

All Authorized Dealers in
Foreign Exchange in Bangladesh

Dear Sirs,

Foreign exchange transactions for merchanting trade

In terms of paragraph 26, chapter 8 of the Guidelines for Foreign Exchange Transactions-2018 (GFET), Vol-1, Authorized Dealers (ADs) can facilitate transactions of entre-pot trade.

02. In accordance with Export Policy in force, a trade for which goods/services procured from a country are shipped/delivered directly to a third country is defined as merchanting trade. To facilitate transactional services by ADs to their merchanting traders-customers, it has been decided to formulate a set of operational guidelines as outlined below:

- (a) Regulatory instructions applicable to exports (except EXP Form) and imports (except IMP Form) shall be complied with for export-leg and import-leg respectively, with reporting routine on Form C (at export-leg) and Form TM (at import-leg). Requirement of EXP Form and IMP Form respectively for export and import of goods will not be applicable.
- (b) ADs shall satisfy themselves with the bonafides of the transactions, including adherence to KYC and AML/CFT guidelines while handling such transactions. The counterparties to merchanting trades shall be from FATF compliant countries.
- (c) The entire merchanting trade is to be routed through the same AD. The designated AD shall verify the documents and satisfy themselves about the genuineness of the trade. The designated AD should, if necessary, make online verification of transport documents (in case of goods) through acceptable tracking system.
- (d) In case of the receipt of transferable Letters of Credit (LCs) to execute merchanting trade, the same may be transferred favoring suppliers of relevant countries in terms of relevant provisions of UCP in force for procurement of goods/services to be sold to respective customers of third countries. The payment for the procurement will be settled in observance of the procedure laid down in UCP.
- (e) In case fresh LCs from Bangladesh to suppliers abroad for import-leg are issued, import payments need to be settled out of receipts from export-leg. Import settlement, however, may be arranged by traders before receipts of payments from export-leg under short term buyers' credit from external sources. Traders can assign the receivables from export-leg for the credits. ADs shall not issue any forms of payment undertaking/commitments/acceptance for the credits.

- (f) Receipts from export-leg, on encashment of mark-up including deposit to retention quota accounts at traders' option, shall be retained in margin accounts maintained in foreign exchange till the settlement of payments under import-leg including charges. Discounted proceeds, if any realized before maturity, can also be retained in the said margin accounts.

03. Agency commission is allowed from the receipts of export-leg retained in margin accounts provided that the payment does not result the transactions ending in shortfall of settlement of payments to suppliers abroad. The agency commission is subject to deduction and payment of applicable taxes.

04. ADs shall satisfy themselves about merchanting traders of goods and services regarding their overall capabilities to perform the said trade.

05. ADs shall satisfy themselves to the effect that payments for import-leg are to be met out of receipts from export-leg other than buyers' credit as per 2(e) above. ADs shall, in no way, execute payments from their own sources. The difference between inward receipts and outward payments including relevant all charges shall be reasonably satisfactory for meeting local expenses and profits. ADs shall comply with regulations regarding deductions of applicable taxes for the transactions.

06. Merchanting traders will be entitled to have retention quota facility on realized proceeds, net of outward remittances, in accordance with rate applicable for service exports as per paragraph 27(d), chapter 13 of GFET and its subsequent circulars.

07. Reporting for merchanting trade transactions to Bangladesh Bank shall be done on gross basis with purpose as "merchanting services" at both legs.

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

Yours faithfully,



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