

December 24, 2004

**All Scheduled Commercial Banks
(excluding RRBs)**

Dear Sir,

Bank finance to assist employees to buy shares of their own companies

Please refer to our circular DBOD.No.Dir.BC.67/13.07.05/2003-04 dated February 6, 2004 in terms of which banks were advised that while extending finance to employees for purchasing shares of their own companies either under Employees Stock Option Plan (ESOP) or Initial Public Offering (IPO), they should take their own decision subject to extant guidelines including margin on financing of IPOs. Accordingly, the ceiling on bank financing under ESOP was Rs.10 lakh subject to 40 per cent margin.

2. We have been receiving representations from banks/ corporates that as ESOPs have gained in popularity, the existing margin on banks' financing of ESOPs may be relaxed. The matter has been reviewed by us and it has been decided that banks may now extend finance to employees for purchasing shares of their own companies under ESOP to the extent of 90% of the purchase price of the shares or Rs.20 lakh, whichever is lower. Financing under ESOP would continue to be treated as banks' exposure to capital market within the overall ceiling of 5 per cent, as hitherto.

3. All other instructions as contained in our above circular dated February 6, 2004 shall remain unchanged.

Yours faithfully,

(P. Vijaya Bhaskar)
Chief General Manager