

# CHAPTER 5

## ACCOUNTS OF NON-RESIDENT BANKS AND INTER-BANK DEALINGS

### **PART A - RUPEE ACCOUNTS OF NON-RESIDENT BANKS**

- 5A.1 [General](#)
- 5A.2 [Opening and Closing of Accounts](#)
- 5A.3 [Implications of Rupee Credits to Accounts of Non-resident Banks](#)
- 5A.4 [Implications of Debits of Accounts of Non-resident Banks](#)
- 5A.5 [Forms A1 and A2](#)
- 5A.6 [Rupee Traveller Cheques](#)
- 5A.7 [Form A3](#)
- 5A.8 [Funding of Accounts of Non- resident Banks](#)
- 5A.9 [Transfers from other Accounts of the same Bank](#)
- 5A.10 [Transfers from one Overseas Bank to Another](#)
- 5A.11 [Conversion of Rupees into Foreign Currencies](#)
- 5A.12 [Responsibilities of Paying and Receiving Banks](#)
- 5A.13 [Disposal of Forms](#)
- 5A.14 [Refund of Rupee Remittances](#)
- 5A.15 [Overdraft/Loans to Overseas Branches/Correspondents](#)
- 5A.16 [Deleted](#)
- 5A.17 [Rupee Accounts of Exchange Houses](#)

### **PART B - INTER-BANK DEALINGS**

- 5B.1 [Position](#)
- 5B.2 [Balances Abroad](#)
- 5B.3 [Maturity Mismatches](#)
- 5B.4 [Inter-bank Sales and Purchases](#)
- 5B.5 [Sales and Purchases in Overseas Bank to Another](#)
- 5B.6 [Investments Abroad](#)
- 5B.7 [Inter-bank Foreign Currency Deposits](#)
- 5B.8 [Loans/Overdrafts from Overseas Branches and Correspondents](#)
- 5B.9 [Investments of foreign currency funds](#)
- 5B.10 [Adherence to FEDAI Rules](#)

### **PART C - ACU DOLLAR ACCOUNTS**

- 5C.1 [Opening of ACU Dollar Accounts](#)
- 5C.2 [Funding of ACU Dollar Accounts](#)
- 5C.3 [Settlement through ACU treated as Payment in Convertible Currency](#)
- 5C.4 [Overdrafts/Loans to/orm Overseas Branches/Correspondents in ACU Countries](#)

### **ANNEXURE**

- [Guidelines for Foreign Exchange Exposure Limits of Authorised Dealers](#)

## ACCOUNTS OF NON-RESIDENT BANKS AND INTER-BANK DEALINGS

### **PART A - RUPEE ACCOUNTS OF NON-RESIDENT BANKS**

#### **General**

**5A.1** Rules and regulations governing the opening of and operations on rupee accounts in the names of branches and correspondents outside India, other than those in Nepal and

Bhutan, maintained by authorised dealers, are laid down in this section. Rupee accounts maintained by foreign Governments and Government organisations outside India with authorised dealers in India are treated on par with accounts maintained by non-resident banks.

### **Opening and Closing of Accounts**

**5A.2** (i) Authorised dealers may open non-interest bearing rupee accounts in their books

in the names of their branches and correspondents outside  
India without prior reference to

Reserve Bank. However, when a new account of a non-resident branch or correspondent is opened, an advice giving the name and address of the foreign bank, the purpose for which the account will be used and the manner in which it will be kept in funds should be sent to the concerned office of Reserve Bank. A report should also be sent giving the name and address of the foreign correspondent bank and the date of closure of the account when an account is closed. A copy of the advice should also be sent to the Central Office of Reserve Bank (Central Statistical Division).

NOTES: A. *Rupee accounts opened in the names of authorised dealers' branches/ correspondents in Pakistan should be used for financing only permissible transactions with that country. Opening of rupee accounts in the names of branches of Pakistani banks operating outside Pakistan requires specific approval of Reserve Bank.*

B. *Authorised dealers should not permit any arrangement under which non-resident private exchange houses/companies can operate on the rupee accounts of non-resident banks maintained with them.*

(ii) The Head/Principal Office of each authorised dealer should furnish an up-to-date list (in triplicate) of all its offices/branches which are maintaining rupee accounts of non-resident banks as at the end of December every year giving their addresses and code numbers allotted by Reserve Bank. The list should be submitted before 15th January of the following year to the Central Office of Reserve Bank (Central Statistical Division). The offices/branches should be classified according to area of jurisdiction of Reserve Bank Offices within which they are situated.

