LEARNING SESSIONS

EXIM Bank, FEMA, Exchange Control and FEDAI Rules

Bank Financial Management (CAIIB)

Module A · Chapter 8

◆ **Updated Edition — with Latest Updates** ◆

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Introduction

Cross-border trade is the artery of a modern economy, and a banker sits at almost every junction of it — financing the exporter, remitting for the traveller, quoting a rate to the importer, and reporting each flow to the regulator. This chapter binds together four pillars that a CAIIB candidate must master as one connected system: the **Export-Import Bank of India (EXIM Bank)**, the country's apex export-finance institution; the **Foreign Exchange Management Act, 1999 (FEMA)** and the **Reserve Bank of India's** exchange-control architecture; the **Liberalised Remittance Scheme (LRS)** and the day-to-day forex facilities available to residents; and the **FEDAI Rules** that govern how authorised dealers price and settle foreign-exchange transactions. Each of these has been revised in the last few years — new EXIM products, the electronic **EDPMS/IDPMS** reporting regime, the **Overseas Investment Rules, 2022**, the **FEDAI Rules 10th Edition (amendment dated 5 April 2024)**, and fresh currency-export rules for Nepal and Bhutan. The exam rewards the candidate who knows the *current* rule, the exact figure, and the precise instrument behind it. This chapter is built to that standard.

Key Terms You Must Know First

Before the detail, fix these foundation terms — every later section leans on them.

- **Authorised Dealer (AD):** A bank or entity licensed by RBI under FEMA to deal in foreign exchange. Your branch, when it sells you travel forex or remits money abroad, acts as an AD.
- **Full-Fledged Money Changer (FFMC):** An entity authorised to buy foreign exchange from residents/visitors and sell it for private and business travel abroad, but not to do general remittances.
- **Current Account Transaction:** Any cross-border transaction that is **not** a capital account transaction — payments for trade, services, interest, short-term credit, living expenses of relatives abroad. Generally permitted unless expressly restricted.
- **Capital Account Transaction (Sec 2(e)):** A transaction that **alters the assets or liabilities, including contingent liabilities, outside India of a person resident in India, or the assets or liabilities in India of a person resident outside India.** Generally restricted unless expressly permitted.
- **LRS:** The **Liberalised Remittance Scheme** — the window under which a **resident individual** may remit up to **USD 250,000 per financial year** for permissible current and capital account transactions combined.
- **Repatriation:** Bringing foreign exchange earned or held abroad back into India and either selling it to an AD or crediting it to a permitted account, within the prescribed time.

- **Deferred-Payment Export:** An export whose contract permits the overseas buyer to pay the price over an extended period, subject to the prevailing FEMA realisation period and project-export guidelines.
- **NTP (Normal Transit Period):** The FEDAI-notified average number of days a bill in transit takes to be realised — used to fix interest recovery on export bills. It is a **notional** period, not the actual transit time.
- **Depository Receipt (DR):** A negotiable instrument issued by a depository bank representing an interest in the underlying shares of a company, held by a custodian, and traded on a foreign exchange.
- **ODI / OPI:** Under the **Overseas Investment Rules, 2022**: **Overseas Direct Investment** (equity of a foreign entity giving 10%+ stake or control, or any stake with control) and **Overseas Portfolio Investment** (all other permitted overseas investment in securities).

Part 1 — EXIM Bank: Role, Functions and Facilities

The **Export-Import Bank of India (EXIM Bank)** was **established in 1981 under the Export-Import Bank of India Act, 1981**, and began operations in **March 1982**. It is the country's **principal financial institution for financing, facilitating and promoting India's foreign trade**, working alongside — not in place of — commercial banks.

Core objectives

foreign trade finance, Indian exports
Overseas buyer credit

- To make Indian **exports internationally competitive** by offering finance at competitive rates and terms.
- To develop **alternate and innovative financing solutions** for exporters and overseas buyers of Indian goods.
- To **provide data, information and advisory support** on new export opportunities to Indian exporters.
- To support **selective production, marketing and financing** so Indian products can compete globally.
- To **respond to the problems of Indian exporters** and pursue policy-level resolutions with the Government and RBI.

