

12.18 hrs.

**CALLING ATTENTION TO MATTER
OF URGENT PUBLIC IMPORTANCE**

**REPORTED SWINDLING OF CRORES OF
RUPEES BY EXCHANGING AT THE RESERVE
BANK OF INDIA MUTILATED CURRENCY
NOTES MEANT FOR DESTROYING.**

MR. SPEAKER: Shri Shiv Sampati Ram—not here; Shri C. K. Chandrapan.

SHRI C. K. CHANDRAPAN (Cananore): Sir, I call the attention of the Minister of Finance and Revenue and Banking to the following matter of urgent public importance and request that he may make a statement thereon:—

“Reported swindling of crores of rupees as a result of mutilated and soiled currency notes of high denomination, meant for cancellation and destruction, finding their way in circulation after exchange from the Reserve Bank of India.”

**THE MINISTER OF FINANCE AND
REVENUE AND BANKING (SHRI
H. M. PATEL):** Sir, I rise to make a statement on the notices calling my attention to the report swindling of crores of rupees through notes meant for cancellation and destruction in the RBI finding their way in circulation....

MR. SPEAKER: It is a long statement; it is four pages. You could have easily laid it on the Table of the House. Now it is all right. What else can be done?

SHRI H. M. PATEL: I am supposed to read it. Mr. Speaker, Sir, I rise to make a statement on the Notices calling my attention to the reported swindling of crores of rupees through notes meant for cancellation and destruction in the RBI finding their way in circulation.

2. The Notices are apparently based on the report in “Blitz” dated 2nd

July, 1977. The report alleges that:—

(a) In many cases, punched and cancelled notes meant for destruction were found in circulation having been obviously stolen from the RBI.

(b) Often double payment was secured on a single defective note. The note was first surrendered to the RBI from where it was stolen and offered to the RBI a second time for exchange.

(c) Test inspection in a single period in a single branch showed an enormous drain of Rs. 8 lakhs. The total may well run into several crores.

(d) The RBI inspection has revealed that Shri G. N. Khanna, an Officer Incharge of Currency in the New Delhi Office, colluded with a notorious gang from Punjab dealing in soiled and mutilated notes in accepting such notes, bypassing the usual procedure.

Sir, I have ascertained the facts with regard to these allegations. Briefly they are as follows:

In July, 1976, some anonymous complaints were received by the Reserve Bank of India, Bombay, alleging that Shri G. N. Khanna, the then Deputy Manager, RBI Bombay office, who was associated with the payment of the value of defective notes presented by the public, was favouring certain professional dealers in defective notes belonging to Delhi. He was immediately taken off this work. Although no irregularity was noticed in his performance at Bombay, yet it was decided by RBI to check up his work in Delhi, where he had adjudicated defective notes as Currency Officer from 6th July, 1972 to 9th May, 1974. Since the defective notes passed by Shri Khanna during the period July, 1972 to 1st November, 1973 had earlier been subjected to audit check by the RBI authorities and no serious irregularities had been found, fresh

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audit check was undertaken only for the period from 2nd November, 1973 to 9th May, 1974. A special procedure is followed for the exchange of defective notes which are badly soiled and charred and which cannot withstand the rigours of handling under the normal procedure of examination, passing through the Claims Section etc. Such notes are received in the Claims Section but the Currency Officer is empowered to adjudicate the claims himself in the presence of the claimant and two other officers of the Bank. During the period 2nd November, 1973 to 9th May, 1974 Shri Khanna had adjudicated under the "special procedure" 441 cases, involving in all notes worth Rupees 10.18 lakhs tendered for exchange out of which notes worth Rupees 9.86 lakhs were accepted for payment. A test check of 185 of these cases by an Inspector of the RBI revealed that some of the notes passed for payment by Shri Khanna contained mutilations of a suspicious nature such as numbers erased, portions removed by sharp instruments, etc. Two already cancelled notes of Rs. 100 denomination were also found to have been passed. Certain other procedural irregularities were also noticed; Shri Khanna had adjudicated cases with undue haste and the claimants were paid the exchange value on the following day or a day after. Shri Khanna's actions in receiving the defective notes directly from some of the dealers in violation of the instructions to receive them in the Claim Section first and in passing some of the notes which should not have been paid and that too in such haste, indicated that he was possibly in collusion with those dealers. In view of the Inspector's findings based on a sample check, a senior officer from the Central Office of the RBI Bombay has been deputed to scrutinise all the 441 cases dealt with by Shri Khanna. The scrutiny is expected to be completed in about a month and red by the RBI will be recovered from

be known only then. The loss incurred by the RBI will be recovered from Shri Khanna. Apart from prematurely retiring him next month when he completes 56 years of age, further action against him will be considered by the Reserve Bank in the light of the findings reached after completion of the investigation.

