

RBI No. 2005-06/242
DBOD No. Dir.BC. 51/13.07.05/2005-06

December 27, 2005

**The Chairman & Managing Director/
Chief Executive Officer
All Scheduled Commercial Banks
(Excluding RRBs)**

Dear Sir,

Guidelines for bank finance to employees/ Employee Trusts for purchasing banks' own shares

Please refer to our circular DBOD No. Dir. BC. 63/13.07.05/2004-05 dated December 24, 2004 read with circular DBOD No. Dir. BC. 67/13.07.05/2003-04 dated February 6, 2004 containing guidelines regarding bank finance to assist employees to buy shares of their own companies. It has been, inter alia, stated therein that these instructions will not be applicable for extending financial assistance by banks to their own employees for acquisition of shares under ESOP/ IPO.

2. It has come to our notice that some banks have extended loans to their employees/ Employee Trusts set up by them, for purchasing their own shares on clean basis. In this regard, it is clarified that banks are not allowed to extend advances including to their employees/ Employee Trusts set up by them for the purpose of purchasing their (banks') own shares under ESOP/ IPO or from the secondary market. This prohibition will apply irrespective of whether the advances are unsecured or secured.

Yours faithfully,

**(Prashant Saran)
Chief General Manager-in-Charge**