

CCFE — Certificate Course in Foreign Exchange Operations

Complete Book | Table of Contents | 48 chapters + 11 sections

Module 1 — FEDAI Role and Rules, Exchange Rates, Risk Management and Code of Conduct

CH-1	Foreign Exchange: Basic Ideas, Participants and Terminology	3
CH-2	RBI, Authorised Dealers and FEDAI: Roles and Rules	5
CH-3	Exchange Quotations: Direct, Indirect, Bid, Offer and Spread	7
CH-4	Customer Exchange Rates: TT, Bills and Cross-Rate Calculations	9
CH-5	Cash, TOM, Spot and Forward Exchange	11
CH-6	Forward Contracts: Delivery, Cancellation, Extension and Hedging	13
CH-7	Conduct, Compliance, Governance and Controls in Forex	15

Module 2 — Regulatory Requirements under FEMA for Resident/Non-resident Individuals

CH-8	FEMA Residence, Current Account and Capital Account Transactions	18
CH-9	Liberalised Remittance Scheme for Resident Individuals	20
CH-10	Other Personal Remittances: Travel, Education, Medical and Family Needs	23
CH-11	Foreign-Currency Accounts for Residents in India and Abroad	25
CH-12	Overseas Assets, Property and Securities of Individuals	28
CH-13	Remittance of Assets, Inheritance and Repatriation	30
CH-14	NRE, NRO and FCNR(B) Accounts	33
CH-15	NRI Investments, Borrowing and Return to India	35

Module 3 — Regulatory Requirements under FEMA for Resident/Non-resident Entities

CH-16	Import of Goods	37
CH-17	Services and Other Non-import Remittances	39
CH-18	IDPMS, Import Evidence and Reconciliation	42
CH-19	Trade Credit, Merchanting and Special Trade Payments	44
CH-20	External Commercial Borrowings: The 2026 Framework	46
CH-21	Export of Goods	49
CH-22	Export of Services, Software and EDPMS	51
CH-23	Export Advances, Extensions, Reductions and Write-off	53
CH-24	Overseas Investment: ODI, OPI and Financial Commitment	55
CH-25	Foreign Investment in India: FDI, FPI and Entity Receipts	58
CH-26	Liaison, Branch and Project Offices of Foreign Entities	61

Module 4 — Documentary Credits and Standby Credits

CH-27	Trade Documents: What Each Document Proves	63
CH-28	Documentary Credits: Parties and Independent Undertakings	65
CH-29	Types of Credits and the Credit Lifecycle	67
CH-30	UCP 600: A Practical Examination Framework	69
CH-31	Document Examination and International Standard Banking Practice	72
CH-32	Discrepancies, Refusal Notices and Waivers	74
CH-33	Electronic Presentation and eUCP	77
CH-34	Documentary Collections: URC 522, D/P and D/A	79
CH-35	Standby Credits and the Rules Incorporated in Them	81
CH-36	Demand Guarantees and URDG 758	83
CH-37	URBPO 750 and DOCDEX 872: Two Different Functions	86
CH-38	Incoterms: Delivery, Risk, Costs and Insurance	89

Module 5 — Export Finance

CH-39	Rupee Pre-shipment Finance and Packing Credit	91
CH-40	Foreign-currency Pre-shipment Finance: PCFC	94
CH-41	Post-shipment Finance and Overdue Export Bills	96
CH-42	International Factoring and Forfaiting	99
CH-43	ECGC: Exporter Cover and Bank Cover	101

Module 6 — Foreign Trade Policy (FTP) 2023

CH-44	Foreign Trade Policy 2023: DGFT, IEC and the Policy Framework	104
CH-45	Free, Restricted and Prohibited Trade: Permission Is Product-specific	106

CH-46	Advance Authorisation, EPCG and Export Obligations	108
CH-47	Deemed Exports, Remission and E-commerce Exports	110
CH-48	Combined FTP–FEMA Cases and the Update Method	113

