



RESERVE BANK OF INDIA
Foreign Exchange Department
Central Office
Mumbai - 400 001

RBI/2014-15/387

A.P. (DIR Series) Circular No. 56

January 6, 2015

To

All Authorised Dealer Category - I Banks

Madam /Sir

Non-resident guarantee for non-fund based facilities entered between two resident entities

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to [A. P. \(DIR Series\) Circular No. 20 dated August 29, 2012](#) in terms of which non-resident guarantee for non-funded facilities such as Letters of Credit/guarantees/Letters of Undertaking (LoU) /Letter of Comfort (LoC) entered between two persons resident in India is allowed under the general permission route.

2. It is clarified that under the provisions of aforesaid Circular, residents that are subsidiaries of multinational companies can also hedge their foreign currency exposure through permissible derivative contracts executed with an AD Category – I bank in India on the strength of guarantee of its non-resident group entity. The method of discharge of liability by the non-resident guarantor under the guarantee and the subsequent repayment of the liability by the principal debtor shall continue to be governed, as hitherto, by the provisions of [A.P. \(DIR Series\) Circular No. 28 dated March 30, 2001](#).

3. AD Category-I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

4. The directions contained in this circular have been issued under sections 10(4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully

B. P. Kanungo
Principal Chief General Manager