

**BRINGING OF RESERVE BANK OF
INDIA, NATIONALISED BANKS
INCLUDING STATE BANK OF INDIA
AND ITS SUBSIDIARIES AND OTHER
FINANCIAL INSTITUTIONS WITHIN
THE PURVIEW OF COMMITTEE ON
PUBLIC UNDERTAKINGS**

**COMMITTEE ON
PUBLIC UNDERTAKINGS
1992-93**

TENTH LOK SABHA



**LOK SABHA SECRETARIAT
NEW DELHI**

EIGHTH REPORT
COMMITTEE ON PUBLIC
UNDERTAKINGS
(1992-93)

(TENTH LOK SABHA)

Bringing of Reserve Bank of India, Nationalised Banks including State Bank of India and its subsidiaries and other financial institutions within the purview of Committee on Public Undertakings



*Presented to Lok Sabha and laid
in Rajya Sabha on 19.08.1992*

**LOK SABHA SECRETARIAT
NEW DELHI**

August, 1992 / Sravana, 1914 (Saka)

Price: Rs. 9.00

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PUBLISHED UNDER RULE 382 OF THE RULE OF PROCEDURE AND CONDUCT OF BUSINESS IN LOK SABHA (SEVENTH EDITION) AND PRINTED BY THE MANAGER, PHOTOLITHO UNIT, GOVT. OF INDIA PRESS, MINTO ROAD, NEW DELHI.

CONTENTS

	PAGE
COMPOSITION OF THE COMMITTEE	iii
INTRODUCTION	v
REPORT	
PART-I	
BACKGROUND	1
PART-II	
Recommendations/ Observations of the Committee	14

COMMITTEE ON PUBLIC UNDERTAKINGS
(1992-93)

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INTRODUCTION

1. I, the Chairman, Committee on Public Undertakings having been authorised by the Committee to present the Report on their behalf, present this 8th Report on 'Bringing of Reserve Bank of India, nationalised banks including State Bank of India and its subsidiaries and other financial institutions within the purview of Committee on Public Undertakings.'

2. The matter regarding bringing the public sector banks and other financial institutions has been hanging fire since 1968-69. The Ministry of Finance has been opposing this move persistently on one pretext or the other despite the then Finance Minister's (Shri Madhu Dandavate) clear assertion in Rajya Sabha on 28th August, 1990 that to have effective parliamentary control over the banking system the public sector banks should be brought within the purview of Parliamentary Committees.

3. The Committee took evidence of the representatives of Ministry of finance on 12th August, 1992.

4. The Committee considered and adopted the Report at their sitting held on 18th August, 1992.

5. The Committee are obliged to the Members of the Committee on Public Undertakings who served on the Committee in earlier years and took up the matter with the Ministry from time to time. They would also like to place on record their deep sense of appreciation for the invaluable assistance rendered to them by the officials of the Lok Sabha Secretariat attached to the Committee.

6. The Committee wish to express their thanks to the Ministry of Finance for placing before them the information they wanted in connection with the subject. They also wish to thank in particular the representatives of the Ministry of Finance who appeared for evidence and assisted the Committee by placing their considered views before the Committee.

NEW DELHI;
August 18, 1992

Sravana 27, 1914 (Saka)

(A.R. ANTULAY)
*Chairman,
Committee on Public
Undertakings*

REPORT
PART I
Background

1.1 With the ever increasing number of public sector undertakings and heavy Government investment in them there was a great demand for creation of a separate Parliamentary Committee to act as a permanent watchdog to oversee the functioning of the public sector undertakings. With this end in view and to ensure better accountability of Public Undertakings to Parliament, the Committee on Public Undertakings was constituted in May, 1964.

1.2 The functions of the Committee on Public Undertakings as laid down in rule 312A are to examine the Reports and Accounts of the Public Undertakings specified in the Fourth Schedule of the Rules of Procedure and Conduct of Business in Lok Sabha and the Reports of the Comptroller and Auditor General of India thereon, if any, and to examine in the context of the autonomy and efficiency of the public undertakings, whether the affairs of the public undertakings are being managed in accordance with the sound business principles and prudent commercial practices. The Committee may also examine such subjects or matters which may be specifically referred to it by the House or by the Speaker. The Committee are, however, barred from examining and investigating matters of major Government policy as distinct from business or commercial functions of public undertakings, matter of day-to-day administration and matters for the consideration of which machinery is established by any special statute under which a particular undertaking is established.

