

August 30, 2005

To,

All Banks Authorised to Deal in Foreign Exchange

Madam/Sir,

Foreign Direct Investment in India
Transfer of Shares/Convertible Debentures by way of Sale - Clarification

Attention of the Authorised Dealer (AD) banks is invited to A. P. (DIR Series) Circular No.16 dated October 04, 2004, wherein Authorised Dealer banks have been delegated powers to deal with transfer of shares/convertible debentures from resident to non-resident and vice-versa, subject to the conditions stipulated therein.

2. We have been receiving queries from banks on whether the general permission also includes transfer of shares/convertible debentures which earlier required FIPB/SIA approval but now falls under Automatic route and transfer of shares through buy-back or capital reduction. It is, therefore, clarified that the transactions detailed below are also covered under the powers delegated to AD banks vide A. P. (DIR Series) Circular No.16 dated October 04, 2004 subject to the terms and conditions stipulated therein :

(a) Transfer of shares/convertible debentures of an Indian company, engaged in an activity earlier covered under FIPB/SIA route but now falling under Automatic Route of RBI, but not engaged in any activity in the financial service sector (i.e. Banks, NBFCs and Insurance), by a resident to a non-resident.

(b) Transfer of shares by a non-resident to an Indian company under buy-back and/or capital reduction scheme of the company.

The requirements stipulated in the Annex to the aforementioned circular will also be applicable in these cases.

3. Authorised Dealers may bring the contents of this circular to the notice of their constituents and customers concerned.

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

Yours faithfully,

(Vinay Baijal)

Chief General Manager