

79

**STANDING COMMITTEE
ON FINANCE
(2008-2009)**

FOURTEENTH LOK SABHA

**MINISTRY OF FINANCE
(DEPARTMENT OF ECONOMIC AFFAIRS &
FINANCIAL SERVICES)**

**COUNTERFEIT CURRENCY NOTES
IN CIRCULATION**

SEVENTY-NINTH REPORT



**LOK SABHA SECRETARIAT
NEW DELHI**

December, 2008 / Agrahayana, 1930 (Saka)

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Presented to Lok Sabha on 18.12.2008

Laid in Rajya Sabha on 18.12.2008



सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI

December, 2008/Agrahayana, 1930 (Saka)

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CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	(iii)
INTRODUCTION	(v)

REPORT

PART I

BACKGROUND ANALYSIS

A. Introduction	1
B. An overview of the Management System	3
(i) Role of the Ministry of Finance (Department of Economic Affairs).....	3
(ii) Role of Reserve Bank of India (RBI) in Currency Management	3
(iii) Currency Chests	5
(iv) Processing of soiled notes	7
C. Counterfeit Currency Notes in circulation	8
(i) Counterfeit currency notes detected at Reserve Bank and Bank Branches	8
(ii) Seizure of fake Indian Currency Notes	10
(iii) Smuggling of Counterfeit Currency	11
D. Penal Provisions relating to Counterfeit Currency	13
E. Mechanism of co-ordination among the agencies concerned	15
F. Cash shortage and counterfeit currency in State Bank of India, Domariaganj Branch (Distt. Siddhartha Nagar)	18
G. Withdrawal of high denomination currency notes—1996 & 2000 series	21
H. Sourcing and printing of currency notes	23
I. Detection of counterfeit currency	28
(i) Security features	28
(ii) Anti-counterfeit measures taken by RBI.....	29

PART II

Recommendations/Observations of the Committee	32
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APPENDIX

Minutes of the Sitzings of the Committee held on 18 August, 27 August and 16 December, 2008	37
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(i)

COMPOSITION OF STANDING COMMITTEE ON
FINANCE (2008-2009)

Shri Ananth Kumar — *Chairman*

MEMBERS

Lok Sabha

2. Shri Jaswant Singh Bishnoi
3. Shri Gurudas Dasgupta
4. Shri Shyama Charan Gupta
5. Shri Vijoy Krishna
6. Shri A. Krishnaswamy
7. Dr. Rajesh Kumar Mishra
8. Shri Bhartruhari Mahtab
9. Shri Madhusudan Mistry
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15. Shri Lakshman Seth
16. Shri A.R. Shaheen
17. Shri G.M. Siddeshwara
18. Shri M.A. Kharabela Swain
19. Shri Suresh Prabhakar Prabhu
20. Shri Ramakrishna Badiga*
21. Vacant#

* Nominated to this Committee *w.e.f.* 26.8.2008.

Vacant *w.e.f.* 14.11.2008 on nomination of Shri Brajesh Pathak to Rajya Sabha.

Rajya Sabha

22. Shri Raashid Alvi
23. Shri M. Venkaiah Naidu
24. Shri S.S. Ahluwalia
25. Shri Mahendra Mohan
26. Shri C. Ramachandraiah
27. Shri Vijay J. Darda
28. Shri S. Anbalagan
29. Shri Moinul Hassan
30. Shri K.V.P. Ramachandra Rao
31. Shri Shivanand Tiwari

SECRETARIAT

1. Shri R.C. Ahuja — *Additional Secretary*
2. Shri A.K. Singh — *Director*
3. Shri Ram Kumar Suryanarayanan — *Deputy Secretary-II*

INTRODUCTION

I, the Chairman of the Standing Committee on Finance (2008-09) having been authorized by the Committee to submit the Report on their behalf, present this Seventy-Ninth Report on 'Counterfeit Currency Notes in Circulation'.

2. The Committee took evidence of the representatives of Ministry of Finance (Departments of Financial Services and Economic Affairs), Ministry of Home Affairs Reserve Bank of India and State Bank of India on 18 August, 2008. The Committee also took evidence of the representatives of the Ministry of Finance (Departments of Economic Affairs and Revenue), Ministry of Home Affairs, Central Bureau of Investigation (CBI), Research and Analysis Wing (R&AW) and Intelligence Bureau on 27 August, 2008.

3. The Committee considered and adopted the Report at their sitting held on 16 December, 2008.

4. The Committee wish to express their thanks to the Ministry of Finance (Departments of Economic Affairs and Financial Services), Ministry of Home Affairs, Reserve Bank of India, State Bank of India, Central Bureau of Investigation (CBI), Research and Analysis Wing (R&AW) and Intelligence Bureau for placing before them the requisite material and their considered views in connection with the examination of the subject.

NEW DELHI;
16 December, 2008
25 Agrahayana, 1930 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

REPORT

PART I

BACKGROUND ANALYSIS

A. INTRODUCTION

Counterfeit notes are a menace faced by almost every country with India not being an exception. The twin objectives of networks behind the smuggling of Fake India Currency Notes (FICNs) into India, as per the Ministry of Home Affairs, are to harm the Indian economy and to finance anti-India elements and terrorist groups. Recent developments in photographic and computer technology, as well as printing devices, have reportedly made the production of counterfeit money relatively easy, thereby increasing the potential threat.

2. In this connection, the Committee took evidence of the representatives of the Ministry of Finance, (Departments of Financial Services, Revenue and Economic Affairs), State Bank of India, Ministry of Home Affairs, Central Bureau of Investigation (CBI), Research and Analysis Wing (R&AW) and the Intelligence Bureau on the subject.

3. Major issues pertaining to the subject discussed by the Committee related to: volume and value of Fake Indian Currency Notes in circulation, sourcing of counterfeit currency notes from other countries, possible motive and effect of counterfeit currency in destabilizing the Indian economy, mechanisms of co-ordination between the various Central Intelligence agencies and State Police, breach of security features of currency notes, plans for indiginising printing of currency note paper and measures for countering the problem.

4. As informed by the Ministry of Home Affairs, a number of successful interdictions show that Fake Indian Currency Notes (FICNs) are suspected to originate from across the borders and are smuggled into India through diverse routs/channels. The Pakistan's ISI is suspected to be involved in both printing and trafficking of fake currency, and the racket is run as an organized crime with international networks that smuggle fake currency through West and South East Asia into India.

5. The Central Bureau of Investigation (CBI) has been nominated as the nodal agency for the purpose of detection and investigation in respect of FICNs and the Directorate of Revenue Intelligence (DRI) is mandated to act as the lead operational agency apart from the State Police. National Crime Records Bureau (NCRB) has been collating and compiling figures relating to FICNs. Intelligence on matters relating to counterfeit currency is disseminated to the various agencies through the Central Economic Intelligence Bureau (CEIB) on a regular basis. Co-ordination meetings for collection, analysis and sharing of intelligence are also held periodically in the Ministry of Home Affairs, wherein apart from security and intelligence agencies, officials from Reserve Bank of India (RBI), Ministry of External Affairs (MEA), Financial Intelligence Unit-India (FIU-IND), Enforcement Directorate (ED) etc. also participate.

6. The original Indian currency notes have overt and covert security features. According to RBI, the security features of Indian Currency compare with the best in the world. The design features of our currency are also stated to be very intricate and difficult to copy. Though the counterfeiters are unable to replicate intricate features, yet, by making attempts to use two inks, *i.e.* green and blue with shiny particles, to copy Optically Variable Ink (OVI), they are, as informed to the Committee, successful in cheating the common man.

7. The currency paper is manufactured indigenously at Security Paper Mill, Hoshangabad. However, the production capacity is very low and a large quantity of paper is imported to meet our requirements from various countries *viz.* UK, Netherlands, Germany, Italy, France, etc. An exclusive agreement is signed with the manufacturers not to disclose our security features to any third party and also that the paper with India specific security features is not supplied to any other party.

8. The latest reports of Forensic Science Laboratories of Currency Note Press, Nashik and Bank Note Press, Dewas indicate that the security features of currency notes introduced in 2005 have not yet been breached successfully though crude attempts have been made to breach some of these. However, notes of 1996 and 2000 series are also in circulation in the market and most of the counterfeited notes seized pertain to 1996 and 2000 series.

9. There are various Committees looking into different aspects of FICNs under Ministry of Finance and Ministry of Home Affairs.

10. The Committee have examined in detail the afore mentioned issues. The same have been discussed in the succeeding paragraphs.

B. AN OVERVIEW OF THE CURRENCY MANAGEMENT SYSTEM

(i) Role of Ministry of Finance (Department of Economic Affairs)

11. The Currency and Coinage (C&C) Division in the Ministry of Finance (Department of Economic Affairs) is responsible for formation of policy on printing of currency notes, stamp papers and other security documents, passports, visa paper etc. and minting of coins including production planning in consultation with RBI, introduction of new features in currency notes, stamp papers etc. to abort counterfeiting, issue of commemorative coins on special occasions and administration of the Security Printing and Minting Corporation of India Limited (SPCIL) which is responsible for production of currency notes, coins, security papers and other security documents.

(ii) Role of RBI in Currency Management

12. Functioning as the Currency Authority is the principal function of the Central Bank of any country. Similarly, the Reserve Bank is the sole authority for the issue of currency in India. Currency operations are performed by the Reserve Bank through its 19 regional offices/ sub-offices and a wide network of currency chests and small coin depots spread across the country. Ensuring adequate availability of good quality banknotes and coins is one of the core functions of the Reserve Bank.

