



Business & Investment Services Provider

SMART Business Guides

Foreign Exchange Market

## Foreign Exchange Market and Regulations and Payment Methods for Imports Source of Foreign Exchange

- Import to Iran is possible through different methods of securing foreign exchange as detailed below:
- Government hard currency through the banking system for budgeted and approved importation of goods and services
- Import through purchase of free market foreign exchange
- Import through the use of foreign exchange earned from exports
- Import through the use of foreign exchange of foreign origin (without transfer of hard currency) from sources of foreign investment after the approval of the Foreign Investment Organization
- Re-finance (Short-term line of credit).

### Payment Methods for Imports

Most of the payments are made through letters of credit which are established under the control of the Central Bank of Iran. The Central Bank of Iran (CBI) and the banking system discourage against confirmation of L/Cs, however some cases obtain confirmation as necessary particularly under sanction conditions. Iranian L/Cs are good and defaults do not generally occur, but the sanctions imposed on Iran make the operation of L/Cs with some countries and regions cumbersome. L/Cs are opened by the buyers at one of the Iranian banks in favor of the sellers through acceptable negotiating bankers to Iranian bankers (in accordance with the approved list of the CBI). It is important to check thoroughly all L/C clauses as amendments, however, can be difficult and in some instances impossible.

All terms of L/Cs once accepted should be very strictly complied with since even if the buyer is flexible regarding the acceptance of the documents, the regulations still have to be followed in respect of the discrepancies.

Sellers should normally send the documents to the Iranian issuing bank through the negotiating banker.

The documents should be received by the negotiating banker before the expiry of the L/C and within validity of the B/L. It is also strongly recommended that the exporters comply with the delivery schedule, quality, certificate of origin, packing list, etc. as extension of L/Cs can be difficult and custom's rules and regulations are rather strict.

"Usance" or deferred payment L/C is another method of payment which matures within a fixed period permitted by the CBI. The CBI allows Usance up to 12 months in order to facilitate the import requirements of manufacturers and traders. Some suppliers accept Usance L/C and get it discounted through suitable banks and financial institutions.

Bill of Exchange is another method of payment for importation with and without obligation of payment by the importer's banker in accordance with the instructions of the negotiating banker. If the importer's banker accepts responsibility in respect to the payment of the BOE on the due date, the bank will take sufficient collateral from the importer in order to be able to fulfill such responsibility in case of any default by the importer.

Full advance cash payment transfers for purchase of goods and goods/services.

### Recent Developments in Foreign Exchange Market & Regulations

The parliament approved a decree in January 2012, making any FOREX transactions outside the banking system and authorized exchange bureaus illegal and deemed it as an offense of smuggling. The offender should be arrested and have to pay a penalty equivalent to twice the value of the FOREX, along with carrying a prison sentence. Any holder of FOREX is required to have a valid certificate/invoice showing that it was purchased legally; also any import of FOREX should be declared to the authorities. On the 1st of February, 2012, the Deputy of Iran Trade Development Organization announced that through linking the systems of Order Registration, the CBI and the Customs Office, all applicants who receive foreign exchange for imports, if their order registration does not result in actual imports then the foreign exchange received will be demanded back from them.

After much pressure was exerted by exchange bureaus and the market and a meeting held between the CBI and the Association of Exchange Bureaus, the CBI eventually announced on 2012/3/15 that licensed exchange bureaus were once again authorized to buy/sell and transfer foreign exchange at market rates. Such transactions must be registered on the CBI special purpose information network (Sena) and a valid certificate of transaction must be printed from the network and duly stamped and submitted to the customer by the Bureau. The CBI issued a detailed Guideline on transactions at bureaus on the 18th March 2012. In order to facilitate the FOREX transactions at licensed bureaus the CBI accepted the need for authorized operation of the secondary FOREX market (i.e. the free market) for fulfilment of some of the foreign exchange requirements of the country for trade, travel and other purposes.

