

**Draft Guidelines on bank financing of equities
and investment in shares, etc.**

September 21, 2000

In pursuance of the announcement made in the Monetary and Credit Policy for the year 2000 – 2001, Reserve Bank of India had set up a Standing Technical Committee on Bank Financing of Equities, comprising officials of RBI and SEBI, to develop operative guidelines for a transparent and stable system of bank financing of equities and investment in shares. The Report of the Committee submitted on August 2, 2000 was placed on the RBI Website soliciting comments on the proposals made by the Committee from banks, financial institutions and other market participants. A meeting with Chief Executives of major banks was also taken by the Deputy Governor, Shri S. P. Talwar, on September 19, 2000 to elicit the views of the banks on the recommendations made by the Committee. Keeping in view the views expressed by the bankers in the meeting as also by other market participants, the Reserve Bank has finalised the draft guidelines on bank financing of equities and investment in shares.

The draft guidelines have proposed that the terms and conditions for financing of initial public offerings (IPOs) should be the same as advances against shares to individuals. The maximum amount of finance that can be extended to an individual against IPOs should not exceed Rs.10 lakh. Corporates should not be extended credit by banks for investment in other companies' IPOs. Similarly, banks should not provide finance to NBFCs for further lending to individuals for IPOs. As regards issue of guarantees on behalf of brokers, it is proposed that a minimum margin of 25 per cent inclusive of cash margin should be obtained. The advances against collateral security of shares and advances to individuals for personal purposes like education, housing, consumption, etc. would be excluded for reckoning a bank's exposure to capital market.

As recommended by the RBI-SEBI Committee, it is proposed that the ceiling prescribed for banks investment in shares, etc. should be related to outstanding advances and not to incremental deposits of the previous year. Within the overall exposure to sensitive sectors, the exposure to capital market by way of investments in shares, convertible debentures and unit of mutual funds should not exceed 5% of the bank's total outstanding credit as on 31st March of the previous year. The draft guidelines have clarified that the ceilings for investments in shares is **not mandatory**. The Board of Directors of banks shall formulate their policy on exposure to capital market. Similarly, the extent upto which banks may invest in shares directly or through UTI and SEBI approved other diversified mutual funds with a good track record will be as per the investment policy approved by the Board of Directors of each bank.

The Standing Technical Committee of RBI and SEBI will review these guidelines after six months on the basis of the feed back received from banks and other market participants.

The draft guidelines have been placed on the RBI web-site, www.rbi.org.in, for comments of banks, financial institutions and other market participants by **September 30, 2000** whereafter the Reserve Bank of India will finalise the guidelines. **The comments on the proposals may be forwarded** to : Shri A Ghosh, Chief General Manager-in-Charge, Department of Banking Operations and Development, Reserve Bank of India, Central Office, World Trade Centre, Cuffe Parade, Mumbai 400005.

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