

575 *Statt. by Minister Incident of killings in Kurnher (Rajasthan)*
[English]

You will have proper time and opportunity to say all these things.

[Translation]

SHRI GEORGE FERNANDES: When?

[English]

MR. SPEAKER: I am not going to give a word sitting like this in the Chair. You cannot ask like that. Let us discuss it. I will give you the time, if necessary.

[Translation]

SHRI GEORGE FERNANDES: No, not like this. Mr. Speaker, Sir, the question is not mine...

MR. SPEAKER: Then?

SHRI GEORGE FERNANDES: The question relates to the dignity of this House. The then hon. Minister of External Affairs has said..**

MR. SPEAKER: No, no, not in this manner.

(Interruptions)

[English]

MR. SPEAKER: The Finance Minister may please make the statement.

(Interruptions)

[Translation]

SHRI GEORGE FERNANDES: Mr. Speaker, Sir, what should I do then?

MR. SPEAKER: You should meet me in my Chamber. I will talk to you regarding time.

(Interruptions)

JULY 8, 1992 *Statt. by Minister Irre. & Fraud. Transaction in Bank and Fin. Institutions*
[English]

SHRI RUPCHAND PAL (Hooghly): Sir, there are many Adjournment Motions. I have given notice of an Adjournment Motion.

MR. SPEAKER: I have disallowed your Adjournment Motion.

(Interruptions)

STATEMENT BY MINISTER

Irregularities and Fraudulent Transactions in Banks and other Financial Institutions

[English]

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): Mr. Speaker, Sir, in the last session I had informed the House of certain irregularities detected in the securities transactions of banks and I had assured the House the matter would be thoroughly investigated and firm action would be taken against all individuals found to have indulged in malpractices. I would like to apprise the House of developments that have taken place since then.

The Reserve Bank of India had appointed a Committee under Deputy Governor Shri R. Janakiraman to inquire into the matter. The Committee submitted an Interim Report on 1st June 1992 and a second report on 6th July. Both reports were made public as soon as they were received.

The findings of the Committee confirm that unscrupulous brokers, in collusion with certain bank officials have manipulated securities transactions of banks and other financial institutions for their own purposes in a variety of ways and in clear violation of the established rules, guidelines and prudent business practices. Banks, funds ostensibly

** Expunged as ordered by the Chair

intended for purchase by one bank from another banks of Government securities, PSU bonds of Units etc. of Unit treat of India and call money loans of one bank from another bank have been siphoned into the accounts of brokers. In another kind of manipulation, credit has been extended to the brokers through transactions engineered to represent discounting of bills, rediscounting of bills or ready forward deals in shares.

The total amount of transactions for which the banks and financial institutions involved do not have security backing is now estimated at about Rs. 3542 crores. Against this the Janakiraman Committee has identified securities worth Rs. 350 crores held by one of the banks so that the net problem exposure is now estimated at Rs. 3192 crores. The bankwise break up of this amount is indicated in the attached statement.

The transactions resulting in this large level of problem exposure have been in flagrant and deliberate violation of established rules and guidelines. It is also clear that there has been a serious failure of internal control systems in the banks involved. But for this, the senior management of the banks should have become aware of these irregular transactions at much earlier stages. This internal control failure seems to have occurred in all three segments of our sector: nationalised banks, private sector banks and also foreign banks.

I share the anger and anguish Honourable Members at these developments, which reveal serious deficiencies in the operations of our banking system. The fraudulent manipulations which have resulted in large scale misappropriation of bank funds require prompt corrective and penal action. I would like to assure Hon'ble Members that the Government is according priority to recovering the amounts punishing the guilty restoring confidence in the basis integrity of the financial system.

I would like to take this opportunity to appraise Honorable Members of some of the steps which have been taken thus far to

deal with the problem:

(i) Even before the submission of the RBI report, Government had referred the case to the CBI. CBI has been investigation and has registered 5 FIRs. Since 4th June, 1992, 135 places have been searched and twenty five individuals have been arrested, including seven officials of banks and financial institutions. Ten individuals have since been released on bail.

(ii) Administrative action has been taken on the basis of preliminary investigation against officials directly or indirectly involved or felt to be responsible. Chairman NHB had resigned, Chairman UCO Banks and Chairman SBI were asked to go on leave as also the Deputy Managing Director of SBI and Managing Director of Can Bank Financial Services Ltd. The Chairman, Bank of Karad and two of its directors were removed. The Board of the metropolitan cooperative bank was superseded. Subsequently, these two banks have been taken into liquidation. The services of Chairman UCO Bank have been terminated. Twelve officials in various banks and other institutions have been suspended.

(iii) The first of the Janakiraman Committee was received by the Govt. on 2nd June, 1992. The Government moved very quickly to promulgate an Ordinance to set up a Special Court. For trying offences relating to these security transactions and appointing a custodian for attaching the assets of individuals and organisations. The Ordinance was promulgated on 6th June, 1992. The Special Court has started functioning and the Custodian has been appointed. The Custodian has since notified 39 individuals/organisations for attachment of assets.

