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CLIENT ALERT

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EXECUTIVE SUMMARY

The Reserve Bank of India (RBI) has introduced a framework for Special Rupee Vostro Accounts (SRVA) to promote international trade settlements in Indian Rupees (INR). This policy complements existing mechanisms using freely convertible currencies and aims to reduce dependency on hard currency while supporting INR internationalization. Key highlights include the requirement for prior RBI approval to open SRVAs, market-determined exchange rates, and the ability to use SRVA balances for investments and cross-border transactions. The initiative offers significant benefits to Indian traders, including reduced exchange rate risks and enhanced trade facilitation.

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RBI Liberalizes FEMA Rules to Facilitate Cross-Border Transactions via Special Rupee Vostro Accounts

In a significant move to boost international trade settlements in Indian Rupees (INR), the Reserve Bank of India (RBI) has introduced guidelines for the establishment of Special Rupee Vostro Accounts (SRVA). This initiative aims to complement existing systems using freely convertible currencies, reducing dependency on hard currency while supporting the broader goal of internationalizing the INR. Below is a summary of key features and benefits of the new arrangement:

Key Features of the Special Rupee Vostro Account (SRVA):

1. Distinction from Existing Vostro Accounts:

SRVA differs from traditional Rupee Vostro Accounts under FEMA Deposit Regulations, 2016. While both support trade settlements, SRVA specifically requires prior RBI approval for account opening, ensuring robust financial and operational standards.

2. RBI Approval Requirements:

The bank applying to open an SRVA must meet stringent criteria, including financial resilience, experience in cross-border transactions, and adherence to KYC and FATF guidelines.

3. Exchange Rate Determination:

Exchange rates will be market-determined. In cases where direct quotes between trading partner currencies are unavailable, a cross-currency rate derived from global benchmarks will be used.

4. Investment of Surplus Balances:

SRVA balances may be invested in Indian Government Treasury Bills and securities, with additional avenues mutually agreed upon by partner countries, subject to regulatory compliance.

5. Hedging of INR Balances:

Hedging is permissible for managing INR exposure arising from SRVA transactions, following regulatory guidelines.

6. Reporting Responsibility:

Indian Authorized Dealer (AD) banks will handle reporting for cross-border transactions facilitated through SRVAs.

Benefits for Indian Traders:

1. Reduced Exchange Rate Risk: Settling transactions in INR mitigates exposure to foreign exchange fluctuations for exporters and importers.
2. Enhanced Trade Facilitation: The mechanism is designed to simplify and expand cross-border trade while offering an alternative to traditional currency settlement systems.
3. Flexibility in Fund Utilization: SRVA balances can be repatriated, invested, or utilized for permissible current and capital account transactions, including FDI and ECB.

Procedure for Opening SRVA:

AD banks must submit a comprehensive proposal to the RBI, detailing the correspondent banking arrangements, due diligence processes, and compliance with extant guidelines, including:

1. Agreement details between AD bank and the foreign correspondent bank.
2. Confirmation of adherence to KYC and FATF standards.
3. Information on financial health and operational capabilities of the foreign correspondent bank.

This policy reinforces India's commitment to fostering trade partnerships and reducing dependence on hard currency.

For a detailed analysis of this topic, you may email us at delhi@jurislegal.org or call us on +91 11 4359 3370.