



RBI/FED/2015-16/17  
FED Master Direction No.3/2015-16

January 1, 2016

To  
All Authorised Persons in Foreign Exchange

Madam / Dear Sir,

**Master Direction - Money Changing Activities**

In terms of Section 10 of the Foreign Exchange Management Act, 1999, Reserve Bank authorises persons designated as Authorised Persons to deal in foreign exchange as, inter alia, an Authorised Dealer or a money changer.

2. Authorised Money Changers (otherwise called a Full Fledged Money Changers) and Authorised Dealers Category II entities (AD Cat II) carry out specified (current account) foreign exchange transactions with their customers/ constituents. In addition, Authorised Money Changers and AD Category II can also appoint franchisees to undertake purchase of foreign exchange from residents and non-residents.

3. Reserve Bank issues directions to Authorised Persons under Section 11 of the Foreign Exchange Management Act, 1999, in regard to conduct foreign exchange business in compliance with the provisions of the Act and any rules, regulations, notifications, directions or orders made there under.

4. The directions relating to authorization, functioning of the money changers and Authorised Dealer Category II entities and their franchisees as well as the conduct of foreign exchange transactions with their customers/constituents are being issued in a consolidated form through the Master Direction enclosed herewith. Reporting instructions can be found in Master Direction on Reporting. It may be noted that whenever necessary, Reserve Bank shall issue directions to Authorised Persons through A.P. (DIR Series) Circulars in regard to any change in the rules, regulations, notifications, directions or orders or the manner in which relative transactions are to be conducted by the Authorised Persons with their customers/constituents. The Master Direction issued herewith shall be amended suitably simultaneously.

Yours faithfully,

(B P Kanungo)  
Principal Chief General Manager

## **Master Direction - Money Changing Activities**

### **SECTION-I**

#### **1. Introduction**

Money changing business can be undertaken by Authorised Money Changers (AMCs) which are authorised by the Reserve Bank under Section 10 of the Foreign Exchange Management Act, 1999. No person shall carry on or advertise that he carries on money changing business unless he is in possession of a valid money changer's 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*.

An AMC can be a Full Fledged Money Changer (FFMC), Authorised Dealer Category -I Banks (AD Category-I Banks) and Authorised Dealers Category – II entities (ADs Category-II) which are authorised by the Reserve Bank to deal in foreign exchange for specified purposes. This document contains the various instructions relating to licensing and operational guidelines for the AMCs.

#### **2. Guidelines for issuance of FFMC Licence**

FFMCs are authorised to purchase foreign exchange from residents and non-residents visiting India and to sell foreign exchange for private and business travel purposes only.

The guidelines for issue of new FFMC licence and renewal of FFMC licence, branch licensing, approval for appointment of agents / franchisees and Know Your Customer (KYC) / Anti Money Laundering (AML) / Combating of Financing of Terrorism (CFT) Guidelines for Authorised Persons (AP) are given below.

##### **(i) Entry Norms**

- (a) The applicant has to be a company registered under the Companies Act, 1956.

(b) The minimum Net Owned Funds (NOF) required for consideration as FFMC are as follows:

Category	Minimum Net Owned Funds
Single branch FFMC	Rs.25 lakh
Multiple branch FFMC	Rs.50 lakh

**Note :-** The Net Owned Funds of applicants, other than banks, should be calculated 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.

(ii) Documentation

Application in the prescribed form 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 falls, along with the following documents:

- (a) Copy each of the Certificate of Incorporation and Certificate of Commencement of Business of the company.
- (b) Memorandum and Articles of Association containing a provision for undertaking money changing business or an appropriate amendment to this effect filed with the Company Law Board.
- (c) Copy of the latest audited accounts with a certificate from the Statutory Auditors certifying the Net Owned Funds as on the date of application. Copies of the audited Balance Sheet and Profit & Loss Account of the company for the last three years, wherever applicable.
- (d) Confidential Report from the applicant's banker in a sealed cover.
- (e) A declaration to the effect that no proceedings have been initiated by / are pending with the Directorate of Enforcement (DoE) / Directorate of Revenue Intelligence (DRI) or any other law enforcing authorities,

against the applicant company or its directors and that no criminal cases are initiated / pending against the applicant company or its directors.

- (f) A declaration to the effect that proper policy framework on KYC / AML / CFT, in accordance with the guidelines issued by Reserve Bank of India, Department of Banking Regulation, Central Office as referred to in their latest Master Direction – '**Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002**', and other instructions in this regard so far and from time to time in future, mutatis mutandis, applicable to APs, will be put in place on obtaining the approval of the Reserve Bank and before commencement of operations.
  - (g) Details of sister / associated concerns operating in the financial sector, like NBFCs, etc.
  - (h) A certified copy of the board resolution for undertaking money changing business.
- (iii) Basis for Approval
- (a) Since several FFMCs are already functioning, fresh licences will be issued on a selective basis to those who comply with all the licencing requirements.
  - (b) 'Fit and proper' criteria for the applicant FFMCs #  
  
If any case by DoE / DRI or any other case by any other law enforcing authorities, is initiated / pending against any company / its directors, the company will not be considered as 'fit and proper' and its application will not be considered for licencing as FFMC.  
  
