Import Data Processing & Monitoring System – proposed process and estimated impact

Introduction

The Export Data Processing & Monitoring System (EDPMS), intended to streamline the data flow pertaining to exports between Customs, RBI, DGFT and the ADs, went live from Apr 2014. The system captures data pertaining to shipping bills issued by customs, and it enables banks to report realisation and settlement of these shipping bills against inward remittance received by their clients. From 15 June 2016, the system also captures details of export advance received by the exporters, and tracks utilisation of these advances within the mandated time period.

The improvements in tracking and monitoring of exports has resulted in better reporting discipline by all parties concerned. For banks, it has done away with the manual reporting processes associated with XOS reporting and the quarterly reporting for unutilized export advances.

This is only the first step in the initiative to improve the tracking and monitoring mechanism of cross-border trade, and to reduce the paper-flow associated with the same. Next in line are import transactions.

Import Data Processing & Monitoring System (IDPMS)

Vide its circular issued on 28 Apr 2016, the Reserve Bank of India notified implementation of Import Data Processing & Monitoring System or IDPMS, similar to EDPMS. The circular does not mention the targeted implementation date of the system, but what can be inferred from the same is that, unlike EDPMS which did not entail any change in the export processes, implementation of IDPMS will also coincide with some significant changes in handling of import settlements.

Once IDPMS is implemented, customs authorities will start capturing the AD code of the importers’ bank in the Bill of Entry, similar to how it is being done for Shipping Bills currently. Bill of Entry data will then be available to banks, populated under the respective AD codes. In terms of system functionalities, the system would be similar to EDPMS and we can expect an AD code transfer process similar to what is available in EDPMS, for handling Bills of Entry with AD codes of other banks.

Once implemented, the system will become the single reporting platform for all types of import transactions, including payment of import advances. As the system goes fully online, manual BEF reporting will stop, as IDPMS will facilitate continuous monitoring.

From the perspective of regulatory guidelines, there are three major changes expected post implementation of IDPMS:

a. Non-payment (write-off) of import bills either fully or partially will require approval from the Authorised Dealer or RBI, depending upon the case
b. Import bills will need to be settled within the mandated period, and delaying payment beyond the specified period will require approval from the AD or RBI, depending upon the case
c. Authorised Dealers will now need to follow up for submission of evidence of import without consideration of amount involved (this has already started)

Let us look at these in a bit more detail.

**Reduction in invoice value**

**Current Scenario**

Importers never had anybody looking over their shoulder (except their suppliers, of course!) to check whether they were paying the full amount towards their imports. While realisation and repatriation of export proceeds is religiously tracked, a Bill of Entry remaining unpaid is not of too much concern to the AD – primarily because the AD would not even be aware of the same due to non-availability of BoE data at their end.

Today, an importer who has negotiated a discount with his supplier after arrival and clearance of goods does not need to follow any other process other than to simply make payment for the reduced value. As long as the amount remitted is not in excess of the BoE value, the importer does not have any further obligation from a regulatory perspective.

**Proposed process**

As per the proposed changes in the guidelines, the importer will have to make payment for the invoice under the Bill of Entry in full, for it to be settled.

In the event the importer is able to negotiate a discount from his supplier on the invoice amount, an approval from the AD would also be needed to settle the Bill of Entry by paying the reduced value. For cases where such reduction is due to discounts provided by the supplier, change in amount of freight, insurance, etc. ADs can approve reduction in value of up to 5% of the invoice amount. In case the reduction in amount due to these reasons is more than the 5% specified, the case will need to be referred to RBI for approval.

Where a reduction in amount payable is due to quality issues, short shipment, or destruction by port/health authorities, ADs can provide approval beyond the 5% cap, and settle the BoE, provided appropriate documentary evidence is submitted by the importer to validate the reasons.

A BoE, which has not been fully settled, will remain outstanding in the system, similar to an export bill remaining outstanding in EDPMS.

**Impact on banks**

For the banks, this will be a new process, which they have not been doing earlier. Part payments, multiple invoices under same Bill of Entry, multiple Bills of Entry under same invoice etc, are various permutations and combinations which they will need to execute correctly in IDPMS to ensure reporting is not missed out. There will also be cases where advance payment is done through one bank, and import documents are done through another bank. The experience from EDPMS will definitely come handy for banks in migrating to IDPMS.

