



## FREQUENTLY ASKED QUESTIONS

### Money Changing Activities

(Updated as on October 23, 2019)

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These FAQs attempt to put in place the common queries that users have on the subject in an easy to understand language. The directions relating to the subject of money changing activities including authorisation and functioning of FFMCs, non-bank ADs Category II, and franchisees of Authorised Persons as well as the conduct of foreign exchange transactions with their customers/constituents is laid down in Master Direction on Money Changing Activities as updated from time to time.

#### 1. Who are Authorised Persons under Foreign Exchange Management Act, 1999 ("FEMA")? What are the different categories of authorisation/licence granted under Section 10(1) of FEMA 1999?

Reserve Bank, currently, issues authorisation under Section 10(1) of the Foreign Exchange Management Act, 1999, to

- select banks (as Authorised Dealers Category-I) to carry out all permissible current and capital account transactions as per directions issued from time-to-time
- select entities (as Authorised Dealers Category-II) to carry out specified non-trade related current account transactions, all the activities permitted to Full Fledged Money Changers and any other activity as decided by the Reserve Bank
- select financial and other institutions (as Authorised Dealers Category-III) to carry out specific foreign exchange transactions incidental to their business / activities
- select registered companies as Full Fledged Money Changers (FFMC) to undertake purchase of foreign exchange and sale of foreign exchange for specified purposes viz. private and business travel abroad.

#### 2. What is the objective behind allowing FFMCs to do business?

To widen the access of foreign exchange facilities to residents and tourists while ensuring efficient customer service through competition.

#### 3. Whether a licence is mandatory for carrying out money changing business?

Yes. Money changing business can be undertaken by entities authorised by the Reserve Bank under Section 10 of the Foreign Exchange Management Act, 1999. No person shall carry on money changing business without the possession of a valid licence issued by the Reserve Bank. Any person found undertaking money changing business without a valid licence is liable to be penalised under the Act *ibid*.

#### 4. Who can apply for an FFMC licence?

The applicant has to be a company registered under the Companies Act, 1956/ Companies Act 2013/ Registration of Companies (Sikkim) Act, 1961, having a minimum Net Owned Funds (NOF) of INR 25 lakh to apply for a single-branch FFMC licence and INR 50 lakh to apply for a multiple-branch FFMC licence.

Banking

Currency

Foreign Exchange

Government Securities Market

NBFCs

Others

Payment Systems

## 5. Where can one submit the application for an FFMC licence?

Application in the prescribed form (as given in Part I: Annex-I of the FED Master Direction No.18/2015-16 on Reporting under FEMA 1999), along with the required documents should be submitted to the respective Regional Office of the Foreign Exchange Department of the Reserve Bank under whose jurisdiction the registered office of the applicant company falls.

## 6. How to calculate Net Owned Funds (NOF)?

Applicant companies should calculate their Net Owned Funds (NOF) of as per the following.

- a. Owned Funds :- (Paid-up Equity Capital + Free reserves + Credit balance in Profit & Loss A/c) minus (Accumulated balance of loss, Deferred revenue expenditure and Other intangible assets)
- b. Net Owned Funds :- Owned funds minus the amount of investments in shares of its subsidiaries, companies in the same group, all (other) non-banking financial companies as also the book value of debentures, bonds, outstanding loans and advances made to and deposits with its subsidiaries and companies in the same group in excess of 10 per cent of the Owned funds.

## 7. Is NOF required to be maintained on an ongoing basis?

Yes. The prescribed minimum NOF needs to be maintained on an ongoing basis.

## 8. What is the time frame within which a newly licensed FFMC should commence operations?

A newly licensed FFMC should commence operations within a period of **six months** from the date of issuance of licence. A copy of the registration under Shops & Establishment Act or any other documentary evidence such as rent receipt, copy of lease agreement, etc. should be submitted to the Reserve Bank before commencement of business.

## 9. When should an application for licence renewal be made?

An application from an FFMC/non-bank AD Category-II for renewal of licence shall be made **two months before expiry of the licence** or such other period as the Reserve Bank may prescribe. Where an application for licence renewal is submitted as above, the licence shall continue in force until the date on which the licence is renewed or the application is rejected, as the case may be. **No application from an FFMC/non-bank AD Category-II for renewal of licence shall be made after expiry of the licence.**

## 10. Under what circumstances can Reserve Bank revoke an FFMC licence?

An authorisation granted under Section 10(1) of FEMA 1999 may be revoked by the Reserve Bank at any time if the Reserve Bank is satisfied that -

- a. it is in public interest so to do; or
- b. the authorised person has failed to comply with the condition subject to which the authorisation was granted or has contravened any of the provisions of the Act or any rule, regulation, notification, direction or order made thereunder

Reserve Bank also reserves the right to revoke the authorisation of any of the offices of the authorised person for infringement of any statutory or regulatory provision. The Reserve Bank may at any time vary or revoke any of the existing conditions of an authorisation/licence or impose new conditions.

