

## **6.1 Definition of Foreign Exchange:**

Foreign Exchange is a process which is converted one national currency into another and transferred money from one country to other countries.

According to Mr. E. Evitt. “Foreign Exchange is that section of economic science which deals with the means and method by which right to wealth in one country's currency are converted into rights to wealth in terms of another country's currency. It involved the investigation of the method by which the currency of one country is exchanged for that of another, the causes which rendered such exchange necessary the forms which exchange may take and the ratio or equivalent values at which such exchanges are effected. Foreign exchange is the rate of exchange in the both country's currency.”

### **► Foreign Trade and Foreign Exchange:**

International trade refers to trade between the residents of two different countries. Each country functions as a sovereign State with its set of regulations and currency. The difference in the national of the exporter and the importer presents certain peculiar problems in the conduct of international trade and settlement of the transactions arising there from. Important among such problems are:

- Different countries have different monetary units.
- Restrictions imposed by countries on import and export of goods.
- Restrictions imposed by nations on payment from and into their countries.
- Differences in legal practices in different countries.

### **► Principles of Foreign Exchange**

The following principles are involved in Foreign exchange:

- (i) The entire system.
- (ii) The media used
- (iii) The monetary unit.

► **Foreign exchange means foreign currency and includes:**

- All deposits, credits and balances payable in any foreign currency and any drafts, travelers cheques, letters of credit and bills of exchange, expressed or drawn in Indian currency but payable in any foreign currency.
  
- Any instrument payable, at the option of the drawer or holder thereof or any other party thereto. Either in Indian currency or in another foreign currency or partly in two different foreign currency. Thus, foreign exchange includes foreign currency; balances kept abroad and instruments payable in foreign currency.

## **6.2 Importance of Foreign Exchange Business:**

The term foreign exchange has different connotations in different contexts. Sometimes it is referred to as the process of conversion of one currency into another, sometimes as the process of transferring money from one country to another. In Bangladesh it has a legal definition too. In terms of Section 2(d) of the F.E.R. Act, 1947, as adapted in Bangladesh, 'foreign exchange' means foreign currency and includes instruments expressed in foreign exchange, all deposits, credits and balances payable in foreign currency as well as foreign currency instruments such as draft, TC, bills of exchange, promissory note and letter of credit payable in any foreign currency.

Bangladesh earns foreign exchange mainly through export of goods and services. Remittances of Bangladesh nationals working abroad, commonly known as wage earners, are also important sources of foreign exchange. Foreign Exchange is also earned from aids, grants and credits from donors. Foreign exchange is used for settlement of international payments for import of goods, freight charges, insurance, banking, debt servicing, travel and education etc.

### **6.3 Function of Foreign Exchange Division:**

The Bank acts as a media for the system of foreign exchange policy. For this reason, the employee who is related of the bank to foreign exchange, specially foreign business should have knowledge of these following functions :-

- Rate of exchange.
- How the rate of exchange works.
- Forward and spot rate.
- Methods of quoting exchange rate.
- Premium and discount.
- Risk of exchange rate.
- Causes of exchange rate.
- Exchange control.
- Convertibility.
- Exchange position.
- Intervention money.
- Foreign exchange transaction.
- Foreign exchange trading.
- Export and import letter of credit.
- Non-commercial letter of trade.
- Financing of foreign trade.
- Nature and function of foreign exchange market.
- Rules and Regulation used in foreign trade.
- Exchange Arithmetic.

#### **6.4 Purpose of the Manual:**

This manual incorporates the general environment, international and domestic customs and practices and prevalent exchange control regulations as well as the system of monitoring, reporting and recording of entries arising from day to day foreign exchange transactions. The staff working in the foreign exchange departments of the Head Office and branch level should read these instructions carefully.

This manual has been prepared by Shahjalal Islami Bank Limited for exclusive use of its staff in the International and Foreign Exchange Departments. It or its contents should not be made available to outsiders including staff of other Departments unless authorized by the Competent Authority.

#### **6.5 Foreign Exchange Market:**

The world foreign exchange market is very big and getting bigger every day in tandem with the growth of cross border trade and investment. Within a space of only 50 years world exports have recorded a phenomenal growth from \$57.2 billion in 1950 to nearly 6,000 billion at the turn of the century. Simultaneously, turnover in the world foreign exchange market has reached a staggering number of nearly \$ 1500 billion per day.

On the global scale, Bangladesh's performance in the field of foreign trade and foreign exchange is very small. The picture is none-the-less getting better. The country's exports are growing at an encouraging pace. Bangladesh workers abroad send around \$2 billion each year. The growth in foreign trade and remittances has had its impacts on the foreign exchange market. Buoyed by liberalization of exchange control by Bangladesh Bank the newly emerging foreign exchange market grew at a rapid pace-- from \$1 billion in 1994 to nearly \$30 billion in 2000. The growing market reflects diversification of foreign exchange transactions and the depth. Shahjalal Islami Bank should work towards carving a niche for itself in this market through a sustained programmed of training, motivation and operational flexibility.

## **6.6 Operation in the Foreign Exchange Market:**

Compared to the quietness that featured foreign exchange market in the early nineties, banks are now increasingly taking recourse to the inter-bank foreign exchange market to meet their needs: buying, selling and switching of currencies and covering the risks.

Bangladesh Bank now deals only in US dollar within a fixed band around its buying and selling rates. Banks in the market naturally operate at finer than Bangladesh Bank's rates. Unless the weight of market demand or supply on a particular date pushes the rates to a level that coincide with that of the central bank, Shahjalal Islami Bank should operate in the inter-bank market to cushion the shortfall or unload the excess foreign currencies.

Operation in the market is overseen by an inter bank committee known as Bangladesh Foreign Exchange Dealers Association (BAFEDA). The Association has prepared a code of conduct setting out elaborate rules and procedures governing quotations, delivery, value dates, confirmations etc. Officials responsible for operation in the inter-bank market should carefully follow the codes and other practices to avoid possible complications or disputes.

## **6.7 Exchange and Trade Controls:**

An important feature of foreign exchange business in Bangladesh is operation of exchange control administered by Bangladesh Bank under the Foreign Exchange Regulation Act, 1947. This Act empowers Bangladesh Bank to oversee the operation of foreign exchange business by banks and other entities. Although some of the restrictive measures have either been lifted or eased, Bangladesh Bank's instructions, rules and regulations still govern the entire gamut of foreign exchange transactions. The staff of the bank should carefully read the 'Guidelines for Foreign Exchange Transactions' issued by Bangladesh Bank and keep themselves abreast of changes made from time to time through Foreign Exchange Circulars and Notifications.

