

Bank finance against shares and debentures

DS.PCB.CIR. 41 /13.05.00/2000-01

April 19, 2001
Chaitra 29,1923(S)

Chief Executive Officers of All Primary (Urban) Co-operative Banks.

Dear Sir,

Bank finance against shares and debentures

Please refer to our circular DS.PCB.CIR.10/13.05.00/1998-99 dated 27 November 1998 on the above subject forwarding detailed guidelines regarding finance by Urban Co-operative Banks (UCBs) against shares and debentures to individuals.

2. As per these guidelines, at present UCBs are not permitted to extend any facilities to stock brokers and they are also prohibited to invest in equity/debentures either in secondary or primary market. However, UCBs are permitted to grant advances to individuals against the security of shares to the extent and subject to the conditions detailed in the guidelines. In order to prevent any possible misuse of the facility in future, it is necessary to stop lending by UCBs directly/indirectly to individuals or corporates against security of stocks. Accordingly, it has been decided to bring in the following changes in urban co-operative banks' finance against shares etc. :

- (i) UCBs should not entertain any fresh proposals for lending directly or indirectly against security of shares either to individuals/stockbrokers or to any other entity. Needless to add, they should not grant advances for financing Initial Public Offerings (IPOs).
- (ii) If UCBs have lent to stock brokers or have made direct investment in shares which were not permissible activities, they should take immediate steps to recall such advances/dispose off such investments.
- (iii) Where the UCBs have granted and disbursed advances to individuals against security of stocks/debentures up to the permissible limit (i.e. Rs.10 lakh/Rs.20 lakh against physical scrips/demat shares) as indicated in our above mentioned

circular, such advances should be repaid by the borrowers by the contracted date.

Such facilities should, under no circumstances be renewed thereafter.

3. The management of UCBs should immediately communicate the above instructions as also the steps being taken by the bank to implement the new guidelines to the concerned borrowers.
4. The UCBs should report to the respective Regional Offices of the Reserve Bank of India their existing outstandings, to individual borrowers and other entities against shares on quarterly basis in the enclosed format. The first of such statement should be sent with reference to the outstanding position as on March 31, 2001.
5. These instructions are being issued in terms of the powers vested in the Reserve Bank of India under Section 35 read with Section 56 of the B. R. Act, 1949(AACS) and any violation thereof will attract penalties under Section 46 of the Act, *ibid*.

Yours faithfully,

Sd/-(M. M. S. Rekhrao)

Chief General Manager in-charge

Enclosure : as above

**Statement showing details of advances against security of
Shares/debentures etc. granted to individuals/ share brokers
and other entities for the quarter ended -----.**

Name of the Bank:

Sr No	Name of the borrower	Nature of limit and amount sanctioned	Outstanding balance as at the end of reporting quarter..... (Rs. in lakh)	Market Value of shares, debentures etc. held as security (Rs. in lakh)	Due Date of repayment of advance	Action taken to comply with RBI instructions contained in circular dated 19 April 2001
1	2	3	4	5	6	7

CHIEF EXECUTIVE OFFICER