

an overview of the

Foreign Currency Act

This overview provides a brief of the Foreign Currency Act enacted on 14 December 2024. The Act introduces obligations for tourism sector businesses and high-income businesses to convert portions of their foreign currency revenues into MVR.



Key Definitions

Act	Foreign Currency Act (Act Number 32/2024)
Banks	institutions licensed under the Banking Act (Act Number 24/2010) to provide banking services
CMDA	Capital Market Development Authority
FC Regulation	Regulation on Foreign Currency (Regulation Number 2024/R-91)
Financial Institutions	parties that have been issued a licence by the MMA or the CMDA
Financing Companies	companies licensed by the MMA to conduct financing businesses
Foreign currency	any currency of a country other than the Maldives
GST Act	Goods and Services Act (Act Number 10/2011)
Insurance Companies	companies licensed by the MMA to conduct insurance businesses
International Transactions	cross-border transfers of foreign currency in and out of the Maldives
MIRA	Maldives Inland Revenue Authority
MMA	Maldives Monetary Authority
MOT	Ministry of Tourism
Monetary Regulation	Monetary Regulation formulated by the MMA on 1 March 1987
MVR	Maldivian Rufiyaa
Remittance Service Providers	licensed remittance service providers under the National Payment System Act (Act Number 8/2021)
ROC	Registrar of Companies
Tourism goods and services	goods and services classified to fall within the tourism sector under the GST Act
Tourism Act	Maldives Tourism Act (Act Number 2/99)
Tourists	foreigners arriving into the Maldives under a tourist visa

Introduction

The MMA gazetted a [Foreign Currency Regulation](#) on 1 October 2024 which took immediate effect and introduced substantial new obligations for businesses operating in the tourism sector. These changes included a new obligation to convert portions of their foreign currency revenues into MVR and specific requirements to deposit such revenues into local accounts.

The FC Regulation repealed the long-standing Monetary Regulation which had been in operation since 1987.

Since the publication of the FC Regulation, stakeholders have raised concerns about the content and implementation of the FC Regulation. A draft Bill on Foreign Currency was published by the MMA for public consultation on 26 November 2024. Following significantly expedited legislative proceedings, the FC Bill was submitted to the Parliament and ratified into law as the Foreign Currency Act on 14 December 2024.

The Act, which is set to be effective from 1 January 2025, retains the framework introduced in the FC Regulation with some modifications to address stakeholder feedback.

This overview provides a summarised brief on the provisions of the Act.

- 1 Oct 2024**
FC Regulation published
- 26 Nov 2024**
Draft FC Bill published for consultation
- 8 Dec 2024**
FC Bill submitted to Parliament
- 14 Dec 2024**
Act ratified into law
- 1 Jan 2025**
Act becomes effective

1. Foreign Currency Transactions

The Act reiterates that all transactions in the Maldives must be conducted in MVR. This was also a requirement provided in the Monetary Regulation although not strictly enforced thereunder.

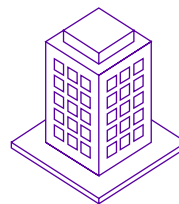
Exemptions

Under the Act, the following transactions are exempted from the rule mentioned above.

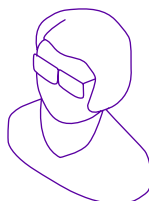
Exemptions for Businesses Earning Foreign Currency Income



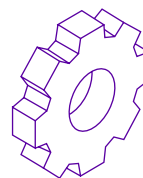
Exemptions for Financial Service Providers



Exemptions for Dealings with Tourists



General Exemptions



General Exemptions

- International Transactions
 - Receipt of payments for exported goods and services
 - Payments in foreign currency to a government or state institution under an act or regulation
 - Transactions in the Maldivian securities market
 - Foreign currency financial obligations relating to a judgment debt of a court, decision of a tribunal or arbitration or similar dispute resolution system
 - Any other transactions or obligations permitted under the regulation to be enacted pursuant to the Act
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Exemptions for Dealings with Tourists

- Receipt of payments for goods and services from Tourists
 - Sale and purchase of goods and services provided to Tourists by duty-free shops
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Exemptions for Businesses Earning Foreign Currency Income

- Payments for purchase of goods and services
- Dividend payments and other dealings with shareholders
- Dealings with related parties
- Salaries and benefits provided to employees
- Transfer of the company's shares
- Transactions related to the issue of bonds and sukuk by the company

**Exemptions for Financial
Service Providers**

- Services provided by Banks and Financing Companies
- Dealings between Insurance Companies and providers of tourism goods and services in relation to insurance policies sold to the latter, and dealings between insurance intermediaries and customers in relation to such insurance policies
- Dealings between Remittance Service Providers and their customers

Foreign Currency Earning Businesses

The Act provides that any business that earns any income in foreign currency, regardless of the amounts received, will be deemed to be a business that earns foreign currency income and will be able to benefit from the concessions granted for such businesses.

Transactions Involving Maldivians

Regardless of the exemptions provided for transactions conducted in foreign currency, the Act states that a Maldivian cannot be compelled to transact in foreign currency.

This, however, excludes foreign currency transactions with government institutions and Financial Institutions as stipulated in applicable laws.

2. Deposit Requirement

The following entities are required to transfer or deposit their monthly realised sales proceeds received in foreign currency into a local bank account by the 28th day of the third subsequent month.

1

Entities that sell tourism goods and services

2

All other entities that received an annual foreign currency revenue of at least USD15 million (or its equivalent) in the previous calendar year, except for Financial Institutions

The Act does not state any mandatory minimum period for which the realised sales proceeds are required to be maintained in the local bank account to which they are deposited or transferred for compliance with this requirement.

3. Mandatory Conversion Obligation

Parties Subject to the Obligation

The Act has brought some changes to the classification of businesses required to fulfil conversion obligations as stated in the FC Regulation.

The following parties are subject to foreign currency conversion obligations under the Act.

Category	Parties Included	Obligation
1. Category A Tourism Establishments	<p>The following establishments registered under the Tourism Act:</p> <ul style="list-style-type: none">▪ Tourist resorts▪ Integrated tourist resorts▪ Private islands▪ Resort hotels▪ Other such establishments	<p>The operator of the establishment shall convert to a Bank, either:</p> <ul style="list-style-type: none">▪ An amount at the rate of USD500 for each Tourist that arrives at the establishment during any calendar month; or▪ 20% of the gross sales earned in foreign currency by the establishment over any calendar month

Category	Parties Included	Obligation
2. Category B Tourism Establishments	<p>The following establishments registered under the Tourism Act:</p> <ul style="list-style-type: none"> ▪ Tourist vessels¹ ▪ Tourist hotels ▪ Tourist guesthouses 	<p>The operator of the establishment shall convert to a Bank, either:</p> <ul style="list-style-type: none"> ▪ An amount at the rate of USD25 for each Tourist that arrives at the establishment during any calendar month; or ▪ 20% of the gross sales earned in foreign currency by the establishment over any calendar month
3. High-Income Entities	<p>Parties that received an annual foreign currency revenue of at least USD15 million (or its equivalent) in the previous calendar year (excluding parties that fall within the above categories and Financial Institutions).</p>	<p>The entity shall convert to a Bank 20% of its gross sales earned in foreign currency for goods sold and services provided in any calendar month</p>

¹ Foreign tourist vessels registered outside of the Maldives that operate in the Maldives are excluded from the conversion obligation under the Act.

As mentioned above, a Tourist is defined to be a foreigner arriving in the Maldives under a tourist visa. Hence, locals, expatriates with work visas, and foreigners under any other type of visa do not need to be included in computing the amount of the conversion obligation mentioned above.

The above requirements are effective from 1 January 2025 and thus tourism establishments are required to fulfil the conversion obligations as obligated under the FC Regulation until 31 December 2024.

Exemptions

Tourism establishments are not required to include the following Tourists in computing their conversion obligations under the Act:

1. Tourists who do not spend at least 24 hours at the establishment;
2. Children under the age of 12;
3. Tourists who stay at the establishment free of charge or on a complimentary basis; and
4. Tourists who have been granted special privileges by the Government of the Maldives.²

² The nature of the privileges referred to here is unclear in the Act.

Deadline

Parties subject to mandatory conversion obligations under the Act are required to satisfy their obligations for any given calendar month by the 28th day of the third subsequent month.

Example A: For January 2025, a tourist resort would be required to convert either USD500 per Tourist that arrives at the resort in the month or 20% of its gross sales earned in foreign currency during that month, before 28 April 2025.

Example B: For January 2025, a tourist guesthouse would be required to convert either USD25 per Tourist that arrives at the guesthouse in the month or 20% of its gross sales earned in foreign currency during that month, before 28 April 2025.

Example C: For January 2025, a local company that earned foreign currency equivalents of at least USD15 million in 2024 would be required to convert 20% of its gross sales earned in foreign currency during that month, before 28 April 2025.

Concessions

After calculating the amount that a party subject to the conversion obligations under the Act is required to mandatorily convert, if the party is unable to comply with its conversion obligations while concurrently fulfilling its existing obligations in foreign currency, the party may apply to the MMA for concessions.

The application is required to demonstrate that the applicant will not have adequate foreign currency reserves to meet any of its below foreign currency obligations if the applicant complies with its conversion obligations in the Act:

Taxes and Fees

Taxes and other payments required to be paid to the Government in a foreign currency and foreign currency obligations owed to the Government

Debt

Debts to be serviced to a local or foreign financial institution in a foreign currency

Judgment Debt

Foreign currency payment obligations set out in a judgement or order of a court, a decision of a tribunal, or in an award or decision issued in arbitral or other adjudicative proceedings

General

Any other foreign currency obligations permitted by the MMA

Applications for concessions are required to be submitted to the MMA with details of the foreign currency obligations of the applicant and any other documentation and information required by the MMA.

The MMA has the discretion to approve such an application if the MMA believes that the applicant will not have adequate foreign currency reserves to meet its foreign currency obligations specified in the application. Where the MMA approves such an application, the MMA will permit the applicant to convert an amount less than its actual foreign currency conversion obligations as stated in the Act for a period determined by the MMA.

As the Act states that the MMA may grant concessions to applicants for periods to be determined by the MMA, the language of the Act appears to permit the granting of block exemptions for extended periods by the MMA.

Banks

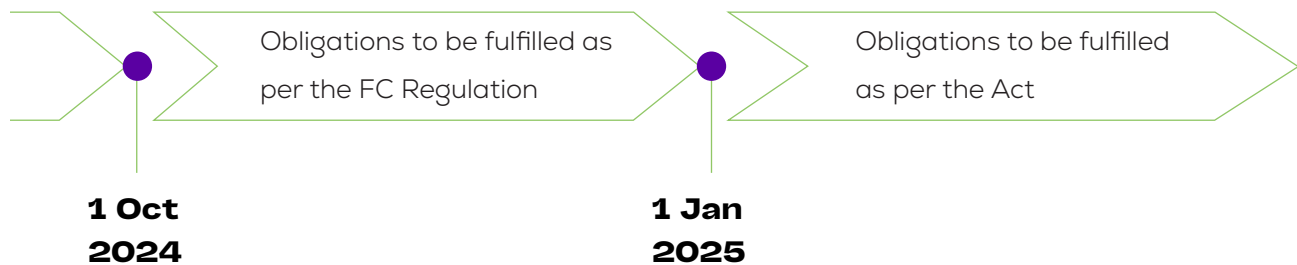
Banks are required to sell to the MMA a percentage set by the MMA of the foreign currency sold to them by parties subject to mandatory conversion obligations under the Act.

The periods within which such conversions must be made by Banks are to be determined by the MMA.

4. Transitional Arrangements

The Act is set to come into effect from 1 January 2025 with its obligations taking effect from the same date.

The Act includes interim provisions which enable the foreign currency deposit and conversion obligations stated in the FC Regulation to remain applicable until 31 December 2024. Hence, entities are required to continue to meet their obligations in line with the categorisation and requirements specified under the FC Regulation during the transitional period.



- Example D:** A tourist hotel located on an inhabited island with more than 50 rooms must:
- For December 2024, convert USD500 per Tourist arrival in the month by 28 March 2025; and
 - For January 2025, convert either USD25 per Tourist arrival in the month or 20% of the gross sales proceeds of the month by 28 April 2025.

5. Registration of Entities

Parties are required to be registered with the MMA within the following deadlines:

Time of Registration	Registration Deadline
Parties registered under the FC Regulation	Do not need to be registered under the Act and will be deemed to be registered pursuant to the Act
Registered with MIRA as providers of tourism goods and services before 1 January 2025	10 days from 1 January 2025
Registered with MIRA as providers of tourism goods and services after 1 January 2025	30 days from registration with MIRA
Received an annual revenue of at least USD15 million (or equivalent other foreign currency) in 2024 and not registered for tourism goods and services with MIRA	30 days from 1 January 2025

Time of Registration

Registration Deadline

Received an annual revenue of at least USD15 million (or equivalent other foreign currency) after 1 January 2025 and not registered for tourism goods and services with MIRA

Before the end of January of the succeeding year.

Example E: Company A makes USD15 million from sales in the year 2025, Company A will need to register with MMA by 30 January 2026

The MMA is required to publish the details of the registration procedures and relevant documentation requirements under the regulation to be formulated pursuant to the Act.

6. Reporting and Disclosure

Parties are also required to maintain their records and information for such periods as determined by the MMA. These details will likely be determined by the MMA under the subordinate regulations that would follow the Act.

In addition, the Act sets out the following reporting obligations for businesses and specific obligations for state institutions to disclose information to the MMA.

Party	Reporting/Disclosure Obligation
Parties subject to obligations under the Act	Information, documents and reports required by the MMA in the manner and with the details determined by the MMA.
Banks	Amount of foreign currency sold to them by parties subject to conversion obligations under the Act as required by the MMA and within the periods determined by the MMA
MIRA	Information on and accounts of parties subject to deposit requirements under the Act
ROC	Any information required to enforce the Act
MOT	Details of all tourism establishments presently registered under the Tourism Act and the details of all such tourism establishments that may be registered after 1 January 2025

7. Investigations and Penalties

The Act empowers MMA to investigate parties:

1. believed to be in violation of the Act and its regulations
2. believed to have falsified records and information in fulfilling their obligations under the Act
3. that fail to comply with the directions issued by the MMA under the Act

The following penalties are prescribed under the Act:

Violations	Penalty
Failure to transfer or deposit foreign currency to a bank account as required under the Act	<p>A fine amount not exceeding 0.25% of the amount required to be deposited for the month.</p> <p>MMA has the discretion to levy the fine on a daily basis until the obligation has been fulfilled. The fine can be levied in foreign currency.</p>
Failure to convert foreign currency as required under the Act	<p>A fine amount not exceeding 0.5% of the amount required to be converted for the month.</p> <p>MMA has the discretion to levy the fine on a daily basis until the obligation has been fulfilled. The fine can be levied in foreign currency.</p>
Other violations of the Act and its regulations enacted pursuant to the Act or violation of directions issued by the MMA under the Act	<p>A fine amount between MVR10,000 to MVR1,000,000</p>

Suspension of Permits

The Act provides that in cases where fine amounts due by an entity under the Act have not been settled within 90 days, the MMA is empowered to direct government institutions to suspend business permits issued to the entity.

Enforcement through court proceedings

MMA may also initiate court proceedings in relation to unpaid fine amounts from the entities.

Contact us

If you have any specific questions relating to the matters discussed in this publication, please contact our team.



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About us

CTL Strategies is a multi-disciplinary law firm registered in the Maldives. We advise Fortune 500, FTSE 100 and S&P 500 companies, the world's top hotel chains, some of the Big Four audit firms, the world's leading not-for-profit organisations, local and international banks, financial institutions, government bodies, and high-net-worth individuals investing in all sectors and industries in the Maldives.

We are ranked in the 2024 edition of Chambers Global Guide, and as a Recommended Firm by Asia Law Profiles in the area of General Business Law.

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17 December 2024, Version 1.