GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:6892
ANSWERED ON:07.05.2010
STOCK INVESTMENT SCHEMES
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Will the Minister of FINANCE be pleased to state:

(a) whether instances of violation of directions of Reserve Bank of India (RBI) by Scheduled Banks pertaining to investment in Stock Investment Schemes/Mutual Funds have been reported during the last three years;

(b) if so, the details thereof, bank-wise; and

(c) the action taken/being taken by the Government/RBI in this regard?

Answer

The Minister of State in the Ministry of Finance (Shri Namo Narain Meena)

(a) to (c): Reserve Bank of India (RBI) had observed that banks` investments in stocks / Mutual Funds (MFs) have risen significantly during last few years as they find investments in stocks / MFs as an attractive avenue to earn high returns particularly when they have surplus liquidity. Banks' investments in MFs are of two types: investment in equity oriented MF and investment in Debt oriented MFs. In terms of extant guidelines, the aggregate exposure of a bank (on solo basis) to the capital markets in all forms (both fund based and non-fund based) should not exceed 40 per cent of its net worth, as on March 31 of the previous year. Within this overall ceiling, the bank's direct investment in shares, convertible bonds / debentures, units of equity-oriented mutual funds and all exposures to Venture Capital Funds (VCFs) [both registered and unregistered] should not exceed 20 per cent of its net worth. The above- mentioned ceilings are the maximum permissible and a bank's Board of Directors is free to adopt a lower ceiling for the bank, keeping in view its overall risk profile and corporate strategy. Banks are required to adhere the ceilings on an ongoing basis.

On the request of RBI, most of the Scheduled Commercial Banks have informed that they have taken necessary steps to act as self regulators and place Board approved limits on their exposure to debt-oriented MFs.