

Forex related areas including Advances & Deposits

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- ▶ Remittances
- ▶ Reporting Requirement in LFAR



Introduction

- ▶ Increase in Global Trade due to improvement in Trading policy with various Globally named country.
- ▶ Continuous increase in Foreign Exchange Transaction.
- ▶ Bank's role in Foreign Exchange Transaction
- ▶ RBI had introduced various Guidance Notes, issued Circular for Foreign Transaction such as LRS, FEMA, 1999,





Auditor

Concurrent Auditors Role

- ▶ Checking each and every Forex Transaction
- ▶ Checking the validity /reliability of documents of Forex Transactions
- ▶ Checking of FCNR, NRE and NRO account
- ▶ Checking on aging for last usage of an Forex account.
- ▶ Adherence of KYC compliance of customer
- ▶ Checking of an creditability of customer entering into Forex Transaction
- ▶ Etc.





RBI References

- ▶ Master Circular on External Commercial Borrowings and Trade Credits (RBI/2015-16/33 Master Circular No. 12/2015-16 dated 01.07.2015)
- ▶ Master Direction – Opening and Maintenance of Rupee/Foreign Currency Vostro Accounts of Non-resident Exchange Houses (RBI/FED/ 2015-16/16 FED Master Direction No.2/2015-16)
- ▶ Guidance Note on Foreign Exchange Transactions by RBI



Imports Transaction

It covers:

- ▶ Letter of Credit (LC)
- ▶ Import Bills under LC
- ▶ Import Bills under Collection Basis
- ▶ Advance Remittances
- ▶ Trade Credits



Letter of Credit (LC)

- ▶ Overseas Exporter (Beneficiary) demands LC from Importer (Applicant) to mitigate the risk of Non- realization of Payment.
- ▶ Applicant obtains LC from Issuing Bank in favor of Beneficiary and provide to Advising Bank
- ▶ Auditor's Role:
 - ▶ Obtain LC list
 - ▶ Check KYC for all LC
 - ▶ Check documentation such as Import-Export License, Performa Invoice, Form A-1, Copy of Actual LC Issued, etc.
 - ▶ Check securities obtained and margin kept.
 - ▶ Check the entries made in the Bank System



Your Name _____
Address, City, ST ZIP Code, Telephone / Email

Date:
Recipient Name _____
Title _____
Company _____
Address _____
City, ST ZIP Code _____

Rec: Recipient Name
Do not abbreviate names, just click any place holder text (such as this) and start typing to replace with your own.

Do not include a phone number, fax or cell number, first last, or email to give at the bottom of the address, just do in the option you need.

Do not enter any characters in the text box, such as to add a hyphen, apostrophe, or add unnecessary punctuation.

Sincerely, _____

Your Name _____

Import Bill under LC

- ▶ It is a set of documents issued by Advising Bank to LC issuing Bank
- ▶ Issuing Bank checks the terms under Bill from LC issued.
- ▶ On payment by Applicant, Issuing bank submit the bill to Applicant.
- ▶ Auditor's Role:
 - ▶ Check whether payment made as per the terms.
 - ▶ Check the CBS entries made for such payment
 - ▶ Check the bill register for all such bill received
 - ▶ In case of Non payment by Applicant, bank has to pay to beneficiary, such condition is known as **devolvement of bill**.
 - ▶ If such devolvement continuous then check for NPA classification if default continues for more than 90 days. (Follow IRAC).
 - ▶ Check for collection of charges from such LC issuance.

(Income Leakages)



Import Bills under Collection basis

- ▶ It is same as stated earlier. The main change is that the Advising bank sent such bill as and when it is collected.
- ▶ The checking is just to match with the Bill Register.
- ▶ Check charges collected – Income Leakage.



Advance Remittances

- ▶ For payment in advance to overseas exporter, this medium is used.
- ▶ Auditor's Role:
 - ▶ Check Application from Customer for such Remittance.
 - ▶ Invoice / demand note for such remittances.
 - ▶ Other documents as stated in LC.



Trade Credits

- ▶ Defined by Master Circular on External Commercial Borrowings and Trade Credits (RBI/2015-16/33 Master Circular No. 12/2015-16 dated 01.07.2015)
- ▶ It refers to credit extended for imports as permissible under FTP for max 5 years.
- ▶ To make the payment to overseas exporter, trade credit is taken from foreign branch.
- ▶ Auditor's Role:
 - ▶ Check Trade Credit is under terms of LC issued
 - ▶ Check Applicant creditability to settle Trade Credit.
 - ▶ Check Bank's Policy and Agreement with Foreign branch.
 - ▶ Check Offer letter by Foreign Branch
 - ▶ Check Letter of Consent / Undertaking
 - ▶ Check Fixed Deposits (FDs) are stipulated as Margins on Trade Credit – lien is marked in system of FDs.



