

MASTER CIRCULAR ON INTEREST RATES ON FCNR(B) DEPOSITS

Purpose

This circular consolidates the directives on interest rates on FCNR(B) deposits issued by Reserve Bank of India from time to time.

Classification

A statutory directive issued by the Reserve Bank in exercise of the powers conferred by Section 35 A of the Banking Regulation Act, 1949.

Previous instructions

This Master Circular consolidates the instructions on the above subject contained in the circulars listed in **Annex 2**.

Application

To all Scheduled Commercial Banks, excluding Regional Rural Banks.

Structure

1. Introduction

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3. Annex

Master Circular on interest rates on deposits held in FCNR (Banks) Accounts

1. INTRODUCTION

1.1 The Foreign Currency Non-Resident (FCNR(B)) scheme was introduced with effect from May 15, 1993 to replace the then prevailing FCNR(A) scheme introduced in 1975, where the foreign exchange risk was borne by RBI and subsequently by the Govt. of India. The FCNR(A) scheme was withdrawn in August, 1994 in view of its implications for the central bank's balance sheet and quasi-fiscal costs to the Government. To begin with, the FCNR(B) scheme was applicable to deposits accepted in four currencies, viz., Pound Sterling, US Dollar, Deutsche Mark and Japanese Yen. On November 4, 2000 the FCNR(B) scheme was extended to cover deposits in EURO while deposits in Deutsche Mark were accepted only up to 31 December 2001. Maturity proceeds after this date on deposits in Deutsche Mark were payable only in EURO. With effect from January 1, 2002, the acceptable currencies for FCNR(B) deposits became Pound Sterling, US Dollar, Japanese Yen and Euro. On July 26, 2005 the scheme was extended to cover FCNR(B) deposits denominated in Canadian dollars and Australian dollars, in addition to the existing four currencies viz., US dollar, Pound Sterling, Euro and Japanese Yen. The minimum maturity period was raised from six months to 1 year, effective October, 1999. From July 26, 2005 it was also decided to allow banks to accept FCNR(B) deposits up to a maximum maturity period of five years, against the earlier maximum limit of three years.

1.2 Earlier, the interest rates on FCNR(B) deposits were the same as those prescribed for FCNR(A) deposits. Effective April 16, 1997, banks were free to determine the interest rates (fixed or floating with an interest reset period of 6 months) subject to a prescribed ceiling. The present ceiling rate in respect of FCNR(B) deposits of all maturities is LIBOR/SWAP rate minus 75 basis points effective from the close of business in India on April 24, 2007.

1.3 Earlier, up to January, 2006, LIBOR / SWAP rates as on the last working day of the previous month formed the base for fixing ceiling rates for interest on NRE / FCNR(B) deposits that would be offered effective from the following month. In order to ensure uniformity and transparency in interest rates on NRE / FCNR(B) deposit, it was decided that FEDAI would quote / display the LIBOR / SWAP

rates which will be used by banks in arriving at the interest rates on NRI deposits. FEDAI now publishes the deposit rates for five maturities in six currencies on the last working day of each month using a web page that can be accessed by all subscribers to the Reuters screen. The first such rates were indicated by FEDAI for the last working day of February, 2006.

1.4 A commercial bank which is an Authorised Dealer in foreign exchange should not pay interest on deposits of money accepted by it or renewed by it under the Foreign Currency (Non-Resident) Accounts (Banks) Scheme, which came into force from May 15, 1993, except in accordance with the rates as specified in **Annex 1** hereto and on the terms and conditions specified in the guidelines given below.

2. GUIDELINES

2.1 Definition of the term “Deposit”

The deposits under the Scheme mean “term deposits” received by the bank for a fixed period and withdrawable only after the expiry of the said fixed period and includes Reinvestment Deposits and Cash Certificates or other deposits of similar nature.

2.2 Other important features of the Scheme

(i) The Scheme covers deposits in Pound Sterling, US Dollar, Canadian Dollar, Australian Dollar, EURO and Japanese Yen from non-resident individuals of Indian nationality or origin (NRIs).

Note

a) The facility of opening and maintaining FCNR(B) Accounts by Overseas Corporate Bodies such as overseas companies, firms, societies and other corporate bodies which are owned directly or indirectly to the extent of at least 60 per cent by NRIs and overseas trusts in which at least 60 per cent of the beneficial interest is irrevocably held by such persons (OCBs) has been withdrawn with effect from September 16, 2003.

b) An existing FCNR(B) Account held in the name of an OCB may be continued till original maturity and on maturity the proceeds should be repatriated forthwith.