Additional Resources

—	Case Studies — Module 1: FEDAI Role and Rules, Exchange Rates, Risk Management and Code of Conduct	115
—	Case Studies — Module 2: Regulatory Requirements under FEMA for Resident/Non-resident Individuals	121
—	Case Studies — Module 3: Regulatory Requirements under FEMA for Resident/Non-resident Entities	128
—	Case Studies — Module 4: Documentary Credits and Standby Credits	137
—	Case Studies — Module 5: Export Finance	147
—	Case Studies — Module 6: Foreign Trade Policy (FTP) 2023	152
—	Mega Tests — Mega Test 1 — 100 Questions (Full Syllabus)	156
—	Mega Tests — Mega Test 2 — 100 Questions (Full Syllabus)	163
—	Mega Tests — Mega Test 3 — 100 Questions (Full Syllabus)	171
—	Mega Tests — Mega Test 4 — 100 Questions (Full Syllabus)	178
—	Mega Tests — Mega Test 5 — 100 Questions (Full Syllabus)	185

LEARNING SESSIONS

CH-1

Foreign Exchange: Basic Ideas, Participants and Terminology

Topic 1 — What Foreign Exchange Means

- **Foreign exchange** — It is money denominated in a currency other than the domestic currency.
- **Indian example** — For an Indian business, a receipt in US dollars and a payment in euros are both foreign-currency transactions.
- **Exchange rate** — It tells how much of one currency is exchanged for another.
- **Effect of a rate change** — A change in the rate changes the rupee value of a foreign-currency receipt, payment, asset or liability.

Five separate parts of every forex transaction

Part	What it means
Currencies	The two currencies being exchanged
Amount	The quantity of currency to be exchanged
Rate	The agreed price of one currency in the other
Transaction (trade) date	The date on which the deal is agreed
Settlement (value) date	The date on which the currencies are actually delivered

- **Trade date is not value date** — Agreeing to buy dollars today does not always mean the dollars are delivered today.
- **Read both dates** — Check the trade date and the value date before deciding the nature of a transaction.

Topic 2 — Why Customers Need Foreign Exchange

Customer	Need for foreign exchange
Importer	Pays an overseas supplier in foreign currency
Exporter	Receives foreign currency and converts it into rupees
Student	Pays fees to a foreign university
Overseas investor	Sends money into India
Company	Repays a foreign-currency borrowing

- **Purpose decides the rules** — Each case has an underlying economic purpose, and that purpose decides the applicable FEMA rules and documents.
- **Two different questions** — Buying or selling the currency is one question; permission for the underlying transaction is another.
- **A rate is not a permission** — A bank may quote a rate but still be unable to execute an impermissible remittance.
- **Conditions before release** — Even a permitted payment may need a declaration, evidence, tax compliance or reporting before the bank releases the exchange.

Example: A customer asks for a USD rate for an overseas payment. The dealer can quote a rate at once. The branch must still confirm the **purpose, permission and documents** before it releases the dollars.

Topic 3 — Who Participates in the Market

Participant	Role
Customers	Create demand for currency through trade, investment, travel and other transactions
Authorised Dealer (AD) banks	Execute permitted transactions, manage currency positions and arrange settlement
Other authorised persons	Have more limited permissions than an AD Category-I bank
Interbank market	Banks trade currencies with other banks
Brokers	Bring counterparties together without becoming the principal buyer or seller in every transaction
RBI	Regulates relevant foreign-exchange business and may intervene in the market
FEDAI	Provides an industry framework for member banks

- **Roles stay separate** — Regulation by RBI and the FEDAI framework should not be confused with the customer's own duty.
- **Customer's duty** — The customer must provide accurate information about the transaction.

Remember this

- Every entity authorised to handle foreign exchange does **not** have the same powers as an AD Category-I bank.

