

(8) A statement (Hindi and English versions) showing reasons for delay in laying the papers mentioned at (7) above.

[Placed in Library. See No. LT-2422/92]

DISCUSSION UNDER RULE 193

Scam Involving Operation in Government Securities Running into thousands of Crores of Rupees Contd.

[English]

MR. DEPUTY SPEAKER: Now, we shall take up discussion under rule 193. Shri George Fernandes may continue.

[Translation]

SHRI GEORGE FERNADES (Muzaffarpur): Mr. Deputy Speaker, Sir, I will express my views in the minimum possible time. Although I feel that the Government also wants that I should say something in detail, so that we may first of all express our views regarding our role in J.P.C., which is likely to be formed, yet we feel that we are not discussing it in detail. Since it is such a big scandal and there are so many cases associated with it that it becomes a problem for us to decide as to where from should we start.

Mr. Deputy Speaker, Sir, Yesterday in the evening while concluding my speech, I was talking about the responsibilities of the Reserve Bank since it was asked by the Congressmen as to which powers the Reserve Bank had to stop this scandal. Mr. Deputy Speaker, Sir, I said that the Governor of the Reserve Bank had raised this issue in March, 1991. Till then the condition was not so review; as we see today and after that a few letters and documents leaked out from that side. Mr. Deputy Speaker, Sir, had any action been taken against them under

Banking Regulation Act then this situation would have been entirely different, It would not have been so raw as it is today.

I was surprised to know that the member of the Finance Commission, a Member of this august House, Debi Prasad ji Pal while expressing his views yesterday said that the Reserve Bank could supervise but what power did it have to exercise a control on these banks. I was surprised on two points, if he saw sight them all the banks in public sector should go to private sector otherwise the same conditions will prevail. None is there to question them or regulate their activities, they may do anything and loot anyone. The Finance Ministry is not bothered at all. They are only bothered about the posting of people and nothing else, they do not have any other responsibility. So the question of control over all the banks does not arise and secondly I was surprised to observe that without knowledge of law, they are speaking on it. It does not hold good. This is the Banking Regulation Act 1949. Section 277 of this Act says;

[English]

"Monthly returns and power to call for other returns and information - Every banking company shall, not may, before the close of the month succeeding that to which it relates, submit to the Reserve Bank a return in prescribed form and the manner showing its assets and liabilities in India at the close of business on the last Friday of every month."

[Translation]

I will not read out the whole of it.

[English]

Every bank has to provide a monthly statement. A statement of its assets and liabilities and the manner of the assets, liabilities.

[Translation]

You are supposed to state as to how you got money, whether you have deposited or not and to whom have you paid. Now you can say that the statements came and we filed these. I may say that it is not the function of the Reserve Bank to file such statements, on the contrary it has to instigate and supervise. Its function is to rectify the wrong. Please refer to section 27 (2), as given below:

[English]

"The Reserve Bank may at any time, direct the banking company to furnish it, within such time as any be specified by the Reserve Bank with such statements and information relating to the business or affairs of the banking company, etc."

[Translation]

If the documents sent to you under 27 (1), the balance sheets, accounts or any other thing, have got some error you can issue directive for its clarification. What did Reserve Bank do about all these banks? Was Karad Bank sending properties to you or not? The name of Syndicate Bank has never figured here so far, but have you received the records of the extent of intervention of the Syndicate Bank in this scandal? Did you get the records of Canara Bank? Please name the banks whose records you have not received and whether you have taken any action against the banks whose records have been received by you? Therefore what has been said here is baseless.

[English]

Reserve Bank of India Act, Section 35 reads as follows: 'Inspection: Notwithstanding anything to the contrary contained in Section

[Translation]

The Finance Ministry has not discharged its responsibility. You did not bother about it.

[English]

"Shall caused an inspection to be made by one per more of its officers of any banking company and its books and accounts.

[Translation]

Have you exercised this right? when are you after? Then powers

[English]

" Power of the Reserve Bank of give directions"

which is very important, " Where the Resource Bank is satisfied that in the public interest in the interest of banking policy, to prevent the affairs of any banking company being conducted in a manner detrimental to the interests of the depositors or in a manner predicial to the interest of the banking company, or to secure a proper management of it, any banking company generally, it is necessary to issue directions to banking companies to generally or any banking company in particular, it may, from time to time. issue directions as it deem fit."