The five activity streams

EXIM Bank's operations are usually grouped under five heads:

#1
📌 1. **Financing programmes** for exporters, importers, commercial banks and overseas entities.

#2 2. **Deferred-payment exports / project exports** finance.

#3 3. **Assistance to project exports** — turnkey and construction contracts abroad.

#4 4. **Other services and programmes** — advisory, merchant banking, sustainable-finance and capacity-building support.

#5 5. **Line of Credit (LOC) programmes** extended to foreign governments and institutions.

Financing programmes — current product suite

EXIM Bank's product menu has been modernised. The candidate should present the **current** suite rather than legacy schemes. The principal facilities today are:

For exporters and importers

- **Supplier's Credit / Buyer's Credit:** export credit that lets an Indian exporter offer deferred credit to an overseas buyer, or credit extended to the foreign buyer directly for import of Indian goods and services.
- **Pre-shipment and post-shipment credit** (including in foreign currency at internationally competitive rates) for executing export contracts.
- **Project-export finance** — funded and non-funded support for engineering exports, turnkey and construction contracts.
- **Overseas Investment Finance** — term loans/guarantees to Indian companies for equity in overseas ventures, consistent with the Overseas Investment Rules, 2022.
- **Import Finance** for imports that are export-related or that expand export capacity.
- **Export factoring** and **trade-receivables financing** (which includes **forfaiting** as a mechanism, offered per the Bank's current product policy — not as a flagship standard product).
- **Ubharte Sitaare Programme (USP)** — identifies and nurtures potential export champions among mid-sized companies through a mix of equity, debt and technical assistance.
- **Trade Assistance Programme (TAP)** — enhances credit capacity by extending guarantees/risk participation to support trade transactions with select overseas geographies.
- **Sustainable-finance programmes** for green and climate-aligned export projects.

> 💡 **Exam Trap** — The legacy note that a project-financed unit had to be an **EOU in an Export Processing Zone (EPZ) exporting a minimum 25% of annual sales** is **outdated**. EPZs were folded into the **Special Economic Zone (SEZ)** framework, and an EOU today must achieve a **positive Net Foreign Exchange (NFE) cumulatively over the block period** — there is no flat 25%-of-sales test. Do not carry the old condition into the exam.

EXIM Bank A

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For commercial banks

- **Refinance and lines of credit to eligible domestic banks and NBFCs** for export-oriented lending.
- **Participation with banks in guarantees** — advance-payment, performance, retention-money and bid-bond guarantees for export contracts.
- Support for banks' **export-credit portfolios** consistent with RBI's current export-credit framework.

> 💡 **Exam Trap** — Treat **SSI Export Bills Rediscounting**, the universal **180-day export-bill rediscounting ceiling**, **refinance up to 100% of term loans**, the **Export Marketing Fund (EMF)** and the **Export Vendor Development Lending Programme (EVDLP)** as **legacy schemes**. They may appear in old notes but are not the Bank's principal current products — lead with Buyer's Credit, TAP, USP and government-supported Lines of Credit instead.

For foreign governments, importers and financial institutions

- **Overseas Buyer's Credit** — credit to foreign importers for buying eligible Indian goods and services.
- **Government-supported Lines of Credit (GOI-LOC)** — EXIM Bank extends LOCs to foreign governments/agencies for import of eligible Indian goods and services, backing India's economic diplomacy.
- **Buyer's Credit under the National Export Insurance Account (BC-NEIA)** — medium/long-term buyer's credit supported by ECGC's NEIA cover, enabling Indian project exporters to bid for large overseas contracts.
- **Credit lines to overseas financial institutions and banks** for on-lending to importers of Indian goods.

Deferred-payment exports

A **deferred-payment export** is an export where the contract permits the overseas buyer to pay the price **over an extended period** rather than immediately. Such an export must comply with the **prevailing FEMA export-realisation period**, the project-export guidelines and the AD-bank approval framework.

> 💡 **Exam Trap** — The old rule — *"proceeds received beyond six months = deferred payment export"* — is **stale**. The current **general export-realisation period is NINE (9) months from the date of export** (per RBI's Master Direction on Export of Goods and Services), except where a different period or extension applies. The **15-month** window was only a special/temporary relaxation for specified exports up to 31 July 2020 — **not** a general limit. If an MCQ offers 6 months, it is wrong.