As I have mentioned, the value of the notes passed by Shri Khanna under the "special procedure" which are now under examination, is only Rupees 9.68 lakhs. The notes adjudicated in the New Delhi Office after Shri Khanna left his charge have also been test checked by the Inspector from the Central Office of the RBI. No such irregularities have been noticed. Similar inspections have also been carried out in other RBI Offices and there too, no such irregularities have been found.

I now turn to the allegation that cancelled notes meant for destruction are being stolen from the RBI Offices and find their way into circulation. In the last three years, only 30 cancelled notes in all of the value of Rupees 1465 were tendered for exchange at the various Offices of the RBI. The notes were impounded and the matter reported to the police for necessary investigation. As regards the allegation that RBI employees are involved in pilferage of cancelled notes, only one case of suspected involvement of some employees of the Kanpur Office of the Reserve Bank came to notice in June, 1974. The then Minister for Revenue and Expenditure informed this House about the incident in reply to Starred Question No. 481 on 23rd August, 1974. The police have since launched prosecution against Shri N. C. Jain an employee of the Kanpur Office on whose person a cancelled 100 rupee note was found on 27th June, 1974. On the basis of further information received by the Bank, some other employees of the Kanpur Office were also suspected to be involved in this

case and disciplinary proceedings have been instituted against them. The U.P. CID, to whom the entire case has been reported, have not yet concluded their investigation. The State Government has been requested to expedite the completion of the inquiry.

The RBI has taken several measures to tighten the procedure to eliminate the possibility of pilferage of cancelled notes and irregularities in the exchange of defective notes. The RBI is also seriously considering instituting a system of physical search of all the employees concerned with the exchange and destruction of soiled and defective notes.

It should be clear from the facts mentioned by me that the report in "Blitz" is highly exaggerated and far from truth. The House will kindly realise that the RBI Offices process for exchange and destruction a few thousand million notes every year. A few stray incidents of this kind which occur have to be viewed in this context. Every incident is inquired into and the culprit are brought to book.

SHRI C. K. CHANDRAPAN: The Minister while concluding—in the statement he has attached along with it and answered in this House on 23rd August, 1974—has stated that this sort of happening in the Reserve Bank was brought to the notice of the Government and that the report in "Blitz" is highly exaggerated and therefore nothing to worry about it. I must invite your attention again on the Calling Attention which was discussed in this House on 27-2-1975. The Minister said something about the Question in June 1974, but I am speaking on the Calling Attention which was discussed in this House on the same matter of swindling taking place in the Reserve Bank in the dubious transaction of soiled currency notes. At that time, so many revelations were made, but there also, I must say with regret that with the same appeal
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the then hon. Minister Shri Pranab Kumar Mukherjee also concluded his speech by saying that so many millions of notes were in circulation. So, he pleaded with the House to realise the difficulties, that this kind of things would happen but on the whole the Reserve Bank was running all right. I do not charge the Minister that he is trying to whitewash that. But I must say that the Government has taken this matter very lightly and in a casual manner. Otherwise, I fail to understand, how they missed the call-attention on the same subject which was discussed in this House and in which my hon. friend on my left, Shri Samar Mukherjee, also took part. At that time, certain important allegations were admitted by the Government which I would like the Minister to know. On 8th July, 1974, an Assistant Treasurer was involved in the same kind of soiled-note transaction in the Reserve Bank of India, Delhi. In the same year, in the same month, ten-rupee notes worth Rs. 6 lakhs were presented by the Syndicate Bank, Delhi, and so many notes which were rejected earlier had found their way back to the Reserve Bank; that happened in the same month. In the Nagpur Branch of the Reserve Bank of India, in 1974, the same kind of cases was found. The Minister at that time promised the House that all these matters would be investigated and proper action would be taken. I am very sure that the hon. Minister will not be in a position to say anything if I ask him as to what action has been taken about these cases. About the Kanpur case, 1974, he says that still the inquiry is going on—even after three years. Therefore, the main thing that I would like to stress is this. There is a well-knit, well-organized racket running around the Reserve Bank in a systematic manner to dupe this country; it may not be to the extent of crores and crores of rupees...

MR. SPEAKER: Come to the question.

SHRI C. K. CHANDRAPPAN: But to the tune of million of rupees, this scandalous transaction is taking place around the Reserve Bank in Delhi, Nagpur, Kanpur, Bombay...

MR. SPEAKER: You have said that.

SHRI C. K. CHANDRAPPAN: The Minister tried to evade that. That is why, I am trying to bring to his notice all the facts.

Coming to this question which we have raised, there are certain important matters arising out of this report. The report itself says that the officer, Mr. Khanna, who was involved in this scandal, was given a premature retirement. Though it may be termed as superannuated retirement or something like that, the fact remains that he was asked to retire one year earlier. Now the Government says that if, after the inquiry, it is found that he is guilty, the money will be realised from him. But, I think, in this case, more severe measures are necessary, and about the report in *Blitz* casting an aspersion, I do not know; it is for the Minister to clarify.

MR. SPEAKER: You are converting this into a debate. You are only answering, point by point, to the information given by the Minister; you are not asking any question.

SHRI C. K. CHANDRAPPAN: My question is this, whether any orders 'from above' as was stated by the *Blitz* were responsible for saving Mr. Khanna, whether any political influence was there to save Mr. Khanna from being punished or prosecuted. My second question is: I want to know what has happened about those inquiries which were promised in the House in 1975; if the Minister is not in a position to answer now, he may assure the House that he will give an answer to this House later.

Finally, the most important question is this. Since the happenings in

the Reserve Bank are not above suspicion, will the Government order a CBI inquiry into all these kinds of happenings, not only in one particular bank or against a particular officer, but a comprehensive inquiry into all the scandalous transactions which take place in the name of soiled notes and all that?

These are my questions, which I would like the Minister to answer.

SHRI H. M. PATEL: The Hon. Member says that we have taken this question very casually. I would like to assure him as well as the House that we do not take such an incident casually; we take it very seriously. I do not know what gave him that impression...

SHRI C. K. CHANDRAPPAN: You quoted an incident of 1974 but forgot to mention about 1975 which is a more serious one.

SHRI H. M. PATEL: It is almost as if he desires that I should give a list of all the cases that ever happened in the past in regard to this matter. I just gave an illustration to show that we have been going into this matter seriously.

Regarding the other question and the promises that were given here about whatever took place in 1974 and 1975, I will certainly enquire into them and I assure the House that if it so desires I will lay on the Table the results of our examinations of the promises made by the previous Minister.

So far as the CBI enquiry is concerned, I don't think it is called for in this matter; but if we come to the conclusion that such an enquiry is necessary, we will certainly take that step. We will go into the entire question as early as possible.

SHRI SAMAR MUKHERJEE: (Howrah). The last part of the statement shows the attitude of the Government.

It says that millions of notes come up every year for exchange and destruction and a few stray incidents of this kind which occur have to be viewed in this context. If this is the attitude, then the statement made just now is contradictory and that is why I must ask the Minister to consider this seriously. This is a question of a racket, not simply of an individual. This racket has to be unearthed. Your statement has admitted that Mr. Khanna is involved in this incident of cancelled notes of Rs. 100 denomination being passed. Cancelled notes were passed and the passing authority was Mr. Khanna. This is a very serious thing. A soiled note can be passed but if a note which has been cancelled is passed, then there is a racket behind it: without a racketing organisation this cannot happen. That is why, the main task will be to unearth the whole racket. What Mr. Chandrappan has pointed out is that such an issue came up in 1974, it came up in 1975 and was discussed here in this House and now it is again coming up. This means that some racket is going on. It has become public through the papers and, having caught our eyes, we immediately reacted. Then how is it that the administrative authorities could not react to these things before they came out in the public press? That is why we say that you must take this seriously.