1.3 Every Government Company whose Annual Report is placed before the Houses of Parliament under-sub-section (1) of section 619A of the Companies Act 1956, comes within the purview of the Committee. Only 11 statutory corporations set up through Central Acts and listed in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha come within the purview of the Committee at present. If any Statutory Corporation is to be brought within the purview of the Committee, the matter is required to be placed before the Rules Committee for incorporating the name of such statutory Corporation(s) in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha. The motion moved by the Industry Minister in Lok Sabha in November, 1963 contained 7 Statutory Corporations. The following Public Undertakings

established through Central Acts were added in the Fourth Schedule by the Rules Committee on the recommendations of the Committee on Public Undertakings:—

- (i) Food Corporation of India (Nov., 1969)
- (ii) International Airports Authority of India (April, 1973)
- (iii) Industrial Development Bank of India (Dec., 1973)
- (iv) The Agriculture Refinance & Development Corpn. (December, 1973)
(ceased to be in existence since July 1982 on formation of NABARD)
- (v) The Delhi Transport Corporation (May, 1974)

1.4 The question of bringing the nationalised banks including the State Bank of India and its subsidiaries and other public sector financial institutions like Reserve Bank of India, Industrial Development Bank of India, Agricultural Refinance Development Corporation and Unit Trust of India has been engaging the attention of the Committee on Public Undertakings since 1968-69. On the matter being referred to the Ministry of Finance for their comments, the Ministry of Finance informed in 1970 that they had no objection to IDBI and ARDC being brought within the purview of CPU. These two undertakings were brought within the jurisdiction of Committee on Public Undertakings in 1973.

1.5 In 1970, the Ministry of Finance was not totally averse to bringing the Reserve Bank of India, State Bank of India including its subsidiaries, nationalised banks and Unit Trust of India within the purview of CPU. In regard to Reserve Bank of India the Ministry was agreeable to bring it within the purview of Committee on Public Undertakings on the pattern of U.K., where the Bank of England was brought within the purview of the Select Committee on Nationalised Industries. The House of Commons provided for the exclusion of the following activities of Bank of England from the purview of the Committee:—

- (i) activities in the formulation and execution of monetary and financial policy, including responsibilities for the management of the gilt-edged money and foreign exchange markets;
- (ii) activities, as agents of the Treasury, in managing the Exchange Equalisation Account and administering Exchange Control; or
- (iii) activities as a banker to other banks and private customers.

1.6 With regard to bringing of nationalised banks and State Bank of India and its associated banks within the purview of CPU, the Ministry of Finance had then stated:—

“.....Further the system of the working of the 14 nationalised banks has to be looked into by Government and has to be streamlined.

Some time must be given for Government to make appropriate adjustments. While it could be suggested that pending those adjustments, in regard to the nationalised banks, the SBI and its subsidiaries which have been in the public sector for some time could at least be brought within the purview of the Committee, it is submitted that it may not be appropriate for only a few banks in the public sector being brought within the purview of the Committee on Public Undertakings while leaving the major portion of public sector banks outside it. In view of these considerations, *the balance of advantage seems to lie in deferring the actual implementation of the decision until these 14 major banks have functioned in the public sector for a few years and their working has stabilised.*"

1.7 Similarly in the case of UTI, the Ministry had stated in 1973:—

".....*on balance of advantage*, it is submitted, till such time as the number of investors and the amount invested reach significant levels, the institution may be kept out of the formal scrutiny of the Parliamentary Committee on Public Undertakings."

1.8 The National Bank for Agriculture and Rural Development (NABARD) was set up in July 1982 by taking over the assets and liabilities of erstwhile Agricultural Refinance & Development Corporation (which was already within the purview of CPU). On a reference being made to bring the NABARD within the purview of CPU in place of ARDC, the Ministry of Finance *vide* their replies given in 1985 and 1987 did not agree to the proposal on the plea that it was performing certain functions of RBI.

1.9 Consequent upon a meeting held on 12th August, 1987 of the Banking Secretary with the Chairman, Committee on Public Undertaking it was emphasised that COPU should have jurisdiction at least on functions of NABARD, which were being undertaken by the erstwhile ARDC. To this, the Ministry intimated on 31st December, 1987 *inter alia*, as follows:—

"The matter has been examined with a view to bring those functions of NABARD within the purview of COPU, which were similar to the functions of erstwhile ARDC. Broadly, it would be seen that these functions constitute a very limited area of operations of NABARD. Apart from the fact that it will be difficult to segregate these functions, a scrutiny of these alone is not likely to give an overall view of the functioning of the institutions."

1.10 The RBI, nationalised banks and other financial institutions have been set up through various Acts passed by the Parliament. The supervision, control and audit of the public sector banks and financial institutions are regulated and monitored by the Government and RBI under the provisions of the relevant Acts under which they have been set up and also under the provisions of the Banking Regulation Act, 1949 and the RBI

Act, 1934. The accountability of these institutions to Parliament has always been in question and there have been a few occasions when the functioning of banks and other financial institutions has been discussed in Parliament. They are, therefore, neither accountable to Parliament nor come under the scrutiny of the Comptroller and Auditor General of India.

Of late, there has been criticism of public sector banks and financial institutions in the Press and even in Parliament. The accountability of these banks to Parliament has assumed greater importance in view of the recent bank securities scam which has exposed several irregularities and malpractices in the functioning of banks and financial institutions. Such irregularities attracted Parliament's attention in the past also. There has been a persistent demand in both Houses of Parliament for bringing the nationalised banks and other financial institutions within the scope of Parliamentary scrutiny. Speaking on a Call Attention motion on rampant corruption, mismanagement and malpractices in the Nationalised Banks in Rajya Sabha on 28th August, 1990 many Members suggested that the banks should be brought within the purview of the Committee on Public Undertakings. Replying to the debate on the subject, the then Finance Minister (Shri Madhu Dandavate) stated as follows:—

“I am one of those who believe that rather than having a new Banking Commission, if we allow more power to the Public Accounts Committee, the Estimates Committee—I agree even to the Public Undertakings Committee—and if these Committees are able to have — greater and deeper study of the problems — the reports of these Committees have been quoted extensively, here — that itself will be a very good pressure on the working of the various banking institutions. I fully welcome Appa Saheb's suggestions. I want greater participation of these Parliamentary Committees so that it will be an indirect and effective Parliamentary Control over the Banking system.”

