CHAPTER - 4

FOREIGN CURRENCY NON-RESIDENT SCHEME AND ITS CRITICAL EVALUATION
4.1 F.C.N.R. Scheme and India's B.O.P. :-

The preceding chapters covered general concepts of Balance of Payments (Chapter-2) and Balance of Payment in particular with reference to India (Chapter-3). In the Chapter-3, framework of India's Balance of Payment is presented with description of each item in Balance of Payment.

The itemwise study revealed that 'Foreign Currency Non-Resident Deposit' falls under main head "CAPITAL ACCOUNT" and sub-head "PRIVATE CAPITAL". The aspect of current account being financed by capital account is discussed in Chapter-1. On that basis, FCNR deposit scheme alongwith other items from capital account is considered to give support to India's BOP by way of correcting disequilibrium in the current account of BOP.

Accordingly in the hypothesis framed FCNR scheme is viewed as one of the measures to support BOP. The Researcher further states in the hypothesis that FCNR scheme has given considerable support to India's BOP, however, some improvement in the scheme are necessary so as to enhance steady inflow of exchange.

In order to test validity of hypothesis, the Researcher thought it fit to study FCNR scheme against background of BOP. Therefore, preceding two chapters were meant to create necessary background of BOP and the present chapter is devoted on the study of FCNR scheme itself.
In this chapter the Researcher elaborately discusses all facets of FCNR scheme. The initial part of the chapter deals with salient features of the scheme along with its operational aspects and concluding part of the chapter critically evaluates FCNR scheme.

4.2 Statutory basis of Non-Resident Deposits:

The foreign Exchange Regulation Act (FERA), 1973 provides statutory basis for Exchange Control aspect of Non-Resident deposits. The act came into force from 1st Jan. 1974, repelling the act of 1947. The section 8 and 9 of FERA, '73, sets out various restrictions on dealings in Foreign Exchange. These restrictions do not apply to 'Authorised Dealers' and 'Money Changers', who have been specially authorised to deal in foreign exchange as per section 6 and 7 of FERA, '73 respectively.

Under Section-9(1) of FERA, '73, without general or specific permission of the Reserve Bank, no person resident in India can -

i) make any payment for the credit of any person resident outside India.

ii) make any payment to or for the credit of any person by order or on behalf of any person resident outside India.

iii) place any sum to the credit of any person resident outside India.

iv) receive except through banks authorised to deal in foreign exchange, any payment, by order or on behalf of any person resident outside India.
Reserve Bank's approval is therefore required for opening of accounts in India in the names of Non-Residents and for making any payment to or for the credit of Non-Resident or to their accounts in India.

However, RBI, has granted under Section-6 of FERA, '73 general permission to banks in India which are authorised to deal in Foreign Exchange (Authorised Dealer) to open Non-Resident's accounts freely (i.e. without permission of RBI). Accordingly Indian nationals and persons of Indian origin resident abroad can open following types of bank accounts in India freely out of funds remitted from abroad or Foreign Exchange brought in from abroad or out of funds legitimately due to them in India. -

A] Non-Resident (Ordinary) Account

B] Non-Resident (External) Account :

   (i) Non-Resident (External) Rupee Accounts

   (ii) Non-Resident Foreign Currency Accounts (FCNR)

It may be noted here that FCNR account is a sub-category of Non-Resident External Account with some features common to Non-Resident External Rupee Accounts. Therefore, study of Non-Resident External Rupee Account is also necessary to understand very mechanism of working of FCNR accounts. The passing reference to first type i.e. Non-Resident (Ordinary) Account is also necessary being a part of study.
Before proceeding further into the details of each of above type, the Researcher feels it necessary to reiterate following definitions pertaining to Non-Resident accounts.

a) Persons resident in India
b) Non-Resident Indians
c) Persons of Indian origin

a) Person resident in India

Section-2P of the FERA,'73 defines the term 'Person resident in India". According to this definition, persons resident in India are those who come under any of the following categories :

i) All Indian citizens who have been staying in India at any time after 25th March, 1947.

ii) Foreign citizens who stay in India for employment, business etc. or in circumstances indicating an indefinite period of stay.

iii) Foreign citizens who come and stay in India with their spouses, if the spouses are resident in India.

iv) Indian citizens who proceed abroad for higher studies, short business visits, training, medical treatment etc. are treated as 'resident in India' even during their temporary absence from India.

FERA,'73, Section-2q says 'person resident outside India' means a person who is not resident in India.
b) **Non-Resident Indians (NRIs)**:-

NRIs are those who come under any of the following categories:-

i) Indian citizens who stay abroad for employment or for carrying on business or vocation or any other purpose in circumstances indicating an indefinite period of stay outside India.

ii) Government servants deputed abroad on assignments with foreign governments or regional/international agencies like World Bank (IBRD), International Monetary Fund (IMF), World Health Organisation (WHO) and Economic & Social Commission for Asia & Pacific (ESCAP).

iii) Officials of Central/State governments and public sector undertakings deputed abroad on assignments or posted to their branches or offices including Indian diplomatic missions abroad.

The Non-Resident Indians, become residents of India only when they come back to the country for employment or carrying on in India any business or vocation or for any other purpose indicating an indefinite period of stay in India.
They are not regarded as persons resident of India during their short visits to India, say for holidays, business visits etc. Indian citizens who take up jobs only on completion of the higher studies abroad are regarded as Non-Residents only from the time they take up jobs abroad.

c) Persons of Indian Origin :-

A person is deemed to be of Indian origin if he at any time held an Indian passport or he or either of his parents or grandparents was an Indian and permanent resident in undivided India at any time. A wife of a citizen of India or of a person of Indian origin is also deemed to be of Indian Origin eventhough she may be of Non-Indian origin. The facilities as available to Non-Resident Indians, are made available to Non-Resident foreign citizen of Indian origin, treating them on par with Indian nationals.

Though, the topic of research is not directly related to first type of account i.e. Non-Resident (Ordinary) account, as stated earlier, a passing reference to this type of account is necessary to grasp working of "FCNR Accounts" to which this research is directly concerned.

