

Guard File 17

**GOVERNMENT OF INDIA
MINISTRY OF RAILWAYS
(RAILWAY BOARD)**

RBA No.10/ 2018

No. 2017/AC II/9/10 Pt 1

New Delhi, Dated: 20.02.2018

**General Managers,
All Zonal Railways & PUs etc.**

Sub: Inclusion of mode of payment through Letter of Credit (LC) as option in Supply/Works contracts.

Ministry of Railways has decided that henceforth, all Tenders invited by Zonal Railways and Production Units, both for Supplies/ Works (including all service and maintenance contracts), having estimated value of Rs 10 lakhs and above, shall include in tender conditions, an option for the supplier/contractor to take payment from Railways through a letter of credit (LC) arrangement. This would be subject to the following:

- (i) The bidder, at the time of bidding itself, shall exercise an option in writing, in favour of taking payment due against the said tender, through LC arrangement.
- (ii) The option so exercised, shall be an integral part of the bidder's offer. Option once exercised shall be final and no change shall be permitted, thereafter, during the course of execution of contract.
- (iii) The incidental cost towards issue of LC and operation thereof (LC operating charges, including bank charges for opening of LC) shall be borne by the supplier/contractor.
- (iv) The above arrangement should be made a part of the Tender conditions and Contract conditions
- (v) The LC will be a sight LC.

2. The Banker for Railways for the ensuing one year, for opening domestic letters of credit shall be State Bank of India through its branches. The arrangement would cover all such contracts finalized against tender issued in the said year and shall extend till final execution of these contracts..

3. The schedule of payment liability arising in the contract shall be established by the Railways based on the prescribed delivery schedule/stages of supply/work, in consultation with supplier/contractor. The Railway's Banker should also be involved in the process to assess value of LC and terms and conditions of LC.

4. The LC condition of Railways shall inter-alia provide that Railways will issue a **Document of Authorization (format enclosed as Ann 1)** on claims preferred by supplier/contractor, for completed Work/Supply to enable them to claim the authorized amount from their Banker. The **Document of Authorisation** will be issued against each Bill submitted for payment by supplier/contractor, **after exercising laid down checks as per Railways' Codes and Manuals, in executive and accounts branches.** The Accounts Officer responsible for passing the claim will issue the Document of Authorization. Issue of Document of Authorization will be captured in IPAS and IREPS to ensure that there is no duplicate payment against the said Bill and also to enable the supplier/contractor to view

status of the claim. The Letter of Credit signed between the bank and Railway should specifically mention that any excess/ wrong payment made by the bank and later detected by the Railways, will be recovered from the bank.

5. The Railways will ensure that Document of Authorization is generated well within the time prescribed in para (iv) Railway Board's letter no. 2017/AC II (CC)/37/16 dated 27.10.2017 (RBA NO 155/2017). Non issue of Document of Authorization must be communicated, with reasons thereof, to concerned supplier / contractor electronically as envisaged in para v of RBA 155/2017.

6. The supplier/contractor will present the Document of Authorization to his/her Banker for necessary payments as per LC terms and condition. After release of payment to the supplier, the banker of the supplier/contractor will send this Document to the Railways' Banker for release of payment to them (supplier's Banker). The Railway's Banker will reimburse, claim made by Banker of supplier/contractor, against original Document of Authorization after verifying signatures of authorized signatory of Railways and Bill of Exchange issued by contractor/supplier.

7. The LC charges paid by the Railways for opening and operation of LC shall be charged to the relevant expenditure head:

Misc Advance (LC charges paid to bank)	Dr.
Misc. Adv GST (IGST/CGST/ SGST)	Dr
Cheques & Bills	Cr

The amount of GST paid shall be available for set off against output liability.

8. On issue of Document of Authorization, following accounting entries shall be made:-

Relevant Expenditure head	Dr.
Misc. Adv.	Cr
(Clearance of LC charges paid to bank from LC operating charges collected from party- GST on incidental charges shall be paid by the party on reverse charge basis)	
Sundry Other Earnings	Cr
(Amount recovered over and above LC charges paid to Bank)	
Demands Payable/ Misc Advance Cap.*	Cr.
(As the case may be- as per letter of authorization -*Demands Payable for Revenue and Misc Advance Cap for capital transaction)	

An invoice shall be issued against party for collecting the incidental charges at the time of issue of Document of Authorization.

9. The reimbursement procedure in case of accredited banks selected as Railways' banker will be directly debiting the amount to the government account through scrolls. In case of non-accredited banks, the Accounts Officer concerned while authorizing a non-accredited bank to open LC will send copy of their letter to RBI/ Public Accounts Department/ Mumbai and after verification/checks regarding authorization, RBI/ PAD will forward the papers to RBI/ CAS/ Nagpur with appropriate instructions for debiting Govt account and make reimbursement to the paying bank on demand. After making the payment, the non-accredited bank authorized to open LC will send documents and also Accounts Officer's letter in original to RBI/CAS /Nagpur for debiting Govt account and getting

15

reimbursement. After making payment to the party, the paying bank will also send a copy of the scrolls/documents to the PAO who issued the authorization for opening of LC. (Authority: Ministry of Finance's letter no. 1(13)(6)/2000/TA/338 dated 17.06.2004 circulated vide Board's letter no. 2003/AC-II/9/3/ Pt. dated 12.8.2004). A copy of the scroll will also be sent to Focal Point Branch of the bank for settlement and reporting as per extant system in vogue. The scroll should contain LCDA no. on scroll to facilitate reconciliation. Daily MIS thereof shall also be sent to CRIS.

10. On receipt of debit scrolls/documents, the Accounts Office will conduct necessary checks and debit Demands Payable /Misc. Advance (Cap) by credit to suspense head 8660 – PSB Suspense. This suspense will be cleared by the Accounts Officer on receipt of the clearance memo from CAS/Nagpur.

11. The Railways will get confirmation from their Banker once the payment is released to supplier's/ contractor's Banker. Acknowledgement will be placed in Purchase Order/Contract file and Contractors Ledger and Works Register/Purchase Suspense Ledger will be updated accordingly.

12. It is expected that Railways would see reduction in rates offered in works and supply contract. The impact of release of payment through LC should, therefore, be evaluated after a year and reported to Board for appraisal.

13. **Necessary modifications in General Conditions of Contract and IRS condition of contract, relevant Railway Codes will follow. Relevant applications viz IREPS, IPAS including integration with SBI software and protocol thereof are being carried out. Once these modifications are made, this pilot initiative will apply on all Notice inviting Tenders (NIT) of stores/ works/ services for tenders having value of Rs.10 lakh and above, w.e.f. April/ 2018.**

14. This issues with approval of DG/RS, MRS, MTR, ME, FC and CRB.

Kindly acknowledge receipt and ensure compliance.

DA: As above



(G.Kabui)

Director Finance/ CCA
Railway Board

Copy for information and necessary action to PFAs/ All Zonal Railways and PUs etc.