

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:3997  
ANSWERED ON:22.08.2003  
INVESTMENT FLUCTUATION RESERVES  
UMMAREDDY VENKATESWARLU

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

- (a) whether the Reserve Bank of India has given a directive to all banks to create a 'Investment Fluctuation Reserve' to meet the uncertainties in banking operation;
- (b) if so, the duplication involved in the 'Investment Fluctuation Reserve';
- (c) whether this reserve will create an additional burden on all banks;
- (d) whether banks have represented against this Directive of the RBI; and
- (e) if so, the reaction of the RBI thereto ?

**Answer**

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANDRAO V. ADSUL)

(a)&(b): Yes, Sir. Reserve Bank of India has issued guidelines to transfer part of the gains realized on sale of investments to Investment Fluctuation Reserve (IFR) Account in order to ensure that the banks follow a more prudent policy for utilizing the gains and build up adequate reserves to guard against any possible reversal of the interest rate environment in future due to unexpected developments. There is no duplication involved.

(c): In order to ensure that the banks are not overburdened, banks are required to achieve IFR of a minimum of 5 percent of the investment portfolio over a five year period and are free to build a higher percentage of IFR up to 10 percent of the portfolio depending on the size and composition of their portfolio.

(d)&(e): Several banks including IBA and FEVIMDA had submitted representations to RBI requesting to accord Tier I status to IFR or alternatively take out IFR from the present ceiling of 1.25% of risk weighted assets under Tier II. The representations made by banks were examined and it was announced by RBI in the Monetary and Credit Policy for the year 2003-04 that while IFR would continue to be treated as Tier II capital, it would not be subject to ceiling of 1.25% of the total risk weighted assets.