The legacy classification of eligible goods into **Group A** (capital and producer goods) and **Group B** (consumer durables and industrial manufactures) is a historic project-export structure; treat it as background, not the principal current framework. Whether a deferred-payment/project-export proposal needs EXIM Bank participation or RBI reference depends on the **nature of the contract, the deferred-credit period, the funding arrangement, the AD-bank's delegated authority, the project-export guidelines and the Working Group mechanism** where applicable — not on any single unspecified "lead-bank limit".

Project exports, turnkey and construction contracts

Project export means the export of engineering goods, equipment, services, construction work or an integrated project under a single or related contractual arrangement, usually on deferred-payment terms. Two important sub-types:

- **Turnkey project:** supply of equipment together with related services — design, detailed engineering, civil construction, erection and commissioning — so the buyer receives a ready-to-operate plant.
- **Construction contract:** civil and structural works together with the associated supply of construction materials and equipment.

EXIM Bank provides both **funded assistance** (pre-shipment rupee credit, pre-shipment credit in foreign currency, buyer's/supplier's credit, working-capital support) and **non-funded assistance** (bid-bond, advance-payment, performance and retention-money guarantees) for such contracts.

Lines of Credit to other countries

Under its **LOC programme**, EXIM Bank grants lines of credit to the **governments of other countries** to support their development plans. Indian exporters receive orders from the operating agency in the buyer's country, issued under the line negotiated with EXIM Bank — so payment risk shifts away from the individual exporter to the structured LOC.

Part 2 — RBI, Exchange Control and FEMA

The **Reserve Bank of India** is empowered by statute to **regulate India's foreign-exchange reserves and the policies governing international trade and the inflow/outflow of foreign exchange**, and to supervise the persons authorised to deal in foreign exchange. A core responsibility is **maintaining the external value of the rupee** in an orderly manner.

FERA → FEMA

The **Foreign Exchange Regulation Act, 1973 (FERA)** was **repealed** and replaced by the **Foreign Exchange Management Act, 1999 (FEMA)**, in force from **1 June 2000**. The **objective of FEMA** is to **facilitate external trade and payments and to promote the orderly development and maintenance of the foreign-exchange market in India** — a facilitative, management-oriented statute, in contrast to FERA's prohibitive, control-oriented character.

Key FEMA provisions

- **Section 11(1):** RBI is empowered to give **any direction** to authorised persons regarding making payments or doing/desisting from any act relating to foreign exchange or foreign security, to secure compliance with FEMA and its rules, regulations, notifications and directions.
- **Section 11(3) penalty:** for contravening an RBI direction or failing to file a prescribed return, RBI may impose on the **authorised person** a penalty **up to ₹10,000**; for a **continuing contravention**, an **additional penalty up to ₹2,000 per day** for which the contravention continues.

> 💡 **Exam Trap** — Two nuances here. First, the ₹10,000 / ₹2,000-per-day figures are the **Section 11(3)** penalty on an **authorised person** — they are **not** FEMA's general penalty for every contravention (that is dealt with under Section 13, up to thrice the sum involved). Second, do **not** state flatly that *"any FEMA violation is dealt with under civil law only."* FEMA is **primarily a civil economic law** — contraventions ordinarily attract monetary penalty, confiscation, compounding or adjudication — but **failure to pay an imposed penalty and certain enforcement defaults can bring further legal consequences.**

Reporting to RBI — the modern electronic regime

IDPMS

EDPMS

The old paper-and-manual returns (R Return, BAL Statement, STAT 5/STAT 8, NRDCSR, XOS, BEF, FEMIS, the old monthly LRS format) have **largely been superseded by electronic, portal-based reporting.** A CAIIB candidate must lead with the current framework:

- **EDPMS — Export Data Processing and Monitoring System:** tracks export transactions and outstanding export bills (replacing the old XOS regime).
- **IDPMS — Import Data Processing and Monitoring System:** tracks imports and evidence of import (replacing the old Bill-of-Entry/BEF regime).
- **FLAIR — Foreign Liabilities and Assets Information Reporting:** the online web-based system for the annual **FLA return** on foreign liabilities and assets; RBI operationalised the **FLAIR online system** and issued FAQs for it (current as of 2026).
- **XBRL-based regulatory reporting** and RBI's **data-submission portals and return calendars** for ECB, trade-credit and overseas-investment reporting.