13. Regulation and issue of Bank Notes and keeping reserves with a view to securing monetary stability in the country and operating the currency and credit system of the country to its advantage is a statutory responsibility cast upon Reserve Bank of India in terms of the preamble to the Reserve Bank of India Act (1934) itself. Some of the relevant sections of the Reserve Bank of India Act and related stipulations on the management of the currency system by the Bank are delineated in brief as under:

- (i) Section 17(ii) of the Reserve Bank of India Act, 1934 (RBI Act) authorises the Reserve Bank to make and issue bank notes subject to the provisions of the Act.
- (ii) Section 25 of the RBI Act on the 'Form of bank notes' provides as under:

“The design, form, the material of bank notes shall be such as may be approved by the Central Government after consideration of the recommendations made by the Central Board”.

- (iii) Further, Section 27 of the RBI Act, enjoins upon the RBI that:

“The Bank shall not re-issue bank notes which are torn, defaced or excessively spoiled.”

- (iv) The RBI has been given powers under Section 28 of the Reserve Bank of India Act to frame rules for refund of value of such notes:

“Notwithstanding anything contained in any enactment or rule of law to the contrary, no person shall of right be entitled to recover from the Central Government or the Bank, the value of any lost, stolen, mutilated or imperfect currency note of the Government of India or bank note:

PROVIDED that the Bank may, with the previous sanction of the Central Government, prescribe the circumstances in and the conditions and limitations subject to which the value of such currency notes or bank notes may be refunded as of grace and the rules made under this Proviso shall be laid on the table of Parliament”.

Exchange value of torn, mutilated, soiled and defective currency notes is set out in terms of **RBI Note Refund Rules**. With an intention of extending the exchange facility to the public “at their door steps”, RBI has also delegated these powers to bank branches. The facility is to be extended free of charge by the bank branches.

- (v) The RBI is under legal obligation in terms of Section 39 of the Reserve Bank of India Act to exchange currency, notes of the Government of India and bank notes into coins and to exchange coins into currency notes of the Government of India and bank notes:

“(1) The Bank shall issue rupee coin on demand in exchange for bank notes and currency notes of the Government of India, and shall issue currency notes or bank notes on demand in exchange for coin which is legal tender under the Indian Coinage Act, 1906 (3 of 1906).

(2) The Bank shall, in exchange for currency notes bank notes of or two rupees or upwards, supply currency notes or bank notes of lower value or other coins which are legal tender under the Indian Coinage Act, 1906 (3 of 1906), in such quantities as may, in the opinion of the Bank, be required for circulation; and the Central Government shall supply such coins to the Bank on demand. If the Central Government at any time fails to supply such coins the Bank shall be released from its obligations to supply them to the public.”

At the time of granting permission to banks to open Currency Chests or Small Coin Depots the RBI enters into an agreement with the bank concerned which forms the basis for the RBI to direct these banks to supply coins in exchange of notes and *vice versa*. The RBI also directs these banks to exchange torn, soiled and mutilated notes in accordance with the **RBI Note Refund Rules**.

(iii) Currency Chests

14. The core central banking function of note issue and currency management is performed by the Reserve Bank through its Issue Offices, the sub-office of the Issue Department at Lucknow, a currency chest at Kochi and a wide network of 4,301 currency chests and 4,027 small coin depots. The Reserve Bank has agency arrangements, mainly with scheduled commercial banks, under which a currency chest facility is granted to them. The currency chest branch is an extended arm of the Reserve Bank's Issue Department and carries out the same functions of issue of fresh bank notes/coins, retrieval of soiled banknotes exchange of banknotes and coins including mutilated banknotes.

15. The number of currency chests in operation from 2005-07 as shown in the table below reveals that while the number of currency chests has been decreasing, the State Bank of India and its Associate Banks continue to have the largest number of currency chests:—

Number of Currency Chests

Category	Number of Currency Chests			
	June 30, 2005	June 30, 2006	June 30, 2007	Dec.31, 2007
Treasuries	149	116	23	17
State Bank of India	2,198	2,182	2,127	2,097
SBI Associate Banks	1,008	994	988	983
Nationalised Banks	983	1,028	1,061	1,074
Private Sector Banks	72	83	94	95
Co-operative Banks	1	1	1	1
Foreign Banks	4	4	4	4
Reserve Bank	20	20	20	20
Total	4,435	4,428	4,318	4,291

16. Questioned on the mechanism of monitoring the operations of the large number of currency chests, the Reserve Bank of India, in a written note submitted to the Committee stated as follows:—

“The banks concerned have been instructed to undertake surprise verification of currency chest cash through the officials unconnected with chest at least at bimonthly intervals. Regional/Zonal Managers during their visits to currency chest branches are required to specifically verify the adherence by the chests to instructions relating to entry/exist control. Internal inspection teams also verify cash at the chests/look into adherence to norms.

Daily reports of deposits into and withdrawal from the currency chests are received by RBI ‘online’ through software called ICCOMS. Chest balance confirmation certificate as on 31st May and 30th June every year duly signed by the joint custodians is obtained. Currency chests are required to be inspected by RBI officials at least once in two years. High-risk chests are inspected more frequently. RBI officials also make incognito visits to chest branches at random to ascertain the standard of customer service and adherence to security aspects, etc. Similarly, the General Manager/Deputy General Manager at Issue Offices pay surprise visits to chest branches.”

17. Asked whether round the clock control mechanism is ensured in currency chest operations, a representative of Ministry of Finance, while deposing before the Committee stated that it was not possible for RBI to monitor them (currency chests) on a hands on basis.

18. In this regard, a representative of Reserve Bank of India while tendering evidence, informed:

“...we have the system where our officers go and cover each currency chest once in two years. We have taken steps to see that the currency chests, which are in high-risk areas like border areas and sensitive areas, are inspected more frequently.”

19. In response to a query raised on the issue of security in the process of transportation of currency to and from the currency chest, the Secretary, Home Affairs submitted before the Committee that Banks make contracts for transportation. In this connection, it has also been stated that there was a requirement of informing the State Police whenever transportation of currency to the Chest or from the Chest was involved.

20. In response to a query on whether security for currency chest operations of public sector banks can be provided by the Central Industrial Security Force (CISF), the Home Secretary, in reply, stated:

“there is no way in which each and every bank branch can be provided with CISF Security.”

21. On being asked whether Public Sector Banks engage private security, the Home Secretary replied in the affirmative.

(iv) Processing of soiled notes

22. The Committee desired to know about the operational mechanism prevailing in the RBI for processing of soiled currency notes. In response, the RBI, in a written note, submitted as under:—

“In April, 2007 a Dynamic Working Model was introduced for processing of soiled notes of Rs. 10, Rs. 20 and Rs. 50 denomination. Rs. 100, Rs. 500 and Rs. 1000 denominations continue to be examined 100% on Currency Verification and Processing Systems (CVPS) machines. Under this statistical random sampling model, banknotes in Rs. 10, 20 and 50 denominations are subject to a percentage check in which a representative sample of a lot (i.e. soiled banknotes considered for processing) is taken for checking of discrepancies i.e. for shortages and counterfeits. If the shortages and counterfeits detected in the representative sample are within the ‘tolerance limit’, then the remaining lot is shredded, else it is subject to 100% checking on CVPS. This ‘tolerance’ is based on shortages and counterfeits detected at each RBI office, is denomination specific and is based on the past data of banknotes examined by CVPS for genuineness. Notes that are found to be suspect by the machine are examined manually by the Note Processing Teams in CVPS Sections.”

23. An issue that figured in the course of the Committee’s deliberations related to the aspect of co-relation in the number of soiled bank notes brought into the RBI system *vis-a-vis* the number of fresh bank notes issued in lieu thereof. In this regard, the Secretary, Home Affairs, while deposing before the Committee admitted to the prevalence of wide variation. The Secretary stated as follows:

“There should be broad equivalence in this. We need to analyse the reasons why that is happening and to find out what remedy there might be.”

C. COUNTERFEIT CURRENCY NOTES IN CIRCULATION

24. The problem of circulation of counterfeit Indian currency notes which are also commonly referred to as Fake Indian Currency Notes (FICNs) has gained significance in the last three years. As per the Ministry of Home Affairs, inputs from the Intelligence Agencies reveal that this organized criminal activity has spread its tentacles in several parts of the country in a very significant manner.

25. As stated by the Ministry of Finance (Department of Revenue) in their Background Note, there are three aspects to the FICN problem in India. These are: (a) domestic printing of FICNs; (b) Smuggling in of FICNs; and (c) Circulation of FICNs.

(i) Counterfeit Notes detected at Reserve Bank and Bank Branches

26. Information in the following table as revealed in the Annual Report of RBI (2008-09), indicates the position of counterfeit notes detected during the years 2005-06 to 2007-08:—

Denomination	Counterfeit Notes Detected					
	Number of Pieces			Value (Rupees)		
	2005-06	2006-07	2007-08	2005-06	2006-07	2007-08
Rs. 10	80	110	107	800	1,100	1,070
Rs. 20	340	305	343	6,800	6,100	6,860
Rs. 50	5,991	6,800	8,119	2,99,550	3,40,000	4,05,950
Rs. 100	104,590	68,741	110,273	1,04,59,000	68,74,100	1,10,27,300
Rs. 500	12,014	25,636	66,838	60,07,000	1,28,18,000	3,34,19,000
Rs. 1000	902	3,151	10,131	9,02,000	31,51,000	1,01,31,000
Total	123,917	104,743	195,811	1,76,75,150	2,31,90,300	5,49,91,180

Note: Data are exclusive of the counterfeit notes seized by police and other enforcement agencies.

