CNK & Associates LLP
Chartered Accountants

Quarterly Insights
July 2025

FEMA and RBI

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The Foreign Exchange Management Act, 1999 (FEMA)

Master Directions - Compounding of Contraventions under FEMA, 1999

RBI/FED/2025-26/135 FED Master Direction No.04/2025-26 dated 22nd April 2025

Section 15(1) of FEMA provides a compounding mechanism that enables individuals and companies to voluntarily acknowledge breaches, pay penalties, and regularize contravention without undergoing lengthy enforcement proceedings.

The RBI has amended the Compounding Directions via notifications dated 22nd April and 24th April 2025, following its 11th April press release. The amendments introduce a cap on the compounding amount for miscellaneous non-reporting contraventions (as per the 'Guidance Note on Computation Matrix') at Rs.2 lakhs per contravention under FEMA. Previously, there was no upper limit, the amount was calculated as Rs.50,000 plus a percentage of the contravened sum, leading to ambiguity. While the new cap introduces greater clarity and predictability, it remains subject to broad considerations like the nature of contravention, exceptional circumstances, and public interest. Thus, in some exceptional cases, authorities may still impose a higher amount, though the amendment reduces such uncertainty overall.

Additionally, the RBI has deleted a provision under the Compounding Directions that previously imposed an automatic 50% increase in the compounding amount if an applicant, after receiving a compounding order, failed to pay the prescribed amount and later reapplied for the same contravention. With the removal of this clause, applicants will no longer face enhanced penalties for non-payment under a previous compounding order, potentially offering relief in genuine cases of delay or oversight. The amended directions now clearly distinguish between the penalty amount (the statutory maximum under Section 13 of FEMA) and the compounding amount (the actual amount levied by RBI upon compounding).

Exports through warehouses in 'Bharat Mart' in UAE

RBI/2025-26/30 A.P. (DIR Series) Circular No. 03 dated 23rd April 2025

'Bharat Mart' is an ambitious global marketplace in Dubai designed to connect Indian businesses with international markets; it represents a significant advancement in trade infrastructure between India and the UAE. The RBI has announced certain relaxations under FEMA to facilitate smoother export operations:

- Exporters can now realise and repatriate full export proceeds within 9 months from the date of sale of goods from the warehouse in Bharat Mart.
- AD banks may allow the opening/hiring of a warehouse in 'Bharat Mart' by an Indian exporter with a valid Importer Exporter Code and Remittances by the Indian exporter for initial as well as recurring expenses for setup and continuing business operations of its offices without any pre-conditions, after verifying the reasonableness of the same.

RBI has relaxed norms for exports via 'Bharat Mart', requiring repatriation of export proceeds within 9 months from the date of sale, instead of 15 months from shipment.

RBI Mandates Use of PRAVAAH Portal for Regulatory Applications Effective 1st May 2025

Press release dated April 11, 2025

RBI/2025-26/34DIT.CO.No.S-06/07.71.039/2025-26 dated 28th April 2025

The RBI launched the PRAVAAH Portal (Platform for Regulatory Application, Validation and Authorisation) on 28th May 2024, to fully digitize the submission and processing of regulatory applications. Effective 1st May 2025, all applicants, including Regulated Entities (REs) primarily refer to financial institutions authorized to deal with foreign exchange transactions), must submit applications through PRAVAAH using the prescribed or general-purpose forms. Offline submissions will be accepted only in exceptional cases but will still be processed via the portal. To support users, RBI has provided a user manual, FAQs, and instructional videos.

Foreign Exchange Management (Foreign Currency Accounts by a Person Resident in India) (6th Amendment) Regulations, 2025

Notification No. FEMA 10 (R)(6)/2025-RB dated 29th April 2025

The RBI has amended the rules for opening Diamond Dollar Accounts (DDAs) under FEMA. Indian exporters must now have a minimum 3-year track record in importing or exporting eligible goods, up from the earlier 2-year requirement. It may restrict newer firms from opening DDAs and is aimed at ensuring that only established businesses benefit from this facility.

Investments by Foreign Portfolio Investors in Corporate Debt Securities through the General Route

RBI/2025-26/35FMRD.FMD. No.01/14.01.006/2025-26 dated 8th May 2025

To enhance prospects of investment for foreign portfolio investors **(FPIs)**, the RBI withdrawn the 2 key regulatory restrictions on foreign portfolio investments in corporate debt: namely, the 30% cap on short-term investments and the 15% concentration threshold.

"Concentration threshold refers to restrictions on the amount of investment an FPI (including its related entities) can hold in specific categories of debt instruments within the Indian market."

These changes are part of RBI's efforts to attract more foreign investment by removing restrictions that limited how and where FPIs could allocate funds.

