GOVERNMENT OF INDIA
FINANCE
LOK SABHA

UNSTARRED QUESTION NO:810
ANSWERED ON:25.02.2011
LOSSES OF BANKS
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Will the Minister of FINANCE be pleased to state:

(a) whether public sector banks including Syndicate Bank has incurred losses worth crores of rupees after investing money in mutual funds and stock market during the last three years and the current financial year;

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

(c) whether the Government has fixed responsibility for such losses;

(d) if not, the reasons therefor and the reaction of the Government thereto; and

(e) the corrective steps taken by the Government in this regard?

Answer

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

(a) &(b): Banks invest in mutual funds and stock markets as part of their investment policy and business strategy. Reserve Bank of India (RBI) has informed that none of the Public Sector Banks (PSBs) incurred loss on account of securities trading (which includes profit/loss on investment of money in Mutual Funds and stock market) during the financial years 2007-08, 2008-09, 2009-10, except for Punjab and Sind Bank which had incurred loss to the extent of Rs. 13 crore during the year 2007-08.

(c) to (e): 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 ail 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.