## 11. What are the money changing facilities presently available in India?

At present, the conversion of foreign currency or travellers' cheques designated in foreign currency into Indian Rupees and vice versa is possible through AD Category-I banks, ADs Category-II and Full Fledged Money Changers (FFMCs). Further, AD Category-I banks, ADs Category-II and FFMCs may appoint franchisees (also known as agents) to undertake purchase of foreign currency.

## 12. What is the objective of the Scheme for appointing Franchisees by AD Category Banks, ADs Category-II and FFMCs for undertaking restricted money changing activities?

The objective of the Scheme is to provide easier foreign exchange conversion facilities for travellers and tourists, including Non Resident Indians (NRIs), by enlarging the network of money changing facilities in the country. It is expected that the facility of Franchisee arrangement will enable AD Category-I banks, ADs Category-II and FFMCs to provide such facilities at all tourist centres and major cities during extended hours and on holidays.

## 13. What are the salient features of Franchisee Agreement?

Under the Scheme, the Reserve Bank permits ADs Category - I , ADs Category - II and FFMCs to enter into agency or franchisee agreements at their option for the purpose of carrying restricted money changing business i.e. conversion of foreign currency notes, coins or travellers' cheques into Indian Rupees.

A franchisee can be any entity which has a place of business and a minimum Net Owned Funds of Rs.10 lakh. Franchisees can undertake only restricted money changing business.

An AD Category-I Bank / AD Category-II / FFMC, as the franchiser, is free to decide on the tenor of the arrangement as also the commission or fee through mutual agreement with the franchisee. The Agency / Franchisee agreement to be entered into should include the following salient features:

- a. The franchisees should display the names of their franchisers, exchange rates and that they are authorised only to purchase foreign currency, prominently in their offices. Exchange Rate for conversion of foreign currency into Rupees should be the same or close to the daily exchange rate charged by the AD Category – I Banks / ADs Category - II / FFMC at its branches.
- b. The foreign currency purchased by the franchisee should be surrendered only to its franchiser within 7 working days from the date of purchase.
- c. The maintenance of proper record of transactions by the franchisee.
- d. The on-site inspection of the franchisee by the franchiser should be conducted at least once a year.

## 14. What is the procedure for submission of application by AD Category – I bank/ AD Category - II/ FFMC to the Reserve Bank for appointment of franchisees?

An AD Category – I Bank / AD Category - II/ FFMC should apply to the respective Regional Office of the Reserve Bank, in Form RMC-F (as given in Part I: Annex-II of the FED Master Direction No.18/2015-16 on Reporting under FEMA 1999) for appointment of franchisees under this Scheme. The application should be accompanied by a declaration that while selecting the franchisees, adequate due diligence has been carried out and that such entities have undertaken to comply with all the provisions of the franchising agreement and prevailing Reserve Bank regulations regarding money changing. Approval would be granted by the Reserve Bank for the first franchisee arrangement. Thereafter, as and when new franchisee agreements are entered into, these would have to be reported to the Reserve Bank in Form RMC-F on a post-facto basis along with similar declaration as indicated above.

**15. What are the checks to be ensured by AD Category-I banks/ADs Category-II/FFMCs while conducting due diligence of Franchisees before appointing them?**

A franchiser, i.e. AD Category–I Bank/ AD Category–II / FFMC should undertake the following minimum checks while conducting due diligence of its franchisees:

- i. existing business activities of the franchisee/ its position in the area
- ii. minimum Net Owned Funds of the franchisee
- iii. Shops & Establishments / other applicable municipal certification in favour of the franchisee
- iv. verification of physical existence of location of the franchisee, where restricted money changing activities will be conducted
- v. conduct certificate of the franchisee from the local police authorities (certified copy of Memorandum and Articles of Association and Certificate of Incorporation in respect of incorporated entities)

Note: Obtaining of Conduct Certificate of the franchisee from the local police authorities is optional for the franchisers. However, the franchisers may take due care to avoid appointing individuals/ entities as franchisees who have cases / proceedings initiated / pending against them by any law enforcing agencies.

- vi. declaration regarding past criminal case, if any, cases initiated / pending against the franchisee or its directors / partners by any law enforcing agency, if any
- vii. PAN Card of the franchisee and its directors / partners
- viii. photographs of the directors / partners and the key persons of franchisee

The above checks should be done on a regular basis, at least once in a year. The franchiser should obtain from the franchisees proper documentary evidence confirming the location of the franchisees in addition to personal visits to the site. The franchiser should also obtain a Chartered Accountant's certificate confirming the maintenance of minimum Net Owned Funds of the franchisee, i.e., Rs.10 lakh on an ongoing basis.

