

RBI/2004/44
DBOD No. Dir.BC. 67/13.07.05/2003-04

February 6, 2004

All Commercial Banks
(excluding RRBs)

Dear Sir,

Guidelines for bank finance to assist employees to buy shares of their own companies

As per the extant instructions issued vide circular DBOD.No.Dir.BC.1/ 13.07.05/95 dated January 6, 1995, bank finance to assist employees to buy shares of their own company under the employees' quota is restricted to Rs.50,000/- or six months' salary of the employee, whichever is less. The assistance is also limited to 90 per cent of the purchase price of the shares.

2. The above instructions have been recently reviewed by Reserve Bank of India, in the context of (a) more and more companies offering their employees stock options in conformity with SEBI guidelines as an incentive package as well as through specific reservation to the employees during IPOs; and (b) increased awareness among banks of risks involved in such financing as well as introduction of robust systems of assessing risks in many banks. It has now been decided that while extending bank finance to employees for purchasing shares of their own company either under ESOP or IPO of the company concerned, banks may take their own decision in the matter subject to extant regulations including margin on IPO financing.

3. All such loans should be treated as banks' exposure to capital market within the overall ceiling of 5 per cent of banks' total outstanding advances as on March 31 of the previous year (vide paragraphs 2 and 3 of our circular DBOD. No. BP.BC.119/21.04.137/2000-2001 dated May 11, 2001).

4. The above instructions will not be applicable for extending financial assistance by banks to their own employees for acquisition of shares under ESOP/ IPO.

5. Please acknowledge receipt.

Yours faithfully,

(C.R. Muralidharan)
Chief General Manager-in-Charge

