<u>Public issue of shares and debentures - Underwriting by merchant banking subsidiaries of commercial banks</u>

DBOD.No.FSC.BC. 66/24.01.002/2002-03

January 31, 2003

The Chairmen/Chief Executives of all
Commercial Banks (excluding RRBs and LABs)

Dear Sir,

**<u>Public issue of shares and debentures -
Underwriting by merchant banking subsidiaries
of commercial banks</u>**

Please refer to our circular DBOD.No.FSC.BC.26/C.469-89 dated September 29, 1989, wherein banks/subsidiaries were advised that while taking up underwriting commitments, stand-by facilities and other similar commitments, they should ensure that

(a) the funded and non-funded commitments, including investments and devolvements under underwriting and other commitments like stand-by facilities, etc., relating to a single legal person or entity, do not exceed 25% of the net owned funds of the subsidiary (which was subsequently reduced to 15%, vide Circular DBOD.No.BP.BC.110/21.04.048/2000-01 dated May 2, 2001) and

(b) the commitments under a single underwriting obligation should not exceed 15% of an issue.

2. We had recently reviewed the above ceilings with particular reference to the merchant banking subsidiaries set up by banks vis-a-vis their underwriting commitments in the light of the following :

(i) merchant banking companies including the subsidiaries set up by commercial banks are currently regulated by SEBI.

(ii) SEBI has permitted merchant banking companies to take up underwriting commitments upto 20 times their networth and

(iii) the book building route for underwriting being generally adopted currently in the case of large issues, does not lead to major devolvements.

Based on the review and with a view to providing a level playing field to the merchant banking subsidiaries of banks, it has now been decided that in partial modification of the above referred circular, the existing ceiling on underwriting commitments prescribed therein <u>would not be applicable to merchant banking subsidiaries of banks, with immediate effect.</u> The merchant banking subsidiaries of banks regulated by SEBI would, consequently, be governed by the norms on the various aspects of the underwriting exercise taken up by them.

3. The prudential exposure ceiling on underwriting and similar commitments of banks, however, remain unchanged and they shall be continued to be reckoned within the norms prescribed by RBI earlier on overall single borrower/issue size limits from time to time.

4. Banks should also ensure continued viability of their merchant banking subsidiaries through periodic reviews of their performance. Our prudential norms on capital market exposure, asset-liability management, allocation of additional capital for risk weighted assets of the subsidiaries will also continue to apply.

5. Please acknowledge receipt.

Yours faithfully,

(C.R. Muralidharan)
Chief General Manager