27. The break-up of number of pieces of Counterfeit Notes detected at the Reserve Bank and Bank branches respectively during the period 2005-06 to 2007-08 is shown in the table below:—

Reserve Bank and Bank Branches

(In pieces)

Year	Detection at Reserve Bank	Detection at Other Banks	Total
2005-06	119,068 (96.1)	4,849 (3.9)	123,917
2006-07	59,048 (56.4)	45,695 (43.6)	104,743
2007-08	62,134 (31.7)	133,677 (68.3)	195,811

Note: Figures in parentheses in columns (2) and (3) represent the shares in total.

28. In regard to counterfeit notes of the value of Rs. 500/- and Rs. 1000/- detected in ATMs of Banks, the Ministry of Finance (Department of Financial Services) informed the Committee as follows:—

Year	Denomination	No. of pieces detected
2005	100	01
	500	20
	1000	Nil
2006	100	Nil
	500	Nil
	1000	Nil
2007	100	Nil
	500	07
	1000	Nil
2008	100	Nil
	500	03
	1000	01

(ii) Seizure of Fake Indian Currency Notes

29. The details of the total pieces of fake currency recovered and seized, its total value, number of FIRs registered by the police and the number of persons arrested, since 2006, as intimated by the Ministry of Home Affairs are as under:—

Sl. No.	Year	No of pieces of FICN		Face value		FIRs registered	No of persons arrested
		#Recovered	#Seized	#Recovered	#Seized		
1.	2006*	107060	250925	20828350	63088119	1801	2251
2.	2007*	152768	169310	38599380	47284985	1526	1489
3.	2008* (up to June 08)	117514	56890	39079775	17401405	586	462

(*Figures are provisional).

#The figures shown under the head 'Recovered' are those that have been detected at various bank branches and reported by RBI, whereas 'seizure' indicates the 'FICNs' seized by the police.

30. On the issue of the quantum of FICNs in circulation, the Ministry of Finance (Department of Economic Affairs) in their Background Note submitted to the Committee have stated that although the exact figure of FICNs in circulation was not available, increase in the value of FICNs seized over the years shows that the menace continues unabated.

31. The Reserve Bank of India, in this connection, have also admitted in their post evidence note that:—

“No data on the actual circulation of counterfeit notes is available. Hence, it is not possible to estimate the gap between seizure and actual circulation.”

32. Questioned *inter-alia* on the effect of counterfeit currency in destabilizing the Indian economy, the Secretary, Home Affairs, while tendering evidence before the Committee stated:

“Insofar as our assessment is concerned, definitely there is a commercial angle to it. There are people who would want to indulge in commercial activities through the use of fake notes. Various cases in the investigation have indicated linkages of people, who may be concerned with organized criminal gangs, and it is criminal activity, which in turn may have a criminal link or it may have a link with some other more sinister purpose or activity in terms of having a relationship with smuggling of arms.”

According to our information, the printing is taking place in Pakistan. There may be various countries and other territories which may be used for transit purposes.

Now, insofar as printing in Pakistan is concerned, our definite perception and feeling is that it is something which is very closely associated with the activities of ISI. To the extent that it is a part of an activity associated with the activities of ISI, it would have a relationship either in terms of, perhaps, sending *hawala* money to the kind of operatives that they use and so on or some links with terrorist activity or other kinds of criminal activity which we consider it to be linked with terrorist activity. So, I think the purposes would be three-folds”.

(iii) Smuggling of counterfeit currency

33. Aspects relating to the smuggling of counterfeit currency into India fall within the ambit of the Ministry of Finance (Department of Revenue). The import of counterfeit currency into India is prohibited in terms of Ministry of Finance, Department of Revenue Notification No. 23/1999-Cus, dt. 13.4.1999 issued under section 11 of the Customs Act, 1962. Any attempt to import counterfeit currency into India is consequently an offence under the Customs Act, 1962 rendering the smuggled counterfeit currency liable to confiscation under section 111 and the perpetrators liable to penalty under section 112 and criminal prosecution under section 135 which provides for punishment by imprisonment which may extend to seven years with fine. The provisions of the Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974 (COFEPOSA) can also be invoked for preventive detention of the masterminds involved in FICN smuggling.

34. The Customs authorities, including the Directorate of Revenue Intelligence, which function under the Department of Revenue, are responsible for combating the smuggling of counterfeit currency into India.

35. As informed by the Ministry of Finance (Department of Revenue), smuggling in of FICNs from across the country's borders is an important source of FICNs in circulation in India both in terms of volume and also the quality of counterfeit currency being smuggled. The intelligence available and the analysis of seizures made in the recent past, both within and outside India indicate that smuggling in of FICNs has increased significantly since the financial year 2006-07 and is being done by organized criminal gangs having affiliation with the underworld mafia and possibly with the patronage of overseas intelligence agency.

36. The quantum of seizures of smuggled FICNs made by the Customs authorities in the recent past, as submitted by the Ministry of Finance (Department of Revenue), is as follows:—

Financial Year	Face Value of FICN (crores of Rs.)
2006-07	1.68
2007-08	4.07
2008-09 (till 20.8.2008)	1.61

37. In regard to the routes used for smuggling counterfeit currency into the country, the Ministry of Finance (Department of Revenue) have apprised the Committee as follows:

“Large consignments of FICN are being sourced into India from Pakistan, United Arab Emirates (UAE), Nepal and Bangladesh. The smuggling syndicates are also found to be using Sri Lanka, Thailand and Malaysia as transit countries for routing FICN consignments into India with a view to camouflaging the source countries.

FICN is being smuggled into through the international airports such as Bangalore, Chennai, Calicut, Cochin, Hyderabad, Mangalore, Mumbai and New Delhi as also through the Land Customs Stations on the Indo-Pak, Indo-Bangladesh and Indo-Nepal borders through the passengers travelling by rail and road into India. Intelligence indicates that a major route for smuggling of FICN into the North-Eastern parts of the country is through the porous Kailasahar area on the Assam-Tripura border junction with the Bangladesh border.

As a result of organized FICN smuggling into India, the border areas in Punjab, West Benal, Bihar and Uttar Pradesh have become sensitive to circulation of FICN. In particular, towns in Western Uttar Pradesh such as Muzaffarnagar, Hapur and Bulandshahar are sensitive from the point of view of circulation of FICN. Further, Bangalore and Cochin in southern India and Murshidabad and Malda districts on the Indo-Bangladesh border are also sensitive to FICN circulation.”

D. PENAL PROVISIONS RELATING TO COUNTERFEIT CURRENCY

38. The domestic printing, circulation and possession of fake currency notes are offences under sections 489A, 489B, 489C, 489D and 489E of the Indian Penal Code (IPC). These are investigated and prosecuted by the State Police. At present, the offence of “Counterfeiting Currency Notes or Bank Notes” as in Section 489A of IPC and “using as genuine, forged or counterfeit currency notes or bank notes” as in Section 489B of IPC are included in Part B of the schedule to Prevention of Money Laundering Act, 2002 (PMLA).

39. Details of these sections provided in the Indian Penal Code for detection and prevention of circulation of counterfeit currency are as follows:—

“Section 489A. Counterfeiting currency notes or bank-notes—Whoever counterfeits, or knowingly performs any part of the process of counterfeiting, any currency-note or bank-note, shall be punished with imprisonment for life or with imprisonment of either description for a term which may extend to ten years, and shall also be liable to fine.

Section 489B. Using as genuine, forged or counterfeit currency-notes or bank notes—Whoever sells to or buys or receives from any other person, or otherwise traffics in or uses as genuine, any forged or counterfeit currency-note or bank-note, knowing or having reason to believe the same to be forged or counterfeit, shall be punished with imprisonment for life, or with imprisonment of either description for a term which may extend to ten years, and shall also be liable to fine.

Section 489C. Possession of forged or counterfeit currency-notes or bank-note—Whoever has in possession any forged or counterfeit currency-note or bank-note, knowing or having reason to believe the same to be forged or counterfeit and intending to use the same as genuine or that it may be used as genuine, shall be punished with imprisonment of either description for a term which may extend to seven years, or with fine, or with both.

Section 489D. Making or possessing instruments or materials for forging or counterfeiting currency notes or bank-notes—Whoever makes or performs any part of the process of making, or buys or

sells or disposes of, or has in his possession, any machinery, instrument or material for the purpose of being used, or knowing or having reason to believe that it is intended to be used, for forging or counterfeiting any currency note or bank note, shall be punished with imprisonment for life, or with imprisonment of either description for a term which may extend to ten years, and shall also be liable to fine.

Section 489E. Making or using documents resembling currency notes or bank notes—(1) Whoever makes, or causes to be made, or uses for any purpose whatsoever, or delivers to any person, any document purporting to be, or in any way resembling, or so nearly resembling as to be calculated to deceive, any currency note or bank note shall be punished with fine which may extend to one hundred rupees.

