



Finance(BPE)Department
Secretariat,
Chennai – 600 009

Govt.Lr.No.23580/Fin(BPE)/2013 dt. 2.7.2013

From

Thiru K.Shanmugam, I.A.S.,
Principal Secretary to Government.

To

The Chief Executive Officers of all State Public
Sector Undertakings/ Statutory Boards

Sir/ Madam,

Sub: Investment of Surplus funds of State Public Sector Undertakings /
Statutory Boards - further instructions issued-regarding

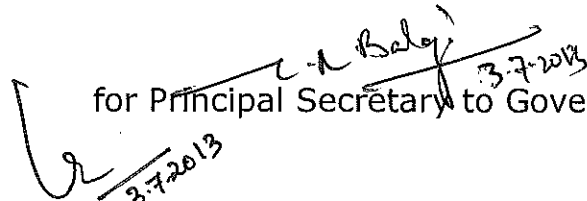
Ref: Govt.Lr.No.59800/Fin(BPE)/2011-1 dt.9.3.2012

I am to state that consolidated instructions were issued in Government letter cited specifically insisting all the Chief Executive Officers of State Public Sector Undertakings/ Statutory Boards to take the best advantage of available banking services for maintenance of accounts and for depositing the surplus funds with the Banks/Financial Institutions while maintaining the overall ceiling of 5 banks.

2) It has now come to the notice of the Government that some Banks/ Financial Institutions have been quoting abnormally high interest rates without reference to the market conditions attracting some of the Public Sector Undertakings / Statutory Boards to withdraw the funds from the State owned Financial Institutions prematurely for depositing them elsewhere. Such practices put pressure on the state owned Non-Banking Financial Companies (NBFCs) which affects funding for essential infrastructure sectors. Further, RBI has also been closely monitoring the NBFCs on fulfillment of guidelines relating to capital adequacy etc., NBFCs are dependent on longer term deposits and have longer term loan assets as well. They cannot modify deposit rates interest to meet shorter term funding needs like Banks. Further, very high interest rates offered by few institutions are also an indication of a "risk premium" being offered. In these circumstances, State Public Sector Undertakings need to act in a prudent manner and in a manner that advances the State's overall developmental goals. Public Sector Undertakings should ensure that the inherent risks may be assessed before placing deposits with certain institutions even though they offer higher interest rate.

3) This letter may be placed before the Board of Directors in the next meeting.

Yours faithfully,


for Principal Secretary to Government.
3.7.2013