

## FOREIGN CURRENCY ACCOUNTS FOR RESIDENTS

### CHAPTER 10 PART 1 MODULE A PPB BY ASHISH SIR

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.

### 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.

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### 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

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investments.

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

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

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#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.

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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.

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

(A)

FC  
A/C

### Key Permitted Uses

**Business Transactions** – Payments for imports, global business expenses.

**Personal Needs** – Foreign travel, education, medical treatment.

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**In Case of Death of Account Holder:**

*#important*

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

*#1*

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



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#2

#3

#4



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

#2

#3

#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.**

Why?

EEFC

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.

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NRI → Resident      NRE/FCNR-B → RFC

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- 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	<u>Payments for foreign travel, medical, and education expenses</u> #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
<b>EEFC Account</b>	Exporters, IT professionals, consultants	Forex earnings from services/exports	Import payments, travel, foreign investments	Avoids forex conversion charges
<b>RFC Account</b>	NRIs returning to India <i>OCI</i>	Foreign pensions, inheritance, LIC claims		Holds foreign currency balances

*Resident*

*Indian*

   <b>RFC (D) Account</b>	Residents with forex income	Forex income in India	Any foreign currency payments	Maintains forex balance for expenses
    <b>Diamond Dollar Account (DDA)</b>	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**.

## Resident Foreign Currency (Domestic) Account - RFC

### (D) Account

#### Who Can Open?

#3

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

Permitted Transactions in RFC (D) Account

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

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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
<b>EEFC Account</b>	Exporters, IT professionals, consultants	Forex earnings from services/exports	Import payments, travel, foreign investments	Avoids forex conversion charges
<b>RFC Account</b>	NRIs returning to India	Foreign pensions, inheritance, LIC claims	Full utilization outside India, INR conversion	Holds foreign currency balances
<b>RFC (D) Account</b>	Residents with forex income	Forex income in India	Any foreign currency payments	Maintains forex balance for expenses



<b>Diamond Dollar Account (DDA)</b>	Exporters dealing in diamonds	Export earnings in foreign currency	Diamond imports, business expenses	Facilitates global diamond trade
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### 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:

EEFC  
DDA  
RFC-D  
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✓  
✓

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Forex accruals during a calendar month should be converted into INR on or before the last day of the next month (unless utilized or committed for future transactions).

### Account Transfer Permissions:

Resident

NRI

- EEFC & RFC (D) accounts can be transferred to NRE/FCNR (B) accounts when the resident changes status to NRI.

## Special Categories Allowed to Maintain Foreign

### Currency Accounts

Certain **specific businesses and entities** can hold foreign currency accounts in India for operational efficiency.

#1

### Indian Agents of Foreign Shipping/ Airline Companies

**Purpose:** For managing local expenses of foreign shipping or airline companies in India.

#### Permitted Credits:

Freight or passage fare collections in India.

Funds received from the **overseas principal** outside India.

#### Permitted Debits:

Local operational expenses in INR.

**Example** An Indian agent of Lufthansa Airlines collects ticket payments in USD from Indian travellers. Instead of converting all receipts immediately, it holds a foreign currency account in India to manage local operational expenses without incurring forex conversion costs.

#2

## Ship-Manning/Crew Managing Agencies in India

**Purpose:** For handling ship crew salaries and management expenses.

### Permitted Transactions:

Credits (Deposits)	Debits (Withdrawals)
Inward remittances from overseas principal	Payments for crew salaries, training, and ship expenses
	<u>No EEFC facility available</u>

#1

### Special Conditions:

**Non-interest-bearing account** (no interest earned).

**Account remains valid** only during the agreement period.

**Example** An Indian crew management company handling Norwegian ships receives salaries from its overseas principal in USD/ EUR and pays Indian seafarers in forex, directly from the foreign currency account.



## Project Offices of Foreign Companies

Who Can Open?

Closure

- Foreign companies executing projects in India.

### Key Conditions:

RBI permission required + Project Authority approval.

One foreign currency account per project.

Funds cannot be used for non-project activities.

### Permitted Transactions:

Credits (Deposits)	Debits (Withdrawals)
Funds from the foreign parent company	<u>Payments for project-related expenses</u>
Payments received from Indian project clients in forex	<u>Payments to foreign contractors</u>

### Closure Rules:

The account must be closed once the project is completed.

Any dispute settlements → funds converted into INR and credited to a special account.

