



RBI Eases FEMA Regulations

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Why in News?

Recently, the [Reserve Bank of India](#) has eased [Foreign Exchange Management Act \(FEMA\)](#) regulations to facilitate foreign investment in [derivatives](#).

- A derivative is a **type of financial security** that is set between two or more parties. Derivatives can take many forms, from stock and bond derivatives to economic indicator derivatives.

What are the Recent FEMA Regulations?

- **About:**
 - The recent amendments aim to **facilitate margin management** for trading in **permitted derivatives**, both within and outside India.
 - Foreign investors will find it easier to **invest in derivative instruments** following amendments to the [FEMA regulations](#) by the [RBI](#).
- **Present Mechanism:**
 - **RBI lists interest rate derivatives** ([interest rate swap](#), [forward rate agreement](#), interest rate future and [foreign currency derivatives](#), foreign currency forward, [currency swap](#) and currency option) as permitted derivative contracts.
 - Similarly in equity, **four types of derivatives** include forward contracts, futures contracts, [options contracts](#) and [swap contracts](#).
- **Recent Changes:**
 - **Permission for Authorised Dealer (AD) to Allow Interest-Bearing Accounts:** Authorised Dealer (AD) in India can allow persons resident outside India to **open, hold, and maintain interest-bearing accounts** in Indian Rupees and/or foreign currency for collecting margin in India for permitted derivative contracts.
 - In the present mechanism also RBI has kept the permitted derivative contracts similar to the previous provisions.
 - **Benefits for Non-Residents:**
 - Non-residents can **open and maintain interest-bearing accounts** with ADs in India for margin-related purposes, earning interest on these funds instead of keeping them idle.
 - Having a dedicated account for margin requirements **makes it easier for non-residents** to manage their margin obligations and funds related to permitted derivative contracts in India.

What is Foreign Exchange Management Act, 1999?

- The legal framework for the administration of foreign exchange transactions in India is provided by the [Foreign Exchange Management Act, 1999](#).

- Under the FEMA, all transactions involving foreign exchange have been classified either as [capital or current account transactions](#).
 - **Current Account Transactions:**
 - **All transactions** undertaken by a resident that **do not alter his/her assets or liabilities**, outside India are current account transactions.
 - **Example:** Payment in connection with foreign trade, expenses in connection with foreign travel, education etc.
 - **Capital Account Transactions:**
 - It includes those transactions which are **undertaken by a resident of India** such that **his/her assets or liabilities outside India are altered**.
 - **Example:** Investment in foreign securities, acquisition of immovable property outside India etc.
- **Resident Indians:**
 - A '[person resident in India](#)' is defined in **Section 2(v) of FEMA, 1999** as
 - A person residing in India for **more than 182 days** during the course of the preceding financial year.
 - Any **person or body corporate** registered or incorporated in India.

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Prelims

Q. Which one of the following groups of items is included in India's foreign-exchange reserves? (2013)

- (a) Foreign-currency assets, Special Drawing Rights (SDRs) and loans from foreign countries
- (b) Foreign-currency assets, gold holdings of the RBI and SDRs
- (c) Foreign-currency assets, loans from the World Bank and SDRs
- (d) Foreign-currency assets, gold holdings of the RBI and loans from the World Bank

Ans: (b)

Mains

Q. Discuss how emerging technologies and globalisation contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. (2021)

Q. India's proximity to the two of the world's biggest illicit opium-growing states has enhanced her internal security concerns. Explain the linkages between drug trafficking and other illicit activities such as gunrunning, money laundering and human trafficking. What counter-measures should be taken to prevent the same? (2018)