**(# Also applicable to non-bank ADs Category - II)**
  - (c) 'Fit and proper' criteria for directors of FFMCs \* - Please see **SECTION- VIII** for the details in this regard.

**(\* Also applicable to non-bank ADs Category - II)**

- (d) Clearance by the Empowered Committee

The request for issuance of FFMC licence would be considered by the Regional Office concerned of the Reserve Bank on the basis of the clearance by an Empowered Committee, set up for the purpose.

- (e) Reserve Bank's decision in the matter of granting approval or otherwise will be final and binding.

- (f) On obtaining approval from the Reserve Bank, 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 Regional Office concerned of the Reserve Bank before commencement of the business.

- (g) The FFMC should commence its operations within a period of **six months** from the date of issuance of licence and inform the Regional Office concerned of the Reserve Bank.

- (h) New FFMCs should carry out their activities as per the instructions specified in **SECTIONS V and VI** below and other instructions issued by the Reserve Bank from time to time.

**[Note:-** *Urban Cooperative Banks (UCBs), fulfilling the eligibility norms, would be considered for authorization as Authorised Dealer Category-I / Authorised Dealer Category-II only.*]

## **SECTION II**

### **Guidelines for Grant of Authorisation for Additional Branches:-**

1. No FFMC shall carry on money changing business at any additional place of business other than its permanent place of business except with the prior approval of the Reserve Bank. An FFMC which intends to commence money changing business at any additional place of business shall apply in writing to the respective Regional Office of the Foreign Exchange Department under whose jurisdiction the

registered office of the applicant falls and the Reserve Bank may approve the additional place of business subject to such conditions as deem fit. It is expected that branches of Authorised Persons should be diversified and should be meeting the demand of tourists, *etc.* Preference will be given to applications for branches in remote areas of tourist attraction.

2. Applications for additional locations (places of business) should be accompanied by the following:-

- (a) A certificate from Proprietor/Partner/Director /CFO of the entity as regards the position of NOF.
- (b) A declaration to the effect that no proceedings have been initiated by / are pending at the Directorate of Enforcement (DoE) / Directorate of Revenue Intelligence (DRI) or any other law enforcing authorities against the applicant or its directors and that no criminal cases are initiated / pending against the applicant or its directors. No new branch license will be issued to any FFMC, against whom any major DoE / DRI case is pending. In DoE / DRI pending cases of a minor nature, a decision will be taken by the Reserve Bank on a case by case basis. The categorization of pending DoE / DRI cases as major / minor will be at the discretion of the Reserve Bank and the decision of the Reserve Bank will be final and binding. Where any DoE / DRI case is adjudicated and penalty is imposed, a view will be taken, on the basis of the nature of the offence, provided no fresh case is instituted by DoE / DRI.
- (c) A declaration that there is no change in the KYC/AML/CFT policy framework since its last submission to RBI. However, in case there is a change, a copy of the revised / latest version of the policy shall be required to be submitted.
- (d) A declaration to the effect that there is no change in the internal control systems including internal and external audit since submission of the

last write-up to RBI. However, in case there is a change, the revised/latest write-up would be required to be submitted.

3. 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 Regional Office concerned of the Reserve Bank before commencement of business at an additional branch.

4. For opening Foreign Exchange Counters (full-fledged branches/ extension counters) at the international airports in India, AD Category-I banks/ AD Category – II/ FFMCs should adhere to following conditions.

(a) Foreign Exchange Counters in the arrival halls in international airports in India shall ideally be established after the Customs Desk (Green Channel/Red Channel). However, Foreign Exchange Counters may also be established between the Immigration Desk and the Customs Desk in international airports in India subject to the condition that these counters shall only purchase foreign currency and sell Indian Rupees (INR) and "Encashment Certificates" shall invariably be issued by the money changers to the customers.

(b) Foreign Exchange Counters in the departure halls in international airports in India shall be established before the Customs Desk or the immigration desk, whichever comes first. However, to enable the non-residents to convert their unspent/ excess Indian Rupees above the limits laid down at para (c) and (d) below, Foreign Exchange Counters at the departure halls in the international airports may be established in the Duty Free Area/SHA beyond the Immigration/Customs desk.

(c) Resident Indians as well as those Non-residents who are – (i) not citizens of Pakistan or Bangladesh and (ii) not going to Pakistan or Bangladesh, are allowed to take Indian notes up to an amount not exceeding Rs.25,000/- while leaving the country through an airport.

(d) Citizens of Pakistan and Bangladesh exiting the country by air are allowed to carry up to a maximum of Rs.10,000/- up to the boarding point in international airports, but not beyond.