**Example:** A German construction firm builds a metro rail project in India. Payments received in EUR/USD from Indian authorities are credited to its foreign currency account in India and used for project expenses.

## Organizers of International Seminars, Conferences,

### Conventions

## Closures after

**Purpose:** To manage foreign funds received for international events.

### Permitted Transactions:

#### Credits:

- ✓ Registration fees from foreign delegates.
- ✓ Foreign sponsorships and grants.

#### Debits:

- Honorarium to foreign speakers.
- Hotel & travel payments for foreign invitees.
- Refund of registration fees.

### Closure Requirement:

The account **must be closed immediately** after the event.

**Example:** A Delhi-based think tank hosts an international summit on climate change. It collects **sponsorship fees in USD** and pays honorariums to foreign guest speakers **through its foreign currency account** in India.



**RBI APPROVAL**

**Exporters on Deferred Payment Terms**

**Who Can Open?** Exporters selling construction goods, turnkey projects, or services on deferred payment terms.

**Special Conditions:**

RBI approval required.

Payments received in forex for exports/services can be held in

foreign currency accounts in India.



**Example:** An Indian engineering firm exporting turbines to Africa receives 50% upfront and 50% after 3 years. The firm maintains a foreign currency account to manage forex receipts.

#6

**SEZ Units (Special Economic Zones)**

**Who Can Open?** Units located in SEZs engaged in export activities.

**Permitted Transactions:**

Forex credits from foreign clients for trade transactions.

Can be used for local and international trade transactions.

**Restricted Transactions:**

- Cannot be gifted, lent, or made available to non-SEZ residents.



**Example:** An SEZ-based IT company in Bengaluru receives USD payments from US clients and uses the forex account to pay international vendors directly.

## Indian Companies Receiving FDI

#7

**Who Can Open?** Indian firms receiving foreign direct investment (FDI).

### Key Conditions:

The account is used **only for forex expenses** related to the investment.

~~Must be closed within 6 months or when forex expenditure is completed.~~

**Example:** A Mumbai-based startup receives \$2M FDI from a US investor. The company holds a foreign currency account to manage its forex-based operational expenses.

## Reinsurance & Composite Insurance Brokers (IRDA Registered)

**Who Can Open?** IRDA-registered reinsurance and composite insurance brokers.

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### Key Conditions:

Non-interest-bearing account.

Used for business transactions only (e.g., claim settlements, premium transfers).

**Example:** An Indian reinsurance broker receiving forex premium payments from international insurers maintains a forex account in India to settle transactions.

### Summary Table – Special Categories Holding Forex Accounts

Category	Purpose	Key Conditions
#1 Airlines & Shipping Agents	Local operational expenses	Fund receipts from overseas principal
#2 Ship Manning Agencies	Managing crew payments	<u>No EEFC facility</u>
#3 Foreign Project Offices	Project-related transactions	<u>RBI approval needed</u>
#4 Event Organizers	Hosting international events	<u>Must close after event</u>
#5 <u>Exporters (Deferred Payments)</u>	Selling on credit terms	RBI approval required
#6 SEZ Units	Export trade transactions	<u>Cannot be lent or gifted</u>
#7 FDI-Receiving Indian Firms	Managing foreign direct investment	<u>Close within 6 months</u> <u>Usage of funds</u>
#8 Reinsurance Brokers	Settling forex premiums	Non-interest-bearing

## Permitted Foreign Currency Accounts Outside India

### Who Can Hold Foreign Currency Accounts Outside India?

- #1 Business Entities for global transactions. *(Detailed in table)*
- #2 Students studying abroad.
- #3 Temporary foreign visitors.
- #4 Exporters handling overseas projects.
- #5 Startups with overseas subsidiaries.

## Business-Related Accounts

Certain **businesses and institutions** can hold foreign currency accounts abroad for global transactions and ease of operations.

Eligible Entity	Purpose of Account	Example (Indian Context)
#1 <u>Authorized Dealers (ADs) in India</u>	To facilitate transactions between Indian & foreign branches	<u>SBI branch in New York</u> maintains an account for handling overseas transactions.
Branches of Indian banks abroad #2	To facilitate overseas transactions for Indian banks	ICICI Bank's UK branch holds a GBP account to handle UK transactions.
Indian airline or shipping companies #3	To manage ticket sales, fuel payments, and international operations	Air India maintains a USD account in Dubai for flight operations.
Insurance/Reinsurance	For handling overseas claims and premium payments	LIC International holds accounts in UAE for foreign policyholders.