1.11 As regards secrecy provisions in the relevant Acts under which the Banks function and which are often quoted by the Ministry to keep banks away from Parliamentary scrutiny, the then Finance Minister stated:—

“.....one, we accept the change of format for public sector, a greater transparency and a greater defence of openness. Two, the accounting system has to be changed. There is no doubt about it. Three, there should not be the pretext of secrecy in order to see that the right of information is not denied to the clients as well as Parliament.”

In the context of autonomy in the functioning of the banks, the then Finance Minister had observed, *inter alia* as under:—

“.....functional autonomy becomes meaningless unless it is within the framework of accountability. Therefore, there should be autonomy

subject to accountability. If there is autonomy and there is no accountability either to Parliament or to the customers, in that case such an autonomy is going to create anarchy.”

1.12 At their sitting held on 22nd June, 1990, the Committee on Public Undertakings (1990-91) considered the question of bringing the nationalised banks within their purview. The Committee further considered the matter on 4th September, 1990 and taking note of the statement of the Finance Minister made in Rajya Sabha on 28th August, 1990 decided to approach the Rules Committee to bring the nationalised banks including State Bank of India and its subsidiaries within the purview of CPU.

1.13 Accordingly, the matter was referred to the Rules Committee (Ninth Lok Sabha) for including these banks in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha so as to bring them within the purview of CPU. Before the Rules Committee could consider the matter, Ninth Lok Sabha was dissolved.

1.14 After constitution of Tenth Lok Sabha, the Committee on Public Undertakings (1991-92) took up the matter afresh and after thorough deliberations at their sitting held on 9th October, 1991, 26th November, 1991 and 4th June, 1992, decided to approach the Rules Committee for effecting necessary changes in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha so as to bring the following financial institutions set up through Acts of Parliament within the purview of CPU:—

1. The Reserve Bank of India (set up through RBI Act, 1934)
2. Nationalised Banks (20 commercial banks, nationalised through Banks Nationalisation Acts, 1970/80)
3. State Bank of India (Set-up through SBI Act, 1955)
4. Subsidiary Banks of SBI [set up through SBI (Subsidiary Banks) Act, 1959].
5. The Industrial Re-construction Bank of India (set-up through IRBI Act, 1984).
6. The Export-Import Bank of India (set up through EXIM Bank Act, 1981).
7. National Bank for Agricultural & Rural Development (Set-up through NABARD Act, 1981)
8. The Unit Trust of India (set up through UTI Act, 1963)

1.15 The following public sector banks were set up under the Banks Nationalisation Acts 1970/80, State Bank of India Act, 1955 and SBI (Subsidiary Banks) Act, 1959:—

I. Nationalised Banks

1. Central Bank of India
2. Bank of India
3. Punjab National Bank
4. Bank of Baroda

5. United Commercial Bank
6. Canara Bank
7. United Bank of India
8. Dena Bank
9. Syndicate Bank
10. Union Bank of India
11. Allahabad Bank
12. Indian Bank
13. Bank of Maharashtra
14. Indian Overseas Bank
15. Andhra Bank
16. Corporation Bank
17. New Bank of India
18. Oriental Bank of Commerce
19. Punjab & Sind Bank
20. Vijaya Bank
11. **State Bank of India and its subsidiary Banks**
 21. State Bank of India
 22. State Bank of Bikaner and Jaipur
 23. State Bank of Indore
 24. State Bank of Mysore
 25. State Bank of Patiala
 26. State Bank of Travancore
 27. State Bank of Hyderabad
 28. State Bank of Saurashtra

1.16 On the direction of the Hon'ble Speaker, Lok Sabha (*ex-officio* Chairman of the Rules Committee) the matter was referred to the Ministry of Finance for their comments. The Ministry *vide* their O.M. dated 15th May, 1992 stated as follows:—

* * * * *

2. The question of bringing public sector banks, Industrial Reconstruction Bank of India (IRBI), the Export Import Bank of India (EXIM Bank) and the Unit Trust of India (UTI) within the purview of the Committee on Public Undertakings has been carefully considered and for the reasons discussed in the following paragraphs, it has not been considered necessary/desirable to do so.

Public Sector Banks, IRBI and the EXIM Bank:

3.1 The public sector banks, namely, nationalised banks, State Bank of India and its associate banks, IRBI and the EXIM Bank have been set up under specific Acts of Parliament. The supervision, control and Audit of the public sector banks and financial institutions are regulated and monitored by the government and Reserve Bank of India (RBI) under the provisions of the relevant Acts under which they have been set up and also under the provisions of the Banking Regulation Act, 1949, and the RBI Act, 1934.