5. The FFMC should commence operations of its additional branch within a period of **six months** from the date of issuance of licence and inform the Regional Office concerned of the Reserve Bank.

### **SECTION III**

#### **Guidelines for appointment of Agents / Franchisees by Authorized Dealer Category – I Banks, Authorized Dealers Category - II and FFMCs**

1. Under the Scheme, the Reserve Bank permits AD Category – I Banks, AD Category - II banks and FFMCs to enter into [franchisee (also referred as agency)] agreements at their option for the purpose of carrying on Restricted Money Changing business i.e. conversion of foreign currency notes, coins or travellers' cheques into Indian Rupees. However, franchisees of AD Category –I Banks / ADs Category – II / FFMCs functioning within 10 kms from the borders of Pakistan and Bangladesh may also sell the currency of the bordering country, with the prior approval of the Regional offices concerned of the Reserve Bank. Other franchises of AD Category –I Banks / ADs Category – II / FFMCs cannot sell foreign currency.

#### **2. Franchisee**

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.

#### **3. Franchisee Agreement**

AD Category-I Banks / ADs Category-II / FFMCs as the franchisers are 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 authorized 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.

#### **4. Procedure for application**

An AD Category – I Bank / AD Category - II/ FFMC should apply to the respective Regional Office of the Reserve Bank, in Form RMC-F 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.

#### **5. Due Diligence of Franchisees**

The AD Category Banks – I / ADs Category – II / FFMCs should undertake the following minimum checks while conducting the due diligence of the franchisees:

- existing business activities of the franchisee/ its position in the area.
- minimum Net Owned Funds of the franchisee.
- Shops & Establishments / other applicable municipal certification in favour of the franchisee.

- verification of physical existence of location of the franchisee, where restricted money changing activities will be conducted.
- 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.*

- declaration regarding past criminal case, if any, cases initiated / pending against the franchisee or its directors / partners by any law enforcing agency, if any.
- PAN Card of the franchisee and its directors / partners.
- 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 AD Category – I Banks / ADs Category – II / FFMCs should obtain from the franchisees proper documentary evidence confirming the location of the franchisees in addition to personal visits to the site. The AD Category –I Banks / ADs Category – II / FFMCs should also obtain a Chartered Accountant's certificate confirming the maintenance of the Net Owned Funds of the franchisee, *i.e.*, Rs.10 lakh on an ongoing basis.

## 6. Selection of Centers

- (i) The AD Category-I banks / AD Category –II / FFMCs may appoint franchisees within a distance of 100 kms. from their controlling branches concerned.
- (ii) However, this distance criterion is exempted in case of a recognized group/ chain of hotels appointed as franchisees, provided the headquarters of the group/ chain of hotels falls within a distance of 100 kms. of the controlling branch of the AD Category – I banks / AD Category – II/ FFMCs (franchiser) concerned.

(iii) 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.

## 7. Training

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

## 8. Reporting, Audit and Inspection

The franchisers, i.e. the AD 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 AD Category–I Banks / ADs Category–II / FFMCs. Such audits should involve a dedicated team and **'mystery customer' (individuals acting as potential customers to experience and measure the extent up to which people and process perform as they should)** concept should 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.

## 9. Anti Money Laundering (AML) / Know Your Customer (KYC) / Combating of Financing of Terrorism (CFT) Guidelines

Franchisees are required to strictly adhere to the AML / KYC/ CFT guidelines, as applicable to AD 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.*

#### **SECTION IV**

##### **Guidelines for Renewal of licences of existing FFMCs :**

1. The applicant should be a company registered under the Companies Act, 1956 having registered office within the area of jurisdiction of the respective Regional Office of the Foreign Exchange Department.

2. The Net Owned Funds required are as follows:

<b>Category</b>	<b>Minimum Net Owned Funds</b>
Single branch FFMC	Rs.25 lakh
Multiple branch FFMC	Rs.50 lakh

3. Applications for renewal should be submitted along with the documents mentioned below.

- (a) Copy of the latest audited accounts with a certificate from the Statutory Auditors regarding the position of Net Owned Funds as on date.
- (b) Confidential Report from the applicant's banker in a sealed cover.
- (c) A declaration to the effect that no proceedings have been initiated by/ are pending with the Directorate of Enforcement / Directorate of Revenue Intelligence or any other law enforcing authorities against the applicant company or its directors and that no criminal cases are initiated/ pending against the applicant company or its directors.
- (d) A copy of the KYC / AML / CFT policy framework existing in the company.

**Note:-** *An application for the renewal of a money-changer's licence shall be made not later than one month, or such other period as the Reserve Bank may prescribe, before the expiry of the licence. Where a person submits an application for the renewal of his money changer's licence, 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 for renewal of a money-changer's licence shall be made after the expiry of the licence.*

## **SECTION V**

### **Operational Instructions**

#### **1. Bringing in and taking out of Foreign Exchange**

(i) Foreign exchange in any form can be brought into India freely without limit provided it is declared on the Currency Declaration Form (CDF) on arrival to the Custom Authorities. When foreign exchange brought in the form of currency notes or travellers' cheques does not exceed US\$ 10,000/- or its equivalent and / or the value of foreign currency notes does not exceed US\$ 5,000/- or its equivalent, declaration thereof on CDF is not insisted upon.

