

FOREIGN EXCHANGE REMITTANCE FACILITIES FOR INDIVIDUALS

PPB Module A Chapter 8 By Ashish Sir

Historical Background:

- 1939: Exchange control started during WWII under Defence of India Rules.
- 1947: Foreign Exchange Regulation Act (FERA) introduced as a legal framework.
- 1973: FERA expanded to tighten controls on foreign exchange.
- 2000 (June 1): FEMA replaced FERA. Big Shift: From strict control to easier foreign exchange management.

Why FEMA Was Needed:

- Global Changes: The world economy changed, trade increased.
 India needed flexible rules.
 - Encouraging Trade: EMA helped businesses and individuals trade more easily.
- Civil vs. Criminal: FEMA made violations civil offences instead of criminal.
- WTO Rules: FEMA matched India's laws with World Trade
 Organization standards.



Key Features of FEMA:

- Simple Approach: Aimed to make foreign exchange rules easier to follow.
- Trade Promotion: Encouraged external trade and smooth payments.
- Modern Framework: Supported development of foreign exchange markets.
- Government Control: Central Government can still impose restrictions when needed.

RBI Role:

- Regulates foreign exchange transactions.
- Ensures transactions go through authorized dealers.
- Limited Transactions Without Permission:
 - Payments to people outside India restricted.
 - Owning property abroad restricted without permission.
- Inherited Assets Rule: People can keep foreign assets inherited or owned from before they returned to India.

Examples from Indian Context:

 A small shop owner in Mumbai now uses FEMA's simpler rules to import spices easily.



- An IT company in Bangalore receives payments from clients abroad without the complex paperwork required under FERA.
- A retired couple in Chennai inherited a flat in London. Under FEMA, they are allowed to keep it.

Summary Table:

Feature	FERA ()	FEMA ()
Year Introduced	1973	2000
Offences	Criminal	Civil
Approach	Strict, control-focused	Flexible, management-focused
Trade and Payments	Complex process	Easier, streamlined
Inherited Foreign Assets	Limited permissions	Allowed under specific conditions

Definitions Under FEMA

Important Terms:

1. Authorised Dealer (AD): A person authorized under Section 10(1) of FEMA.

AD 1

Authorised Dealer Category I: Entities allowed to handle all permissible current and capital account transactions as directed by RBI.

3. Authorised Dealer Category II:

AD COU II

Handles specific non-trade current account transactions.

- Activities include those allowed for Full-Fledged Money Changers (FFMCs).
- Examples:

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Select Regional Rural Banks (RRBs)
Select Urban Cooperative Banks (UCBs)
Other approved entities

- 4. Authorised Dealer Category III: Entities permitted by RBI for specific foreign exchange transactions related to their business activities.
- 5. Authorised Person (AP): Includes ADs, money changers, offshore banking units, or anyone authorized under FEMA Section 10(1) to deal in foreign exchange or foreign securities.

Foreign Exchange Transactions:

Capital Account Transaction: Alters assets/liabilities even contingent liabilities outside India for residents or within India for non-residents.

Current Account Transaction: ()00%.

- Payments related to foreign trade, business, services, shortterm credits.
- Interest on loans, investment income.
- Remittances for family expenses abroad.
- Expenses for foreign travel, education, or medical care.

Currency & Accounts:

- **Currency:** Includes notes, orders, cheques, drafts, traveller's cheques, and other monetary instruments.
- Currency Notes: Coins and banknotes.
- Foreign Currency Account: Account in a currency other than INR,
 Nepali Rupee, or Bhutanese Ngultrum.

Foreign Investments & Securities:

- Foreign Portfolio Investment: Investment under 10% of equity capital of a listed Indian company.
- Foreign Portfolio Investor (FPI): Registered as per SEBI regulations.
- Foreign Security:

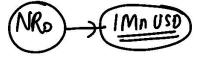
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- Denominated in foreign currency.
- Includes shares, stocks, bonds, debentures, and similar instruments.
- Returns may be paid in Indian currency.

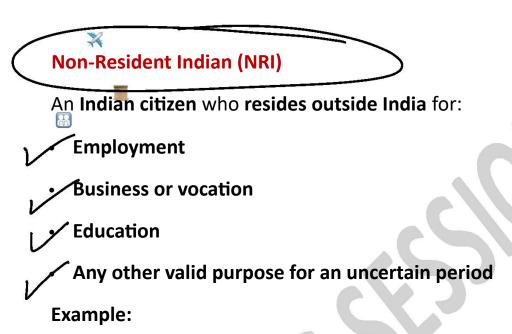
Other Key Terms:

- Drawal: Using foreign exchange through authorized means (e.g., credit cards, ATM cards).
- Full-Fledged Money Changer (FFMC): Authorized to buy foreign exchange from non-residents and sell it for travel purposes.
- Repatriation Outside India: Sending funds or converting them into foreign exchange for use outside India.





funds abroad under RBI guidelines.



