

FEMA for exporters: realisation, advances, and set-offs

Unmatched EDPMS entries, ageing export advances, and informal set-offs build regulatory exposure slowly, until the day a bank stops processing transactions.

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AT A GLANCE

- Every shipping bill creates a live regulatory obligation that lasts until the export proceeds are realised and matched in the bank's EDPMS system, and unmatched entries pile up out of sight.
- The realisation clock keeps running through customer disputes, short payments, and quality claims. Extensions and write-offs exist, but each has limits and a procedure.
- Advances received against exports carry their own deadline. Ship within the prescribed period or refund; sitting on an old export advance is itself a contravention.
- The cure for most FEMA export exposure is plain routine: a quarterly reconciliation of shipping bills to realisations to EDPMS status, owned by a named person in finance.

Many Indian exporters think of FEMA the way they think of the weather, as a background condition that occasionally calls for an umbrella. The finance team files the odd form the bank asks for, the customs broker handles the shipping documents, and everyone assumes the system

is working. Then a new shipment stalls because the exporter has been caution-listed, or the bank will not process a routine remittance until “old entries” are regularised, and the company discovers that three years of small compliance gaps have added up to a real obstacle to doing business.

The pattern is common enough to describe precisely. Here is where the exposure builds, and what a working control looks like.

EDPMS: the ledger you do not keep but are judged by

Since 2014, every export of goods has been tracked in the Reserve Bank’s Export Data Processing and Monitoring System. The mechanics matter. Each shipping bill flows automatically from customs into EDPMS and opens an entry that closes only when the bank matches inward remittances against it. The exporter never sees this ledger directly, yet it is the authoritative record of whether you have realised what you shipped.

Three failures come up again and again:

- **Money received but never matched.** The customer paid three invoices in one amount, or paid from a different entity, and the bank could not map the credit to the shipping bills. The cash is in your account, and the regulatory entry stays open.
- **Part payments and short realisations.** Quality claims, agreed discounts, and freight deductions leave residual balances on shipping bills. Each is small, together they are significant, and every one is formally an unrealised export until it is regularised.
- **Nobody reconciles.** The exporter’s receivables ledger and EDPMS drift apart, and because no internal report shows EDPMS status, nobody notices until the bank does, or worse, until the caution list does.

Letting entries accumulate has a defined end point. Exporters with entries outstanding beyond the permitted period risk **caution listing**, after which banks handle their new export transactions with restrictions that can include insisting on advance payment. For an exporter selling on 60-day credit terms to overseas buyers, that is a commercial crisis, not an inconvenience.

The cash is in your account and the regulatory entry stays open. FEMA export exposure is a reconciliation problem long before it becomes a legal one.

