

RBI/2005-06/314

A.P. (DIR Series) Circular No. 25

A.P. (FL Series) Circular No. 02

March 6, 2006

To,

All banks Authorised to Deal in Foreign Exchange
All Authorised Money Changers (AMCs) / Full-Fledged Money Changers (FFMCs)

Dear Madam / Sir,

Authorised Persons- Categorisation

In terms of Section 10 (1) of the Foreign Exchange Management Act, 1999, the Reserve Bank, on an application, may authorise any person to be known as an authorised person, to deal in foreign exchange as an authorised dealer, money changer or off-shore banking unit or in any other manner as it deems fit.

2. Currently, Reserve Bank issues licences to authorised dealers (banks authorised to deal in foreign exchange) and Full Fledged Money Changers. Licences are also granted to financial and other institutions to carry out specific foreign exchange transactions related to their business / activities.

3. With the progressive liberalisation in foreign exchange related transactions, a large segment of the population can now undertake a variety of current account transactions on their individual accounts, without approaching the Reserve Bank. With a view to providing adequate foreign exchange facilities to common persons, to widen the scope of activities which the Authorised Persons are eligible to undertake, to increase the number of entities that are eligible to sell foreign exchange to the public for their day-to-day current account transactions and to ensure efficient customer service through competition, an internal group was constituted to study the related issues. The Group was required to make recommendations keeping in view the enhanced as well as wider access and accompanying safeguards, especially reporting requirements. The Report "Licensing Policy for Authorised Persons - Liberalisation" was placed on the Reserve Bank website on December 1, 2005, inviting feedback from the public.

4. Taking into account the feedback received on the Report, Reserve Bank has decided to issue authorisation to select entities as given below, for undertaking release / remittance of foreign exchange for various current account non-trade related transactions. Consequently, all entities issued authorisation under sub-section (i) of Section 10 of the Foreign Exchange Management Act, 1999 will be categorised / re-categorised as under:

(a) Banks currently authorised to deal in foreign exchange.	Authorised Dealers (ADs) Category I
(b) (i) Upgraded FFCs } (ii) Select RRBs } (iii) Select UCBs } (iv) Other entities }	Authorised Dealers (ADs) Category II
(c) Select Financial and other Institutions	Authorised Dealers (ADs) Category III
(d) FFCs	No change

5. The details of the scheme for issue of authorisation as Authorised Dealers - Category II are given in Annex I to this circular.

6. The contents of this circular may be brought to the notice of all your constituents concerned.

7. The directions contained in this circular have been issued under Section 10(4) and Section 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.

Yours faithfully,

(Vinay Bajjal)
Chief General Manager

[Annexure to A. P. (DIR Series) Circular No. 25 dated March 6, 2006]

Authorised Person- - Authorisation as Authorised Dealer (AD) - Category II

Scheme

With a view to providing adequate foreign exchange facilities to common persons for efficient customer service through competition there was a need to widen the scope of activities which the Authorised Persons are currently eligible to undertake and also to increase the number of entities that are eligible to sell foreign exchange to public for their day-to-day current account transactions. The Reserve Bank has, therefore, decided to grant licences to certain entities to undertake more transactions, in addition to what Full Fledged Money Changers (FFMCs) are currently permitted, by authorising them to undertake release / remittance of foreign exchange for certain non-trade related current account transactions. Such entities will be called Authorised Dealers – Category II (ADs - Category II).

2. Classification of Persons Authorised to deal in the foreign exchange

Sr. No.	Present category	Entities	Revised category	Major Activities
1.	Authorised Dealer	<ul style="list-style-type: none"> • Commercial Banks • State Co-op Banks • Urban Co-op Banks 	Authorised Dealer - Category - I	All current and capital account transactions according to RBI directions issued from time-to-time. (No Change).
2.	-	<ul style="list-style-type: none"> • Upgraded FFMCs • Co-op. Banks • Regional Rural Banks (RRBs) • Others 	Authorised Dealer - Category - II	Specified non-trade related current account transactions as at paragraph 3 below as also all the activities permitted to Full Fledged Money Changers. Any other activity as decided by the Reserve Bank.
3.	-	<ul style="list-style-type: none"> • Select Financial and other Institutions 	Authorised Dealer - Category - III	Transactions incidental to the foreign exchange activities undertaken by these institutions. (No Change)
4.	Full Fledged Money Changers (FFMCs)	<ul style="list-style-type: none"> • Dept. of Posts • Urban Co-op. Banks • Other FFMCs 	FFMCs	Purchase of foreign exchange and sale for private and business visits abroad. (No Change)

3. Enhanced Activities permitted to ADs - Category II

ADs-Category II will be permitted to release / remit foreign exchange for the following transactions:

- (a) Private Visits,
- (b) Remittance by tour operators / travel agents to overseas agents / principals / hotels,
- (c) Business Travel,
- (d) Fee for participation in global conferences and specialized training,
- (e) Remittance for participation in international events / competitions (towards training, sponsorship and prize money).
- (f) Film shooting,
- (g) Medical Treatment abroad,
- (h) Disbursement of crew wages,
- (i) Overseas Education,
- (j) Remittance under educational tie up arrangements with universities abroad,
- (k) Remittance towards fees for examinations held in India and abroad and additional score sheets for GRE, TOEFL etc.,
- (l) Employment and processing, assessment fees for overseas job applications,
- (m) Emigration and Emigration Consultancy Fees,
- (n) Skills / credential assessment fees for intending migrants,
- (o) Visa fees,
- (p) Processing fees for registration of documents as required by the Portuguese / other Governments,
- (q) Registration / Subscription / Membership fees to International Organizations.

