

Foreign Exchange Policy Department
Bangladesh Bank
Head Office
Dhaka
www.bb.org.bd

FE Circular No. 23

Date: June 21, 2021

All Authorized Dealers in
Foreign Exchange in Bangladesh

Dear Sirs,

Issuance of repayment commitments as collaterals
against external borrowing by resident entities

Please refer to paragraph 1, chapter 15 of the Guidelines for Foreign Exchange Transactions-2018, Vol-1 (GFET) and its subsequent circulars regarding the formalities to be followed by resident entities to avail term loans from external sources.

02. For issuance of repayment commitments in the form of bank guarantees or standby letters of credit or otherwise (hereinafter referred to as repayment commitments) against external borrowing, Authorized Dealers (ADs) need to apply to Bangladesh Bank, on behalf of their borrower-customers, for specific permission. However, resident borrowers will not require Bangladesh Bank permission to provide guarantees having no commitments by ADs like corporate guarantees, personal guarantees, third party guarantees, etc. to foreign lenders as per stipulations for external loan duly approved by the Bangladesh Investment Development Authority (BIDA) according to paragraph 9(a), chapter 16 of GFET.

03. Issuance of repayment commitments leads ADs to take external exposure on behalf of resident borrowers for which they need to honor payments against the commitments in case of payment default by resident borrowers. The situation to make payments by ADs against the repayment commitments leads the loan status to be converted to local loans from external loans and loan risk arises if non-funded liability is incurred without adequate collateral coverage. To bring ease in approval process for issuance of such guarantee and to mitigate loan risk, it has been decided that ADs shall observe following instructions to apply Bangladesh Bank for approval of issuance of repayment commitments:

- (a) ADs shall ensure that all applicable credit norms and prudential parameters including single borrower exposure limit, prescribed by Bangladesh Bank, have already been observed against the repayment commitments for which applications have been made;
- (b) Applications shall be supported by documentary evidences to the effect that necessary arrangements have been made to cover the amount of repayment commitments by eligible collaterals acceptable by ADs;
- (c) Out of the collaterals as per (b) above, at least 05 (five) percent of the commitment-amount shall mandatorily be in cash margin or unencumbered encashable bank deposits;
- (d) Applications shall be documented with proper credit assessments made in accordance with regulatory instructions of Bangladesh Bank along with conditional approval from the Board of Directors of local banks or approval from management authority of foreign banks operating in Bangladesh.

04. As usual, applications shall contain approval issued by the BIDA in support of external borrowing. On receipt of approval from Bangladesh Bank, ADs shall issue repayment commitments as per instructions contained therein.

Please bring the contents of this circular to the notice of your concerned constituents.

Yours faithfully,



(Md. Shahidul Islam)
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