

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1018
ANSWERED ON:30.07.2010
INVESTMENT BY BANKS IN STOCK MARKET
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Will the Minister of FINANCE be pleased to state:

- (a) whether Banks have made huge investments in Stock Market and Mutual Funds during the last three years and the current financial year;
- (b) if so, the details thereof, Bank-wise alongwith the reasons therefor;
- (c) the details of the profit / loss earned / suffered by the Banks by such investments during the same period, Bank-wise;
- (d) whether such investment by Banks is consistent with the investment policy of banks;and
- (e) if so, the details thereof alongwith reaction of the Government thereto?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI NAMO NARAIN MEENA)

(a) to (c): The bank-wise details of Investment made and loss suffered by Public Sector Banks in the Stock Market / Mutual Funds during the last three years are at Annex.

(d) & (e): 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 to 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.