(ii) Repatriation of funds in foreign currencies is permitted.

(iii) The deposits should be accepted under the Scheme for the following maturity periods:

- (a) One year and above but less than two years
- (b) Two years and above but less than three years
- (c) Three years and above but less than four years
- (d) Four years and above but less than five years
- (e) Five years only

Note Recurring Deposits should not be accepted under the FCNR(B) Scheme.

(iv) Transfer of funds from existing NRE accounts to FCNR(B) accounts and vice versa, of the same account holder, is permissible without the prior approval of Reserve Bank of India.

(v) A bank should obtain prior approval of its Board of Directors for the interest rates that it will offer on deposits of various maturities, within the ceiling prescribed by Reserve Bank of India. The Board of Directors of a bank may authorise the Asset Liability Management Committee to fix interest rates on deposits subject to reporting to the Board immediately thereafter.

2.3 Manner of payment of interest

- i) The interest on the deposits accepted under the scheme should be paid on the basis of 360 days to a year.
- ii) The interest on FCNR(B) deposits should be calculated and paid in the manner indicated below:
 - a) For deposits up to one year, at the applicable rate without any compounding effect,
 - b) In respect of deposits for more than 1 year, at intervals of 180 days each and thereafter for the remaining actual number of days. However, the depositor will have the option to receive the interest on maturity with compounding effect.

2.4 Discretion to pay additional interest not exceeding one per cent on deposits of bank's staff

In respect of a deposit accepted in the name of -

- i) a member or a retired member of the bank's staff, either singly or jointly with any other member or members of his/her family, or
 - ii) the spouse of a deceased member or a deceased retired member of the bank's staff,
- a bank may, at its discretion, allow additional interest at a rate not exceeding one per cent per annum over and above the rate of interest prescribed by the bank subject to the following conditions:
- a) The depositor or all depositors of a joint account is/are non-resident/s of Indian nationality or origin, and;
 - b) The bank should obtain a declaration from the depositor concerned that the moneys so deposited or which may, from time to time, be deposited, shall be moneys belonging to the depositor, as stated in clauses (i) or (ii) above.

iii) The rate fixed by the bank for deposits of staff members, existing or retired, should not exceed the ceiling rate prescribed by RBI (please refer to para (a) of **Annex 1**).

Explanation

'Family' means and includes the spouse of the member/retired member of the bank's staff, his/her children, parents, brothers and sisters who are dependent on such a member/retired member but does not include a legally separated spouse.

2.5 Premature withdrawal of deposits

(i) Banks on request from the depositor should permit premature withdrawal of deposits under the FCNR(Banks) Scheme. Banks are free to levy penalty for such premature withdrawal at their discretion. Banks may also, at their discretion, levy penalty to recover the swap cost in the case of premature withdrawal of FCNR(B) deposits. Where premature withdrawal of FCNR(B) deposits take place before completion of the minimum stipulated period of one year, in which case no interest is payable, banks may at their discretion levy penalty to cover the swap cost. However, the components of penalty should be clearly brought to the notice of the depositors at the time of acceptance of the deposits. If the depositors are not informed of the penalty provisions at the time of acceptance of deposits, the exchange loss arising out of premature withdrawal will have to be borne by the banks.

(ii) Conversion of FCNR(B) deposits into NRE deposits or vice-versa before maturity should be subject to the penal provision relating to premature withdrawal.

2.6 Payment of interest on overdue FCNR(B) Deposits

Banks may, at their discretion, renew an overdue deposit or a portion thereof provided the overdue period from the date of maturity till the date of renewal (both days inclusive) does not exceed 14 days. The rate of interest payable on the amount of the deposit so renewed should be the appropriate rate of interest for the period of renewal as prevailing on the date of maturity or on the date when the depositor seeks renewal, whichever is lower. In the case of overdue deposits where the overdue period exceeds 14 days and if the depositor places the entire amount of overdue deposit or a portion thereof as a fresh FCNR(B) deposit, banks may fix their own interest rates for the overdue period on the amount so placed as a fresh term deposit. Banks will have the freedom to recover the interest so paid for the overdue period if the deposit is withdrawn before completion of the minimum stipulated period under the scheme, after renewal.

2.7 Advances against FCNR(B) deposits - Manner of charging interest

(i) When a loan or an advance is granted against a FCNR(B) term deposit which stands in the name of:

- a) the borrower either singly or jointly;
- b) one of the partners of a partnership firm and the advance is made to the said firm;

- c) the proprietor of a proprietary concern and the advance is made to such a concern;
- d) a ward whose guardian is competent to borrow on behalf of the ward, and where the advance is made to the guardian of the ward in such capacity;

a bank would be free to charge a rate of interest without reference to its own Benchmark Prime Lending Rate (BPLR).

