

REPORTABLE

IN THE SUPREME COURT OF INDIA

CIVIL APPELLATE JURISDICTION

CIVIL APPEAL NO. 6267 OF 2020

Suborno Bose

... Appellant(s)

Versus

Enforcement Directorate & Anr.

...Respondent(s)

J U D G M E N T

A. M. KHANWILKAR, J.

1. This appeal emanates from the complaint proceedings initiated by the adjudicating authority being Deputy Director, Enforcement Directorate Foreign Exchange Management Act, under Section 16(3) of the Foreign Exchange Management Act, 1999 (for short, “the FEMA Act”).

2. A show-cause notice dated 19.5.2004 was issued to the appellant, stating that the adjudicating authority was satisfied that there was a *prima facie* contravention of Section 10(6) of the FEMA Act read with Sections 46 and 47 of the said Act and paragraphs A-10

and A-11 (Current Account Transaction) of the Foreign Exchange Manual 2003-04 in the complaint filed against the company named M/s. Zoom Enterprises Limited (for short, "the Company") of which, the appellant was the Managing Director. The appellant filed his reply to the said show-cause notice on 10.6.2004, inter alia, contending that the Company had purchased 2 Nos. of Water Cooled Screw Chiller Unit Model and other accessories for a cost of 374000 FRF from Carrier S.A. of France and Air Handling and Fan Coil Unit for US\$ 35766 from Carrier Corporation, Syracuse, New York. The import was done under Export Promotion Capital Goods (EPCG) Licence under Open General Licence (OGL). The goods were imported, but kept in warehouse, as the Company, which at the relevant time was under Mr. Aniruddha Roy Chowdhury and others, failed to take steps to get the goods released. The appellant took over the project only in July, 2002 and afterwards, he spent nearly 5 crores of rupees for the project work. Due to financial constraints, in February, 2003, a request was made to Tourism Finance Corporation of India Limited (TFCI) for sanction of a bank guarantee of Rs.40,00,000/- (Rupees forty lakhs only) to get the shipment in question cleared from the Customs Department, but for the reasons beyond the control of the Company and the appellant in particular,

the shipment could not be cleared. A request was made to the Customs authority to help the Company to get the goods cleared, in case the clearing agent is unable to take necessary steps on their behalf. In the end, a request was made in the reply to grant more time to get the goods cleared and to submit the Bill of Entry (Exchange Control Copy) with the authorised dealer.

3. The reply to the show-cause notice filed on behalf of the Company including for the appellant and the submissions made before the adjudicating authority were duly considered by the adjudicating authority in its Order (Original) dated 30.12.2004. The adjudicating authority concluded that the noticee Company and the appellant had violated the provisions of Section 10(6) of the FEMA Act read with Sections 46 and 47 of the said Act read with paragraphs A-10 and A-11 (Current Account Transaction) of the Foreign Exchange Manual 2003-04 having found that the goods had arrived in India, but the Company failed to submit Bill of Entry and did not take delivery of the goods. The import formalities would have had completed only after submission of Bill of Entry. Thus, though the goods for which foreign exchange was remitted had reached the destination of the users, but the same were not released and as such kept in bonded warehouse. That resulted in contravention

warranting issuance of show-cause notice to the Company and the appellant. Resultantly, the adjudicating authority passed the following order: -

“ORDER

In view of my above findings, I hold M/s Zoom enterprises Ltd., and their Managing Director Sri Suborno Bose guilty of the charge. In exercise of powers conferred on me under section 13(I) of the Foreign Exchange Management Act, 1999. I impose on them the following amount of penalty.

- | | |
|-----------------------------|-------------------------------------|
| 1) M/s Zoom Enterprise Ltd. | Rs.10,00,000/- Rupees
Ten Lakhs |
| 2) Sri Suborno Bose | Rs.10,00,000/-(Rupees
Ten Lakhs) |

The penalty amount so imposed in terms of the provisions of section 13(I) of the said Act shall be deposited in the office of the Deputy Director, Directorate of Enforcement, Calcutta by cheques/demand draft issued in favour of the Chief Enforcement Officer (Admn.), 3rd M.S.O. Building, 6th floor, C&D Wing, Salt Lake, Calcutta 700064 within 45 days from the date of receipt of this order.”

