GOVERNMENT OF KARNATAKA

No: FD 91 TAR 2022

Karnataka Government Secretariat,
VidhanaSoudha,
Bangalore Dated:02.07.2022.

CIRCULAR

Subject: Guidelines on Investment of Surplus Funds by Boards, Corporations, Local bodies, Authorities and Autonomous Bodies etc.

Read: 1. Circular No. No: FD 38TAR 2018 dated: 27.08.2018.
2. Corrigendum FD 01 TAR 2019 dated: 23.08.2019.
3. Circular No. DPE 12 MSI 2018 dated:19.01.2019.
4. Circular No. No: FD 08 TAR 2020 dated: 12.03.2020, 2.1.2021 & 6.9.2021.

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Detailed guidelines on Investment of Surplus Funds by Boards, Corporations, Local bodies, Authorities and Autonomous Bodies etc. were issued vide circular No.: FD 38 TAR 2018 dated: 27.08.2018. In the light of the recent developments in banking scenario and in supersession of circulars/ Addendums read at Sl. No.4 above, a need was felt to relook into the guidelines on investment of surplus funds.

1. **Objective:**

These guidelines on Investment of Surplus Funds essentially aim at:

a) Efficient and scientific management of the surplus funds available in the organizations;
b) Preventing the unutilized funds from lying idle;
c) Generating the returns out of own funds to improve the profitability of the organization;
d) Ensuring absolute safety and security of the public funds;
e) Ensuring transparency in investment of the surplus funds.
f) Optimum utilization of the liquidity.

2. Applicability:

These guidelines on Investment of Surplus Funds shall be applicable –

(i) to Boards, Corporations (including companies and Corporations governed by Department of Public Enterprises), Authorities, Local bodies, and autonomous and semi-autonomous bodies engaged in industrial and commercial activities and in rendering of service, wherein Government of Karnataka controls the composition of the Board of Directors or any other similar executive structure, or exercises or controls more than half of the total share capital, or provides the grants for the implementation of the specific projects/ schemes. Hereinafter, for the purpose of convenience, they are called Investor Entities.

(ii) if there are any statutory guidelines issued by the sector regulatory authority like RBI, SEBI, IRDA etc., on investment of surplus funds, these guidelines will be applicable to the extent they are not contrary to the guidelines issued by such regulatory authorities.

(iii) If the surplus funds have been earmarked for any purpose under any scheme framed under applicable laws/regulations, or court directions, these guidelines will be applicable to the extent these are not contrary to the provisions of the scheme made under such laws/regulations or court directives.

3. Nature and Types of the Surplus Funds Available for Investment:

Surplus Funds for investments, available with the Investor Entities, mainly consist of –

a) Surplus Funds available after meeting the business requirements including operating expenses, payment of taxes, working capital, debt servicing, capital expenditure, replacement/revamping/renewal of business assets etc;
b) Income generated from the operational activities;
c) Reserves and surplus:
d) Balance out of Revolving Funds provided for the specific purpose;
e) Project Funds or grants which are not required immediately for the execution of the project;
f) Cash Surplus of temporary nature or daily cash float available for few days or weeks;

4. General Principles Governing the Investments of Surplus Funds:

The Investor Entities shall follow the following broad principles while investing the surplus funds:

i) The investments should be made in the instruments which ensure the absolute safety and security of the funds.
ii) There shall be no speculation on the yield obtaining from the investments. It shall be known at the time of making investments except for investment in debt based mutual funds. However, this will not apply to the premature encashment of the fixed deposits due to unforeseen exigencies, wherein there is a difference between the yield fixed at the time of investment and actual yield at premature payment.
iii) Investments shall not be made in equity based public and private mutual funds which are inherently risky.
iv) The availability of surplus funds should be worked out based on the sound cash flow estimates, working capital requirements, execution of the projects and other foreseeable demands. This forecast of availability of Surplus funds may be worked out normally for a minimum period of 3 months and maximum one year at any given point of time so that the investments earn the better yields. The forecasting exercise may ideally be undertaken every month or every quarter.
v) For the effective utilization of the surplus funds, the Investor Entities should prepare the best estimates of the periods for which the surplus funds would be available to facilitate investment decisions for such periods including day-to-day basis.
vi) The Investor Entities shall make a proper commercial appreciation and there shall be due diligence before taking any final decision regarding investment. For this they shall put in place a centralized system of investment and liquidity management for optimum utilization of surplus funds and liquidity for the core operations.
vii) No agent/broker/intermediaries etc., in any form whatsoever shall be involved by both the Investor and the investee.

