

FAQs for Remittances to International Financial Services Centre in India under Liberalised Remittance Scheme (LRS)

1. What is Liberalised Remittance Scheme (LRS)?

The LRS was introduced on February 4, 2004, vide *A.P. (DIR Series) Circular No. 64* read with *Gol Notification G.S.R. No.207(E) dated March 23, 2004*, by the Reserve Bank of India (RBI), as a liberalization measure to facilitate resident individuals to remit funds outside India.

Under the LRS, all resident individuals, including minors, are allowed to freely remit outside India up to USD 2,50,000 per financial year (April – March) for any permissible current or capital account transaction or a combination of both.

2. What is an IFSC?

IFSC stands for International Financial Services Centre (IFSC)

IFSCs deal with the flow of finance, financial products, and services across the borders. IFSC as envisaged under the Indian context “is a jurisdiction that provides financial services to non-residents and residents (Institutions), in foreign currency other than Indian Rupee (INR)”.

IFSC in India is treated as “deemed foreign territory” located on Indian soil with a similar ecosystem as other offshore financial service jurisdictions. As per Foreign Exchange Management (IFSC) Regulations, 2015, any financial institution or branch of a financial institution set up in the IFSC and permitted/recognised as such by the Government of India or a Regulatory Authority shall be treated as a person resident outside India.

3. Can resident individuals make remittances under LRS to IFSC set up in India?

Yes. The RBI vide its *Circular No. RBI/2020-21/99 A.P. (DIR Series) Circular No. 11 dated 16 February 2021* has permitted resident individuals to make remittances under LRS to IFSCs set up in India under the Special Economic Zone Act, 2005, for investment in IFSC in securities, other than those issued by entities/companies resident (outside India) in India subject to conditions. This has been done with a view to deepen the financial markets in IFSCs and provide an opportunity to resident individuals to diversify their portfolio. Accordingly, Authorized Dealer Category - I banks may allow resident individuals to make remittances under LRS to IFSCs in India, subject to certain conditions.

Subsequently, IFSCA , vide its circular no. F.No.110/IFSCA/Banking Regulation/2020-21/13 dated February 19,2021, has clarified that the term “security” shall mean “foreign security” as defined in section 2 (o) of the Foreign Exchange Management Act,1999 except those issued by entities/companies resident (outside IFSC) in India.

Therefore, a resident can remit funds under LRS to IFSC for investment in securities issued in IFSC by non-resident entities as well as in securities issued outside India and outside IFSC by non-resident entities.

4. What is the purpose for making remittances under LRS by resident individuals?

As mentioned above, remittance under LRS shall be made only for making investments in Foreign securities where Foreign securities for this purpose are securities denominated in foreign currency or expressed in foreign currency and includes securities expressed in foreign currency, but where redemption or any form of return such as interest or dividends is payable in Indian currency (like Masala Bonds) except those issued by entities/companies resident (outside IFSC) in India.

5. Can a Banking Unit in IFSC open foreign currency accounts for residents for facilitating their investment in securities under LRS?

Yes. Banking Units in IFSC are permitted to open non-interest bearing Foreign Currency Account (FCA)/ current account for persons resident in India, being individuals, for the purpose of investment in securities under the LRS.

6. What is the eligibility criteria to open an account with the Banking Unit in IFSC for the purpose of investing in securities under the LRS?

As per the International Financial Services Centres Authority (Banking) Regulations, 2020, Qualified Resident Individuals (meaning an individual who is a person resident in India having net worth not less than USD 1 million or equivalent in the preceding financial year) are permitted to open, hold and maintain accounts in a freely convertible foreign currency, with a Banking Unit in IFSC, for undertaking transactions connected with or arising from any permissible current or capital account transaction or a combination of both as specified in the LRS of the RBI (net worth criteria).

Pursuant to RBI circular permitting remittances to IFSCs in India under the LRS, the IFSC Authority vide its *Circular F.No.110/IFSCA/Banking Regulation/2020-21/13 dated 19 February 2021* has clarified that the net worth criteria shall not be applicable for an individual, being a person resident in India, who opens an account with the Banking Unit in IFSC for the purpose

of investing in securities under the LRS of the RBI. Accordingly, the Banking Units in IFSC may open bank accounts of resident individuals irrespective of their net worth, for facilitating their investment in securities.

7. Are there any restrictions on transactions in Foreign Currency Account maintained with Banking Unit in IFSC?

Resident individuals cannot settle any domestic transactions with other residents through these Foreign Currency Accounts held in IFSC.

8. What will happen if the amount in Foreign Currency Account remains unutilised?

Any funds lying idle in the Foreign Currency Account for a period upto 15 days from the date of its receipt into the account shall be immediately repatriated to domestic INR account of the investor in India.

9. What are the conditions to make remittances under LRS to IFSCs in India?

Authorized Dealer Category - I banks may allow resident individuals to make remittances under LRS to IFSCs in India, subject to the following conditions:

- a) The remittance shall be made only for making investments in IFSCs in securities, other than those issued by entities/companies' resident (outside IFSC) in India.
- b) Resident Individuals may also open a non interest bearing Foreign Currency Account in IFSCs, for making the above permissible investments under LRS. Any funds lying idle in the account for a period up to 15 days from the date of its receipt into the account shall be immediately repatriated to the domestic INR account of the investor in India.
- c) Resident Individuals shall not settle any domestic transactions with other residents through these FCAs held in IFSC.

10. What are the regulations applicable?

Any person resident in India (outside IFSC) entering into any transaction with a person/ entity in IFSC shall only be governed by regulations/ directions and rules issued/ notified by the Reserve Bank of India and the Government of India respectively under Foreign Exchange Management Act (FEMA), 1999.

Further, compounding of any contravention of FEMA provision by such person resident in India shall be dealt by the RBI in accordance with the extant instructions/provisions on compounding of contraventions under FEMA.

11. What are the compliance requirements to be followed by Authorised Dealer Category I Banks while allowing remittances under LRS?

Authorized Dealer Category - I banks, while allowing such remittances, shall ensure compliance with all other terms and conditions, including reporting requirements prescribed under the LRS.