4.3 Non-Resident Ordinary Account :-

Rupee accounts (other than blocked accounts and accounts opened under Non-Residential (External) Account scheme) maintained with
Authorised Dealer by persons, firms, companies and other organisations resident outside India are referred to as "Ordinary Non-Resident Rupee Account" (NRO Account). Ordinarily, only 'Authorised Dealers' are permitted to open and maintain accounts in the names of persons, firms, companies and other organisations not resident in India. However, Reserve Bank has permitted, certain state co-operative banks, urban co-operative banks and scheduled commercial banks (Authorised co-operative/commercial banks) which do not hold authorised dealers licences issued under Section-6 of FERA,'73, but which fulfil eligibility criteria prescribed by Reserve Bank to maintain NRO accounts. Post offices have been authorised to maintain S.B.Accounts, in the names of persons resident outside India and to allow operations on these accounts subject to the same rules as are applicable to NRO accounts maintained by Authorised Dealers. Thus, Authorised Dealers may open without prior reference to RBI, Non-Resident Ordinary accounts in the names of individuals of Indian nationality or origin, resident outside India (NRIs) provided (a) initial deposit is received by remittances from abroad in an approved manner, (b) account be opened by sale to 'Authorised Dealers' Foreign Exchange brought into India by person while on visit to India or (c) by transfer of funds from an existing Non-Resident Rupee accounts in the name of same person or (d) also may open accounts with funds emanating from local source in case where 'Authorised Dealers' are satisfied that the funds are eligible for credit to the accounts in terms of Para-28-B-11 of ECM-87, Vol.I. Opening of accounts in the names of Pakistani or Bangladesh nationals require prior approval of RBI.
NRO accounts are also permitted to be opened without prior reference to RBI in the names of overseas companies, partnership firms, societies and other corporate bodies which are owned directly or indirectly by individuals of Indian nationality or origin resident outside India and overseas trusts in which atleast 60% of beneficial interest is irrevocably held by such persons (OCBs), provided initial deposit for opening the account is received from abroad in an approved manner. Such accounts may also be opened with rupee funds originating in India provided Authorised Dealers are satisfied that such funds are eligible for credit to the applicants account in terms of Para-28 - B-11. To confirm ownership interest, a certificate in form 'OAC' where ownership is directly held by NRIs and in form 'OAC1' where ownership is indirectly held is called for alongwith account opening form. Similar certificate is called for on annual basis to ensure that the ownership/beneficial interest held by NRIs continues to be at or above level of 60%.

**Redesignating an existing resident account as 'Ordinary Non-Resident Rupee Account'** :- When an Indian national or person of Indian origin residing in India, leaves India, for a foreign country (other than Nepal-Bhutan) for taking up employment business or vocation outside India or for any of the purposes indicating his intention to stay outside India permanently or for an indefinite period, then he becomes a person resident outside India and his bank account, if any, in India is required to be redesignated as 'Ordinary Non-Resident
Rupee Account. Accounts of Indian nationals and persons of Indian origin who proceed abroad for business visits, higher studies, medical treatment and such other purposes which do not indicate any intention on the part of the persons concerned to stay out of India for an uncertain period should continue to be treated as resident accounts during the temporary absence of account holders from the country. If students, on completion of study abroad take up employment abroad their accounts should be designated as Non-Resident accounts.

Similarly, accounts of Non-Resident Indians should be designated as resident accounts on their return to India, for taking up employment, business or vocation or for any other purpose indicating their intention to stay in India permanently or for an indefinite period. However if such Non-Resident is only on a temporary visit to India, his Non-Resident account should be continued as it is. The bank accounts maintained by officials of 'Government of India' or 'State Government' and by Indian nationals employed in United Nations Organisation or its affiliate bodies should be designated as Non-Resident Ordinary Accounts, if they are posted for duty outside India except in Nepal and Bhutan. The operations in these accounts are freely allowed and form-A4 need not be required in respect of any operation as per Clause-28, B-6 of ECM-87 Edn., Vol.I.

Form-A4 :-

1) Form-A4 should be completed in respect of operations on NRO accounts which call for (a) approval of RBI or (b) where
transaction is for Rs.10,000/- and above (c) where specific indication is given in the ECM.

ii) Form-A4 covering Credit transactions of the value of Rs.25,000/- and above in respect of NRIs and OCBs should only be sent to RBI. A4 for credits below Rs.25,000/- and all debits to accounts of NRIs and OCBs (irrespective of value) should be retained with Authorised Dealers for verification/record.

As regards operations on NR(O) accounts the main Credits/Debits are as under :-

1) booking of passage by debit to NRO, to and from India, as per A.D.M.A. circular no.40 dated 18/07/1992.

2) The proceeds of cheques representing legitimate dues of the account holder are allowed to be credited. In respect of credits of Rs.10,000/- and above documentary evidence about bonafides of transaction and that credit represents legitimate dues needs to be verified.

3) All local payments other than investment in India.

4) Transfer from/to of other NR(O) accounts of same account holder.

Authorised Dealers are permitted to grant loans/overdrafts in India not exceeding Rs.5.00 Lakhs to their Non-Resident constituents who are Indian nationals or persons of Indian origin for purposes other than investment, on the security of fixed deposits held by them provided funds held in fixed deposits represent remittances from abroad.
The balance in NRO account are normally not eligible for remittance abroad and requests for such remittances require approval of RBI. Only those funds derived by remittances from abroad can be considered for repatriation by RBI.

The banking companies (Nomination) rules, 1985 framed under Banking Regulation Act, 1948 allows banks to pay the amount standing to the credit of deceased depositor to his nominee.

The request of all those other than NRIs and OCBs who wish to open Non-Resident Ordinary accounts, are referred to RBI as per Clause-28-C1 of ECM, except foreign tourists on visits to India who desire to open account for security or other reasons. Such account is opened for six months and is fed by remittance from abroad.

4.4 Non-Resident External Accounts:

It is noted earlier that FCNR is a category of Non-Resident (External) Account. It means FCNRs cannot be studied separately from Non-Resident External Account. Infact, there are certain features that are common to both. Due to this fact the Researcher considered it necessary to study N.R.External account in the beginning and in the later part, focused attention on FCNR account.

The maintenance and operations on Non-Resident External Accounts are governed by Non-Resident (External) Accounts rules, 1970 framed by Government of India as amended upto '85. Initially, these accounts
(Notification No.1/9/EC/69-10.2.70) were permitted to be opened with A.D.s in rupee only. However since 1st Nov.1975, Non-Resident External accounts have been permitted to be opened in designated foreign currencies. At present, these designated currencies are -


At present, Non-Resident (External) accounts opened in Rupee are called "Non-Resident External Rupee Accounts" and those opened in any designated currencies are called "Foreign Currency (Non-Resident) Accounts". Initially Non-Resident External Accounts were allowed to be opened in the names of NRIs. However, with effect from 22/04/1982 these accounts can also be opened in the name of 'Overseas Corporate Bodies' (i.e. OCBs).

Reserve Bank has also permitted 'state and urban co-op. bank' as well as 'scheduled commercial banks' which do not hold ADs licences issued under Section-6 of FERA,'73 but which fulfil the eligibility criteria of RBI, to maintain N.R.External Account, as also NR(O) Accounts, in the names of 'individuals' only, i.e. they are not authorised to open and maintain Non-Resident Rupee accounts on behalf of OCBs. Authorised co-operative commercial banks are also not permitted to open and maintain FCNR accounts.

The salient features of Non-Resident External Rupee Accounts are as follows :-

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1) Non-Resident (External) Rupee account holders are permitted to repatriate balances held in such accounts along with interest thereon outside India at any time without prior approval of Reserve Bank. However, in case of accounts, opened by persons residing in Bilateral group of countries, third country transfers are not permitted.

2) Income accruing on balances in the accounts is free of Indian Income Tax under Clause-4A of Section-10 of Income Tax Act, 1961 as amended by Finance Act,'68.

3) Balances held in the accounts are exempted from wealth tax in term of Section-6(ii) of Wealth Tax Act, 1957.

4) Gifts made to close relatives in India from out of balances in such accounts is free of Gift Tax.