Companies (IRDA Registered) #4 ✈️		
Indian companies with foreign offices #5	To handle salaries, rents, and operational expenses of foreign offices	TCS maintains a EUR account in Germany for paying local employees.
Exporters selling goods/services on deferred payment terms #6	To receive payments from foreign buyers on a delayed basis	L&T holds an account in UAE to receive project payments.

## Foreign Currency Accounts for Temporary Stay Abroad

### Who Can Open?

- #1 Foreign nationals working in India – Can hold an account abroad for salary remittances.
- #2 Indians on deputation abroad – Can receive salaries in their overseas bank accounts.
- #3 Indian students studying abroad – Can maintain local bank accounts during their studies.

### Remittance of Assets by Foreign Nationals (Non-PIOs)

Foreign nationals (who are **not** Persons of Indian Origin) can remit **assets abroad** under specific conditions.

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Who Can Remit Assets?	Conditions	Example (Indian Context)
<u>Retired foreign employees</u> #1	Foreigners who worked in India can remit savings upon retirement	A <b>German engineer employed by Tata Motors</b> retires and transfers his Indian savings back to Germany.
<u>Foreigners inheriting assets from Indian residents</u> #2	If inherited from an <b>Indian resident</b>	A <b>British citizen</b> inherits property from his <b>Indian grandfather</b> and remits the sale proceeds abroad.
<u>Non-resident</u> #3	If their deceased <b>Indian spouse</b> was a resident	An <b>American woman married to an Indian citizen</b> inherits property in India and transfers proceeds abroad.
<u>Foreign students completing studies in India</u> #4	Can repatriate any unspent money after completing education	A <b>French student at IIT Delhi</b> can transfer his <b>remaining INR funds</b> back to France.

All these remittances require documentation and bank approvals.

### Summary Table – Foreign Currency Accounts Outside India

Account Type	Who Can Open?	Purpose	Key Conditions
<b>Business Foreign Currency Accounts</b>	<u>Indian firms,</u> <u>banks, airlines,</u> <u>exporters</u>	Overseas transactions, salaries, and payments	RBI/FEMA approval needed for specific cases
<b>Temporary Stay Accounts</b>	<u>Foreign nationals,</u> <u>Indian employees</u> <u>on deputation,</u> <u>students</u>	Salary credit, education expenses, temporary remittances	Must be closed after leaving India or studies completion

Temp 3 cases

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<b>Asset Remittance for Foreign Nationals</b>	<u>Retired employees,</u> <u>Inheritors,</u> <u>Foreign students</u>	Transferring savings, inheritance, and unspent money abroad	<u>Needs AD bank approval, legal documentation</u>
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## Foreign Contribution & Property Outside India –

### Key Regulations



A resident in India can acquire **immovable property abroad** under the following conditions:

#1

#2

#3

Mode of Acquisition	Description	Example (Indian Context)
Previously Owned Property	If the resident <b>owned property</b> while residing <u>abroad or inherited it</u> from a non-resident	A person who worked in <u>the USA and purchased a house there, later returning to India.</u>
Gift/Inheritance	Property received as <u>a gift or inheritance from a person who legally held it abroad</u>	An Indian inherits a London apartment from their NRI uncle.
Purchase via RFC/LRS	Bought using <u>funds in RFC account</u> or under the	An Indian entrepreneur buys a villa in Dubai using LRS.

	<b>Liberalized Remittance Scheme (LRS)</b>	
<b>Joint Ownership with Relative Abroad</b> 	Acquired jointly with a <u>relative outside India</u> (without remitting <u>money from India</u> )	An NRI son & his Indian father jointly purchase a home in Canada.

RBI approvals & FEMA guidelines apply to specific cases.

*Chapter - 10 Module A Part 3*

**Foreign Contribution Regulation Act (FCRA) 2010**

The Foreign Contribution (Regulation) Act (FCRA) 2010 regulates donations, foreign grants, and foreign hospitality received by organizations, individuals, and companies.

**Meaning of Foreign Contribution**

Foreign Contribution = Any donation, currency, or asset received from a foreign source.

Includes donations, securities, articles, or transfers from foreign governments, individuals, or organizations.



Source of Foreign Contribution	Covered Under FCRA?
Foreign Government Grants	Yes
<u>Foreign Companies/Corporations</u>	Yes