[Translation]

What have you done? You say that you are getting worried. If you had prayed, we would have been happy.

[English]

We shall be glad if you to this. This is the

responsibility of the Reserve Bank to seek the pleasure of the bank, the Chairman and managing Director.

[Translation]

We would be happy if you remove all these irregularities going on in the Banks. Why you talk this before them? I am putting here some facts about the powers of the Reserve Bank which the Bank did not use. I would like that this House should know about these powers. The Reserve bank which is not working properly. It can liquidate it and it can even nationalise any private bank. You have got such vast powers with you and even then you are saying here that you can do nothing. What powers the Reserve Bank of India has? That is why, we would like to say categorically that the Reserve Bank of India has not discharged its responsibility properly.

Now I would like to say about banks. I have not brought this book just to show you the rules I could have informed you about the rules and your responsibilities etc. by bringing the banking Regulation Act only. That is why I brought this book named "Tandon's Banking law & Practice in India". Just now one of my hon. colleagues has commented that it may be a pre Harshad Edition. It is not Pre Harshad. It is the Edition that has come after Harshad case.

[English]

This is the second reprint of the Eighteenth edition, April, 1992.

[Translation]

Mr. Deputy Speaker, Sir, there are 1640 pages in this book. It contains all the law relating to all the banks of India. It has a detailed commentary on these laws constituting 1000-1200 pages. There is no need to make the Finance Minister acquainted with the status of Tandon. He

had a lot of banking Experience Practice". It is the largest book on 'Banking Laws and Practice'. It contains 1640 pages and 15 lakh words. I would like to request the Minister of Finance to show us only two words 'Banker's Receipt' out of 15 lakh words in banking systems which have now become popular in the world.

[English]

The two words 'Banker's Receipt' do not exist in the entire banking system. You can call it lexicon; you can call it the laws; you can call it commentary; you can call it by any name. These two words do not exist in our banking system.

[Translation]

These two words exist in banking systems of India only. Yesterday, your party colleague Mr. Murlidhar Deora said this thing. A lot of discussion on Banker's Receipt was held yesterday. Many hon. Members discussed the National Housing Bank. It is the Banker's Receipt of the National Housing Bank. It bears no number. There is nothing in it. Since these people had already taken a decision.

[English]

It has been transferred though it is declared as not transferable. This has been the most transferred document. It says:

Not transferable, with date.
Received from so and so the sum of Rs. so and so being the cost of so and so for Rs. so and so with so much open interest Rs. so and so less tax and surcharge Rs. so and so from so and so date to so and so date. The bonds of the face value of Rs. so and so will be delivered as soon as they are ready in exchange from this receipt duly discharged; in

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the mean time there is no full stop
the same will be held on accounts
of so and so.

[Translation]

It bears a stamp costing 20
paise only. a dealing involving Rs.
400 crore has been made on this
paper. It is the banking system of
India. We are running the
Government. We have this
parliament. Last year I had said
challenging the hon. Minister of
Finance in the House that these
banks have been captured by such
people as are committing
regularities every day. There is no
Chairman if Managing Director who
is honest. if some one is honest, he
is an exception. I do know this thing.
The persons who don't draw Rs.
200 crore from the banks in a year
also know it. Hearing this you stood
up with anger.

[English]

I think, you have been very irresponsible.
You are demoralizing the banks.

[Translation]

I want to remind the hon. Minister of
Finance that we are not raising this issue for
the first time. It is not the occasion to comment
whether we are in Government or not. Every
institution is audited in India. C.A.G. audits
Defence accounts and everything. Any
matter, any complaint can be referred to
him. But banks are not audited P.A.C. and
Estimates Committee can't raise any query
against it. The banks are public sector
undertakings even then nobody can raise any
query against them leave at these things.

*Not recorded.

**Bapurpe as order by the Chair.

C.A.G. examines the accounts of Military
and gives its report. Shri Cjaturvedi, the
comptroller and Auditor General of India had
given a report on the Bofors case. The
security of the entire nation can be discussed
and reported. But banks can neither be
audited Nor reported. Why is it so, we would
like to know it. (Interruptions)..XYZ

MR. MANI SHANKERA IYAR: He was
** of B.J.P.