5) Special facilities under Re-conversion/Returning Indians Foreign Exchange Entitlement scheme and loans and overdrafts against balances held in the accounts are available subject to the compliance of general/specific conditions laid down by RBI. As per latest guidelines (vide A.D./MA circular no.10 dt. 22nd Feb,'92) facility of 'Resident Foreign Currency Account' has been introduced and existing RIFEE Scheme has been withdrawn. However, existing RIFEE permit holders have to exercise an option either to continue existing RIFEEs facility, or avail themselves of RFC accounts scheme.
6) ADs freely open Non-Resident (External) Rupee Accounts in the names NRIs and OCBs provided funds for the purpose are transferred to India in an approved manner from the country of residence of the prospective account holder or from any other foreign country if the country of residence of the account holder and the country from which remittance is received are both in the External group.

Such accounts can also be opened in the names of crew members of Indian Nationality or Indian Origin employed by foreign airline/shipping companies, if they are based at foreign ports and reside abroad in connection with their employment.

7) Opening of Non-Resident (External) Rupee Accounts, in the names of two or more Non-Resident individuals is permitted provided a) all the account holders are persons of Indian nationality or origin and b) the account holders are resident either in the same country or different countries in external group.

8) Non-Resident External Rupee accounts can be opened and maintained by NRIs resident in the Bilateral group countries. However, the remittance to the account holders is permitted only in non-convertible rupees to the country concerned. The transactions involving remittances of foreign currency are not permitted.

9) ADs allow operations on Non-Resident (External) accounts by

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residents in terms of power of attorney or other authority granted in residents favour by Non-Resident account holder provided they are restricted to withdrawal for local payments. Under any circumstances such resident power holders are not permitted to repatriate funds held in the accounts.

10) The transfer of funds from one N.R.Ext.Account to another of the same person is made freely. When N.R.Ext.account holder desires to transfer funds from his N.R.Ext.account held with one AD to another AD at the same centre or at a different centre, either for opening a new N.R.Ext.account or for funding an existing N.R.Ext.account, AD may open (or credit) N.R.Ext.account with funds transferred from another provided (i) Account is opened or held as the case may be in the name of same account holder, (ii) A certificate issued by AD transferring the funds confirming the Non-Resident external status of the account from which transfer is being made is produced alongwith relative payment order or draft.

The transfer of funds from N.R.Ext.account of one person to the N.R.Ext.account of other person is generally not permissible. ADs however allow such transfers for genuine personal purposes like education of children, personal expenses, gifts, etc. provided transferor and transferee are resident of external group. If the transferor is resident of Bilateral group, transferee should also be resident of same Bilateral group.

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11) The balance held in Non-Resident (External) accounts may be freely invested without prior approval of RBI in securities of following type:

a) Units of U.T.I.
b) National plan and Saving Certificates.
c) Securities of the Central or any State government provided that the purchase/subscription to the units/certificates/securities is arranged by the bank maintaining the account or units will be purchased directly from Unit Trust of India. However, the investment in 'bearer securities' is not permitted.

12) Airlines/Shipping companies and travel agents have been permitted to book passages of the account holders as well as of their dependents for travel to, from, and in India without prior approval of Reserve Bank, against passage fares paid from Non-Resident (External) accounts. However, where the account holder is a resident in a country in the 'Bilateral group' the payment for passage fare is made only when airline/shipping company or travel agent has obtained RBI approval on 'P' form. In a similar manner funds in the accounts maintained by OCBs can be utilised for the payment of passage fares for travel to and from India of their directors, partners, office bearers, trustees or employees.
13) The funds held in N.R.Ext.account by persons resident in the external group can be freely utilised for opening FCNR account without prior approval of RBI. However, Non-Resident (External) accounts maintained by persons resident in any country in the Bilateral group cannot be converted into FCNR accounts.

14) ADs may grant loans/overdrafts in India (the ceiling of Rs.10.00 lakhs is removed on quantum of loans) to the account holder themselves for purpose other than investment in India provided that the advances are fully secured by the NRE/FCNR Fixed Deposits. The repayment will have to be made by either maturity proceeds of borrowers NRE/FCNR fixed deposit or by fresh remittance in foreign exchange from abroad or out of local rupee resources held in their respective N.R.(O)accounts. ADs may grant as per Clause-29A-13 of ECM,'87 Edn., Vol.I loans/overdraft facilities to resident individuals, firms/companies in India against collateral of fixed deposits held in Non-Resident (External) accounts. In such cases the period of loan should not exceed unexpired period of maturity of FCNR/NRE fixed deposit accepted as security. In case of loan/ODs against FCNR fixed deposits the margin required is calculated in rupee equivalent, at prevailing notional rate of exchange of relative currency. ADs also agree to their overseas branches and correspondents granting loans and overdrafts to Non-Resident depositor against security of funds held
in Non-Resident External account in India. Such granting of loans and overdrafts in a country other than the country of residents of depositor in case of N.R.Ext.account held by persons resident in countries included in Bilateral group is prohibited.

15) In order to facilitate easy identification and quicker processing of cheques drawn on N.R.Ext.accounts ADs issue to Non-Resident External account holders special series of cheques with prefix NRE printed on them in a different colour.

16) Following are the important credits that are allowed in the accounts (a) The proceeds of remittances received in an approved manner from country of residence of account holder or from any other country in the external group through banking channels, (b) The proceeds of Foreign Currency travellers cheques, D.D.s personal cheque drawn by account holder on a foreign currency account maintained by him abroad, (c) The proceeds of foreign currency/bank notes tendered by account holder during his visit to India, (d) Transfers from FCNR accounts of same account holder.

17) Following are the important debits that are allowed in the account (a) remittances to country of residence of account holder or in case where the account holder is a resident in a country in the external group, to any third country in the name of account holder or any other person provided beneficiary is also resident in a
country in the external group, (b) sale of foreign currency
Tr.cheques, travellers letters of credit,C.Notes, to account holder
himself or spouse or any other dependent of account holder.
(c) transfer to FCNR accounts of same account holders, (d) debits
for purchase of immovable property in India by account holders.

18) In terms of Banking companies (Nomination) Rules,1985, ADs can
register nomination in favour of Non-Residents in these accounts.
However, repatriation of funds held in these accounts to
Non-Resident nominees consequent on the demise of the account
holder is not permissible without RBI approval.

4.5 Foreign Currency Non-Resident Deposit Scheme (FCNR Deposit) :-

All above features pertaining to Non-Resident External Accounts
are applicable to FCNR accounts too. The detailed study of FCNR
accounts and additional features (exclusively applicable to FCNR account)
thereof has been done in a following manner.

a) Introduction to FCNR accounts.
b) Opening of FCNR accounts.
c) Sources of funds for opening FCNR accounts.
   Opening of joint accounts and Nomination accounts.
d) Salient features of opening FCNR accounts with respect to
tax benefits, loan facility and other special features.
e) Credits/Debits to FCNR accounts.
f) Aspect of management of 'exchange risk' cover.

g) Redesignation of accounts on account holders return and facilities of RECONVERSION/RIFFES.

a) **Introduction to Foreign Currency Non-Resident Account Scheme (F.C.N.R. Scheme)**

   The scheme was introduced on 1st November, 1975 to encourage private remittance and also to protect Non-Resident Indians from loss arising out of fluctuation in exchange rate of currency. The exchange risk is completely eliminated from Non-Resident account holder's point of view.