The applicable current return must always be taken from RBI's latest reporting framework, not from a legacy list.

Capital vs current account transactions

A **capital account transaction (Section 2(e))** is one that **alters the assets or liabilities, including contingent liabilities, outside India of a person resident in India, or the assets or liabilities in India of a person resident outside India** — for example, buying property abroad, investing in overseas securities, or extending certain loans. Capital account transactions are **generally restricted** unless expressly permitted.

A **current account transaction** is anything that is **not** a capital account transaction — payments due in connection with foreign trade, other current business, services and short-term banking/credit facilities in the ordinary course of business; interest on loans and net income from investments; and remittances for living expenses of parents, spouse and children residing abroad. Current account transactions are **generally permitted** unless expressly prohibited or restricted.

ODI/OPI

> 💡 **Exam Trap** — After the **Overseas Investment Rules & Regulations, 2022**, describe the overseas-investment framework using **ODI, OPI, Financial Commitment and Foreign Entity** — with the **10%/control test** distinguishing ODI from OPI. "Setting up a JV/WOS abroad" is only an **example** of ODI, not the framework. Also, a permitted **loan to an NRI/PIO close relative under LRS is ordinarily in INR, interest-free, minimum maturity one year**, within the lender's overall **USD 250,000/FY** limit — not a foreign-currency loan.

Part 3 — Forex Facilities for Residents and the LRS

Under FEMA, **resident individuals may buy or sell foreign exchange** from **Authorised Dealers (ADs)** and **Full-Fledged Money Changers (FFMCs)** for permitted current account transactions. The **Liberalised Remittance Scheme (LRS)** is the master window for a resident individual's outward remittances.

The LRS limit and who can use it

- **Overall limit: USD 250,000 per resident individual per financial year (April–March)**, combining permissible **current and capital** account transactions.
- **LRS is available only to a *resident individual*.** It is **NOT available to companies, partnership firms, HUFs or trusts.**
- Minors are eligible (the LRS declaration is countersigned by a guardian).

> 💡 **Exam Trap** — The single most-tested LRS trap: the **USD 250,000 limit is for a RESIDENT INDIVIDUAL only.** Any statement that *"a trust, company or partnership firm may remit USD 250,000 as a gift or donation under LRS"* is **wrong** — entities remit under the **Current Account Transaction Rules and their AD-bank's delegated authority**, not under LRS. Likewise, an employee's overseas business trip funded by the **company** does **not** run through the individual's LRS.

Permissible facilities within the LRS

All the facilities below sit **within** the single USD 250,000/FY ceiling for a resident individual (medical and studies may exceed it where supported by an estimate):

Facility / Purpose	Entitlement (per resident individual, per FY)
Private visits abroad (except Nepal & Bhutan)	Up to **USD 250,000** within the combined LRS limit
Gift or donation	Up to **USD 250,000** — **resident individual only** (not entities)
Going abroad on employment	Up to **USD 250,000**
Emigration Surplus	Amount **prescribed by the country of emigration**, or **USD 250,000** (higher on genuine prescription)
Maintenance of close relatives abroad	Up to **USD 250,000**
Business trip (individual / proprietor)	Up to **USD 250,000**, irrespective of number of visits
Medical treatment abroad Surplus	Up to **USD 250,000** on self-declaration (Form A2); **may exceed** with a hospital estimate
Studies abroad Surplus	Up to **USD 250,000** on self-declaration; **may exceed** with a university estimate
Residual permissible current-account transactions	Up to **USD 250,000** for all other permissible current-account purposes

> 💡 **Exam Trap** — The heading *"small-value remittances"* for the USD 250,000 bucket is misleading — the correct label is **"residual permissible current-account transactions under LRS."** And for **emigration, medical treatment and studies**, an individual may exceed USD 250,000 **only where the country of emigration, the hospital or the university so requires**, supported by an estimate and subject to AD verification.