**16. What are the criteria for selection of centres?**

The franchiser, i.e. AD Category–I Bank / AD Category–II / FFMC may appoint franchisees within a distance of 100 kilometres from their controlling branches concerned.

However, this distance criterion is relaxed in case of a recognised group/ chain of hotels appointed as franchisees, provided the headquarters of the group/ chain of hotels falls within a distance of 100 kilometres of the controlling branch of the franchiser concerned.

Further, in case of areas declared as hilly areas (as defined by the respective State Governments/ Union Territories) and the North-Eastern States, the distance restriction given in point (i) above is not applicable.

**17. What are the guidelines on provision for training of franchisees?**

Franchisers are expected to impart training to the franchisees as regards operations and maintenance of records.

**18. What are the guidelines in respect of Reporting, Audit and Inspection of franchisees?**

The franchisers, i.e. ADs Category–I Banks / ADs Category–II / FFMCs are expected to put in place adequate arrangements for reporting of transactions by the franchisees to the franchisers on a regular basis (at least monthly). Regular spot audits of all locations of franchisees, at least once in six months, should be conducted by the franchiser. Such audits should involve a dedicated team and incognito visits should also be used to test the compliance level of the franchisees. A system of annual inspection of the books of the franchisees should also be put in place. The purpose of such inspection is to ensure that the money changing business is being carried out by the franchisees in conformity with the terms of the agreement and prevailing Reserve Bank guidelines and that necessary records are being maintained by the franchisees.

**19. Does a franchisee need to adhere to KYC/AML/CFT Guidelines?**

Franchisees are required to strictly adhere to the AML / KYC/ CFT guidelines, as applicable to ADs Category–I Banks / ADs Category – II / FFMCs.

**Note:** No licence for appointment of franchisees will be issued to any FFMC / non-bank AD Category - II, against whom any major DoE / DRI / CBI / Police case is pending. In case where any FFMC / non-bank AD Category - II has received one-time approval for appointing franchisees and subsequent to the date of approval, any DoE / DRI / CBI / Police case is filed, the FFMC / non-bank AD Category - II should not appoint any further franchisees and bring the matter to the notice of the Reserve Bank immediately. A decision will be taken by the Reserve Bank regarding allowing the FFMC / non-bank AD Category - II to appoint franchisees.

**20. Can Authorised Dealers Category-II issue forex pre-paid cards?**

Authorised Dealers Category-II can issue forex pre-paid cards to residents travelling on private/business visit 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.

**21. Can forex pre-paid cards be used at Duty Free Shops located at International Airports in India?**

Yes, forex pre-paid cards can be used at Duty Free Shops located at International Airports in India in the same manner as foreign currency notes / travellers' cheques.

**22. What is the position of Papua New Guinea Paper Banknotes?**

As per the Public Notice ([https://www.bankpng.gov.pg/wp-content/uploads/2014/08/Full-page\\_-potrait\\_Paper-Bank-Notes2.pdf](https://www.bankpng.gov.pg/wp-content/uploads/2014/08/Full-page_-potrait_Paper-Bank-Notes2.pdf)) issued by Bank of Papua New Guinea on their website [www.bankpng.gov.pg](http://www.bankpng.gov.pg) Papua New Guinea paper banknotes ceased to be legal tender on June 30, 2012 and only polymer banknotes are legal tender in Papua New Guinea. Further, Bank of Papua New Guinea has also shared the following range of serial numbers of banknotes which were never issued (and were sold to a recycler in Europe) and are therefore, not legal tender in Papua New Guinea:

Denomination	Prefix	Serial Number	
		Low	High
K2	ABJ - AJS	000001	003000
K10	AC - AY	030000	031000
	NBP- NES	160000	173000
K20	BPNG	0000001	3000000
K50	HTT - HUU	080000	090000
K100	BPNG	0000001	6000000

### 23. What is the position of old generation '1000 shillings (Ksh)' banknotes in Kenya?

With the issuance and launch of the New Generation banknotes, Central Bank of Kenya has advised that in terms of Gazette Notice No. 4849 dated May 31, 2019 from Central Bank of Kenya available at: ([http://kenyalaw.org/kenya\\_gazette/gazette/volume/MTk2Mg-/Vol.CXXI-No.69](http://kenyalaw.org/kenya_gazette/gazette/volume/MTk2Mg-/Vol.CXXI-No.69)), and the Press Release dated June 6, 2019 available at: ([https://www.centralbank.go.ke/uploads/press\\_releases/696932423\\_Press%20Release%20-%20New%20Generation%20Banknotes.pdf](https://www.centralbank.go.ke/uploads/press_releases/696932423_Press%20Release%20-%20New%20Generation%20Banknotes.pdf)), all the currency notes of denomination '1000 shillings (Ksh)' shall cease to be legal tender, and shall no longer be exchanged, with effect from October 1, 2019.