

## **FAQs on Compounding of Contraventions under FEMA, 1999.**

**(Updated as on October 01, 2024)**

FAQs attempt to put in place the common queries that users have on the subject in easy-to-understand language. However, for the purposes of compounding, the provisions under Foreign Exchange Management Act, 1999 (FEMA), the Foreign Exchange (Compounding Proceedings) Rules, 2024 and [Directions - Compounding of Contraventions under FEMA, 1999](#), 'may be referred to.

### **Q.1. What is meant by contravention and compounding of contravention?**

**Ans.** Contravention is a breach of the provisions of the Foreign Exchange Management Act (FEMA), 1999 and rules/ regulations/ notification/ orders/ directions/ circulars issued thereunder. Compounding refers to the process of voluntarily admitting the contravention, pleading guilty and seeking redressal. The Reserve Bank is empowered to compound any contravention as defined under section 13 of FEMA, 1999 except the contravention under section 3(a) *ibid*, for a specified sum after offering an opportunity of personal hearing to the contravener. It is a voluntary process in which an individual or a corporate seeks compounding of an admitted contravention. It provides comfort to any person who contravenes any provisions of FEMA, 1999 by minimizing transaction costs. Further, cases falling under Rule 9 of Foreign Exchange (Compounding Proceedings) Rules, 2024, shall not be eligible for compounding by the Reserve Bank.

### **Q.2. Who can apply for compounding?**

**Ans.** Any person who contravenes any provision of the FEMA, 1999 [except section 3(a)] or contravenes any rule, regulation, notification, direction or order issued in exercise of the powers under this Act or contravenes any condition subject to which an authorization is issued by the Reserve Bank, can apply for compounding to the Reserve Bank. Applications seeking compounding of contraventions under section 3(a) of FEMA, 1999 may be submitted to the Directorate of Enforcement (DOE).

### **Q.3 When should one apply for compounding?**

**Ans.** When a person is made aware of the contravention of the provisions of FEMA, 1999 by the Reserve Bank or any other statutory authority or the auditors or by any other means, such person may apply for compounding either *suo moto* or based on a Memorandum of Contraventions issued by the Reserve Bank.

### **Q.4. What is the procedure for applying for compounding?**

**Ans.** A contravener may submit a compounding [application form](#), physically or through [PRAVAAH Portal](#) of the Reserve Bank along with the documents/formats provided as [Annexure I](#), [Annexure II](#) and [Annexure III](#) of the [Directions – Compounding of contraventions under FEMA, 1999](#).

**Q.5. Are any fees required to be paid for seeking compounding?**

**Ans.** Yes. All compounding applications shall be submitted along with the prescribed fee of ₹10,000/- (plus applicable GST, which at present is 18%) by way of demand draft in favour of “Reserve Bank of India” and payable at the concerned Regional Office/ CO Cell, New Delhi/ Central Office or through National Electronic Fund Transfer (NEFT), or other permissible electronic or online modes of payment. The necessary details for making the payment through electronic mode is provided in [Annexure I](#) in [Directions – Compounding of contraventions under FEMA, 1999](#). In case application fee is paid through NEFT or other permissible electronic mode of payment, it may be ensured that intimation of payment of applications fee, to respective RO, CO Cell, or Central Office, as case may be, shall be made as soon as possible but not later than 2 hours from time of payment, through an email as per the template provided in Para B of [Annexure I](#) of [Directions – Compounding of contraventions under FEMA, 1999](#).

It may further be noted that in case compounding application is returned for any reason, The application fee, if paid, shall not be returned in case of return of the compounding application. However, in case such applications are re-submitted, then the application fee need not be paid again.

**Q.6. What are the details required to be filled in the application form?**

**Ans.** Along with the application in the prescribed format, the applicant may also furnish the details as per the Annexures - relating to [Foreign Direct Investment](#), [External Commercial Borrowings](#), [Overseas Direct Investment](#) and [Branch Office / Liaison Office](#), as applicable, (Annexures available in the [Directions – Compounding of contraventions under FEMA, 1999](#), as mentioned in answer to Q. 4 above) along with an undertaking that they are not under investigation of DOE,, a cancelled cheque copy, a copy of the Memorandum of Association while applying for compounding of contraventions under FEMA, 1999. Application submitted to the Reserve Bank must contain contact details i.e., name of the applicant / authorised official or representative of the applicant, telephone/ mobile number and email ID.

**Q.7. Where should one apply for compounding?**

**Ans.** A contravener may submit compounding application form along with relevant documents/ Annexures to the Reserve Bank as provided in paragraphs 2.1, 2.2, 2.3 and 2.4 of [Directions – Compounding of contraventions under FEMA, 1999](#).