### **Implications of Rupee Credits to Accounts of Non-Resident Banks**

**5A.3** (i) Reserve Bank has permitted credit of rupees to accounts of non-resident banks as one

of the methods of payment to persons resident outside India (See [paragraph 2.6](#)). This permission is subject to the condition that payment made in such manner by any person for the purpose declared by him on the appropriate application form viz. [A1](#) or [A2](#), as the case may be, shall actually be towards that purpose and not any other purpose. If the payment is used towards any other purpose, it will amount to a breach of the condition subject to which permission has been granted.

NOTE: *The above provision is also applicable to payments through Asian Clearing Union (See [Chapter 2](#))*

(ii) Credits to the rupee account of a non-resident branch or correspondent of an authorised

dealer are equivalent to a remittance of foreign currency from India and are, therefore, subject to the same regulations as are applicable to transfers in foreign currency. Such transfers may be made by authorised dealers, without approval of Reserve Bank, only in those cases where they could have remitted funds to the country concerned under powers delegated to them. Applications for rupee transfers which are not covered by powers delegated to authorised dealers should be forwarded to Reserve Bank on [form A1](#) or [A2](#), as the case may be, for approval together with appropriate documentary evidence.

## **Implications of Debits to Accounts of Non-resident Banks**

**5A.4** Debits to the rupee account of a non-resident branch or correspondent of an authorised

dealer are equivalent to an inward remittance in foreign currency. Such debits are governed by the same regulations as are applicable to inward remittances of foreign exchange set out in [paragraph 3A.2](#).

NOTE: A. *Where payments to be made amount individually to Rupees one lakh or its equivalent or more, the purpose of inward remittance should be ascertained and reported in the supplementary statement annexed to R Return.*

B. *Authorised dealers may issue certificates against payments made to residents by debit to non-resident bank accounts in accordance with the procedure laid down in [paragraph 3A.6](#).*

## **Forms [A1](#) and [A2](#)**

**5A.5** Applications from residents for purchase of rupee drafts or TTs on places outside India should be made on form A1 bearing the legend 'Application for transfer of Indian rupees to account of a non-resident bank' or on form [A2](#) bearing a similar legend depending upon whether the payment is for imports or for purposes other than imports, stating full particulars and supported by appropriate documentary evidence.

NOTE: *[Forms A2](#) should also be completed in case of permitted transfers from Ordinary Non-resident Rupee accounts and Non-resident (External) accounts to accounts of non-resident banks.*

## **Rupee Travellers Cheques**

**5A.6** Authorised dealers may freely credit non-resident rupee accounts of their overseas

branches or correspondents in reimbursement of the value of paid rupee travellers cheques received from them, provided the cheques were valid for encashment anywhere in the world.

## **Form A3**

**5A.7** [Form A3](#) should be used for reporting all credits to accounts of non-resident banks arising from permitted transfers from accounts of other non-resident banks and remittances received from abroad. Likewise, [form A3](#) should be used for reporting all debits to accounts of non-resident banks for permitted transfers to accounts of other non-resident banks and remittances in foreign currency.

## **Funding of Accounts of Non-resident Banks**

**5A.8** (i) Authorised dealers may freely purchase any permitted currency from their overseas branches and correspondents to enable the latter to lay down funds in their rupee accounts in India for meeting their bona fide needs for payments against exports and other commitments in India. Acquiring of spot rupees by overseas banks for building open positions in the currency or for holding as cover against their forward commitments is not permitted. If authorised dealers observe that rupee funds

acquired by any of their branches or correspondents are abnormal or disproportionate to latter's normal turnover in India, they should immediately bring the above regulation to the notice of the bank concerned and dissuade them from undertaking such operations. Such cases should also be promptly brought to the notice of Reserve Bank. The intention is to prevent speculation in rupees by overseas banks.

(ii) While quoting rates for selling or buying rupees against foreign currencies to their overseas

branches/Head Offices/correspondent banks, authorised dealers should ensure that the rates quoted to them are under no circumstances better than the prevailing market rates. Offering of two-way quotes for the Indian rupee to the overseas branches/correspondents by authorised dealers is prohibited.

