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LIBERALISED REMITTANCE SCHEME - RBI HARMONISES DEFINITIONS AND REINFORCES MONITORING AND REPORTING NORMS

9 July 2018

Introduction

The Reserve Bank of India (RBI) has issued a circular dated 19 June 2018 (Circular) (Ref: RBI/2017-18/204. A.P. (DIR Series) Circular No. 32) amending the liberalised remittance scheme (LRS) as set out in the Master Direction - LRS issued from time to time (Master Directions).

Pursuant to the Circular:

- The definition of 'relative' under the Master Directions has been aligned with the Companies Act 2013 (2013 Act).
- Disclosure of permanent account number (PAN) has been made mandatory for all remittances under the LRS.
- Certain reporting related norms have been clarified.

Background

The LRS was notified by the RBI in March 2004 as a measure to facilitate resident individuals to remit funds abroad for permitted current or capital account transactions, or a combination of both. Under the LRS, authorised dealer banks (ADs) are authorised to permit remittances by resident individuals within the limits prescribed from time to time. The LRS limit has been revised periodically, in-line with the prevailing macro and micro economic conditions. The current limit of US\$ 250,000 per financial year has been in effect since 26 May 2015.

Key Highlights of Circular

- Definition of 'relative' under LRS
 - Previously, the definition of the term 'relative' in the Master Directions was as defined in the Companies Act 1956 (1956 Act).
 - The definition of 'relative' under the 1956 Act was broader and included many second-degree relations that were subsequently dropped in the

2013 Act. A comparative list of relations covered in the 1956 Act and the 2013 Act is set out in the [Annexure](#).

- The definition of 'relative' is of particular relevance to remittances under the LRS, as resident individuals may use the LRS to remit funds:
 - as loans to relatives that are non-resident Indians,
 - for maintenance of such relatives, and
 - as Indian Rupee denominated gifts to relatives that are non-resident Indians or persons of Indian origin.
- Disclosure of PAN now mandatory: Previously, PAN was mandatory for making remittances under the LRS only for capital account transactions and permissible current account transactions above US\$ 25,000. PAN is now mandatory for all remittances under the LRS.
- Reporting under LRS.

Reporting by ADs and overall monitoring by the RBI has increased considerably pursuant to the Circular. ADs are now required to make the following submissions:

- information on remittances made under the LRS to the RBI on a monthly basis, on or before the fifth of the following month to which it relates through an Online Returns Filing System (ORFS);
- transaction-wise information under the LRS on a daily (i.e., T+1) basis pursuant to a circular dated 12 April 2018 (Ref: RBI/2017-18/161. A.P. (DIR Series) Circular No. 23) issued by the RBI;
- information as prescribed in the Master Direction for Authorised Persons for Reporting under Foreign Exchange Management Act, 1999. This information is to be submitted in addition to the reporting requirements under the Circular; and
- remittances made under the LRS must be reported in Foreign Exchange Transactions Electronic Reporting System (FETERS) to the Department of Statistics and Information Management (DSIM).

In addition, ADs are required to comply with the following:

- ADs are required to prepare and keep on record dummy Forms A2 for remittances less than US\$ 25,000; and
- ADs are required to ensure that all data under the various reporting mechanisms matches.

Comment

The alignment of the definition of 'relative' with the 2013 Act is a positive move by the RBI in removing ambiguity in relation to the LRS. Though the additional reporting increases the burden on ADs, this is in line with the RBI's recent emphasis on the need to monitor remittances overseas more strictly and maintain proper records of such remittances. The consequence of this could also be more procedural work and hassles

for persons remitting money under the LRS but overall it is a good step to track remittances abroad in the wake of recent high-profile frauds.

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Annexure

SERIAL NO	RELATION	COMPANIES ACT 1956	COMPANIES ACT 2013
1.	Members of a Hindu undivided family	Covered	Covered
2.	Husband	Covered	Covered
3.	Wife	Covered	Covered
4.	Father	Covered	Covered
5.	Step father	Not Covered	Covered
6.	Mother	Covered	Covered
7.	Step mother	Covered	Covered
8.	Son	Covered	Covered
9.	Step son	Covered	Covered
10.	Son's wife	Covered	Covered
11.	Daughter	Covered	Covered
12.	Step daughter	Covered	Not Covered
13.	Daughter's husband	Covered	Covered
14.	Brother	Covered	Covered
15.	Step brother	Covered	Covered
16.	Sister	Covered	Covered
17.	Step sister	Covered	Covered
18.	Father's father	Covered	Not Covered

19.	Father's mother	Covered	Not Covered
20.	Mother's mother	Covered	Not Covered
21.	Mother's father	Covered	Not Covered
22.	Sons' daughter's husband	Covered	Not Covered
23.	Daughter's son	Covered	Not Covered
24.	Daughter's son's wife	Covered	Not Covered
25.	Daughter's daughter	Covered	Not Covered
26.	Daughter's daughter's husband	Covered	Not Covered
27.	Brother's wife	Covered	Not Covered
28.	Sister's husband	Covered	Not Covered
29.	Son's Son	Covered	Not Covered
30.	Son's son's wife	Covered	Not Covered
31.	Son's daughter	Covered	Not Covered

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