(Interruptions)

SHRI MOHAN SINGH: Mr. Deputy
Speaker, Sir, an hon. Member belonging to
the treasury side has called the Comptroller
and Auditor General ** of a party. Whose **
he is, I do not know; can it be a part of the
proceedings (Interruptions)

SHRI MANISHANKAR AIYAR: I am
talking of the past..

(Interruptions)

[English]

MR. DEPUTY-SPEAKER: I expunge
the word from the records

(Interruptions)

SHRI ANNA JOSHI (Pune): Sir, please
ask him to withdraw that word.

MR. DEPUTY SPEAKER: I had already
expunged that word.

(Interruptions)

[Translation]

SHRI NITISH KUMAR (Bar) When he
was speaking while sitting, it was not recorded.

But later on, whatever he has said has been recorded. '10 Janpath ka Chapras' the peon of 10 Janpath, was recorded..(Interruptions)

SHRI GEORGE FERNADES: Sir, I would like to submit whether there is any cut off date for this deteriorating situation, whether it can be said that it was not so. It started only when such and such party was in power, I want to make it clear.

[English]

Banks have been the law unto themselves.

[Translation]

So they did things in their own fashion without following any norm or economic discipline. A chairman or managing Director visits Delhi and stays in five star hotel. Attendance of industrialists is must in his court. We have all the evidence with us as to how they have committed irregularities. We will discuss these things here with proof. But when we talk about scam, it appears that it is only Harshad Mehta who is the root cause of all this ill affairs. Harshad Mehta has become the synonym of scam. The banking systems of India has prepared the ground for Mr. Harshad Mehta to commit irregularities. Unless the Government arrests these Chairman-Managing Directors or top officials of the Ministry of Finance and Reserve bank of India, there will be no use of arresting Harshad Mehta only. He is simply a commission agent and nothing more than that. To charge Commission is his profession. Anybody can utilise him for this purpose. All these three have utilised him jointly. Today you have put him into jail and some people are praising you for this action against Mehta, but is there any use of putting Mr. Harshad Mehta into jail? What action is being taken against the real culprits, who have done all this. They should be brought to book. I would like to inform you that National Housing Bank

is wholly owned by the Reserve Bank of India. Reserve Bank of India has 100 per cent equity of the above Bank when the Governor of Reserve Bank was asked about it for the first time, he replied that there was only one representative of his bank in the Board of Directors of the National Housing Bank. It means that if a gang prints the fake notes and the Governor of the Reserve Bank is asked about it, he will simply reply that as there was no representative of his bank in the gang so there is not responsibility of the Bank in this scandal. I would like to ask you what have you been doing in your office. The National Housing bank is yours as it is owned by you. After considering serious deliberations with all the Bankers for two months, the Indian Bank Association in a meeting held on 6th May has tried to bring some legality in the illegal performance of bankers receipt what legality they have tried to put is this:-

[English]

Put serial number on this. Till now there was no serial number. whatever securities you are transferring - name of the security, interest rate, face value, rate and percentage sold to, delivered own which date.

[Translation]

After preparing the performance consisting of all these things, it was distributed to all the banks including Reserve Bank of India. The Bank officers have also referred to it in their letter, dated 26th July. Mr. Phervani is your great God. Why he has been your God, it should also be exposed. On what charges he was removed. We know it also. Bank of Baroda, Fiscal Services, and all matters related to it and Reliance were all involved in the scandal. In Maharashtra, Shri Sharad Pawar had accommodated him. He was appointed as a Chairman of a Company in Maharashtra. As soon as your Government was formed, these favourable conditions

developed and Mr. Phervani reached there. It was also your by proxy Government. It was done through it. Now it is to be examined as to what extent. Mr. Phervani had misutilised the national Housing Bank. (Interruptions)

