FOREIGN CURRENCY ACCOUNTS FOR RESIDENTS

CHAPTER 10 PART 1 MODULE A PPB BY ASHISH SIR

AUD
CAD
GBP
USD
INR

Foreign currency account regulations in India are governed by the **Foreign Exchange Management Act (FEMA), 1999**. These regulations **control the opening, holding, and maintenance of foreign currency accounts by residents in India**.

Key Objectives of FEMA Regulations on Foreign Currency Accounts

Facilitate **capital account convertibility.**

Provide a **natural hedge** for exchange rate fluctuations.

Reduce **conversion costs** and bank charges for frequent forex transactions.

Enable residents to hold foreign currency accounts in India and abroad for **legitimate business and personal needs**.

Who Benefits from Holding Foreign Currency Accounts?

- **Exporters & Importers** (who receive/pay in foreign exchange)
- **Frequent Travelers** (who incur expenses in foreign currency)
- **Professionals with Global Income** (consultants, freelancers, IT professionals)
- **Individuals with Foreign Assets & Investments**
- **Indian Firms Engaged in International Trade**

Types of Foreign Currency Accounts Permitted in India

Residents in India can open and maintain specific types of **foreign currency-denominated accounts** under FEMA.

#imp

1 Exchange Earners' Foreign Currency (EEFC) Account

Current A/c

Purpose: To enable exporters and other foreign exchange earners to retain a portion of their earnings in foreign currency.

Who Can Open? Exporters, service providers, professionals, individuals receiving forex payments.

Permissible Credits: Foreign exchange earnings from exports, consultancy services, honorariums, remittances, etc.

Permissible Debits: Import payments, foreign travel, business expenses, repatriation.

Hedging Benefit: Helps mitigate currency risk by avoiding frequent conversions.

---

2 Resident Foreign Currency (RFC) Account

Purpose: For returning Indians (NRIs/OCIs) to deposit their foreign currency earnings.

Who Can Open? Indian residents who were NRIs but have returned to India permanently.

Permissible Credits: Foreign assets, overseas salary, repatriated investments.

Permissible Debits: Investments, remittances, travel, overseas education.

Taxation: Fully repatriable but taxable under Indian income tax laws.

#imp

3 Resident Foreign Currency (Domestic) [RFC(D)] Account

Purpose: Allows residents to hold **foreign currency domestically** without the need for conversion into INR.

Who Can Open? Indian residents receiving forex income but not having NRI status.

Permissible Credits: Forex earnings, dividends, honorariums, royalties.

Permissible Debits: Foreign travel, payments for services, education, medical treatment abroad.

Currency Options: USD, GBP, EUR, JPY & other freely convertible currencies.

Imp

4 Diamond Dollar Account (DDA) Scheme

USD

Purpose: Facilitates **diamond exporters and traders** in international trade. maximum 5 DDA A/c

Who Can Open? Firms & exporters dealing in diamonds, precious stones, and jewellery.

Permissible Credits: Export proceeds in foreign currency.

Permissible Debits: Import payments, business expenses, and overseas procurement.

Regulations: Subject to RBI guidelines under the **DDA Scheme** for precious stones & metals trading.

Foreign Currency Accounts Permitted Outside India

Indian residents can also maintain **foreign currency accounts outside India** under specific FEMA guidelines.

Who Can Open Foreign Currency Accounts Abroad?

#1 **Individuals & Businesses for International Trade**

#2 **Professionals with Foreign Remuneration (IT Consultants, Artists, etc.)**

#3 **Students & Employees Posted Abroad** A → FC A/C

#4 **Indian Companies with Foreign Subsidiaries or Offices**

Key Permitted Uses

Business Transactions – Payments for imports, global business expenses.

Personal Needs – Foreign travel, education, medical treatment.

Investments & Property Ownership – Real estate, stocks, mutual funds.

Remittances & Savings – Holding income from abroad for future use.

exchange Risk Reduce

Benefits of Foreign Currency Accounts for Indian Residents

Avoids frequent conversions & exchange rate fluctuations.

Enhances ease of international transactions for businesses & individuals.

