



LEARNING SESSIONS
WITH ASHISH SIR

BANK PROMOTION EXAM NOTES

VOLUME 6 | 2026 EDITION

Forex, Trade Finance and Taxation for Bankers

RBI REGULATIONS • PUBLIC-SECTOR BANKING

REGIONAL RURAL BANKS (RRBs)

State Bank of India
Canara Bank
Indian Bank
Indian Overseas Bank

Bank of Baroda
Union Bank of India
Central Bank of India
UCO Bank

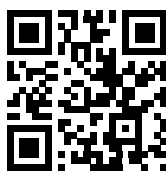
Punjab National Bank
Bank of India
Bank of Maharashtra
Punjab & Sind Bank

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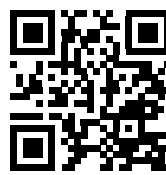
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Chapter 1 — FEMA and NRI Accounts

Topics covered

1. FEMA, 1999 — the legal framework (Sections 2 and 10)
2. Residential status — the FEMA test and the Income-tax Act, 2025 test (FEMA s.2(v); Income-tax Act, 2025 s.6)
3. NRI, PIO and OCI — who is who
4. Authorised Persons — AD Category I, II, III and money changers (FEMA s.10)
5. NRE, NRO, FCNR(B) and SNRR accounts — features
6. RFC, RFC (Domestic) and EEFC accounts
7. NRO account — repatriation and the USD 1 million rule
8. FCNR(B) interest rate ceiling
9. Tax treatment of NRE, FCNR(B) and NRO interest
10. Nomination, loans against deposits and change of status

Basic background

What FEMA is. The Foreign Exchange Management Act, 1999 (FEMA) is the main law for foreign exchange (buying, selling

and holding foreign currency) in India. It tells banks and customers how money can move between India and other countries.

Who runs it. The Reserve Bank of India (RBI) administers FEMA on a day-to-day basis. RBI issues Regulations and Master

Directions under the Act. Banks then apply these using their own internal policies for matters the law and RBI have not fixed.

Who it covers. FEMA applies to every person in India, and to every branch, office or agency outside India that a resident of India controls. It also applies to a branch, office or agency in India of a person resident outside India.

Its history in three lines.

- FEMA, 1999 came into force on 1 June 2000. It replaced the earlier Foreign Exchange Regulation Act (FERA), 1973.
- FERA was a criminal law. Most breaches drew a jail term. FEMA changed this — most breaches now draw only a money penalty.
- RBI keeps amending FEMA Regulations for deposits, remittances and trade from time to time. The Deposit Regulations were last amended with effect from 22 June 2026.

Who decides what.

Rule type	Decided by	Example
Statute (law)	Parliament	FEMA, 1999 itself — definitions and broad powers
RBI Regulation or Direction	Reserve Bank of India	Deposit Regulations, FCNR(B) interest ceiling, AD categories
Bank policy	Each bank	Loan pricing against an NRO deposit, RFC account interest rate

Topic 1 — FEMA, 1999 — the legal framework

Meaning

FEMA is a civil law, not a criminal one. A person who breaks a FEMA rule usually pays a money penalty. This is different from the old FERA, which had jail terms.

Why it matters

The Act aims to make foreign trade and payments easier. It also aims to help the foreign exchange market in India grow in an orderly way. Every NRI account rule and every forex rule in this chapter flows from this Act.

Main rules

FEMA gives plain meanings to a few key terms. These meanings decide which transactions are allowed and which need approval.

Capital account transaction [Section 2(e)]. A deal that changes the assets or liabilities (including possible future liabilities) outside India of a person resident in India. It also covers a deal that changes assets or liabilities in India of a person resident outside India. Buying a flat abroad, or investing in shares abroad, are examples.

Current account transaction [Section 2(j)]. Any transaction that is not a capital account transaction. It covers payments for foreign trade, other current business, and short-term banking or credit facilities used in the ordinary



course of business. It also covers interest payments, remittance of a person's living expenses, foreign travel, education and medical care.

Foreign exchange [Section 2(n)]. Foreign currency, and deposits, credits and balances payable in a foreign currency. It also includes a draft, traveller's cheque (TC), letter of credit (LC) or bill of exchange (B/E) that is written in Indian currency but payable in a foreign currency, or written abroad but payable in Indian currency.

Authorised Persons [Section 10]. RBI runs FEMA through persons and firms it authorises. These are called Authorised

Persons. They include Authorised Dealers (banks and other approved entities), money changers and offshore banking units. Only an Authorised Person may deal in foreign exchange (Topic 4).

Simple example

A resident Indian buys shares of a US company. This changes his assets outside India, so it is a capital account transaction. His son abroad pays his college fee in India through a bank transfer. This is a current account transaction, because it is a payment for education, not a change in assets or liabilities.

Remember this

- FEMA in force from 1 June 2000; replaced FERA, 1973; breach draws a money penalty, not automatic jail.
- Capital account transaction changes assets/liabilities; current account transaction is everything else, including trade, travel, education and medical payments.
- Only an Authorised Person under Section 10 may deal in foreign exchange.

Topic 2 — Residential status — the FEMA test and the Income-tax Act, 2025 test

Meaning

A person's residential status decides which bank accounts and forex facilities he may use, and how much of his income is taxed. FEMA and the Income-tax Act, 2025 use two separate tests. A candidate should never mix the two.

Why it matters

The same person can be non-resident under FEMA and still resident under tax law in the same year, or the other way round. Banks check the FEMA test for account opening. Tax officers check the Income-tax Act test for taxability.

Main rules — the FEMA test

Basic rule [Section 2(v)]. A person is "resident in India" if he stayed in India for more than 182 days in the financial year right before the year in question. A financial year runs from 1 April to 31 March.

Purpose carve-out. FEMA also looks at intention. A person is treated as non-resident from the date he leaves India, or

from the date he starts staying outside India, if the purpose is employment, business or vocation abroad, or any other purpose showing an intention to stay outside India for an uncertain period. In the same way, a person becomes resident from the date he comes to India, or starts staying in India, for such a purpose.

Main rules — the Income-tax Act, 2025 test

Basic rule [Section 6]. A person is "resident" for tax purposes if he is in India for 182 days or more in the tax year. He is also resident if he is in India for 60 days or more in the tax year, and for 365 days or more in the four tax years right before that.

Relaxed 60-day limb. The 60-day limb is relaxed to 182 days for an Indian citizen or a crew member who leaves India for

employment abroad. It is also relaxed to 182 days for a citizen or a Person of Indian Origin (PIO) who is visiting India. It is relaxed further, to 120 days, for a visiting citizen or PIO whose India income is more than ₹15 lakh.

Deemed resident. An Indian citizen with India income of more than ₹15 lakh, who is not liable to pay tax in any other

country, is treated as a "deemed resident". A deemed resident under this rule is classified as RNOR.

RNOR. RNOR means "resident but not ordinarily resident" — a resident who still gets some non-resident tax treatment. A

person is RNOR if he was non-resident in 9 of the last 10 years, or if he was in India for 729 days or less in the last 7 years.

Important difference

Feature	FEMA test	Income-tax Act, 2025 test
Period counted	Financial year right before the year in question	The current tax year
Basic threshold	More than 182 days, plus a purpose test	182 days, or 60 days plus 365 days in the
Feature	FEMA test	Income-tax Act, 2025 test
		last four years