Topic 4 — Base Currency and Quoted Currency

- **Reading USD/INR 83.20** — The quotation states the rupee price of **one US dollar**.
- **Base currency** — USD is the base currency: the fixed unit of one.
- **Quoted (terms) currency** — INR is the quoted or terms currency: the price per unit.
- **A rate is not an amount** — The rate must be multiplied by the relevant dollar amount to get rupees.
- **Teaching figures** — Rates in these illustrations are assumed figures, not current market quotations.

Rupee amount when the rate is quoted as rupees per unit of foreign currency:

$$\text{Rupee Amount} = \text{Foreign Currency Amount} \times \text{Rate}$$

Example: USD 2,000 at an assumed USD/INR 83.20 = 2,000 × 83.20 = **INR 166,400** before charges.

When USD/INR rises from 83.20 to 84.00

Party	Effect
US dollar	Has strengthened against the rupee: one dollar buys more rupees
Rupee	Has weakened against the dollar
Unhedged dollar importer	Generally faces a higher rupee cost
Dollar exporter	Generally receives more rupees for the same dollar receipt, before other commercial effects

Example: The same USD 2,000 at 84.00 = **INR 168,000**, which is INR 1,600 more than at 83.20.

Topic 5 — Buying and Selling: Use the Bank's Viewpoint

Customer	What happens	Bank's action	Rate applied
Exporter	Gives dollars to the bank and receives rupees (customer sells USD)	Bank buys USD	Bank's buying rate
Importer	Pays rupees to obtain dollars (customer buys USD)	Bank sells USD	Bank's selling rate



- **Spread** — The difference between offer and bid; it helps cover market risk, operating costs and commercial return.
- **Customer rate** — It may also reflect transaction type, tenor, charges and the bank's disclosed pricing policy.
- **See** — Ch 3 (p. 7) for bid, offer, two-way quotations and spread calculations.

Remember this

- Many calculation mistakes arise from switching from the bank's viewpoint to the customer's viewpoint halfway through a question.

Topic 6 — Settlement Accounts: Nostro and Vostro

Term	Meaning
Nostro	Our bank's account maintained with another bank, commonly in a foreign currency abroad
Vostro	Another bank's account maintained with us

- **Relational terms** — The same account is nostro from one bank's view and vostro from the other bank's view.
- **Not a currency** — The terms describe ownership and recordkeeping, not a separate currency.

Example: Bank A in Mumbai keeps a USD account with Bank B in New York. For Bank A it is a **nostro** account; for Bank B the same account is a **vostro** account.

Reconciliation and settlement

- **Reconcile** — The bank must match its internal record with the correspondent's statement.
- **Sent is not credited** — A payment instruction sent successfully is not the same as a confirmed credit to the final beneficiary.
- **Causes of delay** — Incorrect beneficiary details, intermediary-bank queries, sanctions screening or cut-off times can delay settlement.
- **Complete transaction** — It includes execution, settlement and reconciliation.

Topic 7 — Main Risks and What a Hedge Covers

Risk	How it arises
Exchange risk	Exchange rates change
Credit risk	A counterparty may not perform
Settlement risk	One currency is paid away without receiving the other as expected
Operational risk	Wrong amount, duplicate payment or incorrect account
Legal and compliance risk	The transaction breaches law, authority or contract terms

- **Hedge** — A hedge addresses a **specified financial risk** only.
- **What it does not remove** — It does not automatically remove fraud, documentation risk, settlement failure or an unlawful underlying transaction.
- **Forward contract** — It can make a future rupee cost more predictable.
- **Duties remain** — The bank and customer must still arrange funds and fulfil the contract.

Topic 8 — Transaction Checklist and Revision

Stage	Steps
Before execution	Identify customer, residence, purpose, currency, amount, applicable permission and beneficiary
Execution	Agree rate and value date; collect necessary documents; screen the transaction; record the instructions
After execution	Issue the advice; complete reporting; reconcile settlement

Remember this

- Dividing rupees by the INR-per-USD rate gives dollars; multiplying dollars by the rate gives rupees.

