Foreign Exchange Management Act: Objectives & Provisions of FEMA Act 1999

Objectives of FEMA:

The main objective of FEMA was to help facilitate external trade and payments in India. It was also meant to help orderly development and maintenance of foreign exchange market in India. It defines the procedures, formalities, dealings of all foreignexchange transactions in India. These transactions are mainly classified under two categories -- Current Account Transactions and Capital Account Transactions.

[FEMA](https://www.taxmann.com/blogpost/2000000240/fema-foreign-exchange-management-act.aspx" \t "_blank) is applicable to all parts of India and was primarily formulated to utilize the foreign exchange resources in efficient manner. It is also equally applicable to the offices and agencies which are located outside India however is managed or owned by an Indian Citizen. FEMA head office is known as Enforcement Directorate and is situated in heart of city of Delhi.

Applicability of FEMA Act:

* exports of any foods and services from India to outside, foreign currency, that is any currency other than Indian currency,
* foreign exchange,
* foreign security,
* Imports of goods and services from outside India to India,
* securities as defined in Public Debt Act 1994,
* banking, financial and insurance services,
* sale, purchase and exchange of any kind (i.e. Transfer),
* any overseas company that is owned 60% or more by an [NRI (Non Resident Indian)](https://www.taxmann.com/blogpost/2000000257/non-resident-indian-nri-and-pio-under-fema.aspx" \t "_blank) and
* any citizen of India, residing in the country or outside (NRI)

Major Provisions of FEMA Act 1999:

Here are major provisions that are part of FEMA (1999) –

* Free transactions on current account subject to reasonable restrictions that may be imposed.
* [RBI](https://www.rbi.org.in/" \t "_blank) controls over capital account transactions.
* Control over realization of export proceeds.
* Dealing in foreign exchange through authorized persons like authorized dealer or money changer etc.
* Appeal provision including Special Director (Appeals)
* Directorate of enforcement
* Any person can sell or withdraw foreign exchange, without any prior permission from RBI and then can inform RBI later.
* Enforcement Directorate will be more investigative in nature
* FEMA recognized the possibility of Capital Account convertibility.
* The violation of [FEMA](https://www.taxmann.com/bookstore/professional/fema-ready-reckoner-by-v.s-datey-2019.aspx) is a civil offence.
* FEMA is more concerned with the management rather than regulations or control.
* FEMA is regulatory mechanism that enables RBI and Central Government to pass regulations and rules relating to foreign exchange in tune with foreign trade policy of India.

**Conclusion:**

As per Section 3 of FEMA, all the current account transactions are free; however central government at any time could impose reasonable instructions by issuing special rules. As per Section 6 of FEMA, Capital Account Transactions are permitted only to the extent as specified by RBI in its issued regulations. As per Section 10 of FEMA, [RBI](https://www.taxmann.com/blogpost/2000000241/what-are-the-functions-of-rbi-under-fema.aspx" \t "_blank) have controlling role in its management however RBI cannot directly handle foreign exchange transaction and must authorize a person to deal with it as per directions set by RBI. FEMA also have provisions of various enforcement, penalties, adjudication and appeals in this area.