

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:1951  
ANSWERED ON:02.12.2011  
LOSSES OF BANKS  
Shekhar Shri Neeraj;Singh Shri Yashvir

**Will the Minister of FINANCE be pleased to state:**

- (a) whether the estimated loss in foreign exchange derivative trade was around 33,000/- crore per year during 2007, 2008, 2009 and 2010;
- (b) if so, the details thereof;
- (c) whether Reserve Bank of India (RBI) imposed penalties on 19 commercial banks for contravention of various instructions relating to selling of derivatives products to clients;
- (d) if so, the details of penalties imposed thereof, bank-wise alongwith the reasons therefor;
- (e) the criteria adopted for calculation of penalties on commercial banks by RBI; and
- (f) the reasons for RBI and formulating a derivative policy during 2007, 2008 and 2009 to guide the investors and allay fears in the money market?

**Answer**

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

(a) to (b) RBI has informed that the estimated loss of Rs. 33,000 crore in foreign exchange derivative transaction may not be the actual losses but the gross Market to Market (MTM) gains or losses to the customers. Market to Market gains or losses are basically an accounting concept wherein the financial institution would record the value of outstanding financial contracts at fair value (market value) while preparing financial statements.

(c) to (f) The Reserve Bank of India (RBI) has informed that they had imposed penalties on 19 commercial banks on April 26, 2011 for contravention of various instructions issued by the RBI in respect of derivatives, such as, failure to carry out due diligence in regard to suitability of products, selling derivative products to users not having risk management policies and not verifying the underlying/adequacy of underlying and eligible limits under past performance route. RBI had issued Show Cause Notices to these banks. In response to this, the banks submitted their written replies. On a careful examination of the banks' written replies and the oral submissions made during the personal hearings, the Reserve Bank of India found that the violations were established and the penalties were thus imposed. The list of banks and amount of penalty imposed on them is as under:

(Rupees in Lakh)

Sl. No.	Name of bank	Penalty	Sl.No.	Name of bank	Penalty
---------	--------------	---------	--------	--------------	---------

1	Axis Bank Ltd	15.00	11	NG Vysya Bank Ltd	10.00
---	---------------	-------	----	-------------------	-------

2	Barclays Bank PLC	15.00	12	Royal Bank of Scotland	10.00
---	-------------------	-------	----	------------------------	-------

3	HDFC Bank Ltd	15.00	13	Standard Chartered Bank	10.00
---	---------------	-------	----	-------------------------	-------

4	ICICI Bank Ltd	15.00	14	State Bank of India	10.00
---	----------------	-------	----	---------------------	-------

5	Kotak Mahindra Bank Limited	15.00	15	Bank of America NA	5.00
---	-----------------------------	-------	----	--------------------	------

6 Yes Bank Ltd 15.00 16 DBS Bank Ltd. 5.00

7 BNP Paribas 10.00 17 Deutsche Bank AG 5.00

8 Citi Bank NA 10.00 18 Hongkong and Shanghai  
Banking Corporation Ltd. 5.00

9 Credit Agricole - CIB 10.00 19 JP Morgan Chase Bank NA 5.00

10 Development 10.00  
Credit Bank Ltd.

With a view to ensuring enhanced due diligence by banks while undertaking derivative transactions with their clients, RBI has issued circular dated August 2, 2011 on 'Comprehensive Guidelines on Derivatives: Modifications'.