4. The Company, as well as, the appellant carried the matter in appeal before the Special Director (Appeals), FEMA & Commissioner of Income-Tax, Delhi being Appeal Nos. SD(A)/Kol/04/05/112 and SD(A)/Kol/04/05/113. The appellate authority vide order dated 13.6.2005 dismissed both the appeals and was pleased to uphold the decision of the adjudicating authority. After adverting to the admitted facts, the appellate authority proceeded to consider the requirements of the relevant provisions necessitating submission of Bill of Entry to effectuate the remittance and complete the import of the goods for

which the remittance was made. The appellate authority observed as follows: -

“7. As per the provisions of Section 10(6) of FEMA, the foreign exchange acquired from an authorized dealer has to be utilized for the purpose it was released or otherwise it should have been surrendered to the authorized dealer. The Regulation 6(1) in the FEMA (Realisation, Repatriation & Surrender of Foreign Exchange) Regulation 2000 issued by RBI on 3.5.2000, prescribe that the transaction should be completed within a period of sixty days from the date of acquisition or purchase of foreign exchange. The RBI has issued a master circular No.7/2004-05 dated 1.7.2004 but the Circular No.9 A.P. (DIR Series) (2000-01) issued on 24.8.2000 by the RBI, prescribing guidelines for the import of goods/currency, is applicable at the relevant time when the appellant company imported the goods. Certain obligations and requirements have been prescribed for the purchaser of the foreign exchange in Para A.3 and A.17. As per para A.17 (ii), it is obligatory on the purchaser of foreign exchange for all imports with value exceeding US\$5000, to submit exchange control copy of the bill of entry for home consumption, to the authorized dealer. If such original bill of entry is not submitted within six months from the date of remittance the authorized dealer has to report the same to the RBI.

8. In the present case the foreign exchange was remitted on 18/4/2000 and 19/6/2000 for import of refrigerating machinery, but instead of taking the delivery of the imported goods, these were warehoused. The management of the company as argued by the Ld. Counsel, changed hands in October, 2001. As per the requirements of section 10(6) of FEMA RBI regulation dt. 3.5.2000 and circular dt. 24.8.2000, supra the formalities for import have to be completed within six months of remittance of foreign exchange. If the appellant is unable to comply with these requirements under FEMA and the RBI, necessary approval of the authorized dealer and the RBI is necessary. Though the imports were made in 2000 but no steps have been taken till 2005 either to take delivery of the goods so imported and warehoused or for taking necessary extension/approval from RBI/authorized dealer. As far as the change in management of the company is concerned, the change took place in late 2001 but even after the change in management, the then Chairman, Sh. Anirudh Rai Choudhary, remained Director of the new

company up to 2004, as is mentioned in the annual report for the year 2003-04, a copy enclosed with the appeal petition. The Managing Director of the changed company was well aware of the goods so imported and warehoused as a reply were submitted to the Enforcement Authorities as early as in July, 2002.

9. As far as financial constraints are concerned it is seen from the MOU dt. 22.10.2001 that the appellant company was transferred from the old management to the new management after the shares were transferred for about six crores of rupees. From the annual report for the year 2003-04, it is seen that loans of Rs.7.33 crores were taken and invested a capital work-in-progress shown at Rs.13.07 crores. The company also advanced Rs.1.20 crores Substantial investment was made in the capital work including air conditioners, furniture and electrical installation, etc, etc. In spite of availability of sufficient funds during this period the appellant company did not take any step to take delivery of the imported goods which are lying in the warehouse since 2000. Note was given in Schedule 11 to the annual accounts that the liability against bank guarantee and customs duty in respect of import of air conditioning plant was not provided in the accounts. The sequence of such events clearly show that the appellant company and its Managing Director responsible for running the company did not take reasonable steps of delivery of the imported goods so warehoused and thereafter to submit bill of entry to the authorized dealer.

10. It is therefore evident that the appellants did not comply with the requirements of section 10(6) of FEMA, RBI regulation dt. 3.5.2000 and circular dt. 24.8.2000, supra. Even when the show cause notice was issued by the AA steps were not taken to take delivery of the goods from the warehouse and to submit the bill of entry to the authorized dealer. It is therefore held that the appellant company is guilty of contravening these provisions of FEMA and guidelines issued by the RBI supra. The AA is justified in imposing the penalty at Rs.10 lakhs on the appellant company which is confirmed. The appeal filed by the appellant company is accordingly dismissed.

