

### International Trade Settlement in Indian Rupees (INR)

Disclaimer: These FAQs are for general guidance purpose only. In case of any inconsistency(ies) between FAQ and FEMA, 1999, Rules/Regulations/Directions/Permissions issued thereunder, the latter shall prevail.

Q 1: How is the Special Rupee Vostro Account (SRVA) different from the already existing Rupee Vostro Account provided for under Foreign Exchange Management (Deposit) Regulations, 2016?

Answer: The settlement of International trade through Indian Rupees (INR) is an additional arrangement to the existing system of settlement. SRVA requires prior approval before opening unlike Rupee Vostro account.

Q 2: What is new in this arrangement?

Answer: The settlement through Indian Rupees (INR) is an additional arrangement to the existing system that uses freely convertible currencies and will work as a complimentary system. This will reduce dependence on hard (freely convertible) currency.

Q 3: Whether RBI approval is required for opening such Special Rupee Vostro Accounts?

Answer: Yes, for opening of Special Rupee Vostro Account, prior approval of RBI would be required. The bank willing to open Special Rupee Vostro Account for bank of the partner country should have a good level of business resilience and financial health. Second, they need to have experience in facilitating trade/investment transactions and capability to provide other financial services. Third, AD banks should have good correspondent relationships with banks in partner countries.

Q 4: What is Correspondent banking?

Answer: The term correspondent banking relationship acts as an intermediary or agent, facilitating wire transfers, conducting business transactions, accepting deposits and gathering documents on behalf of another bank. Correspondent banks are most likely to be used by domestic banks to service transactions that either originate or are completed in foreign countries. Domestic banks also use correspondent banks to gain access to foreign financial markets and to serve international clients without having to open branches abroad.

Q 5: Will this be a bank to bank arrangement or country to country arrangement?

Answer: This is essentially a bank-to-bank arrangement similar to correspondent banking arrangement.

Q 6: What is the procedure for opening a Special Rupee Vostro Account with an Indian AD bank?

Answer: The AD bank approaching RBI for seeking approval for opening of Special Rupee Vostro Account must submit the following information along with their proposal/request:

- a. The details of the arrangement between AD bank and correspondent bank from the trading partner country along with the funds flow.
- b. A brief write-up on the foreign banks seeking correspondent relationship for Special Rupee Vostro Account.
- c. Copy of the request letter of the correspondent bank to AD bank.
- d. Confirmation from AD bank that the due diligence has been carried out by AD bank which establishes correspondent banking relationship as per our extant guidelines {[Master Direction - Know Your Customer \(KYC\) Direction, 2016 dated Feb 25, 2016](#)} (As amended from time to time)}.
- e. Confirmation from AD bank stating that the correspondent bank is not from a country or jurisdiction in the updated FATF Public Statement on High Risk & Non-Co-operative jurisdictions on which FATF has called for counter measures.
- f. Confirmation from AD bank that they shall ensure that all the transactions taking place in the Special Rupee Vostro Account of the correspondent bank are strictly in adherence to the instructions given in the [A.P. \(DIR Series\) Circular No. 10 dated July 11, 2022](#).
- g. Financial parameters pertaining to the correspondent bank as required for the proposal may be obtained beforehand by email to [fedcotrade@rbi.org.in](mailto:fedcotrade@rbi.org.in) and the same may be furnished by AD bank along with the proposal.

Q 7: Is the Indian branch of foreign bank eligible to open Special Rupee Vostro Account of headquarter branch/any other branch situated in any foreign country?

Answer: Yes, provided Indian branch of foreign bank is an AD bank. This is subject to approval of Reserve Bank as in the case of other such accounts.

Q 8: Can the existing Rupee Vostro Accounts of banks from trading partner countries be used as Special Rupee Vostro Accounts under the new mechanism?

Answer: No

Q 9: Can foreign bank (correspondent bank) maintain more than one Special Rupee Vostro Account with different AD banks?

Answer: Yes

Q 10: Can an AD bank in India open only one Special Rupee Vostro Account from a foreign country?

Answer: No. AD bank in India can open multiple Special Rupee Vostro Accounts for different banks from the same country.

Q 11: How will the exchange rate be determined?

Answer: Exchange rate between the currencies of the two trading partner countries will be market determined.

Q 12: How would the exchange rate between INR and the currency of the trading partner country be market-determined in the absence of direct quote for the pair of currencies?

Answer: The exchange rate for most currencies are determined in the Forex markets, typically against global currencies like the USD, EUR, JPY etc. In the transition phase, when there is no market with direct exchange rates between two currencies (say INR and Sri Lankan Rupee), the exchange rate between the currencies of two trading partner countries, each of which has markets against global currencies, would be derived as a cross currency rate.

Q 13: Whether this will address the difficulties in cross border payments with specific countries.

Answer: The policy is not aimed at any specific country. This step is part of a sequenced and calibrated path for increased use of the INR in international transactions.

Q 14: Can balances in Special Rupee Vostro Account be repatriated?

Answer: The balance in Special Rupee Vostro Account (SRVA) can be repatriated in freely convertible currency and/or currency of the beneficiary trading partner country depending on underlying transaction i.e. for which the account was credited. For example, for import payments through SRVA like any Rupee Vostro account the fund can be remitted to overseas exporter either in freely convertible currency or in domestic currency of the overseas exporter.

Q 15: Whether income from INR balance in SRVA can be repatriated?

Answer: Yes, the income from INR balance can be repatriated subject to applicable regulatory guidelines and tax provisions.

Q 16: Can balances in Special Rupee Vostro account be used for FDI, ECB?

Answer: Balance in SRVA is like foreign exchange inflow converted into INR, hence balance can be used for any permissible current and capital account transaction under the present FEMA framework.

Q 17: What are the different types of investment where surplus balance can be invested?

Answer: Investment in Government Treasury Bills, Government securities is permitted in terms of extant guidelines and prescribed limits. Other than these, avenues of investments can be mutually agreed between the countries subject to compliance with applicable regulatory and statutory guidelines.

Q 18: Whether balances can be transferred from Special Rupee Vostro Account (SRVA)?

Answer: Balance of one Special Rupee Vostro Account (SRVA) can be transferred to SRVA of another bank of the same country only. Transfer from SRVA to Rupee Vostro account of same country is allowed but not vice-versa.

Q 19: Whether INR balance in SRVA can be hedged?

Answer: Yes, INR exposure can be hedged in terms of applicable guidelines depending upon underlying transactions.

Q 20: For investment in T-Bills and government securities from funds of SRVA with AD bank, whether FPI license is required by the account holder overseas bank?

Answer: No.

Q 21: Which bank will be responsible for reporting for cross border transaction either AD bank in India or correspondent bank?

Answer: The AD bank in India shall be responsible for the reporting of transactions taking place in the Special Rupee Vostro Account of the correspondent bank of the trading partner country.

Q 22: How this new mechanism will benefit the Indian traders?

Answer: As the transactions will be settled in INR, it will reduce the exchange rate risk for the Indian exporters and importers.