Mr. Deputy Speaker, Sir, the National Housing Bank had arranged to deposit Rs. 1271 crore directly in the account of Mr. Harshad Mehta through these receipts and indirect transfers. I am not able to follow as to what Congress people are demanding disclosure of names. On the one hand, they are saying that this discussion is useless and on the other hand, they are saying that they will defend the Government. But, the amount of Rs. 1271 crore including the profit of Reserve Bank of India which was meant for constructing the houses for the poor people managed by Shri Phervani and has been put on the disposal of Harshad Mehta who is a crook he strengthened his position at the cost of others. For the letter mail of the Mehta you have manipulated this amount in his favour. Despite all these things, we do not find any sense of shame, sorrow and guilt on the face of the concerned culprits. The people are thinking that it is also a discussion on this point like the discussion on dispute between the centre and the states or it is the dispute between the two parties, or it is a discussion on the dispute between the ruling and the opposition parties. Mr. Deputy Speaker, Sir, I have an apprehension that we are involved in the discussion here on the subject and the continue to pursue unabatedly their old practice. So I would like to urge upon the Government that it should issue an order immediately to suspend the banker's receipt system and the J.P.C. may do its work. But the manipulation of money with the banker's receipt which is entirely a bogus one must be stopped. If we will continue this system of banker's receipt the same scam may come up again after certain period.

That is why I would like that first of all something clear should come about the position of banks. (Interruptions)

SHRI BHOGENDRAJHA (Madhubani): George Saheb, these people will not say. (Interruptions) I would, therefore, like to make a short submission in this regard. The Deputy Governor of the Reserve Bank has reported that some officers are running accounts in foreign banks off the record. I would like to submit.. (Interruptions) you have been in SEBI. So, if you give some information, it would be of some help for the present as well as for the future.

SHRI GEORGE FERNANDES: Sir, I do not want to go into minute details of the banks which committed these bunglings, because both the reports of the Janki Raman Committee are there before the House and I hope that everybody has gone through them. (Interruptions) But I have an objection against your excessive love you still have for the foreign banks. It can just be imagined as to how many scandals have been committed by the foreign banks. All the transactions and use of the bank receipt were done by them 70 percent of transfer of Securities was done by the foreign banks and 40 per cent by brokers. The total transaction of security scam was of the order of Rs. 9 lakh crore. The 4 banks through which 70 percent transactions were made out of the total Rs. 9 lakh crore are very happy. I would like to remind you that the B.C.C.I. raises a new issue daily in India and that is why the previous issue is suppressed. In connection with a B.C.C.I. a case has been filed on in the court against the USA Ex-Defence Minister Mr. Clark Clefore the day before yesterday. He had been a strong man in USA politics for last 40 years and he will be, jailed for the reasons of telling a lie. The Secretary of law of Mr. Nixon was sent to jail for 7 years in the USA. But here people who are indulged in acts of theft and looting will come forward to

make references to laws. So, Mr. Deputy Speaker, Sir, this is my point of objection against the foreign banks because of their functioning. The bunglings committed by the Standard Chartered Bank as has been reported by the Janki Raman Committee is a separate issue. The Committee report says how the goondas of the Standard Chartered Bank brought from England and there muscled men recruited in India raided Hiten Dalal's residence.

[English]

"Standard Chartered bank had a private raid conducted on the house of a Dalal and took possession of the securities and brought out securities."

[Translation]

How dare a foreign bank does all these things in India. How dare to conduct private raids without talking help from the CBI or Police..

[English]

"They had private raid on the house of a broker and seized the securities to the extent that they could underwrite their over-all losses.

[Translation]

Will the Government remain a silent spectator to such conduct of theirs. The City Corporation, which is a Bank of America did all sorts of scandals in India. After that, when this scandal came to light all the records connected with that scandal were rewritten. The original records were sent to their office in America through samosa. ~~There~~ only in 1-2 rooms but in 9 rooms of the ~~Central~~ Towers of Bombay computers were installed and all the accounts were deleted. But nothing happened and nobody was arrested.