Bangladesh Bank has Foreign Exchange Departments in its offices at Dhaka, Chittagong, Khulna, Rajshahi, Rangpur, Barisal, Sylhet and Bogra. Shahjalal Islami Bank's branches located within the jurisdiction of the relevant offices are normally required to deal with and report their foreign exchange transactions to that office.

In addition to exchange control, the staff would need to cope with a variety of rules, regulations, acts and edicts while performing their day-to-day work. Of them, important ones are Import and Export Policies of Government of Bangladesh, Income Tax laws, Company Laws, Negotiable Instruments Act.1881, Sale of Goods Act, Law of Contracts, Anti Money Laundering Act etc. The International Division and Foreign Exchange Departments should equip themselves with these reference books along with other textbooks and materials dealing with foreign exchange operation.

### **6.8 Dealing with Banks Abroad:**

The name 'bank' does not necessarily always imply impeccable integrity and financial soundness. In many countries, especially in Africa, Latin America and Eastern Europe some of their banks are known to be not meticulous in honoring their commitments. The bank staff should be cautious in dealing with the banks of these countries. A quick glance over reference books like Bankers' Almanac would provide valuable hints about these banks when dealing with letters of credit and guarantees issued by them. In case of doubts it might be necessary to ask the customers to have their LCs and guarantees confirmed by what are known as first class international banks.

## **6.9 Dealing with the Client:**

### **6.9.1 Relationship Building:**

Relationship building, personalized services and professional efficiency would be key to building up a satisfied group of clientele. The staff should constantly address the special needs of the customers. Bank should normally deal with known customers having accounts with the branch or another branch of the bank. However, the requirement of account relationship may be waived for release of foreign exchange for various kinds of travels and other miscellaneous remittances provided necessary papers are found to be prima facie genuine and sufficient.

### **6.9.2 Verification of Reputation and Credibility:**

The bank should carefully verify the antecedents and credibility of new customers approaching the bank for opening letters of credit, financing exports and issue of guarantees or similar obligations. Bangladesh Bank's Credit Information Bureau, business associations and the previous bankers of the customers would be useful sources of information about potential clients. Some times discreet personal inquiries would prove fruitful.

### **6.9.3 Maintenance of Records:**

Branches will maintain systematic records of transactions with the customers, preferably in hard discs with backups so that these can be retrieved as and when necessary.

### **6.9.4 Handling of Notes, Drafts, and TCs etc.:**

The staff should familiarize themselves with the technique for verifying genuineness of the foreign exchange instruments presented by the clients. International Division would equip the branches with descriptive literature and implements now used at the international level for detection of forgery and counterfeiting. ICC Publication relating to Fraud and forgeries should be provided by the ID to the branches for getting acquainted with the latest techniques and procedures.

### 6.9.5 Compliance with Prevalent Laws and regulations:

The staff must acquaint themselves with prevailing laws, regulations, customs, and practices with regard to various types of transactions with the customers.

### ● Services Provided by Foreign Exchange Department of SJIBL

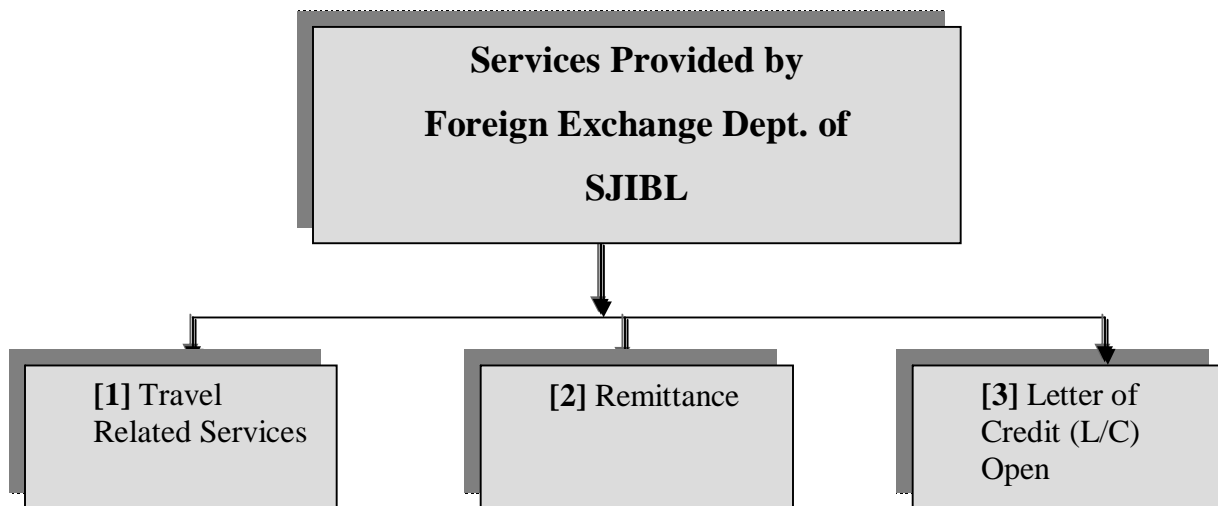


Figure 6.1: Services in Foreign Exchange Department of SJIBL.

## 6.10 Travel Related Services:

### 6.10.1 General Principles

There would be a large number of customers-- regular as well as casual-- coming to the bank to buy foreign exchange for travel abroad on various purposes. The branches would attend to these customers with special care. Bangladesh Bank has delegated authority to the Authorized Dealers in Foreign Exchange to release foreign currency for travel abroad. In certain cases, especially where the applicants require more than the prescribed foreign exchange quota, Bangladesh Bank's special approvals would be necessary.

Foreign exchange released by the branch to a traveler should be recorded in his or her passport under the branch's stamp and signature. A similar endorsement should be made



in his or her ticket if the foreign exchange quota is claimed on the basis of air travel. However, foreign exchange sold to the diplomats/privileged persons/UN personnel, and Govt. officials traveling on official duties need not be endorsed in their passports. The branch should verify the air ticket in case of journey by air to ensure that it covers a journey to be undertaken within two weeks after the date on which exchange is issued. No exchange should be sold against tickets that do not specify the date of departure.