5. Eligible Investments:

I. Karnataka Government Securities, Karnataka Government backed bonds, Certificate of Deposits and Treasury Bills in case the Board of the concerned Investor Entity is satisfied that surplus funds will be available for the relevant period;

II. Fixed Deposits with any Scheduled Commercial Bank incorporated in India and Fixed Deposit with Karnataka State Financial Corporation which shall be considered on par with Regional Rural Banks.

III. Debt Based Public Sector Mutual funds in case the Board of the concerned Investor Entity is satisfied that the Cash Surplus of temporary nature or daily cash float out of their own operational surplus is available for investment for a few days or weeks.

IV. Loans/Deposits with State Public Sector Undertakings, including those under inter corporate borrowings.

6. Criteria for Investments:

I. Investment in Karnataka Government Securities, Karnataka Government backed bonds, Certificate of Deposits and Treasury Bills:
Investment in the above instruments should satisfy the following criteria:

i. Investment may be made in these instruments, in case the Board is satisfied that surplus funds will be available for the relevant period and there is no immediate requirement for working capital, timely execution of the projects and other foreseeable demands.The Board would be the best judge to decide on the availability of the surplus funds and investment thereon.

ii. The Investor Entity may invest up to a maximum of 20% of the surplus funds, provided the yield on these securities is competitive when compared with the Fixed Deposits.

iii. Certificate of Deposits issued by only Public Sector Banks shall be considered. And Investment in CDs of one particular Bank, at any point of time shall not exceed Rs.200.00 crore or 5% of the net worth of the concerned Bank whichever is lower.

iv. The CDs with AAA or equivalent rating from CRISIL, ICRA or FITCH ratings shall only be considered for investment.

v. Investment in Karnataka Government Securities and Karnataka Government Backed Bonds may be made through public sector intermediaries.

II. Investment in Fixed Deposits:

Investments in Fixed Deposits shall satisfy the following criteria:

i. **Ratio of Investing in Public Sector and Private Sector Banks:**
Investments in Fixed Deposits of any of the Public Sector Bank incorporated in India may be made in the following ratio-

a) Not less than 60% of the availability of surplus funds, that is available at the time of investment in Public Sector Banks including Regional Rural Banks(RRBs)

b) Not more than 40% of the availability of surplus funds, that is available at the time of investment in Private Sector Scheduled Commercial Banks, provided the yield is competitive when compared with that of Public Sector Banks including RRBs.

c) If the competitive rates are not forthcoming from the Private Sector Banks for the amount earmarked for investment in them, in such case, the Investor Entity may take a decision to invest this amount also in Public Sector Banks.

Provided, with respect to investment in Public Sector Banks, when a minimum of 2 Public Sector Banks are not participating in the First tender call, then the matter may be placed before the Board / Competent Authority by obtaining the Card Rates from atleast 3 public sector banks, to invest their surplus funds in any public sector banks which is beneficial to the Entity and which fulfils the criteria fixed by FD. In case of lack of adequate time for calling Board meeting, decisions in this regard may be made by authorized person / Committee and the post facto ratification of the Board/ Competent Authority may be obtained.

Provided with respect to investment in Private Sector Banks, when a minimum of 2 Private Sector Banks are not participating in the First tender call, then the matter may be placed before the Board/Competent Authority by obtaining the Card Rates from any 3 public or private sector banks, to invest their surplus funds in any public or private sector banks which is beneficial to the Entity and which fulfils the criteria fixed by FD. In case of lack of adequate time for calling Board meeting, decisions in this regard may be made by authorized person / Committee and the post facto ratification of the Board/ Competent Authority may be obtained.

ii. **Financial Parameters for selection of Bank for Investment:**
Only the Banks fulfilling the following financial parameters shall be selected for the investment in Fixed Deposits:

(a) Net worth :
Net worth i.e., the paid up capital plus free reserves of the bank, as at the end of the immediate preceding financial year, shall be at least-

1. Rs. 5000 Crore in respect of Public Sector Banks;
2. Rs. 1000 Crore in respect of Regional Rural Banks;

3. Rs.5000 Crore in respect of Private Scheduled Commercial Banks.

(b) Capital Adequacy Ratio:

1. The Capital Adequacy Ratio (CAR) is also known as Capital to Risk Assets Ratio (CRAR) which is the ratio of Bank's capital to its risk. It is a measure of a bank's available capital expressed as a percentage of a bank's risk-weighted credit exposures. This will ensure the protection of investors.
2. Capital Adequacy Ratio of Public Sector Bank and Private Sector Bank shall not be less than 12% and not less than 10% for RRBs.