The foreign banks will spread their activities in India. I know that the decision to close the B.C.C.I was not your. It was taken in England. It is the Bank of England which asked their Government to take over all the assets of the B.C.C.I. The bank of English and issue orders to take over the accounts of this bank and to close all its business. There has been an effort to shatter the entire banking system of this country. The country had to suffer huge losses due to this international scam engineered by the B.C.C.I. I am not talking of future, but presently it is a big blow to the prospect of flow of foreign exchange, our financial market and to the faith of the people in the economic system of the country. The root cause of these setbacks is foreign banks, but it is a pity that the Government is not touching those banks. The Government is not touching them because a number of the officers of those banks are either sons, daughters Sons-in-law of those who are in helm of affairs in the Government. Not to speak of touching them, Yesterday Shri V.P. Singh said that the foreign banks used to off load the old securities before the arrival of new securities. Who passed on information to them? let the hon. Finance Minister say as to how many people in India know about the issue of new securities. It is the Finance Minister, the Government of Reserve Bank of India and the Finance Secretary who know about it. Who else could know? From where and how did this information come? Will the JPC investigate into it? The Government will not do it. But if some people are under the impression that they cannot be caught just because they have already destroyed the evidence, then they are wrong. It could be that they may escape in some cases. But it is not likely that they will totally be absolved. I would like to make an appeal to all concerned that it would be wise if they disclosed the facts in time.

When the scandal was first taken u

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here all the officers were asked to furnish the details of shares purchased in their own name and in the names of their relatives in last 6 months. I would like to ask asto how many shares of how many companies were purchased by these officers in last 10 months. I would also like to know asto how many people close to the hon. Prime Minister and the hon. Finance Minister and their officers purchased shares and how much income did hey get from stock Market. The hon. Finance Minister accepted the charges. When he nodded his head in agreement, I concluded my speech. My final submission is that all the other Ministers of his Ministry should also give in worting. It has been reported in this news papers that the hon. Prime Minister has now written letters and has asked such and such questions. But actually nothing of the sort has been done. It is because the officers refused to comply with it. They then gained courage. The officers gave in writing. Such statement were taken from all and verifications was also done. What is required is to go into the genesis from where it began. The requiry has to be started from the Ministry of Finance. The Governemnt is required to investigate the thing at those place where people have lost regards for the law.

Mr. Deputy Speaker, Sir, I told you earlier that it would not be possible to fix any cut off date for this. Now there is a C.B.I. case against the Vijaya Bank, Bangalore. It was lodged in June 1990. This case is related to a company. I would first make a mention of the law.

"offcence under Section 120 (b) IPC read with Section 420, 468, 471 IPC and 5(2) read with 5(1)(d) of Prevention of Corruption Act, 1947 and specific offences under Section 420, 468, 471 IPC and 5(2) read with 5(1)(d) of Prevention of Corruption act, 1947.

The names of the accused were:

(i) Shri K. Vishwanath, formerly Chief Manager, Vijaya Bank, Bank Street Branch, Hyderabad;

(ii) Unknown oofficials of Vijaya Bank, Head Office, Bangalore;

(iii) M/s Asian Wire Ropes limited, 26 Industrial Area, Pattancheru, Hyderabad, represented by Shri Jankai Ram, Action taken: Case registered and investigation commenced. Credible information has been received to the effect that Shri K. Vihswanath, while functioning as Chief Manager of Vijaya Bank Branch, Hyderabad, with certain unknown officials of Vijaya Bank, Head Office, Bangalore and Shri M. Janaki Ram, formerly Chairman & Managing Director of M/s Asian Wire Ropes Limited, Hyderabad, to cheat the Bank through various means, (Interruptions)

SHRI K.P. RDDIAN YADAV (Wachilipatanam.): He is a Minister now.(Interruptions)

SHRI GEORGE FERNANDES: Is he a Minister/ Oh, this is the quification(Interruptions)

Shri M. Jankiraman is today a Minister in the Government. That is only a part of the story.(Interruptions) Shri M. Janakiraman being the Minister is only one part of the story.

SHRI K.P. REDDIAH YADAV: Are you shielding someone?

SHRIGEORGE FERNANDES: I am not trying to shield anybody, not even those who are here involved in that. I am not trying to shield that. But I want the people know of it. I will not name again today. I will not name the persons. But I hope the man will identify himself. (Interruptions) I do not know whether they are capable of self-immolation (Interruptions)

[Translation]

How did this happen? What were the relations between the Asian and Wire and Ropes Ltd., a bankrupt Company and the Andhura Bank and the Bank of Hyderabad. I will let you know about those two banks. (Interruptions) What happened. When the Chairman and Managing Director of Vijaya Bank, Shri Sadanand Sethi came into the picture he was removed from his post by the Governemnt but now efforts were being made to take him back. I would like to congratulate the officers of the C.B.I. who in spite of all pressures from the Government did not let him be rain stated. The hon. Prime Minister and the hon. Minister of Finance deserve congratuationalions who did not yield to the pressure from within. (Interruptions) What happens?

