

F.No.7/112/2011-BOA
Ministry of Finance
Department of Financial Services

Jeevan Deep Building
Sansad Marg, New Delhi
Dated, the 17th July, 2012

**The CEOs of
All Public Sector Banks**

**Subject: Use SFMS for sending and receiving Letter of Credit and Bank
Guarantee instruments**

Dear Sir,

The need for a secure and common messaging System that would serve as the basic platform for intra-bank and inter-bank applications, and would fulfill the requirements of domestic financial messaging, gave birth to the Structured Financial Messaging System (SFMS). The SFMS was launched on December 14, 2001, at the Institute for Development and Research in Banking Technology (IDRBT).

2. The SFMS is built on the lines of SWIFT but has many more utilities to offer. The major advantage of SFMS is that it can be used practically for all purposes of secure communication within the bank and between banks. The intra-bank part of SFMS can be used by the banks to take full advantage of the secure messaging facility it provides. The inter-bank messaging part is useful for applications like Electronic Funds Transfer (EFT), Real Time Gross Settlement System (RTGS), Delivery Versus Payments (DVP), Centralized Funds Management System (CFMS) etc.

3. Considering the advantages associated with the use of SFMS, the Indian Banks' Association (IBA) had formally launched a Pilot Project on Trade Finance using SFMS format on the INFINET network connectivity provided by IDRBT as a secured messaging system that would serve as a basic platform for intra-bank and interbank application on February 15, 2007. The pilot project was joined by 10 banks. Letters of Credit (LC) were opened and communicated through the network to the advising banks to mark the launch of the project.

4. Currently, among the initial participants, very few banks still offer Trade Finance services through SFMS. IBA had requested all banks vide letter dated 27.08.2009 to join the SFMS platform for trade finance project.

5. It has been observed that SFMS platform has been used by banks and some state governments for NEFT and it has been a huge success. The volumes have touched nearly three million a day and have grown over 100% on YOY basis. Thus the platform has demonstrated its resilience, security and scalability. SFMS has been recently opened for RRBs and Co-operative banks and a number of them have joined.

6. The platform is capable of handling nonpayment applications like domestic LCs and Bank Guarantees (BG) in a secure and cost effective way. Only a few banks are using this. Unless majority of banks join, there would not be enough counterparties which generate volumes.

7. Presently, there is no directive mandating use of SFMS platform for this purpose, in the absence of which, banks cannot unilaterally send the messages to the beneficiary banks. Banks also cannot also have bilateral/multilateral agreements for this purpose due to feasibility issues.

8. There have been a number of cases of frauds in case of LC discounting and BGs. This is a great cause of concern with regard to strategy of Public Sector Banks (PSBs).

9. Therefore, it is felt that making the use of FSMS mandatory in this regard will help banks to establish a secure medium for transferring trade finance messages for sending and receiving LCs and BG instruments, thereby establishing a safe and secure environment in the Indian banking industry for conducting Trade Finance business. A methodology for using SFMS Platform for issuing BGs is suggested at Annexure.

10. You are, therefore, requested to have the proposal to make the use SFMS mandatory, for sending and receiving Letter of Credit and Bank Guarantee instruments, placed before your Board for approval and implementation in the upcoming board

meeting. **No PSB can issue any LC or BG after 01.08.2012 except through SFMS system.** No LC or BG from any other bank including PSB be accepted except through SFMS system w.e.f. that date. A line of confirmation may be sent to this Department.

Yours faithfully

(Pravin Rawal)

Deputy Secretary to the Government of India

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Copy to:

1. Director, Institute for Development and Research in Banking Technology (IDRBT), Hyderabad.
2. Chairman, IBA, Mumbai
3. All Govt. Nominee Directors on the Boards of PSBs

Suggested Methodology for Using SFMS Platform for Issuing Bank Guarantees.

1. Banks will continue to receive applications for Bank Guarantees (BG) as usual. However, along with the application, the banks will now obtain details of the Bank of the Beneficiary/ an Advising Bank for the Bank Guarantee.
2. Once it is decided that the BG is to be issued, the same shall be issued on the SFMS platform using Message Type IFN 760. The message will be sent to the Beneficiary's Bank/ Advising Bank through SFMS.
3. A hard copy of the Bank Guarantee clearly indicating that it is a 'COPY ONLY' may be handed over to the Applicant for their use e.g. for attaching it with any Bid Documents.
4. The Advising bank will print the Bank Guarantee on Stamp Paper of required value or pay the required Stamp Duty by other means and then deliver the Bank Guarantee to the Beneficiary.
5. The Advising Bank may then claim its cost and fees from the Issuing Bank. The Issuing Bank will reimburse the same to the Advising Bank through NEFT.
6. PSBs may have to amend their application cum counter guarantee forms to incorporate a clause making the applicant liable for fees and Charges of the Advising Bank.