   Upto 1975, NRIs could open Non-Resident External account which is maintained in Indian rupees. One of the salient features of this account is that it is fed by foreign remittance and balance standing at the credit of account is repatriable without RBI permission. The foreign inward remittance in the terms of DD/MT/TT in favour of NRIs is therefore required to be converted into Indian rupees before crediting same into NRIs External account. The conversion takes place at a prevailing rate of the currency in which such inward remittance is received. The Non-Resident Indian may also invest proceeds of inward remittance in the form of term deposits in Indian rupees. At the time of repatriation, the balance standing at the credit of NRIs External account is reconverted into foreign currency and sent to residence...
of country of account holder or any third country in the external group. Thus conversion takes place, twice as explained above.

There is an element of 'Risk' involved in the process of conversion. The risk is that exchange rate may have relatively worsened at the time of reconversion. This may result into loss to NRI External account holder. The following illustration would make above aspect more clear.

Suppose, an Inward remittance of U.S.$ 100 is received in favour of NRI for credit to his External account. As per existing rules the Inward remittance so received is converted into Indian rupees before crediting the same into his External account. The rate at which conversion takes place is say e.g. 15 Rs. = 1 US$. The total amount of credit to Non-Resident External account comes to be Indian Rs.1500/-. Subsequently if NRI account holder wants to repatriate above sum of Indian Rs.1500/- and in the mean time rate of exchange has been worsened to 16 Rs. = 1 US$, the transaction would mean loss to NRI account holder. This may even discourage further flow of Inward Remittance to External account of Non-Resident Indians.

In order to protect NRIs from such loss, 'FCNR' scheme came into existence where the RISK of loss is now borne by RBI and NRIs are immune to fluctuations in exchange rate. In this scheme the 'Inward remittance' instead of converting into Indian rupees
is kept intact in foreign currency only. It is in fact a Non-Resident External account maintained with ADs in foreign currency and hence recognised as a second category of Non-Resident External account. The first category being Non-Resident External account in Indian rupees. **Barring few exceptions all salient features of Non-Resident External Account are also applicable to FCNR Account.** The RBI presumes that sizeable percentage of Inward Remittances invested into FCNR is going to remain in India i.e. not going to be repatriated by NRI account holders.

Since introduction of FCNR scheme there has been a considerable spurt in foreign inward remittances, thereby providing valuable support to India's BOP. The outstanding balances under Non-Resident External and FCNR deposits from year 80-81 to 90-91 are given in Table-VII presented at the end of this Chapter.

b) **Opening of FCNR Accounts**

The accounts can be opened in the names of -

i) Indian nationals, and persons of Indian origin holding foreign passport, residing abroad for gainful employment or for any purpose indicating indefinite stay abroad.

ii) Overseas corporate bodies (O.C.B.s).
iii) Crew members of Indian nationality or Indian origin employed by foreign airline/shipping company if they are based at foreign ports and reside abroad in connection with their employment.

iv) The crew members of Indian airlines/shipping company who are shore staff of these companies and are posted abroad for duty on short term and long term basis.

The eligible Non-Resident Indians mentioned above can open 'FCNR' accounts with Authorised Dealers in designated currencies viz. U.S.$, Stg.Pound, Deutsche Mark and Japanese Yen. In the beginning these FCNR accounts could be opened only in two currencies viz. U.S.$ and Stg.Pound but since 1/8/88 two more currencies viz. Deutsche Mark (D.M.) and Japanese Yen (JY) have been brought into FCNR scheme.

The FCNR accounts are not permitted to be opened by Authorised Co-operative and Commercial banks eventhough they are permitted to open in the name of individuals, Non-Resident External (Rupee) account, and Non-Resident Ordinary accounts. The persons and OCBs residing in 'Bilateral group of countries' can maintain Non-Resident External Rupee account only in non-convertible rupees. The transactions in foreign currencies and involving remittance thereof are not allowed in such accounts i.e. they cannot have FCNR accounts.
As per prevailing regulations the FCNR accounts can be opened only in the form of term deposit nature for period not less than 6 months and more than 3 years. The 'Term Deposit' includes 'Cumulative Deposit Scheme' in which there is facility of automatic reinvestment of interest as and when it accrues provided compounding of interest on the deposits and period of deposits etc. are in conformity with the directive issued by RBI.

To open FCNR accounts, NRIs are required to fill in a specific account opening form. The signature on a form must be verified/attested by a bank, Indian Embassy or Notary public or by account holder known to A.D. In account opening form an undertaking is given by account holder himself about declaration of change in status within 3 months from the date of arrival. This undertaking is as per Clause-29 A 15 of ECM-87 Edn.Vol.(I).

The minimum amount of deposit accepted is as under.

<table>
<thead>
<tr>
<th>Currency</th>
<th>U.S.$</th>
<th>D.M.</th>
<th>Pound</th>
<th>Jap.Yen</th>
</tr>
</thead>
<tbody>
<tr>
<td>Minimum amt.</td>
<td>1000</td>
<td>5000</td>
<td>500</td>
<td>2,00,000</td>
</tr>
<tr>
<td>Multiples of</td>
<td>100</td>
<td>500</td>
<td>50</td>
<td>50,000</td>
</tr>
</tbody>
</table>

The deposit receipts are issued in sums rounded off to US$ 100, DM 500, Pound 50 and Yen 50,000. The excess or shortfall
is adjusted to account holders Non-Resident External (I.Rs.) account. In order to facilitate adjustment of fractional amounts out of inward remittances received for 'FCNR deposits' and payment of accrued interest on FCNR and also repayment of FCNR deposits, FCNR account holders are advised to open Non-Resident External account along with FCNR accounts.

c) Sources of funds for opening FCNR Accounts

1) Remittance of funds from abroad

It is expected that for opening FCNR account remittances from abroad should have been received in the designated currency in which the account is desired to be opened. In case when remittance by TT/MT/Bank Draft/Cheque is received in a currency other than a designated currency, through the account of bank in the External group, ADs convert at cross rate such currency into the currency in which the FCNR account is required to be opened at the risk and cost of the depositor. For remittance in Indian rupees for opening or crediting to FCNR accounts, same are required to be converted into designated foreign currency in which FCNR account is desired to be opened at T.T.Selling market rate for that currency ruling on the date of conversion. Such conversion is allowed only when rupee funds are eligible for opening/crediting to FCNR accounts i.e. when they are
received either through an account of a bank in the external
group or should emanate from NRE account, maintained by
an account holder in a country in the external group.

The proceeds of remittance from abroad for opening of
accounts should be received in an approved manner from the
country of residence of account holder or any country in the
external group through proper banking channel. The funds
remitted from abroad in fulfilment of undertaking given by
account holders in favour of government/RBI/or any other
authority are not considered as eligible for deposit into FCNR
accounts.

ii) Transfer of funds from N.R.E. accounts :-

The opening of account by way of transfer of funds from
NRE account of same account holder is allowed. The NRE
account is debited in Indian rupees by applying T.T. selling
market rate for the currency prevailing on the date of
conversion. The criterion is Non-Resident account should also
be in the name of prospective FCNR depositor. The NRE
account may be held at some other branch of same AD or
even another AD.

The actual rupee equivalent of FCNR is calculated at
Notional rate and difference between T.T. selling market rate
and notional is adjusted separately.
iii) Tender of currency notes/travellers cheques:

FCNR account can also be opened when NRIs tender foreign currency notes and/or traveller's cheques during NRIs temporary visit to India. ADs also accept for opening FCNR account, the drafts and personal cheques drawn by the account holders on a foreign currency account maintained by him abroad including instruments expressed in Indian rupees, for which reimbursement is provided in foreign currency or in rupees from the account of a bank in the 'external group' of countries.