The realisation clock, and what legitimately stops it

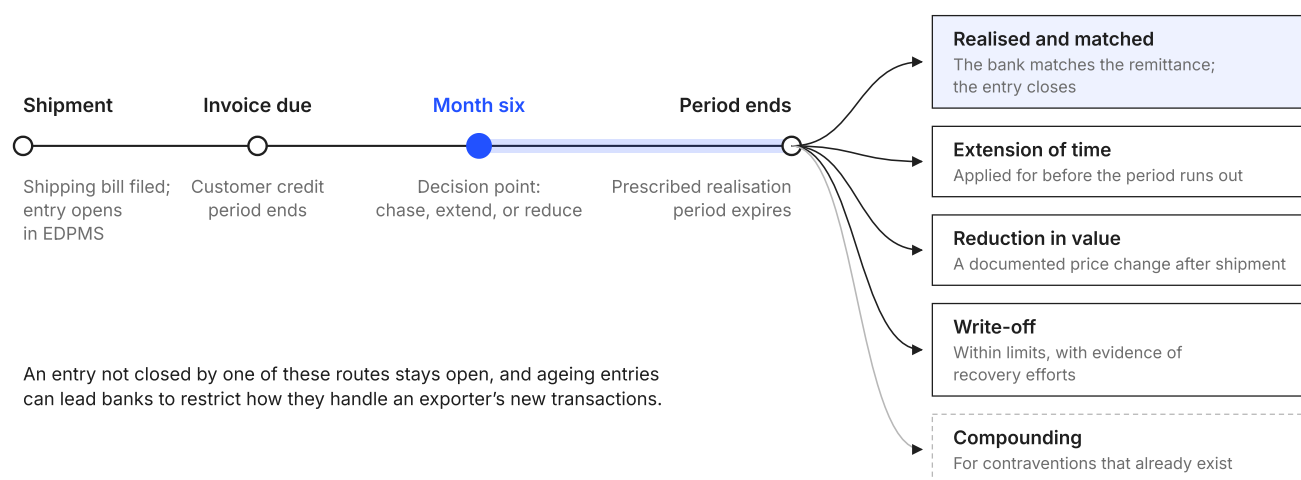
Export proceeds must be realised and repatriated within the period the regulations prescribe, counted from the date of export. For most exporters that period stood at nine months for many years, and the Reserve Bank has varied it from time to time as a relief measure. The clock does not pause for commercial reality. A customer dispute, an insolvency in the buyer's country, or a renegotiated payment plan all leave the exporter formally out of time unless someone acts. The regime provides the tools, and they simply have to be used:

- 1. Extension of time.** Banks can extend the realisation period on application, for genuine reasons and within set limits, and the Reserve Bank can go further. An extension requested in month eight is routine. An explanation offered in year three is a compounding case.
- 2. Reduction in invoice value.** Where a price reduction is agreed commercially after shipment, quality claims being the classic case, the rules allow the shipping bill to be regularised at the lower value, subject to conditions and documents. That is the correct treatment for most short payments that would otherwise sit as open balances.
- 3. Write-off.** Balances that truly cannot be recovered can be written off, within percentage limits that depend on who writes them off (the exporter, a status holder, or the bank), with evidence of efforts to recover. Beyond those limits, Reserve Bank approval is needed. One thing is not an option: writing the receivable off in the books and leaving the EDPMS entry open, which is exactly how mismatches between the books and the regulator begin.

EXHIBIT 1

An export entry stays open until the bank matches it, so the time to act is well before the period ends

Life of an export of goods under FEMA, and the ways an open entry can be closed



Simplified. The realisation period, limits, and procedures are set by the Reserve Bank of India and have changed over time; confirm current requirements with your authorised dealer bank.

Source: Foreign Exchange Management Act, 1999; RBI Master Direction on Export of Goods and Services; SA&A analysis

Advance receipts: the obligation that runs in reverse

Exporters treat customer advances as pure good news. FEMA treats them as an obligation. An advance against exports must be followed by shipment within the period prescribed for shipments against advances, and otherwise the exporter needs an extension or has to refund the money. Old export advances left on the balance sheet for years, reclassified as “other liabilities”, are among the most common findings when we run FEMA health checks. They surface at the worst moments: during due diligence for a funding round, or when the same customer relationship needs a new remittance processed.

The related trap is **set-off**. Netting an export receivable against an import payable to the same overseas party feels like common sense. Under FEMA it is a regulated transaction that needs the bank’s involvement and specific conditions. Informal netting, settling with a group company or counterparty on a net basis and papering it later, creates both an export and an import contravention from a single piece of bookkeeping convenience.

Services exporters: fewer forms, the same exposure

IT and professional services firms often assume this discipline does not apply to them, because they have no shipping bills. The realisation obligation applies to service exports all the same, with a lighter process. Invoices must still be realised within the prescribed period, and banks still reconcile inward remittances against purpose codes and, where relevant, SOFTTEX filings. The recurring failures in the services sector look different: export proceeds sent to foreign accounts and netted against foreign expenses without approval, receivables from a foreign parent left unpaid indefinitely (a FEMA issue and a transfer pricing issue at once), and wrong purpose codes that later make remittance matching difficult.