(ii) Taking out foreign exchange in any form, other than foreign exchange obtained from an authorized dealer or a money changer is prohibited unless it is covered by a general or special permission of the Reserve Bank. Non-residents, however, have general permission to take out an amount not exceeding the amount originally brought in by them, subject to compliance with the provisions of sub-para (i) above.

#### **2. Purchases of Foreign Currency from Public**

(i) Authorised Money Changers (AMCs) / franchisees may freely purchase foreign currency notes, coins and travellers cheques from residents as well as non-residents. Where the foreign currency was brought in by declaring on form CDF, the tenderer should be asked to produce the same. The AMC should invariably insist on production of declaration in CDF.

(ii) AMCs may sell Indian Rupees to foreign tourists / visitors against International Credit Cards / International Debit Cards and take prompt steps to obtain reimbursement through normal banking channels.

#### **3. Encashment Certificate**

(i) AMCs may issue certificate of encashment when asked for in cases of purchases of foreign currency notes, coins and travellers cheques from residents as well as non-residents. These certificates bearing authorized signatures should be

issued on the letter head of the money changer and proper record should be maintained.

(ii) In cases where encashment certificate is not issued, attention of the customers should be drawn to the fact that unspent local currency held by non-residents will be allowed to be converted into foreign currency only against production of a valid encashment certificate.

#### **4. Purchases from other AMCs and Authorized Dealers (ADs)**

AMCs may purchase from other AMCs and ADs any foreign currency notes, coins and encashed travellers' cheques tendered in the normal course of business. Rupee equivalent of the amount of foreign exchange purchased should be paid only by way of crossed account payee cheque/Demand Draft/Bankers' cheque / Pay order.

#### **5. Sale of foreign exchange**

##### **(I) Private Visits**

AMCs may sell foreign exchange up to the prescribed ceiling specified in Schedule III to the Foreign Exchange Management (Current Account Transaction) Rules, 2000 during a financial year to persons resident in India for undertaking one or more private visits to any country abroad (except Nepal and Bhutan). Exchange for such private visits will be available on a self-declaration basis to the traveller regarding the amount of foreign exchange availed during a financial year. Foreign nationals permanently resident in India are also eligible to avail of this quota for private visits provided the applicant is not availing of facilities for remittance of his salary, savings, etc., abroad in terms of extant regulations.

##### **(II) Business visits**

AMCs may sell foreign exchange to persons resident in India for undertaking business travel or for attending a conference or specialized training or for maintenance expenses of a patient going abroad for medical treatment or check up abroad or for accompanying as attendant to a patient going abroad for medical treatment / check-up up to the limits specified in Schedule III to FEMA (Current Account Transactions) Rules, 2000.

### **(III) Forex Pre-paid Cards**

Authorised Dealers Category-II may issue forex pre-paid cards to residents travelling on private/business visit abroad, subject to KYC/AML/CFT requirements. However, the settlement in respect of forex pre-paid cards may be effected through AD Category-I banks.

In this regard, it is clarified that prepaid foreign currency cards are a form of foreign currency, similar to foreign currency notes or travellers cheques. As such, the authorised dealers/FFMCs selling pre-paid foreign currency cards for travel purposes are required to comply with the same rigorous standards of due diligence and KYC as they would in case they were selling foreign currency notes/ travellers cheques to their customers.

#### **Conditions**

- i. The Reserve Bank will not generally, prescribe the documents which should be verified by the AMCs while releasing foreign exchange. In this connection, attention of AMCs is drawn to sub-section (5) of Section 10 of FEMA, 1999.
- ii. In case of issue of travellers' cheques, the traveler should sign the cheques in the presence of an authorized official and the purchaser's acknowledgement for receipt of the travellers' cheques should be held on record.
- iii. AMCs may release foreign exchange for travel purposes on the basis of a declaration given by the traveler regarding the amount of foreign exchange availed of during the financial year.
- iv. AMCs may accept payment in cash below Rs.50,000/- (Rupees fifty thousand only) against sale of foreign exchange for travel abroad (for private visit or for any other purpose). Wherever the sale of foreign exchange is for the amount equivalent to Rs.50,000/- and above whether it involves a single drawal or multiple drawals for a single journey, the payment must be received only by a crossed cheque drawn on the applicant's bank account or crossed cheque drawn on the bank account of the firm / company sponsoring the visit of the applicant or Banker's cheque / Pay Order / Demand Draft. In addition to the payment by

Rupees/ through crossed cheque/ Banker's cheque/ Pay order/ Demand draft, AMC's may also accept the payments made by the traveller through debit cards/ credit cards/ prepaid cards for travel abroad (for private visit or for any other purpose) provided- (i) KYC/ AML / CFT guidelines are complied with, (ii) sale of foreign currency/ issue of foreign currency travellers' cheques is within the limits (credit/ prepaid cards) prescribed by the bank, (iii) the purchaser of foreign currency/ foreign currency travellers' cheque and the credit/ debit/ prepaid card holder is one and the same person.