11. As far as the other appellant is concerned Sh. Suborno Bose was the Managing Director and responsible for the conduct of business of the company. He is so guilty of contravention of provisions of FEMA and guidelines of RBI

thereof, supra. It is therefore held that AA is justified in imposing the penalty of Rs.10 lakhs on the appellant Managing Director which is confirmed. The appeal filed by the Managing Director is accordingly dismissed.

12. The Ld. Counsel has referred to certain decisions under Excise and Custom Act. These cases have not been discussed as the violation under FEMA and RBI guidelines depends on the facts of each individual case. The appeal being decided on the merits of the case under consideration.

13. It is necessary to mention here that the foreign exchange was remitted in 2000, the goods were imported in 2000 and were warehoused in 2000 when Sh. Anirudh Rai Choudhary, was the then Chairman of the company. He remained Chairman till October, 2001 when the management changed as per MOU. Sh. Anirudh Rai Choudhary remained Director of the new company till 2004 as in evident from the annual report for the year 2003-04. As he was in-charge and was responsible for the conduct of business of the company at the time foreign exchange was remitted and goods were imported, he also seems to be responsible for the violation of provisions of FEMA and RBI guidelines supra. The AA may consider initiation of adjudication proceedings against Sh. Anirudh Rai Choudhary.

14. Since the relevant appeals have been decided their applications for stay have become infructuous. The AA is directed to give effect to this order.”

(emphasis supplied)

5. Being aggrieved, the Company, as well as the appellant carried the matter before the High Court at Calcutta (for short, “the High Court”) by way of FEA Nos. 17/2007 and 18/2007. Both appeals were dismissed by the High Court vide judgment and order dated 17.9.2008. It noted the rival submissions and observed thus: -

“After hearing the learned Counsel for the parties and after going through the materials on record placed before us, we are of the opinion that the violation which has been done by the appellant/petitioner, cannot be stated to be a technical violation and it is well-settled law that contravention of the said Act or Foreign Exchange Regulation Act, 1973 has created a strict liability. The violation of these two Acts would

come within the meaning of economic offence and cannot be treated as technical offence.

Hence, in our considered opinion, after initial committal and/or contravention of Section 10(6) of the said Act, the violation continues till the time, compliance is made. Therefore, we hold that taking over the charge of the appellate company in the year 2002, cannot absolve the appellant from the liability and, in our considered opinion, the appellant company correctly held as guilty on the face of the continuance of the offence.

Hence, we are of the considered opinion that the Learned Tribunal correctly came to the conclusion and we do not find that there is any reason whatsoever to interfere with the order so passed by the Learned Tribunal. Accordingly, both the appeals are dismissed.

For the reasons stated hereinabove, both the appeals are disposed of.”

Against the decision of the High Court, the Company, as well as the appellant preferred separate special leave petitions before this Court. The special leave petition filed by the Company, being SLP(C) No. 6897/2009 came to be dismissed on 30.3.2009. By the same order, the Court issued notice on the special leave petition being SLP(C) No. 6551/2009 filed by the appellant, from which the present appeal has arisen. The order reads thus: -

“Special Leave Petition (C) No.6897 of 2009 is dismissed.

Keeping in view the contentions raised before us while dismissing S.L.P. (C) No.6897 of 2009, issue notice in S.L.P. (C) No.6551 of 2009.”

Resultantly, what remains to be decided in the appeal preferred by the appellant is limited to his argument that the appellant herein could not be made liable for the contravention committed by the erstwhile management of the Company.

6. We have heard learned counsel for the parties.

7. Be it noted that the contravention relates to the period of the year 2000, whereas, the appellant took over the management of the Company in terms of the Memorandum of Understanding dated 22.10.2001 entered into in that behalf. The appellant wanted to argue that in the facts of the present case, there was no contravention of Section 10(5) of the FEMA Act or any other provision necessitating action under Section 10(6) of the said Act muchless initiating complaint procedure. Ordinarily, the appellant could have been allowed to pursue such argument, but for the dismissal of the special leave petition filed by the Company. In that, consequent to the dismissal of the petition filed by the Company, the finding and conclusion recorded by the adjudicating authority as upheld by the first appellate authority, and of the High Court recording contravention committed by the Company and for which complaint action was just and proper including the imposition of penalty as awarded against the Company and the appellant has attained finality. That cannot be reopened muchless at the instance of the present appellant. This is reinforced by the order issuing notice on the special leave petition filed by the present appellant, dated 30.3.2009.