3.2 The public sector banks and financial institutions are different than the other public sector undertakings which are either in the manufacturing sector or provide services. The maintenance of public confidence in banks and financial institutions is a matter of vital interest to the nation. This has been well-recognised and the scheme of Banking Regulation Act underscores the need to maintain this confidence. Moreover, various Acts under which banks and financial institutions have been set up, contain explicit provisions prohibiting them from disclosing affairs of their constituents. In this regard, a reference is invited to the following provisions:—

- (i) Section 44 of the State Bank of India Act, 1955.
- (ii) Section 52 of the State Bank of India (Subsidiary Banks) Act, 1959.
- (iii) Section 13 of the Banks Nationalisation Act, 1970/1980.
- (iv) Section 30 of the EXIM Bank Act, 1981.

3.3 Policy towards the financial sector is moving increasingly towards the establishment of a level playing field for the financial sector. It is also moving towards the creation of an enabling mechanism whereby new banks and financial institutions can be established. Public Sector Banks and Financial Institutions ought not to be at a disadvantage in relation to private and foreign banks and financial institutions. The ability of a bank to do good business is partly contingent on risk-taking by Bank Managers, which sometimes lead to the creation of non-performing assets on account of bad judgement, but *on the average* improves the profitability of the bank or financial institution. If matters pertaining to quality of a bank's portfolio become matters of public knowledge *only* for nationalised banks and financial institutions while there is no such stipulation for private and foreign banks, two consequences are likely: either nationalised bank Managers will become more risk-averse (which means they will not participate in more risky and development oriented financing) or else the nationalised banks' or financial institutions reputation will suffer on account of adverse publicity. Such a course of action cannot be ruled out if public sector banks and financial institutions are scrutinised by COPU. This is not to suggest that the position about nationalised banks should be concealed. The manner in which the health of banks and financial institutions should be transparently revealed should, however, be the responsibility of the regulatory agency (currently the RBI): the transparency of accounts and statements about the health of banks and financial institutions would then be applicable to all financial institutions and banks, not just those in the public sector.

3.4 The Government had appointed a high level Committee under the Chairmanship of Shri M. Narasimham, former Governor of RBI, to examine all aspects relating to the structure, organisational

functions and procedure of the financial system. The report submitted by this Committee, has already been placed on the Table of the two Houses of Parliament. The Narasimham Committee in their report have *inter alia* stressed the need to improve the working of public sector banks and financial institutions by providing them greater operational flexibility and greater autonomy in their internal operations. Although the Committee were conscious of government's accountability to Parliament as owner of Public Sector banks and financial institutions, they expressed the view that accountability need not mean involvement in functions which are the responsibility of the Boards of Directors and management of respective banks/financial institutions. The Committee have recommended that the supervisory function over the banks and financial institutions should be assigned to a separate quasi-autonomous body under the aegis of RBI. The recommendations of the Committee are being examined. However, in view of the Committee's recommendations, it is felt that it would not be desirable to subject Public Sector Banks, IRBI and EXIM Bank to the further scrutiny of a Committee of Parliament which would mean duplication of the supervisory role.

3.5 In the context of the measures recently initiated by the Government to foster greater deregulation and liberalisation within the economy, a need has also been felt to facilitate the process of reform by providing greater autonomy to banks and financial institutions so that adequate flexibility is built into their operations enabling them to become responsive to emerging needs.

Unit Trust of India (UTI):

4. UTI has a special character as mutual funds operate in an increasingly competitive environment in the mutual funds industry. The UTI works under close supervision of the RBI. There are substantial inbuilt checks in the working of UTI which *inter alia* include the following:—

- (i) The UTI regularly furnishes information to the Government in regard to disbursement and deployment of its funds, shareholding in companies, personnel policy, sale and repurchase of units,
- (ii) General regulations formulated by UTI Board are laid before each House of Parliament.
- (iii) UTI is obliged to furnish any information required by the Industrial Development Bank of India and the RBI.
- (iv) UTI is guided by the decisions of the IDBI in policy matters relating to public interest.
- (v) Members of the Board of Trustees of the UTI are appointed by the Government, RBI, IDBI, Life Insurance Corporation of India (LIC), State Bank of India and others.
- (vi) Annual accounts of the UTI are audited by statutory auditors

with the prior approval of IDBI. Internal audit is also undertaken to ensure strict compliance of the policies and the procedures laid down by the UTI.

5. In this connection, attention is also invited to the proviso below Rule 312A of the Rules of Procedure and conduct of Business in Lok Sabha, regarding the functions of different public undertakings, wherein it is provided that the Committee shall not examine and investigate "*matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established.*" Since supervision, control and audit of the public sector banks and financial institutions vests with the RBI under the RBI Act, Banking Regulation Act and other relevant Acts under which the banks and institutions were established, it is felt that they may not be brought within the purview of the COPU.

6. Information regarding the working of the Public Sector Banks, Financial Institutions and UTI, is provided to the Parliament from time to time through replies to Parliament questions, Calling Attention Motions and through the various Committees. The Estimates Committee, the Committee on Scheduled Castes and Scheduled Tribes, the Committee on Subordinate Legislation and other Committees of Parliament have been going into functioning of Public Sector Banks in specified areas. It is felt, therefore, that it may not be necessary to bring these institutions under the purview of the COPU."