(2) If any person, whose name appears on a document, the making of which is an offence under sub-section (1), refuses, without lawful excuse, to disclose to a police officer on being so required the name and address of the person by whom it was printed or otherwise made, he shall be punished with fine which may extend to two hundred rupees.

(3) Where the name of any person appears on any document in respect of which any person is charged with an offence under sub-section (1) or on any other document used or distributed in connection with that document if may until the contrary is proved, be presumed that that person caused the document to be made.

Section 489F. Punishment for preparation for committing offences under section 489A to section 489E—Whoever, makes any preparation for committing any offence punishable under section 489A to section 489E shall be punished with imprisonment for a term which may extend to one-half of the imprisonment provided for that offence, or with fine, or with both”.

E. MECHANISM OF CO-ORDINATION AMONG THE AGENCIES CONCERNED

40. On aspects relating to enforcement efforts and co-ordination among various agencies involved in countering the problem of counterfeit currency, the Background note furnished by the Ministry of Home Affairs states *inter-alia* as under:—

“The CBI has been nominated as the nodal agency for purposes of FICN and the DRI is mandated to act as the lead operational agency and all intelligence on this is required to be shared with DRI. The State police has been tasked to act as lead operational agency for indigenously counterfeited Indian currency. CBI, has, *inter-alia*, been sensitizing the State police forces on various aspects of the subject of FICNs.

Further, NCRB has been collating and compiling figures relating to FICNs. The Central Economic Intelligence Bureau (CEIB) under the Department of Revenue is also collating and compiling reports received from the State/UT Administrations and other enforcement agencies.

A Group headed by the Joint Secretary (IS) in MHA has been constituted to identify and oversee implementation of suitable counter measures in terms of policy, organizational and procedural aspects so as to address the menace of FICNs. Representatives of RBI, Cabinet Secretariat, Department of Financial Sector, CBI, MEA, Enforcement Directorate, DRI, CEIB, FIU-IND, Department of Legal Affairs and NCRB are the constituents of this Group. In its meetings, the Group has taken up the issue of greater coordination amongst various agencies for sharing of real time actionable intelligence. It also endeavours to devise a more practical proforma in which NCRB could get information from SCRBs, so that there is more efficient method of collation, compilation and dissemination of data regarding FICNs to the stakeholders in order to have a better analysis.”

41. Questioned specifically on the means by way of which effective co-ordination was ensured among the investigative agencies concerned in countering the problem of counterfeit currency, the Secretary, Home Affairs, while tendering evidence stated:

“At the functional level, we have the CBI which has been declared as the Nodal agency for coordination with the States because

eventually any action of seizure, prosecution and investigation etc., would vest in each State where a particular detection or seizure might take place. So, there is a very important need to coordinate with the States to see how we can at least detect some of the larger cases and then carry them through to the logical conclusion so that the routes and sources, apart from everything else, could be traced. Therefore, we have a nodal mechanism at the level of the CBI.”

42. In this regard, the Secretary also added:

“I have written a couple of D.O. letters to the Chief Secretaries of the States. In one of such letters, we have said that they must set up a Nodal Cell at the State Government level and declare a senior officer as the Nodal Officer so that he can coordinate with the District Superintendents of Police as to what are the cases, whether investigations are taking place properly or not and that in turn, can also become a feedback mechanism for the CBI.”

43. Touching upon the measures underway for enabling smoother flow of information for tackling the problem, the Home Secretary also informed:

“Having set up these nodal mechanisms at various levels, we are now in the process of seeing how this information flow becomes more smooth, how they can be better utilized in terms of analysis so that policy interventions, wherever required, could be brought in either by the RBI or by the Ministry of Finance or by the Ministry of Home Affairs, how detection of significant cases can take place which could lead to the routes of the cases and so on, but also to identify those cases where the name of some foreign national or some Indian national in some other country or any seizure in another country that comes to notice.”

44. On the role of CBI in investigating cases relating to counterfeit currency, the Director, CBI, while tendering evidence stated:

“We have a small unit so we are not able to take over all the cases. We would continue to support the State Governments and the State police forces in investigating their cases. So, the main role of CBI is to coordinate and we are the nodal agency for taking further investigation of these cases and also coordinating at the Central level with various intelligence agencies.”

45. On the role of RAW in operations relating to tackling the problem of counterfeit currency, a representative of RAW, while deposing before the Committee stated:

“The RAW in this has a limited role of identifying through our operations to inputs on movements of currency and then passing on to the concerned agencies.

The other thing is that we have been liaising with our counterparts in the neighbouring countries, if they are able to get some information on seizure of such currency.”

46. Asked to clarify as to how the credentials of international companies which may be engaged for supplying banknote paper etc. were verified, a representative of CBI, stated before the Committee as under:

“In that case we are dependent on Government agencies which operate outside the country like RAW, foreign missions, etc. We have to depend on them.”

**F. CASH SHORTAGE AND COUNTERFEIT CURRENCY IN
STATE BANK OF INDIA, DOMARIAGANJ BRANCH
(DISTT. SIDDHARTHA NAGAR)**

47. An incident of cash shortage and counterfeit currency was detected in the currency chest of Domariaganj Branch (District Siddhartha Nagar), Uttar Pradesh. The brief details in this regard as submitted by RBI read *inter-alia* as under:—

“On July 29, 2008, the police informed RBI Lucknow Office that a large quantity of forged notes of Rs. 500 and Rs. 1000 denominations were seized in an operation conducted by Special Task Force of the UP Police. They also informed that the cashier of SBI, Domariaganj branch, Siddhartha Nagar District, Uttar Pradesh, was arrested. RBI Lucknow Office sent a team of officers to the concerned currency chest on the following day. Preliminary verification by the team indicated shortages as well as numerous counterfeit notes in the bundles of Rs. 100 and Rs. 500 denomination notes. Two bundles of Rs. 1000 denominations were also found to be counterfeit”.

48. In this connection, the State Bank of India stated in a written note that the ‘Special Task Force (STF) of UP Police had arrested one Shri Abid Sheikh and recovered counterfeit currency from his possession. During interrogation, Shri Sheikh indicated the name of Shri Sudhakar Tripathi, Special Assistant at Domariaganj Branch for assisting him in circulation of fake currency notes. On 29.07.2008, the STF arrested Shri Tripathi under Section 489 (b) and 489 (c) of IPC reportedly after recovering a sum of Rs. 7.19 lacs from his house.

Shri Sudhakar Tripathi, Special Assistant was holding charge of cash at Domariaganj Branch on the day of his arrest. A team of three Bank officers was immediately rushed to Domariaganj Branch for verification of currency chest at the commencement of business on 30.07.2008. While carrying out the physical verification of chest, a shortage of 14 bundles *i.e.* 14,000 pieces of notes of denomination of Rs. 500.00 (Rs. 70.00 lacs) was detected.

49. As on August 12, 2008, the Inspecting Officers of RBI had screened 1,56,000 pieces of notes at the Domariaganj Branch of SBI, of

which 73,199 pieces were detected as counterfeits. The related details as furnished by the Reserve Bank of India are as under:—

Denomination	Pieces verified	No. of forged notes detected	Total value of forged notes	% of forged notes detected so far
1000	33000	6928	6928000	20.99
500	121000	64895	32447500	53.63
100	2000	1376	137600	68.80
Total	156000	73199	39513100	

50. While submitting the latest information (as on 1st December, 2008) in this regard, the Reserve Bank of India informed that in the currency chest at Domariaganj Branch, RBI team have detected forged notes to the tune of Rs. 4,01,17,200. Details of which are as under:—

Denomination	Counterfeit notes detected	
	No. of pieces	Value (Rs.)
Rs. 1000	6,928	69,28,000
Rs. 500	65,678	3,28,39,000
Rs. 100	3,502	3,50,200
Total	76,108	4,01,17,200

51. In this regard, a representative of RBI submitted while tendering evidence that the incident happened because of the nexus between Sudhakar Tripathi (Special Assistant of the Branch) and Abid Sheikh.

52. Further, in this regard during his deposition before the Committee, the Chairman, SBI stated as under:—

“So far at no other Branch at the moment any other forged note has been found. So, this seems to be isolated or concentrated at this particular Branch of Domariaganj”.

53. Pending detailed verification, the RBI has debited State Bank of India with an amount of Rs. 184.23 crore, representing the total balances held in the currency chest. Questioned on the reasons for debiting an amount of Rs. 184.23 crore, from SBI, the Reserve Bank in a post-evidence reply, stated as follows:

“The entire integrity of the RBI’s currency management system is based on the ‘bailor-bailee’ relationship. Deliberate and large-scale replacement of RBI’s currency held in the chest with forged notes by the bank’s cashier was unprecedented and shocking. The preliminary verification indicated shortage of Rs. 70 lakh and large

presence of counterfeits in the currency chest. Thus without detailed examination, it was not possible to ascertain how much of the chest balances represented forged notes and how much good notes. Hence, pending detailed examination, the entire balance of Rs. 184.23 crore reported to be held in the currency chest, was debited to SBI. The detailed examination, which was taken up as soon as the incident came to light is expected to conclude shortly, after which the amount represented by the good notes will be re-credited to SBI's account".