It is indicative of the fact that the contentions specific to absolve the appellant from the complaint action could be examined.

8. In other words, the core issue that needs to be considered in the present appeal is limited to the defence of the appellant that he could not be made responsible for the stated contravention. For, he became the Managing Director of the Company much later i.e. on 22.10.2001. For examining that argument, we may have to advert to Sections 10(5) and 10(6) of the FEMA Act. The same read thus: -

“10. **Authorised person.-**

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(5) An authorised person shall, before undertaking any transaction in foreign exchange on behalf of any person, require that person to make such declaration and to give such information as will reasonably satisfy him that the transaction will not involve, and is not designed for the purpose of any contravention or evasion of the provisions of this Act or of any rule, regulation, notification, direction or order made thereunder, and where the said person refuses to comply with any such requirement or makes only unsatisfactory compliance therewith, the authorised person shall refuse in writing to undertake the transaction and shall, if he has reason to believe that any such contravention or evasion as aforesaid is contemplated by the person, report the matter to the Reserve Bank.”

(6) Any person, other than an authorised person, who has acquired or purchased foreign exchange for any purpose mentioned in the declaration made by him to authorised person under sub-section (5) does not use it for such purpose or does not surrender it to authorised person within the specified period or uses the foreign exchange so acquired or purchased for any other purpose for which purchase or acquisition of foreign exchange is not permissible under the provisions of the Act or the rules or regulations or direction or order made thereunder shall be deemed to have committed contravention of the provisions of the Act for the purpose of this section.”

Additionally, it will be useful to advert to Section 42 of the FEMA Act, which reads thus: -

“42. Contravention by companies.—(1) Where a person committing a contravention of any of the provisions of this Act or of any rule, direction or order made thereunder is a company, every person who, at the time the contravention was committed, was in charge of, and was responsible to, the company for the conduct of the business of the company as well as the company, shall be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly:

Provided that nothing contained in this sub-section shall render any such person liable to punishment if he proves that the contravention took place without his knowledge or that he exercised all due diligence to prevent such contravention.

(2) Notwithstanding anything contained in sub-section (1), where a contravention of any of the provisions of this Act or of any rule, direction or order made thereunder has been committed by a company and it is proved that the contravention has taken place with the consent or connivance of, or is attributable to any neglect on the part of, any director, manager, secretary or other officer of the company, such director, manager, secretary or other officer shall also be deemed to be guilty of the contravention and shall be liable to be proceeded against and punished accordingly.

Explanation.—For the purposes of this section—

(i) “company” means any body corporate and includes a firm or other association of individuals; and

(ii) “director”, in relation to a firm, means a partner in the firm.”

A fair reading of Section 10(5) envisages that the authorised person before undertaking any transaction in foreign exchange on behalf of any person, must require that person to make a declaration and to give such information as will reasonably satisfy the authorised person that the transaction will not involve, and is not designated for the purpose of any contravention or evasion of the provisions of the FEMA

Act or of any rule, regulation, notification, direction or order made thereunder. If such satisfaction is not reached, the authorised person need not proceed with the proposed transaction and must report about the same to the Reserve Bank.

9. The real provision which needs to be reckoned for answering the controversy brought before this Court is Section 10(6) of the FEMA Act. This provision is a deeming provision pointing towards the specified circumstances, which would result in having committed contravention of the provisions of the FEMA Act or for the purpose of the stated Section. The specified circumstances are (i) when a person acquires or purchases foreign exchange for any purpose mentioned in the declaration made by him to authorised person does not use it for such purpose; (ii) that person does not surrender the acquired or purchased foreign exchange to authorised person within the specified period, and (iii) the person uses the acquired or purchased foreign exchange for any other purpose for which purchase or acquisition of foreign exchange is not permissible under the provisions of the FEMA Act or the rules or regulations or direction or order made thereunder. Each of these are standalone circumstances.

