

Regulatory Update

**FOREIGN EXCHANGE
(COMPOUNDING PROCEEDINGS)
RULES, 2024**



Ministry of Finance notifies new FEMA (Compounding Proceedings) Rules

The Ministry of Finance (Department of Economic Affairs) vide its Notification dated 12th September, 2024 issued the Foreign Exchange (Compounding Proceedings) Rules, 2024, facilitating the ease of doing business by implementing provisions to expedite and simplify the process of handling of compounding applications, integrating digital payment methods for fees and expanding the powers of officers of Reserve Bank of India in relation with compounding by increasing the monetary limits of each level of officers to adjudicate the compounding matters.

Further, the earlier Rules of Compounding i.e. Foreign Exchange (Compounding Proceedings) Rules, 2000

has been superseded with the introduction of new rules.

Key changes in the Foreign Exchange (Compounding Proceedings) Rules, 2024 are as follows: -

REVISION IN MONETARY LIMITS FOR ADJUDICATION OF OFFENCE BY COMPOUNDING AUTHORITIES OF RESERVE BANK OF INDIA

The Ministry of Finance vide the said notification has increased the monetary threshold for Reserve Bank of India officials to adjudicate the matters related to the compounding of offences, except those under section 3(a) of the Foreign Exchange Management Act, 1999.

The Comparative view of the earlier limits and revised limits are as follows: -

Rank of RBI officer	Earlier Limit of sum involved Contravention (as per Rules 2000)	New limit of sum involved in Contravention (as per Rules 2024)
By Assistant General Manager	Not exceeding INR 10 Lakhs	Not exceeding INR 60 Lakhs
By Deputy General Manager	Not exceeding INR 40 Lakhs	Not Exceeding INR 2.5 Crores
By General Manager	Not exceeding INR 1 Crores	Not Exceeding INR 5 Crores
By Chief General Manager	INR 1 Crore or more	INR 5 Crore or more

ENHANCEMENT IN THE FEES FOR FILING OF COMPOUNDING APPLICATION

Before the introduction of the amended rules, the Compounding application has to be filed along with the Fee of INR 5,000 through a demand draft in favour of the compounding authority.

However, with the introduction of new rules, the fee for filing the compounding application has been increased to INR 10,000 plus GST.

INTRODUCTION OF DIGITAL PAYMENT FOR FILING OF COMPOUNDING APPLICATION AND SUBSEQUENT PAYMENT OF COMPOUNDING AMOUNT

Earlier the payment of Compounding application and the compounding amount as levied by the authority were required to be paid by demand draft only. With the said amended rules the payment can now be

made through Demand Draft, National Electronic Fund Transfer (NEFT), or other permissible electronic or online modes of payment, in favour of the compounding authority.

CONTRAVENTIONS THAT CANNOT BE COMPOUNDED

The Ministry of Finance with the said amended rules has provide the clarity by specifying specific Rule 9 which deals with the matters on which the compounding application cannot be filed. Here is a list of contraventions that cannot be compounded under the Foreign Exchange (Compounding Proceedings) Rules, 2024.

No Contravention shall be compounded, -

- Where the amount involved is *not quantifiable*; or
- Where the provisions of *Section 37A which deals with the provisions related to holding of asset*

outside India in contravention of the Section 4 of the Foreign Exchange Management Act, 1999.

- Where the Directorate of Enforcement believes the case involves serious contraventions such as money laundering, terror financing, or threats to national integrity, the compounding authority shall refer the case to the Adjudicating Authority for adjudication of penalty under section 13.
- Where the Adjudicating Authority has *already passed an order* of penalty under Section 13 of the Foreign Exchange Management Act, 1999 or
- Where the compounding authorities require *further investigation* by Directorate of Enforcement to ascertain amount of contravention.

Earlier, as per Rule 11 of the FEMA (Compounding of Proceedings) Rules, 2000, the Compounding application could not be filed if an appeal was lodged

under section 17 or 19 of the Foreign Exchange Management Act, 1999. However, this rule is not there in the amended regulations.

Therefore, applicants can now file a compounding application even if an appeal has been filed under section 17 or 19 of the Foreign Exchange Management Act, 1999.

DISCLAIMER: - *The summary information herein is based on Ministry of Finance Notification dated 12.09.2024. While the information is believed to be accurate, we make no representations or warranties, express or implied, as to the accuracy or completeness of it. Readers should conduct and rely upon their own examination and analysis and are advised to seek their own professional advice. This note is not an offer, advice or solicitation. We accept no responsibility for any errors it may contain, whether caused by negligence or otherwise or for any loss, howsoever caused or sustained, by the person who relies upon it.*