



RESERVE BANK OF INDIA  
Foreign Exchange Department  
Central Office  
Mumbai - 400 001

RBI/2013-14/633  
A.P. (DIR Series) Circular No.141

June 6, 2014

To

All Category – I Authorised Dealer Banks

Madam/ Sir,

**Pledge of shares for business purposes in favour NBFCs**

Attention of Authorised Dealer Category – I (AD Category – I) banks is invited to the provisions of Para. 2 (i) of [A. P. \(DIR Series\) Circular No. 57 dated May 2, 2011](#), in terms of which shares of an Indian company held by the non-resident investor can be pledged in favour of a bank in India to secure the credit facilities being extended to the resident investee company for bonafide business purposes subject to the conditions stipulated therein.

2. With a view to further rationalising the process and reducing the transaction time, it has been decided to delegate to the AD Category – I banks the powers to allow pledge of equity shares of an Indian company held by non-resident investor/s in accordance with the FDI policy, in favour of the Non - Banking Financial Companies (NBFCs) – whether listed or not, to secure the credit facilities extended to the resident investee company for bona-fide business purposes / operations, subject to compliance with the conditions indicated below:

- (a) only the equity shares listed on a recognised stock exchange/s in India can be pledged in favour of the NBFCs ;
- (b) in case of invocation of pledge, transfer of shares should be in accordance with the credit concentration norm as stated in the [Master Circular DNBS\(PD\).DNBS.\(PD\).CC.No.333/03.02.001/2013-14 dated July 01, 2013](#) as amended from time to time;

- (c) (i) The AD may obtain a board resolution 'ex ante', passed by the Board of Directors of the investee company, that the loan proceeds received consequent to pledge of shares will be utilised by the investee company for the declared purpose; (ii) The AD may also obtain a certificate 'ex post', from the statutory auditor of investee company, that the loan proceeds received consequent to pledge of shares, have been utilised by the investee company for the declared purpose;
- (d) the Indian company has to follow the relevant SEBI disclosure norms, as applicable;
- (e) under no circumstances, the credit concentration norms should be breached by the NBFC. If there is a breach on invocation of pledge, the shares should be sold and the breach shall be rectified within a period of 30 days from the date of invocation of pledge.

3. Reserve Bank has since amended the Principal Regulations through the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident outside India) (Fifth Amendment) Regulations, 2014 notified vide [Notification No. FEMA. 305/2014-RB dated May 22, 2014](#), c.f. G.S.R. No.370(E) dated May 30, 2014.

4. AD Category - I banks may bring the contents of this circular to the notice of their constituents and customers concerned.

5.. 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 are without prejudice to permissions / approvals, if any, required under any other law.

Yours faithfully

**(B.P. Kanungo)**  
**Principal Chief General Manager**