



# भारतीय रिज़र्व बैंक

## RESERVE BANK OF INDIA



[www.rbi.org.in](http://www.rbi.org.in)

RBI/2024-25/108

EFD.CO.No.1 /02.08.001/2024-25

January 30, 2025

The Chairman / Managing Director / Chief Executive Officer,  
Authorised Payment System Operators / Banks

Madam / Dear Sir,

### **Framework for imposing monetary penalty and compounding of offences under the Payment and Settlement Systems Act, 2007**

Please refer to the [Circular DPSS.CO.OD.No.1328/06.08.005/2019-20 dated January 10, 2020](#) on the 'Framework for imposing monetary penalty on authorised payment system operators/ banks under the Payment and Settlement Systems Act, 2007'.

2. Keeping in view the amendments<sup>1</sup> to the provisions of the Payment and Settlement Systems Act, 2007 (PSS Act), and with the objective of rationalising and consolidating enforcement action by Reserve Bank of India, it has been decided to amend the instructions contained in the framework.

3. The revised framework ([enclosed](#)) shall supersede the aforementioned Circular and come into effect from the date of this Circular.

Yours faithfully,

(Minal A. Jain)  
Chief General Manager-in-Charge

Encl.: As above

<sup>1</sup> By way of Jan Vishwas (Amendment of Provisions) Act, 2023 (18 of 2023), which has come into force from January 22, 2024 [Gazette notification Nos. S.O. 318(E) dated January 22, 2024 of Ministry of Finance, Department of Financial Services].

**Framework for imposing monetary penalty and compounding of offences  
under the Payment and Settlement Systems Act, 2007**

**Offences and Penalties**

1. Section 26 of the Payment and Settlement Systems Act, 2007 (PSS Act) incorporates provisions relating to offences and penalties.

1.1 The list of contraventions is as under:

- (i) operation of a payment system without authorisation or failure to comply with the terms and conditions subject to which authorisation was issued [**section 26(1)**];
- (ii) wilfully makes a statement which is false in any material particular or wilfully omits to make a material statement in any application for authorisation or return or other document or information [**section 26(2)**];
- (iii) failure to produce any statement, information, returns or documents [**section 26(3)**];
- (iv) disclosure of information which is prohibited [**section 26(4)**];
- (v) non-compliance of direction issued by Reserve Bank or failure to pay the penalty imposed by Reserve Bank within the stipulated period [**section 26(5)**] and
- (vi) contravention of any provision of the PSS Act or if any default is made in complying with any other requirements of the PSS Act, or any regulation, order or direction made or given or condition imposed thereunder [**section 26(6)**].

1.2 An illustrative list of the contraventions / violations with the applicable corresponding section that may be examined for enforcement actions is given below:

- (i) failure to comply with the terms and conditions of authorisation issued by RBI [*section 26(1)*];
- (ii) wilfully makes a statement which is false in any material particular or wilfully omits to make a material statement to RBI [*section 26(2)*];
- (iii) failure to produce / furnish any statement, information, returns or other documents to RBI or to answer any question relating to the operation of

- payment systems [*section 26(3)*];
- (iv) disclosure of any information prohibited under section 22 of the PSS Act [*section 26(4)*];
  - (v) inadequacy in storage of payment system data in India [*sections 26(4) and 26(6)*] and
  - (vi) (a) contravention of any provisions of the PSS Act or of any regulation, directions / instructions made thereunder, (b) non-compliance with direction pertaining to maintenance of net worth requirements, etc., (c) non-compliance with Know Your Customer (KYC) and Anti-Money Laundering (AML) norms, (d) non-compliance with direction pertaining to maintenance of nodal / escrow accounts, (e) breach of limits in loading, fund transfer, etc. of PPIs [*section 26(6)*].

### **Powers of Reserve Bank to impose penalties**

2. In terms of section 30 of the PSS Act, Reserve Bank is empowered to impose a penalty not exceeding ₹ 10 lakh<sup>1</sup> or twice the amount involved in such contravention or default where such amount is quantifiable, whichever is more, in case of contraventions / defaults of the nature mentioned in sub-sections (2), (3) and (6) of section 26 of the PSS Act<sup>2</sup>. Where such contravention or default is a continuing one, a further penalty up to ₹ 25,000/- for every day after the first during which the contravention or default continues, can also be imposed.

### **Powers of Reserve Bank to compound contraventions**

3. Section 31 of the PSS Act empowers an officer of Reserve Bank duly authorised by it in this behalf to compound contraventions, not being an offence punishable with imprisonment only or with imprisonment and fine. Accordingly, contraventions mentioned in sub-sections (1), (3), (4), (5) and (6) of section 26 of the PSS Act<sup>3</sup> are covered for the purpose of compounding.