#### **Transfers from other Accounts of the same Bank**

**5A.9** Transfer of rupees from the account at one centre in India of an overseas branch or correspondent to another account of the same branch or correspondent at the same centre or at any other centre in India may be freely made under report to Reserve Bank on [form A3](#).

#### **Transfers from one Overseas Bank to Another**

**5A.10** Transfer of rupees from the account of an overseas branch or correspondent to another is permissible. All such transfers should be reported to Reserve Bank on [form A3](#).

#### **Conversion of Rupees into Foreign Currencies**

**5A.11** Balances in rupee accounts of branches and correspondents may be converted into any permitted currency without approval of Reserve Bank. All such transactions should be reported to Reserve Bank both on [form A2](#) for the foreign currency leg and on form [A3](#) for the rupee leg of the transaction under cover of relevant R Returns.

#### **Responsibilities of Paying and Receiving Banks**

**5A.12** (i) In the case of credits to accounts of non-resident banks, the receiving banker i.e. the authorised dealer who maintains the non-resident account which is to be credited should ensure that the funds are eligible to be credited to such an account and should submit the [form A1](#) or [A2](#). A cheque or draft received for credit of a non-resident account, unless accompanied by [form A1](#) or [A2](#) (as well as, where necessary, by a permit issued by Reserve Bank authorising the transfer of rupees) should not be passed through clearing but sent back to the bank from whom it was received stating that a non-resident account is being credited and requesting a pay slip accompanied by [form A1](#) or [A2](#) duly completed by drawer, or by his bank on his behalf, and supported by the Reserve Bank permission where applicable. The paying banker should ensure that all Exchange Control requirements are met and that the particulars in [form A1](#) or [A2](#) are correct and should sign the certificate on the reverse of the relative form in token of having fulfilled the above requirements. These provisions are also applicable where an able where an authorised dealer tenders a payment to another authorised dealer for credit to the rupee account of a non-resident bank maintained by latter.

(ii) In the case of debits for transfer to accounts of non-resident banks with other authorised dealers, form [A3](#) must be submitted to Reserve Bank by both authorised dealers.

#### **Disposal of Forms**

**5A.13** All forms [A1](#), [A2](#) and [A3](#) covering credits as well as debits to non-resident rupee accounts of banks must be forwarded to Reserve Bank as enclosures to the R Return covering the period during which the transaction was put through.

#### **Refund of Rupee Remittances**

**5A.14** Authorised dealers may comply with requests from their overseas branches or correspondents for cancellation of inward remittances received by debit to non-resident rupee accounts and refund the amounts by credit to their accounts without reference to Reserve Bank subject to the regulations laid down for refund of inward foreign currency remittances, vide [paragraph 3A.7](#).

#### **Overdrafts/Loans to Overseas Branches/Correspondents**

**5A.15** (i) Authorised dealers may grant to their overseas branches/correspondents, who maintain rupee accounts with them, loans, overdrafts or other types of fund-based credit facilities to the maximum extent of Rs.150 lakhs for meeting normal business requirements for temporary periods. This limit applies to the aggregate amount that may remain outstanding at any given time against all overseas branches and correspondents of the authorised dealer in the books of all offices/branches of the authorised dealer in India.

(ii) Authorised dealers should ensure that this facility is not used by overseas branches/correspondents to postpone funding of their accounts or to build up oversold positions in the rupee.

(iii) Authorised dealers should report to the Reserve Bank if overdrafts in excess of the above limits are not adjusted within five days. Such a report is not necessary if arrangements exist for value dating the debits that resulted in the overdraft. The reports should be submitted to the Central Office of Reserve Bank (Forex Markets Division) within 15 days from the close of the month in which the limits were exceeded.

(iv) Authorised dealers, who wish to extend credit facilities in excess of the above limits or for purposes other than meeting normal business requirements should apply to the Central Office of Reserve Bank (Forex Markets Division) with full particulars including the purpose and the period for which funds are to be lent, rate of interest and manner in which the credit will be liquidated.

