

**GOVERNMENT OF INDIA
FINANCE AND COMPANY AFFAIRS
LOK SABHA**

UNSTARRED QUESTION NO:776
ANSWERED ON:21.02.2003
MERCHANT BANKING ACTIVITIES OF COMMERCIAL BANKS
UMMAREDDY VENKATESWARLU

Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

- (a) whether the RBI has relaxed the exposure norms for merchant banking subsidiaries of commercial banks;
- (b) if so, the details thereof and the reasons therefor;
- (c) to what extent this will help commercial banks to increase their merchant banking activity;
- (d) whether RBI has also suggested any additional safeguards in this matter; and
- (e) if so, the details thereof?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANDRAO VITHOBA ADSUL):

- (a) and (b) Yes, Sir. Reserve Bank of India (RBI) vide their circular dated 31st January, 2003 have advised the banks that the existing ceiling on underwriting commitments prescribed for merchant banking activities of banks would henceforth not be applicable to merchant banking subsidiaries of banks. The merchant banking subsidiaries of banks would, consequently, be governed by SEBI norms on the various aspects of the underwriting exercise taken up by them. The guidelines were relaxed to provide a level playing field to the merchant banking subsidiaries of banks. According to SEBI norms merchant banking companies are permitted to take up underwriting commitments upto 20 times their networth.
- (c) The relaxation will provide a level playing field to the merchant banking subsidiaries of banks on par with other merchant banking companies.
- (d) and (e) RBI have also advised the banks to ensure continued viability of their merchant banking subsidiaries through periodic reviews of their performance, adherence to prudential norms relating to capital market exposure, asset-liability management and allocation of additional capital for weighted assets.