Regulated under FEMA to ensure compliance with capital account convertibility norms.

Supports global trade, professional earnings, and legitimate financial transactions.

General Guidelines for Foreign Currency Accounts

Key Points:

Types of Accounts:

- **Individuals:** Can open **Current, Savings, or Term Deposit** accounts.

Joint Accounts: Can be opened **jointly with eligible persons** under FEMA guidelines.

In Case of Death of Account Holder:

#important

Scenario	Action
Nominee is a Non-Resident (Outside India)	Funds can be **remitted abroad** up to entitlement.
Nominee is a Resident & Wants to Remit Funds Abroad	Requires **RBI approval** to settle deceased's liabilities overseas.
Account Held Outside India (As Per FEMA)	The **resident nominee must close** the account and transfer funds to India.

#imp

Exchange Earner's Foreign Currency (EEFC) Account

Who Can Open?

Any **resident individual or business** earning **foreign exchange** can open an **EEFC Account**.

Purpose of EEFC Account:

- Helps **exporters, IT professionals, consultants, and businesses** manage their foreign currency earnings.
- Provides a **natural hedge against forex fluctuations**.
- Avoids unnecessary **conversion charges** on multiple transactions.

Permitted Transactions in EEFC Account

Credits (Deposits)	Debits (Withdrawals)
#1 Foreign exchange earnings via inward remittances	Payments for imports or foreign investments #1

#2 Advances received for exports	Payment of customs duty in forex #2
#3 Professional fees (consultants, speakers, IT services)	Payments for foreign travel, hotel stays, airfare #3
#4 Interest earned on deposits	Loans/advances to overseas importers #4

Example Scenario: XYZ Pvt. Ltd., an IT company in Hyderabad, provides software solutions to European clients. They receive payments in Euros and **deposit them in their EEFC account**.

EEFC

Why?

They can **hold euros** instead of converting them to INR at the prevailing exchange rate.

When paying for **software tools or foreign consultants**, they can make payments directly **without conversion losses**.

#2

Resident Foreign Currency (RFC) Account

Who Can Open?

A returning **NRI (Non-Resident Indian)** who has become a **resident in India** can open an **RFC Account**.

Why is it Useful?

- Allows NRIs to **hold foreign earnings** without converting them immediately.

NRI → Resident NRE/FCNR-B → RFC

- Can be used for **overseas expenses or investments**.
- Balances in **NRE/FCNR (B) accounts can be transferred to RFC accounts** when the NRI becomes a resident.

Permitted Transactions in RFC Account

	Credits (Deposits)	Debits (Withdrawals)	
#1	Pension, superannuation, or overseas employer benefits	Full utilization outside India	#1
#2	Income from foreign assets (inherited/gifted)	Conversion to INR anytime #imp	
#3	Proceeds from foreign insurance claims	Payments for foreign travel, medical, and education expenses	#2
#4	LIC policy settlements in foreign currency	Payments for international investments	#3

USD 3.87 Lac → INR

Example Scenario: Rajesh, a professor, worked in Canada for 15 years and retired to India. He receives **a Canadian pension in CAD (Canadian Dollars)**.

Solution:

Rajesh **opens an RFC Account** and deposits his pension in CAD.

He **converts to INR** only when required, ensuring he gets the best exchange rate.

He can **use RFC funds for future travel to Canada or send money to family there** without additional RBI permissions.

Comparison Table of Foreign Currency Accounts in India

Type of Account	Who Can Open?	Credits (Deposits)	Debits (Withdrawals)	Key Benefit
EEFC Account	Exporters, IT professionals, consultants	Forex earnings from services/exports	Import payments, travel, foreign investments	Avoids forex conversion charges
RFC Account	NRIs returning to India OCI Resident	Foreign pensions, inheritance, LIC claims		Holds foreign currency balances

RFC (D) Account	Indian Residents with forex income	Forex income in India	Any foreign currency payments	Maintains forex balance for expenses
Diamond Dollar Account (DDA)	Exporters dealing in diamonds	Export earnings in foreign currency	Diamond imports, business expenses	Facilitates global diamond trade

Summary & Key Takeaways

Foreign currency accounts are regulated under FEMA to help individuals and businesses manage forex transactions efficiently.