ADs - Category II may also be permitted to undertake additional activities as decided by the Reserve Bank, on case by case basis.

4. Eligibility Criteria for grant of AD Category II licence

In view of the current dispensation available to various categories of authorised persons and in the light of regulatory framework under which each category of institutions is functioning, the issue of granting them licence as an AD-Category II has been considered. The eligibility criteria primarily depend on strong financials, good governance, regulatory / prudential comfort and adequate internal control mechanism. It has been decided that the following category of institutions could be considered for the purpose.

A. Existing Full-fledged Money Changers (FFMCs)

Reserve Bank will consider granting AD-Category II licence to the existing, well functioning FFMCs, with strong financials, that demonstrate good governance while providing regulatory / prudential comfort. The criteria for upgradation of existing FFMCs to AD-Category II include minimum net owned funds of Rs. 10 crores; satisfactory functioning as FFMC for at least two years and satisfactory credit report from their bankers.

B. Urban Co-operative Banks (UCBs)

With the adoption of the road map as outlined in the “vision document” for Cooperative sector many of the supervisory concerns of the sector are being addressed. AD Category- II are not permitted to undertake any open position risk and the activities permitted under these licences only allow conversion from one currency to another currency. Therefore, Urban Co-operative Banks with strong financials, good governance and providing regulatory / prudential comfort will be considered, on case by case basis, for licencing as AD-Category II

C. Regional Rural Banks (RRBs)

In view of the wide branch network of RRBs and with a view to providing foreign exchange services at the doorstep of the common person, RRBs with strong financials, good governance and providing regulatory/supervisory comfort and having requisite skills and capabilities will be considered for granting licences as AD-Category II.

5. Opening of Foreign Currency Accounts (Nostro) abroad

The entities proposed to be licensed as AD-Category II are being permitted to undertake the transactions that involve conversion of one currency into another. Such transactions may not necessarily require opening and maintaining foreign currency denominated (NOSTRO) account with a bank outside India. However, to facilitate issuance of foreign currency draft, etc. for such transactions, the AD-Category II may enter into arrangements with banks authorised to deal in foreign exchange in India.

6. Reporting

The ADs-Category II are required to submit the following monthly statements of transactions:

A. Category-wise statement of transactions where the amount exceeds USD 5,000 per transaction initially, so that a review could be made of the threshold in six months and a firmer threshold may be arrived at.

B. Category-wise, transaction-wise statement where the amount exceeds US \$ 25,000 per transaction.

The formats of the reports are given in Annex II to this circular.

7. Inspection / Audit

For ADs-Category II, an auditor's certificate confirming compliance with the Rules / Regulations / Directions will be adequate. However, the Reserve Bank reserves the right to inspect them when considered necessary. Reserve Bank may also require a special audit of the ADs-Category II, depending on the nature of the transactions, by an auditor from the approved list of the Reserve Bank/ Institute of Chartered Accountants of India.

8. Anti-Money Laundering / Know Your Customer (KYC) Norms

KYC and Anti-Money Laundering norms prescribed for FFCs will be applicable to ADs-Category II also.

[Annexure to A. P. (DIR Series) Circular No. 25 dated March 6, 2006]

Monthly Report to be submitted by the AD-Category II for the month of _____

The reports should be sent to the Chief General Manager, Foreign Exchange Department, Forex Markets Division, Central Office, Amar Bhawan, Mumbai-400 001 by the 15th of the following month. The report may be e-mailed in EXCEL spreadsheet on fedcofmd@rbi.org.in.

Name of the AD Category - II

Address:

Part - A

(Category-wise transaction where the amount exceeds USD 5000 per transaction)

Sl.No.	Purpose of Remittance	No. of transactions	Total amount
a)	Private Visits		
b)	Remittance by tour operators/travel agents to Overseas agents/principals/hotels		
c)	Business Travel		
d)	Fee for participation in global conferences and Specialized training		
e)	Remittance for participation in international events/competitions (towards training sponsorship and prize money)		
f)	Film shooting		
g)	Medical Treatment abroad		
h)	Disbursement of crew wages		
i)	Overseas Education		
j)	Remittance under educational tie up arrangements with universities abroad		
k)	Remittance towards fees for examinations held in India and abroad and additional score sheets for GRE, TOEFL etc.		
l)	Employment and processing assessment fees for overseas job applications		
m)	Emigration and Emigration Consultancy Fees		
n)	Skills/credential assessment fees for intending migrants		
o)	Visa fees		
p)	Processing fees for registration of documents as required by the Portuguese/other Governments.		
q)	Registration/Subscription/Membership fees to International Organizations		

Part – B

(Category-wise, transaction-wise details
where the amount exceeds USD 25000 per transaction)

a) Private Visits		
Sl.No.	Name	Amount
1		
2		
3		
...		
...		

b) Remittance by tour operators/travel agents to overseas agents/principals/hotels		
Sl.No.	Name	Amount
1		
2		
3		
...		
...		

c) Business Travel		
Sl.No.	Name	Amount
1		
2		
3		
...		
...		

(The report should contain details of each category of transactions from (a) to (q) as mentioned in paragraph 3 of Annex I).