The Tr.cheques/drafts tendered by NRIs should be in the name of account holder and not endorsed in his favour. The foreign currency travellers cheques issued in India against RBI permit and surrendered subsequently are not eligible for opening FCNR accounts.

When the Tr.cheques, Personal cheques or drafts are tendered for opening of FCNR account, same is opened as of date of deposit of instrument.

iv) Renewal of FCNR deposits and interest accrued on such deposits:

The FCNR account can also be opened by renewal of existing FCNR account standing in the name of same account holder on maturity provided status of account holder remains
unchanged. Similarly interest accrued on FCNR deposits is also eligible for opening new FCNR account. In case of renewal, notional rate does not remain same. Such renewed FCNR deposits should be in the multiple of Stg.Pound 50, US$ 100, DM 500 and Yen 50,000 and in conformity with the minimum amount stipulated earlier. The rate of interest applicable on such renewed deposits would be the rate prevailing on the date of renewal.

v) Opening of Joint Accounts :-

The FCNR account can be opened in the names of two or more Non-Resident individuals provided (a) all the account holders are persons of Indian nationality or origin and (b) the account holders are residents in the same country or in different countries belonging to External group. However the opening of FCNR accounts jointly with residents is not permitted.

vi) Nomination :-

The FCNR account holders are permitted, in terms of Banking Companies (Nomination) Rules, to avail facility of Nomination. The Nominee can be resident or non-resident. But repatriation of funds to non-resident nominee on the death of account holders requires prior approval of RBI.

In practise, account opening form itself incorporates "Nomination clause".
d) Salient features of FCNR Accounts with respect to tax benefit, loan facility and other special features :-

The FCNR account is a category of Non-Resident External account, therefore the features of Non-Resident External account stated before are also applicable to FCNR account. However additional features specifically applicable to FCNR are summarised below.

1) The FCNR accounts are maintained in the specified currencies (Stg. Pound, U.S.$, D.M., Jap. Yen) and repayable in the currency of the deposit without prior approval of RBI.

2) The repayment also can be made in any currency in the external group, other than the currency of deposit. In that case, deposit will be repayable by converting currency of the deposit into desired currency at prevailing rate at the cost of depositor.

3) On maturity of FCNR, the maturity proceeds can be utilised for making local payments in Indian rupees through N.R.Ext./N.R.O. account of account holders. In other words there is free transferability between NRE and FCNR accounts. The funds held in FCNR accounts can be freely transferred to NRE accounts of same account holder. The funds held in NRE accounts by persons resident in countries in the external group (not Bilateral group) can be utilised for opening FCNR account.
4) Any income from interest on FCNR deposits is exempted from Income Tax also principal amount of deposit and interest thereon is exempted from Wealth Tax. The gifts made to close relatives in India from or out of balances in such accounts are free of gift tax.

5) The interest on FCNR deposits is payable in the currency of deposit. The interest is paid half-yearly however at the request of depositor ADs may pay interest on an annual basis. However, if deposit is for less than 12 months then interest is paid only on maturity of deposits. The interest can be credited to open, new FCNR account or existing/new NRE account in the name of depositor. The premature withdrawal of deposit less than six months entails forfeiture of interest.

6) As per present directives of RBI, FCNR receipt cannot be renewed with back value date e.g. FCNR maturing on 1st Jan.'88 if renewed on 1st Feb.'88 will earn interest at the rate prevailing on 1st Feb.'88 only for the period of new deposit. The simple interest @ 3% p.a. will be payable for the intervening period (i.e. from 1/1/88 to 1/2/88). The maximum overdue interest @ 5% p.a. is calculated at simple rate is as follows.

<table>
<thead>
<tr>
<th>UPTO 15 DAYS</th>
<th>NO INTEREST</th>
</tr>
</thead>
<tbody>
<tr>
<td>15 days to 46 days</td>
<td>3%</td>
</tr>
<tr>
<td>46 days to 90 days</td>
<td>4%</td>
</tr>
<tr>
<td>Beyond 90 days</td>
<td>5%</td>
</tr>
</tbody>
</table>
It means FCNR account holder is not entitled to earn interest for overdue period at the rate of earlier deposit or the rate at which deposit is renewed.

7) The premature withdrawals of FCNR accounts are permitted subject to compliance of rules and directions issued by RBI. These directions include levying of penalty which is charged @ 1% below the rates as applicable to the period upto which deposit has remained with the bank. If such premature payment is insisted by account holder for the purpose of opening N.R.Ext. account or renewal of full/part amount of FCNR account then such transaction is also subject to levy of penalty clause.

8) ADs grant loans in India to FCNR account holders themselves for purposes other than investment. The ceiling of 10 lakhs on quantum of loan is removed since Sept.'92. Such loan must be fully secured by FCNR deposits and regulations regarding normal margin and interest rates are required to be complied with. The margin requirements are calculated on the basis of rupee equivalent of deposits at the prevailing notional rate of exchange for the relative currency. The repayment of such loan can only be made by adjustment of deposit on or before maturity or by way of fresh remittances in Foreign Exchange from abroad or even out of funds from NR(O) account. The period of loan normally should not exceed the period of unexpired maturity of the FCNR
deposits accepted as security. In case above conditions are not going to be fulfilled by borrowers then prior approval of RBI is required in form LOV 4.

9) RBI also considers application forwarded through ADs for grant of rupee loans/overdraft to the account holder themselves for purposes of DIRECT INVEST in India on non-repatriation basis by way of contribution to the capital of Indian firms/companies engaged in predominantly individual/manufacturing and/or in export oriented trading activities/provided advances are fully secured by way of fixed deposits and other requirements of margin, interest and repayment are complied with. The period of loan should not exceed the period of unexpired maturity of FCNR deposit held as security. The application is to be made on form LOV 4 to RBI (ECD) under whose jurisdiction AD functions.

10) The prior approval of RBI is necessary for granting loans to resident individuals firms/companies against collateral security of deposits held in FCNR accounts. The application in such cases is made in form LOV 5 to ADs who in turn forward copy of same to RBI authorities for their approval. The following requirement should be fulfilled (as per Clause-29 A 13 of ECM 87, Edn.I) to enable RBI to consider applications.

a) There should be no direct-indirect F.Exch. consideration for the Non-Resident depositor who agrees to pledge his
deposit so as to enable resident individual/firm/company to obtain the facility.

b) The fixed deposit should be for minimum 2 years. The Non-Resident depositor, should furnish an irrevocable undertaking not to withdraw deposit for at least 2 years from the date of deposit even if loan/O.D. has been granted for a shorter period or is extinguished earlier.

c) The regulations relating to normal margin interest rate etc. are complied with. The margin requirements should be calculated on the rupee equivalent of deposits at the prevailing notional rate of exchange for the relative currency.

If amount of loan is less than 50 lakhs ADs forward copy of loan application to the concerned regional office of D.B.O.D. to consider application from the view point of credit angle.

If amount of loan exceeds 50 lakhs ADs forward a copy of application to Central office of Industrial and Export Credit Dept. for necessary clearance.