**5A.16 Deleted**

### **Rupee Accounts of Exchange Houses**

**5A.17** At times, private overseas exchange houses may approach authorised dealers for opening rupee accounts for facilitating private remittances to India mainly on behalf of non-resident

Indians. Opening of rupee accounts in the names of such exchange houses in the books of authorised dealers requires approval of Reserve Bank. Remittances through exchange houses for financing trade transactions are permitted up to Rs.2,00,000 per transaction. [See [Paragraph 6A.6\(iii\)](#)]

## **PART B - INTER-BANK DEALINGS**

### **Position**

**5B.1** (i) Authorised dealers should fix open position limits in each currency in accordance with the Guidelines given in [Annexure](#). Before laying down such limits authorised dealers

should get them approved by Reserve Bank. Net overnight position in the rupee should not exceed the limits laid down by Reserve Bank from time to time.

(ii) The Head/Principal Office of each authorised dealer should forward to

the Chief General Manager, Exchange Control Department (Forex Markets Division), Reserve Bank of India, Central Office, Mumbai 400 001, a weekly statement in [form POS](#), as at the close of business on every Friday. The statement should be sent by the morning of the following Tuesday. The consolidated position for the bank as a whole in the following currencies as well as the net rupee position should be reported in the statement.

- (a) Pound sterling
- (b) U.S. dollar
- (c) Deutsche mark/Euro
- (d) Japanese yen

### **Balances Abroad**

**5B.2** (i) (a) Authorised dealers may maintain balances in foreign currencies with their overseas correspondents up to the levels approved by the Top Management. They are free to manage the surplus in these accounts through overnight placements/investments with their overseas branches and correspondents subject to adherence to the gap limits approved by Reserve Bank.

(b) Authorised dealers are permitted, subject to approval by their Board to invest up to 15% of their unimpaired Tier I capital or US \$ 10 million or its equivalent, whichever is higher, in overseas money market instruments rated as A 1 + by Standard & Poor or P1 by Moody's. This cap does not apply to the investments permitted in terms of [paragraph 5 B.9 \(i\)](#).

(ii) The Head/Principal Office of authorised dealers should submit to the Regional Office of Reserve Bank under whose jurisdiction it is situated, a statement in duplicate in form BAL, giving details of their holdings of all foreign currencies in the form of balances in current accounts, fixed deposits, treasury bills, securities and loans as at the end of each month by 10th of the following month. Whenever two or more foreign currency accounts are maintained in any country only the net balance (credit or debit) of all such accounts in the country concerned should be furnished.

NOTE: *Authorised dealers should make standing arrangements with their overseas branches/ correspondents for advising the balances in foreign currency accounts etc. (irrespective of the amounts involved) so that the statements may be submitted within the prescribed time schedule.*

(iii) Authorised dealers should also report in the statement, the country-wise net balances (credit or debit) in the rupee accounts maintained with them by overseas branches and correspondents. Wherever two or more accounts of banks resident in the same country are maintained with the authorised dealer, the net balance (credit or debit) of all accounts in the country concerned taken together should be furnished.

(iv) Authorised dealers should regularly reconcile the balances in the foreign currency accounts maintained abroad by them as appearing in their local books with the balances actually advised by their respective overseas correspondents and maintain records to show that such reconciliation has been made. All entries in foreign currency accounts should be followed up vigorously and reconciled as early as possible. Authorised dealers should particularly ensure that in no case any entry above U.S.\$ 10,000/- each (or its equivalent) remains unreconciled beyond **six months**. A statement in form REC showing the position of unreconciled entries in all the foreign currency accounts as on 31 March and 30 September should be submitted to Reserve Bank so as to reach on or before 30 April and 31st October respectively.

(v) Authorised dealers may write off/transfer to unclaimed deposits/balances account, old unreconciled debit/credit entries in foreign currency accounts up to and including the value of U.S.\$ 1,000/- (or its equivalent) in each case provided:

- (a) each such entry not exceeding U.S.\$ 1,000 (or its equivalent) is outstanding in the books for a period of two years or more;
- (b) the authorised dealer has taken all the possible steps to reconcile the outstanding items and has come to the conclusion that it will not be worthwhile to pursue them further.
- (c) approval from the Board/Competent Authority for such write off/transfer has been obtained.
- (d) such unreconciled debit entries in the foreign currency accounts are then transferred to Profit and Loss Account;
- (e) such unreconciled credit entries in the foreign currency accounts are then transferred to unclaimed deposit/balances account;
- (f) a separate record of all such entries so adjusted is maintained for future

reference and

(g) the transactions are appropriately reported in the respective R Returns.