54. With regard to the action taken by the bank in connection with this finding, the SBI, in a written reply, stated as under:—

"As Shri Sudhakar Tripathi, Special Assistant is *prima-facie* found to be the prime suspect, he has been placed under suspension. The permanent joint custodians of cash, *viz.* Shri Ishwar Deen Kureel, Cash Officer, and Shri Raja Ram, Accountant have been removed from the charge of cash at the Branch & also shifted from the Branch. The existing Branch Manager at Domariaganj Branch has been replaced. While new Joint Custodians have been posted exclusively to hold charge of currency chest at the branch to hand over currency for verification by RBI team/Bank's team and to ensure safekeeping of all currency notes, both genuine and counterfeit. Another Accountant and Cash Officer have been provided for day to day working of the branch. The Chest at the Branch has been taken off the control of the Branch and put under the overall control of a Chief Manager exclusively posted there for the purpose. The Bank has ordered internal investigation (including by the vigilance department) in the entire case and necessary administrative action will be taken upon receipt of the reports."

55. Responding to a query of the Committee regarding the action taken against the officials involved in the case, the representative of RBI stated during evidence that both the Branch Manager and the Cash Accountant were suspended. As yet, no punishment has been given to them, but inquiries were underway and at the end of it, appropriate punishment would be meted out.

56. With specific reference to the incident of cash shortage and detection of counterfeit currency at the Domariaganj Branch of SBI, the Director, CBI stated before the Committee as under:—

"This case has been registered with the UP Police, who have conducted the investigation and they have also arrested some people. They have issued a notification transferring the case to CBI. It came out in the Press much before and we contacted them but it was only a few days ago we received the notification. Now, another notification is required to be issued by the Department of Personnel, Government of India. We have taken up the matter with them. Once we get the notification we will transfer the case to CBI and take up the investigation."

**G. WITHDRAWAL OF HIGH DENOMINATION CURRENCY
NOTES—1996 & 2000 SERIES**

57. As informed to the Committee, most of the counterfeit notes seized pertain to 1996 and 2000 series of bank notes. It has also been informed that about 70 per cent of the cases that have been detected till date involve fake currency notes in the denomination of Rs. 500 and the balance was of Rs. 1000 denomination.

58. Asked whether the Government was proposing to withdraw the currency notes of Rs. 500 denomination, a representative of the Ministry of Finance (Department of Economic Affairs), while deposing before the Committee stated as follows:—

“...Counterfeiting attempt is being made on all kinds of currencies which include currencies which are post-2005 also. So, the proposition is that there are certain security features on the currency notes which were introduced in 1996 series and then there were certain security features which were introduced in 2000. There were certain other higher security features which were introduced in 2005, whereas, in counterfeiting the security features which were introduced in 1996 and 2000 respectively have been known to be successfully breached, which means that the counterfeiters were able to replicate them and, therefore, the notes that they are producing as counterfeits are near the real currency notes. The security features which were introduced in the year 2005 have not been breached. Therefore, the question of withdrawing those currency notes which are 2005 security feature does not arise.”

59. Also, in this regard, the Ministry of Finance (Department of Economic Affairs) in their post evidence information submitted to the Committee, stated as follows:—

“The issue and distribution is done by the Reserve Bank of India. The withdrawal Plan has been drawn up by the Reserve Bank of India. The Expert Committee that is set up within the Department of Economic affairs, sat with the law enforcement agencies, with the representatives of RBI etc. and decided on the phasing out of pre-2005 high denomination currency notes as quickly as possible as the Members are suggesting”.

60. A representative of Ministry of Finance (Department of Economic Affairs), while tendering evidence, informed that the RBI

had initiated the process of withdrawal of the currency notes of Rs. 500 denomination of the 1996 series. The Plan drawn by the RBI for withdrawing the currency notes of the 1996 and 2000 series, whose security features are found to have been breached is as follows:—

Withdrawal Plan for various denominations

Sl. No.	Denomination	Existing series	Series & proposed date for withdrawal
1	Rs. 1000	2000	Not proposed
		2005	Not proposed
2.	Rs. 500	1996	January, 2008
		2000	Starting January, 2009*
		2005	Not proposed
3.	Rs. 100	Prior to 1996	Starting July, 2008
		1996	Starting July, 2009*
		2005	Not proposed
4.	Rs. 50	Prior to 1996	Starting January, 2009*
		1996	Starting July, 2009*
		2005	Not proposed
5.	Rs. 20	Prior to 2000	Starting January, 2009*
		2000	Starting July, 2009*
		2006	Not proposed
6.	Rs. 10	Prior to 1996	Starting July, 2008
		1996	Starting Janaury, 2009*
		2006	Not proposed

*To coincide with the new series with new security features

H. SOURCING AND PRINTING OF CURRENCY NOTES

61. Various security features are incorporated in the Bank Notes from time to time to abort possibilities of counterfeiting. The security features are of two types *viz.* (i) Paper based, and (ii) Print based. The paper based security features are incorporated at the paper manufacturing stage. These include security thread, water mark, fluorescent fibers and physical & chemical characteristics of the paper. Print based security features include Anti-photo copying feature, Optically Variable Ink (OVI), See Through Effect, Intaglio Printing etc.

62. Currency paper is manufactured indigenously at the Security Paper Mill at Hoshangabad which has a capacity of producing 3000 MT of paper annually. However, the machinery at the Mill being old, only about 25000 MT of the annual requirement of currency note paper is manufactured at the Mill. A large quantity of paper is, therefore, imported to meet the requirements from various countries *viz.* UK, Netherlands, Germany, Italy, France etc.

63. As informed by the Ministry of Finance (Department of Economic Affairs) about six companies based in European countries are selected for procuring security/bank note paper. Questioned *inter-alia* on security aspects of procuring bank note paper from companies based abroad, the Ministry of Finance (Department of Economic Affairs) in a written reply, stated as under:—

“For procurement of security paper a global pre-qualification tender is issued. The Security clearance from the Intelligence Bureau is obtained in respect of the pre-qualified bidders before they are issued the tender documents for submission of technical bids and financial bids. Apart from security clearance of IB, the supply of order is given to the L-1 bidder after considering the past track record relating to supply of paper to India or other countries during the last 5 years. The supplier is under contractual obligation not to disclose the security features of the India specific paper to any third party and also not to supply India specific paper to any other country. Thus, the security of the paper is ensured to the maximum extent possible.”

64. In response to a question on excessive dependence on foreign companies in regard to security features of bank notes, the Ministry of Finance (Department of Economic Affairs) in a post-evidence reply, stated as under:—

“The security features for currency notes are generally changed after few years and the technology is also different as well as

patented in most cases. Research and Technology infrastructure for developing new security features and designs does not exist in the country and it is generally available with only few currency paper manufactures.

A Standing Committee of Experts has been constituted by Government of India and the road map for developing security features indigenously is yet to be evolved due to lack of expertise in this field. However, in India security thread is being manufactured for lower denomination currency notes and Non-Judicial Stamp Papers by indigenous firms who have obtained technology from their associates based at Europe/USA. Similarly, Security fibres are also sourced indigenously.

The printing features are dependent on machinery available and as the machinery available at Security Printing and Minting Corporation of India Pvt. Ltd. (SPMCIL)/Bharatiya Reserve Bank Note Mudran Pvt. Ltd (BRBNMPL) is dedicated to printing design features of existing currency notes of our country therefore, effort cannot be initiated for creating new printing security features. It is also necessary to procure various equipments to start experiments for plate making both for intaglio and offset printing which is at planning stage. Moreover, structured system for testing new printing features is presently not existing.”

65. On measures underway for strengthening the security features of Indian Currency notes, by reducing the dependence on companies based abroad, the Ministry of Finance (Department of Economic Affairs), in a written note, submitted as under:—

“Security Paper Mill, Hoshangabad is being revamped to replace the old cotton plant. The contract for new cotton comber plant has already been awarded and installation is likely to be over before the close of 2009. Thereafter, the modernization of paper machines in the existing mill would be taken up. These efforts will increase capacity of the mill from about 2700 MT per annum to 4000 MT per annum.

A new line of production is also being added at SPM, Hoshangabad for which pre qualification bids have already been received and are under examination. This will further add capacity of 4000 MT per annum.

The Security Printing and Minting Corporation of India Ltd. (SPMCIL) has been granted in principle approval to set up a new security paper mill in joint venture with a leading security paper manufacturer with a capacity of at least 6000 MT per annum. The expression of interest has already been invited and the proposals received are under examination.

The above efforts will fructify in about 2-3 years and will add a capacity of more than 10,000 MT per annum to the existing capacity and will reduce dependence on import of bank note paper by about 75%.

Bank Note Press, Dewas has indigenously manufactured 112 MT of intaglio ink during 2007-08 and the target for the next year is 250 MT. This will meet about a quarter of the total requirement of approx. 1000 MT.

A High Level Committee of Experts has been set up to examine the whole gamut of problems caused by circulation of fake currency notes. High Level Committee has constituted a Technical Sub-Committee to invite inputs of security features from various agencies, to examine the same and make recommendations to the High Level Committee. On the decisions of the Technical Sub-Committee, the Department of Economic Affairs has already invited proposals from various international agencies which can provide security features for bank note paper, printing features and ink features to further strengthen the security features of bank notes. These are likely to be available by the end of August, 2008. Thereafter, selection of more secure security features for future currency notes shall be initiated”.