1.17 Subsequently, in a letter dated 24th June, 1992 addressed to the Chairman, Committee on Public Undertakings, the Finance Minister also communicated as follows:—

"We have examined the question of bringing public sector banks and other financial institutions including UTI within the purview of the Committee on Public Undertakings on receipt of a reference from the Lok Sabha Secretariat. After detailed consideration of the various issues regarding supervision, control and audit of public sector banks and financial institutions, we have come to the conclusion that it is not advisable to bring these institutions within the purview of the Committee on Public Undertakings."

1.18 The views of the Ministry and the Minister of Finance were considered by the Committee at their sitting held on 30 July, 1992. Disagreeing with the arguments advanced by them, the Committee decided to hear oral evidence of the representatives of the Ministry. During the course of evidence, the Committee pointed out that as far back as in 1970, the Ministry was not averse to bringing the nationalised banks including SBI and its subsidiaries within the purview of Committee on Public Undertakings but wanted a few years' more time for implementation of the decision so that the working of the nationalised banks could stabilise.

When enquired about the change in the views of the Ministry, the Additional Secretary, Department of Banking stated:—

“The views of the present Government have been expressed in the letter of 15th May, 1992.”

1.19 In reply to a query whether the nationalised banks had not stabilised during the last 23 years of their existence, the witness stated that only three banks viz. Bank of Baroda, State Bank of India and Central Bank of India have developed fairly well and are stabilised.

When enquired whether these three banks should be brought within the purview of Committee on Public Undertakings the witness stated:—

“The view of the Ministry is that banks should not be brought under the purview of CPU.”

1.20 The Committee drew the attention of the witnesses to the statement made by the Minister of Finance in Rajya Sabha on 28th August, 1990, where, to a specific suggestion, he had agreed to bring the nationalised banks within the purview of CPU to have an indirect and effective parliamentary control over the banking system. When asked about the views of the Ministry on the statement made by the Finance Minister on the floor of the House, the representative of the Ministry stated as follows:—

“That is a matter which was not decided by the Ministry at that time.”

1.21 On being enquired how the Ministry had backed out from a statement given by the Finance Minister in the Parliament, the representative of the Ministry stated:

“This was not converted into an order of the Government.”

He further added:

“I can only say that the letter of 15th May, 1992 expresses the viewpoint of the present Government in respect of this matter.”

1.22 The Committee pointed out that RBI, nationalised banks and other financial institutions were neither accountable to Parliament nor come under the scrutiny of the Comptroller & Auditor General of India. It was also pointed out that due to absence of any parliamentary control over banks and financial institutions there had been frauds, malpractices and the recent bank securities scam had also exposed several irregularities in the banking system. On being asked whether the chances of such a scam could have been reduced considerably had there been any standing Parliamentary Committee like CPU to oversee the working of the banks etc., the representative of the Ministry stated:

“The scam could still have taken place even if there had been a Parliamentary Committee. It can take place in any situation. If anything had taken place in 1991-92 it would come in the post-facto examination of the figures.”

1.23 In the context of secrecy provisions contained in the respective Acts under which the banks and financial institutions had been set up, the Committee pointed that IDBI and IFCI had also been set up under Acts of Parliament and had almost similar secrecy provisions and even defence undertakings were within their purview and their efficiency had not been impaired in any way. On being asked about the views of the Ministry in this regard, the representative of the Ministry stated:

“They are different in their functions. They do not take deposits from members of the public.”

1.24 The RBI, which is performing supervisory and regulatory functions in regard to banks, etc. had admittedly failed to perform its role effectively. While making a statement on the recent bank scam, the Finance Minister (Shri Manmohan Singh) stated in Lok Sabha on 8th July 1992:—

“It is also clear that there has been a serious failure of internal control systems in the banks involved.”

Regarding the failure of RBI, he stated:

“Questions have also been raised whether RBI, which is responsible for supervision of the banks could have been more vigilant. In retrospect it is clear that RBI’s supervisory function was not effective as it should have been.”

1.25 The Committee wanted to know whether there was any parliamentary control over RBI. The witness stated:

“RBI does not submit any report to Parliament and it is only gazetted.”

1.26 On being pointed out by the Committee that gazettes were not placed before the Parliament, he stated:—

“Parliament does not have any control over RBI.”

1.27 The Committee pointed out that the agreement between the Secretary of State for India in Council and Reserve Bank of India and continued in operation by virtue of sub-section (a) of section 177 of the Government of India Act, 1935 indicate access which the RBI had to the Secretary of State and vice-versa being agent in India for the Secretary of State and for the Governor General in Council. On being asked whether the representatives of the Ministry were aware of the above position, the witness said:

“I do not know.”

1.28 During the pre-independence period prior to the setting up of the Imperial Bank of India, which was doing some of the functions of RBI and prior to the setting up of the RBI, the Auditor General was performing the functions of Controller General of currency and the currency officers were borne on the Cadres Controlled by the Auditor General.

1.29 Section 51 of the Reserve Bank of India Act, 1934 also provides as under:

“Without prejudice to anything contained in section 50, the Central Government may at any time appoint the Comptroller & Auditor General to examine and report upon the accounts of the Bank.”

However, the Central Government has never asked the C&AG to audit the accounts of RBI under the above provisions.