(iv) Income-Tax Authorities are continuing their investigations into the offences of the Harshad Mehta Group. A large number of follow-up searches/surveys have been conducted. In all, about 100 premises have been searched/ surveyed. Asset seizure aggregates to -approximately Rs. 72.5 crores. Provisional attachment has been ordered under Section 281B of the IT

Act for 37 immovable properties with the approximate market value of Rs. 25 crores and shares with market value of the order of Rs. 500 crores as on 28.2.1992. The current value of these assets has to be ascertained. Intensive investigations have been initiated in some other groups of brokers including Bhupen Dalal, A.D. Narottam Hiten Dalal and connected cases like T B Ruia, Dhanraj Mills etc.

(v) The enforcement Directorate has also been investigating the activities of some of these brokers for violations of FERA. They have arrested three persons in the course of their investigation all three of whom are at present in police custody.

(vi) Ministry of Finance took up with the Securities and Exchanges Board of India the issue of action to be taken against brokers found guilty of stock exchange irregularities. Subsequently the Bombay Stock Exchange Board suspended the main share brokers involved.

(vii) RBI has issued new instruction to regulate transactions in securities by banks. Treasury transactions are now subject to a concurrent audit by internal auditors and results are to be put up to CMD once every month. A special cell in the RBI would also scrutinise these reports.

(viii) RBI is modifying its inspections procedures providing for detailed annual inspection of all banks with focus on financial evaluation.

(ix) Lack of computerisation and reliance on manual processing in the Public Debt Office is one of the factors making it difficult for the banks to set up effective internal control systems to supervise Government securities trading. A process of computerisation of the Public Debt Office has been initiated. Certain officials in the Public Debt Office have been found to have engaged on overwriting in the record and they have been suspended, and the matter is being investigated.

(x) Management's of the banks where

irregularities have surfaced have taken corrective measures for gearing up internal control machinery and for streamlining fund management operations.

(xi) Steps are also being taken to improve trading practices in the stock exchanges, with a view ensuring greater transparency in transactions and eliminating manipulation of stock prices and insider trading. To this end the Securities and Exchange Board of India was given statutory powers with effect from 30th January, 1992. Amendments of the SEBI Act are currently under consideration with a view to strengthening SEBI further in order to increase its effectiveness in achieving its objectives. Government have also decided to set up a new Stock Exchange at New Bombay which will act as a model Exchange. It will be completely automated in terms of both trading and settlement procedures and would provide access to investors from all over the country. Government have also decided to set up a national Clearing and Settlement System with a Central Depository Trust and a Securities Facilities Support Corporations which would be entrusted with the task of establishing and maintaining the network among exchanges.

It is relevant to ask whether the scam could have been prevented through greater vigilance and better supervision. There is no doubt that better systems of internal control, or even greater efficiency in operating the existing system, would have enabled the top management's of the banks to have a better feedback on day to day operations, which could have identified the irregularities earlier. The statutory audits in the banks should also have identified some of these problems earlier. The fact that this did not happen underscores the need for thoroughgoing reform and modernisation of the banking system and its procedures.

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 as not as effective as it should have been. It should be noted

however that it is the RBI's own investigations that led to the unearthing of these irregular practices in the banks which had evolved over several years. There have been references in the Press to a circular issued by the RBI in July, 1991 laying down certain norms for banks dealing in securities transactions and it has been asserted that RBI should have been more vigilant in pursuing compliance with this circular. In fact RBI has directed the banks to submit compliance reports, and had subsequently received compliance reports from most banks indicating that their procedures were in line with the July circular. Subsequent developments show that it was not the case. RBI cannot undertake micro-management in all cases and it is only in identified problem cases detailed scrutiny, with on-site inspection, is undertaken. The Reserve Bank of India subsequently did undertake inspection of the Bank of Karad, the Andhra Bank and the Bank of Madura and these investigations did throw up evidence of continuing irregularities. Action against these banks was being contemplated when the wider dimensions of the scam became apparent. However, it is true that even these instructions did not reveal the full extent of the problem in the Bank of Karad which surfaced only later when the Reserve Bank undertook inter-bank reconciliation.

At one level, the banking irregularities and fraudulent transactions need to be treated as deliberate fraud on a large scale perpetrated by individuals who have blatantly violated the law. These individuals must be dealt with severely and Government is determined to do so. I hope Honorable Members will agree that Government has acted speedily in initiating criminal investigation proceedings and in setting up a Special Court. No effort will be spared to being the guilty to book and that too speedily. At another level, the irregularities have also thrown up a number of system weaknesses which have developed over time in our banking system and which can only be corrected by thoroughgoing reform and modernisation of the system.

Government has been aware of the

need for thorough going reform of the banking system and its procedures, if Indian banking is to be able to handle the banking requirements of a modern economy effectively. It is for this reason' that Government in the first few weeks of coming to office, had appointed the Narasimham Committee to look into various aspects of the financial system which need reform.

