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From Local to Global: Decoding RBI's Recent Amendments to FEMA Regulations for Cross-Border Transactions

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Introduction

On 14 January 2025, the Reserve Bank of India (RBI) amended the following regulations as part of its evolving regulatory framework aimed at promoting the use of the Indian Rupee (INR) in cross-border transactions:

i. Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) Regulations, 2015 (FCA Regulations) through the Foreign Exchange Management (Foreign Currency Accounts by a person resident in India) (Fifth Amendment) Regulations, 2025 (FCA Amendment); and

ii. Foreign Exchange Management (Deposit) Regulations, 2016 (Deposit Regulations) through the Foreign Exchange Management (Deposit) (Fifth Amendment) Regulations, 2025 (Deposit Amendment).

The RBI has also released 'Frequently Asked Questions' in relation to foreign currency accounts and the operation of Special Non-Resident Rupee Accounts (SNRR Accounts) opened under the Deposit Regulations. Further, corresponding changes were also introduced to the Master Directions on Deposits and Accounts and the Master Direction – Export of Goods and Services.

In the recent past, the RBI has been taking various steps to promote INR in cross-border transactions with a view to stabilise the Indian financial market against macroeconomic challenges such as capital outflows and surging inflation as well as to strengthen the value of INR. In 2022, the RBI had enabled the opening of Special Rupee Vostro Account (SVRA) for settlement of trade transactions in INR. The RBI had also prioritised 'Internationalisation of INR' as one of its agenda items for 2024-25.

KEY HIGHLIGHTS

1. **FCA Amendment:**

   Prior to the FCA Amendment, Indian exporters could only open foreign currency accounts (FCAs) with banks outside of India under the following circumstances: (a) the exporter had undertaken a construction contract or a turnkey project outside India; or (b) the exporter was engaged in exporting services or engineering goods from India on deferred payment terms basis.

   Further, the exporters were required to obtain approval under the Foreign Exchange Management (Export of goods and services) Regulations, 2015 (Export Regulations) for undertaking the contract / project / export of goods or services.

   The FCA Amendment introduces a new provision allowing Indian exporters to maintain FCAs with banks outside India for all export transactions (and not just for construction contracts / turnkey projects, etc.). Through these accounts, Indian exporters can receive payments for advance payments (for goods / services to be exported by them) as well as deferred payments (for goods / services already exported by them).

   The amounts collected in such accounts can also be used to pay for goods / services imported by such exporters. The FCA Amendment also prescribes a settlement timeline of one month (from the date of

receipt of funds in the FCA) for repatriation of the export proceeds to the Indian account of the exporter after adjusting for forward commitments.

Further, unlike the erstwhile regime, there is no explicit requirement to obtain prior approval under the Export Regulations for opening FCAs. However, for undertaking certain types of export transactions which require approval to be obtained under Export Regulations (such as turnkey projects and civil construction contracts), prior approval may still be required for opening FCAs.

Comment:

(a) *The changes introduced through the FCA Amendment provide Indian exporters with significant flexibility by giving them the option of directly collecting export payments for all permitted export transactions in their foreign accounts, as compared to the earlier framework under which they were only permitted to directly collect deferred export payments for limited purposes.*

(b) *This will provide Indian banks and fintech entities with new business opportunities to support exporters and provide tailored payment services. Indian banks who have branches outside of India may leverage their global presence and offer Indian exporters with the ability to open FCAs with greater ease (as compared to opening FCAs with foreign banks who do not have any presence in India). Fintech entities may also partner with banks outside India to facilitate opening of FCAs for Indian exporters in a seamless digital manner.*

(c) *Since Indian exporters will now be able to directly collect export payments in their foreign accounts, it will be interesting to see how the business of payment intermediaries such as cross-border payment aggregators would be affected.*

(d) *Lastly, while the RBI has permitted amounts collected in FCAs to be repatriated after adjusting for 'forward commitments', it has not provided clarity (either in the FCA Amendment or the related FAQs) on what exactly constitutes 'forward commitments' and the documentation required to evidence such commitments to enable relevant amounts to be retained in the FCA beyond the prescribed one-month settlement timeline.*

2. **Deposit Amendment:**

In line with its broader objective to promote INR for settlement of cross-border trade transactions and to reduce currency risks for Indian parties, the RBI has introduced the following changes to the Deposit Regulations through the Deposit Amendment.

