

August 22, 2007

To

All Authorised Dealer Category - I banks

Madam / Sir,

**Rupee Loans to NRI Employees of Indian Companies
under Employees Stock Option (ESOP) Scheme**

As you are aware, banks are allowed to extend loans in Rupees to resident employees of an Indian company to purchase shares of the company under Employees Stock Option (ESOP) Scheme, to the extent of 90 per cent of the purchase price of the shares or Rupees 20 lakh, whichever is lower. Rupee loans extended by banks under ESOP Scheme is treated as bank's exposure to capital market, within the overall ceiling of 40 per cent of its net worth.

2. In terms of Regulation 7 of FEMA Notification No. 4/2000-RB dated 3rd May, 2000 [Foreign Exchange Management (Borrowing and Lending in Rupees) Regulations, 2000] as amended from time to time, AD banks are allowed to grant Rupee loans to Non-Resident Indians (NRIs) for certain purposes, subject to conditions.

3. We have been receiving requests from banks for allowing them to grant Rupee loans to NRI employees of Indian companies for the purpose of buying shares of the companies under the ESOP scheme. The requests have been examined and it has been decided to allow Authorised Dealer Category – I (AD Category – I) banks to grant Rupee loans to NRI employees of Indian companies for acquiring shares of the companies under the ESOP Scheme. The loan scheme should be as per the policy approved by the bank's Board and would further be subject to the following conditions :

- (i) The loan amount should not exceed 90 per cent of the purchase price of the shares or Rupees 20 lakhs per NRI employee, whichever is lower.
- (ii) The rate of interest and margin on such loans may be decided by the banks, subject to the directives issued by the Reserve Bank from time to time.

- (iii) The amount shall be paid directly by the bank to the company and should not be credited to the borrowers' non-resident accounts in India.
 - (iv) The loan amount should be repaid by the borrower by way of inward remittances or by debit to his NRO / NRE / FCNR(B) account.
 - (v) The loans will be included for reckoning capital market exposures and the bank will ensure compliance with prudential limits, prescribed by the Reserve Bank (DBOD) from time to time, for such exposure to capital market.
4. Necessary amendments to the Foreign Exchange Management (Borrowing and Lending in Rupees) Regulations, 2000 are being issued separately.
5. AD Category – I banks may bring the contents of this circular to the notice of their constituents and customers concerned.
6. The directions contained in this circular have been issued under Sections 10 (4) and 11(1) of the Foreign Exchange Management Act, 1999 (42 of 1999) and is without prejudice to permissions/approvals, if any, required under any other law.

Yours faithfully,

(Salim Gangadharan)
Chief General Manager