**Impact on importers**

There is not much clarity on how the approval mechanism, particularly the RBI approval process, will work. Operationally and logistically, it could be challenging for the importers to seek AD approval for each and every invoice where there is a difference in amount being
remitted. Unless banks can come out with a standard BAU process for these cases, this could lead to increased workload for both the importers and the banks.

One change in the import clearance process that importers need to be aware of is the inclusion of AD code in the Bill of Entry, similar to how it is being done for Shipping Bills. Importers need to ensure that the correct AD code is captured in the BoE, so that the bank can process the transactions and update the system correctly and avoid any missed reporting.

**Timely settlement of import bills**

**Current scenario**
Currently, in the absence of any data regarding Bills of Entry raised by their clients, ADs do not have the wherewithal to ensure that import payments are done within the mandated time period of 180 days from the date of import. Thus, no follow up action gets triggered for such transactions, either at the AD level or at RBI.

The AD gets involved in the transaction as and when the import documents are submitted for payment. As per current process, delay in settlement beyond the mandated period only involves a declaration to the AD stating the reason for delay. Where there is an inordinate delay (usually crossing 3 years from the date of import), the transaction is referred to RBI for appropriate approvals.

**Proposed process**
Subsequent to implementation of IDPMS, banks will have seamless access to Bill of Entry data for their customers, which they can use to track timely settlement of import bills. RBI expectation would be for ADs to follow up with their customers for Bills of Entry remaining unsettled beyond the 180-day time period, and to ensure compliance with the guidelines.

The proposed changes will make the import settlement process similar to that of exports in the sense that any delay in import settlement (extension of time) will need to be approved by the AD based on the parameters to be outlined in regulations.

The notification circular states that ADs will have the delegated powers to approve extension of time up to a period of one year from the date of import, without any limit. For these cases, ADs would continue to ask for the importer's declaration stating the reason for such delays, and base their approvals on the contents of the same.

Where the delay is beyond a period of one year, ADs can grant approval only for those importers, whose total outstanding does not exceed US$1Mn, or 10% of the average import remittances of the previous two years, whichever is LOWER (for exports, the HIGHER amount is considered). Else, the transaction will have to be referred to RBI for approval.

**Impact on banks**
First and foremost, a lot of these changes will require amendments to the import guidelines and Master Directions, and banks will be on the lookout for the same.

Further for the banks, there is currently no way of ascertaining the total outstanding for an importer at their end (assuming that IDPMS will follow the same system of reporting data under specific AD codes as EDPMS), as the importer could have transactions outstanding
with multiple banks. Thus, banks will need to rely on a third party document – a CA certificate or a Statutory Auditor certificate – to comply with this requirement.

The interesting thing here is that, there is no definition of what constitutes ‘total outstanding of the importer’. If this is taken as all import bills remaining unpaid (similar to how it is calculated for exports), then it could create issues for large importers, whose individual bill sizes will easily cross this limit. Average remittance value of previous two years will become redundant for such importers, as the lower figure has to be taken. Clarity on this aspect would definitely be welcome.

**Impact on importers**

Consider this: for an importer with annual imports of US$11Mn, and who enjoys a 60 day credit period, the import outstanding would be more than US$1Mn at any point of time. Similar would be the case for an importer who has imported capital equipment worth more than US$1Mn, and has availed suppliers’ credit against the same. In both these cases, in case of a dispute with an overseas supplier dragging on for more than one year, and the consequent delay in effecting import payment, the importer will need to seek RBI approval for such delay.

Also, a third party confirmation (CA/SA Certificate) as part of the transaction document would add to the transaction costs. We have only recently come out of the requirement of Form 15 CA/CB for import transactions (from 01 Apr 2016 onwards).

A Shipping Bill remaining unrealised and unsettled in EDPMS for more than two years, will lead to automatic caution listing of the exporter. For import transactions, however, there are no such penal provisions which have been notified in the current circular for Bills of Entry remaining unsettled beyond specified periods. Considering that the data is available in the system, and looking at the way compliance requirements are evolving, this is a distinct possibility in future which importers should be ready for.