The Narasimham Committee has made a number of recommendations for reforms of policy and procedures in the banking system aimed at creating a more efficient banking system which can serve the needs of a rapidly modernising economy. It has also recommended creation of a separate supervisory authority under the aegis of the Reserve Bank of India. Government propose to act expeditiously on all these recommendations.

The Government attaches high priority to implementing the various recommendations of the Narasimham Committee aimed at financial sector reform. The irregularities and frauds that have come to light are in no way due to financial liberalisation. On the contrary they have surfaced under a regime of apparently tight regulation of banking activity. Overregulation of bank interest rates and an excessive preemption of banks resources into low interest assets has contributed to some extent for bank managements looking to non-traditional banking activity to bolster bank profits. Steps taken recently by the Government to rationalise interest rates and to reduce the statutory liquidity ratio will help to correct these imbalances.

It is also necessary to strengthen supervision over banks and other financial institutions. For this purpose, Government is considering the establishment of a high powered Supervisory Board consisting of 4 to 5 full time members, with the Governor, Reserve bank of India as the Chairman. The Board will have an advisory council with eminent persons from the like fields of banking, auditing, law, economics and management. The Board will coordinate the work of supervision of banks, financial

institutions and other financial agencies in the country. It will lay down operating guidelines, look after supervision and enforce compliance. Surprise inspections will be a part of the Board's operations. The Vice-Chairman will be a Deputy Governor of the RBI, who will work exclusively on supervision, follow up and compliance.

The Government is also considering the establishment of a separate special Bureau of Frauds to deal with serious frauds in banks and other financial institutions. Such special agencies exists in some other

countries and consist of a multi-disciplinary group with expertise in accounting, law and including representatives of the police and investigative agencies.

The Indian banking system substantial strengths and achievements to its credit. With appropriate steps to reform the system it can emerge from the present situation in a much stronger position. The Government is determined to take all steps necessary to ensure that the integrity of the banking system is preserved and that the system is strengthened to enable it to play its critical role in our economic development.

STATEMENT

Total Size of the Problem Exposure in Securities Transactions

		<i>(Rs. in Crores)</i>	
(i)	Total value of investments made by banks and institutions for which they do not hold any securities, SGL transfer forms of BRs	National Housing Bank	1271.20
		State Bank of Saurashtra	174.93
		SBI Cap Standard Chartered	121.36
			400.35
			1967.12
(ii)	Total exposure against BRs SGL transfer forms issued by Banks of Karad of Metro-Politan Coop. bank	Canbank Financial Services Ltd.	435.31
		Can bank Mutual Fund	102.97
		Standard Chartered	931.84
			1470.84
(iii)	The estimated shortfall in the securities held by ABSFL	104.83	
		3542.79	
	Less: Value of securities reportedly seized by Standard Chartered bank from M/s Hiten P. Daial	350.00	
		3192.79	

(Interruptions)

SHRI CHANDRA SHEKHAR (Ballia): Mr. Speaker Sir, first I shall request you to let us know whether you are satisfied with this type of a statement on such a serious matter. The other matter that I shall like to know from the hon. Finance Minister is why he did choose to utter a word about the role of foreign banks in this country. They are the most modern banks, what was their part? Was there any special consideration to not mention them in this statement? This indicates the mind of this Government and also forces behind this system.

SHRI NIRMAL KANTI CHATTERJE (Dum Dum): Let me quote, they say:

"Sale transactions by issue of banks receipts SGL without actually holding the securities, without having sufficient balance in their SGL accounts."

They were aware of this one year ago.

MR. SPEAKER: No. You are going into the details.

SHRI SOMNATH CHATTERJEE (Bolpur): It is a very serious matter.

For this biggest scandal who is responsible is a different matter. We have our views, they have their version. But we have to have a discussion on this issue....(Interruptions)

MR. SPEAKER: Okay, we will discuss it.

(Interruptions)

SHRI VISHWANATH PRATAB SINGH (Fatehepur): Sir, I do not want to go into the details because I think, you will give enough time to discuss this. So, I am not going into the details of this by giving comments.

Whatever Shri Chandra Shekhar has said is a very important aspect. But, I would like to say one thing. While the Finance Minister has made a commitment that he will go in for all the investigations and everything, is he agreeable for a JPC? This has been the demand of the Opposition consistently. Could he clarify this as to whether he will go in for this or not?

(Interruptions)

MR. SPEAKER: You need not do that. I have said that after the statement is made, we will sit in the Chamber and decide as to whether you would like to have a discussion. It seems that you want to have a discussion. We will decide that.

(Interruptions)

SHRI GEORGE FERNANDES (Muzaffarpur): Now may I make a submission? (Interruptions) Sir, please listen to me.

(Interruptions)

MR. SPEAKER: It is enough for today.

(Interruptions)

MR. SPEAKER: I have said that I would allow a discussion, but not now. (Interruptions) It is not like this. (interruptions) It will not be today.

(Interruptions)

MR. SPEAKER: Now, the House stands adjourned to meet again at 3 p.m.

14.01 hrs

The Lok Sabha then Adjourned for Lunch till Fifteen of the Clock.