- v. The sale of foreign currency notes and coins within the overall entitlement of foreign exchange should be restricted to the limits prescribed by the Reserve Bank from time to time for the country of visit of the traveller.

## **6. Sales against Reconversion of Indian Currency**

AMCs may convert into foreign currency, unspent Indian currency held by non-residents at the time of their departure from India, provided a valid Encashment Certificate is produced.

**Note (1):** *AMCs may convert at their discretion, unspent Indian currency up to Rs.10,000 in the possession of non-residents if, for bonafide reasons, the person is unable to produce an Encashment Certificate after ensuring that the departure is scheduled to take place within the following seven days.*

**Note (2):** *ADs Category – I, ADs Category – II and FFCs may provide facility for reconversion of Indian Rupees to the extent of Rs.50,000/- to foreign tourists (**not NRIs**) against ATM Receipts based on the following documents.*

- Valid Passport and VISA
- Ticket confirmed for departure within 7 days.
- Original ATM slip (to be verified with the original debit/ credit card).

## **7. Cash Memo**

AMCs may issue a cash memo, if asked for, on official letterhead to travellers to whom foreign currency is sold by them. The cash memo may be required for production to emigration authorities while leaving the country.

## **8. Rates of Exchange**

AMCs may put through transactions relating to foreign currency notes and travellers' cheques at rates of exchange determined by market conditions and in alignment with the ongoing market rates.



## **9. Display of Exchange Rate Chart**

AMCs should display at a prominent place in or near the public counter, a chart indicating the rates for purchase/sale of foreign currency notes and travellers' cheques for all the major currencies and the card rates for any day, should be updated, latest by 10:30 a.m.

## **10. Foreign Currency Balances**

- (i) AMCs should keep balances in foreign currencies at reasonable levels and avoid build up of idle balances with a view to speculating on currency movements.
- (ii) Franchisees should surrender foreign currency notes, coins and travellers' cheques purchased only to their franchisers within seven working days.
- (iii) The transactions between authorized dealers and FFMCs should be settled by way of account payee crossed cheques / demand drafts. Under no circumstances should settlement be made in cash.

## **11. Replenishment of Foreign currency Balances**

- (i) AMCs may obtain their normal business requirements of foreign currency notes from other AMCs / authorized dealers in foreign exchange in India, against payment in rupees made by way of account payee crossed cheque / Demand Draft.
- (ii) Where AMCs are unable to replenish their stock in this manner, they may make an application to the Forex Markets Division, Foreign Exchange Department, Central Office, Reserve Bank of India, Mumbai through an AD Category-I for permission to import foreign currency into India. The import should take place through the designated AD Category-I through whom the application is made.

## **12. Export / Disposal of surplus Foreign Currency Notes / Travellers' Cheques**

AMCs may export surplus foreign currency notes / encashed travellers' cheques to an overseas bank through designated Authorized Dealer Category - I in foreign exchange for realization of their value through the latter. FFMCs may also export surplus foreign currency to private money changers abroad subject to the condition

that either the realizable value is credited in advance to the AD Category – I bank's nostro account or a guarantee is issued by an international bank of repute covering the full value of the foreign currency notes / coins to be exported.

### **13. Write-off of fake foreign currency notes**

In the event of foreign currency notes purchased being found fake/forged subsequently, AMCs may write-off up to US \$ 2000 per financial year after approval of their Top Management after exhausting all available options for recovery of the amount. Any write-off in excess of the above amount, would require the approval of the Regional Office concerned of the Foreign Exchange Department of the Reserve Bank.

### **14. Registers and Books of Accounts of Money-changing Business**

- (i) AMCs shall maintain the following Registers in respect of their money-changing transactions :
  - (a) Daily Summary and Balance Book (Foreign currency notes / coins) in form **FLM 1**.
  - (b) Daily Summary and Balance Book (Travellers' cheques) in form **FLM 2**.
  - (c) Register of purchases of foreign currencies from the public in form **FLM 3**.
  - (d) Register of purchases of foreign currency notes / coins from authorized dealers and authorized money changers in form **FLM 4**.
  - (e) Register of sales of foreign currency notes / coins and foreign currency travellers' cheques to the public in form **FLM 5**.
  - (f) Register of sales of foreign currency notes / coins to authorized dealers / Full Fledged Money Changers / overseas banks in form **FLM 6**.
  - (g) Register of travellers' cheques surrendered to authorized dealers / authorized money changers / exported in form **FLM 7**.

