

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:349
ANSWERED ON:03.12.2010
LOANS FOR CAPITAL MARKET
Chinta Mohan Dr. ;Sharma Shri Jagdish

Will the Minister of FINANCE be pleased to state:

- (a) whether the public and private sector banks are providing loan facility for the capital market in the country;
- (b) if so, the details thereof along with the rate of interest on such loans; and
- (c) the details of the guidelines framed / formulated by the Government in this regard?

Answer

THE MINISTER OF FINANCE (SHRI PRANAB MUKHERJEE)

(a) to (c): A statement is laid on the Table of the House.

STATEMENT FOR LOK SABHA STARRED QUESTION NO. 349 FOR, 3rd DECEMBER, 2010 REGARDING LOANS FOR CAPITAL MARKET TABLED BY SHRI JAGDISH SHARMA AND SHRI CHINTA MOHAN

(a) to (b): Public and Private sector banks are providing loans for capital markets subject to certain limits and conditions. In terms of extant guidelines prescribed by Reserve Bank of India, the aggregate exposure of a bank 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 31st 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 are 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 prescribed ceilings on an ongoing basis.

With effect from October, 1994, Reserve Bank of India had deregulated the interest rates on advances including loans for capital market and these interest rates are determined by banks themselves with the approval of their Boards. Therefore, the interest rates may differ from bank to bank. However, banks are not permitted to resort to any lending below the Base Rate which is also fixed by the banks with the approval of their Board.

(c) Government has not issued any separate guidelines for lending by banks to Capital Market.