11) The loan or overdraft can be granted by borrower/account holder's banks foreign correspondent (other than situated at place in Bilateral group) as against security of funds in FCNR accounts at AD in India. In such cases, ADs permit remittance of funds from India for liquidation of outstandings subject to report to RBI.
12) Any inland movement of funds for the purpose of operating FCNR account scheme as well as repatriation abroad of balances held in FCNR account is free of inland exchange/commission for Non-Resident depositor. Even ADs who receive foreign currency remittances under the scheme when required to pass same to another ADs can do so at no extra cost to remitter.

13) ADs are permitted to pay commission (w.e.f.26/11/90) not exceeding 1% of deposits mobilised under FCNR account. The payment of brokerage would be restricted to - (i) deposit mobilised under pension scheme (ii) other deposit of US$ 25 million each under FCNR scheme.

Such deposit would be required to be kept for a minimum period of 2 years.

e) Credits/Debits to FCNR Account :-

The following CREDITS and DEBITS are permitted in FCNR scheme by ADs. In some cases transaction is reported in form 'A4'.

(A report of transaction [Cr or Dt] is required to be made in A4 form only in cases where (1) transaction is Rs.10,000/- and above and (2) specific indication has been given against transaction)

The prior approval (whenever necessary) of RBI is obtained by completing A4 forms in duplicate. The one copy of A4 is returned to AD with approval of RBI marked thereon.
Credit to FCNR account :-

1) The proceeds of remittances to India in an approved manner from the country of residence of account holder or any country in the external group through banking channels. This transaction is required to be reported on form A4. When remittances are received in other currencies they will have to be converted into designated currencies by AD. In which case, receipt of the currency and sale of the currency (designated) to the depositor, is reported in form A2, along with appropriate 'R' Return.

In terms of this provision, funds remitted from abroad in fulfilment of undertakings given by account holders in favour of government, RBI or any other authority will not be eligible for deposits into FCNR accounts.

2) The proceeds of foreign currency traveller cheques, drafts, and personal cheques drawn by account holder on a foreign currency account maintained abroad by him, deposited by account holder during his temporary visits to India, provided AD is satisfied that account holder is still normally resident abroad and travellers cheques and D.D.s are standing in the name of account holder and have not been endorsed in his favour.

The instruments expressed in Indian rupees for which reimbursement will be received in foreign currency or in rupees from the account of a bank in a country in external group are also "permitted credits". The transaction is reported to RBI on form A4.
3) The proceeds of foreign currency/bank notes tendered by account holder, during his temporary visits to India provided AD is satisfied that account holder is still resident outside India. The report on A4 is submitted.

4) Interest accruing on the deposit account.

5) Transfer from NRE accounts maintained by the same account holder.

6) Interest on government securities and dividends on U.T.I. provided securities/units were purchased by debit to account holder's NRE account or FCNR account. The report is submitted on form A4.

7) The maturity proceeds of government securities including National Plan Savings Certificates as well as proceeds of government securities sold on recognised stock exchanges in India and sale proceeds of units sold to U.T.I. provided securities/units were originally purchased by debit to account holder's NRE or FCNR account. The report on A4 is submitted.

8) The refund of share/debenture, subscription to new issues of Indian companies or portion thereof if amount of earlier subscription was paid from the same account or from another FCNR account or NRE account of account holder or by way of remittance from abroad through normal banking channels. The report on A4 be submitted.

9) Any other transaction, if it has been specifically approved by
RBI on form A4 submitted to it, subject to compliance with condition laid down at the time of approval.

Debits to FCNR Accounts :-

1) Debits for local disbursements are allowed. The debits for purchase of investment in India in any manner and for payment of passage fares to and from India for account holder or his dependents are not regarded as local disbursements.

   Debits towards payment of insurance premium on L.I.C policies held by account holder or his dependents are freely made.

2) Debits for payment to airlines/shipping companies and travel agents in India towards passage fares to and from India for account holders or his dependents in case of NRIs accounts and for the directors, partners, office bearers, trustees, employees in case of OCB's accounts.

3) The remittance to country of residence of account holder or in cases where the account holder is a resident in a country in the external group, remittance to any third country in the name of account holder or any other person, provided in the later case the beneficiary is also a resident in a country in the external group. All above transactions are required to be reported in form A4.

4) Sale of foreign currency travellers cheques, travellers letter of
credit or rupee travellers cheques encashable outside India to account holder himself or any other dependent of account holder. The transaction is required to be reported in 'A2' form.

5) Transfers to NRE accounts maintained by same account holder or other NR account holder, only for genuine personal purpose provided both fall in same external group, otherwise such type of transfer is generally not permissible.

6) Debits for purchase of 'immovable properties' in India, by account holders.

7) The debits for permitted investments as per Clause-29A9(i) of ECM 87 Edn. Vol.I, i.e. investments in units, National Plan/Savings Certificates and securities of Central/State. The report is made on A4 form. In addition, debits for investment is shares/debentures of Indian companies, partnership firms, provided approval of RBI is obtained for making such investments. The report on A4 be made.

8) Any other debit transaction specifically approved by RBI on form A4 subject to compliance of conditions laid down while giving sanction.

9) When NRI comes for settlement, payment of custom duty can be made by debit to N.R.Ext.account/FCNR account held in India. For that matter, ADs issue certificate to that effect for submission to the 'custom authorities'.

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f) **Aspect of Management of 'Exchange Risk'** :-

In an introduction to FCNR account it has been stated that in order to protect NRIs from loss arising due to conversion, FCNR scheme was introduced. The loss arising in transaction is borne by RBI and NRIs are immune to fluctuation in exchange rate. This aspect is elaborately studied in the aspect of management 'Exchange Risk'.