- (ii) All registers and books should be kept up-to-date, cross-checked and balances verified daily.
- (iii) Transactions not pertaining to money changing business of the AMC should not be mixed up with money changing transactions. In other words, the registers and books of account should show clearly the trail of transactions pertaining to money changing business.
- (iv) Separate registers should be maintained for each establishment, if the AMC maintains more than one place of business.

**Note:-** *Inter-branch transfer of foreign currencies should be accounted as stock transfer and not as sales.*

#### **15. Submission of Statements to the Reserve Bank**

- (i) AMCs should submit to the office of the Reserve Bank which has issued the license, a monthly consolidated statement for all its offices in respect of sale and purchase of foreign currency notes in form **FLM 8** so as to reach not later than the 10<sup>th</sup> of the succeeding month.
- (ii) AMCs should submit to the Regional Office concerned of the Foreign Exchange Department, Reserve Bank, a monthly statement indicating details of receipt / purchase of US \$ 10,000 (or its equivalent) and above per transactions in the prescribed format, within 10 days of the close of the month. FFMCs / ADs Category - II should include transactions of their franchisees in their statement.
- (iii) AMCs should submit a quarterly statement regarding Foreign Currency Account/s maintained in India in their names with AD Category-I Banks to the Regional Office concerned of the Foreign Exchange Department, Reserve Bank as per the prescribed format.
- (iv) An Annual Statement should be submitted by all the AMCs to the respective Regional Offices of the Foreign Exchange Department, Reserve Bank which have issued the licenses within one month of the financial year-end, giving the details of the amount written off during the financial year, as per the prescribed format.

## **16. Inspection of Transactions of AMCs**

Section 12(1) of Foreign Exchange Management Act 1999, empowers any officer of Reserve Bank specially authorized in this behalf to inspect the books and accounts and other documents of AMCs. The AMCs should provide all assistance and co-operation to Inspecting Officers in carrying out their inspection. Failure to produce any books of account or other document or to furnish any statement or information or to answer any question relating to the money changing transactions to the Inspecting Officers, shall be deemed to be a contravention of the provisions of the Act *ibid*.

## **17. Concurrent Audit**

(i) AMCs should put in place a system of Concurrent Audit of the transactions undertaken by them.

(ii) All single branch AMCs having a turnover of more than US \$ 100,000 or equivalent per month. Single branch AMCs having turnover of less than US \$ 100,000 or its equivalent may institute a system of quarterly audit. AMCs having multiple branches, may put in place a system of Concurrent Audit which will cover 80 per cent of the transactions value-wise under a system of monthly audit and rest 20 per cent of the transactions value-wise under quarterly audit.

(iii) Appointment / selection of concurrent auditors is left to the discretion of the AMCs. The concurrent auditors should check all the transactions of the AMCs and ensure that all the instructions issued by the Reserve Bank from time to time have been complied with. The Statutory Auditors are required to certify that the Concurrent Audit and the internal control systems are working satisfactorily.

## **18. Temporary Money Changing Facilities**

AMCs are authorized to transact money changing business only at the location or locations specifically indicated in the licence. If it is intended to provide money changing facilities on a temporary basis on certain special occasions, a separate application should be made for the purpose to the Regional Office concerned of the Foreign Exchange Department of the Reserve Bank. Full details such as period for

which the exchange counter will be operated, volume of business expected, manner of accounting of the transactions, letter from organizers making available venue for the money changing facilities, etc. should be submitted.

### **19. Opening of Foreign Currency Accounts by AMCs**

AMCs, with the approval of the respective Regional Offices of the Foreign Exchange Department, may be allowed to open Foreign Currency Accounts in India, subject to the following conditions:-

- (i) Only one account may be permitted at a particular centre.
- (ii) Only the value of foreign currency notes/ encashed TCs exported through the specific bank and realized can be credited to the account.
- (iii) Balances in the accounts shall be utilized only for settlement of liabilities on account of-
  - (a) TCs sold by the AMCs and
  - (b) Foreign currency notes acquired by the AMCs from AD Category-I banks.
- (iv) No idle balance shall be maintained in the said account.

### **20. Opening of Nostro Account by Authorised Dealers Category-II**

Authorised Dealers Category-II may open Nostro Accounts after getting one time approval from the Reserve Bank, subject to following terms and conditions.

- i) Only one Nostro account for each currency may be opened;
- ii) Balances in the account should be utilized only for the settlement of remittances sent for permissible purposes and not for the settlement in respect of forex prepaid cards;
- iii) No idle balance shall be maintained in the said account; and
- iv) They will be subject to reporting requirements as prescribed from time to time.

### **21. Submission of Balance Sheet and maintenance of NOF**

All AMC's are required to submit their annual audited balance sheet to the respective Regional office of the Reserve Bank for the purpose of verification of their Net Owned Funds along-with a certificate from the statutory auditors regarding the NOF as on the date of the balance sheet. As AMC's are expected to maintain the minimum NOF on an ongoing basis, if there is any erosion in their NOF below the minimum level, they are required to bring it to the notice of the Reserve Bank immediately along with a detailed time bound plan for restoring the Net Owned Funds to the minimum required level.