66. Questioned on the measures for indigenising printing of security/bank note paper, the Ministry of Finance (Department of Economic Affairs) submitted as under:—

“On the indigenisation process, there are two parts. One is modernizing the Security Paper Mill at Hoshangabad and increasing its capacity from 2700 to 4000 MT. That is already under way. In so far as increasing and indigenising the total process is concerned, we want to assure the Committee that this is a very active process and we are going to set up a joint venture for a capacity up to 12,000 MT of currency notes paper. This should take about 2-3 years time when it comes into operation. The following measures have been taken to enhance the indigenous supply of security papers:—

- (a) Stock preparation Plant for manufacturing paper at Security Paper Mill, Hoshangabad is under procurement at an estimated cost of Rs. 58 crore. The delivery and installation is expected to be completed within about next one and half years.

- (b) A new paper machine is proposed to be installed at SPM Hoshangabad replacing one of the existing lines at an estimated cost of Rs. 400 crore. The bids have already been received and are under evaluation. The production from the new machine is likely to be commenced after one and half years from the placement of the order.
- (c) SPMCIL also proposes to set up a new paper mill under joint venture with a leading currency paper manufacture in the world. The proposals from four global paper manufacturers have been received and are under evaluation. The capacity of this paper mill would be at least 6000 MT per annum which may be enhanced to 12000 MT per annum. The project would require the approval of the competent authority in the Government after selection of the joint venture partner and finalization of the draft joint venture agreement. It may take about three years before the production starts from the JV mill after approval of the Government.

67. On the issue of indigenous capability in manufacturing security paper printing machines, the Ministry of Finance (Department of Economic Affairs) informed the Committee as under:—

“The requirement of currency paper making machine is very limited and there is no assured demand. In India, not more than 4-5 machines would be required during next two decades. Presently, there are only two or three currency paper machine manufacturers in the world and they hardly sell a few production lines in a decade. As such neither there is an adequate demand in India nor the technical capability of producing currency paper manufacturing machines”.

68. In response to a question as to why the process of printing of currency note paper has to be through the joint venture route, the Ministry of Finance (Department of Economic Affairs) in a written note stated as follows:—

“Because it ensure continuous upgradation of technology in a rapidly evolving sector. The technology remains globally competitive. The joint venture route is decidedly superior considering different aspects and the security angle can easily be addressed through effective oversight. The advancements that have taken place in this area are quite rapid and, therefore, indigenously we do not have capability of R&D to keep up with the kind of

changes that are being introduced internationally on the security features. The technologies can be purchased at one point of time but as we have seen in the case of Hoshangabad mill, the obsolescence of technology is so rapid that the features that we have there get outdated very quickly. The fact also is that Hoshangabad mill is not in a position, because of the technology that it has, to produce bank paper notes for Rs. 100 and Rs. 500 and Rs. 1000 notes because the security features are of a very high end in nature. Therefore, the technology available in Hoshangabad cannot produce that kind of paper. This is the reason why the currency paper for these denomination is being imported. If it was completely indigenously done, then five years down the line, the technology would be obsolete and therefore once again we will run into the situation of producing paper which is behind the technology curve. Paper producing machine has a life of 25-30 years and it is not cost effective or practical to change machine to accommodate technological changes very often”.

I. DETECTION OF COUNTERFEIT CURRENCY

(i) Security features

69. On the procedure followed in detecting whether a bank note was counterfeit or not, the Ministry of Finance (Department of Economic Affairs) in a post-evidence note, stated as follows:—

“Under Section 292 of the Cr. P.C. 1973, the Government of India has authorized the Note Printing Presses, any Forensic Department or Division of Forensic Science Laboratory or any Government Examiner of questioned documents as by notification specified by the Central Government for examination of suspected currency notes seized by the Police/Intelligence Authorities or received in Banks. The examination of the suspected notes is done by use of scientific instruments by comparing these with the genuine notes of the same series/variety. The examination is conducted with reference to different security features of the paper used, inks and printing features. The security features can be categorized in the three levels:

- (a) **High Level Security Features:** these features can be verified only by examining in detail in laboratories by using specific equipment.
- (b) **Minimum Level Features:** These can be examined by cash handlers/banks using few simple equipment.
- (c) **Low Level Features:** These features can be verified by printing presses having awareness of overt security features of bank notes”.

70. They have further added:—

“A note is examined with reference to the security features of a genuine banknote. The security features of a banknote are indicate in the Reserve Bank’s Master Circular on Detection and Impounding of Counterfeit Notes. Manual examination, Ultra Violet (UV) Lamps, Note Sorting Machines, Currency Verification and Processing Systems (CVPS) individually or in combination are used for the purpose of examining counterfeit notes”.

71. Questioned on publicity/awareness campaigns launched for educating the masses on the features of genuine currency notes, the

Ministry of Finance (Department of Economic Affairs) in a written reply, stated as under:—

“Publicity campaign for educating the masses on the genuine features of a banknotes has always been in force specially so since the year 2006 when Reserve Bank printed posters on *Know in Your Banknote* and distributed to banks for display prominently for information of public. These posters were wisely publicized, besides being available on the Banks website www.rbi.org.in. Pamphlets/ Posters on how to identify genuine banknotes have been prepared and issued of the latest series.

Further, the posters for Rs. 100, Rs. 500 and Rs. 1000 denomination of the earlier series (prior to 2005) are under printing for distribution very shortly. Almost, all Regional Offices of RBI have been participating in State and district level exhibitions where information of how to detect forged notes is displayed and even demonstrated. RBI participated in the Azadi Express where the display on Know you Banknote was very popular.

The Bank has got a film made through the Films Division on *Known Your Banknotes/Don't on Banknotes*, with a view to creating public awareness about the security features of a genuine banknote/appropriate handling of banknotes. While the film has been released in the Films Division's theatrical circuits on June 20, 2008, the Bank has forwarded the Compact Discs to its Regional Offices to arrange to display the same on Regional TV, at Railway/ Bus Stations, Airports, Departmental Stores/Malls, etc. as also to display at schools, colleges, exhibitions, etc. to reach the message to as large a section of the public as possible. The Bank also continuously conducts workshop/provides faculty support on security features of genuine banknotes to banks, utility providers and Law Enforcement Agencies”.

(ii) Anti Counterfeit Measures taken by RBI

72. On being enquired about the additional steps initiated by RBI towards strengthening the security features of the country's currency in the wake of growing detection of fake currency notes in circulation in the banking system, the Reserve Bank of India, in their written information summed up as follows:—

“Maintaining the integrity of its currency is one of the most significant tasks of Reserve Bank of India so that confidence of the public is not affected. Meeting the threat of counterfeiting of

banknotes remains as a priority item with the Bank and like all the Central Banks, Reserve Bank of India makes all efforts to be one step ahead of the counterfeiters by initiating various measures to make their task more difficult. The steps taken by the Reserve Bank of India in this regard are as follows:

- (i) Additional/new security features were incorporated in the Indian banknotes in all the denominations, viz. Rs. 10/- Rs. 20/- Rs. 50/- Rs. 100/- Rs. 500/- and Rs. 1000/- in August 2005 and the entire process was completed by August 2006. It is understood that no counterfeit banknote, with the new/additional security features has been detected so far.
- (ii) All the 4271 currency chests have been equipped with Note Sorting Machines so that counterfeit banknotes, if any, get detected at their entry to the formal banking system.
- (iii) The Reserve Bank of India has also initiated the process of supplying Note Sorting Machines at 210 non-currency chest branches of Commercial Banks which are near the international border, have high cash dealings or where the incidence of counterfeits have been more.
- (iv) Considering the fact that higher denomination banknotes are subjected to more counterfeiting, Reserve Bank has initiated the process of phasing out banknotes of earlier series. The latest action has been initiating the phasing out of Rs. 500 denomination banknote in MG 1996 series in July 2008.
- (v) Extensive awareness campaign has been resorted to in the electronic and print media. Posters containing the pictorial details of additional/new security features have been provided to all banks for wider dissemination of the features of the genuine banknotes.
- (vi) The Regional Offices of the Reserve Bank have been advised to facilitate public awareness of these security features at the local levels through organisations such as the railways, police, electricity companies, telephone authorities as well as through posters printed in vernacular.
- (vii) Workshops on detection of counterfeit banknotes are regularly conducted for the banks and other organizations.
- (viii) The details regarding the security features of the new bank notes have also been posted on the Reserve Bank's website.

- (ix) The Reserve Bank has set up in its Central Office a separate Division for collection of data and analysis thereof on counterfeit notes detected in the banking sector for taking appropriate steps in combating counterfeit notes. All commercial banks have also been directed and have since formed Forged Note Vigilance Cells at their Head Offices/ Controlling office levels towards compiling statistics, helping filing FIR and looking into the modus operandi etc. as per instructions.
- (x) The banks have been instructed to lodge FIR with the Police Authorities in respect of counterfeit notes detected at their counters. The Regional Offices of RBI also lodge FIR on detection of counterfeit notes in the remittances received from the banks/over the counters.
- (xi) Government of India has designated CBI as the nodal agency to coordinate and monitor investigations of cases involving detection of counterfeit notes. CBI has since nominated nodal officers for each State.
- (xii) State Level Committees have been formed headed by Director General of Police to deal with the issue of counterfeits.
- (xiii) Since upgradation of Security features is an ongoing process, the Bank monitors the development of features worldwide and through the last series of banknotes have been introduced only 2-3 years back, the Bank along with Government of India has initiated the process of examining the new security features available worldwide”.