A bank, at its discretion, may charge a rate of interest less than what was prescribed above in the case of advances up to Rs.3 lakh, when converted notionally in Rupees at the time of granting advance, to a member or a retired member of the bank's staff or the spouse of a deceased member/retired member of the bank's staff against his/her term deposit specified in paragraph 2.4 above.

(ii) When an advance is granted against a term deposit which is not in the nature of sub-clause (i) above;

- a) a bank would be free to charge a rate of interest without reference to the Benchmark Prime Lending Rate, provided the advance is up to Rs. 2 lakh, and
- b) if the advance exceeds Rs.2 lakh, the bank should charge interest at the rate prescribed in terms of Reserve Bank of India's directive relating to interest rates on advances issued from time to time.

If the term deposit against which an advance was granted is withdrawn before completion of the prescribed minimum maturity period, such an advance should not be treated as advance against term deposit and interest should be charged as prescribed in terms of Reserve Bank of India's directive on interest rates on advances issued from time to time.

(iii) When a loan or advance is granted out of resources mobilised under the scheme, interest rate chargeable should be at the rate as prescribed in terms of Reserve Bank of India's directive relating to Interest Rates on Advances.

2.8 . Restrictions on advances against FCNR(B) Deposits - Quantum of loans

The Third Quarter Review of Annual Statement on Monetary Policy for the Year 2006-07 ([para 86](#)), has observed that keeping in view the objective of making these facilities available to individual Non-Resident Indians (NRIs) and considering the prevailing monetary conditions, there is merit in avoiding upward pressure on asset prices in sensitive sectors through utilisation of this facility. Therefore, banks are prohibited from granting fresh loans or renewing existing loans in excess of Rupees twenty (20) lakh against NR(E)RA and FCNR(B) deposits either to the depositors or third parties. Accordingly, banks should not grant fresh loans or renew existing loans in excess of Rupees twenty (20) lakh against FCNR(B) deposits, either to depositors or to third parties, with effect from January 31, 2007. Banks should not undertake artificial slicing of the loan amount to circumvent the ceiling.

2.9 Margin on advance against term deposit

Banks may determine the margin on a case-to-case basis.

2.10 Interest payable on the deposit of a deceased depositor

In the case of a term deposit standing in the name/s of -

- i) a deceased individual depositor, or
- ii) two or more joint depositors, where one of the depositors has died, interest should be paid in the manner indicated below :
 - a) at the contracted rate on the maturity of the deposit;
 - b) in the event of the payment of the deposit being claimed before the maturity date, the bank should pay interest at an applicable rate prevailing on the date of placement of the deposit, without charging penalty;
 - c) in the event of death of the depositor before the date of maturity of the deposit and the amount of the deposit being claimed after the date of maturity, the bank should pay interest at the contracted rate till the date of maturity. From the date of maturity to the date of payment, the bank should pay simple interest at the applicable rate operative on the date of maturity, for the period for which the deposit remained with the bank beyond the date of maturity. However, in the case of death of the depositor after the date of maturity of the deposit, the bank should pay interest at a rate operative on the date of maturity in respect of savings deposits held under RFC Account Scheme, from the date of maturity till the date of payment;
 - d) if, on request from the claimant/s, the bank agrees to split the amount of term deposit and issues two or more receipts individually in the name/s of the claimant/s, it should not be construed as premature withdrawal of the term deposit for the purpose of levy of penalty provided the period and aggregate amount of the deposit do not undergo any change.

Note: In the case of claimant/s being residents, the maturity proceeds may be converted into Indian rupees on the date of maturity and interest be paid for the subsequent period at the rate applicable to a deposit of similar maturity under the domestic deposit scheme.

2.11. Addition or deletion of name/s of joint account holders

A bank may, at the request of all the joint holders, allow the addition or deletion of name/s of joint account holder/s if the circumstances so warrant or allow an individual depositor to add the name of another person as a joint holder. However, in no case should the amount or duration of the original deposit undergo a change in any manner whatsoever, and all the joint account holders should be non-residents of Indian nationality or origin. The bank should ascertain the reasons from the applicants for doing so and also satisfy themselves about the bona fide nature of the request. Further, opening of accounts in the names of Pakistani/Bangladeshi nationals, though of Indian origin, will require approval of the Reserve Bank from the exchange control angle.