Exports Transaction

It covers:

- ▶ Pre-shipment credit to Exporter
- ▶ Post –Shipment credit to Exporter



Pre-shipment Credit to Exporters

- ▶ Also known as Export Packing Credit (EPC).
- ▶ It is used to finance the exporter for purchase process, manufacturing, working Capital Finance, etc.
- ▶ It can be in Indian Currency or Foreign Currency and max validity is 360 days.
- ▶ Auditor's Role:
 - ▶ Whether all EPC is maintained as a separate account and check from the list of all EPC.
 - ▶ Confirm that EPC is issued to permissible industries as per RBI.
 - ▶ Check whether timely recovery is done on Export Realization.
 - ▶ Check that proper stock statements must be on record.



Post Shipment Credit to Exporters

- ▶ This credit is given to Exporter from the date of export to Export Realization.
- ▶ This credit is extended by purchasing or discounting export bill
- ▶ Auditor's Responsibility:
 - ▶ Check the Export bill list and the rate of discounting or purchasing.
 - ▶ Check other documents also such as Bill of lading, packing list, etc.
 - ▶ Discount / interest is collected in advance. Hence check the accounting treatment for such discount / interest collected.
- ▶ For overdue bills, IRAC norms must be followed.



Deposits in Foreign Currency

It covers

- ▶ FCNR Account
- ▶ NRE Account
- ▶ NRO Account



All above accounts provide ease to NRI to deposit in Indian Currency and Foreign Currency in banks.



FCNR Account

- ▶ In Foreign Currency Non Resident (FCNR) Account, any currency can be deposited and the person will be able to repatriate the same.
- ▶ It is a Term Deposit Account.
- ▶ The account holder can also obtain a loan in this account for any purpose restricted to FEMA conditions.
- ▶ The responsibility of the auditor is to check the KYC compliance and the purpose of opening such account. Also check for the PMLA guidelines in this account.



NRE Account

- ▶ Any NRI person can open Non Resident (External) Account with Indian Banks but can keep such account in Indian Currency only.
- ▶ The Account can be current account, saving account or any deposit account.
- ▶ Repatriation from such account is also allowed restricted to FEMA Guidelines.
- ▶ Moreover feature of such account is similar to FCNR Account
- ▶ Auditor's Responsibility is to comply with KYC Compliance, PMLA Guidelines, etc.



NRO Account

- ▶ Such Account can be open not only by NRI but also by any person resident outside India.
- ▶ Such account can be maintain only in Indian Currency and repatriation is allowed till USD 1 million per Financial year for current income only.
- ▶ Loans are not permitted to such account holder in India except for personal requirement or for business purpose.
- ▶ Auditor's Responsibility is to check that such account are comply with KYC. Also loans to such account holder must be as per conditions applicable.



Nostro / Vostro Accounts

- ▶ Nostro Accounts are the accounts kept with Foreign Branch in their currency by an Indian Branch of the same bank. General term used as “Our account with you”.
- ▶ Vostro Accounts are the accounts kept with Indian Branch in Indian currency by an Foreign Branch of same bank. General Term used as “Your account with us”.
- ▶ Auditor’s Responsibility:
 - ▶ Check the statements of other branch is matching with the statement of our branch.
 - ▶ Check the LoU entered with Foreign Branch.
 - ▶ Check the BRS for such account.
 - ▶ Check the policy of the bank for margins kept between both branches.
 - ▶ Check the policy of the bank for nature of transactions that a branch can enter.



Remittances

- ▶ Outward Remittances
 - ▶ It can be done under Liberalized Remittances Scheme (LRS) for residents.
 - ▶ Before Outward Remittance, bank should comply with LRS.
 - ▶ KYC must be properly complied
- ▶ Inward Remittances
 - ▶ AML Check of remitter should be performed by Bank
 - ▶ KYC must be properly complied
 - ▶ Proper Approval must be obtained from appropriate authority.
 - ▶ Request from Beneficiary must be obtained.



Reporting Requirement in LFAR

- ▶ Any adverse comment on any KYC Compliance by any auditor must be reported in LFAR.
- ▶ Reporting on the non compliance for guidelines of controlling authorities of bank.
- ▶ Auditor must obtain a list of all Nostro accounts and check BRS and any discrepancy must be reported here.
- ▶ Non Compliance for Vostro Accounts in respect to RBI Guidelines.



THANK YOU