1.30 Emphasising the supremacy of Parliament, the Committee drew the attention of the representatives of the Ministry to the following statement made by the Prime Minister in Lok Sabha on 9th July, 1992:—

“.....I feel that there is need for a comprehensive enquiry through the instrument of Parliament which not only fully establishes Parliamentary supremacy but also provides an effective safeguard to protect the country's interests.....”

To this, the representative of the Ministry stated:

“The Prime Minister has made that statement subsequent to which Joint Parliamentary Committee was formed with very comprehensive terms of reference.”

1.31 The Committee pointed out that JPC was an Ad-hoc Committee which would go into specific issues and there was a need for a standing Parliamentary Committee for all times to come. On being asked when a Joint Parliamentary Committee and other Parliamentary Committees like the Estimates Committee, the Committee on Subordinate Legislation and the Committee on Scheduled Castes and Scheduled Tribes could examine the working of banks etc., why CPU alone was barred from doing it, the witness stated:—

“Sir, the only reasons are what I have already stated and I have nothing further to state in this regard.”

1.32 The Committee further wanted to know whether the Ministry had some other convincing reason for not agreeing to bringing the nationalised banks and other financial institutions within the purview of CPU. The representative of the Ministry stated as follows:—

“Rule 312(A) d (iii) of the Rules of Procedure and Conduct of Business in Lok Sabha say—

matters for the consideration of which machinery is established by any special statute under which a particular public undertaking is established.”

He further added that section 35 of Banking Regulation Act, 1949 says:—

“Notwithstanding anything to the contrary contained in section 235 of the Companies Act, 1956. the Reserve Bank at any time may, and on

being directed so to do by the Central Government shall, cause an inspection to be made by one or more of its officers of any banking company and its books and accounts; and the Reserve Bank shall supply to the banking company a copy of its report on such inspection.”

1.33 When pointed out that the above provisions could not preclude the Committee on Public Undertakings from taking up the banks etc., the witness stated:

“We have referred to the letter of 15th May, 1992.”

1.34 In response to the observations of the Committee that the Ministry's views were not justifiable, the witness stated:—

“This is our view. It is for the august Committee to make its recommendations. I cannot say anything more about it. If there is any recommendation we will certainly look into it.”

1.35 The Committee pointed out that in the case of Unit Trust of India the Ministry had stated in 1973 *inter alia* as under:—

“..... *on balance of advantage*, it is submitted, till such time as the number of investors and the amount invested reach significant levels, the institution may be kept out of formal scrutiny of the Parliamentary Committee on Public Undertakings.”

1.36 Asked about the logic in not agreeing to bring UTI within the purview of CPU when the number of its investors and quantum of investments had increased enormously, the representative of the Ministry (Department of Economic Affairs) stated:

“You have very correctly pointed out that the note which you circulated has suggested that the levels of investment and the funds have quickly grown up. Would the Committee like to look into the mutual funds, like other mutual funds? Its purpose is not to harm the Government but to acquire the investment from the public.”

PART II

Recommendations/Observations of the Committee

2.1 With a view to ensure better accountability of Public Undertakings to Parliament, the Committee on Public undertakings was constituted in May, 1964. Under Rule 312A, Public Undertakings which fall within the purview of the C.P.U. have been specified in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha.

2.2 While every Government company whose annual Report is placed before the Houses of Parliament under sub-section (1) of section 619A of the Companies Act, 1956 comes within the purview of Committee, only 11 Statutory Corporations set up under Central Acts come within the purview of the Committee at present. If any other Statutory Corporation is to be brought within the purview of C.P.U. the matter is required to be placed before the Rules Committee of Lok Sabha for incorporating that Corporation in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha. In fact during the last about three decades only 5 public undertakings set up through Acts of Parliament were included in the Fourth Schedule and one of them ceased to exist resulting in effective addition of 4 undertakings only.

2.3 While the Rules Committee have been adding a few public undertakings in the Fourth Schedule to the Rules in the past, the Committee feel that since they propose to bring all the nationalised banks including State Bank of India and its subsidiaries as also Reserve Bank of India, EXIM Bank, IRBI, NABARD and UTI within the purview, they would like to place the matter before the House. They are also of the view that since under the Rule 312A of the Rules of Procedure and Conduct of Business in Lok Sabha the functions of Committees are well defined, they need not approach the Rules Committee in future for inclusion of public undertakings which are established under Central Acts from time to time as these may be deemed to be so included.

2.4 The question of bringing the nationalised banks including State Bank of India and its associated banks and other public sector financial institutions like Reserve Bank of India, Industrial Development Bank of India, Agricultural Refinance and Development Corporation and Unit Trust of India had been engaging the attention of the Committee since the nationalisation of banks in 1968-69. In 1970, the Government agreed to bring IDBI and ARDC (later on merged with NABARD) within the purview of Committee on Public Undertakings and these two undertakings were brought within the purview of CPU in 1973.