## **22. Participation by Full Fledged Money Changers (FFMCs) and Authorised Dealers Category-II (ADs Category-II) in the Currency Futures and Exchange traded Currency Options markets**

FFMCs and ADs Category-II [which are not Regional Rural Banks (RRBs), Local Area Banks (LABs), Urban Co-operative Banks (UCBs) and Non-Banking Financial Companies (NBFCs)], having a minimum net worth of Rs.5 crore, may participate in the designated currency futures and currency options on exchanges recognized by the Securities and Exchange Board of India (SEBI) as clients only for the purpose of hedging their underlying foreign exchange exposures. FFMCs and ADs Category-II which are RRBs, LABs, UCBs and NBFCs, may be guided by the instructions issued by the respective regulatory Departments of the Reserve Bank in this regard.

## **SECTION VI**

### **KYC/ AML/ CFT Guidelines**

Detailed Know Your Customer (KYC) /Anti-Money Laundering (AML) Standards /Combating of Financing of Terrorism (CFT)/ Obligations under Prevention of Money-laundering Act (PMLA), 2002 guidelines issued by Reserve Bank of India, Department of Banking Regulation (DBR), Central Office as referred to in their latest Master Direction – '**Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002**' and other instructions in this regard so far and from time to time in future shall, mutatis mutandis, be applicable to all Authorised Persons (APs), their agents and franchisees.

## **SECTION VII**

### **Revocation of Licence**

The Reserve Bank reserves the right to revoke the licence granted to an AMC at any time if the Reserve Bank is satisfied that (a) it is in public interest to do so or (b) the AMC has failed to comply with any condition subject to which the authorisation is granted or has contravened any of the provisions of the Foreign Exchange Management Act, 1999 or any rule, regulation, notification, direction or order made thereunder. The Reserve Bank also reserves the right to revoke the authorisation of any of the offices for infringement of any statutory or regulatory provision. The Reserve Bank may at any time vary or revoke any of the existing conditions of a money changer's licence or impose new conditions.

## **SECTION VIII**

### **'Fit and proper' criteria for directors of FFMCs / non-bank ADs Category - II**

(a) The Boards of FFMCs / non-bank ADs Category - II should undertake a process of due diligence to determine the suitability of the person for appointment / continuing to hold appointment as a director on the Board, based upon qualification, expertise, track record, integrity and other 'fit and proper' criteria. For assessing integrity and suitability, factors like criminal record, if any, financial position, civil action initiated to pursue personal debts, refusal of admission to or expulsion from professional bodies, sanctions imposed by regulators or similar bodies, previous questionable business practices, etc. should be considered. The Board of Directors should assess 'fit and proper' status by calling for information by way of self-declaration, verification reports from market, etc. FFMCs / non-bank ADs Category - II should obtain necessary information and declaration from the proposed / existing directors for the purpose as given in the Master direction on Reporting.

(b) The process of due diligence should be undertaken by the FFMCs / non-bank ADs Category - II at the time of appointment / renewal of appointment.

(c) The Boards of the FFMCs / non-bank ADs Category - II should constitute Nomination Committees to scrutinize the declarations.

(d) Based on the information provided in the signed declaration, Nomination Committees should decide on the acceptance or otherwise and may make references, where considered necessary to the appropriate authority / persons, to ensure their compliance with the requirements indicated.

(e) FFMCs / non-bank ADs Category - II should obtain annually as on 31<sup>st</sup> March a simple declaration that the information already provided has not undergone change and where there is any change, requisite details are furnished by the directors forthwith.

(f) Further, the candidate should normally not exceed 70 years of age, should not be a Member of Parliament / Member of Legislative Assembly / Member of Legislative Council.

(g) Any change in directors during the year should be reported to the Regional Office concerned of the Foreign Exchange Department, Reserve Bank of India as given in the Master direction on Reporting.