EEFC Account is beneficial for **exporters, IT companies, and consultants** to avoid forex conversion losses.

RFC Account is ideal for **NRIs returning to India** to retain foreign currency earnings.

Proper forex account management helps reduce **exchange rate risks and banking charges**.

#3

Resident Foreign Currency (Domestic) Account - RFC (D) Account

Who Can Open?

Resident individuals who acquire foreign exchange and wish to retain it in India.

Permitted Transactions in RFC (D) Account

	Credits (Deposits)	Debits (Withdrawals)	
#1	Forex acquired from overseas in cash, bank notes, or traveler's cheques	Any permitted current or capital account transactions	#1
#2	Honorarium, gifts, or payments received while visiting abroad	Converting funds into INR when required	#2
#3	Gifts from relatives in foreign currency	Payments for travel, education, or foreign investments	#3
#4	Unspent foreign exchange from authorized travel money	Forex payments for services outside India	#4
#5	Earnings from life insurance settlements in forex	Use of funds for business or personal expenses	#5

Example Scenario: Meera, a professor in Mumbai, receives **$5,000 as a gift from her brother in the US** and another **€3,000 as an honorarium** for delivering lectures in France. Instead of converting the funds to INR immediately, she **opens an RFC (D) account** and deposits them.

Why?

She can **hold foreign currency** for future expenses such as foreign travel or education.

It helps her **avoid forex conversion losses** when making foreign transactions.

Diamond Dollar Account Scheme - DDA Account

Who Can Open?

- **Firms and companies** engaged in the **diamond trade**, as per the eligibility criteria of India's **Foreign Trade Policy**.

- The exporter must have achieved an **average annual export turnover of at least ₹5 crore (INR 50 million) during the previous three financial years**.

Permitted Transactions in DDA Account

Credits (Deposits)	Debits (Withdrawals)
#1 Realization of export proceeds (USD)	Payments for purchase of rough, cut, and polished diamonds #1
#2 Local sales of diamonds in USD	Transfers to rupee accounts #2
#3 Pre and post-shipment finance availed in USD	Business-related forex payments #3

Special Condition:

DDA accounts are non-interest-bearing current accounts (i.e., they do not earn interest).

Example Scenario: Kohinoor Diamonds Pvt. Ltd. exports **polished diamonds to the US and Europe**. Instead of converting USD proceeds into INR immediately, they **open a Diamond Dollar Account (DDA)** to:

Why?

Hold **foreign currency earnings** to **pay for future diamond imports** without forex conversion losses.

Maintain USD balance to **ease international trade transactions**.

Comparison Table of Foreign Currency Accounts in India

Type of Account	Who Can Open?	Credits (Deposits)	Debits (Withdrawals)	Key Benefit
EEFC Account	Exporters, IT professionals, consultants	Forex earnings from services/exports	Import payments, travel, foreign investments	Avoids forex conversion charges
RFC Account	NRIs returning to India	Foreign pensions, inheritance, LIC claims	Full utilization outside India, INR conversion	Holds foreign currency balances
RFC (D) Account	Residents with forex income	Forex income in India	Any foreign currency payments	Maintains forex balance for expenses

Diamond Dollar Account (DDA)	Exporters dealing in diamonds	Export earnings in foreign currency	Diamond imports, business expenses	Facilitates global diamond trade

Summary & Key Takeaways

Foreign currency accounts are regulated under FEMA to help individuals and businesses manage forex transactions efficiently.

EEFC Account is beneficial for **exporters, IT companies, and consultants** to avoid forex conversion losses.

RFC Account is ideal for **NRIs returning to India** to retain foreign currency earnings.

RFC (D) Account helps residents manage forex earnings for future expenses.

DDA Account is specifically designed for **diamond exporters and traders** to handle USD transactions.

Part-II Chapter-10

General Conditions for Foreign Currency Accounts

Key Conditions for EEFC, RFC (D), DDA Accounts

Conversion Requirement: