

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

UNSTARRED QUESTION NO:1923
ANSWERED ON:26.07.2002
STRATEGY TO AVERT FINANCIAL SCAM
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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government have asked the RBI to expedite conversion of all Government Securities into Demat mode following unearthing of multi-crore scam involving co-operative banks and broking firms;
- (b) if so, the details thereof;
- (c) whether the Government have also asked the RBI to draw up strategy to avert such scams in future;
- (d) if so, the details thereof and the steps taken by RBI in this regard; and
- (e) if not, the time by which such steps are likely to be taken?

Answer

MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI ANANT G. GEETE)

(a) to (d) : Reserve Bank of India (RBI) has intimated that it has been, over a period of time, encouraging holding of government securities in the dematerialised mode. Presently, 99% of the trading in government securities takes place through Subsidiary General Ledger

(SGL) accounts with RBI for which the Delivery versus Payment (DVP) system ensures simultaneous transfer of securities against funds. Of the new issuances in 2001-02 of government securities, 99.9% was in SGL form

However, in the light of recent fraudulent transactions in the guise of Government securities transactions in physical format by a few co-operative banks with the help of some broker entities, it was proposed to accelerate the measures under contemplation for further reducing the scope for trading in physical form. RBI, thus issued a circular on 'Transactions in Government securities' on 20th May, 2002, taking the following measures to expedite conversion of all Government securities into demat modes:

(1) All RBI regulated entities [including financial institutions (FIs), primary dealers (PDs), cooperative banks, RRBs, local area banks (LABs), non banking financial companies (NBFCs)] were advised to undertake purchase/sales transactions with effect from July 1, 2002 through Subsidiary General Ledger (SGL)/Constituent Subsidiary General Ledger (CSGL)/demat accounts.

(2) All RBI regulated entities were advised to mandatorily hold their investments in Government securities in SGL account or in a demat account with depositories.

(3) It was specifically indicated that the custodians providing SGL or demat facility must ensure clear funds in the buyer's account and sufficient securities in the seller's account before putting through a transaction.

(4) All RBI regulated entities were prohibited from undertaking any transactions in physical form with any broker

Securities and Exchange Board of India (SEBI) has intimated that it has forwarded the said circular to stock exchanges for compliance and to bring the same to the notice of their broker-members. For non-RBI regulated entities, RBI has requested the Secretary, Ministry of Labour, Govt. of India and Central Provident Fund Commissioner to consider issuing suitable instructions to Employees' Provident Fund Organisation/Regional Provident Fund Commissioners/other concerned entities making demat holding of Government securities mandatory for them.

RBI has further taken following additional measures to help strengthen the capabilities of institutions in avoiding recourse to frauds in their operations:

(i) Urban Co-operative banks have been prohibited from dealing with brokers on principal to principal basis.

(ii) Prompt punitive action has been taken against defaulting banks and officials including supersession of Boards, levying of penalties and criminal action against officials.

(iii) Cases where brokers appeared to be involved in price manipulation and other undesirable practices have been referred to SEBI.

(iv) List of `Dos and Don'ts` finalised by the Primary Dealers` Association of India for transactions in Government securities including conducting due diligence on the broker`s track record and antecedents, etc. has been forwarded to all RBI regulated entities, Ministry of Finance, Central/Regional Provident Fund Commissioner, Secretary, Ministry of labour, Govt. of India for wider dissemination.

(v) Negotiated Dealing System (NOS), a screen based system set-up by RBI was operationalised with effect from February 15, 2002. to ensure transparency and enable settlement in RBI either directly or through Clearing Corporation of India (CCL)

(e) : In view of (a) to (d) above, does not arise.