10. In the present case, the finding of fact is that the import of goods for which the foreign exchange was procured and remitted was not

completed as the Bill of Entry remained to be submitted and the goods were kept in the bonded warehouse and the Company took no steps to clear the same. As a result, Section 10(6) of the FEMA Act is clearly attracted being a case of not using the procured foreign exchange for completing the import procedure. It is also possible to take the view that the Company should have taken steps to surrender the foreign exchange to the authorised person within the specified time as provided in Regulation 6 of the Foreign Exchange Management (Realisation, Repatriation and Surrender of Foreign Exchange) Regulations, 2000 (for short, "the FEMA Regulations") issued by the Reserve Bank of India. The said regulation reads thus:

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6. Period of surrender in certain cases: - (1) Any person who has acquired or purchased foreign exchange for any purpose mentioned in the declaration made by him to an authorised person under sub-section (5) of section 10 of the Act does not use it for such purpose or for any other purpose for which purchase or acquisition of foreign exchange is permissible under the provisions of the Act or the rules or regulations or direction or order made thereunder, shall surrender such foreign exchange or the unused portion thereof to an authorised person within a period of sixty days from the date of its acquisition or purchase by him.

(2) Notwithstanding anything contained in sub-regulation (1), where the foreign exchange acquired or purchased by any person from an authorised person is for the purpose of foreign travel, then, the unspent balance of such foreign exchange shall, save as otherwise provided in the regulations made under the Act, be surrendered to an authorised person-

(i) within ninety days from the date of return of the traveller to India, when the unspent foreign exchange is in the form of currency notes and coins; and

(ii). within one hundred eighty days from the date of return of the traveller to India, when the unspent foreign exchange is in the form of travellers cheques.”

The appellant has placed reliance on the text of Section 42 of the FEMA Act to bolster his argument that only such person who was in charge of the Company at the time the contravention was committed, would be responsible for the action.

11. The High Court has opined that the contravention referred to in Section 10(6) by its very nature is a continuing offence. We agree with that view. It is indisputable that the penalty provided for such contravention is on account of civil obligation under the FEMA Act or the rules or regulations or direction or order made thereunder. If the delinquency is a civil obligation, the defaulter is obligated to make efforts by payment of the penalty imposed for such contravention. So long as the imported goods remained uncleared and obligation provided under the rules and regulations to submit Bill of Entry was not discharged, the contravention would continue to operate until corrective steps were taken by the Company and the persons in charge of the affairs of the Company. The High Court has adverted to the exposition in **Chairman, SEBI Vs. Shriram Mutual Fund & Anr.**¹. In this decision, while dealing with the question as to whether *mens rea* is essential for imposing penalty for breach of civil

¹ (2006) 5 SCC 361

obligations, the Court adverted to the dictum in **Director of Enforcement vs. M.C.T.M. Corporation Pvt. Ltd. & Ors.**², which in turn had quoted the exposition in **Corpus Juris Secundum**, Vol. 85, page 580, paragraph 1023, which reads thus: -

“A penalty imposed for a tax delinquency is a civil obligation, remedial and coercive in its nature, and is far different from the penalty for a crime or a fine or forfeiture provided as punishment for the violation of criminal or penal laws.”

In the same judgment, the Court has also taken note of the decision in **M/s. Gujarat Travancore Agency, Cochin vs. Commissioner of Income Tax, Kerala, Ernakulam**³, which had opined that the intention of the legislature such as the one under consideration is to emphasise the fact of loss of revenue and to provide a remedy for such loss, although element of coercion is present in the penalty. In **Securities and Exchange Board of India vs. Cabot International Capital Corporation**⁴, the Court delineated principles as follows: -

“47. Thus, the following extracted principles are summarised:

(A) Mens rea is an essential or sine qua non for criminal offence.

(B) A straitjacket formula of mens rea cannot be blindly followed in each and every case. The scheme of a particular statute may be diluted in a given case.

