



भारतीय रिज़र्व बैंक  
RESERVE BANK OF INDIA  
www.rbi.org.in

UBD.No.DS.PCB.CIR.16/13.05.00/2001-02

October 22, 2001

Chief Executive Officers of  
All Primary (Urban) Co-operative Banks

Dear Sir,

**Bank finance against shares and debentures**

Please refer to our circular no. DS.PCB.CIR.41/13.05-00/2000-01 dated April 19, 2001 on the above subject, in terms of which urban co-operative banks (UCBs) are prohibited from entertaining any fresh proposals for lending directly or indirectly against security of shares either to individuals or any other entity and that such loans to individuals which had already been disbursed up to permissible amounts should continue only till the contracted date. In response to representations received from UCBs and their federations, the issue has been reviewed by the Reserve Bank of India and it is now proposed to allow UCBs to grant loans to individuals against security of shares, subject to the following :

(i) Loans against primary/collateral security of shares/debentures will be limited upto Rs.5 lakh, if the security is in physical form and upto Rs.10 lakh, if the security is in demat form. Aggregate of all such loans should be within the overall ceiling of 20 per cent of the owned funds of the bank. A margin of 40 per cent should be maintained on all such loans.

(ii) It is essential that before accepting shares as security, UCBs should put in place appropriate risk management system. All the approved loan proposals should be placed before the Audit Committee of the bank at least once in two months. The Management and the Audit Committee should ensure that all loans against shares are made only to those individuals who are not in any way connected with any stock-broking activity or stock-broking entity. Details of loans sanctioned should be reported to the Board in the subsequent Board meeting.

(iii) UCBs which have outstanding loans to individuals can renew them upto limits indicated at (i) above beyond the contracted date on merits, subject to the above conditions.

(iv) UCBs should ensure that there is no direct investment by them in either primary or secondary market under any circumstances.

2. UCBs should continue to report their outstanding loans against shares to Regional Office of the Reserve Bank of India, under whose jurisdiction they are operating, in the enclosed format.

3. All other terms and conditions stipulated in our circular no. DS.PCB.CIR.10/13.05.00/1998-99 dated November 27, 1998 on bank finance against shares and debentures and circular no. DS.PCB.CIR.41/13.05.00/2000-01 dated April 19, 2001 relating to grant of unsecured limits against Initial Public Offerings (IPOs) remain unchanged.

4. Please acknowledge the receipt to the concerned regional office.

Yours faithfully,

Sd/-

**(K. V. Subba Rao)**  
General Manager

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**Statement showing details of advances against security of Shares/  
debentures etc. granted to individuals/share brokers and  
other entities for the quarter ended -----**

Name of the Bank : -----

Sr. No.	Name of the borrower	Nature of limit and amount sanctioned	Outstanding balance as at the end of reporting quarter -----	Market Value of shares, debentures etc. held as security	Due Date of repayment of advance
			(Rs. in lakh)	(Rs. in lakh)	
1	2	3	4	5	6