

kcmSnips

FEMA

March 22, 2024

Applicable FEMA Provisions

Foreign Exchange Management (Overseas Investment) Rules, 2022 & Foreign Exchange Management (Overseas Investment) Regulations, 2022 read along with Master Direction on ODI.

Reporting Compliance

- Submission of APR
- Reporting of setting up SDS to AD Bank

Type of Contravention

- Issuance of Corporate Guarantees / SBLC on behalf of first level step down subsidiary (SDS) without prior approval of RBI
- Delay in reporting of setting up of SDS.

Penal Action

- Late submission Fees (LSF) based on value of allotment.
- Compounding
- Enquiry by Directorate of Enforcement.

Compounding Order

Zodiac Clothing Company Ltd ("The Company") & Reserve Bank of India, Foreign Exchange Department, Mumbai vide compounding order no. C.A.No. 4533 /2017 dated Jan 31, 2018.

The company has set up various WOS & SDS in different countries. The setting up of the SDS were reported with a delay beyond the stipulated time period and also APRs filed with a delay.

Contravention committed of Regulations 5(2) read with 6(2)(ii), 13 and 15(iii) of Notification No. FEMA 120/2004-RB dated July 7, 2004, as amended from time to time.

RBI's stance was that the company should report setting up of step-down subsidiary and ensure filing of APRs within the stipulated time period.

**Compounding Penalty levied for
₹ 18,07,868**

This document is prepared exclusively for the benefit and use of member firms of KCM Network and their clients. For further analysis and discussion, you may please reach out to our regulatory experts, Ms. Darshana Mankad at darshana.mankad@kcmehta.com and Mr. Nitin Dingankar at nitin.dingankar@kcmehta.com.