Applications for write off/transfer of unreconciled individual entries in excess of U.S.\$ 1,000/- (or its equivalent) should be referred to the concerned Regional Office of Reserve Bank.

### **Maturity Mismatches**

**5B.3** Authorised dealers should, as far as possible, avoid outright forward or swap transactions which will result in maturity mismatches which are in excess of their aggregate gap limits.

### **Inter-bank Sales and Purchases**

**5B.4** (i) Subject to compliance with the provisions of paragraphs [5B.1](#), [5B.2](#) and [5B.3](#), authorised dealers may freely buy and sell, for both spot and forward deliveries, any permitted currency against rupees or any other permitted currency from and to other authorised dealers in India.

(ii) [Form A2](#) need not be completed for sales in the inter-bank market but all inter-bank transactions should be reported to Reserve Bank in R Returns.

### **Sales and Purchases in Overseas Exchange Markets**

**5B.5** (i) Subject to compliance with the provisions of paragraphs [5B.1](#), [5B.2](#) and [5B.3](#) authorised dealers may purchase and sell any permitted foreign currency from

and to overseas banks and branches to cover a transaction with a customer in India or for the adjustment of the authorised dealers' own position. There is no objection to authorised dealers liquidating, in overseas markets positions taken in the foreign exchange markets in India. Authorised dealers having the requisite infrastructure, risk control mechanism and satisfying capital adequacy norms will be permitted to initiate positions in the overseas markets. Authorised dealers intending to undertake such transactions will have to fix specific limits for the purpose and get them approved by Reserve Bank. Applications for such approval should be made to the Chief General Manager, Exchange Control Department, Reserve Bank of India, Forex Markets Division, Central Office, Mumbai.

(ii) Authorised dealers should, before undertaking operations with overseas banks and branches, explore all possibilities of securing the necessary cover in the inter-bank market in India.

(iii) Forward purchase or sale of foreign currency against rupees with overseas banks and branches is prohibited.

(iv) Transactions should be reported in the appropriate R Returns. In the case of sales, [form A2](#) need not be submitted but details of sale transactions should be furnished in a Supplementary Statement with the R. Returns.

### **Investments Abroad**

**5B.6** (i) Authorised dealers should not lend foreign currencies to their overseas branches or correspondents or invest them in Treasury Bills, Call or Fixed Deposits or in any other manner, without specific approval of Reserve Bank (See [paragraph 5 B.9](#)).

(ii) Authorised dealers may arrange with their overseas branches or correspondents for transfer of surplus funds on a day-to-day basis to special interest-bearing accounts with the facility of automatic retransfer to their current accounts. This relaxation is meant only to enable authorised dealers to get a return on temporary surpluses.

### **Inter-bank Foreign Currency Deposits**

**5B.7** Authorised dealers may freely place and accept deposits in permitted currencies with and from other authorised dealers in India at market-related rates of interest.

### **Loans/Overdrafts from Overseas Branches/Correspondents**

**5B.8** (i) Authorised dealers may, subject to the approval of their Board, avail of loans, overdrafts and other types of funds based credit facilities from their overseas branches and correspondents upto 15% of their unimpaired Tier-I capital or U.S. \$ 10 million or its equivalent, whichever is higher. The funds may be used for purposes other than lending in foreign currencies and repaid without reference to Reserve Bank. The aforesaid limit applies to the aggregate amount availed by **all the offices and branches in India from all the overseas branches and correspondents of the authorised dealer**.

(ii) Authorised dealers should report to Reserve Bank if the overdraft etc. in excess of the above limit is not adjusted within five days. Such a report is not necessary if arrangements exist for value dating the debits that resulted in the overdraft. The reports should be submitted to the Central Office of Reserve Bank (Forex Markets Division) within 15 days from the close of the month in which the limits were exceeded.