(C) If, from the scheme, object and words used in the statute, it appears that the proceedings for imposition of the penalty are adjudicatory in nature, in contradistinction to criminal or quasi-criminal proceedings, the determination is of the breach

2 (1996) 2 SCC 471

3 (1989) 3 SCC 52

4 (2005) 123 CompCas 841 (Bom)

of the civil obligation by the offender. The word 'penalty' by itself will not be determinative to conclude the nature of proceedings being criminal or quasi-criminal. The relevant considerations being the nature of the functions being discharged by the authority and the determination of the liability of the contravenor and the delinquency.

(D) Mens rea is not essential element for imposing penalty for breach of civil obligations or liabilities.

(E) There can be two distinct liabilities, civil and criminal, under the same Act."

As aforementioned, the contravention referred to in Section 10(6) of the FEMA Act is a continuing actionable offence. If so, the Company and the persons managing the affairs of the Company remain liable to take corrective measures in right earnest. Considering the admitted fact that the appellant took over the management of the Company on 22.10.2001 and was fully alive to the default committed by the Company, yet failed to take corrective steps in right earnest. Notably, being conscious of such contravention, the appellant had sought indulgence of the authorities for more time. It must follow that the appellant cannot now be heard to contend that no liability could be fastened on him individually. Indeed, regulation 6 of the FEMA Regulations provides for the period within which the foreign exchange ought to be surrendered if the Company was not wanting to take delivery of the goods imported. That, however, does not mean that the contravention ceased to exist beyond the specified period. On the other hand, after the specified period as predicated in regulation 6

had expired, it would be a case of deemed contravention until rectified.

12. It is not the case of the appellant that he is not an officer or a person in charge of and responsible to the Company for the conduct of the business of the Company, as well as, the Company on or after 22.10.2001. Considering the fact that the appellant admittedly became aware of the contravention yet failed to take corrective measures until the action to impose penalty for such contravention was initiated, he cannot be permitted to invoke the only defence available in terms of proviso to sub-Section (1) of Section 42 of the FEMA Act that the contravention took place without his knowledge or that he exercised all due diligence to prevent such contravention. In the reply filed to the show-cause notice by the appellant, no such specific plea has been taken.

13. The appellant then invited our attention to the reply filed on behalf of the Company on 27.1.2004 in which it is vaguely asserted that on the date when the Memorandum of Understanding was signed, no disclosure was made that the import was done under EPCG licence and the obligations under the said licence remained to be fulfilled. To get benefit of the proviso to Section 42(1), the appellant should have pleaded and proved that the contravention took

place without his knowledge or that he exercised all due diligence to prevent such contravention and made every effort to rectify the contravention in right earnest.

14. Be that as it may, once it is held that the contravention is a continuing offence, the fact that the appellant was not looking after the affairs of the Company in the year 2000 would be of no avail to the appellant until corrective steps were taken in right earnest after his taking over the management of the Company and in particular after becoming aware about the contraventions. The appellant has placed reliance on the dictum of this Court in ***M/s. Hindustan Steel Ltd. vs. State of Orissa***⁵. This decision has been distinguished in the case of ***Shriram*** (supra) as can be discerned from paragraph 34 of the reported judgment, which reads thus: -

“34. The Tribunal has erroneously relied on the judgment in *Hindustan Steel Ltd. v. State of Orissa, (1969) 2 SCC 627* which pertained to criminal/quasi-criminal proceedings. That Section 25 of the Orissa Sales Tax Act which was in question in the said case imposed a punishment of imprisonment up to six months and fine for the offences under the Act. The said case has no application in the present case which relates to imposition of civil liabilities under the SEBI Act and the Regulations and is not a criminal/quasi-criminal proceeding.”

We are in agreement with the view so expressed.

⁵ (1969) 2 SCC 627 (paragraph 8)

15. To sum up, we hold that no error has been committed by the adjudicating authority in finding that the appellant was also liable to be proceeded with for the contravention by the Company of which he became the Managing Director and for penalty therefor as prescribed for the contravention of Section 10(6) read with Sections 46 and 47 of the FEMA Act read with paragraphs A-10 and A-11 (Current Account Transaction) of the Foreign Exchange Manual 2003-04. The first appellate authority and the High Court justly affirmed the view so taken by the adjudicating authority.

16. Accordingly, this appeal fails and the same is dismissed with no order as to costs.

....., **J**
(A.M. Khanwilkar)

....., **J**
(Dinesh Maheshwari)

New Delhi;
March 05, 2020.

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