

## Frequently Asked Questions (FAQs) on Foreign Exchange (Forex) Transactions

Updated till 31.05.2024

<b>Q1.</b>	<b>Can a resident person undertake forex transaction?</b>
<b>A.</b>	Resident persons are permitted to undertake forex transactions only with authorised persons and for permitted purposes, in terms of the Foreign Exchange Management Act, 1999 (FEMA).  Resident persons undertaking forex transactions with unauthorised persons and for purposes other than those permitted under FEMA shall render themselves liable for penal action under the Act.
<b>Q2.</b>	<b>Who are authorised persons?</b>
<b>A.</b>	An authorised person is an entity authorised by the Reserve Bank of India to deal in forex. It can be an authorised dealer, money changer, off-shore banking unit or any other person for the time being authorised under Sub-Section (1) of Section 10 of FEMA. The list of authorised persons is available in the link <a href="https://rbi.org.in/scripts/Fema.aspx">https://rbi.org.in/scripts/Fema.aspx</a> .
<b>Q3.</b>	<b>Can a resident person undertake forex transactions on internet / electronic trading portals?</b>
<b>A.</b>	Permitted forex transactions executed electronically should be undertaken only on electronic trading platforms (ETPs) authorised for the purpose by the Reserve Bank of India (RBI) or on recognized stock exchanges (National Stock Exchange of India Ltd. (NSE), BSE Ltd. (BSE) and Metropolitan Stock Exchange of India Ltd. (MSE)) as per the terms and conditions specified by RBI from time to time. The list of authorised ETPs is available in the link <a href="https://rbi.org.in/scripts/bs_viewcontent.aspx?ld=4080">https://rbi.org.in/scripts/bs_viewcontent.aspx?ld=4080</a> . As per FEMA, resident persons are not permitted to undertake forex transactions on unauthorised ETPs.  Resident persons undertaking forex transactions on unauthorised ETPs shall render themselves liable for penal action under FEMA.
<b>Q4.</b>	<b>What is an Electronic Trading Platform (ETP)? Do they require authorisation from RBI to operate in India?</b>
<b>A.</b>	Electronic Trading Platform (ETP) means any electronic system, other than a recognised stock exchange, on which transactions in eligible instruments like securities, money market instruments, foreign exchange instruments, derivatives, etc. are contracted. No entity shall operate an ETP without obtaining prior authorisation of RBI under The Electronic Trading Platforms (Reserve Bank) Directions, 2018. The list of authorised ETPs is available in the link <a href="https://rbi.org.in/scripts/bs_viewcontent.aspx?ld=4080">https://rbi.org.in/scripts/bs_viewcontent.aspx?ld=4080</a> .  Resident persons operating ETPs without authorisation from RBI, collecting and effecting/remitting payments directly/indirectly outside India shall render themselves liable for penal action under the extant laws and regulations, including the Foreign Exchange Management Act, 1999 and the Prevention of Money Laundering Act, 2002.

Q5.	Is there information available about the entities not authorised to deal in forex and to operate electronic trading platforms for forex transactions?
A.	<p>The RBI has published an Alert List containing names of entities neither authorised as ‘authorised persons’ to deal in forex under the FEMA, 1999 nor authorised to operate ETPs under the Electronic Trading Platforms (Reserve Bank) Directions, 2018. The Alert List also contains names of entities/platforms/websites which appear to be promoting unauthorised entities/ETPs, including through advertisements of such unauthorised entities or claiming to be providing training/advisory services. The Alert List is not exhaustive and is based on what was known to RBI at the time of publication. An entity not appearing in the Alert List should not be assumed to be authorised by the RBI. The authorisation status of any person / ETP can be ascertained from the list of authorised persons and authorised ETPs.</p> <p>The alert list can be accessed through <a href="https://rbi.org.in/scripts/bs_viewcontent.aspx?id=4235">https://rbi.org.in/scripts/bs_viewcontent.aspx?id=4235</a></p>
Q6.	Can a resident individual remit margin overseas under Liberalised Remittance Scheme (LRS) for undertaking online forex trading?
	No. Remittances under LRS can be made only for permissible current and capital account transactions. All other transactions which are otherwise not permissible under FEMA and those in the nature of remittance for margins or margin calls to overseas exchanges / overseas counterparty are not allowed under the Scheme.
Q7.	Where can a resident person register complaints against unauthorised electronic trading platforms (ETPs) for forex transactions?
A.	Complaints regarding unauthorised ETPs for forex transaction may be filed on the National Cyber Crime Reporting Portal ( <a href="https://cybercrime.gov.in">https://cybercrime.gov.in</a> ). This portal is an initiative of Government of India to facilitate victims/complainants to report all types of cybercrime complaints online. Complaints reported to the portal are dealt by respective police authorities of States/ UTs based on the information provided by the complainants. Complaints may also be filed with Enforcement Directorate (ed-del-rev@nic.in) and respective police authorities of States/UTs.
Q8.	What are the permitted purposes for undertaking forex cash, tom and spot transactions?
	Forex cash, tom and spot transactions can be undertaken for the purpose of buying/selling foreign exchange for permitted current/capital account transactions.
Q9.	What is the meaning of capital account transaction? What are the permitted capital account transactions?
	“Capital account transaction” means a transaction which alters the assets or liabilities, including contingent liabilities, outside India of persons resident in India or assets or liabilities in India of persons resident outside India. Please refer to the <a href="#">Foreign Exchange Management (Permissible Capital Account Transactions) Regulations, 2000</a> for permitted capital account transactions.