Mode of payment — the ₹50,000 cash rule

When a resident buys foreign exchange, the **rupee equivalent of less than ₹50,000** may be paid in **cash**. Where the rupee equivalent is **₹50,000 or more**, the entire payment must

payment < 50000 → Cash

ordinarily be made through **permitted banking/card channels** (cheque, demand draft, debit/credit card, etc.).

> 💡 **Exam Trap** — Crossing **₹50,000 does NOT require RBI approval** — it merely changes the **permitted mode of payment** (banking channel instead of cash). The old note that *"ADs accept cash up to ₹50,000 and beyond that needs RBI approval"* mixes up two different things. It is about **how you pay**, not about **regulatory permission**.

Foreign-currency notes for travel

For most private/business visits, a traveller may carry only a limited amount in **foreign-currency notes and coins**, with the balance taken through permitted non-cash instruments (prepaid forex card, TCs, bank draft):

Destination / Case	Foreign-currency notes & coins per visit
General (most countries)	Up to **USD 3,000**; balance via permitted non-cash instruments
Iraq & Libya	Up to **USD 5,000** in notes/coins
Iran, Russian Federation & other CIS republics	Up to full permitted entitlement (presently within the overall **USD 250,000**)
Haj / Umrah pilgrimage	Full entitlement, or the Haj-Committee cash limit

> 💡 **Exam Trap** — **Nepal and Bhutan are NOT part of the Iraq/Libya/Iran/Russia cash-exception group.** Travel to Nepal and Bhutan is governed by the **Indian-currency** rules (below), and forex facilities for private visits **exclude** Nepal and Bhutan. Grouping Nepal/Bhutan with the foreign-currency-note exceptions is a classic error in old notes.

Carrying Indian currency to/from Nepal and Bhutan

Under the **Foreign Exchange Management (Export and Import of Currency) (Amendment) Regulations, 2025** (Notification No. FEMA 6(R)/(4)/2025-RB, dated **28 November 2025**):

- Indian currency notes of **₹100 and lower** denominations may be carried **without limit** to and from Nepal and Bhutan.
- For **denominations above ₹100** (e.g., ₹200 and ₹500), the aggregate limit is **₹25,000** per person.
- **Citizens of Pakistan and Bangladesh are barred** from carrying Indian notes of denominations above ₹100.

💡 **Exam Trap —** Drop every reference to the **₹2,000 note** here — the ₹2,000 banknote was **withdrawn from circulation (RBI, 19 May 2023)** and is no longer issued (though notes tendered remain legal tender). The old "₹500 and ₹2,000 up to ₹25,000" phrasing is stale; the current rule is framed as **above-₹100 denominations, aggregate ₹25,000.** The general threshold for taking out Indian currency for other travellers is likewise commonly **₹25,000**, subject to resident/non-resident status, citizenship and denomination restrictions.

Utilisation, retention and surrender

- Foreign exchange **purchased for a purpose but not used** must generally be **repatriated or surrendered to an authorised person within 180 days** of the relevant date (return to India, receipt or realisation).
- **Unspent travel forex:** notes and TCs must be surrendered within **180 days of return**, except that a resident may **retain up to USD 2,000** in foreign-currency notes/TCs; **foreign coins** may be retained without any ceiling.
- Retained balances may be held in an **RFC(Domestic) account** or reconverted to rupees at the customer's choice.

Foreign Exchang = FC notes + TC + Draft or

Currency Declaration Form (CDF)

A person (including a resident) may **bring any amount** of foreign exchange into India. However, a **declaration to Customs on arrival in a CDF** is required where, on a cumulative basis, the aggregate foreign exchange (notes + banknotes + TCs) **exceeds USD 10,000 or its equivalent**, OR the **foreign-currency notes alone exceed USD 5,000 or equivalent**.

Form A2

Form A2 is the application-cum-declaration a remitter submits for an outward remittance; the AD bank acts on the **nature and purpose** the remitter declares in it and certifies FEMA conformity. The old note that *"Form A2 is not required up to USD 25,000, preserved for one year"* is **outdated** — retention now depends on **current FEMA directions, PMLA/KYC record-retention rules, the bank's policy and electronic-reporting requirements**, so one-year is not a universal rule.

Part 4 — Resident Foreign-Currency Accounts

Three account types let eligible residents hold or earn foreign exchange in India. Note the corrected framing — several textbook lines about them are stale: