

August 29, 2005

To,

All Banks Authorised to Deal in Foreign Exchange

Madam/Sir,

Overseas Direct Investment in Bhutan

Attention of Authorised Dealer (AD) Banks is invited to 'Explanation' to sub clause (i) of clause (2) of Regulation 6 of Notification No.FEMA.120/RB-2004 dated 7th July 2004 (Transfer or Issue of any Foreign Security), as amended from time to time, in terms of which overseas direct investment in Bhutan and Nepal is permitted in Indian Rupees only.

2. It has now been decided by the Reserve Bank, in consultation with Government of India, to allow direct investments **in Bhutan** in freely convertible currencies. This facility will be in addition to the existing facility of making investments in Indian Rupees. It is clarified that all dues receivable on such investments as well as their sale / winding up proceeds are required to be repatriated to India in freely convertible currencies only. As hitherto, direct investments in Nepal can only be made in Indian Rupees.

3. Accordingly, Foreign Exchange Management (Transfer or issue of any Foreign Security) notified vide Reserve Bank Notification No. FEMA 120/RB-2004 dated July 7, 2004, has been amended vide Notification No. FEMA 135/2005-RB dated May 17, 2005 [Foreign Exchange Management (Transfer or issue of any Foreign Security) (Second Amendment) Regulations, 2005]. A copy of the Government Notification G.S.R. No. 337(E) dated May 27, 2005 incorporating the amendment is annexed.

4. Authorised Dealer Banks may bring the contents of this circular to the notice of their constituents/customers concerned.

5. The directions contained in this circular have been issued under Sections 10(4) and 11(1) of the Foreign Exchange Management Act 1999 (42 of 1999) and are without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

(Vinay Baijal)
Chief General Manager

NOTIFICATION No. FEMA 135/2005-RB dated May 17, 2005

**Foreign Exchange Management (Transfer or Issue of any Foreign Security
(Second Amendment) Regulations, 2005**

In exercise of the powers conferred by clause (a) of Sub-section (3) of Section 6, and Sub-section (2) of Section 47 of the Foreign Exchange Management Act, 1999 (42 of 1999), and in partial modification of its Notification No. FEMA 120/RB-2004 dated 7th July, 2004, the Reserve Bank of India makes the following amendments in the Foreign Exchange Management (Transfer or Issue of Any Foreign Security) Regulations, 2004, namely :-

1. Short title and Commencement: -

(i) These Regulations may be called the Foreign Exchange Management (Transfer or Issue of any Foreign Security)(Second Amendment) Regulations, 2005.

(ii) They shall come into force on the date of their publication in the Official Gazette.

2. Amendment to the Regulations: -

In the Foreign Exchange Management (Transfer or Issue of any Foreign Security) Regulations, 2004 :-

(i) In Regulation 6, in sub-regulation 2, in the Explanation to clause (i) the following shall be substituted :-

(a) "Explanation: For the purpose of determining 'total financial commitment' within the limit of 100% of the net worth, the following shall be reckoned, namely :-"

(b) For sub clause (a), the following shall be substituted :

"(a) remittance by market purchases, namely in freely convertible currencies; in case of Bhutan, investment made in freely convertible currencies or equivalent Indian Rupees; in case of Nepal investment made only in Indian Rupees."

(ii) In Regulation 15, after clause (ii) the following proviso may be added.

"Provided that in the case of investment in securities in Bhutan made in freely convertible currency, all dues receivable thereon as are repatriable, including those on account of disinvestment/dissolution/winding up, shall be realised and repatriated in freely convertible currency only."

-sd/-

F.R. Joseph
Chief General Manager

FOOT NOTE :-

The Principal Regulations were published in the Official Gazette vide G.S.R.No.456(E) dated May 8, 2000 in Part II, Section 3, Sub-section (i) which has been superseded vide G.S.R.No.757(E) published in the Official Gazette dated November 19, 2004 and subsequently amended vide G.S.R. No. 220(E) dated 7 April, 2005.

G.S.R.337(E) dated 27.05.2005