2.12 Payment of interest on FCNR(B) deposits of NRIs on return to India

Banks may allow FCNR(B) deposits of persons of Indian nationality/origin who return to India for permanent settlement to continue till maturity at the contracted rate of interest, if desired. Except the provision relating to rate of interest and reserve requirements as applicable to FCNR(B) deposits, for all other purposes, such deposits should be treated as resident deposits from the date of return of the account holder to India. Premature withdrawal of such FCNR(B) deposits should be subject to penal provisions of the Scheme. Banks should convert the FCNR(B) deposits on maturity into Resident Rupee Deposit Account or RFC Account (if eligible) at the option of the account holder. The rate of interest on the new deposit (Rupee account or RFC Account) should be the relevant rate applicable for such deposit account.

2.13. Conversion of FCNR(B) Accounts of Returning Indians into RFC Account - Waiver of Penalty

The penal provisions would not be applicable in the case of premature conversion of balances held in FCNR(B) deposits into Resident Foreign Currency Accounts by Non-Resident Indians on their return to India.

2.14 Conversion of FCNR(B) Accounts of Returning Indians into RFC Accounts/Resident Rupee Accounts- Payment of interest

A bank should pay interest at its discretion at the time of conversion of FCNR(B) Account into RFC/Resident Rupee Account even if the same has not run for a minimum maturity period, subject to the condition that the rate of interest should not exceed the rate payable on savings bank deposits held under RFC Account Scheme.

2.15 Payment of interest on term deposit maturing on Saturday/Sunday/ holiday/non-business working day

In respect of a term deposit maturing for payment on a Saturday/Sunday or a holiday or a non-business working day, banks should pay interest at the originally contracted rate on the deposit amount for the Saturday/ Sunday/ holiday/non-business working day intervening between the date of expiry of the specified term of the deposit and the date of payment of the proceeds of the deposit on the succeeding working day.

2.16 Prohibitions

No bank should:

- i) accept or renew a deposit over five years;
- ii) discriminate in the matter of rate of interest paid on the deposits, between one deposit and another accepted on the same date and for the same maturity, whether such deposits are accepted at

the same office or at different offices of the bank, except on the size group basis. The permission to offer varying rates of interest based on size of the deposits will be subject to the following conditions:

- a) Banks should, at their discretion, decide the currency-wise minimum quantum on which differential rates of interest may be offered. For term deposits below the prescribed quantum with the same maturity, the same rate should apply.
- b) The differential rates of interest so offered should be subject to the overall ceiling prescribed.
- c) Interest rates paid by the bank should be as per the schedule and not subject to negotiation between the depositor and the bank.
- iii) pay brokerage, commission or incentives on deposits mobilized under FCNR(B) Scheme in any form to any individual, firm, company, association, institution or any other person.
- iv) employ/ engage any individual, firm, company, association, institution or any other person for collection of deposit or for selling any other deposit linked products on payment of remuneration or fees or commission in any form or manner.

**Interest rates applicable to deposits accepted under
Foreign Currency Non-Resident Accounts (Banks) Scheme**

(a) In respect of FCNR(B) deposits of all maturities contracted effective close of business in India on April 24, 2007, interest shall be paid within the ceiling rate of LIBOR/SWAP rates minus 75 basis point for the respective currency / corresponding maturities. On floating rate deposits, interest shall be paid within the ceiling of SWAP rates minus 75 basis point for the respective currency/maturity. For floating rate deposits, the interest reset period shall be six months.

(b) The LIBOR/SWAP rates as on the last working day of the preceding month would form the base for fixing ceiling rates for the interest rates that would be offered effective the following month.

(c) FEDAI would quote / display the LIBOR / SWAP rates which should be used by banks in arriving at the rates of interest to be offered on FCNR(B) deposits. FEDAI would also publish the deposit rates for five maturities in six currencies on the last working day of each month using a web page that can be accessed by all subscribers (banks) to the Reuters Screen. Accordingly, beginning February 28, 2006, FEDAI displays the LIBOR/SWAP rates on an exclusive page "INFEDAIFCNRNRE" on Reuters Monitor Screen. The rates are also displayed on the FEDAI website www.fedai.org.in.

List of directives/circulars which have been consolidated in the Master Circular on Interest Rates on FCNR(B) Deposits

1.	DBOD. No. Dir. BC.	89/13.03.00/2006-07	24.04.2007
2.	DBOD. No. Dir. BC.	88/13.03.00/2006-07	24.04.2007
3.	A.P.(DIR Series)	Circular No.29	31.01.2007
4.	DBOD. No. Dir. BC.	7/13.03.00/2006-07	01.07.2006