



भारतीय रिज़र्व बैंक
RESERVE BANK OF INDIA
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DBOD.No.BP.BC. 42 /21.04.141/2010-11

September 27, 2010

The Chairmen and Managing Directors/
Chief Executive Officers of
All Commercial Banks
(excluding Regional Rural Banks)

Dear Sir/Madam,

Bank loans for financing promoters contribution

In terms of para 8 of Master Circular No. DBOD.Dir.BC.90/13.07.05/98 dated August 28, 1998 on 'Bank Finance against Shares and Debentures', promoters' contribution towards the equity capital of a company should come from their own resources and banks should not normally grant advances to take up shares of other companies (A few exceptions have been made viz. allowing banks to extend financial assistance to Indian companies for acquisition of equity in overseas joint ventures / wholly owned subsidiaries or in other overseas companies, to successful bidders for acquisition of shares of the PSUs under the Government of India's disinvestment programme, etc.).

2. In this connection, we advise that the above mentioned restriction on grant of bank advances for financing promoters' contribution towards equity capital would also extend to bank finance to activities related to such acquisitions like payment of non compete fee, etc.

Department of Banking Operations and Development, Central Office, 12th Floor, Central Office Building, Shahid Bhagat Singh Marg,, Mumbai,400001

Fax No:22705691 Email ID:cgmicdbodco@rbi.org.in

3. It is further advised that these restrictions would also be applicable to bank finance to such activities by overseas branches/subsidiaries of Indian banks.

Yours faithfully,

(B. Mahapatra)
Chief General Manager –in-Charge