73. Questioned whether polymer currency notes would help in reducing or overcoming the problem of counterfeiting, the Ministry of Finance (Department of Economic Affairs) in their post-evidence information stated as under:—

“A proposal to introduce polymer notes in very limited quantity on trial basis is under consideration of the Government. The trial banknotes are proposed in the Rs. 10/- denomination, the lowest denomination in which the Indian banknotes are currently printed. Presently all the large economies such as USA, Europe, Russia, China, India etc. are using paper currency. The polymer notes are in use in Australia, New Zealand and few more small economies. The threat of counterfeiting in those countries is nowhere near the level of threat in the case of India and other larger economies. Therefore, at this juncture, it cannot be said whether polymer notes will be less prone to counterfeiting.”

PART II

OBSERVATIONS/RECOMMENDATIONS

74. Taking note of the gravity and magnitude the problem of counterfeit currency notes in circulation in the country has acquired with damaging consequences for the Indian economy and polity, the Committee decided to take up this subject for detailed examination. By the own admission of the authorities, there has been a spurt in the circulation of fake currency notes in recent times with the value of counterfeit currency detected sharply increasing from about Rs. 1.77 crore in 2005-06 to around Rs. 5.50 crore in 2007-08. However, this figure may only be the tip of the ice-berg, as what is seized or detected is only a small part of what might be circulating in the system. Further compounding the problem is the fact that there is no estimate either of the amount or of the volume of counterfeit currency in circulation, which thus remains indeterminate. In the face of such an alarming scenario, the Committee would urge the Government to come to grips with the reality soon and take concerted action to counter this growing menace.

75. The detection and seizure of a large quantity of forged notes of Rs. 500 and Rs. 1000 denominations at the Domariaganj Branch (Uttar Pradesh) of State Bank of India in July, 2008 has been sought to be projected as an isolated incident by the RBI and the SBI. However, the views expressed by the other agencies *viz.* Ministries of Finance and Home Affairs suggest that the problem is more widespread. They have informed that inputs from the Intelligence Agencies indicate that the organized criminal activity of Fake Indian Currency Notes has spread its tentacles in several parts of the country in a significant manner. The Ministry of Finance (Department of Economic Affairs) have clarified in this regard that although the exact figure of Fake Indian Currency Notes (FICN) in circulation is not available, steep increase in the value of FICNs seized over the years show that the menace continues unabated. The Committee, however, find to their surprise that the counterfeit notes detected at RBI and Bank Branches as well as those seized by enforcement agencies aggregate to a small number only, leaving them guessing about the magnitude of the problem. Even in the information made available to the Committee, variation is seen in the figures furnished by RBI and those provided by Ministry of Home Affairs with regard

to counterfeit notes detected and recovered at various bank branches. Such contradictions in perception, assessment and eventual reporting re-inforce the need for a coherent and effective coordination mechanisms among different agencies dealing with the issue, so that a holistic response can be formulated.

The Committee understand that apart from the Ministry of Finance (Department of Economic Affairs) and the RBI, agencies like the CBI, Directorate of Revenue Intelligence, the Central Economic Intelligence Bureau, National Crime Records Bureau and the State Police are involved in different capacities in the task of monitoring, detection and seizure of FICNs and investigation of cases relating to counterfeit currency. It has also been informed that a group headed by the Joint Secretary (Internal Security) in Ministry of Home Affairs has been constituted to identify and oversee implementation of suitable measures to address the problem of FICNs. A High Level Committee of Experts under Department of Economic Affairs has also been set up to examine the whole gamut of problems caused by circulation of fake currency notes. With a view to avoiding multiplicity of management and control, the Committee would like the Government to constitute a nodal Group, comprising senior level representatives from all concerned agencies/Departments and functioning under the overall supervision of the RBI—the principal agency responsible for currency management—to oversee and monitor the implementation of anti-counterfeit measures in a coordinated manner.

76. The Committee are alarmed to note that the interdictions made by enforcement agencies raised the suspicion that the Fake Indian Currency Notes originated from across the borders and were smuggled into the country through diverse routes/channels. Inputs also indicate that trans-national networks exist which use countries such as UAE, Malaysia, Thailand, Bangladesh, Nepal, Sri Lanka and Myanmar as transit points for bringing fake Indian currency into the country. The Pakistan's ISI is also suspected to be involved in both printing and trafficking of fake currency. Inputs available with Ministry of Home Affairs reveal that there is credible evidence to suggest that smuggling of Fake Indian Currency Notes has links with espionage and terrorist activities. The Committee desire that the Government should conduct a comprehensive inquiry into all aspects of the issue including its ramifications on national security. The Research & Analysis Wing also needs to be more involved and adequately sensitized in this regard for harnessing the intelligence channels to secure the cooperation of foreign agencies in the detection

of overseas sources of counterfeit currency and also the verification of credentials of international companies engaged for supplying bank note paper etc.

77. It has come to the notice of the Committee that most of the counterfeit notes seized by enforcement agencies pertain to 1996 and 2000 series. Further, about 70% of the currency detected consists of higher denomination notes, namely Rs. 500 and Rs. 1000. As a remedial measure, the RBI has withdrawn the currency of 500-rupee denomination belonging to 1996 series. They have also stated to have drawn up a plan for withdrawal of currency of different denominations including that of Rs. 500 of 2000 series. However, the Committee note that there is no proposal to withdraw currency of Rs. 1000 denomination belonging to the affected series. Keeping in view the fact that a large volume of high denomination counterfeit currency is being smuggled into and put in circulation in the country, the Committee desire that the RBI should consider phased withdrawal from circulation of currency of Rs. 1000 denomination as well of the 2000 series, if its security features are found to have been successfully breached by the counterfeiters. The RBI should also constantly monitor the situation with regard to currency of the post-2000 series, although they have sought to assure that the security features introduced in 2005 have not been breached as yet.

78. The Committee have been informed that the Inspecting Officers of RBI have detected 76,108 pieces of counterfeit notes valued at about Rs. 4.01 crore at the Domariaganj branch of SBI, which constitutes about 16% of the total number of notes screened. It is a matter of serious concern that the proportion of counterfeit notes detected was so high. As the entire integrity of the RBI's currency management system is based on the 'bailor-bailee' relationship with the banks holding the chests, deliberate and large-scale replacement of RBI's currency held in the branch chest, with forged notes by the bank's cashier is shocking. The Committee hope the inquiry instituted in this case will be concluded early and the Committee apprised of the outcome and the follow-up action taken thereafter. The Committee would expect the RBI to seize this opportunity to identify the lacunae that allowed such a major lapse to happen and initiate substantive corrective measures to overhaul their existing systems and procedures concerning currency management.

79. Available figures with Government, since 2006, indicate that the FICNs detected/recovered at the bank level are gradually increasing *vis-a-vis* the seizures, notwithstanding installation of note

sorting machines by RBI at all the currency chest branches of banks. The Committee have been informed that controlling offices of RBI have been asked to randomly check ATMs fed by currency chest branches for counterfeit notes. RBI has also issued a Master Circular in this regard, which *inter-alia* provides for establishment of Forged Note Vigilance Cell at the Head Office of the bank. Currency chests are also required to be inspected by RBI officials at least once in two years. Obviously, the steps taken by RBI have proved to be inadequate and rather routine in nature. Needless to emphasise, RBI must augment their enforcement efforts in proportion to the magnitude of the problem and strengthen monitoring and inspection systems in regard to currency chests, particularly, the high-risk chests and those in border and sensitive areas. Their vigilance cell needs to be galvanised into action for this purpose. As transportation to and from currency chests and its security is presently under private contracts, RBI needs to constantly monitor this aspect and review the arrangements from time to time.

80. During the course of examination of the subject, it was brought to the notice of the Committee that there is a lot of difference between the number of soiled notes that are coming back to the RBI system and the number of new notes that are being issued, though there should be broad equivalence in this. While conceding this aspect, the Home Secretary during his deposition before the Committee stated that the reasons for such a discrepancy need to be analysed. The Committee would like the Government to seriously look into the matter and apprise the Committee about the corrective action taken. In this context, the efficacy of the mechanized Currency Verification And Processing System (CVPS) under operation in RBI for verification of the bonafides of soiled currency notes should also be evaluated, particularly with a view to preventing higher denomination counterfeit soiled notes from getting shredded as genuine ones.

81. The Committee note that with a view to preventing domestic printing, circulation and possession of FICNs, there are stringent provisions available in the Indian Penal Code (IPC). It is ironical that though the existing law is intended for the persons found to be involved in the crime, in reality, even a common man who innocently carries fake currency in the normal course suffers. It is, therefore, imperative that the existing penal provision should be modified in a way that will protect the innocent common man and not burden him with the onus of proving his innocence. The Committee are of the view that ordinary people unknowingly in possession of

counterfeit currency should not be penalized. For this purpose, the existing legal provisions may be appropriately modified. The requirement of filing an FIR in such cases should also be reviewed. Further, extensive awareness campaign should be conducted and sustained to educate the common man about the basic and recognisable features of a counterfeit note. In this regard, it may be appropriate to make available the Ultra Violet Lamps in all bank branches across the country to facilitate easy detection of basic counterfeit features at bank cash counters.

82. The Committee understand that the foreign supplier of security paper is under contractual obligation not to disclose the security features of the India specific paper to any third party and also not to supply India specific paper to any other country. However, in view of the large smuggling of FICNs into the country, the Committee desire that the Government must investigate whether any breach of the exclusivity agreement executed by the suppliers is actually occurring.

