GOVERNMENT OF INDIA
FINANCE
LOK SABHA

STARRED QUESTION NO:488
ANSWERED ON:07.08.2009
ALLEGED IRREGULARITIES THROUGH DERIVATIVE CONTRACTS
Tewari Shri Manish

Will the Minister of FINANCE be pleased to state:

(a) whether the Government is aware that speculative wagering contracts involving crores of rupees were aggressively marketed by some banks to unsuspecting Small and Medium Enterprises, packaged as Foreign Exchange Derivative Contracts, to hedge foreign exchange risks in violation of the provisions of the Indian Contract Act, 1872 and the guidelines of the Reserve Bank of India on Derivatives and the Foreign Exchange Management Act, 1999 (FEMA);

(b) if so, the details thereof and the reaction of the Government thereon;

(c) whether the Government is aware that action has been taken against erring banks on similar kind in some foreign countries;

(d) if so, the details thereof and the reasons for not taking action against erring banks; and

(e) the action taken or likely to be taken by the Government in this regard?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI PRANAB MUKHERJEE)

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

STATEMENT FOR LOK SABHA STARRED QUESTION NO.488 FOR 7 AUGUST, 2009 REGARDING ALLEGED IRREGULARITIES THROUGH DERIVATIVE CONTRACTS TABLED BY SHRI MANISH TEWARI

(a) to (e): On receiving information regarding wide-spread losses on account of derivative transactions by the Users, including exporters, RBI carried out special scrutiny of a few banks and specifically focussed on the derivatives portfolio during its Annual Financial Inspections (AFIs) of the banks. RBI also collected data from 22 banks on their derivatives portfolio, their exposure to Small & Medium Enterprises (SMEs) and the disputes, if any, with regard to their contracts in derivative segment. The analysis, inter-alia, revealed that -

(i) Very few banks have derivative exposure to SMEs.

(ii) Most SMEs have not been allowed exotic products by the banks based on their customer appropriateness policies.

(iii) As on 31 December, 2008, the total Marked-to-Market (MTM) derivative exposure of the banks to the SMEs was only Rs.196 crore, which accounts for less than 1 per cent of their total MTM exposure in derivatives.

(iv) There were very few disputes with SME customers on account of derivative transactions.

Based on the above analysis, the following measures have been taken -

(i) RBI has impressed upon the banks to bear in mind the sensitivities involved in the matter and adopt a pragmatic approach in resolving the grievances of the customers.

(ii) To ease the difficulties of the SMEs, RBI revisited the regulatory framework regarding asset classification and restructuring of derivative contracts and provided that any receivable on account of MTM derivative exposure, even if overdue for a period of 90 days or more, will not require classification of other funded facilities of the client as Non Performing Asset (NPA).