2.1. *Opening of SNRR Account overseas*

Prior to the Deposit Amendment, persons resident outside of India (PROI) were only permitted to open an SNRR Account with an authorised dealer bank (AD Bank) in India. Pursuant to the Deposit Amendment, non-residents have now been permitted to open SNRR Accounts with AD Banks in India as well as their branches outside of India.

Comment.

The RBI has made opening of SNRR Accounts easier and more accessible by permitting PROIs to open SNRR Accounts with branches of AD Banks located outside of India. From an operational standpoint, it will be more convenient for PROIs to co-ordinate with and open accounts with AD Bank branches located in their own offshore jurisdiction (as opposed to opening an account with an AD Bank located in India). This change is also aligned with the RBI's broader effort to position INR as a cross-border currency which would significantly reduce currency risk for Indian parties.

2.2. *Operation of SNRR Accounts*

The erstwhile Deposit Regulations only permitted non-residents having a 'business interest' in India to open a SNRR Account with an AD Bank for the purposes of undertaking *bonafide* transactions. Further, the Deposit Regulations provided for a list of *bonafide* 'business interests' which were specifically permitted (such as imports, exports, investments made in India, credit transactions and lending) in addition to general business interests.

Pursuant to the Deposit Amendment, the RBI has removed reference to specific *bonafide* business interests for which SNRR Accounts can be opened. Instead, the Deposit Amendment states that SNRR Accounts can be opened for all '*permissible current and capital account transactions*'. Further, it has also been clarified that IFSC units would be treated as non-residents for purposes of the Deposit Regulations.

Comment:

Prior to the Deposit Amendment, SNRR Accounts could be opened only for certain specific purposes and other 'general business interests'. However, the RBI had not provided any clarity on what activities would fall within the ambit of 'general business interests'. Through the Deposit Amendment, the RBI has liberalised the use-cases for an SNRR account and permitted routing of payments for all permitted current account and capital account transactions through such account.

2.3. *Tenure of SNRR Accounts*

The Deposit Regulations previously stated that SNRR Accounts can be opened for a tenure which is the lesser of: (i) the tenure of the contract or period of operation or the business of the account holder; or (ii) seven years from the date on which the account was opened. The Deposit Amendment removes such seven-year cap, meaning that the tenure of SNRR Accounts is now only tied to the tenure of the contract / operation period / business of the account holder and may exceed seven years.

Comment:

In removing the seven-year cap, the RBI has provided greater operational flexibility to PROIs who have long term business interests in India. Such PROIs will no longer be required to close their SNRR Accounts (and open a new account) if their underlying business interests in India exceeds seven years.

2.4. *Transfer of funds between repatriable INR accounts*

The Deposit Regulations previously only permitted debits from the SNRR Account which is "*specific / incidental*" to the business operations of the account holder. Through the Deposit Amendment, the RBI has now explicitly permitted transfer of funds between repatriable INR accounts (such as non-resident ordinary accounts, non-resident external accounts, SNRR Accounts) for all *bonafide* transactions (regardless of whether such transactions are specific / incidental to the business operations of the account holder).

Pursuant to this amendment, a PROI that maintains a repatriable INR account can use the balances in such account to make payments to a repatriable INR account maintained by another PROI, provided that the underlying transaction between the two PROIs is *bonafide* in nature.

Comment

This change is in line with other changes introduced by the Deposit Amendment and is aimed at encouraging PROIs to open SNRR Accounts and transact in INR. Specifically, this change will provide greater flexibility to PROIs to utilise balances in their SNRR Accounts for settling amounts due to other PROIs for transactions which may not have any relation to their underlying business operations in India for which the SNRR Account would have been initially opened.

Separately, it is pertinent to note that neither the Deposit Amendment nor the related FAQs provide any definition or clarification on what would constitute 'bonafide transactions' (between an SNRR Account holder and another PROI) for which balances in the SNRR Account can be utilised.

Conclusion

The amendments are a welcome step towards internationalising INR and a testament to the RBI's willingness to further liberalise the regulatory framework governing exchange control. These amendments would allow India to fortify its position in the global market amidst the declining value of INR and may help encourage long-term financial capital inflows, which are especially imperative in a period marked by surging inflation, capital outflows, and fluctuating exchange rates. Additionally, by relaxing past restrictions around cross-

border transactions, the amendments encourage foreign investors and PROIs to engage with the Indian market, supporting India's ambitions for export-driven growth and international economic participation.

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