

April 30, 2007

To,

All Category - I Authorised Dealer Banks

Madam / Sir,

**Foreign Exchange Management Act (FEMA), 1999 – Current Account Transactions –
Reimbursement of pre-incorporation expenses - Liberalisation**

Attention of Authorised Dealer Category - I (AD Category - I) banks is invited to Foreign Exchange Management (Current Account Transactions) Rules, 2000 notified vide Notification No. G.S.R.381(E) dated 4th May 2000. In terms of Rule 5 of the Foreign Exchange Management (Current Account Transactions) Rules, 2000 (the Rules), prior approval of the Reserve Bank is required for drawing foreign exchange for remittance exceeding USD 100,000 by an entity in India by way of reimbursement of pre-incorporation expenses [item 17 of Schedule III of the Rules].

2. As announced in the Annual Policy Statement for the year 2007-08 (para 146 (i) iii)) and with a view to liberalise the procedure further and providing greater flexibility, it has been decided to allow remittance of foreign exchange towards reimbursement of pre-incorporation expenses incurred in India up to 5 per cent of the investment brought into India or USD 100,000, whichever is higher, on the basis of certification from statutory auditors. Accordingly, AD Category - I banks may permit drawal of foreign exchange by an entity in India by way of reimbursement of pre-incorporation expenses up to the limit mentioned above, on the basis of certification from statutory auditors.

3. Necessary amendments to Foreign Exchange Management (Current Account Transactions) Rules, 2000 are being notified separately.

4. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

5. The directions contained in this circular have been issued under Section 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,

(Salim Gangadharan)
Chief General Manager