

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:2173

ANSWERED ON:12.08.2011

BANKING EQUITY INVESTMENT IN NON FINANCIAL ENTITIES

Bhoi Shri Sanjay;Paranjpe Shri Anand Prakash;Ponnam Shri Prabhakar

Will the Minister of FINANCE be pleased to state:

- (a) whether banks are allowed investment in non-financial entities;
- (b) if so, the details thereof;
- (c) whether Reserve Bank of India (RBI) has proposed a limit on the equity investment of a bank in entities not involved in financial services; and
- (d) if so, the details thereof and the reasons therefor?

Answer

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

(a) & (b): Yes, Sir. Banks' investments in companies which are not subsidiaries are governed by the limits prescribed under Section 19(2) of Banking Regulation Act, 1949 and there is no requirement, at present, for obtaining prior approval of Reserve Bank of India (RBI) for such investments except in cases where the investee companies are financial services companies.

(c) & (d): On 06.07.2011, RBI has issued draft guidelines proposing a limit on equity investments in subsidiaries and other companies because it may be possible that banks could through their holdings in other entities, exercise control on such companies or have significant influence over such companies and thus, engage indirectly in activities not permitted to banks in terms of Section 6(1) of the Banking Regulation Act, 1949. This would be against the spirit of the provisions of the Act and is not considered appropriate from prudential perspective as well.