### **6.10.2 Travel Quota**

Up to US\$ 1000 or equivalent per person may be issued during a calendar year to Bangladesh nationals proceeding by air to destinations in SAARC member countries and Myanmar. Within this annual limit, up to \$ 500 or equivalent may be issued per person for overland travels to these countries. For visits to destinations in other countries foreign exchange up to \$ 3,000 per person may be issued during a calendar year.

In all cases, visa of the respective country must be produced if release of foreign currency of more than \$500 is required. Besides, an amount of only up to \$1500 may be released in the form of bank notes i.e. foreign currency notes. The balance or the entire amount may be issued in the form of TC or other forms of instruments.

Minors aged less than 12 years are entitled to have half of the adult quota. If a customer requires a higher amount of foreign exchange his application may be forwarded to the Bangladesh Bank along with documents, if any, produced by the client to support his claim for a higher quota.

### **6.10.3 Procedure for Release of Foreign Exchange Quota**

While selling foreign exchange the branch should verify and satisfy itself that the passenger had actually undertaken the visit abroad for which foreign exchange, if any, was released earlier. If he had not undertaken the visit the branch should see that unused foreign exchange was sold to an AD. The branch should ensure that the intending traveler is a client of the branch or is known too well to be satisfied about the bona fide of the applicant.

The intending traveler should produce a confirmed air ticket for journey to be undertaken in cases where the passenger wishes to avail of the quota prescribed for travel by air. The amount released should be endorsed in the passport and the air ticket (where applicable) of the traveler with indelible ink.

The signature and the name of the branch should be embossed in the passport and ticket. Photocopies of first six pages of the passport and the page recording endorsement of foreign exchange, and photocopies of the pages of ticket showing name of the passenger, route and date of journey and endorsement of foreign exchange along with the relative TM Form should be sent to Bangladesh Bank along with report of the transaction in the usual monthly returns.

#### **6.10.4 Medical Treatment Abroad**

All applications for release of foreign exchange for travel abroad on health ground should be submitted in the form at Appendix 5/58 of BB Guidelines for Foreign Exchange Transactions, 1996, in duplicate. Up to \$10,000 or equivalent may be released by the branch on the basis of a recommendation of the Medical Board set up by the Health Directorate; foreign exchange may be released as per the cost estimate given by the foreign medical institution. Applications for release of exchange exceeding \$10,000 should be forwarded along with supporting documents to Bangladesh Bank for prior approval.

#### **6.10.5 Travels by Government/Semi-Government Officials**

For official or semi-official visits abroad by the officials of Government and autonomous/semi-autonomous institutions etc, the branch may release foreign exchange as per entitlement of various categories of officials fixed by the Ministry of Finance from time to time. In such cases, the applicant for foreign exchange shall be required to submit the sanction letter and the competent authority's Order/Notification/Circular authorizing the travel.

## 6.11 Remittance

Foreign nationals who are resident in Bangladesh and have income in Bangladesh are permitted to make monthly remittances to the country of their domicile out of their current savings up to 50% of their net income to cover their commitments abroad. This remittance facility is not available to foreign born wives of Bangladesh nationals.

The branch that receives the pay cheques from the employer for credit of the personal account of the foreign national shall process and approve such remittance applications. A certificate of BB Guidelines for Foreign Exchange Transactions, 1996 along with TM Form and attested copy of the employment contract duly approved by the BOI or other relevant Government authority (renewed/revalidated up to date, where needed) should accompany the application.

### 6.11.1 Remittance of Sale Proceeds of Assets

Application for remittance of sale proceeds of real assets such as household articles and real estates should be forwarded to the Bangladesh Bank with the following documents/certificates:

Statement of sale proceeds realized in respect of locally purchased articles of value Tk. 500 or more mentioning:

- Description,
- Purchase price
- Date of purchase
- Date of sale, and
- Sale proceeds realized

Relative sale receipts or their certified true copies should be produced. A statement of sale proceeds realized in respect of articles imported/brought from abroad of value Tk. 500 or more mentioning (a) description, (b) landed cost in Bangladesh, (c) date of import,

(d) date of sale, (e) sale proceeds realized. Relative import documents and relative sale receipts or their certified true copies should be produced.

#### **6.11.2 Commercial Remittances**

- Outward Remittances
- Forms
- Freight and Passage Collections
- Charter of Foreign Ships
- Difference for Immediate Payment against Sight (usance) bills
- Documentation for Jute and Jute Goods
- Submission of Documents to Bangladesh Bank
- Claim Settlement under Marine Insurance Policies
- Marine Polices
- General Average Payments
- Opening of Branches or Subsidiary Companies Abroad
- Remittance of Royalty and Technical Fees
- Employment of Overseas Agents
- Disposal of Foreign Exchange on Return from Abroad
- Recon version of Unspent Foreign Exchange by Foreign Tourists

## **6.12 Letter of Credit (LC)**

### **6.12.1 Definition of LC**

On Behalf of the importer if the Bank undertakes to make payment to the foreign Bank is known as documentary credit or letter of credit. A letter of credit is an instrument issued by a bank to a customer placing at letter disposal such agreed sums in foreign currency as stipulated. An Importer is a country requests his bank to open a credit in foreign currency in favor of his exporter at a bank in the letters country. The letter of credit issued against payment of amount by the importer or against satisfactory security. The L/C authorizes the exporter to draw a draft under is terms and Sell to a specified bank in his country. He has to hand over the to the bank, will the bill of exchange, shipping documents and such other papers as may be agree upon between the exporter and the importer. The exporter is assured of his payment because of the credit while the importer is protected because documents is respect of exports of goods have to delivered by the exporter to the paying bank before the payment is made.

### **6.12.2 From of Letter of Credit**

A Letter of Credit (L/C) may be two forms. These as Below

- 1.** Revocable letter of credit
- 2.** Irrevocable letter of credit

#### **6.12.2.1 Revocable Letter of Credit L/C**

If any letter of credit can be amendment or change of any clause onoured by consent of the exporter and importer is known revocable letter of credit. A revocable letter of credit can be amended or onoured by the issuing bank at any time without prior notice beneficiary. It does not constitute a legally binding undertaking by the bank to make payment. Revocation is possible only until the issuing bank or correspondent has onoured the document. Thus a revocable credit does not usually provide adequate security for the beneficiary.