Now, an Assistant Treasurer by name Prem Dutta was dismissed, and he must have been dismissed because of the same thing. But there is no mention of it in the statement. When he was the Assistant Treasurer, the authority for passing the soiled and cancelled notes was this Mr. Khanna. Several complaints were brought to the notice of Mr. Khanna but he refused to look into them. This shows his involvement. He is directly involved in the racket; that is the information we have got. And this 'special procedure' that was adopted afforded the loophole which enabled

such malpractices to be carried on more easily.

There was a protest by the employees and there was a strike against this procedure and that is on record. I would request the hon. Minister to take note of these things. First, the Minister should unearth this racketeering and then the special procedure should be reviewed and changed in such a manner that no loopholes are left. Not only there is a racketeering in the Cash Department regarding the passing of the soiled notes, but I have got a report where it is stated that a big racket exists in the Exchange Control Department also.

MR. SPEAKER: That is a different question.

SHRI SAMAR MUKHERJEE: But, I am bringing it to the notice of the hon. Minister, because the whole racket is inter-connected. This should also be noted.

While you have punished the employee who has been caught with a hundred-rupee note and have arrested him and suspended him, you have allowed the officer premature retirement; he has not been arrested or suspended. Why should there be two types of treatment, one for the official and the other for the employee? This differentiation in treatment between the two should not be resorted to under this new Government; the attitude must change completely. Will the hon. Minister take these matters very seriously and institute an overall enquiry? This enquiry should not be held through the inspectors because they are influenced by the officers. I would like to ask the Minister whether he is prepared to undertake a thorough enquiry in these matters to find out the racket and root out the corrupt machinery?

SHRI H. M. PATEL: I would like to assure the hon. Member that I take everything that he has said very seriously. I will take note of the

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various points that he has made. The hon. Member started by mentioning a few stray instances as if I ignore them. As I have said, every incident is being enquired into. That apart, the hon. Member has said quite rightly that this is something which is disturbing and I can assure him that a very thorough enquiry will be held in both the matters, regarding soiled notes question and the Exchange Department. The hon. Member thinks that the special procedure provides certain loopholes. We shall look into this and the loopholes will be blocked.

I have already mentioned that this is a matter which causes us a grave concern. I give you an assurance that we will go into the matter thoroughly.

So far as the question of Shri Khanna being treated differently is concerned, I assure you that that will not be the case. We shall see that proper enquiry is held in regard to his particular involvement in this racket.

12.40 hrs.

LEAVE OF ABSENCE FROM THE SITTINGS OF THE HOUSE

MR. SPEAKER: The Committee on Absence of Members from the Sittings of the House in their First Report have recommended that leave of absence be granted to the following Members for the periods indicated against each:

(1) Shri M. S. Sanjeevi .. Rao	13th June to 30th July, 1977 (Second Session).
(2) Shri Mahamaya Prasad .. Sinha	11th June to 5th August, 1977 (Second Session).
(3) Shrimati Akbar Jahan .. Begum	11th June to 11th July, 1977 (Second Session).
(4) Shri V. P. Naik ..	11th June to 5th August, 1977 (Second Session).
(5) Shri Roopraj Somani ..	25th March to 7th April, 1977 (First Session) and 11th June to 25th July, 1977 (Second Session).
(6) Shri Keshav Rao .. Dhondge	11th to 30th June, 1977 (Second Session).

Is it the pleasure of the House that leave as recommended by the Committee may be granted?

SOME HON. MEMBERS: Yes.

MR. SPEAKER: The leave is granted. The Members will be informed accordingly.

12.44 hrs.

PERSONAL EXPLANATION BY MINISTER OF RAILWAYS RE. ALLEGED USE OF RAILWAYS STATIONERY BY A PRIVATE PUBLISHING HOUSE.

THE MINISTER OF RAILWAYS (PROF. MADHU DANDAVATE):

Mr. Speaker, Sir, yesterday when I was not in the House, the hon. Member, Shri A. C. George made a statement in the House that one private publishing house had utilised the stationery of the Railways to despatch some of the invitations for the function that was held yesterday. I wish to bring it to the notice of the House that yesterday on behalf of the Popular Publishers, Bombay one symposium on Marx and Gandhi was held in which Acharya Kriplani and Ramesh Thapar spoke. As far as the invitations to this function are concerned, they were sent to 1400 persons including 600 Members of Parliament from both Houses. Most of these in-