CCFE | Module 1 | CH-1 | MCQs

Q1. An Indian exporter receives USD 25,000 from an overseas buyer and asks the bank for rupees. Which rate normally applies? [Ref: Topic 5, p. 3]

- (a) Bank's selling rate (b) A customs tariff rate
(c) A deposit interest rate (d) Bank's buying rate

Q2. At an assumed USD/INR rate of 83.20, what is the rupee equivalent of USD 2,000 before charges? [Ref: Topic 4, p. 3]

- (a) INR 166,400 (b) INR 168,000 (c) INR 16,640 (d) INR 83,200

Q3. An importer has an unhedged payable of USD 50,000. USD/INR moves from 83.20 to 84.00 before payment. By how much does the rupee cost rise, ignoring charges? [Ref: Topic 4, p. 3]

- (a) INR 4,000 (b) INR 40,000 (c) INR 41,600 (d) INR 80,000

Q4. Bank A in Mumbai maintains a USD account with Bank B in New York. From Bank A's viewpoint this account is a: [Ref: Topic 6, p. 4]

- (a) Nostro account (b) Vostro account
(c) Suspense account (d) Customer savings account

Q5. An importer buys USD 5,000 when the bank quotes USD/INR 83.20/83.30. How many rupees does the importer pay before charges? [Ref: Topic 5, p. 3]

- (a) INR 416,000 (b) INR 500 (c) INR 416,500 (d) INR 415,500

Q6. A corporate books a forward contract to cover a USD import payment. The forward necessarily deals with which risk? [Ref: Topic 7, p. 4]

- (a) All counterparty risk
(b) The specified exchange exposure only, not every risk
(c) All fraud risk
(d) All documentation risk

Q7. A deal is agreed on Monday for currency delivery on Wednesday. Which statement is correct? [Ref: Topic 1, p. 3]

- (a) Monday is the trade date and Wednesday is the value date
(b) Both dates are the value date
(c) Wednesday is the trade date
(d) The deal has no settlement date

Q8. An exporter expects USD 12,000. USD/INR rises from 83.20 to 84.00 before conversion. The extra rupees received, before charges, are: [Ref: Topic 4, p. 3]

- (a) INR 960 (b) INR 8,000
(c) INR 9,600 (d) INR 1,008,000

Q9. A customer asks for a rate to remit funds for a purpose that is not permitted. The dealer has already quoted a rate. What should the bank do? [Ref: Topic 2, p. 3]

- (a) Execute it, since a rate was quoted
(b) Execute it at a higher margin
(c) Execute it and report later
(d) Decline to execute, because a quoted rate does not make the transaction permissible



Q10. A bank quotes USD/INR 83.20/83.30. An exporter sells USD 10,000 and an importer buys USD 10,000. The difference between the two rupee amounts is: [Ref: Topic 5, p. 3]

- (a) INR 1,000, the quoted spread and not necessarily net profit
- (b) INR 1,000, the bank's net profit
- (c) INR 100, the quoted spread
- (d) INR 10,000, the bank's margin

Q11. A bank sends a USD payment instruction and receives a 'sent' acknowledgement. What is the correct position? [Ref: Topic 6, p. 4]

- (a) The beneficiary is certainly credited
- (b) Credit to the final beneficiary still needs confirmation and reconciliation
- (c) No further check is needed
- (d) The nostro statement can be ignored

Q12. A dealer's error results in the same remittance being paid twice. This is mainly: [Ref: Topic 7, p. 4]

- (a) Exchange risk
- (b) Operational risk
- (c) Credit risk
- (d) Country risk

Q13. An importer has INR 1,665,000 and the bank sells USD at INR 83.25. How many dollars can be bought before charges? [Ref: Topic 8, p. 4]

- (a) USD 19,980
- (b) USD 138,611
- (c) USD 2,000
- (d) USD 20,000

Q14. Which statement about authorised persons is correct? [Ref: Topic 3, p. 3]