#### **6.12.2.2 Forms of Irrevocable, Confirmed Documentary Credit**

A documentary credit takes many different forms. The first decision i.e. the choice of the basic form of the credit is usually made at the time of negotiation between the seller and the buyer. The terms of the credit will be determined in detail when the buyer instructs his bank to issue the credit. At this stage the seller, on being informed by the bank regarding the credit terms, should ensure whether the credit terms are agreeable and, if necessary, demand from the buyer a more precise wording of the credit terms or the necessary amendments. It is in the interest of both the parties to the contract that the individual terms of the credit transaction are clearly and correctly stipulated. This facilitates the examination of the documents at the time of utilization.

#### **6.12.3 Obligation of the Issuing Bank**

Among the various types of credits, irrevocable credit is commonly used for international payments most of these credits are unconfirmed credits. Even though unconfirmed, the credit carries with it the assurance of the opening bank to make payment to the beneficiary. It is important to remember at the outset that payment should be made only if the documents are in absolute conformity with the required terms and that the bank has to decide on the basis of the documents alone. The Uniform Customs and Practice for Documentary Credits (UCP) of the International Chamber of Commerce in Paris defines this credit as follows:

**“An irrevocable Credit constitutes a definite undertaking of the Issuing Bank, provided that the stipulated documents are presented to the Nominated Bank or to the Issuing Bank and that the terms and conditions of the credit are complied with:”**

The UCP also provide the basis for judging the conformity of the documents. Article 4 of the UCP states:

**“In credit operations all parties concerned deal with documents, and not with goods, services and/or other performances to which the documents may relate.”**

The irrevocable, unconfirmed credit is a commonly used type of documentary credit. In Article 9 of the UCP, it is clearly pointed out that the issuing bank has the obligation to make payment, or according to the terms of the credit to accept drafts, or to be responsible for their payment at maturity. Once this commitment has been entered into, the bank cannot disown its responsibility without the agreement of the beneficiary. A unilateral amendment or cancellation, as in the case of a revocable credit, is not possible in case of irrevocable, unconfirmed credit.

Since under the documentary credit a debt relationship exists only between the issuing bank and the beneficiary, it is advisable to assess the issuing bank’s standing as well as the sovereign and transfer risks of the country involved.

In case of unconfirmed credits, it is important to know where the credit is available. If available with the issuing bank, the beneficiary assumes, in addition, the mailing risk associated with the delivery of the documents. The beneficiary must also realize that the deadlines for the delivery of the documents refer to the issuing bank mostly domiciled abroad. The situation is different when the issuing bank authorizes a correspondent bank in beneficiary’s country to honor the documents in its place. In this event, the nominated bank (bank of the beneficiary) can examine the documents and make payment or take them up for a deferred payment or acceptance of a draft. But the nominated bank is not obliged to do this and in particular it does not assume any obligation to pay by examining the documents. This is especially important in the case of deferred payment, because the

nominated bank may refuse to make payment even after the documents have been taken up and forwarded to the issuing bank. In addition, the nominated bank usually effects payments under unconfirmed credits on the condition that cover is received.

“Unless the Credit stipulates that it is available only with the Issuing Bank, all Credits must nominate the bank (the “Nominated Bank”) which is authorized to pay, to incur a deferred payment undertaking, to accept draft(s) or to negotiate. In a freely negotiable Credit, any bank is a Nominated Bank.... “ (Article 10b-i of the UCP)

#### 6.12.4 Flow of L/C at Shahjalal Islami Bank Ltd.

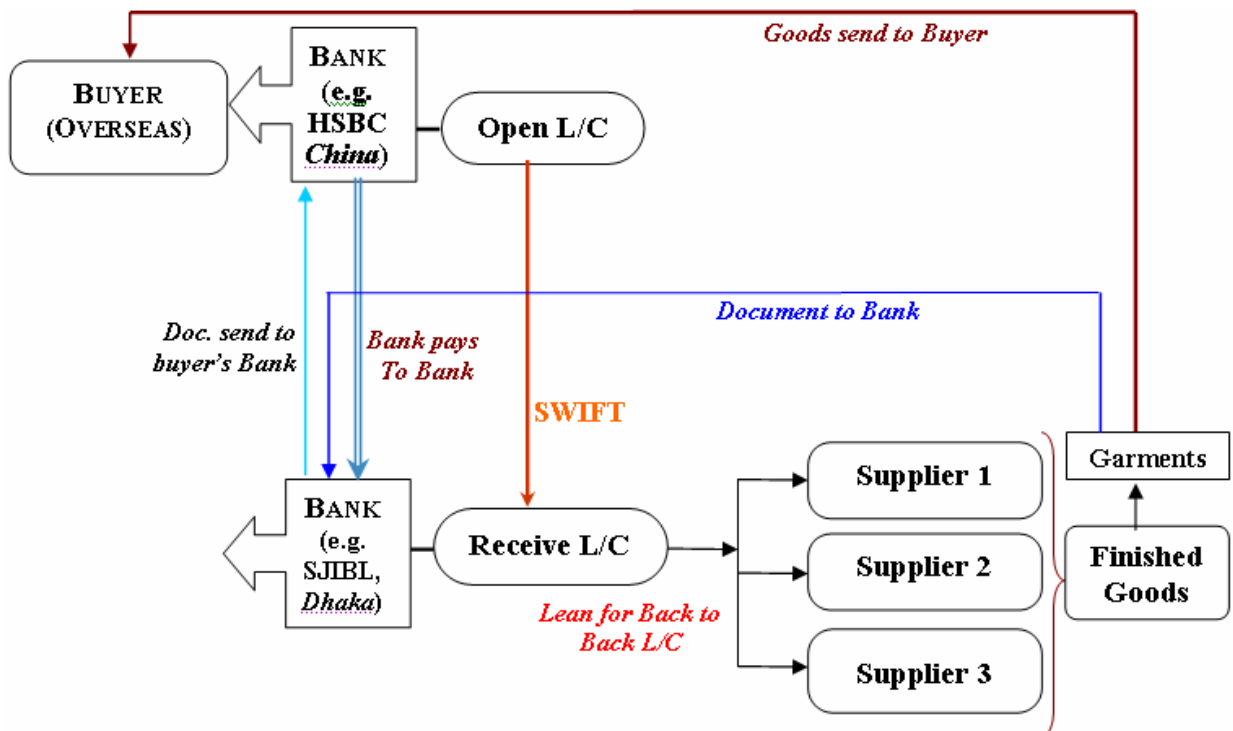


Figure 6.2: The Export Operation



### 6.12.5 Irrevocable, Confirmed Credit

“A confirmation of an irrevocable Credit by another bank (the “Confirming Bank”) upon the authorization or request of the Issuing Bank, constitutes a definite undertaking of the Confirming Bank, in addition to that of the Issuing Bank, “ (Article 9b of the UCP)

In the case of an irrevocable, confirmed credit, the beneficiary has two safety nets: one is the obligation assumed by the issuing bank and the other is that assumed by the confirming bank. However, before the latter assumes such an obligation, certain criteria must be fulfilled.

