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ROYAL MONETARY AUTHORITY OF BHUTAN

RMA/FISD/04-2006/ 4460

January 4, 2006

The Managing Director  
Bank of Bhutan  
Phuentsholing

The Managing Director  
Bhutan National Bank  
Thimphu


Sir(s),

**Subject: RMA Action plan on the final minutes of the RMA's meeting with  
FIs in April 2005 Point (3) Foreign Exchange Fluctuations Reserve (FEFR)**

Please refer the final minutes of the RMA's meeting with the financial institutions sent to you vide RMA/FISD/04-2004/446 dated July 20, 2005 on the issue of Foreign Exchange Fluctuations Reserve. In this regard, we would like to inform you that necessary changes pertaining to the transfer of forex gains to the FEFR have been made under Section 12.3 of the Prudential Regulations 2002 as agreed upon in the meeting, a copy of which is attached herewith for your kind information and it shall come to effect immediately.

Please acknowledge receipt of this letter to the FISD of RMA and ensure compliance accordingly.

Yours sincerely,

  
Daw Tenzin  
Managing Director

Cc: The Compliance Officer(s) for your kind information.

**SECTION - 12**

**REGULATIONS ON REVALUATION AND APPROPRIATION OF RESERVES**

**11.1 INTRODUCTION**

**12.1.1** Capital of an institution is one of the most important factor and indicator of strengths and weaknesses of a financial institution. Comfortable level of capital provides confidence to a financial institution and protects the interest of depositors and creditors. In general, it promotes stable and strong financial system and provides positive incentives for prudent banking. In the light of the above, financial institutions must give proper and adequate attention to the need for stepping up their usual and necessary provisions and appropriations to reserves.

Likewise, prudent recognition of foreign exchange fluctuation gains and creation of a reserve to serve as a cushion to contain losses that may arise due to possible fluctuations in exchange rates is necessary. This regulation shall therefore prescribe the following.

**12.2 Transfer to General Reserve**

All financial institutions must transfer to the General Reserve, at the minimum, a sum equivalent to 30 percent of the profit after tax, annually.

**12.3 Provision for Foreign Exchange Fluctuation Reserve**

Financial institutions which are authorized dealers in foreign exchange should keep in view the possible fluctuations in exchange rates, and therefore, create a Foreign Exchange Fluctuation Reserve to book one-fourth of the total gains on an annual basis from the profit after tax<sup>10</sup> only.

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<sup>10</sup> Amended on January 4, 2006.