- (a) Every authorised person has AD Category-I powers
- (b) Any shop that exchanges currency is an AD bank
- (c) Their powers depend on their category of authorisation
- (d) Brokers always act as principal buyers

Q15. Bank A pays rupees in Mumbai under a deal, but its USD is not delivered abroad as expected. This is: [Ref: Topic 7, p. 4]

- (a) Settlement risk
- (b) Exchange risk only
- (c) Legal risk only
- (d) Operational risk only

Answer key

Q	Ans	Q	Ans	Q	Ans	Q	Ans	Q	Ans
1	d	4	a	7	a	10	a	13	d
2	a	5	c	8	c	11	b	14	c
3	b	6	b	9	d	12	b	15	a

CH-2

RBI, Authorised Dealers and FEDAI: Roles and Rules

Topic 1 — The Legal and Operating Framework

Foreign-exchange operations in India sit within a **hierarchy**. Each layer has a different job.

Layer	What it does
FEMA	The law; it decides whether a transaction is allowed
Rules, regulations, RBI directions and valid permissions	Explain how transactions may be conducted and prescribe conditions
Industry rules (FEDAI) and contract terms	Guide operational treatment
Bank's operating procedures	Support execution inside the bank

- **Law comes first** — A contractual term or industry practice cannot authorise a transaction prohibited by law.

- **Start with the transaction** — Begin with the underlying transaction, not with a convenient form.
- **Same channel, different law** — An overseas investment, a tuition payment and an import payment may all be outward remittances.
- **Not the same transaction** — They do not become the same legal transaction merely because the bank uses one remittance system for each.

Topic 2 — RBI's Role

- **Administrator** — RBI administers major parts of the foreign-exchange regulatory framework within the powers given to it.
- **Authorisation** — It authorises persons to deal in foreign exchange.
- **Directions and data** — It issues relevant directions and receives regulatory information.
- **Supervision** — It supervises regulated institutions.
- **Government rules** — The Central Government also makes rules where FEMA gives it rule-making power.
- **Common error** — Saying that every FEMA rule is issued only by RBI is therefore inaccurate.

Form of RBI permission	Meaning
General permission	Available to a whole class of transactions
Specific approval	Given for a particular proposal

- **Bank still checks** — Under a permitted route, the bank still examines eligibility and conditions.
- **No waiver** — General permission is not a waiver of KYC, reporting, purpose restrictions or supporting evidence.

Topic 3 — Authorised Persons and AD Banks

- **Authorised person** — A person authorised under FEMA to deal in foreign exchange or foreign securities within the scope of the authorisation.
- **Scope** — The category and terms of authorisation decide what that person can do.
- **AD Category-I banks** — They handle a broad range of permitted current- and capital-account transactions.
- **Others** — Other categories and money changers operate within narrower permitted activities.
- **No inference** — Do not infer authority from a shop sign or from the fact that an organisation handles foreign currency.
- **Different permissions** — Travel currency exchange, remittance services and complex capital-account transactions can need different permissions.
- **Internal authority** — The bank must also ensure that the branch and officer act within internal delegated authority.

2026 authorisation framework (within the 30 June 2026 cutoff)

- **New regulations** — The Foreign Exchange Management (Authorised Persons) Regulations, 2026 were notified on **30 April 2026** and published on **6 May 2026**.
- **RBI circular** — RBI Circular 09 of **6 May 2026** rationalised the authorisation framework and amended the Money Changing and Other Remittance directions.
- **Old lists** — Older lists of AD Category-II activities must be read against the 2026 framework; they are not a complete current statement.

Category	Scope under the 2026 framework
AD Category-I	Any current- and capital-account transaction permissible under FEMA; must be a licensed bank
AD Category-II	Permissible non-trade current-account transactions (other than gifts and donations) and foreign trade up to INR 25 lakh per transaction