(c) Profitability Track Record-

1. Public Sector Banks and Regional Rural Banks shall have profitability track record of at least 2 years out of 5 immediate preceding years.
2. Private Scheduled Commercial Banks shall have profitability track record during the preceding 3 consecutive years.

(d) Net NPA (Non - Performing Assets):

Net NPA shall not be more than limit fixed by the Finance Department, Government of Karnataka every year, from time to time. The limit shall be fixed before 1st July of every year and the limit so fixed will be valid from 1st July of the current year to the 31st July of the next year.

(e) Preference among Equals:

All the criteria being equal, preference shall be given to the Bank which is the serving bank of the Investor Entity or which is participating in the developmental programmes of the Government of Karnataka.

(f) Total Outstanding Investment:

The total outstanding investment in any particular Bank (including all branches of the Bank) shall not exceed:

1. Rs. 2000 Crore in a year or 5% of the Net worth whichever is lower in respect of Public Sector Banks;
2. Rs.200 Crore in a year or 10% of the Net worth whichever is lower in respect of Regional Rural Banks;
3. Rs. 400 Crore in a year or 5% of the Net worth whichever is lower in respect of Private Scheduled Commercial Banks.

(g) **Investment on a Single Day:**

On any particular day, investment in Fixed Deposits shall not be made in more than 3 banks and the amount of investment at any point of time should be made in single branch of the selected Bank.

(h) **Benefit of Retail/Bulk Deposits:**

While investing in Fixed Deposits, the benefit of interest on Bulk Deposit or retail deposits, whichever is beneficial shall be availed as per the procedure laid down in this Circular.

iii. **Source of Capital Adequacy and Net Worth :**

Capital Adequacy and Net Worth of Banks may be assessed on the basis of their Annual Accounts (audited) or as available on the website of RBI (at https://dbie.rbi.org.in/DBIE/dbie.rbi?site=publications - Statistical Tables Relating to Banks in India), or the website of Indian Banks Association (at http://www.iba.org.in/ -Key Business Statistics),whichever is the latest.

iv. **Minimum Availability of Surplus Funds:**

The minimum availability of Surplus funds for investment in Fixed Deposits shall not be less than Rs.25 Lakhs at any point of time.For the surplus amount less than Rs.25 lakhs, only Sweep-in-Sweep-out deposit accounts as prescribed may be considered.

v. **Method of Investment in Fixed Deposits:**

(a) All investments exceeding Rs.1.00 crore and above or as may be prescribed by Government from time to time, to be invested in Fixed Deposits shall be made only by obtaining the competitive quotations through e-Bidding on the e-Procurement portal of Government of Karnataka at www.eproc.karnataka.gov.in without availing or using the services of intermediaries / agents / brokers etc.

(b) **In e-Bidding the Regional / Zonal / Head Offices of Banks only shall participate and no individual bank branch shall participate in e-Auctions.**

(c) Provided, with respect to investment in Public Sector Banks, when a minimum of 2 Public Sector Banks are not participating in the First tender call, then the matter may be placed before the Board / Competent Authority by obtaining the Card Rates from atleast 3 public sector banks, to invest their surplus funds in any public sector banks which is beneficial to the Entity and which fulfils the criteria fixed by FD. In case of lack of adequate time for calling Board meeting, decisions in this regard may be made by authorized person /

Committee and the post facto ratification of the Board/ Competent Authority may be obtained.

(d) Provided with respect to investment in Private Sector Banks, when a minimum of 2 Private Sector Banks are not participating in the First tender call, then the matter may be placed before the Board/Competent Authority by obtaining the Card Rates from any 3 public or private sector banks, to invest their surplus funds in any public or private sector banks which is beneficial to the Entity and which fulfils the criteria fixed by FD. In case of lack of adequate time for calling Board meeting, decisions in this regard may be made by authorized person / Committee and the post facto ratification of the Board/ Competent Authority may be obtained.

(e) The Investments below Rs. 1.00 crore shall be invested by obtaining quotations from eligible banks through a notification in the official website of the Investing Entities.

(f) e-Bidding shall be called 10 days before the estimated date of availability of surplus funds and at least 4 working days shall be given to the banks to submit their quotations.

(g) e-Bidding may be called for category wise, project wise, scheme wise separately so as to avoid the overlapping of funds, giving the details of the amount earmarked for investment, both in Public Sector and Private Sector separately at the ratio of 60:40 of the availability of funds at the time of investment respectively, the period of Investment, date and time of live auction and the date of investment.

(h) The bidding banks should quote the interest rates in percentage per annum basis and the interest should be calculated on quarterly compounding basis.