 A software engineer from Mumbai working in the USA is considered an NRI.

Overseas Citizen of India (OCI) Cardholder

A foreign citizen who was formerly an Indian citizen OR has family ties to India.

Who Qualifies?

1. Ex-Indian Citizens who renounced Indian citizenship

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. Foreign nationals whose parents, grandparents, or greatgrandparents were Indian citizens

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. People from territories that became part of India after 15 August 1947

Example:

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A British citizen born in India before 1950 or their child born abroad can apply for an OCI card.

Person Resident in India

Someone who has lived in India for 182+ days in the previous

financial year

Includes Indian citizens & foreigners residing in India

Exceptions:

- People who left India for:
 - Employment outside India
 - Business or profession abroad
 - An uncertain period

Example:

 A Delhi-based entrepreneur who stayed in India for 200 days in a financial year is a Resident in India.





Person Resident Outside India

Anyone who does not qualify as a Resident in India

Includes NRIs, OCIs, and foreign citizens

Example:

 A doctor from Bengaluru working in Canada for the past 5 years is considered a Person Resident Outside India.

Category	Definition	Example
NRI (Non-	An Indian citizen living abroad for	A Delhi engineer
Resident	work, business, or studies.	working in Dubai.
Indian)		
OCI	A foreign citizen who was formerly	A UK-born child of
(Overseas	an Indian citizen or has Indian roots.	Indian parents with an
Citizen of		OCI card.
India)		
Person	Lived in India for 182+ days in the	A Kolkata
Resident in	previous financial year, except for	businessman staying
India	those leaving for work/business	in India for 200 days.
	abroad.	
Person	Anyone not qualifying as a resident .	A Bangalore-based
Resident		doctor living in the US
Outside India		for 5 years.

- Permissible Currency: Any foreign currency that is freely convertible.
- Transfer: Includes any sale, purchase, mortgage, gift, or similar transaction.

Term	Definition/Key Feature	Example
Authorised Dealer	Entity authorized under FEMA	Bank managing foreign
(AD)	to handle foreign exchange.	remittances.
Current Account	Regular trade payments, living	Paying tuition fees
Transaction	expenses abroad.	abroad.
Foreign Portfolio	Investor with <10% equity in a	International
Investor (FPI)	listed Indian company.	investment fund in
		India.
Full-Fledged Money	Authorized to buy/sell foreign	Forex kiosk at the
Changer (FFMC)	exchange for travel.	airport.
Liberalized	RBI-approved remittance	Sending money to a
Remittance Scheme	outside India for residents.	relative abroad.
Overseas Citizen of	Former Indian citizen with an	Person of Indian origin
India (OCI)	OCI card.	living in Canada.



Bringing In and Taking Out Foreign Exchange

Bringing in of Foreign Exchange

 Unlimited Entry: Foreign exchange can be brought into India freely without any limit.

Declaration Rules:

If foreign exchange exceeds certain thresholds, a Currency
 Declaration Form (CDF) must be submitted.

No Declaration Needed When:

- Foreign currency notes and/or traveller's cheques are ≤
 USD 10,000.
- Foreign currency notes are ≤ USD 5,000.

• Example:

A tourist arriving in Mumbai with USD 4,000 cash and USD
 3,000 in traveller's cheques does not need to file a CDF.

Purchase of Foreign Currency from Public

Who Can Purchase:

- Authorized Persons (APs) and their franchisees may freely buy
 foreign currency from both residents and non-residents.
- If the currency was declared on the CDF, the declaration must be provided.

Payment Limits:

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- From **residents:** USD 1,000 or equivalent per transaction.
- From foreign visitors/NRIs: USD 3,000 or equivalent per transaction.
- Card Transactions:
 - Sale of Indian Rupees to foreign tourists using International
 Credit/Debit Cards is permitted.
- Encashment Certificate:
 - Provided when foreign currency is purchased.
 - Non-residents must have this certificate to convert unused
 Indian currency back into foreign currency.
- **Example:** A student returning from London exchanges leftover pounds for INR 80,000 at an AP counter in Delhi airport. The AP issues an encashment certificate for any future reconversions.

Taking Out of Foreign Exchange



- Restrictions:
 - Taking out foreign exchange, except from an authorized dealer or money changer, is prohibited.
 - Non-residents have general permission to take out the amount originally brought in, provided they follow the declaration rules and obtain an encashment certificate.



• Example: An NRI visiting family in Hyderabad brings USD 5,000 and, after spending USD 2,000, carries USD 3,000 back without any issues.