83. As regards the indigenisation process of the production of security paper/machinery, the Committee are dismayed that even after lapse of several years, the decision to set up a Joint Venture Paper Mill has not been operationalised so far. The Committee have been informed that the matter is presently under consideration in the Ministry of Finance. As the dependence on imported paper and optical variable ink make the country vulnerable to printing of fake currency, the Committee urge the Government to recognise this critical need and take immediate steps to indigenise the production of security paper, ink and other inputs.

NEW DELHI;
16 December, 2008
25 Agrahayana, 1930 (Saka)

ANANTH KUMAR,
Chairman,
Standing Committee on Finance.

APPENDICES

MINUTES OF THE SECOND SITTING OF THE STANDING
COMMITTEE ON FINANCE (2008-09) THE COMMITTEE
SAT ON MONDAY, THE 18TH AUGUST 2008
FROM 1400 HRS. TO 1630 HRS.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Gurdas Dasgupta
3. Shri Vijoy Krishna
4. Dr. Rajesh Kumar Mishra
5. Shri Bhartruhari Mahtab
6. Shri P.S. Gadhavi
7. Shri M.A. Kharabela Swain
8. Shri Brajesh Pathak

Rajya Sabha

9. Shri Raashid Alvi
10. Shri M. Venkaiah Naidu
11. Shri S.S. Ahluwalia
12. Shri Mahendra Mohan
13. Shri S. Anbalagan
14. Shri Moinul Hassan
15. Shri K.V.P. Ramachandra Rao
16. Shri Shivanand Tiwari

SECRETARIAT

1. Shri A. Louis Martin — *Joint Secretary*
2. Shri A.K. Singh — *Director*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*

Ministry of Finance (Department of Financial Services)

1. Shri Arun Ramanathan, Secretary
2. Shri K.V. Eapen, Joint Secretary

Ministry of Finance (Department of Economic Affairs)

1. Mrs. Sindhushree Khullar, Additional Secretary
2. Shri Arvind Mayaram, Joint Secretary

State Bank of India (SBI)

1. Shri O.P. Bhatt, Chairman
2. Shri K. Sitaraman, DMD, National Banking Group

Reserve Bank of India (RBI)

1. Shri V.K. Sharma, Executive Director
2. Shri U.S. Paliwal, CGM, DCM

Ministry of Home Affairs

Shri D. Diptivilasa, Joint Secretary

2. At the outset, the Chairman welcomed the representatives of Ministry of Finance (Departments of Financial Services and Economic Affairs), State Bank of India, Reserve Bank of India (RBI) and Ministry of Home Affairs to the sitting of the Committee and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

3. The Committee then took oral evidence of the representatives on the subject "Counterfeit currency notes in circulation". The major issues discussed related to security features of currency notes, determination of counterfeit notes at the Bank Branches and in the courts of law, volume and value of counterfeit currency notes in circulation, action taken against the errant officials of the Domariaganj branch of State Bank of India, plan of action on the part of RBI for withdrawing currency notes of the series whose security features are found to be breached, indigenous printing of currency notes, role of vigilance cell of SBI in monitoring currency chests at banks, suggestions of High Level Committee set up by RBI to prevent circulation of counterfeit currency, co-ordination mechanism between RBI, Ministry of Finance and law enforcement agencies in tackling the problem of counterfeit currency etc.

4. Since the Chairman had to leave the meeting, in his absence, the Committee chose Shri Bhartuhari Mahtab to chair the remaining part of the sitting in terms of Rule 258(3) of the Rules of Procedure.

5. The acting Chairman then directed the representatives to furnish written replies on certain points raised by the Members to which replies were not readily available with them latest by 25 August, 2008.

6. The witnesses then withdraw.

7. A verbatim record of proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE THIRD SITTING OF THE STANDING
COMMITTEE ON FINANCE (2008-09) THE COMMITTEE
SAT ON WEDNESDAY, THE 27TH AUGUST 2008
FROM 1100 HRS. TO 1405 HRS.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Gurdas Dasgupta
3. Shri Vijoy Krishna
4. Shri Bhartruhari Mahtab
5. Shri Rupachand Pal
6. Shri A. R. Shaheen
7. Shri G.M. Siddeshwara
8. Shri Brajesh Pathak
9. Shri Ramakrishna Badiga

Rajya Sabha

10. Shri Raashid Alvi
11. Shri M. Venkaiah Naidu
12. Shri S.S. Ahluwalia
13. Shri Vijay J. Darda
14. Shri S. Anbalagan
15. Shri Moinul Hassan
16. Shri Shivanand Tiwari

SECRETARIAT

1. Shri A. Louis Martin — *Joint Secretary*
2. Shri A.K. Singh — *Director*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*

PART I
(1100 to 1145 hours)

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| 2. | ** | ** | ** |
| 3. | ** | ** | ** |

PART II
(1145 to 1405 hours)

WITNESSES

Ministry of Finance

Department of Revenue

1. Shri P.V. Bhide, Secretary
2. Shri K. Jose Cyriac, Additional Secretary
3. Shri A.P. Kala, S.S. & D.G. CEIB
4. Shri S. Dutt Majumdar, D.G. DRI
5. Shri J.K. Batra, Member, Customs, CBEC
6. Shri Mukul Singhal, Joint Secretary
7. Shri Vineet Kumar, D.D.G.& JS, CEIB
8. Shri Sanjay Mahendru, A.D.G., CEIB
9. Shri Arun Goyal, Director, FIU-IND
10. Shri Sanjeev Singh, Addl. FIU-IND
11. Shri Vivek Wadekar, Add. Director, FIU-IND
12. Ms. Priya V.K. Singh, Director

Department of Economic Affairs

1. Mrs. Sindhushree Khullar, Additional Secretary
2. Shri Arvind Mayaram, Joint Secretary

Ministry of Home Affairs

1. Shri Madhukar Gupta, Home Secretary
2. Shri D. Diptivilasa, Joint Secretary
3. Shri Nasir Kamal, Director, NCRB
4. Shri P.K. Mishra, Director

Central Bureau of Investigation (CBI)

1. Shri Ashwani Kumar, Director
2. Sh. Rajni Kant Mishra, Joint Director, CBI/EOW II
3. Shri Rajiv Singh, DIG, CBI/EOW II
4. Shri S.K. Peshin, SP, CBI/EOW VI

Research & Analysis Wing (R&AW)

1. Shri P.V. Kumar, Special Secretary
2. Shri Jaideep Nair, Director
3. Shri B.P. Pandey, Director

Intelligence Bureau (IB)

Shri R. Bagchi, Additional Director

4. The Chairman welcomed the representatives of the Department of Revenue, Department of Economic Affairs, Ministry of Home Affairs, Central Bureau of Investigation (CBI) Research and Analysis Wing (R&AW) and the Intelligence Bureau and invited their attention to the provisions contained in Direction 55 of the Directions by the Speaker.

5. The Committee then took oral evidence of the representatives on the subject, "Counterfeit currency notes in circulation". The major issues discussed related to, volume and value of Fake Indian Currency Notes (FICNs) in circulation, sourcing of counterfeit currency notes from other countries, possible motive and effect of counterfeit currency in destabilising the Indian economy, mechanisms of co-ordination between the various central intelligence agencies and State police on countering the problem, security measures in transit of currency notes from the issue office of the Reserve Bank to currency chest branches and at Bank branches and ATMs, breach of security features of currency notes, plan for indigenisation of printing of currency management and countering the problem of counterfeit currency.

6. The Chairman directed the representatives to furnish written replies to the points raised by the Members within fifteen days.

7. The witnesses then withdraw

The Committee decided to meet again on 5 September, 2008.

A verbatim record of proceedings has been kept.

The Committee then adjourned.

MINUTES OF THE TWELFTH SITTING OF THE STANDING
COMMITTEE ON FINANCE (2008-09) THE COMMITTEE
SAT ON MONDAY, THE 16TH DECEMBER, 2008
FROM 1700 HRS. TO 1800 HRS.

PRESENT

Shri Ananth Kumar—*Chairman*

MEMBERS

Lok Sabha

2. Shri Gurdas Dasgupta
3. Shri A. Krishnaswamy
4. Shri Bhartruhari Mahtab
5. Shri Rupchand Pal
6. Shri P.S. Gadhavi
7. Shri K.S. Rao
8. Shri Lakshman Seth
9. Shri M.A. Kharabela Swain
10. Shri Suresh Prabhakar Prabhu

Rajya Sabha

11. Shri Raashid Alvi
12. Shri Mahendra Mohan
13. Shri Vijay J. Darda
14. Shri K.V.P. Ramachandra Rao

SECRETARIAT

1. Shri R.C. Ahuja — *Additional Secretary*
2. Shri A.K. Singh — *Director*
3. Shri T.G. Chandrasekhar — *Deputy Secretary*
4. Shri R. K. Suryanarayan — *Deputy Secretary II*

PART I
(1700 to 1740 hrs.)

WITNESSES

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| 2. | ** | ** | ** | ** | ** |
| 3. | ** | ** | ** | ** | ** |

PART II
(1740 to 1800 hrs.)

4. The Committee, then took up the following draft reports for consideration (i) Flow of Credit to Agriculture Sector and (ii) Counterfeit Currency Notes in Circulation, and adopted the first report with minor modifications and second report without any amendment/modification.

5. The Committee then authorized the Chairman to finalise the reports in the light of the modifications made and present the same to Parliament.

A verbatim record of proceedings has been kept.

The Committee then adjourned.