- The credit should be issued irrevocably.
- The credit must clearly instruct or authorize the correspondent bank to add its confirmation. (For example, the statement “We hereby issue our irrevocable confirmed documentary credit” does not suffice.)
- The credit must be available at the confirming bank.
- The contents of the credit must be unambiguous and should not contain any conditions that allow the buyer to prevent the terms of the credit from being fulfilled (so-called stop clauses).

On the basis of the above observation, if the branch receives a request from a bank abroad to add its confirmation, it should not automatically confirm the credit. It should carefully evaluate the creditworthiness of the issuing bank, as well as sovereign and transfer risks before it promises to pay on the basis of a confirmation. If the bank is not prepared to confirm the credit and unless the credit stipulates to the contrary, the bank can advise the credit as unconfirmed but it must inform the issuing bank immediately.

With a confirmed credit, the beneficiary may (but is not obliged to) rely solely on the bank that has assumed this commitment. If the bank in question is a first-rated bank in the beneficiary’s country, the beneficiary is relieved of the problem of any political and

transfer difficulties that may arise. The sovereign risk and the risks coupled with mailing the documents are also eliminated.

The confirmed credit offers a very high degree of security and it has still other advantages for the exporter. It may be used as a credit instrument in connection with transfer operations or for obtaining loans. In the case of a confirmed credit on a deferred payment basis, the bank may also be prepared under certain conditions to effect an early settlement less interest of its payment commitment.

#### **6.12.6 Deferred Payment and Suppliers Credit**

Import can be made on deferred payment basis or under supplier's credit as per the procedure prescribed by Bangladesh Bank.

#### **6.12.7 Remittance of Proceeds of Dishonoured Bills**

The branch should not remit the proceeds of bills in cases where the name of the Importer on the bill of exchange differs from that on the LCAF. As an exception, Where goods are imported on DP or DA basis or even under LC and the original Drawer dishonours the bill and the foreign shipper or his local agent finds

Another buyer for the goods, the branch may make the remittance without prior Permission of the Bangladesh Bank provided that the applicant-remitter is the Buyer of the goods and provided the remitter possesses a valid LCAF covering the import of the goods in question.

## 6.13 Miscellaneous

### ▶ Advance Remittance

Bangladesh Bank's permission is required for advance remittance for import of specialized or capital goods. Applications for approval in Form IMP should be submitted to Bangladesh Bank along with the exchange control copy of the LCAF, the contract in original (with a spare copy) entered into between the importer and the foreign supplier, and an undertaking as per Performa of BB Guidelines for Foreign Exchange Transactions, 1996 Bangladesh Bank does not consider application where the advance remittance applied for is more than one third of the total CFR value of the import.

Advance remittance up to US\$2,500 may, however, be made without Bangladesh Bank approval in favour of suppliers against their invoice for import of books, journals and life saving drugs. Cases where the goods against these remittances do not arrive in Bangladesh within due time should be reported to Bangladesh Bank.

### ▶ Loss of Goods

In the event goods are completely lost, duplicate copy of the IMP form should be forwarded to Bangladesh Bank giving full particulars of the loss and the manner in which the insurance claim has been collected. In the event of partial loss, exchange control copy of the customs Bill of Entry for the goods actually cleared should be submitted giving full particulars of the loss and the manner in which the insurance claim has been collected.

### ▶ Pre-shipment Inspection Fee

The branch may establish LC for pre-shipment inspection favouring internationally reputed pre-shipment inspection companies if the relative sale contracts or LC so stipulates, as per terms of contract entered into by the importer with the pre-shipment inspection companies. Remittances against such LCs for pre-shipment inspection may be affected on receipt of claims accompanied by the relative pre-shipment inspection report. These remittances should be approved and reported to Bangladesh Bank in TM forms.

### ► LC on Deferred Payment Basis

Subject to compliance with other conditions laid down in this chapter and the current IPO, import LCs may be opened on deferred payment (DA) basis in the follows cases:

- Capital machinery up to 360 days usance basis.
- Industrial raw materials for own use of industrial importers (including back-to-back imports discussed later in the section) on up to 180 days usance basis.
- Import of coastal vessels including oil tankers and ocean-going vessels including those procured for scrapping on up to 360 days usance basis.
- Import of agricultural implements and chemical fertilizer on up to 180 days basis.
- Import of life saving drugs on up to 90 days usance basis.

For import on deferred payment basis, the price must be internationally competitive and usance interest, if any, should not be higher than the LIBOR for the corresponding period or the rate prevailing in the currency of the country of the supplier.

Instructions regarding opening of import LCs on longer usance terms against supplier's credits arranged by industrial enterprise in the private sector as per general or specific BOI approval are contained in chapter 23 of the 'Guidelines for Foreign Exchange Transactions' of Bangladesh Bank.

### ► Discrepant Documents

If the scrutiny of documents by negotiating bank abroad reveals any discrepancy, it will send a telex or fax to the branch inquiring whether they can make payment to the beneficiary in spite of the discrepancies. If the answer is in the negative, the negotiating bank will send the documents on collection basis to the branch that should check with the importer whether the documents are acceptable. After the importer i.e. applicant for the credit has given his consent, the documents will be released to him on payment or acceptance of the bill, as the case may be. If, on the other hand, the importer refuses to accept the documents on account of discrepancies detected either by the correspondent bank or the branch, it should immediately advise the negotiating bank by cable, telex or fax for instructions with regard to disposal of the goods and the documents.

The branch may allow remittance against discrepant documents received directly by the importers after the goods have been cleared from the customs on the basis of the relative LCAF, the exchange control copy of the customs bill of entry for consumption and customs certified invoice in the case of import by post, and the relative invoices.

## **6.14 Back to Back Letter of Credit (LC s)**

### **6.14.1 General**

The branch may open back-to-back import LCs against export LCs received by export oriented industrial units operating under the bonded warehouse system, subject to observance of domestic value addition requirement (stated in terms of permissible limit of CFR value of imported inputs as percentage of FOB export value of output) prescribed by the Ministry of Commerce from time to time.