## Appendix

### List of A.P.(DIR Series) Circulars which have been consolidated in the Master Direction on money changing activities

Sl. No.	A.P.(DIR Series) Circular	Date
1.	<a href="#">A.P. (DIR Series) Circular No. 43</a> <a href="#">[ A.P.(FL Series) Circular No. 1]</a>	November 12, 2002
2.	<a href="#">A.P. (DIR Series) Circular No.57</a> <a href="#">[ A.P.(FL/ RL Series) Circular No. 04]</a>	March 9, 2009
3.	<a href="#">A.P. (DIR Series) Circular No.06</a> <a href="#">[A.P.(FL/ RL Series) Circular No. 01]</a>	August 3, 2009
4.	<a href="#">A.P. (DIR Series) Circular No. 17</a> <a href="#">[ A.P.(FL Series) Circular No. 04]</a>	November 27, 2009
5	<a href="#">A.P.(DIR Series) Circular No.18</a> <a href="#">[ A.P.(FL Series) Circular No. 01]</a>	November 25, 2010
6	<a href="#">A.P. (DIR Series) Circular No.20</a> <a href="#">[A.P. (FL/RL Series) Circular No.03]</a>	November 30, 2010
7	<a href="#">A.P. (DIR Series) Circular No.24</a> <a href="#">[A.P. (FL/RL Series) Circular No.05]</a>	December 13, 2010
8	<a href="#">A.P. (DIR Series) Circular No.25</a> <a href="#">[A.P. (FL/RL Series) Circular No.06]</a>	December 22, 2010
9	<a href="#">A.P. (DIR Series) Circular No.27</a> <a href="#">[A.P. (FL/RL Series) Circular No.08]</a>	December 22, 2010
10	<a href="#">A.P. (DIR Series) Circular No.40</a> <a href="#">[A.P. (FL/RL Series) Circular No.10]</a>	January 25, 2011
11	<a href="#">A.P. (DIR Series) Circular No.49</a> <a href="#">[A.P. (FL/RL Series) Circular No.11]</a>	April 06, 2011
12	<a href="#">A.P. (DIR Series) Circular No.51</a> <a href="#">[A.P. (FL/RL Series) Circular No.13]</a>	April 06, 2011
13	<a href="#">A.P. (DIR Series) Circular No.61</a>	May 16, 2011
14	<a href="#">A.P. (DIR Series) Circular No.63</a>	May 20, 2011
15	<a href="#">A.P. (DIR Series) Circular No.65</a>	May 20, 2011
16	<a href="#">A.P.(DIR Series) Circular No.21</a>	September 19, 2011
17	<a href="#">A.P.(DIR Series) Circular No.23</a>	September 19, 2011
18	<a href="#">A.P.(DIR Series) Circular No.31</a>	October 03, 2011
19	<a href="#">A.P.(DIR Series) Circular No.33</a>	October 12, 2011
20	<a href="#">A.P.(DIR Series) Circular No.38</a>	October 25, 2011
21	<a href="#">A.P.(DIR Series) Circular No.41</a>	November 01, 2011
22	<a href="#">A.P.(DIR Series) Circular No.60</a>	December 22, 2011
23	<a href="#">A.P.(DIR Series) Circular No.71</a>	January 30, 2012
24	<a href="#">A.P.(DIR Series) Circular No.77</a>	February 15, 2012
25	<a href="#">A.P.(DIR Series) Circular No.86</a>	February 29, 2012
26	<a href="#">A.P.(DIR Series) Circular No.104</a>	April 04, 2012
27	<a href="#">A.P.(DIR Series) Circular No.107</a>	April 17, 2012
28	<a href="#">A.P.(DIR Series) Circular No.109</a>	April 18, 2012
29	<a href="#">A.P.(DIR Series) Circular No.17</a>	August 23, 2012

30	<a href="#">A.P.(DIR Series) Circular No.33</a>	September 24, 2012
31	<a href="#">A.P.(DIR Series) Circular No.42</a>	October 12, 2012
32	<a href="#">A.P.(DIR Series) Circular No.50</a>	November 07, 2012
33	<a href="#">A.P.(DIR Series) Circular No.51</a>	November 15, 2012
34	<a href="#">A.P.(DIR Series) Circular No.68</a>	January 02, 2013
35	<a href="#">A.P.(DIR Series) Circular No.70</a>	January 10, 2013
36	<a href="#">A.P.(DIR Series) Circular No.72</a>	January 10, 2013
37	<a href="#">A.P.(DIR Series) Circular No.84</a>	February 22, 2013
38	<a href="#">A.P.(DIR Series) Circular No.96</a>	April 5, 2013
39	<a href="#">A.P.(DIR Series) Circular No.101</a>	May 3, 2013
40	<a href="#">A.P.(DIR Series) Circular No. 34</a>	September 04, 2013
41	<a href="#">A.P.(DIR Series) Circular No. 45</a>	September 16, 2013
42	<a href="#">A.P.(DIR Series) Circular No. 97</a>	January 20, 2014
43	<a href="#">A.P.(DIR Series) Circular No. 143</a>	June 16, 2014
44	<a href="#">A.P.(DIR Series) Circular No. 146</a>	June 19, 2014
45	<a href="#">A.P.(DIR Series) Circular No. 149</a>	June 25, 2014
46	<a href="#">A.P.(DIR Series) Circular No.09</a>	July 21, 2014
47	<a href="#">A.P.(DIR Series) Circular No.14</a>	July 25, 2014
48	<a href="#">A.P.(DIR Series) Circular No.68</a>	January 28, 2015
49	<a href="#">A.P.(DIR Series) Circular No.87</a>	March 25, 2015
50	<a href="#">A.P.(DIR Series) Circular No.12</a>	September 10, 2015