(i) While calling for tenders through e-proc portal or calling for quotations, Investing entity should obtain both retail and bulk deposit rates from the banks for taking a prudent decision.

(j) The quotes of the Public Sector and Private Sector Banks have to be evaluated separately and the Bank quoting H1 rate in each category i.e., Public Sector Bank and Private Sector Bank, separately shall be selected for making for investments as per the limits.

(k) The rates offered by the Banks shall be valid at least for 5 working days from the date of e-auction and the Bank quoting the H1 rate shall be selected for making investments.

(l) If any Bank defaults in accepting the deposit, such Bank may be debarred from participating in the e-bidding of the concerned Investor Entity for the next one year.

(m) Only rates and records submitted through the e-Procurement portal shall be used for the evaluation and selection of the Investee Bank.

No manual quotes or records shall be received by the Investor Entities at any time during the period of e-Auction and evaluation.

vi. **Maintenance of Records :**

(a) The amount to be invested has to be mandatorily transferred through RTGS/e-Payment to the account of the Bank, the details of which, the Bank has submitted on the e-Portal.

(b) Single Fixed Deposit Receipt (FDR) shall, mandatorily, be obtained from the banker in respect of each investment.

(c) It is to be ensured by the Investor Entity:

(i) That the account number of the Investor Entity, to which the proceeds of the Investments to be credited, has been mentioned on the FDR;

(ii) That the total amount on maturity, along with the compounding quarterly interest is mentioned on the FDR.

(iii) That the quarterly interest, after the deduction of TDS, is accrued to the account of the Investor Entity by bank every quarter and the details of the same are received from the bank.

(iv) That the TDS deducted from interest on deposits is reported by the Bank correctly in the 26AS, which is an accurate acknowledgement for tax payments, and confirms that Deposit is held by the Bank.

(v) That the original FDR is received from the bank and the details are mentioned correctly;

(vi) That based on the original FDR received from the Bank, viz., Name and branch of the Bank, date investment, date of maturity, amount invested, rate of interest, total amount of interest to be accrued, total amount on maturity etc., shall be entered in a separate register and the same has to be initialed by the Manager of Finance and Director/Executive Director in charge of Finance.

(vii) That the details of the quarterly interest accrued and the TDS certificate for having credited to the account of the Investor Entity as reflected in the form 26AS to be obtained from the Bank.

(d) The Register along with the Original FDR has to be kept in safe custody, the keys of which have to be retained jointly by the Manager of Finance and Director/Executive Director in charge of Finance.

(e) The Internal auditor of the Investor Entity has to verify the Original FDRs every month on the first Saturday and initial in confirmation of the verification of the original FDRs. The same has to be acknowledged jointly by the Manager of Finance and Director/Executive Director in charge of Finance.

(f) The details of the quarterly interest accrued, received from the Bank have to be entered in the register and to be acknowledged jointly by the Manager of Finance and Director/Executive Director in charge of Finance.

III. Investment in Debt Based Public Sector Mutual funds:

In order to utilize the surplus out of own operational funds of temporary nature or daily cash float available for a short period of time, may be for few days or weeks, the funds may be invested in the Debt Based Mutual Funds subject to the following conditions :

(a) The board should be satisfied that safety of the funds is sufficiently ensured.

(b) The Board may decide the guidelines, procedures and management control systems for investment in such mutual funds.

(c) Only the surplus funds of temporary nature, generated out of the business operations of the organizations which will be available for a few days or weeks shall be eligible to be invested in the mutual funds. The surplus out of Reserves and Surplus, project funds or government grants, balance out of Revolving Funds provided for the specific purpose, funds earmarked for the operating expenses, payment of taxes, working capital, debt servicing, capital expenditure, replacement/revamping/renewal of business assets etc., shall not be used for this purpose.

(d) The Investor Entities are permitted to invest only in debt based schemes of SEBI regulated public sector mutual funds.

(e) Public Sector Mutual Funds means the Mutual Funds registered with and regulated by SEBI where the Government of India, its financial institutions and public sector banks holds/hold individually or collectively more than 50% of equity/shares in the Asset Management Company of that Mutual Fund.

(f) Portfolio Management Schemes of any Asset Management Company (AMC)/or any other entity will not be mutual funds for this purpose.

(g) The category of Mutual Funds Schemes that can be considered for investments shall be only Overnight Fund/Liquid Fund scheme.

(h) The particular scheme of the Mutual Fund must have portfolio with minimum of 80% in AAA/equivalent securities as the case may be.

(i) The Corpus of the particular scheme of AMC shall be at least Rs. 2000 Crore at the time of investment. The corpus may be reckoned from the latest published information at the time investment.