What a working control looks like

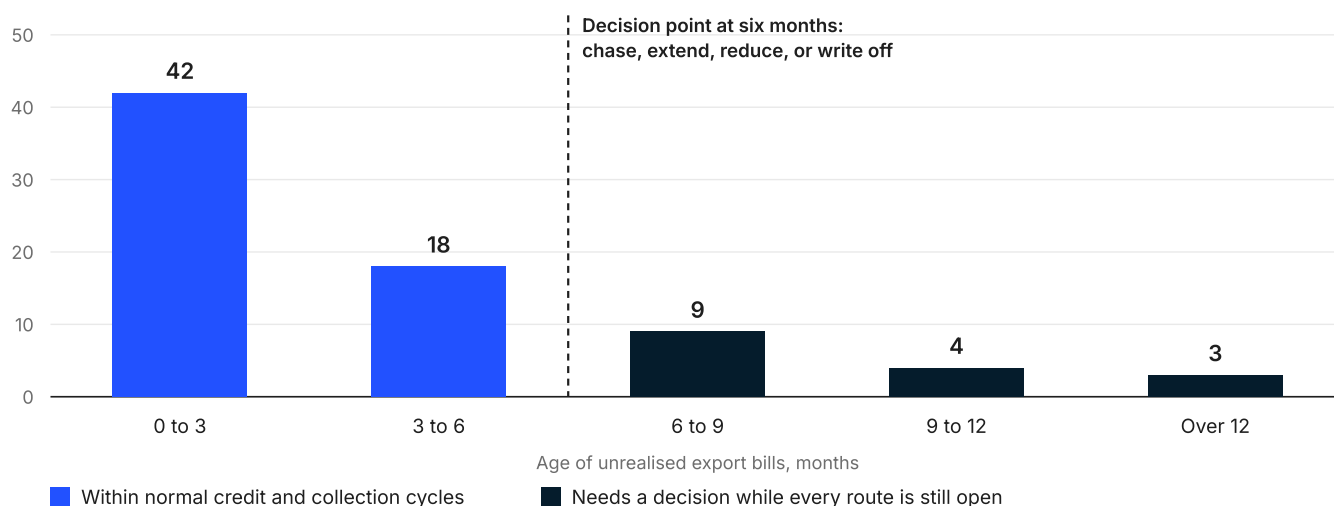
None of this needs a compliance department. It needs one named owner and one quarterly routine:

- **A quarterly three-way reconciliation** of shipping bills (or export invoices) to bank realisations to EDPMS status, with the bank’s EDPMS outstanding report obtained and agreed each quarter.
- **An ageing trigger at six months.** Anything unrealised at six months gets a decision to chase, extend, reduce, or write off, while every option is still administratively open.
- **An advances register** tracking each export advance against its shipment deadline.
- **A rule that no netting happens without the bank.** No exceptions.

EXHIBIT 2

Unrealised export bills should get a decision at six months, while every route to closing them is still open

Illustrative unrealised export bills for one exporter by age, ₹ crore



Illustrative figures; total outstanding ₹76 crore, of which ₹16 crore is older than six months. The prescribed realisation period is set by the Reserve Bank of India and has been varied from time to time.

Source: RBI Master Direction on Export of Goods and Services; SA&A analysis

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For contraventions that already exist, FEMA offers a civilised way out: **compounding**, a formal process of admission and settlement with the Reserve Bank that turns open-ended exposure into a quantified, paid, and closed matter. Applications prepared with complete documents are processed routinely. What makes compounding painful is arriving with records that cannot reconstruct what actually happened. Under FEMA, the reconciliation *is* the compliance, and the rest is paperwork.

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This article reflects the author's understanding of the relevant laws and standards at the date of publication. It is general in nature and is not a substitute for advice on specific facts.

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