**Q.8. Can an application for compounding be sent to the Reserve Bank pending fulfillment of certain obligations?**

**Ans.** No. All requisite approvals should be obtained, and compliances should be completed before seeking compounding of contravention. Compounding can be done only after all the necessary administrative action is complete as mentioned in Paragraph 4.2 of [Directions – Compounding of contraventions under FEMA, 1999](#), Copies of approvals and other compliances should be enclosed along with the application.

**Q. 9. What are sensitive contraventions?**

**Ans.** Cases involving serious contravention suspected of money laundering, terror financing or affecting sovereignty and integrity of the nation are categorized as sensitive contraventions. These contraventions shall not be compounded by the Reserve Bank of India.

**Q. 10. Is it mandatory to appear for the personal hearing?**

**Ans.** Personal Hearing can either be on physical basis or through virtual mode. However, it is not mandatory to attend/opt for the personal hearing. In case a person opts not to attend the personal hearing he/she may indicate his/her preference in writing. The application would be disposed of on the basis of documents submitted to the Compounding Authority. It may be noted that appearing for, or opting out of the personal hearing does not have any bearing, whatsoever, on the compounding amount that may be mentioned in the compounding order, as the compounding amount is calculated based on the Para 5.4 of Guidance note on computation matrix as contained in the [Directions - compounding of contraventions under FEMA, 1999](#).

**Q.11. Can the applicant authorise another person to attend the personal hearing?**

**Ans.** Yes, another person may be authorised by the applicant to attend the personal hearing on his behalf but only with proper written authority. It has to be ensured that the person appearing on behalf of the applicant is conversant with the nature of contravention applied for. However, the Reserve Bank encourages the applicant to appear directly for the personal hearing rather than being represented/ accompanied by legal experts/consultants, etc. as the compounding is only for admitted contraventions.

**Q.12. How is the compounding process brought to conclusion?**

**Ans.** The Compounding Authority passes an order indicating details of the contravention and the provisions of FEMA, 1999 that have been contravened. The compounding amount is indicated in the compounding order. The process of compounding is brought to a conclusion by payment of the compounding amount indicated in the compounding order.

**Q.13. What is the criteria for calculation of compounding amount?**

**Ans.** The guidance structure for calculating the amount to be imposed on compounding is available at paragraph 5.4 of [Directions - Compounding of Contraventions under FEMA, 1999](#). It may, however, be noted that the guidance structure is only for the purpose of broadly standardizing the amount imposed by the compounding authorities across offices and the actual amount imposed may vary,

depending on the circumstances of the case taking into account the factors given in paragraph 5.3 of [Directions - Compounding of Contraventions under FEMA, 1999](#).

**Q.14. When should the amount indicated in the order be paid?**

**Ans.** The compounding amount as specified in the compounding order shall be paid by way of demand draft in favour of the “Reserve Bank of India” or National Electronic Fund Transfer (NEFT), or Real Time Gross Settlement (RTGS), or such other permissible electronic or online modes of payment within 15 days from the date of the order of compounding of such contravention. The manner in which the demand draft has to be drawn and deposited/ details of bank account for transferring through electronic mode of payment shall be indicated in the compounding order.

**Q.15. How does the application for compounding finally get disposed of?**

**Ans.** On realization of the sum for which contravention is compounded, a certificate shall be issued by the Reserve Bank, indicating that, the applicant has complied with the order passed by the Compounding Authority.

**Q.16. What happens if the amount is not paid within 15 days of the order?**

**Ans.** In case of non-payment of the amount indicated in the compounding order within 15 days of the order, it will be treated as if the applicant has not made any compounding application to the Reserve Bank and the other provisions of FEMA, 1999 regarding contraventions will apply. Such cases will be referred to the DoE for necessary action.

**Q.17. Can there be an appeal against the order of the Compounding Authority?**

**Ans.** As compounding is based on voluntary admissions and disclosures, there is no provision under the of Foreign Exchange (Compounding Proceedings) Rules, 2024, for an appeal against the order of the Compounding Authority or for a request for reduction of amount imposed or extension of period for payment of the amount imposed.

**Q.18. What is the timeframe for completing the compounding process?**

**Ans.** The compounding process is completed within 180 days from the date of receipt of the application complete in all aspects, by the Reserve Bank.

**Q.19. Where can one get more details about compounding?**

**Ans.** One can refer to [Directions – Compounding of contraventions under FEMA, 1999](#), available on Reserve Bank’s website.