No. Fin-IF(A)1-68/83-III
Government of Himachal Pradesh
Finance(IF) Department.

From

Additional Chief Secretary(Finance) to the
Government of Himachal Pradesh,
Shimla-171002.

To

1. All the Heads of Department in H.P.
2. All the Managing Directors/CEOs of Public Sector Undertakings/Agencies in Himachal Pradesh.
3. All the Deputy Commissioners in H.P.
4. Secretaries/ Registrars of all the Boards and Universities in H.P.

Dated, Shimla-171002, the 6-1-2021.

Subject :- Guidelines on investment of Surplus Funds by PSUs /Boards / other Government Agencies – regarding.

Sir/Madam,

1. In supersession of this department letter of even number dated 29th April, 2020 and 22nd July 2020, I am directed to say that at present State PSUs/Boards/State Government Agencies are investing their entire, or a substantial part of their surplus funds, in the shape of Fixed Term Deposit with Private Sector Banks to the exclusion of the Public Sector Banks. It has also been observed that while quoting the interest rates, small private sector banks quote higher interest rates in comparison to Nationalized/Cooperative Banks and other Private Sector Domestic Systematically Important Banks (hereinafter, the DSIB). The PSUs/Boards/State Government Agencies etc. are investing their funds in these small private banks on the sole consideration of higher interest rate, without looking into the exposure norms and its safety. Further the Public Sector Banks have a special role and importance in the banking industry and in advancing the economic policies/ welfare schemes of the Government but the same is sometime overlooked.

2. After careful examination of the matter, it has been felt that the investment of funds under the control of PSUs/Boards/other State Government agencies or funds amenable to their control should be guided by consideration of return balanced with safety of funds. This matter was also discussed during Vidhan Sabha Session wherein it was observed that due diligence be made while investing the public funds in private banks and that the Government departments/ PSUs should not be guided solely by interest rates and that there should be no element of speculation on the yield obtaining from the investment. Further, for minimising

risk, all surplus funds should be not invested in a single bank; rather these may be invested as per the following guidelines:

Category

A "60% of the available investible funds may be invested with the Nationalized Banks/Scheduled Commercial Public Sector Banks/ incorporated in India, Himachal Pradesh Gramin Bank and Himachal Pradesh State Cooperative Bank, (Scheduled). This category will also include two central Cooperative Banks, namely Kangra Central Cooperative Bank and Jogindra Central Cooperative Bank. In case proposed investment exceeds 1 (One) crore, competitive bids be invited and the funds may be invested with the Bank which has quoted the highest interest rate. However, in no case the exposure limit for two Central Cooperative Banks namely Kangra Central Cooperative Bank and Jogindra Central Cooperative Bank, put together, should exceed 15% of the total surplus funds available with an organisation. Cooperative Banks mentioned above and Himachal Pradesh Gramin Bank(Regional Rural Bank), put together, will not exceed 15% of the total surplus funds available with the organisation .

B. 26% of the available funds may be invested with other Scheduled Commercial Private Sector Banks, incorporated in India, falling under the category of Domestic Systematically Important Banks (DSIB) as per RBI evaluation, released every year, on competitive rates. As per the list released by RBI on March 14, 2019 , SBI, HDFC and ICICI are the only 3 DSIB. The same is accessible at https://www.rbi.org.in/Scripts/FS_PressRelease.aspx?prid=46553&fn=2745, This list is periodically updated and therefore, before an investment decision is made, it is important to check the status as on the date of investment.

C. 14% of the remaining investible funds may be invested with the other Scheduled Commercial Private Sector Banks, other than those described in category B above, having minimum long term credit rating of AA evaluated by atleast two established credit rating agencies registered with SEBI (one of the credit rating agency should be from CRISIL/ CARE/ ICRA). Provided that the exposure limit for one bank in such cases shall not be more than 5% of total surplus funds under the category.

Note :- (i) The competitive bids regarding interest rates shall be required for total investments above Rs. One crore; this will not apply to investment below Rs. One crore.

(ii) The above limit of investment is to be exercised with 10% +/- variation at the time of investment of funds.

(iii) In case category A Banks quote the highest interest rate amongst the three categories the entire available funds may be invested with such Banks.

(iv) Similarly, if the banks falling under category B quote higher interest rate than category C banks, then the entire 40% of the surplus funds can be kept in these banks.

<u>Illustration:</u> An organisation in public sector is having surplus funds to the tune of Rs.100 crore. In order to earn interest on the deposits while taking care of the risk involved, the organisation should diversify its investment. As the amount involved is more than Rs one crore, the organisation will have to take bids of interest rates from different Banks. It may invest up to 60% of its surplus funds, i.e . upto Rs 60 cr in category A banks, . It is to be noted that not more than 15% of the available funds can be kept in the Cooperative Banks and the RRB , all included, mentioned in the category , even if their interest rate is higher than the Nationnalised Bank/Scheduled Commercial Public Sector Banks.

Upto Rs.26 cr. of these surplus funds can be invested with Category B banks as are falling in the list of DSIBs mentioned in RBI website every year. Rest upto14Cr. i.e.14% of surplus funds can be invested in banks coming in category C. However, here also one Private Bank should not get more than 5% of the total funds under the category.

If the rate quoted by a category A bank, is more than that by category B or C banks, then the entire funds can be invested in the category A Bank. Similarly, if the rate quoted by category B Bank is higher than Category C Bank, then the entire 40% of the surplus funds can be kept in these banks.

Where the concerned scheme, requires that all the funds related to that scheme are to be kept in a single account as per GOI/ funding agency guidelines, such entire block of surplus funds may be invested, at discretion, in any of the category A and B bank.

In view of the above, it is directed to consider your investment decisions in the light of aforesaid guidelines/instructions.

These guidelines are in the context of Fixed Term Deposit only.

Yours faithfully,

(Rakesh Kanwar)IAS
Special Secretary(Finance-IF) to the
Government of Himachal Pradesh.