



# 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)**