Sales Against Reconversion of Indian Currency

Conversion Rules:

- APs can convert unspent Indian currency back into foreign currency if a valid encashment certificate is shown.
- No Certificate Needed for:



- Up to Rs. 10,000:
 - If AP is satisfied with the reason for not having the certificate.
 - Departure is within seven days.
- Foreign Tourists Only:
 - Reconvert up to Rs. 50,000 from ATMs.
 - Documents Required:
 - Valid passport and visa.
 - Confirmed air ticket for departure within seven days.
 - Original ATM withdrawal slip.

Example: A US tourist in Goa uses an ATM to withdraw Rs. 30,000. Upon departure, they reconvert the unused amount into USD by showing their ATM slip, passport, and air ticket.

Feature	Rule/Limit	Example
Bringing in	Unlimited, no CDF	Tourist entering Chennai airport
Foreign Exchange	needed if notes ≤ USD	with USD 3,000 in cash and USD
	5,000 and total ≤ USD	2,000 in traveller's cheques, no
	10,000	CDF needed.
Buying from (Up to USD 1,000	A Delhi shopkeeper sells
Residents	equivalent without a	leftover USD 800 after a trip to
	bank account transfer	Bangkok.
Buying from (Up to USD 3,000	An NRI visiting Kochi sells USD
Non-Residents	equivalent without a	2,500 cash from their travel
	bank account transfer	budget.
Taking Out	General permission for	An NRI who brought USD 4,000
Foreign Exchange	non-residents to take out	to India can return with USD
	what they brought in.	4,000 without additional
	81111	permissions.
Reconversion	Rs. 10,000 for residents,	A French tourist in Jaipur
Without	Rs. 50,000 for foreign	reconverts Rs. 40,000 to euros
Certificate	tourists with required	before leaving.
	documents.	
	-> 7 days	pol-

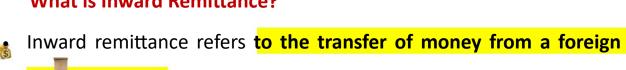




Inward Remittances to India

What is Inward Remittance?

country to India.



Commonly used by **Non-Resident Indians (NRIs)** to support family, business, or investments.

General Rules on Inward Remittances

No restrictions for resident individuals receiving inward remittances through **Authorized Dealer (AD) banks** in India.

AD banks can freely purchase money transfers (TTs, MTs, Drafts, Bills) in any foreign currency against Indian Rupees.

Foreign exchange received as:

- Salary/wages
- Settlement of any lawful obligation
- Income from assets outside India
- Inheritance, settlement, or gifts
 Must be sold (surrendered) to an authorized person within 180
 days from receipt.



Approved Remittance Methods to India

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Method	How It Works	Processing	Best For
		Time	
Bank Wire	Electronic transfer —	2 working	Quick & secure
Transfer	between banks.	days	transfers.
Bank Money	Similar to postal	Slow, time-	Small transactions,
Orders	orders, sent via	consuming	where time is not a
	banks.		concern.
Foreign-	Cheque sent from	20-25 days	Transactions that
Currency	abroad, deposited in		are not urgent.
Cheques	India.		
Foreign	Similar to bank drafts,	21 days	Business payments,
Currency Drafts	but for international		payments to
	transactions.		unknown
	11112		recipients.
Remittance	Reloadable debit card	Instant after	Regular family
Cards	for easy withdrawals.	activation	support, everyday
			expenses.
Direct	Automatic	Fast, regular	Monthly household
Deposit/ACH	withdrawals from	basis	expenses, EMI
Transfer	NRI's foreign bank		payments.
	account to India.		







Inward Remittance Limits

No limit on the amount that can be remitted into India under FEMA.

- Foreign Inward Remittance Certificate (FIRC):
 - Not required for NRIs sending money to relatives.
 - Required for business remittances to claim tax concessions.

Feature	Rule/Limit	Example Use Case
Receiving	No restriction for resident	An NRI sending INR 5 lakh to
Foreign Money	individuals.	his parents in Mumbai.
Deadline to	Must be sold to an	A freelancer in Delhi
Surrender Forex	authorized person within	receiving payment from a UK
-	180 days.	client.
FIRC	Required for business	An exporter in Hyderabad
Requirement	remittances. Not required	receiving payments from a
	for family transfers.	US buyer.
Best Quick	Bank Wire Transfer (2 days)	An NRI sending urgent
Transfer Method		medical funds to his brother
		in Chennai.
Slowest Transfer	Foreign Currency Cheques	A father in London sending a
Method	(20-25 days)	cheque for his daughter's
		education in Bangalore.





Conclusion:

Inward remittances play a **crucial role in India's economy**. With **multiple safe and quick methods**, NRIs can send money home easily. Choosing the **right remittance method** based on urgency, cost, and security ensures **hassle-free transfers**.