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<sup>1</sup> As per the Jan Vishwas (Amendment of Provisions) Act, 2023, for the words 'five lakh' the words 'ten lakh' shall be substituted in section 30 of the PSS Act. The said amendment has been brought into force with effect from January 22, 2024.

<sup>2</sup> Please refer to Paragraph 1 for the nature of the offence.

<sup>3</sup> Please refer to Paragraph 1 for the nature of the offence.

## **Designated Authority for imposing monetary penalty and compounding of contraventions**

4. The designated authority for imposing monetary penalty and compounding of contraventions shall be a (i) Committee comprising three Executive Directors in respect of cases handled by Central Office of Enforcement Department and (ii) Committee comprising Regional Director and two senior officers at the Regional Office of Enforcement Department.

## **Material contraventions to be penalised /compounded**

5. Only material contraventions will be taken up for enforcement action in the form of imposition of monetary penalty or compounding of offences. The materiality of a contravention would be determined based on various factors including:

- (i) Severity of contravention in terms of degree of breach of norms / limits (isolated, localised, extensive, widespread);
- (ii) Period and frequency of a similar contravention during the past five years;
- (iii) Seriousness of the contravention, percentage of amount involved in the contravention vis-à-vis total value of transactions handled by the contravener during the period under consideration;
- (iv) Amount involved in the contravention and
- (v) Submission of wrong / false / incomplete compliance.

## **Procedure for imposing monetary penalty**

6. The process flow for imposing monetary penalty will be as under:

(i) Issue of Show Cause Notice (SCN): An SCN may be issued based on the parameters mentioned in paragraph 5 above, advising the contravener to show cause as to why the amount specified in the notice should not be imposed as penalty. In cases where a contravener has already been issued with more than one cautionary / warning / displeasure letter for a particular type of contravention by Reserve Bank on earlier occasions of contraventions during the last five years, an SCN shall be issued on the subsequent occasion/s.

(ii) Personal Hearing: The contravener shall be provided with a reasonable opportunity of being heard, if requested by the contravener in reply to the SCN.

(iii) Issue of Speaking Order: The Designated Authority shall pass a Speaking Order based on the material on record, the reply and supporting documents presented by the contravener and also the submissions made in this connection during the Personal Hearing.

### **Quantum of penalty**

7. The amount of penalty may be based on the principles of proportionality, intent and mitigating factors, if any. Following factors may be considered for determining the amount of monetary penalty:

- (i) Amount of gain or unfair advantage, wherever quantifiable, accruing to the contravener as a result of the contravention;
- (ii) Amount of loss caused to any other authority / agency / exchequer and / or to any other market participant;
- (iii) Monetary benefits accruing to the contravener from delayed / non-compliance;
- (iv) The amount of monetary penalty may vary depending on impact on account of various factors;
- (v) The amount of monetary penalty for a contravention shall not exceed ₹10 lakh or twice the amount involved in such contravention, where such amount is quantifiable, whichever is more. Where such contravention or default is a continuing one, a further penalty up to ₹ 25,000/- for every day after the first during which the contravention or default continues, can also be imposed and
- (vi) In case the amount of resultant penalty affects the viability of the contravener or is otherwise disproportionate or unfair, or where neither the extent of impact nor the intent of committing the contravention is clearly established, the designated authority may exercise discretion and take a fair view to either reduce or impose an appropriate amount of penalty, subject to statutory limits.

### **Eligibility for compounding**

8. The eligibility for compounding of contraventions will be examined based on the following:

- (i) Contraventions of the nature mentioned in section 26 (1), (3), (4), (5) and (6)

of the PSS Act<sup>4</sup>;

- (ii) The application for compounding of eligible contraventions may be received from an applicant either before or after the institution of any proceedings;
- (iii) The designated authority may take into consideration various factors while deciding on the compounding application under the PSS Act and
- (iv) Mere submission of an application for compounding shall not automatically result in the compounding of the contraventions mentioned in the application and filing of such application shall not confer any right on the applicant to get the contravention compounded.

### **Procedure for compounding**

9. The process flow for compounding of offences will be as under:

(i) Submission of compounding application: An applicant wishing to seek compounding of eligible contraventions, shall submit an application, along with information relating to facts and circumstances resulting in contravention, a copy of Memorandum and Articles of Association and latest audited balance sheet, in the prescribed format ([Appendix](#)) to the Chief General Manager, Enforcement Department, Reserve Bank of India, Central Office, Shahid Bhagat Singh Road, Fort, Mumbai- 400001. The applicant shall also give an undertaking that they are not under any enquiry / investigation / adjudication by any Law Enforcement Agency, such as Directorate of Enforcement, Directorate of Revenue Intelligence, Central Bureau of Investigation, etc. A copy of the compounding application shall be addressed to [cgmincefdco@rbi.org.in](mailto:cgmincefdco@rbi.org.in) also.