2.5 In 1970, the Ministry of Finance was not averse to bringing the

Reserve Bank of India, State Bank of India and its subsidiaries and nationalised banks within the purview of the Committee on Public Undertakings. In fact in the case of RBI, the Ministry was agreeable to bring it within the purview of CPU on the pattern of UK (where all the functions of the Bank of England barring a few only were brought within the purview of the Select Committee on Nationalised Industries). Similarly, in case of other public sector banks the Ministry wanted some more time so that the working of 14 nationalised banks could be stabilised before they are brought under the purview of CPU. While replying to a call attention motion in Rajya Sabha on 28th August, 1990 the Finance Minister (Shri Madhu Dandavate) fully welcomed the suggestion made by members for bringing the public sector banks within the jurisdiction of Parliament. For an effective parliamentary control over the banking system he was in favour of giving more powers to the Parliamentary Committees. The Minister was also candid in his expression when he said on the floor of the House that there should not be any pretext of secrecy in order to see that information was not denied to the clients as well as Parliament. He also stated that for giving more autonomy to banks, there should be corresponding accountability to Parliament.

2.6 On a reference being made in 1991-92, the Ministry of Finance, however, retracted from its earlier position and informed the Committee in May 1992 that it was not advisable to bring banks and other financial institutions within the purview of C.P.U. They are shocked over the manner in which the Ministry have totally backed out from their earlier views expressed in 1970 and shown total disregard to the statement made by the Finance Minister on the floor of Rajya Sabha in August, 1990. A totally new dimension has now been added by it in 1992 by stating that it was not advisable to bring banks and other Financial Institutions within the purview of the Committee which seems to be an after thought. The Committee were distressed to find that the Additional Secretary of the Ministry who gave evidence before the Committee tried to justify his stand by saying that at that point of time when the Minister made the statement on the floor of the House no decision was taken by the Ministry. It need hardly be emphasised here that the Ministry/Department is duty bound to fulfil an assurance given by a Minister on the floor of the House. There had perhaps never been an occasion when an assurance given by a Minister on the floor of the House was overruled by the Ministry or was not honoured by the Ministry. The Committee deplore such attitude of the bureaucracy. In their view though the Ministry has a salutary role to play in the process of decision making, the ultimate decision rests with the Minister who is undoubtedly the final authority. If the opinion expressed by the Additional Secretary is taken to its logical end, replies given by Minister on the floor to

supplementaries by Hon'ble Members of Parliament which (replies) constitute "assurances" too would be honoured more in breach than implementation on a specious plea that the reply of a Minister was not a decision of the Ministry.

2.7 The Committee were further stunned to hear from the Additional Secretary of the Ministry that only 3 banks viz. State Bank of India, Bank of Baroda and Central Bank of India have so far stabilised. The mere fact that out of 28 public sector banks only 3 have stabilised during the last 23 years strengthens the belief of the Committee that all is not well with the banks and that R.B.I. has failed to exercise the desired supervision and control over these banks. There was thus an urgent need for close scrutiny of these banks by a permanent Parliamentary Committee like the Committee on Public Undertakings which undoubtedly would have a deterrent effect on the falling standards of these banks.

2.8 The main reason advanced by the Ministry of Finance for not agreeing to bring nationalised banks and other financial institutions within the purview of CPU had been the secrecy provisions contained in the respective Acts under which the Banks and other financial institutions had been set up. The Ministry has in this connection referred to the provisions contained in Section 44 of SBI Act 1955, section 52 of SBI (Subsidiary Banks) Act, 1959, Section 13 of Banks Nationalisation Acts 1970/80 and Section 30 of the EXIM Bank Act, 1981. The other two public sector financial institutions viz. Industrial Development Bank of India and Industrial Finance Corporation of India set up through Central Acts are within the purview of Committee on Public Undertakings. Section 29 of the IDBI Act, 1964 and Section 39 of the IFCI Act, 1948 have almost identical secrecy provisions as are applicable to the Banks and EXIM bank. The Committee have been examining both IDBI and IFCI. While examining these Corporations, the Committee give due consideration to the provisions relating to non-disclosure of information provided in the Acts of Parliament and so far there has never been an occasion for confrontation or disagreement between them and the Committee in this regard. Similarly some key Defence Undertakings which maintain utmost secrecy in their functioning are within the purview of the Committee. It need hardly be stressed that the Committee are fully conscious of the secret nature of the activities of these undertakings. The very fact that so far the functional efficiency of other financial institutions viz. IDBI, IFCI, LIC and GIC which are already within the jurisdiction of the Committee has not been impaired in any manner itself proves the weakness in the argument put forward by the Ministry. On the contrary the secrecy clause has helped the unscrupulous people in indulging in all types of malpractices which have occurred in the recent banks securities/loan scam. In Committee's view this could have been averted had the banks been under the purview of CPU. The very anxiety of examination by such an august body of Parliament would have weighed heavily on the minds and would have acted as a

deterrent and made them not only responsive, accountable but also made them behave more responsibly. In this context the Committee would like to give the instance of Mundra case which occurred in 1957 in LIC when C.P.U. was not in existence. Since the formation of the Committee under whose purview LIC has been brought in 1964 no such scandal has taken place there.