[English]

The Vijaya Bank holds a Board Meeting in Hyderabad Bank's Boards meets in Hyderabad.

[Translation]

A meeting is held in a five star hotel. There is a protest in that meeting from all the participants except the Chairman and Managing Director, Shri Sadanand Sethi and director. There is a protest from all except Shri Sethi and othe Government Director, Shri C.W. Mirchandani. So much so that the representative Director of the Reserve Bank of India openly cast, a vote of

dissent. Then what happens. The Chairman plays his tactics and gets the proposal passed. The proposal was passed by the support of only these two persons and despite the protest from all theres. Then what happens. A Minister of the then Government was putting up in the next room of the same hotel. The whole Board goes to that room. They return and then the proposal is passed in the metting. Rs. 23 crore of the Vijaya bank was lot in june, 1990 and that Shri M. Jankiraman, the Chairman cum managing Director of the Asian Wires and Ropes Ltd. is occupying the Chair of a Minister in Andhra Pradesh Government. Shri Sadanad Sethi was removed but the decisions taken by him and the two deals done by him were honoured. Some body pointed out yesterday that there should be an inquiry into it. But the Government does not have time for that. But I would press that an inquiry imust be conducted. It's an irony that Shri Sadanand Sethi has been accommodated in the Air India Board. How to escape CBI inquiry. (Interruptions) He will become a director of the Air India. (Interruptions) who can become the Minister.. (Interruptions). It would not be fair to make a futile search of a cut off date by saying scam, scam. While speaking on the No Confidence Motion I had raised the incident of progressive construction scandal.. (Interruptions) There was a reference to the Syndicate Bank in connection with the B.C.C.I. that Rs. 100 crore were given by the Syndicate bank and the EXecutive Director of Fair Growth, Shri R.S. Pai.. (Interruptions) The hon. Minister of Finance is not present here at the moment. But the Minister in charge of Banking is sitting. He should be asked as to how many shares were purchased by the memeber of his family from Fair Growth. How many hundreds of crores rupees have been credited into their accounts as isvestment and how much money has been given to the Fair Growth to play iin shares. There has been a C.B.I. case against them and they try to hush up the case. One of them is Shri Prabhu who later on became an

employee of Harshad Mehta. He was the Chariman-cum-Managing Director of Canara Bank which has a place among the major banks of the world. A bank of this country is involved in such a scandal. On the very next day of his retirement the officer joins Harshad Mehta as Manager of the Bangalore office on a salary of Rs. on crore and a Mercedes car. Therefore, about which prestige of the country and the public sector we are talking.

SHRI RATNAKAR retires one day and utilises all his influence and contacts with the Ministers to get the Court cases against Shri R.S. Pai, dropped. A deal is struck and Fairgrowth Financial Services is launched in association with Shri Krishnamurthy a powerful public sector Ex. Manager. We also believed that Shri Krishnamurthy was an able and competent public sector Manager, but now all his deeds have become public. On the very day of his retirement the news about the seven companies functioning from his residence broke out (*Interruptions*)

[English]

SHRI MANI SHANKAR AIYAR (Mayiladuturai): These companies, many of them, belong to his children. And whatever the connections, it cannot be said that they were all born on the day he retired. This is a completely false allegation. And I request that since Shri Krishna Murthy is not here is answer this, this allegation may be expunged from the record.

SHRI K.P. REDDAIAH YADAV: Supposing, a son or a daughter, if they are major and they are doing individual business, and if they had purchased or invested in the shares, does it mean that his parents, whether they are officers or Ministers or MPs, have purchased those shares? I want a clarification from the hon. Member. I feel that if the Minister or an M.P., or an officer

has directly purchased shares or invested in Fair Growth or with Harshad Mehta, then he is liable to be answerable but if their sons or daughters invested somewhere, they are not responsible.

MR. DEPUTY SPEAKER: Shri Reddaiah, