
	<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

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International Organizations (Excluding UN, IMF, etc.)	Yes
<u>Personal gifts for personal use (&lt; specified amount)</u>	<u>No</u>

All foreign contributions must comply with FCRA & FEMA rules.

## Prohibited Recipients of Foreign Contributions

Certain people & entities cannot accept foreign donations.

Prohibited Entities	Cannot Receive Foreign Contributions
Election Candidates	Political candidates during elections
Media Professionals	<u>Journalists, editors, columnists</u>
Judges & Public Servants	<u>Judges, government employees</u>
Legislators & Political Parties	<u>MPs, MLAs, political parties</u>
Broadcast & Media Houses	<u>News agencies, TV channels</u>

Exceptions exist under specific RBI & FCRA approvals.

## Meaning of Foreign Hospitality

**Foreign Hospitality** = Any offer from a foreign source covering travel, lodging, food, or medical treatment for an individual.

**Example:** An Indian MP invited by a foreign government for a diplomatic event, with travel & stay covered.



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## Restrictions on Accepting Foreign Hospitality

Who Needs Prior Permission?	Cannot Accept Without Approval
Legislators (MPs, MLAs, etc.)	Needs central government permission
Judges & Public Servants	Cannot accept foreign hospitality
Government Employees	Requires clearance
Political Party Office-Bearers	Subject to FCRA regulations

**Prior permission from the Central Government is required.**

## Registration & Compliance for Accepting Foreign Contributions

**Organizations accepting foreign donations must:**

*#important*

- ✓ Register under FCRA
- ✓ Obtain **prior permission** for unregistered organizations
- ✓ Ensure **funds are used only for approved purposes**
- ✓ Renew registration every **5 years**

Requirement	Details
FCRA Registration	Mandatory for NGOs, Trusts, and Institutions receiving foreign funds
Validity	<b>5 years</b> (renewable)
Prior Permission	Needed if <b>not FCRA registered</b>
Utilization Check	<u>Funds must be used only for approved purposes</u>

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Transfer  
Restrictions

Foreign contributions **cannot be transferred to other persons**

**Example:** An NGO working for education in India receives a \$100,000 grant from a UK charity—it must be FCRA-registered before accepting the donation.

### Suspension & Cancellation of Registration

The Central Government can suspend or cancel FCRA registration if:

- #1 Funds are misused for unauthorized activities.
- #2 FCRA rules are violated repeatedly.
- #3 Fraud or false information is provided.

#### Consequences of Suspension

- #1 Cannot receive foreign contributions during suspension.
- #2 Requires special government permission to use existing foreign funds.

**Example:** If an NGO registered under FCRA uses funds for political activities instead of education, the government can revoke its registration.

**Quick Summary – Foreign Contribution & Property Outside India**

Topic	Key Details	Example (Indian Context)
<b>Property Outside India</b>	Residents can acquire property via inheritance, gift, RFC funds, or LRS	An NRI gifts a Dubai property to his Indian relative.
<b>Foreign Contribution (FCRA)</b>	Donations from foreign entities require FCRA registration	A Delhi-based NGO receiving funds from Bill & Melinda Gates Foundation.
<b>Who Cannot Accept Foreign Contributions?</b>	<u>MPs, MLAs, judges, government servants, media houses</u>	A political party cannot accept funds from a US-based donor.
<b>Foreign Hospitality Rules</b>	<u>Govt employees, political leaders need prior approval</u>	An Indian MP cannot accept an all-expenses-paid trip abroad without approval.
<b>FCRA Compliance</b>	NGOs & institutions must register, renew every 5 years	An educational NGO applying for FCRA renewal after 5 years.
<b>Suspension &amp; Cancellation</b>		An NGO misusing funds faces suspension.

**Key Takeaways**

Residents can acquire property abroad via inheritance, RFC, or LRS.

FCRA regulates foreign contributions & hospitality for individuals & organizations.



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Certain categories (MPs, judges, media, political parties) are restricted from foreign funding.



**Strict government scrutiny & compliance required for all foreign transactions.**

Understanding these rules ensures compliance with FEMA & FCRA regulations!

Foreign Contribution & FEMA Regulations – Summary & Key Insights



Effective from September 2020, all foreign contributions must be received through State Bank of India (SBI), New Delhi Main Branch under FCRA regulations.

### Process for Receiving Foreign Contribution:

Step	Details
#1 Open FCRA Account at SBI	Every person receiving foreign contributions must open an <b>exclusive FCRA Account at SBI, New Delhi Main Branch.</b>
#2 Transfer to Other Banks	Funds can be <b>transferred</b> from SBI's FCRA account to <b>another scheduled bank</b> for utilization.

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**No Other Credits Allowed**

Only foreign contributions can be credited; no other funds are permitted.

*SBI, Newdelhi Main Branch*

**Example:** An NGO receiving \$50,000 from a US-based donor must first deposit it in their SBI FCRA account before transferring it to their operational bank account.

*SBI*

## Reporting by Banks for Foreign Contributions

Banks handling foreign contribution accounts must report details to regulatory authorities.

Requirement	Details
Reporting to Authorities	SBI & other banks must report <u>foreign contributions received to the Central Government.</u>
Details to be Shared	<u>Source, amount, mode of receipt, and purpose of funds.</u>
Timeframe	Reports must be sent <u>within 48 hours</u> of the transaction.
Online Reporting	Ministry of Home Affairs (MHA) has developed a software for <b>online submission</b> of reports.

## Intimation by the Recipient

Every person/organization receiving foreign contribution must submit an intimation report to the Central Government.

### Mandatory Details to be Reported:

Requirement	Details
#1 Total Contribution Received	Each amount received from foreign sources.
#2 Source of Contribution	Donor's name & country.
#3 Mode of Receipt	Bank transfer, cheque, or other modes.
#4 Purpose of Funds	Education, social work, healthcare, etc.
#5 Utilization of Funds	Where & how the money was spent.

**Example:** An educational NGO in India receiving ₹20 lakhs from a UK-based charity must report the amount, donor, and utilization details within the specified time.

## Restrictions on Transfer & Utilization of Foreign Contribution

### Prohibited Transfers

FCRA-registered entities cannot transfer foreign contributions to another unregistered entity.



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**Example:** If an NGO in Delhi receives \$30,000 in foreign funding, it cannot transfer it to a small unregistered group working under it.

### Permitted Utilization of Foreign Contribution

Utilization Rules	Not Allowed
✓ Only for stated purposes	Using funds for personal expenses ✗
✓ Non-Speculative Purposes	Investing in stock markets/real estate ✗
✓ Within FCRA guidelines	Funding political campaigns ✗

**Example:** An NGO receiving \$50,000 for rural education must use the funds only for books, teacher salaries, and school infrastructure.

## FCRA Rules & Reporting by Banks

### Disclosure of Foreign Contributions

#### FCRA-registered organizations must:

- #1** 1 **Publish financial statements online** – including receipts & expenditures.
- #2** 2 **Quarterly reporting** – disclose foreign contributions received within 15 days of each quarter.

**Example:** An NGO in Bangalore receiving ₹1 crore from the UK in April must disclose the details online by mid-July.

## Handling of Unutilized Foreign Contributions

If an entity's FCRA registration is cancelled, its unutilized foreign funds will:

Remain frozen in the bank account until the Central Government gives directions.

**Example:** An NGO's FCRA registration is revoked in August – it cannot use the ₹10 lakhs balance in its FCRA account until permitted.

## Bank's Reporting Obligation for Foreign Contributions

### Reporting Responsibilities of Banks:

Requirement	Deadline
Report every foreign contribution transaction	Within 48 hours to the Central Government
Submit transaction details	Includes recipient name, donor name, and amount

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Online Reporting via MHA Portal

Real-time updates to the government database

**Example:** A Delhi-based hospital receives a \$1 million donation from a US charity – its bank must report the transaction to MHA within 48 hours.

### Summary Table – Foreign Contribution & Compliance

Topic	Key Details	Example (Indian Context)
Receiving Foreign Contribution	Must be credited to SBI, New Delhi Main Branch	An NGO receiving ₹50 lakhs from UK must deposit it in SBI FCRA Account.
Bank's Reporting Obligation	Banks must report within 48 hours	A foreign-funded startup's transaction is reported to MHA in real-time.
Recipient's Disclosure Obligation	NGOs must disclose funding sources & utilization online	An educational trust publishes donation details on its website.
Prohibited Activities	Cannot use funds for politics, speculation, or personal expenses	Funds for healthcare cannot be used for stock trading.
Unutilized Foreign Contributions	Frozen if FCRA registration is canceled	NGO funds remain in the account until further government orders.

