

June 3, 2004

All Primary Dealers in the Government Securities Market

Dear Sir,

Declaration of dividend by Primary Dealers

Reserve Bank has been advising the Primary Dealers (PDs) from time to time to formulate a prudent dividend policy so as to build up sufficient reserves as a cushion against adverse price movements. In this connection, a reference is invited to our circular IDMD.PDRS.No 3562/03.64.00/2003-04 dated January 29, 2004.

2. The matter has been reviewed in consultation with the Standing Technical Advisory Committee on Financial Regulation (STACFR) and it has been decided to adopt a regulatory approach for declaration of dividend with focus on the 'dividend payout ratio'. Accordingly, our guidelines on dividend payable by the PDs would be as under:

- a) The PD should have complied with the regulations on transfer of profits to statutory reserves and the regulatory guidelines relating to provisioning and valuation of securities, etc.
- b) PDs having Capital to Risk Weighted Assets Ratio (CRAR) below the regulatory minimum of 15 per cent in any of the previous four quarters cannot declare any dividend.
- c) For PDs having CRAR between the regulatory minimum of 15 per cent during all the four quarters of the previous year, but lower than 20 per cent in any of the four quarters, the dividend payout ratio should not exceed 33.3 per cent.
- d) For PDs having CRAR above 20 per cent during all the four quarters of the previous year, the dividend payout ratio should not exceed 50 per cent.

- e) The proposed dividend should be payable out of the current year's profits.
 - f) Dividend payout ratio should be calculated as a percentage of dividend payable in a year (excluding dividend tax) to net profit during the year.
 - g) In case the profit for the relevant period includes any extraordinary profit income, the payout ratio should be computed after excluding such extraordinary items for reckoning compliance with the prudential payout ratio ceiling of 33.3 per cent or 50 per cent, as the case may be.
 - h) The financial statements pertaining to the financial year for which the PD is declaring dividend should be free of any qualifications by the statutory auditors, which have an adverse bearing on the profit during that year. In case of any qualification to that effect, the net profit should be suitably adjusted downward while computing the dividend payout ratio.
3. In case there are special reasons or difficulties for any PD in strictly adhering to the guidelines, Reserve Bank may be approached in advance for an appropriate *ad hoc* dispensation in this regard.
4. All the PDs declaring dividend should report details of dividend declared during the accounting year as per the proforma furnished in the Annex. The report should be furnished within a fortnight of payment of dividend.
5. The revised guidelines prescribed above will be applicable to the dividend declared for the year 2003- 04 onwards. A copy of these guidelines may be placed before the Board of Directors of the PDs at their next meeting. Any violation of the above guidelines would be viewed seriously and such violation would attract penal action including the withdrawal of authorisation for carrying on the business as a Primary Dealer.
6. Please acknowledge receipt.

Yours faithfully,

(H.R. Khan)
Chief General Manager-in-Charge

Encl. As above

ANNEX

Reporting format for Primary Dealers declaring dividend

Details of dividend declared during the financial year beginning on April 1, 2---

Name of the Primary Dealer – _____

Accounting period *	Net profit for the accounting period (Rs. in crore)	Rate of dividend	Amount of dividend (excluding dividend tax) (Rs. in Crore)	Pay out ratio
1	2	3	4	5

* quarter or half year or year ended ----- as the case may be