### **6.14.2 Opening of Back-to-back Import LCs**

In addition to the general instructions in the foregoing sections, the following instructions should be complied with while opening back-to-back import LCs:

- Only recognized export oriented industrial units operating under bonded warehouse system will be allowed the back-to-back LC facility. The unit requesting this facility should possess valid registration with the CCI&E and valid bonded warehouse license.
- The master export LC (against which opening of back-to-back LC is requested) should have validity period adequate to cover the time needed for import of inputs, manufactures of merchandise, and shipment to the consignee.
- The back-to-back LC value shall not exceed the admissible percentage of net FOB value of the relative master export LC (as per prescribed value addition requirement). For computation of net FOB value of a master export LC, the freight charge, insurance cost and commission, if payable by the exporter, shall be deducted from the LC value. If the freight element is not shown separately, a certificate from the shipping company or the shipping agent should be asked for.

The back-to-back import LCs shall be opened for up to 180 days usance (DA) basis except in case of those opened against Export Development Fund (EDF) administered by the Department of Banking Operation and Development of Bangladesh Bank. In the latter case the back-to-back LC will be opened on sight basis). Profit for the usance period shall not exceed LIBOR or the equivalent profit rate in the currency of settlement.

All amendments to the master export LC should be recorded carefully to rule out chances of incurring excess obligation under the back-to-back import LC.

Back-to-back import LC shall contain condition of pre-shipment inspection by an internationally reputed inspection firm regarding quality and quantity of the merchandise.

Inland back to back LCs denominated in foreign currency may be opened in favour of local manufacturer-cum-suppliers of inputs against master export LCs received by export oriented manufacturing units operating under the bonded warehouse system up to value limits applicable as per prescribed value addition requirement/utilization permit.

Back-to-back LC may in turn be opened for import of necessary inputs, against inland back-to-back LC in favour of local manufacturer cum-supplier operating under the bonded warehouse system, in accordance with the instructions, *mutatis mutandis*, as explained above.

### **6.14.3 Payment against Back-to-back LC**

Payment in settlement of usance bill against back-to-back import LCs shall be made at maturity, out of proceeds of the relative export repatriated in foreign exchange. The required foreign exchange will be set aside, out of the export proceeds, in a separate foreign currency account in the subsidiary ledger of the branch. Before making the remittance, the branch should see that the exchange control copy of Bill of Entry for bond as evidence of actual arrival of the relative imports has been submitted.

Usance bills against back-to-back import LC should be settled at maturity even if for some reason export has not taken place, or where the export proceeds have not been realised, or where the realised export proceeds net of value addition requirement do not cover the back-to-back import payment. In such cases post facto approval of Bangladesh Bank will have to be applied for, explaining fully the circumstances of non-realisation/short realisation of export proceeds with relevant supporting documents. Cases of failure of export against the relative master LCs should also be reported to the National Board of Revenue (NBR) and the concerned Commissioner of Customs so that they may monitor closely the level of stock of the relative goods in the bonded warehouse. A copy of the letter to NBR reporting the export failure should be submitted to Bangladesh Bank along with the application for post facto approval of remittance towards back-to-back import payment.

Also, all applications for post facto approval of such remittance in the event of export failure and short realisation/non-realisation of export proceeds should be accompanied by the exchange control copy of the relative Bill of Entry evidencing actual receipt of the back-to-back imports. The branch should maintain effective watch on the stock of inputs procured under the back-to-back arrangement and of the finished products made therewith. Any indication of illegal disposal of stocks from the bond coming to the knowledge of the branch should immediately be reported to the concerned commissioner of Customs and NBR.



## 6.15 Export Receipts and Finance

### ► Customs and Practices

Familiarity with international customs and practices with regard to cross border transactions is essential for efficient handling of transactions related to exports from Bangladesh. The discussions in this section will concentrate on these practices and customs.

### ► Contracts and Letters of Credit

Exports from Bangladesh, as indeed from anywhere else, are normally made either against firm sale contracts or irrevocable LC. Shipments are also some times made without cover of an LC on CAD, DP or consignment basis according to the terms of relevant sale contracts. The sale contracts must stipulate the requirement of the buyer about the quality, quantity, price, description of the commodity, schedule of shipment, insurance, marks, country of origin and terms of payments, i.e. whether payments to be made against bills drawn at sight, D/P, D.A. or CAD basis.

### ► Term of Sale

The sales contract may stipulate the price of the commodity as FOB, CFR, and CIF etc. These terms are described in some details in Chapter 16.

### ► Insurance and Marks

Insurance is taken and marks on the crate/bale are given as mutually agreed upon by the buyer and exporter.

### ► Inspection

The buyers and sellers may agree to have goods inspected at the port of shipment or at the port of destination by an internationally reputed inspection agency or other entity including the buyer himself.

### ► **Arbitration**

Dispute or claim regarding short weight or short quantity, moisture, low quality etc. on receipt of the goods at the buyers end is settled by a body composed of seller's and buyer's representatives with Port Trust and Government officials. This arbitration is to be done in the port of destination. For goods like raw jute and jute goods the terms and conditions of the contracts are applied as per the London Jute Association standard contract form and the Bangladesh Jute Mills Association standard contract forms respectively.

### ► **Payment Terms**

The terms of payment i.e. when and how payments are to be received by the exporters are incorporated in the sales contract as per mutual agreement between the buyer and the seller. These are normally the following:

### ► **Advance Payment**

This system of payment is not common in respect of exports from Bangladesh. Under this method exporter may receive value of export in advance before actual shipment of the goods. This may be done by cheque, draft, M.T. or T.T. favoring the exporter. The exporter collects the remittance and subsequently exports goods as per terms of the contract.

### ► **Cash Against Document (CAD)**

Sometime goods are exported on Cash Against Document (CAD) basis. In this case the export documents are presented to the importer through a bank in the country of importer and if the latter is satisfied with the documents he pays the bill in cash and takes delivery of the shipping documents (B/L, Invoice, etc.) to clear the goods from the port.