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### Developments in Cash Management System (CMS)

#### CHAPTER 11 MODULE A PPB By Ashish Sir

##### Evolution of CMS

Cash management has transformed dramatically due to:

#1

**Rising Interest Rates:** Higher costs of holding cash made

businesses look for **efficient cash management strategies**.

#2

**Technological Advancements:** Digital payments & automation

reduced reliance on **manual processes** and increased **transaction speed**.

**Real-Life Example:** Imagine a **global corporation like Tata Motors**

, which has multiple factories, sales offices, and service centers across **India & abroad**. Managing **inflows from customers** and **outflows to suppliers/ employees** requires an advanced cash management system to transfer funds instantly where needed!

##### RBI's Role in Strengthening the Payment System

Since the **mid-1980s**, the **Reserve Bank of India (RBI)** has introduced several **game-changing payment solutions** to improve cash management.

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## Key RBI Initiatives for a Modern Payment System

System	Purpose & Benefits
#1 MICR (Magnetic Ink Character Recognition)	<u>Faster &amp; error-free cheque processing</u>
#2 Inter-city & High-Value Clearing	<u>Speedy transactions</u> across different cities
#3 ECS (Electronic Clearing Service)	<b>Auto-debit</b> for utility bills, salaries, and EMI payments
#4 NEFT (National Electronic Funds Transfer) <i>48 Hrs 24x7</i>	Secure, <b>low-cost</b> online transactions for individuals & businesses
#5 RTGS (Real-Time Gross Settlement) <i>Real time</i>	<b>Instant, high-value</b> transactions (₹2 lakh & above)
#6 <u>DvP (Delivery vs Payment) System</u>	<u>Secure government securities</u> transactions
#7 INFINET (Indian Financial Network)	Secure <b>banking network</b> for digital payments & transactions
#8 CTS (Cheque Truncation System)	<b>Faster cheque clearing</b> using digital images
#9 NACH (National Automated Clearing House)	<u>Centralized auto-debit</u> system for bulk payments
#10 <u>UPI (Unified Payments Interface)</u>	Instant, <b>24/7 digital payments</b> via mobile apps

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**Real-Life Example:** Imagine **Ramesh**, a businessman in **Mumbai**, making daily **bulk payments** to his suppliers across **different cities**. Thanks to **RTGS & NEFT**, he can **instantly transfer** lakhs of rupees to their bank accounts with **zero hassle!**

### Importance of CMS for Corporates & Banks

#### 1 CMS Benefits for Corporates

A well-structured **Cash Management System (CMS)** provides:

#1

**Better Control:** Know **when, where & how** cash is needed.

#2

**Data Insights:** Get real-time tracking of **inflows & outflows**.

#3

**Interest Savings:** Reduce idle cash holdings & earn interest on surplus.

#4

**Faster Transactions:** Reduce paperwork and speed up financial operations.

#5

**Lower Risks:** Identify & manage **cash shortages** before they become a crisis!

**Real-Life Example:** Imagine **Infosys**, which pays **salaries, vendor payments, and operational costs** across multiple countries. Instead of **holding cash separately in every location**, they use **centralized cash pooling** to **optimize working capital & minimize currency risk!**

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## **2 CMS Benefits for Banks**



With **deregulation & digital innovation**, banks are shifting towards **fee-based financial services** to boost profits .

#1

**New Revenue Streams:** Banks charge **fees** for premium **cash management services**.

#2

**Stronger Customer Relations:** Offering **smart banking solutions** creates **loyal customers**.

#3

**Digital Transformation:** Banks can offer **fully automated cash management** for businesses & individuals.

**Real-Life Example:** SBI now provides **CMS services** to large corporates like **Reliance Industries** , ensuring **real-time fund transfers, bulk payments, & auto-reconciliation** of payments. This helps Reliance reduce paperwork , manage cash flow better & avoid late payment penalties!



Summary Table – CMS Evolution & Benefits

Aspect	Key Takeaways
<b>Evolution of CMS</b>	Rising interest rates & Tech advancements reshaped cash management.
<b>RBI's Role</b>	Introduced <b>MICR, RTGS, NEFT, UPI &amp; NACH</b> for seamless banking.
<b>Corporate Benefits</b>	Faster transactions, better control, interest savings & real-time insights
<b>Bank Benefits</b>	<u>Stronger customer relationships, digital services &amp; fee-based income growth</u>
<b>Real-Life Examples</b>	<b>Infosys, Reliance, Tata Motors, SBI &amp; Unilever</b> optimizing CMS!