The exchange risk involved in maintaining Non-Resident accounts in designated foreign currencies and repatriating balances in these currencies alongwith accrued interest thereon is borne by RBI. It is therefore, obligatory on the part of ADs with whom FCNR accounts are maintained to sell to RBI all the amounts in the designated foreign currencies received by ADs under FCNR scheme. ADs should also sell to RBI, the converted foreign currency proceeds of all instruments and foreign currency notes and coins credited to FCNR accounts. In case an inward remittance is received in a currency other than a designated currency ADs should first convert the currency of remittance into the designated currency in which account is desired to be opened by the remitter, at the cost of remitter. The proceeds in the designated currency should then be sold to RBI. This procedure is also followed in cases where remittances are received by ADs in rupees from overseas banks and are otherwise eligible under FCNR scheme or balances held in N.R.Ext.account in rupees are required to
be used for opening accounts in designated currency under FCNR scheme. The RBI would purchase foreign currency from ADs under the scheme for ready delivery at the branches of its banking department at Bombay, Calcutta, Madras, New Delhi, Bangalore, Kanpur and Nagpur. The purchases are made at 'Notional Rates' announced by RBI from time to time. RBI maintains in the books of its Banking Department 'Proforma accounts' in the different foreign currencies in the name of each AD and credit to these accounts the amount of foreign currencies purchased from concerned AD under this scheme from time to time. The balance in these proforma accounts at any time will represent ADs entitlement to purchase from RBI and RBIs liability to sell foreign currencies to ADs at the same notional rate at which they were purchased by Reserve Bank earlier. The notional rate fixed for the purpose of foreign currency transactions with RBI under the scheme will be allotted a distinct 'LOT NUMBER'. As and when the notional rate for purchase of any foreign currency under the scheme is changed by RBI a new 'LOT NUMBER' is allotted. The RBI will then open a new proforma account for that lot in that currency in the name of each AD for crediting purchases that will be made henceforth from AD under that lot number. This facilitates determination of amounts in each currency which ADs are entitled to acquire from RBI at different notional rates at which foreign currencies were originally purchased by RBI. When the funds in
FCNR account are withdrawn by depositors for repatriation or for meeting their requirements for local payments, investments, etc. in rupees. ADs should repurchase the corresponding amounts from RBI who will sell to them same amount in same foreign currency for ready delivery at that same rate at which the amount was originally purchased. The sales by Reserve Bank as and when made will be debited in the case of each AD to the proforma account pertaining to the lot under which amount was credited by Reserve Bank earlier. If on any particular day, there are transactions relating to opening of or credit to FCNR accounts and also debit to or closing of FCNR accounts, ADs sell or buy with RBI, only net amount, after setting off receipt against payment. In case of renewal of deposits on maturity by account holders for further terms it will be necessary for ADs to buyback the principal amount of the original deposit with accrued interest at old notional rate and resell the aggregate foreign currency amount of the new deposit i.e. principal plus interest, to RBI at new notional rate. ADs submit to RBI half yearly statement of interest accrued and payable on the balance held by them in FCNR account in different currencies. This amount of interest is deemed to be additional entitlement of ADs to purchase from RBI, foreign currencies at the notional rate at which the relative principal amount was purchased by RBI earlier. On receipt of statement of interest, RBI will credit interest amounts to the respective proforma accounts, corresponding to the notional rates of the particular lot. The balances in the relative proforma accounts after credit of interest amount will, therefore,
represent the amounts available for being drawn by ADs by ready purchases of foreign currency concerned whenever the balances in FCNR accounts are withdrawn for repatriation or for local payments in rupees by account holders. If such interest amount is reported (half yearly statement) by ADs to RBI, and such interest amount is reduced due to premature payment of deposit then ADs notify such fact to RBI, in the next half yearly statement for necessary adjustment in relative proforma account.

The minimum and multiple requirements for sales to and purchase from RBI under the scheme are as follows.

Stg.Pound = in multiples of Stg.Pound 500 subject to Mini.Pound 10,000
U.S.$ = in multiples of US$ 1000 subject to Mini.US$ 25,000
D.M. = in multiple of DM 2000 subject to Mini.DM 40,000
Jap.Yen = in multiples of Jap.Yen 1,50,000 subject to a Minimum of Jap.Yen 3,000,000

These limits are not applicable to interest amounts credited to proforma accounts. If the accumulated deposits fall short of minimum prescribed then ADs may be unable to sell deposit amount to RBI and by the time the accumulation reaches minimum prescribed level, the deposits fall due for repayment. In such case, if ADs wish to cover exchange risk in respect of interest payment, they do so by including the interest actually credited to the accounts in the H.Y. statement of interest for credit to proforma account with RBI. The notional rate
applicable for repurchase entitlements from RBI, will however be the rate prevailing on the date of acceptance of the deposit.

ADs accumulate and retain in their foreign currency account abroad, the amount of inward remittance received by them under the scheme until such time it reaches above minimum prescribed level. At any cost, amount retained is not absorbed in a position for respective currency but kept distinct.

The offer of foreign currency to RBI by ADs is made in form 'A' (FCM-1). The form contains declaration to the effect that amount offered for sale represents proceeds of inward remittances received by ADs for opening FCNR accounts. On receipt of such offer RBI handover to AD a memorandum of acceptance in form 'B'(FCM-2). The application for repurchase is made in form 'C'(FCM-3). The application for crediting accrued interest is made in form 'D'(FCM-4).

8) Redesignation of account on accountholder's return to India :-

As per the existing instructions contained in the Exchange Control Manual, 1987 Edition, Volume-I, non-residents of Indian nationality or origin returning to India for permanent settlement (Returning Indians) are required

a) to close the foreign currency accounts, if any, maintained by them with banks abroad and transfer balances therein to India within 3 months of their arrival as per paragraph 22C.1 of ECM.
b) to declare to Reserve Bank foreign securities held by them as per paragraph 22C.3 of ECM, 87 Edn., Vol. I

c) to apply to Reserve Bank for permission to hold immovable properties outside India as per paragraph 23B.3 of ECM, 87 Edn., Vol. I.

d) to intimate to the Authorised Dealer about change of status from non-resident to resident so that NRE/FCNR accounts are redesignated as resident accounts immediately upon their return to India as per paragraph 29A.15 of ECM, 87 Edn., Vol. I. The balances in these accounts loose their convertible status once they are so redesignated.

However persons returning to India for exploratory purpose would be eligible for special facility known as "Reconversion Facility" (29A.16 of ECM) under which balance held in NRE/FCNR accounts are allowed to be reconverted within 5 years into foreign currency subject to approval of RBI on Form-FAD-2. (w.e.f.Sept.22,'92 this stands withdrawn)

The facility of 'RIFEE' scheme i.e. to avail 50% of foreign exchange repatriated which was uptill now available for Returning Indians has been removed since Feb.22,'92. 'RIFEE' has been replaced by 'Resident Foreign Currency Accounts' under which Returning Indians (External Group) are permitted to maintain R.F.C. account in India in US$. The balances held in NRE/FCNR can be converted into US$ R.F.C. account immediately after accountholders return to India. The existing RIFEE/RECONVERSION permit holders can continue the facility or avail of R.F.C. account at their option.
Foreign Currency Non-Resident deposit is nothing but scarce foreign exchange made available to the motherland by Non-Resident Indians (NRIs). If government expects NRIs to make more and more foreign exchange available in the form of FCNR deposits, obviously NRIs would reciprocally expect more returns (monetary and Non-monetary) from government on Non-Resident deposits. For that matter, even scheme may have to be modified so as to cater to the needs of NRIs. In order to explore the possibility of suggesting modifications, if any, it is felt as per first objective, to make critical evaluation of the scheme, so as to know limitations of the scheme and then to move on further towards eliminating these limitations, as far as possible, in conformity to the second objective of research.

In this part the Researcher has evaluated the FCNR scheme critically as regards its -

a) Structural aspects
b) Operational aspects
c) Impact on economy

a) Structural aspects :-

i) In accordance to the definition, all those of Indian origin residing abroad for gainful employment or for any other purpose indicating indefinite stay are considered as NRIs eligible to open Non-Resident accounts viz. NRExt. and FCNR.
It means those who are abroad for definite period of stay do not fall under purview of this definition. In fact, these persons do earn when they are abroad but their foreign exchange earnings cannot be utilised for the benefit of Indian economy which has experienced at times severe shortage of foreign exchange. Also the definition does not give scope to those Non-Indian origin persons who are desirous to invest in India.

i) FCNR deposits are basically of term deposit in nature. The interest is payable on it at stipulated rate and period. This nature of FCNR deposits has become obsolete in today's changing investment climate. Investors today do not prefer to lock their funds for long period and are after maximising returns.

iii) FCNR rates are presently linked with LIBOR. In order to keep FCNR rates in line with LIBOR and to hedge out arbitrage component same are subject to constant change. It takes minimum weeks time for mail remittance to reach India. If remittance is in pipeline and FCNR rate changes, client may loose or sometimes gain. The rates are changed very often, about which NRI depositors abroad are of no way to know.

iv) The rate structure is periodwise rather than amountwise. It means in the present rate structure importance is attached to the period for which deposit is going to be held, and not other way round. If small amount of deposit is held for long period then it is of
less use. Also in the period itself term deposits after 3 years and above get same return i.e. treated on par. The period and amount should have substantial consideration if investment psychology of depositors is to be improved.

v) In the event of Non-Resident Indian returns to India for permanent settlement, as per Clause-ECM.29-A-15, 78 Edn., Vol.I, he has to convert FCNR account into rupees immediately. He therefore, is deprived off benefit to enjoy strength of US$ (in case of FCNR in US$) through out currency of deposit. "The resident foreign currency account" (RFC Account) recently introduced does not offset the loss on interest earned on FCNR deposit. The example given below illustrates above point.