**Wholly Owned Subsidiaries of overseas parents**

There are many wholly owned subsidiaries of overseas investor corporates who receive additional support from their parents by way of:

1. Import of raw material from parent either paid late, or not paid at all
2. Import of raw material from third party suppliers outside India, which is paid by the parent company outside India, with no corresponding payment by the Indian subsidiary

These transactions are, in essence, quasi-ECB and quasi-FDI, though not reported as such. Implementation of IDPMS will bring all such transactions out into the open, and could create trouble for the importer. Penal provisions could be invoked in such cases.

**Removal of the limit of US$100,000 for evidence of import**

**Current process**

As per the provisions of FEMA, an importer, making an advance payment to an overseas supplier, for import of an item into India, is expected to submit to the bank through which payment was done, the Bill of Entry pertaining to such import. The Bill of Entry serves as evidence that goods for equivalent value of the outward remittance has been brought into the country, and hence the country has not suffered any loss on account of the transaction.
This submission has to be done within a period of 90 days from the date of advance payment, and it is the responsibility of the AD who has executed the outward remittance, to follow up with the importer and ensure its submission. However, currently the guidelines also give flexibility to the banks to not do the follow up for submission of evidence of import, where the transaction value is less than US$100,000.

An importer not complying with the demand of the AD to submit the evidence of import will find his name reported to RBI through the half-yearly BEF reporting process

**Proposed process**
The process for making outward remittances for advance payments and the timelines for submitting evidence of import will remain the same as before. Additionally, banks will capture the details of all advance payments paid on the IDPMS system, post implementation. This will ensure that the data is available to RBI, ADs and the DGFT on a continuous basis for reporting and monitoring.

The significant change is that the limit of US$100,000 below which ADs did not need to follow up with the importers for submission of Bill of Entry, has been removed. Irrespective of the value of the transaction, importers will now be called upon for submission of BoE. Failure to do so could attract penal provisions.

**Impact on banks**
For banks, the follow up process will now become more difficult with the increase in the number of small value transactions. However, unlike what happens currently, the follow up will not be restricted to every half-year, but will be an on-going process, as the data will be updated and monitored on a daily basis. Even without any change in the guidelines, the follow up process has already started with banks following up with importers for small value advance payments as well, upon direction from RBI.

As the reporting gets completely online, the manual BEF reporting process will be stopped, and that should provide some relief to the banks from the report compilation and preparation activities.

Here too, the applicable FEMA guidelines will need to be changed, and banks will look out for the same closer to the implementation date.

**Impact on importers**
The limit of US$100,000 was quite misused by people who wanted to beat the system. The forex fraud at a large Public Sector Bank where Rs.6,100 Cr was siphoned off in the garb of import advances is a recent example, and has contributed to the amendment in guidelines.

Another example that comes to mind is of Indian buyers paying for testing samples from overseas suppliers, which are sent directly to testing laboratories outside the country, where they are tested and destroyed. The goods, in such cases, never come to India, though outward remittance is done for the cost of the samples. In cases where the price of the testing sample is a small amount, the amount gets remitted out as an import advance payment, as the buyer knows that the bank will not follow up for Bill of Entry for the transaction.

For such transactions, importers will be forced to follow the correct process going forward.
Conclusion
While the notification has come out almost 4 months back, there is still no clarity on by when the same would be implemented. The delay in implementation could mean that we will see some changes in the guidelines and processes as it has been outlined in the notification circular and how it will come out in the implementation stage.

As I mentioned, some of these directions will require changes to be made to the import guidelines, and this could also be one reason why this is taking some time. Additionally, banks will need to make sure that they are tech-ready for the roll-out since once implemented, all transactions will need to processed through this system.

eBRC, EDPMS and IDPMS are part of the larger e-Trade project, which looks to streamline trade processes; the key deliverables being:

a. e-Delivery of services provided by Customs, Airports, Seaports etc. to importers, exporters and customs agents,
b. e-Filing of export and import documents by exporters and importers to customs authorities and airports/sea ports, etc.
c. e-Payment of customs duties, licence fees and charges

As we move forward and the entire ecosystem evolves further, the objective is to enable seamless delivery of various G2X services and thus reduce transaction time, and transaction costs.

The next step, logically, is to eliminate physical copies of Shipping Bills and Bills of Entry, as the data pertaining to these documents are already available in the system, and to provide access to importers and exporters to the respective repositories, similar to how it is being done for eBRCs today. The benefits accruing from elimination of paper for trade transactions cannot be overstressed, and one need to only look at the eBRC implementation to draw conclusions. Hopefully, we will reach there, sooner than later.