

Foreign Exchange Developments

July 2007

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

As announced in the Union Budget for 2007-08, with a view to make foreign exchange services available to NRIs / PIO on a wider scale, RRBs, duly authorised for the purpose, have now been allowed to also accept FCNR (B) deposits from NRIs /PIO. The deposits may be accepted in US Dollars (USD), Pound Sterling (GBP), Euro, Japanese Yen (JPY), Australian Dollars (AUD) and Canadian Dollars (CAD).

RRBs also have the facility of entering into suitable tie-up arrangements with their sponsor banks for necessary support and expertise in putting through the transactions. The FCNR (B) deposits which would be received by credit to the nostro accounts of the sponsoring banks.

RRBs can also swap foreign currency funds including accrued interest, with the sponsoring banks, for broad basing their Rupee resources provided that entire exchange risk and maturity mismatch risk is managed by the sponsor bank and the RRBs do not carry any foreign currency and maturity mismatch risks in their books. The foreign currency funds received as deposits would be treated as placements / deposits by the RRBs with their sponsoring banks and management and deployment of funds would be done by the sponsoring banks

The operational and accounting may be decided by mutual agreement between the RRBs and the sponsoring banks.

In this context, the eligibility criteria prescribed for opening and maintaining NRO and NRE accounts have also been reviewed

and revised guidelines have been issued vide Circular No. RPCD.CO.RRB.No.BC.106 / 03.05.33(C)/2006-07 dated June 28, 2007, in supersession of all the earlier instructions issued in this regard.

[A.P. (DIR Series) Circular No.01
dated July 5, 2007]

(ii) Maintenance of collateral by FIIs for Transactions in Derivative segment- Opening of Demat Accounts by Clearing Corporations and Clearing Members

With effect from July 28, 2006, FIIs have been permitted to offer foreign sovereign securities with AAA rating as collaterals to recognised Stock Exchanges in India for their transactions in the derivatives segment.

With a view to further liberalise the procedure, the Reserve Bank, in consultation

with the Government of India and SEBI has permitted SEBI approved clearing corporations of stock exchanges and their clearing members to undertake the following transactions subject to the guidelines issued from time to time by SEBI and the parameters stipulated by the Reserve Bank :

- i) to open and maintain demat accounts with foreign depositories and to acquire, hold, pledge and transfer the foreign sovereign securities, offered as collateral by FIIs;
- ii) to remit the proceeds arising from corporate action, if any, on such foreign sovereign securities; and
- iii) to liquidate such foreign sovereign securities if the need arises.

[A.P. (DIR Series) Circular No. 02
dated July 19, 2007]