### ► **Consignment Sales**

Under this method goods are shipped to the agent who receives and sells the same and remit sale proceeds to the exporter. As per exchange control regulation only non-traditional items can be sent on consignment basis. Export of goods on consignment sale basis requires prior permission from Exchange Control Authorities. In case of sale on consignment basis the exporter must have sufficient knowledge regarding financial status of the agent. The exporter signs an agreement with importer to act as an agent of the exporter. As in this method generally no bill of exchange is drawn on the importer the seller (exporter) is exposed to possible default on the part of the importer.

### ► **Trust Receipt**

Sometimes the drawer may take possession of the goods against "Trust Receipt". In this case responsibility for repatriation of export proceeds lies with the foreign bank that allows release of the goods to the importers against Trust Receipt. In this method exporter retains the title to the goods until final payment by the importer.

### ► **Documents against acceptance (D.A. Bill)**

In this case documents are delivered to the importer abroad on acceptance of the bill of exchange. He pays the cost on the due date but may also pay before the maturity date and avail some discount.

### ► **Documentary against Payment (D/P)**

This is one of the widely used methods of payment in export trade. The exporter ships goods and draws a sight bill of exchange (draft) on the importer and the same is presented to the drawer (importer) along with the shipping documents for payment. The drawer pays the draft (bill of exchange) and takes delivery of documents. The bank in the importing country delivers the documents to the importer only against payment of the bill.

▶ **Documentary Usance Bill**

Under this method the bill of exchange is drawn on the importer for payment after a certain period of time says, 90 d/s, 60 d/d etc. The bank presents the drafts to the drawer for acceptance. If the drawer accepts the draft, the collecting bank holds the accepted draft but release the shipping documents to the drawer for taking delivery of the goods from the customs. On the due date the accepted draft is presented to drawer for payment.

▶ **Bai Salaam**

This investment facility is intended to enable the exporter to finance purchase/procurement of goods to sustain the export activity. The goods are generally shipped through the bank's approved C&F agent as per shipping instructions issued by the branch. Bai Salaam, in turn, is finally liquidated by negotiation/purchase of export bills, it may at times be necessary to obtained collateral security before sanctioning the Packing Credit limit.

▶ **Back-to-Back LC**

Under this arrangement opening an inland or overseas LC on Back-to-Back basis on the request of the beneficiary of an Irrevocable Letter of Credit received from the foreign buyer finances export trade. The beneficiary is normally a middleman who does not manufacture the goods to be exported under the credit. This back-to-back LC is opened by the bank in favor of the actual manufacturer or producer of the goods on the strength of the original foreign LC. A lien is created on the original export LC as security. Export of jute goods and ready-made garments from Bangladesh are financed under this type of LC. The actual supplier of the goods effects the shipment on behalf of the beneficiary of original LC and submits the shipping documents to the bank that opened the Inland LC for payment. The letters of credit opened in Bangladesh for import of inputs for export of RMG are known popularly as back-to-back letter of credit. Strictly speaking these are not back-to-back letter of credit but are in fact separate letters of credit, not different from other ordinary letters of credit.

Under the back-to-back letter of credit of the ordinary type some of the documents, such as drafts, invoice etc. are replaced by a fresh set of corresponding documents prepared by the beneficiary of the original foreign LC, who submits his own draft and invoice, etc. for the full amount of original LC for negotiation. The local bank negotiates the documents submitted by the beneficiary of the foreign LC and makes payment of the bill drawn against the Inland LC. In this case also the bank may sometimes need to insist on collateral securities on the merits of the cases. The back to back LC must conform to the terms and conditions of the original foreign LC with the following exceptions:

- The name of the actual supplier is substituted by that of the beneficiary.
- The amount of LC should be somewhat smaller than the original LC, to cover the profit margin and other expenses incurred by the original beneficiary.
- The period of validity for shipment and negotiation should be a few days earlier than the expiry date of the original LC.

#### ► **Advance against Red Clause Letter of Credit (LC)**

Under this facility, which is not commonly used in Bangladesh, the LC opening bank authorizes the exporter's bank (negotiating bank under LC) to make advances to the exporter (beneficiary of LC) prior to shipment. This special arrangement is intended to enable the exporter to procure the goods and execute the order of the foreign buyer. It presupposes a strong commercial relation between the buyer and the seller. The advance is liquidated against the export bills negotiated under the LC. This clause in the LC authorizing the negotiating bank to make advance to the beneficiary of the LC, is written or typed in red ink. It gives the name Red Clause LC. This advance is made at the risk of LC opening bank and is restricted to the amount authorized under the red clause.

Before disbursement of the advance all necessary documents including an undertaking, must be obtained from the beneficiary of the LC (exporter) in conformity with the terms and conditions of the LC and Red Clause.

► **Green Clause Letter of Credit (LC)**

Under this type of Letter of Credit, which also is not commonly used in Bangladesh, a clause printed or written in green ink is included in the LC, authorizing the negotiating bank not only to make pre-shipment advance to the exporter but also to provide the facility for storage of the goods to be exported under the LC, in the name of the LC opening bank till the goods are actually shipped.

► **Reshipment Investment facilities**

Credit worthiness of the exporter should be properly assessed by preparing credit report in the Bank's prescribed perform. Past export performance and behavior of the exporter should be verified from the bank's records and financial statements. Similarly, credit worthiness and solvency of the foreign buyer should also be verified through foreign correspondents. Period for which the investment is sanctioned should be clearly mentioned in the sanction letter.

Charge documents as well as any other documents as mentioned in the sanction letter should be obtained and got properly executed by the borrower. The bank's legal adviser should be asked, if necessary, to vet the memorandum of deposit under equitable mortgage. Export documents should be carefully scrutinized before negotiation of export bills. If the export bill is negotiated under LC, it should be ensured that all its terms and conditions have been fully complied with.

The LC should be from our correspondent bank or a reputable foreign bank whose status should be verified. The LC must be irrevocable (preferably confirmed) and unrestricted. The original LC should remain deposited with the bank and a lien mark should be given on it. But before marking lien the LC terms should be thoroughly scrutinized to see that no clause detrimental to the bank's interest or contrary to existing exchange control and regulation has been incorporated in it.

The date of expiry of LC should be properly recorded in the Register. No drawings should be allowed after the expiry of the credit unless extended. If shipment could not be made within the date stipulated in the LC, the advance should be called back.

If the shipment is covered by policies issued by Sadharan Bima Corporation under the Export credit guarantee scheme, the related policy should be obtained in favor of the bank. It should also be ensured that the exporter/bank fulfils all the terms and conditions of the Insurance Policy.

