued.

Comment

As on date, the stakeholders are required to make hundreds of filings/ reportings to various departments of the RBI which becomes a cumbersome exercise for the stakeholders. Due to evolution of the regulatory landscape in the past two decades, there has been much overlap/ redundancy of such regulatory filings and reportings. Simplification and streamlining the various regulatory filings and doing away with redundant and repetitive procedures was the need of the hour. In this context, the initiatives undertaken by RRA 2.0 is welcomed. Further, the gradual inclination towards online filings instead of paper/ email based returns is also in the interest of ease of doing business and ensuring timely regulatory compliance is achieved.

We expect more such changes to be introduced in the future, with one governmental portal purely dedicated to compliance and reporting.

- *Rolwine Alva (Partner); Jessica Gandhi (Principal Associate) and Manas Pandey (Senior Associate)*

For any queries please contact: editors@khaitanco.com

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