(ii) Examination of compounding application: Upon receipt of application for compounding, the same shall be examined for compounding.

(iii) Call for information: Reserve Bank may call for any information, record or any other documents relevant to the contravention.

(iv) Personal hearing: The contravener shall be provided with a reasonable opportunity of being heard by the respective Designated Authority.

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<sup>4</sup> Please refer to Paragraph 1 for the nature of the offence.

(v) Issue of compounding order: The Designated Authority shall pass an order in the compounding application as expeditiously as possible, but not later than a period of six months from the date of receipt of the complete compounding application.

(vi) Effect of compounding: Where a contravention has been compounded by Reserve Bank, no proceeding or further proceeding shall be initiated or continued, as the case may be, against the person committing such contravention, in respect of the contravention so compounded.

### **Compounding amount**

10. The compounding amount will be determined based on the following principles:

(i) The basis for calculation of compounding amount will be the same as for penalties;

(ii) The compounding amount may be 25 percent less than the calculated amount of fine / penalties that would have otherwise been imposed under sub-sections (1), (3), (4), (5) and (6) of section 26 of the PSS Act, as the case may be and

(iii) In case of repeated contraventions (within a period of five years) in respect of which compounding has been done on earlier occasion, the compounding amount may be increased by 50 percent of the calculated compounding amount, subject to limits prescribed under statutory provisions.

### **Payment of monetary penalty / compounding amount and consequences of non-payment**

11. The period within which the amount of penalty / compounding amount has to be paid and consequences of non-payment have been provided as under:

(i) The monetary penalty or compounding amount shall be payable within a period of thirty days from the date of receipt of penalty or compounding order, as the case may be.

(ii) In case of failure to pay the penalty amount, Reserve Bank may initiate appropriate action against the contravener as per section 8 or section 30 (3) or section 33 of the PSS Act.

(iii) In the event of failure to pay the compounding amount within the stipulated time of thirty days, it shall be deemed / treated as if the contravention has not been

compounded and the applicant may become liable for being criminally proceeded with before the court of competent jurisdiction and / or such other action as the Reserve Bank may deem fit in accordance with law. The applicant would not be entitled to file another application for compounding the contravention in respect of which the compounding order was passed.

### **Disclosure of monetary penalty imposed / compounding action**

12. After imposition of monetary penalty and completion of compounding action, necessary disclosures shall be made as under:

(i) The entities shall disclose the details of monetary penalty imposed in their Notes to Accounts that are part of Annual Financial Statements for the financial year in which the penalty is levied, as required under the applicable directions issued by the Reserve Bank. This disclosure is intended only to supplement and not replace disclosure requirement under other laws, regulations or accounting and financial reporting standards.

(ii) A brief of the penalty action shall be disclosed in the form of press release on the website of RBI. A brief of the compounding action shall be disclosed in the form of press release on the website of RBI only after receipt of the compounding amount.

## &lt;On Letter head of Regulated Entity&gt;

**Application for compounding of contravention under the  
Payment and Settlement Systems Act, 2007**

<b>1</b>	Name of the applicant (in BLOCK LETTERS)	
<b>2</b>	Full address of the applicant (including Phone / Mobile Number and email id of the MD / CEO)	
<b>3</b>	Nature of the contravention (whether under sub-section (1), (3), (4), (5), (6) of section 26 of the Payment and Settlement Systems Act, 2007 (PSS Act)) [If there is more than one contravention, details of each contravention shall be given separately]	
<b>4</b>	Brief facts of the case clearly indicating the nature of the contravention, period and amount involved in the contravention	
<b>5</b>	Whether this is the first offence under the PSS Act? If not, action including compounding / monetary penalty / prosecution taken, with details of such action	
<b>6</b>	Any other information relevant to the case	

I declare that the particulars given above are true and correct to the best of my knowledge and belief and that I am willing to accept any direction / order of the Designated Authority in connection with compounding of my case. I also understand that in the event of this application for compounding being rejected on any ground including for submission of false / incomplete information / documents or being not found maintainable / compoundable by Reserve Bank or the compounding amount not being paid within the stipulated time, then the other provisions of the PSS Act shall apply and the applicant may be liable for action as Reserve Bank may deem fit in accordance with law.

(Signature of the Applicant)

Name :

Designation :

Dated :

Note: A copy of the compounding application shall also be emailed to [cgmincefdco@rbi.org.in](mailto:cgmincefdco@rbi.org.in)