#### ► **Foreign Back-to-Back Letter of Credit**

The Government of Bangladesh has devised a special procedure under which the export oriented garment units are allowed to import their inputs free of duty under the bonded warehouse arrangement. Back-to-back letter of credit, in essence, is used to import the inputs generally on credit terms up to 180 days on the strength of the foreign LC received from the overseas buyers.

## **6.16 Formalities & Procedure**

For opening back-to-back LC for readymade garment industries engaged in export the branches should follow the following guidelines meticulously:

The industry applying for opening the LC should be recognized by the Textile Division of the Ministry of Textiles as an export oriented readymade garment industry and possesses a valid Bonded Warehouse License.

For new customers, the branch should satisfy itself, if necessary from the Credit Information Bureau of Bangladesh Bank, that they have no outstanding liability with any other bank.

The irrevocable export LC, on the strength of which the back-to-back LC is desired to be opened, should be from a first class internationally reputed bank. The LC should conform to the Uniforms Customs and Practices for Documentary Credit--ICC Publication (Brochure No. 500).

The branch should ascertain whether there is any quota restriction for the item of export. In case of quota restriction, branch shall ensure that the party has obtained quota allocation/license from EPB.

Finally the branch should satisfy itself that the industry has organizational and necessary logistics to fulfill the export order within the stipulated period. The import LC will be opened to the extent prescribed by the government from time to time for knit items and woven/jacket on the basis of value addition. For computation of FOB value, freight charges, insurance and commission involved in shipment of the merchandise under export LC must be deducted. If the freight is not shown separately, a certificate from the shipping company or the shipping agent should be obtained.



The import order for fabrics should clearly describe the fabrics, and details as composition of the fabrics, stripe, checks, prints, solid (white or dyed) yarn count, length flannel, shirting, poplin, drill, twill etc. should be inserted in the LC. These descriptions should also be mentioned in the LC. The LC should provide for submission of packing list showing the gross and net weight of each bale and carton or crate or wooden boxes. These descriptions are necessary to ensure that the fabrics imported are actually required to meet the export order.

► **In land Back-to-back Letter of Credit (LC)**

Readymade garment units under bonded warehouse system may open inland back-to-back LC against export LC in favor of local manufacturer-cum-supplier of fabrics and accessories. Banks may open inland back-to-back LC on account of local manufacturers-cum-supplier up to the extent of the net FOB value of the export LC for import of cotton yarn, dyes, chemicals, sizing materials etc as may be permitted by the government.

► Documents Required for Opening of Back-to-back LCs

- LC Authorization Form duly filled in and signed;
- LC application and agreement form duly stamped and signed;
- IMP Form;
- Performa Invoice;
- Insurance Cover Note (from the port of shipment to the Bonded Warehouse) and money receipt.

► Additional Documents

- Valid membership certificate from the concerned Chamber of Commerce & Industry or from the concerned Trade Association as per provision of the Import Policy.
- Valid IRC/ERC
- Valid Bonded Warehouse License
- Membership certificate from BGMEA.

Upon scrutiny of all the documents/papers the LC is opened and the vouchers are passed.

On receipt of import documents against BTB LC, the same is duly scrutinized and if found in conformity with the BTB LC terms and conditions, the concerned garments industry is asked to accept the Usance Bill of Exchange and accordingly the date of maturity of the Bill of Exchange is advised to the negotiating bank/collecting bank by telex.

#### ► **Charge Documents**

Besides other documents, the following charge documents duly stamped should be obtained prior to disbursement:

- Demand Promissory Note
- Letter of Arrangement
- Letter of Lien for Packing Credit (on special adhesive stamp)
- For Packing Credit ---Letter of Disbursement
- For Export Cash Credit--Letter of Continuity
- Bai Salaam Agreement

#### ► **Payment of Back-to-back LC, and Adjustment of Investment facilities**

On manufacturing the garments is exported and the party submits the related shipping documents to the bank for negotiation / collection. After receipt of the documents, the same is duly scrutinized with the respective export LC and if found drawn strictly in conformity with LC terms and conditions up to 20% of the documents value is negotiated if requested by the party.

Foreign Exchange department plays a vital role in generating revenue for the bank. Inward remittances during March 2009 are shown in the **Appendix**. Where bank wise transactions show a comparative view.

## 6.17 Some Key Documents with LC:

### ▶ Letter of Credit:

- Whether the documents have been negotiated or presented before expiry of the credit.
- Whether the amount drawn exceeded the amount available under the credit.

### ▶ The Commercial Invoice:

- Is the invoice made out in the name currency as the credit indicates?
- Is the invoice made out in the name of the buyer with the same address specified in the credit?
- Does the invoice agree exactly with the credit as regards description of goods, value of goods, unit prices & delivery terms?
- Does the invoice evidence the following; shipping marks/terms of delivery/weight data & import license number etc.

### ▶ Bill of Exchange:

- Is the Bill of Exchange drawn in the language of the credit?
- Is the bill of exchange properly prepared according to the credit conditions (on a sight or time basis) and drawn on the specified bank?
- Is it properly dated and signed?
- Is the amount in figures corresponded exactly with the amount in word?
- Does it contain all the prescribed notations and clauses?
- As a rule, the amount of bill of Exchange must agree with the invoice amount (drawn to cover only 90% or 80% of the invoice value.

► **Bill of Lading:**

First of all it has to be cleared that the Bill of Lading is showing “Shipped on Board” and it has to be properly endorsed to the bank.

- The B/L should include the description of the merchandise according to invoice.
- The port of shipment and destination, date of shipment and the name of the consignee are in agreement with those mentioned in the L/C.
- The shipping company or their authorized agents properly sign the B/L.
- The date on the B/L is not ‘stale’ which means it is not dated in unreasonably long time prior to negotiation.

► **The Insurance Cover Note:**

- Is the insurance documents specified in the credit submitted?
- Does the insurance cover the risks mentioned in the credit in the currency of the credit and for the prescribed amount but not less than CIF value?
- Is the insurance documents dated not later than the shipping documents?
- Does the insurance policy/Certificate agree with other document as regards description, weight & marks of the goods, mode of transport & the route?
- Does the insurance company attached and so far as necessary, endorsed issue all the copies?

► **Certificate of Origin:**

- Is the certificate of origin of goods is given as stipulated?

► **Others:**

- Other documents called for in the credit if any such as packing list, weight certificate, consular invoice, inspection certificate etc. to be checked whether drawn and issued in accordance with the terms of the credit.