

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:3032
ANSWERED ON:07.08.2015
Bank Investment in Non-Finance Companies
Sanjar Shri Alok

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has permitted the banks to invest in non-finance companies;
- (b) if so, the details thereof;
- (c) whether the Reserve Bank of India (RBI) has fixed any ceiling for investing in equity of companies which are not engaged in financial services; and
- (d) if so, the details thereof along with the reasons therefor?

Answer

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE
(SHRI JAYANT SINHA)

(a) to (d): The Government has not issued any guidelines for the banks to invest in non-finance companies. However, Reserve Bank of India (RBI) has prescribed guidelines vide its circular dated 12th December, 2011 on Section 19 of the Banking Regulation Act, 1949 (BR Act) on investment in subsidiaries and other companies including a bank's investment in non- financial services companies. These, inter-alia, include:

(i) Equity investment by a bank in companies engaged in non-financial services activities would be subject to a limit of 10 per cent of the investee company's paid up share capital or 10 per cent of the bank's paid up share capital and reserves, whichever is less.

(ii) Equity investments in any non-financial services company held by (a) a bank; (b) entities which are bank's subsidiaries, associates or joint venture or entities directly or indirectly controlled by the bank; and (c) mutual funds managed by Asset Management Companies (AMCs) controlled by the bank should in the aggregate not exceed 20 per cent of the investee company's paid up share capital.

(iii) Bank's request for making investments in excess of 10 per cent of such investee company's paid up share capital, but not exceeding 30 per cent, would be considered by RBI if the investee company is engaged in non-financial activities which are permitted to banks in terms of Section 6 (1) of the BR Act.

(iv) A bank's equity investments in subsidiaries and other entities that are engaged in financial services activities together with equity investments in entities engaged in non-financial services activities should not exceed 20 per cent of the bank's paid-up share capital and reserves.

(v) Equity holding by a bank in excess of 10 per cent of non-financial services investee company's paid up capital would be permissible without RBI's prior approval (subject to the statutory limit of 30 per cent in terms of section 19 (2) of the BR Act) if the additional acquisition is through restructuring / Corporate Debt Restructuring or company.

Further, as per Para 9 of the aforementioned circular banks have been advised to strictly observe these guidelines while investing in companies undertaking non-financial services activities. Banks have also been advised to carry out a review of their investments in non-financial companies as also by entities referred to in para above, within a period of three months. Wherever investments do not confirm to the above mentioned policy parameters, banks may ensure that (a) the investments are brought down to the prescribed limits and/ or control or the exercise significant influence is given up as the case may be or (b) seek RBI's approval in terms of para above.