Reporting on FIRMS portal – Issuance of Partly Paid Units by Investment Vehicles

RBI/2025-26/40 A.P. (DIR Series) Circular No. 06 dated 23rd May 2025

The RBI has issued guidelines, allowing issuance of partly paid units to persons resident outside India by investment vehicles. Investment vehicles issuing units to non-residents must file Form InVI within 30 days of issuance (as per FEMA Reporting Regulations, 2019).

The circular grants a one-time window of 180-day extension (from 23rd May 2025) for reporting partly paid units issued before the circular without late submission fees. Issuances made on or after the circular date must comply with the standard 30-day reporting timeline.

Facility of advance remittance for Import of Shipping Vessel

RBI/2025-26/55 A.P. (DIR Series) Circular No. 07 dated 13th June 2025

As per the directions issued by the RBI in the said circular, importers are now permitted to make advance remittances of up to USD 50 million for the import of shipping vessels without furnishing a bank guarantee or an unconditional, irrevocable standby Letter of Credit (SBLC).

By allowing advance remittance of up to USD 50 million without collateral instruments, the RBI has taken a progressive step to support importers in the shipping sector, while still maintaining safeguards through the prescribed conditions under its Master Directions.

The Reserve Bank of India (RBI)

Basel III Framework on Liquidity Standards – Liquidity Coverage Ratio (LCR) – Review of haircuts on High Quality Liquid Assets (HQLA) and review of composition and run-off rates on certain categories of deposits

RBI/2025-26/27 dated 21st April 2025

The RBI has issued the aforesaid Circular to amend the LCR framework. *Inter alia*, as per the amendments, Level 1 HQLA in the form of Government securities should be valued at an amount not greater than their current market value, adjusted for applicable haircuts in line with the margin requirements under the Liquidity Adjustment Facility **(LAF)** and Marginal Standing Facility **(MSF)**.

This Circular will be applicable to all Commercial Banks (excluding Payments Banks, Regional Rural Banks and Local Area Banks).

These amendments will come into force with effect from 1st April 2026.

Liquidity Adjustment Facility - Change in rates RBI/2025-26/42 dated 6th June 2025

Standing Liquidity Facility for Primary Dealers RBI/2025-26/43 dated 6th June 2025

As announced in the Monetary Policy Statement dated 6th June 2025, it has been decided by the Monetary Policy Committee (MPC) to reduce the policy repo rate under the LAF by 50 basis points from 6% to 5.50% with immediate effect.

Consequently, the standing deposit facility (SDF) rate and MSF rate stand adjusted to 5.25% and 5.75% respectively, with immediate effect.

Also, the Standing Liquidity Facility provided to Primary Dealers (PDs) (collateralised liquidity support) from the RBI would be available at the revised repo rate of 5.50% with immediate effect.

Review of Qualifying Assets Criteria

RBI/2025-26/44 dated 6th June 2025

The RBI has revised the qualifying asset criteria in the Master Direction - Reserve Bank of India (Regulatory Framework for Microfinance Loans) Directions, 2022. As per the amendment, Qualifying assets of Non-Banking Financial Companies - Microfinance Institutions **(NBFC-MFIs)** will constitute a minimum of 60% *(earlier 75%)* of the total assets (netted off by intangible assets), on an ongoing basis. If an NBFC-MFI fails to maintain the qualifying assets as aforesaid for 4 consecutive quarters, it should approach the RBI with a remediation plan for taking a view in the matter.

The revised provisions came into effect from the date of this circular (i.e. 6th June 2025).

Penal Interest on shortfall in CRR and SLR requirements - Change in Bank Rate

RBI/2025-26/45 dated 6th June 2025

As announced in the Monetary Policy Statement 2025-26 dated 6th June 2025, the Bank Rate is revised downwards by 50 basis points from 6.25% to 5.75% with immediate effect. Accordingly, all penal interest rates on shortfall in Cash Reserve Ratio **(CRR)** and Statutory Liquidity Ratio **(SLR)** requirements, which are specifically linked to the Bank Rate, also stand revised to 10.75% *(earlier 11.25%)*.

Maintenance of Cash Reserve Ratio (CRR)

RBI/2025-26/46 dated 6th June 2025

As announced in the Governor's Statement dated 6th June 2025, the RBI has decided to reduce the CRR of all banks by 100 basis points in 4 equal tranches of 25 basis points each to 3% of net demand and time Liabilities **(NDTL)**. Accordingly, banks are required to maintain the CRR at 3.75%, 3.5%, 3.25% and 3% of their NDTL effective from the reporting fortnight beginning 6th September, 4th October, 1st November and 29th November 2025, respectively.

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