

## **Issue and pricing of shares by private sector banks**

Ref.:DBOD.No.PSBS.BC.79 /16.13.100/2001-2002

March 20, 2002

The Chief Executives of all Indian banks  
in the private sector

Dear Sir,

### **Issue and pricing of shares by private sector banks**

Please refer to our circulars DBOD.No.BC. 76/16.13.100/ 94 dated June 17, 1994 and DBOD.No.PSBS.BC.72/16.13.100/98-99 dated July 10, 1998 respectively, in terms of which guidelines on issue and pricing of shares had been prescribed. In terms of extant instructions, banks in private sector, whose shares are not listed on the stock exchanges, are required to obtain prior approval of Reserve Bank of India (RBI) for issue of all types of shares, viz., public, preferential, rights / special allotment to employees and bonus shares. However, banks whose shares are listed on the stock exchanges need not seek prior approval of RBI for issue of shares except bonus shares, which is to be linked with rights / public issues by all the banks in private sector. The matter has since been reviewed and issue and pricing of shares by private sector banks would be governed by the following guidelines:

#### **2. Initial Public Offers (IPOs):**

- (i) All banks should obtain RBI approval for IPOs. After listing on the stock exchanges, banks are free to price their subsequent issues.
- (ii) Issue price should be based on merchant banker's recommendation. There need be no reference to the CCI formula for deciding on the pricing of such issues.

#### **3. Rights issues:**

RBI approval would not be required for rights issues by both listed and unlisted banks.

**4. Bonus issues:**

Private sector banks, both listed and unlisted, need not seek RBI's approval for bonus issues. The issues would, however, be subject to SEBI's requirements on issue of bonus shares, viz. bonus issues (a) should be made from free reserves built out of genuine profits or share premium, (b) should not dilute the value or rights of partly or fully convertible debentures, (c) should not be in lieu of dividend and (d) should not be made unless all partly paid-up shares are fully paid-up. Further, bonus issues may be issued without linkage to rights issues.

**5. Preferential issue:**

All preferential issues would require prior approval of RBI. Pricing of preferential issues by listed banks may be as per SEBI formula, while for unlisted banks the fair value may be determined by a chartered accountant or a merchant banker.

**6.** In case of pricing of issues where RBI approval is not required, pricing of issues should be as per SEBI guidelines; in cases where prior approval of RBI is required, pricing should take into account both SEBI and RBI guidelines.

**7.** These instructions come into force with immediate effect.

Yours faithfully,

**(C.R.Muralidharan)**  
**Chief General Manager**