



In the

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

Present

Pawanjeet Kaur Rishi
Assistant General Manager

Date: April 16, 2018
CA No 4600 / 2017

In the matter of

Principal PNB Asset Mgt Co Pvt Limited
Exchange Plaza, Bandra East, BKC
Mumbai - 400051

(Applicant)

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

Order

The applicant has filed the application dated December 8, 2017 (received in the Reserve Bank on December 8, 2017), for compounding of contraventions of the provisions of the Foreign Exchange Management Act, 1999 (the FEMA) and the regulations issued there under. The contraventions sought to be compounded are the indirect foreign investment in M/s MF Utilities India Private Limited (MFU) by M/s Principal PNB Asset Management Company Pvt Ltd without prior Govt approval. The above amounts to the contravention of Para 2(1) of Schedule 1 read with Sl.No.F.8 of Annex B to Schedule 1 of FEMA 20 of Foreign Exchange Management (Transfer or Issue of Security by a Person



Resident outside India) Regulations, 2000 notified vide Notification No. FEMA 20/2000-RB dated May 3, 2000 and as amended from time to time (hereinafter referred to as Notification No. FEMA 20/2000-RB.

2. The relevant facts are as under: Principal PNB Asset Management Company Private Ltd (PPAMC) is an Asset Management Company and is registered under SEBI (Mutual Fund) Regulations, 1996. PPAMC is a joint venture between Principal Financial Group (Mauritius) Limited (PFGM) and Punjab National Bank (PNB). PFGM is a wholly owned subsidiary of Principal Financial Group Inc, USA.

3. MFU was promoted by Mutual Fund Industry under the aegis of Association of Mutual Funds of India. It was established on a cooperative model with all participating AMCs becoming equal shareholders in MFU. PPAMC acquired 500,000 shares of Re.1.00 each at par in MFU on April 30, 2014. MFU was initially incorporated to develop and own a trade-reporting-cum aggregating software for mutual funds and distributors. On December 29, 2014, MFU sought registration as Cat-II Registrar to an Issue under SEBI (Registrars to an Issue and Share Transfer Agents) Regulations, 1993 which is classified as 'Other Financial Services' under FEMA, 1999. As per Para F.8 of Schedule 1 of FEMA (Transfer or Issue of Security by a Person Resident outside India) Regulations, 2000, foreign investment in 'Other Financial Services', other than those specifically stated therein, would require prior approval of the Government. The services provided by MFU as Registrar to an Issue did not fall under the list of activities permitted under the Auto route. PFGM is a foreign company which holds 78.62% of the total share capital of PPAMC and hence the investment made by PPAMC in MFU would amount to Indirect Foreign Investment in MFU.

4. Since MFU sought registration as Category –II Registrar to an Issue subsequent to the investment made by PPAMC, PPAMC was required to seek post facto approval of the Government. The approval was sought by the applicant's letter dated May 31, 2017. The Govt gave its approval vide letter dated September 21, 2017 and advised the Company to approach RBI for



compounding for the indirect foreign investment in M/s MF Utilities India Private Limited by M/s Principal PNB Asset Management Company Pvt Ltd without prior Govt approval.

5. Para 2(1) of Notification No.FEMA.20/2000-RB dated May 03, 2000 as amended from time to time states that “....An Indian company, not engaged in any activity / sector mentioned in Annex A to this Schedule may issue [shares or convertible debentures or warrants] to a person resident outside India, subject to the limits prescribed in Annex B to this Schedule, in accordance with the Entry Routes specified therein and the provisions of Foreign Direct Investment Policy....”.

Further, SI.No.F.8 of Annex B to Schedule 1 of Notification No.FEMA.20/2000-RB dated May 03, 2000 as amended from time to time permitted the foreign investment of up to 100% in automatic route only in certain activities.

6. The applicant was given an opportunity for personal hearing vide letter No. FE.CO.CEFA/5902/15.20.67/2017-18 dated January 10, 2018 for further submission in person and/or producing documents, if any, in support of the application. The personal hearing was held on January 15, 2018, during which Mr. Amit Raheja and Ms.Nidhi Shah were present. The application is, therefore, being considered on the basis of the averments made in the application, the documents produced and submissions made during the personal hearing.

5. I have given my careful consideration to the documents on record and submissions made by the applicant during the personal hearing. It was observed that the applicant has contravened the provisions of Para 2(1) of Schedule 1 read with SI.No.F.8 of Annex B to Schedule 1 of FEMA 20 dated May 3, 2000, as amended from time to time. The amount and period of contravention is as follows:

Para 2(1) of Schedule 1 of Notification No.FEMA.20/2000-RB read with SI.No.F.8 of Annexure B to Schedule 1 of Notification No.FEMA.20/2000-RB



Amount of contravention – Rs. 5,00,000/- and Period of contravention – 2.5 years approximately.

6. 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. After considering the submissions made by the applicant and the entire facts and circumstances of the case, I am persuaded to take a lenient view on the amount for which the contravention is to be compounded and it stands to reason that payment of an amount of Rs. 53000/- (Rupees fifty three thousand only) will meet the ends of justice in the circumstances of this case.

7. Accordingly, I compound, in terms of the Foreign Exchange (Compounding Proceedings) Rules, 2000 the admitted contravention committed by the applicant namely, Regulation 14(6) of Notification No.FEMA.20/2000-RB Notification No.FEMA.20/2000-RB dated May 3, 2000 read with read with Para "15 of Annexure B to Schedule 1 of Notification No.FEMA.20/2000-RB dated May 03, 2000 as amended from time to time, on payment of a sum of Rs.53000/- (Rupees fifty three thousand 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 accordingly.

Dated this the sixteenth day of April, 2018

Sd/-

(Pawanjeet Kaur Rishi)



Assistant General Manager