

# RBI bans LoUs for trade credit for imports

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In a major decision, RBI today banned banks from issuing Letters of Undertaking (LoUs) ~ instruments used allegedly by fraudster Nirav Modi and his uncle Mehul Choksi to defraud state-owned PNB of nearly Rs 13,000 crore in connivance with bank officials.

The RBI said the decision to discontinue the practice of LoUs and Letters of Comfort (LoCs) for trade finance comes into force with immediate effect.

"On a review of the extant guidelines, it has been decided to discontinue the practice of issuance of LoUs/LoCs for Trade Credits for imports into India by AD Category banks with imme-

diated effect," the guardian of money market said in a notification.

State-owned lender Punjab National Bank (PNB) reported fraudulent issuance of LoUs/Foreign Letters of Credit for payment of import bills and fraudulent transactions in accounts, amounting to Rs 12,967.86 crore, to the RBI through its fraud monitoring reporting system.

A multi-agency probe, including by CBI and ED has been launched into the PNB fraud.

The RBI notification further said that Letters of Credit and Bank Guarantees for trade credits for imports into India may continue to be issued subject to compliance with the provisions.