<b>Q10.</b>	<b>What is the meaning of current account transaction? What are the permitted current account transactions?</b>
	<p>"Current account transaction" means a transaction other than a capital account transaction. For example:</p> <ol style="list-style-type: none"> <li>i. Payments due in connection with foreign trade, other current business, services, and short-term banking and credit facilities in the ordinary course of business;</li> <li>ii. Payments due as interest on loans and as net income from investments, remittances for living expenses of parents, spouse and children residing abroad; and</li> <li>iii. Expenses in connection with foreign travel, education and medical care of parents, spouse and children.</li> </ol> <p>Please refer to the Foreign Exchange Management (Current Account Transactions) Rules, 2000 for permitted current account transactions.</p>
<b>Q11.</b>	<b>What are the permitted purposes for undertaking forex derivative transactions (over the counter (OTC) and exchange traded)?</b>
	<p>Permitted purpose depends on the currency pair viz. Foreign Currency - Indian Rupee (FCY-INR) and Foreign Currency - Foreign Currency (FCY-FCY).</p> <ul style="list-style-type: none"> <li>• Permitted purpose for undertaking FCY-INR forex derivative transactions (e.g., USD-INR forwards, futures, options, etc.): Hedging exchange rate risk.</li> <li>• Permitted purpose for undertaking FCY-FCY forex derivative transactions (e.g., EUR-USD forwards, futures, options, etc.): No restrictions in terms of purpose.</li> </ul>
<b>Q12.</b>	<b>What are the permitted forex derivative products?</b>
<b>A.</b>	<ul style="list-style-type: none"> <li>• OTC derivatives <ul style="list-style-type: none"> <li>• For retail users <ol style="list-style-type: none"> <li>a. Foreign Exchange Forward</li> <li>b. Foreign Exchange Swap</li> <li>c. Currency Swap</li> <li>d. Purchase of Call and Put Options</li> <li>e. Purchase of Call and Put Spreads</li> </ol> </li> <li>• For non-retail users: Any foreign exchange derivative contract, including covered options, which the Authorised Dealer can price and value independently and is approved by the board of the Authorised Dealer, provided that the potential loss from the derivative transaction to the user, in any scenario, does not exceed the loss that the user would face if he had left the position unhedged.</li> </ul> </li> <li>• Exchange traded derivatives <ul style="list-style-type: none"> <li>• Foreign Exchange Future</li> <li>• Foreign Exchange Option</li> </ul> </li> </ul>
<b>Q13.</b>	<b>Who are retail and non-retail users?</b>

A.	Regulated financial entities, other entities with a minimum net worth of Rs.500 crore and non-residents (other than individuals) are classified as non-retail users. All other types of user are classified as retail users
Q14.	What is the difference between over the counter (OTC) and exchange traded forex derivatives?
A.	Forex derivatives traded on exchanges are referred to as exchange traded forex derivatives. All other forex derivatives, including those traded on ETPs, are called OTC forex derivatives.