



In the

**RESERVE BANK OF INDIA**

Foreign Exchange Department  
11th floor, Central Office Building  
Shahid Bhagat Singh Road  
Mumbai - 400 001

Present

**Manmohan**

**Deputy General Manager**

Date: September 27, 2019

C.A. 4932 / 2019

In the matter of

**July Systems & Technologies Limited**

**Prestige Solitaire, Level II, No. 6, Brunton Road, Bengaluru, 560 001**

**(Applicant)**

In exercise of the powers conferred under section 15 (1) of the Foreign Exchange Management Act, 1999 and the Regulations/Rules/Notifications/Orders made there under, I pass the following

**Order**

The applicant has filed a compounding application dated May 02, 2019 (received in the Reserve Bank on May 10, 2019) for compounding of contravention of the provisions of the Foreign Exchange Management Act, 1999 (the FEMA) and the regulations issued there under. The contraventions sought to be compounded relate to (a) non-reporting of shares acquired by the employees and directors of the applicant company under the ESOP scheme of its parent company and (b) not remitting the funds collected by the



applicant company for issuance of shares under ESOP scheme to its parent company, in contravention of Regulation 22(2) and Regulation 22(3) of Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2004 notified vide Notification No. FEMA 120/RB-2004 dated July 07, 2004 (hereinafter referred to as Notification No. FEMA 120 / RB-2004).

## **2. The relevant facts of the case are as follows:**

July Systems & Technologies Limited (company) is the subsidiary of July Systems LLC, formerly July Systems Inc. (parent company), an overseas limited liability company organized under the laws of State of Delaware [CIN – U64202KA2001PTC029320]. The name of the parent company was changed to July Systems LLC on August 02, 2018. The company was incorporated on July 26, 2001 and the parent company holds 99.99% in the shareholding of the company. The company is engaged in rendering software development services to the holding company while also providing mobile value added services to the customers in the domestic markets.

2.1 The parent company had floated an equity stock option plan to its employees titled “2002 Equity Incentive Plan” and as amended from time to time (ESOP scheme), which provided for stock awards to its employees as well as that of its subsidiary companies. The ESOP scheme was extended by the parent company to the eligible employees and directors of the company, following which few employees of the company have, from time to time, exercised their rights in the stock awards under the scheme to acquire the common stock of the parent company. Accordingly, the common stock of July Systems Inc. have been issued by the parent company to such eligible employees of the company from 2005-06 to 2017-18. Cumulatively, during these financial years, a total number of 509812 common stock of the parent company have been allotted to the eligible employees of the company who exercised their stock awards under the ESOP scheme. With respect to the stock awards under the scheme, funds amounting to the INR 18,65,079/- equivalent of USD 34672.48 were remitted by the Indian employees to the company towards acquisition of 434312 stock awards.



2.2 The company was required to report the shares being acquired by its employees and directors under the ESOP scheme of its parent company, July Systems Inc., on an annual basis, however the company did not file the annual returns with RBI in contravention of Regulation 22(2) of Notification No. FEMA 120 / RB-2004. The company also applied for compounding of Regulation 22(3) of Notification No. FEMA 120 / RB-2004 stating that Indian employees paid the funds for acquisition of the shares under the ESOP scheme to the company instead of remittance to July Systems Inc., which the company has remitted to July Systems Inc. later on behalf of its employees. Regulation 22 (3) of Notification No. FEMA 120 / RB-2004 only instructs the Authorised Dealer bank to allow remittances by the person eligible to purchase shares under ESOP Scheme, hence it was not compounded as no contravention was observed. The company has submitted Annual Returns for all the remittances made by its employees and directors for the remittance made during 2005-2018 for acquiring common stock of parent company on July 13, 2018.

3. The applicant committed the contravention of Regulation 22(2) of Notification No. FEMA 120 / RB-2004 according to which *“A person resident in India, being an individual, who is an employee or a director of Indian office or branch of a foreign entity or of a subsidiary in India of a foreign entity or of an Indian company in which foreign entity has direct or indirect equity holding, may accept the shares offered by such foreign entity provided that: (i) the shares under the ESOP Scheme are offered by the issuing company globally on uniform basis, and (ii) an Annual Return is submitted by the Indian company to the Reserve Bank through the Authorised Dealer bank giving details of remittances / beneficiaries etc.”*

4. The applicant was given an opportunity for personal hearing vide Reserve Bank's letter No. FED.CO.CEFA.No./944/15.20.67/2019-20 dated August 19, 2019 for further submission in person and/or producing documents, if any, in support of the application. The personal hearing was held on September 11, 2019, which was attended by Mr. Gautham Gururaj, Advocate & Consultant. The applicant had submitted that it had inadvertently and unintentionally failed to comply with the FEMA regulations due to



ignorance and requested that a lenient view may be taken in the matter. The application for compounding is, therefore, being considered on the basis of the averments made in the application as well as other documents and submissions submitted along with the application.

5. I have given my careful consideration to the documents on record and thereafter. Accordingly, I hold that the applicant has contravened the Regulation 22(2) of Notification FEMA 120/RB-2004 as amended from time to time. The contravention relates to not reporting allotment of shares annually under ESOP scheme during the period 2005-2006 to 2017-2018 with aggregate amount of **Rs. 18,65,079/-** and the period of contravention ranges from **March 31, 2007 to July 13, 2018 i.e. eleven years and three months** approximately.

6. It has been declared in the compounding application dated May 02, 2019 that the particulars given by the applicant in the application are true and correct to the best of his knowledge and belief. It has been declared in the undertaking submitted with the application by the applicant that the applicant was not under any enquiry/investigation/adjudication by any agency as on the date of the application and has, in this regard, not informed of initiation of any such enquiry/investigation/adjudication proceedings against him thereafter as required in terms of the said undertaking. Accordingly, the above contraventions which are being compounded in this Order are subject to the veracity of the above declarations made/undertaking furnished by the applicant and this order is without prejudice to any other action which may be taken by any authority under the extant laws if the said declarations/undertakings are subsequently discovered to be false and/or incorrect.

7. In terms of Section 13 of the FEMA, any person contravening any provision of the Act shall be liable to a penalty up to thrice the sum involved in such contravention upon adjudication. However, taking into account the relevant facts and circumstances of the case as stated in the foregoing paragraphs, I am persuaded to take a lenient view on the amount for which the contravention is to be compounded and I consider that an



amount of **Rs.38,125/- (Rupees thirty eight thousand one hundred twenty five only)** will meet the ends of justice in the circumstances of the case.

8. Accordingly, I compound the admitted contraventions namely, the contravention of Regulation 22(2) of Notification No. FEMA 4/RB-2004 amended from time to time by the applicant as stated above on the facts discussed above in terms of the Foreign Exchange (Compounding Proceedings) Rules, 2000 on payment of an amount of **Rs.38,125/- (Rupees thirty eight thousand one hundred twenty five only)** which shall be deposited by the applicant with the Reserve Bank of India, Foreign Exchange Department, 5th Floor, Amar Building, Fort, Mumbai 400001 by a demand draft drawn in favour of the "Reserve Bank of India" and payable at "Mumbai" within a period of 15 days from the date of this order. In case of failure to deposit the compounded amount within the above mentioned period, Rule 10 of the Foreign Exchange (Compounding Proceedings) Rules, 2000 dated May 3, 2000 shall apply.

The application is disposed of accordingly.

Dated this the 27<sup>th</sup> day of September, 2019

**Sd/-**

**Manmohan**  
**Deputy General Manager**