2.9 Attention of the Committee has been drawn to the proviso contained in Rule 312A wherein it has been stipulated that Committee shall not examine, investigate matters for the consideration of which the machinery is established by any special statute. The Ministry has further brought out that the nationalised banks, State Bank of India and its subsidiaries, IRBI and the EXIM Banks have been set up under specific Acts of Parliament. The supervision, control and audit of the public sector banks and financial institutions are regulated and monitored by the Government and RBI under the provisions of the Banking Regulation Act, 1949 and the RBI Act, 1934 and therefore the Committee is debarred from examining these financial institutions. The Committee do not agree with this contention which the Committee find has appeared for the first time since the matter was taken up by the Committee with the Ministry of Finance. The Committee are of the view that supervision, control etc. of public sector banks and financial institutions by RBI can be compared to the role of other Government Departments, controlling the public undertakings under their administrative control. They are also of the view that supervision, control etc. of public sector banks and financial institutions by RBI and the Govt. can by no stretch of imagination be construed as a substitute for Parliamentary Control.

Besides the Finance Minister was candid in his admission while making a statement on the floor of the House on 8th July, 1992 that RBI's supervisory function was not as effective as it should have been. It is a matter of great concern to the Committee that RBI which has been established by an Act of Parliament is not accountable to Parliament so far. In this context, concern of the Prime Minister as is evident from his speech made in the Lok Sabha on 9th July, 1992 for a comprehensive enquiry through the instrument of Parliament in order to safeguard the country's interest at large is very genuine.

Hence in the Committee's view there is a strong case for Parliamentary scrutiny over RBI, nationalised banks and other financial institutions.

2.10 Still another contention put forward by the Ministry is that Narasimham Committee has recommended that supervisory function over the banks and financial institutions should be assigned to a separate quasi-autonomous body under the aegis of Reserve Bank of India. Therefore, it is felt that it would not be desirable to subject Public Sector Banks, IRBI and EXIM Bank to a further scrutiny of a Committee of Parliament which would result in duplication of supervisory role. The Committee however, see no logic in this argument. They are of the firm view that an autonomous body under the over-all control of Reserve Bank of India cannot be a

substitute for any control, if any, which can be exercised either by Comptroller & Auditor General of India or by Parliamentary Committee. Moreover, keeping in view that need for a greater transparency and accountability of the banks, also stressed by the Narasimham Committee, there is all the more need for bringing all the financial institutions under the close scrutiny of a Parliamentary Committee.

2.11 The Committee also do not find any logic in the negative stand taken by the Government against the examination of NABARD which was formed while taking over the functions, assets and liabilities of Agricultural Refinance and Development Corporation which was earlier within the purview of CPU. The argument put forward by the Government that it has taken over certain functions of RBI in the matters of agriculture & rural credit hardly carries any force and is not justified. The Committee feel that unless the bodies set up by the Parliament are not subjected to close scrutiny by Parliament through the instrument of Parliamentary Committees it will not be possible for Parliament to ascertain and assess as to what extent these bodies had fulfilled the objectives for which they were set up. Recently the Subject Committee of Parliament on Agriculture examined NABARD and submitted their Report to Parliament thereon. When NABARD's efficiency has not been impaired by its examination by the Agriculture Committee of Parliament, the Committee feel there is no justification for not bringing it within the purview of CPU on any count especially when erstwhile ARDC was within the purview of the Committee before its merger in NABARD.

2.12 The only argument put forth by the Ministry in not agreeing to bring UTI within the jurisdiction of the Committee was that UTI works under close supervision of the RBI. During evidence the representative of the Ministry had stated that it was for the Committee to decide as to whether they would like to take up the mutual funds like Unit Trust of India. The Committee are of the view that since UTI had been created by Parliament to safeguard the interests of small investors which are in crores now, it should be brought within Parliamentary control through C.P.U.

2.13 The Ministry have stated that information regarding the working of the public sector banks, financial institutions and UTI is provided to Parliament from time to time through replies to Parliament questions, call attention motion etc. As admitted by the Ministry the Estimates Committee, the Committee on Scheduled Castes and Scheduled Tribes, the Committee on Subordinate Legislation and other Committees of Parliament have been going into the functioning of public sector banks in specified areas. The recently constituted Joint Parliamentary Committee on securities/loans scam will be going into all transactions of RBI, banks and other financial institutions. The quantum and magnitude of the frauds, malpractices etc. indulged in by the Banks in the bank securities scam strengthens the viewpoint of the Committee that banks and financial institutions should be brought within the purview of a Standing Parliamentary Committee like

CPU. Further when Parliamentary Committees like the Estimates Committee, J.P.C. etc. could go into the working of the banks and other financial institutions, there is no reason why these institutions should not be brought within the purview of CPU which is the rightfully and intimately concerned Committee of Parliament.

2.14 As brought out in the foregoing paragraphs, the Committee recommend that the Reserve Bank of India, nationalised banks including State Bank of India and its subsidiaries and other financial institutions viz. National Bank for Agriculture and Rural Development (NABARD), Industrial Reconstruction Bank of India, Export-Import Bank of India and Unit Trust of India should be brought within the jurisdiction of the Committee on Public Undertakings by adding these bodies in the Fourth Schedule to the Rules of Procedure and Conduct of Business in Lok Sabha.

**NEW DELHI;
August 18, 1992**

Sravana 27, 1914 (Saka)

**A.R. ANTULAY,
Chairman,**

Committee on Public Undertakings!

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