

Guidelines for Regulating Merchant Banking Activities

8417. SHRI K.S. RAO: Will the Minister of FINANCE be pleased to state:

(a) whether Government have recently issued guidelines for regulating merchant banking activities;

(b) if so, the details thereof;

(c) the objectives behind the issue of these guidelines and the role of the Security Exchange Board of India under these guidelines; and

(d) the likely impact of the restrictions imposed under these guidelines on the normal capital market operations and also on the merchant banking community itself?

THE DEPUTY MINISTER IN THE MINISTRY OF FINANCE (SHRI ANIL SHASTRI): (a) Yes, Sir.

(b) and (c). A copy is given below as a statement.

(d) The guidelines are expected to be beneficial to the healthy and orderly functioning of the capital market.

STATEMENT

Guidelines for Merchant Bankers

1. AUTHORISATION

Any person or body proposing to engage in the business of merchant banking would need authorisation by the Securities and Exchange Board of India (SEBI) in their prescribed format. This will also apply to those presently engaged in merchant banking activity, including as Managers, Consultants or Advisers to issues.

2. AUTHORISED ACTIVITIES

- a) Issue management, which will inter-alia consist of preparation of prospectus and other information relating to the issue, determining financing structure, tie-up of financiers and final allotment and/or refund of the subscription.
- b) Corporate adviser services relating to the issue.
- c) Underwriting.
- d) Portfolio management services.
- e) Managers, Consultants or Advisers in the Issue.

3. AUTHORISATION CRITERIA

All merchant bankers are expected to perform with high standards of integrity and fairness in all their dealings. A code of conduct for merchant bankers will be prescribed by SEBI. Within this context SEBI's authorisation criteria would take into account mainly the following:

- a) Professional competence.
- b) Personnel, their adequacy and quality, and other infrastructure.
- c) Capital adequacy.
- d) Past track record, experience, general reputation and fairness in all their transactions.

4. TERMS OF AUTHORISATION

- a) All merchant bankers, including the existing ones, must obtain the authorisation from SEBI

- within three months from the issue of these guidelines. SEBI may extend this period at its discretion by a maximum of three more months.
- b) All merchant bankers must have a minimum net worth of Rs. one crore.
- c) The authorisation will be for an initial period of three years.
- d) SEBI may collect from the merchant bankers an initial authorisation fee, an annual fee and a renewal fee.
- e) All issues should be managed by at least one authorised merchant banker, functioning as the sole manager or the lead manager. Ordinarily, not more than two merchant bankers should be associated as lead managers advisers and consultants to a public issue. In issues of over Rs. 100 crores, the number could go upto maximum of four.
- f) The specific responsibilities of each lead manager must be submitted to SEBI prior to the issue.
- g) While Directors, promoters and every person who authorises the issue of prospectus, shall bear full responsibility for the contents of the prospectus, merchant bankers shall exercise due diligence independently verifying the contents of the prospectus and reasonableness of the views expressed therein. The merchant bankers of the issue shall certify to this effect to SEBI.
- h) To ensure a direct stake of merchant banker(s) in the issue managed by them, lead managers would be required to accept a minimum 5 percent underwriting obligation in the issue subject to a ceiling. Details in this regard will be prescribed by SEBI.
- i) Lead managers/merchant bankers would be responsible for ensuring timely refunds and allotment of securities to the investors.
- j) The involvement of merchant bankers in an issue should continue at least till the completion of essential follow-up steps, which must include listing of the instrument, and despatch of certificates/refunds. Even if many of these activities are handled by other intermediaries, merchant bankers shall be responsible for ensuring that these agencies fulfil their functions, and must enable themselves to discharge this responsibility through suitable agreements with the issuer company.
- k) The merchant banker shall make available to SEBI such information, documents, returns and reports as may be prescribed, and called for.
- l) SEBI shall prepare and prescribe a Code of Conduct for merchant bankers, which they should adhere to.
- m) SEBI may suspend/cancel the authorisation of merchant bankers for suitable durations in case of violations of the Guidelines.

All such cases will be brought to the notice of CCI. Relevant details in this regard would be worked out by SEBI.

- n) Nothing in these guidelines shall exempt the company, its functionaries, or other from any responsibility placed on them by any existing law, regulation, guidelines or conditions imposed with any sanctions.

Subsidy to Regional Rural Banks

8418. SHRIK.S. RAO: Will the Minister of FINANCE be pleased to state the approximate amount involved for subsidising the regional rural banks per annum?

THE DEPUTY MINISTER IN THE MINISTRY OF FINANCE (SHRIANIL SHASTRI): National Bank for Agriculture and Rural Development (NABARD) have reported that there is no scheme of subsidising Regional Rural Banks. However, to strengthen their financial base, the share capital of RRBs is being increased from Rs. 25 lakhs to Rs. 1 crore in a phased manner.

NABARD Aid For Projects in Andhra Pradesh

8419. SHRIK. S. RAO: Will the Minister of FINANCE be pleased to state:

(a) the details of the agriculture and non-farm sector in Andhra Pradesh proposed to be financed by the National Bank for Agriculture and Rural Development during the year 1990-91 indicating the amounts to be spent on each project:

(b) the break-up of the short-term and medium-term credit to be extended in agriculture and non-farm areas like sericulture, dryland farming, water management and fish culture in Andhra Pradesh: and

(c) the criteria adopted for the financing of the projects and extending the short-term and medium term credit?

THE DEPUTY MINISTER IN THE MINISTRY OF FINANCE (SHRIANIL SHASTRI): (a) and (b). National Bank for Agriculture and Rural Development (NABARD) has reported that a sum of Rs. 19,943 lakhs has been tentatively fixed under the schematic lending for Andhra Pradesh for the year 1990-91. The purpose-wise details are given in the Statement below.

NABARD has not fixed any target for providing refinance to State Cooperative Banks (SCBs) and Regional Rural Banks (RRBs) for financing various short term purposes and Medium Term (MT) loans for sporadic lending for the year 1990-91 in the State of Andhra Pradesh. Depending on the lending programme of SCBs and RRBs for financing these purposes, necessary finance will be provided.

(c) The refinance from NABARD to SCBs on behalf of Central Cooperative Banks (CCBs) for financing short term agriculture lendings is provided only if the overdues of the CCBs do not exceed 60 per cent of the demand. Limits are sanctioned to the extent of the difference between realistic lending programme and minimum involvement fixed by NABARD. Drawals on the credit limits are allowed subject to availability of non-overdue cover, compliance with the norms of financing small farmers, seasonality discipline and compliance with minimum involvement stipulation.

In the case of medium term agricultural loans for sporadic lending 100% refinance is provided to SCBs on behalf of those CCBs whose overdues do not exceed 60% of demand. Such refinance is provided for a period from 3 to 7 years depending on the types of investments proposed to be carried out and the useful period of assets proposed to be acquired.