(iii) Authorised dealers may avail of loans/overdrafts from their overseas branches and correspondents in excess of the limits prescribed in sub-paragraph (i) above solely for replenishing their rupee resources in India without prior approval of Reserve Bank. Such rupee funds may be used only for financing the banks' normal business operations in India and should not be deployed in the call money etc. markets. A report on each borrowing should be immediately forwarded to Reserve Bank whose prior permission will be required for repayment of such loans. Such permission will be given only if the authorised dealer has no borrowings outstanding either from Reserve Bank or other bank/financial institution in India and is clear of all money market borrowings for a period of at least four weeks before the repayment. Authorised dealers may also remit interest on such loans/overdrafts net of income-tax to their overseas branches/correspondents without prior approval of Reserve Bank subject to obtaining No Objection/Tax Clearance Certificate from the Income-tax authorities. A copy of No Objection/Tax Clearance Certificate should be submitted to the Reserve Bank while reporting the transaction on form [A2](#) with the R Returns.

### **Investment of Foreign Currency Funds**

**5B.9 (i)** Authorised dealers may invest funds in accounts permitted to be held in foreign currency in their books in India in respect of which they have to manage the exchange risk viz.

FCNR (Banks) Scheme, FCONR, EEFC, RFC, etc., in foreign currency treasury bills and/or with banks abroad in terms of the guidelines in this regard laid down by the Board of Directors. The funds may also be utilised for sale in domestic markets to other authorised dealers or Reserve Bank, lending to other authorised dealers or to resident constituents for meeting their genuine foreign exchange requirements towards imports or other purposes or to exporters by way of Pre-shipment Credit in Foreign Currency (PCFC) for financing domestic inputs or for granting foreign currency loans to FCNR(B) account holders.

(ii) FCNR(B) funds as well as deposits accepted in terms of [paragraph 5B.7](#) may be used

for making foreign currency loans for meeting the working capital/capital expenditure needs of resident clients subject to the prudential norms, credit discipline and credit monitoring guidelines in force. Banks will be free to decide the tenor as well as interest rates on such lendings. Authorised dealers should ensure that mismatches do not arise on account of such lendings/investments. However, under exceptional circumstances, mismatches may occur. Managements in banks may, therefore, fix limits for such mismatches. A copy of the Board/Management Committee sanction note approving these limits should be submitted promptly to the Chief General Manager, Exchange Control Department (Forex Markets Division), Reserve Bank of India, Central Office, Mumbai-400 001 for information.

NOTES: A. Resident constituents borrowing in foreign currency will not require Reserve Bank's approval under FERA, 1973. Similarly, repayment of loans availed of under FCNR(B) Scheme may be allowed out of borrowers' EEFC account without Reserve Bank's permission provided other conditions as stipulated above are complied with.

B. Under no circumstances should personal loans and loan for consumer durables be provided.

C. Authorised dealers should not initiate swaps to generate funds for lendings.

### **Adherence to FEDAI Rules**

**5B.10** Authorised dealers should ensure strict compliance with the relevant FEDAI rules relating to inter-bank contracts and transactions with overseas branches/respondents.

## **PART C - ACU DOLLAR ACCOUNTS**

### **Opening of ACU Dollar Accounts**

**5C.1** Value wise, ACU dollar is on par with U.S. dollar. In order, however, to keep ACU transactions distinct and separate from other transactions, authorised dealers may open in their books ACU dollar accounts in the names of their branches/respondent banks in ACU countries for putting through transactions through ACU mechanism. Likewise, they may open ACU dollar accounts with their branches/respondents in other ACU countries.

### **Funding of ACU Dollar Accounts**

**5C.2** Funding of ACU dollar accounts or repatriation of surplus funds in these accounts should be arranged either through the respective central bank of the participating country or through the commercial banks among themselves in the same participating country, in the manner laid down in Memorandum ACM [cf. Rules 6(b) and 6(c) of the Asian Clearing Union (Procedure) Rules].

**Settlement through ACU treated as Payment in Convertible Currency**

**5C.3** Receipts and payments channelled through ACU mechanism are deemed to have been received or paid, as the case may be, in U.S. dollar or in any other convertible currency.

**Overdrafts/Loans to/from Overseas Branches/Correspondents in ACU Countries**

**5C.4** Regulations laid down in [paragraph 5A.15](#) and [5B.8](#) will apply, mutatis mutandis, to granting/availing of overdrafts/loans to/from overseas branches/ correspondents of authorised dealers in ACU countries.