RBI seeks to rationalise authorisation of money changers for ease of biz

BS REPORTER
Mumbai, 26 December

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The Reserve Bank of India (RBI) on Tuesday proposed draft norms aimed at rationalising the authorisation of money changers in view of the widespread availability of banking services to the public and to explore alternative models for facilitating foreign exchange-related services.

The authorisation framework under the Foreign Exchange Management Act (FEMA) was last reviewed in March 2006.

"The RBI has reviewed the extant authorisation framework under FEMA with an objective to further improve the ease with which foreign exchange transactions can be undertaken by users, and at the same time, strengthen the regulatory oversight/framework governing authorised persons (APs)," the draft norms stated.

This is in view of the accelerated universal reach of financial services due to financial inclusion initiatives, increasing integration of the Indian economy with the global economy, digitisation of payment systems, evolving institutional structure, etc., over the past two decades, the norms stated.

Feedback on the draft norms has been invited by January 31, 2024.

The norms proposed a new category of money changers who may conduct money changing business through an agency model by becoming forex correspondents (FxCs) of category-I and category-II authorised dealers. Such entities will not be required to seek authorisation from the RBI.

To reduce the regulatory burden and enhance the ease of doing business, the RBI has proposed to renew an existing authorisation as an AD category-II on a perpetual basis.

Authorised dealers category-II are those who can issue forex pre-paid cards to residents travelling on private/business visits abroad, subject to adherence to KYC/AML/CFT requirements. However, settlement in respect of forex pre-paid cards has to be effected through AD Category-I banks.

It has also been proposed that an existing full-fledged money changer (FFMC) may approach the regulator for an upgrade of authorisation as AD Category-II, or an existing AD Category-II may approach the Reserve Bank for permanent authorisation two months prior to the date of expiry of the existing authorisation, subject to its meeting the revised eligibility criteria.

"If the entity approaches the Reserve Bank for renewal of its existing authorisation, such renewal will be considered only up to a date not beyond two years from the date when the new framework comes into force," the RBI said.

The draft proposed to allow AD Category-II entities to additionally facilitate trade-related transactions up to a value of ₹15 lakh per transaction.

To increase the reach of foreign exchange services, the proposed forex correspondent will be based on a principal-agency model where AD category-I or AD Category-II will act as the principal for the FxCs. The FxC, operating as an agent of the principal AD, will not require RBI authorisation under FEMA rules. The transactions carried out by the FxCs on behalf of the AD will be reflected in the books of the principal AD.

Any company defined under the Companies Act 2013, an NBFC or a bank, and an existing FFMC or AD category-II on surrender or after expiry of its authorisation, will be eligible to function as FxC.