



Reserve Bank of India
Foreign Exchange Department
Central Office, Mumbai 400 001

RBI/2007-2008/9

A. P. (DIR Series) Circular No. 01

Dated 5th July, 2007

Acceptance of FCNR(B) Deposits by Regional Rural Banks (RRBs)

In terms of Regulation 5 and Schedule 2 to Foreign Exchange Management (Deposit) Regulations notified vide Notification No. FEMA 5/2000-RB dated May 3, 2000, as amended from time to time, only Authorised Dealer Category - I (AD Category – I) banks are permitted to accept deposit from Non-Resident Indians (NRIs) under Foreign Currency (Non-Resident) Account (Banks) [FCNR(B)] Scheme. Furthermore, Regional Rural Banks (RRBs) have been allowed to accept deposits from NRIs/PIO under the Non-Resident Ordinary Rupee Account Scheme (NRO) and Non-Resident (External) Rupee Account Scheme (NRE) [cf Circular No. RPCD RRB NO. BC 89/03.05.33(C)/99-2000 dated April 28, 2000].

2. In the Union Budget for 2007-08, it has been announced that Regional Rural Banks (RRBs) would be authorised to open and maintain FCNR (B) Deposit accounts by NRIs/PIO. Accordingly, with a view to make foreign exchange services available to the NRIs/PIO on a wider scale, it has been decided to allow the RRBs, duly authorised for the purpose, to also accept FCNR (B) deposits from NRIs/PIO.
3. In this context, the eligibility criteria prescribed for opening and maintaining NRO and NRE accounts have also been reviewed and in supercession of the instructions contained in the above mentioned Circular, Reserve Bank has issued revised criteria for RRBs, for opening and maintaining NRO/NRE accounts in Rupees and for accepting FCNR(B) deposits, vide Circular No. RPCD.CO.RRB.No.BC 06 /03.05.33(C)/2006-07 dated June 28, 2007.
4. Accordingly, RRBs may be guided by the following procedure for acceptance of FCNR (B) deposits :
 - (i) As in the case of authorization for NRO/NRE accounts, RRBs may approach the concerned Regional Office of the Foreign Exchange Department, for authorization for acceptance of FCNR (B) deposits.
 - (ii) The deposits may be accepted in US Dollars (USD), Pound Sterling (GBP), Euro, Japanese Yen (JPY), Australian Dollars (AUD) and Canadian Dollars (CAD), subject to the terms and conditions as laid down in Schedule 2 to the Notification *ibid*.
 - (iii) Since the RRBs may not have well-developed treasuries to manage the foreign currency liability or risk, they may enter into suitable tie-up arrangements with their sponsor banks for necessary support and expertise in putting through the transactions regarding acceptance of FCNR (B) deposits.
 - (iv) The deposits would be received by credit to the nostro accounts of the sponsoring banks.
 - (v) While the FCNR (B) deposit receipt would be issued by the RRBs to the depositors concerned, the foreign currency funds received as deposits would be treated as placements/deposits by the RRBs with their sponsoring banks. The sponsoring banks will be required to manage the foreign currency funds including deployment of FCNR (B) deposit funds.

- (vi) RRBs who desire to make use of the foreign currency resources, arising out of the FCNR (B) deposits, would be allowed to swap foreign currency funds including accrued interest with the sponsoring banks for broad basing their Rupee resources provided that entire exchange risk and maturity mismatch risk is managed by the sponsor bank and the RRBs do not carry any foreign currency and maturity mismatch risks in their books.
- (vii) The operational and accounting details relating to rate of interest to be offered by the RRBs, accounting treatment of interest accruals on such deposits, payment of maturity proceeds, etc. may be decided by mutual agreement between the RRBs and the sponsoring banks.
- (viii) RRBs would be required to report the data on Non-Resident Deposits including FCNR (B) deposits in CSR format, in the manner as indicated in A.P. (DIR Series) Circular No. 55 dated May 9, 2007. However, the purchases and sale of designated currencies under the Scheme should be reported in appropriate 'R' returns by the sponsoring banks, as RRBs are not permitted to open and maintain nostro accounts.
5. Necessary amendments to Foreign Exchange Management (Deposit) Regulations, 2000 (Notification No. FEMA 5/2000-RB dated May 3, 2000) are being notified separately.
6. AD Category - I banks and RRBs may bring the contents of this Circular to the notice of their constituents and customers concerned.
7. The directions contained in this Circular have been issued under Section 10 (4) and 11 (1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

Sd/-
(SALIM GANGADHARAN)
Chief General Manager