Suppose original receipt of US$ 1,000 is made for 3 years on 1st Jan.,1991. The maturity date is 1st Jan.,1994. The rate of interest is for e.g. 10%. It means NRI depositor will get US$ 1,000 plus US$ 300 on maturity date i.e. 1st Jan.,1994. If such NRI depositor comes to India for permanent settlement, say after 2 years from 1st Jan.,1991 i.e. issue date of receipt, and in this case presuming rate of interest for 2 years is 8% the amount due to him is US$ 160 i.e. US$ 1160 which would be required to be converted into Indian Rupees at prevailing buying rate or otherwise Bank would give him an option to open 'RFC' account of US$ 1160 on which NRIs would be paid interest at rate of 3% to 4% per annum. Here NRI account holder is said to have
enjoyed strength of currency in which deposit is held on principal sum plus RFC rate of interest which is as low as 3% to 5%. In an example Non-Resident account holder would enjoy strength of currency on US$ 1160 plus US$ 34.80 i.e. US$ 1194.80 after third year whereas if such NRI is allowed to continue deposit till maturity he would have earned US$ 1300. Thus there is net loss of interest of US$ 105.20 to NRI account holder if RFC option is exercised.

vi) In the present FCNR scheme transfer of FCNR deposits from one NRI to another is not permitted. Such transfer is possible in comparable schemes like NRI bonds.

vii) Unlike comparable scheme of NRI bonds, tax concessions on FCNR deposits or Non-Resident deposits, are available as long as NRI status is intact. As soon as NRI becomes resident of India in terms of Section-6 of Income Tax Act, foreign income becomes taxable and also benefits as available when depositors are Non-Residents in terms of FERA are, withdrawn.

viii) If NRI depositor asks for payment before maturity then one percent penal interest is charged. The penal cut of 1% is same for any amount of deposit big or small withdrawn before maturity.

b) Operational Aspects :-

The following are the operational problems faced by ADs while implementing the scheme.
i) Due to frequent announcement of changes in interest rates, 'notional rates' are required to be changed with every such change in the rate of interest. In that process possibility of overlapping i.e. applying old rate to new FCNR may arise leading to wrong reporting to RBI and loss of equivalent rupees, if new notional rate is higher than old one.

ii) The RBI has been introducing number of parallel scheme like - (1) Cumulative FCNR deposit scheme (2) FCNR special deposit scheme (Aug.'90) (3) Foreign Currency (Ordinary) Non-Repatriable deposit scheme (June,'91) (4) Non-Resident Non-Repatriable Rupee deposit scheme (June,'92) which leads to lot of confusion in the mind of not only users of scheme but also that of Authorised Dealers (ADs).

iii) The procedure as regards granting of loan against FCNR and payment before maturity of FCNR is time consuming as sanction is granted through link offices. Ultimately NRIs suffer due to delay.

iv) The brokerage paid is impracticable and infeasible too.

v) To induce banks to mobilise more deposits, other than small relief in SLR, no special facilities are granted.

vi) The mode of transfer of funds is not as quick as NRIs expect, even though so much is talked about technological progress.
c) **Impact on Economy** :-

i) As far as economy is concerned, FCNRs are causing burden to the ex-chequer, because actually FCNR deposit is a borrowing from NRI though not directly included in the external debt service statistics.

ii) Some FCNR deposits do not represent genuine savings of NRIs but purely interest arbitraged transactions. It means NRI borrow in EURO-MARKET and deposit same into 'FCNR' thereby makes profit out of interest rate differential. It means borrowings in foreign market are secured by FCNR deposits in India. Even if spread is reduced there is still some scope left for arbitrage.

iii) Government/RBI is caught in dilemma, because to get rid of foreign exchange crunch, FCNR deposits are valuable but at the same time cost of FCNR deposits has become matter of great concern now a days. FCNR deposits are no doubt an important source of foreign exchange but some mechanism needs to be developed whereby cost of FCNR deposits to the ex-chequer would be minimised and at the same time investment in FCNR deposits would be attractive for NRIs.
### TABLE NO. VII

Outstanding Balances under Non Resident Accounts (80-81 to 90-91)

<table>
<thead>
<tr>
<th>As on 31 March</th>
<th>NRER* Account (Rupees crores)</th>
<th>Foreign Currency Non-resident (FCNR) Accounts**</th>
<th>Total Rupees crores (NRER + FCNR)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td></td>
<td>US dollar account</td>
<td>Pound sterling account</td>
</tr>
<tr>
<td></td>
<td></td>
<td>$ mill. Re. crores</td>
<td>F. Re. min. crores</td>
</tr>
<tr>
<td>1980-81</td>
<td>938</td>
<td>140</td>
<td>116</td>
</tr>
<tr>
<td>1981-82</td>
<td>1,259</td>
<td>107</td>
<td>101</td>
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<tr>
<td>1982-83</td>
<td>1,679</td>
<td>152</td>
<td>151</td>
</tr>
<tr>
<td>1983-84</td>
<td>2,254</td>
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<tr>
<td>1984-85</td>
<td>2,864</td>
<td>489</td>
<td>618</td>
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<tr>
<td>1985-86</td>
<td>3,461</td>
<td>1,191</td>
<td>1,759</td>
</tr>
<tr>
<td>1986-87</td>
<td>4,330</td>
<td>2,360</td>
<td>3,047</td>
</tr>
<tr>
<td>1987-88</td>
<td>5,107</td>
<td>3,410</td>
<td>4,406</td>
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<tr>
<td>31 Dec '88</td>
<td>5,564</td>
<td>4,135</td>
<td>6,186</td>
</tr>
<tr>
<td>1988-89</td>
<td>5,899</td>
<td>4,245</td>
<td>6,648</td>
</tr>
<tr>
<td>31 Dec '89</td>
<td>6,161</td>
<td>5,341</td>
<td>9,078</td>
</tr>
<tr>
<td>1989-90</td>
<td>6,507</td>
<td>5,409</td>
<td>9,304</td>
</tr>
<tr>
<td>31 Dec '90</td>
<td>6,973</td>
<td>5,754</td>
<td>11,270</td>
</tr>
<tr>
<td>1990-91</td>
<td>7,137</td>
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<td>11,270</td>
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</tbody>
</table>

* Figures include accrued interest
** Figures exclude accrued interest

(Source: C.M.I.E. publication - Aug.'91)