#1

#2

#3

#4

#5

**Types of Cash Management Services (CMS)**

A number of **banks in India** offer comprehensive Cash Management Services (CMS) to corporate clients, small businesses, and institutions. These services help **optimize liquidity, streamline cash flow,** and **reduce financial risks.**

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## Major CMS Products Offered by Banks

Service	Description & Benefits
#1 ✓ Cash Collection Service ✓ ✓ ✓	Secure & efficient <u>cash pick-up</u> solutions tailored for businesses. <b>Benefits: Minimizes operational risk, cost, &amp; theft risks.</b>
#2 Fund Transfer Services	Automated payments for <b>supply chain, salary payments, overseas remittances, &amp; statutory tax payments.</b>
#3 Cheque/ DD Drawing Arrangement	Demand drafts (DDs) & <b>Payable at Par</b> cheques for corporate payments. Offered on a <b>pre-funding/ post-funding basis.</b>
#4 NEFT Bulk Payments	<b>Electronic fund transfers</b> for large-scale disbursements across multiple accounts.
#5 Receivables Management	Local & upcountry cheque <b>collections &amp; clearing solutions.</b>
#6 NACH Payment Facility	<b>Automated periodic disbursements</b> for loan EMIs, salary credits, insurance payments, & more!
#7 <u>Auto-Sweeping</u> Facility	Pooling of <b>surplus funds</b> from multiple branches to a <b>central account</b> for better liquidity.
#8 Foreign Bank Offerings	Advanced <b>Regional &amp; Global Treasury Management, Electronic Banking, &amp; Investment Solutions.</b>

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Real-Life Example: Reliance Industries uses NACH payments to automatically credit salaries & vendor payments across India, ensuring zero delays & reduced manual effort!

### Challenges & Issues in Cash Management

With **advancing technology & digitization**, banks must address various **challenges in Cash Management Services**. These include **security risks**, **operational reliability**, and the need for **customized solutions** for different industries.

#### Major Challenges in CMS

Challenge	Description & Impact
<b>#1</b> <u>Understanding Client's Business</u>	Banks need <u>deep industry knowledge</u> to provide <u>customized financial solutions</u> for different businesses.
<b>#2</b> <u>Advisory Services</u>	Clients <b>expect banks</b> to solve <b>other financial challenges</b> beyond <u>cash management</u> , such as <b>risk analysis &amp; fraud prevention</b> .
<b>#3</b> <u>Tech Sourcing Decisions</u>	Banks must <b>decide</b> whether to <b>develop in-house software</b> , <b>buy from vendors</b> , or <b>outsource cash management tech</b> .

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#4

Accessibility for  
SMEs

Many **small & medium businesses (SMEs)** need high-tech cash management solutions but **lack resources** to implement them.

#5

Coordination with  
Finance Teams

Banks must **work closely** with corporate **finance teams, controllers, & marketing departments** to develop **seamless solutions**.

#6

Security & Risk  
Management

Companies **lose millions** due to **cyber frauds & data breaches**. Banks must ensure **secure financial transactions**.

#7

Operational  
Reliability

Digital payments must be **instant, accurate, and secure** to gain **trust from businesses**.

**Real-Life Example: HDFC Bank** faced **security challenges** when its **mobile banking app** was targeted by **fraudsters**. To counter this, they **strengthened cybersecurity** & introduced **two-factor authentication (2FA) & AI-based fraud detection!**

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## Summary Table – CMS Services & Challenges

Topic	Key Takeaways
<b>CMS Services Offered by Banks</b>	Cash collection, fund transfers, NEFT, cheque/DD clearing, NACH, & auto-sweeping.
<b>Global &amp; Regional Treasury Management</b>	Offered by foreign banks for cross-border transactions & liquidity management.
<b>Challenges in CMS</b>	Security risks, SME accessibility, operational reliability, & need for <b>customized financial solutions</b> .
<b>Real-Life Examples</b>	Reliance (NACH payments), HDFC Bank (Cybersecurity), & SBI (Auto-Sweeping Solutions).

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