

RBI rationalises operation of Special Non-Resident Rupee A/c

Amends FEMA (Deposit) Regulations, 2016

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The Reserve Bank of India (RBI), in its Statement on Developmental and Regulatory Policies¹ dated 4th October, 2019 had set out various developmental and regulatory policy measures for strengthening regulation and supervision; broadening and deepening financial markets and improving the payment and settlement systems. One of these measures was review of the provisions of Special Non-Resident Rupee Account (SNRR Account) as provided under FEMA (Deposit) Regulations, 2016.

Amendments on account of such review have been made through the Foreign Exchange Management (Deposit) (Third Amendment) Regulations, 2019 notified by RBI on 13th November, 2019² [present Notification]. This article discusses about the characteristics of SNRR account and about the present amendment.

SNRR account

As per FEMA (Deposit) Regulations, 2016 [Principal Regulations]³, any person resident outside India, having a business interest in India can enter into bona fide transactions through the following two accounts opened with an authorized dealer in India:

- 1) Non-Resident (Ordinary) Account Scheme (NRO account) or
- 2) Special Non-Resident Rupee Account (SNRR account)

According to Regulation 5(4) of the Principal Regulations, any person resident outside India having a business interest in India may open, hold and maintain with an authorised dealer in India, a Special Non-Resident Rupee Account (SNRR account), as specified in Schedule 4.

SNRR vs. NRO

As mentioned earlier, both NRO and SNRR accounts enable a PROI to make business transactions in Indian currency. The SNRR can be held only as a non-interest earning account, while an NRO account can earn interest. However, a significant advantage of SNRR over NRO is that the former is a repatriable account while the latter is non-repatriable. Repatriation refers to the conversion of offshore capital back to the currency of the origin country of a person.

Further, NRO is primarily used by a PROI for managing his income and can be maintained in the form of current, savings, recurring or fixed deposit accounts. The same is not permitted in case of SNRR account and all transactions made through the SNRR account shall be specific or ancillary to the business of the account holder alone.

The present Notification amends Schedule 4 to the Principal Regulations to the following effect:

¹ https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=48318

² <http://egazette.nic.in/WriteReadData/2019/213973.pdf>

³ [https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTINO5\(R\)DE2833D3DFA8415BA5B586CFA3D4A946.PDF](https://rbidocs.rbi.org.in/rdocs/notification/PDFs/NOTINO5(R)DE2833D3DFA8415BA5B586CFA3D4A946.PDF)

Present Amendment⁴

1) Insertion of Indicative list of transactions that can be included in “business interest”

Apart from generic business interest, the following transactions have been included in the meaning of “business interest” and thus can be made through SNRR account in Indian currency on repatriable basis:

- a) Investments in debt and non-debt instruments as per FEMA (Non-debt Instruments) Rules, 2019 and FEM (Debt Instruments) Regulations, 2019;
- b) Import of goods and services in accordance with FEMA, 1999 read with FEMA (Current Account Transaction) Rules, 2000;
- c) Export of goods and services in accordance with FEMA, 1999 read with FEMA (Current Account Transaction) Rules, 2000;
- d) Trade credit transactions and lending under ECB framework in accordance with FEM (Borrowing and Lending) Regulations, 2018;
- e) Business related transactions outside International Financial Service Centre (IFSC) by IFSC units at GIFT city like administrative expenses in INR outside IFSC, INR amount from sale of scrap, government incentives in INR, etc.

2) Exemption from Tenure restriction of SNRR a/c

According to the Principal Regulations, tenure of the SNRR account shall be concurrent to the tenure of the contract / period of operation / the business of the account holder. The tenure of an SNRR account can only be up to a maximum of 7 years. Approval of RBI was required for renewal.

However, the restriction of seven years was not applicable in case of SNRR accounts opened by PROI for the purpose of making investment in India in accordance with FEMA (Transfer or issue of security by a person resident outside India) Regulations, 2017.

The present Amendment extends the benefit to SNRR accounts opened by PROI for items listed in (a) to (e) above.

3) Authority to Indian banks to maintain separate SNRR A/c

The Principal Regulations mandates every SNRR account to carry the nomenclature of the specific business for which it is in operation.

However, clarification with respect to SNRR accounts in case of PROI having multiple businesses was not provided.

The present Amendment enables Banks to either:

- i. Maintain a separate SNRR account for each category of transactions, or
- ii. Maintain a single SNRR account for such PROIs provided that it is able to identify/ segregate and account the transactions category-wise.

⁴ <http://egazette.nic.in/WriteReadData/2019/213973.pdf>

4) Permission to repatriate funds by Nominee of deceased account-holder:

As per the Principal Regulations, funds of lying in the SNRR a/c of the deceased account holder could be credited to NRO account of the nominee with an AD Bank in India.

As explained above, the amounts in NRO account are not repatriable. The present Notification amends the aforesaid requirement to the following effect:

- i. Credit to NRO account of the nominee with AD bank in India;
- ii. Credit to NRE account of the nominee with AD Bank in India; or
- iii. Remittance through normal banking channels.

NRO accounts being non-repatriable, the nominee could also not remit the said amount. However, now the remittance of the funds of the deceased holder can be repatriated through the NRO account or through normal banking channels.

FEM (Manner of Receipt and Payment) (Amendment) Regulations, 2019⁵

Consequent to the present Notification, definition of SNRR a/c has been inserted in FEM (Manner of Receipt and Payment) Regulations, 2016 to the following effect:

“SNRR account’ means a Special Non-Resident Rupee account referred to in sub-regulation (4) of regulation 5 of Foreign Exchange Management (Deposit) Regulations, 2016 ”.

Further, Debit/ Credit to SNRR A/c have been permitted for following Payments/ Receipts as given hereunder:

| Permitted payments from SNRR A/c | Permitted receipts into SNRR A/c |
|---|---|
| Payments can be made by a PROI to an exporter by debiting the SNRR account. | Money would be received in rupees by a PROI from SNRR account after ensuring that the underlying transactions are in conformity with the provisions of the FEMA Act, 1999 and the rules, regulations and directions issued thereunder |

Conclusion

The present notification is a huge step towards enhancing the scope of non-interest bearing Special Non-resident Rupee (SNRR) Account by permitting persons resident outside India to open such accounts to facilitate rupee denominated ECB, trade credit and trade invoicing. This would further aid in popularising cross-border transactions in Indian rupee (INR), especially in respect of ECB, trade credit and exports and imports, thereby reducing the exchange risk for persons resident in India.

⁵ <http://egazette.nic.in/WriteReadData/2019/213972.pdf>