

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:5111  
ANSWERED ON:26.04.2013  
FIXED DEPOSITS IN BANKS QUESTION  
Meena Shri Raghuvir Singh

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

- (a) whether instances of Banks investing the amounts deposited in Fixed Deposits (FDs) by customers into various mutual funds have come to the notice of the Government in the recent times;
- (b) if so, the details thereof for the last three years and the current year, bank-wise;
- (c) whether Reserve Bank of India (RBI) had issued any guidelines in this regard; and
- (d) if so, the details thereof and the steps taken / being taken by the Government to protect the interests of the customers in this regard?

**Answer**

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

(a) to (d): As per the Monetary Policy Statement 2011-12 of Reserve Bank of India (RBI) announced on May 3, 2011 banks' investments in liquid schemes of mutual funds had grown manifold. The liquid schemes continue to rely heavily on institutional investors such as commercial banks. On the other hand, there are large lenders in the overnight markets such as Collateralised Borrowing and Lending Obligation (CBLO) and market repo, where banks are large borrowers. The various schemes of mutual funds also invest heavily in certificates of deposit (CDs) of banks. Such circular flow of funds between banks and mutual funds could lead to systemic risk in times of stress/ liquidity crunch. Accordingly, RBI, vide its circular dated July 5, 2011 advised banks that the total investment by banks in liquid / short term debt schemes of mutual funds with weighted average maturity of portfolio of not more than 1 year, will be subject to a prudential cap of 10 per cent of their net worth as on March 31 of the previous year. A copy of RBI letter dated 05.07.2011 is available at RBI website [www.rbi-orq.in](http://www.rbi-orq.in).