(j) The total outstanding investment in any scheme of the AMC shall not exceed 1.50% of the corpus or Rs. 200 Crore whichever is lower.

(k) Normally, on particular day, investments may be made in maximum of 3 Mutual Fund Schemes.

(l) The period of investment in Mutual Fu0nd Schemes shall not exceed 7 days.

(m) Since the investment in debt scheme of mutual funds are subject to market risks, track record of the scheme shall be taken into account for taking investment decisions.

(n) All Investments in Mutual Funds shall be done directly. No services of intermediaries / agent / broker etc., in any form whatsoever shall be availed.

IV. Loans/Deposits with State Public Sector Undertakings, including those under inter corporate borrowings.

Inter corporate borrowings and Loans and Deposits with the State Public Sector Undertakings can also be credit rated for investments so as to avoid instances of providing friendly support to other Public Sector Enterprises on considerations other than safety.

7. Period of Investment:

No investment shall be made in the instrument, the maturity period of which exceeds one year, including cases of residual maturity, from the date of investment. But this will not apply to the investments in Karnataka Government Securities and Karnataka Government backed bonds.

8. Competent Authority:

i. The Competent Authority for taking all the decisions on investment of surplus funds and Reporting thereof shall be the Board of the concerned Investor Entity. The Board shall ensure that all the investment decisions are in accordance with the Government of Karnataka(Finance Department) instructions, and any other relevant legislation and rules as applicable.

ii. The Board may, at its discretion, constitute an Internal Investment Committee and delegate the powers regarding the investment of surplus funds up to one year period and short term investments. The Board may also prescribe the financial limit up to which the Investment Committee is authorized to take the decision on the Investment.

iii. Board may also prescribe the guidelines, systems and proper procedures for the performance of the Investment Committee. The delegation order issued by the Board should invariably spell out criteria for selection of party, party exposure limits etc., which should be strictly observed by the Investment Committee.

iv. The Investment Committee, so constituted, should invariably include CMD/MD and Director/ Executive Director (Finance).

v. The responsibilities of the Investment Committee shall be –
    1. to take the timely decision on the investment for effective utilization of the surplus funds in accordance with the guidelines laid down by the Board;
    2. To submit the report on the investments and the yield thereon, at least once in a quarter for the perusal and consideration of the Board;
    3. To report any violation / irregularities in the investment management process to the Board;
    4. To suggest/recommend to the Board any process or policy changes or amendments in the investment procedure laid down by the Board.
    5. To place the report on surplus funds invested in different instruments and the yield thereon before the Board.

9. Audit of Investments:

All the investment activities of the Investor Entity shall be audited by a firm of Chartered Accountant, which is empaneled with C&AG and has the experience in this line of activity. The Audit should verify whether the investment activities are carried on in conformity with the guidelines laid down by the Government or any other statutory authority and the mandate of the Board and report if there are any deviations. Audit report will be for each quarter and this audit report, along with the compliance, shall be placed before the Board for its perusal and consideration.

10. General:

i. The Board of Investor Entity may, at its discretion, lay its own investment Policy adopting the guidelines as prescribed above without adding or deleting any provision which is in contravention of these guidelines.

ii. All the Investor Entities shall ensure that these guidelines are followed scrupulously for the investments to be made hereafter and any investment already made which is not in conformity with these guidelines should not be renewed after maturity and shall only be invested by following these guidelines after the maturity of such investments.

iii. All Boards/Corporations/Autonomous Bodies etc.(Investor entities) which is interested in offering fresh fixed deposits or renewal of the fixed deposits shall invariably call for bids through the e-portal of the State Government.

iv. Henceforth Investor entities shall not approach any branch office of any bank for seeking competitive rates of interest.

v. Every Bank shall share the details of such authority identified for approaching for offering competitive rates of interest for fixed / term deposits and for bidding in e-portal of the State Government, with the Investor entities.

vi. Investor entities shall ensure that Banks are sent written instruction through letters informing the type and tenure of deposit to be created and documents related to the officials designated as authorized signatories to deal with the Bank. The Banks will not act on the oral instructions of the Investor Entity.

vii. The authority in whose name Deposit is created, shall ensure receipt of the deposit receipts (FDRs) personally, by the Authorised Official of the Bank / Designated Branch Head against acknowledgement, within reasonable time, at their office.

Ekroop Caur

(Dr. Ekroop Caur) 2/7/22.

Secretary to Government (B&R)

Finance Department

To: The Compiler Karnataka Gazette– with a request to print this in the next Gazette.

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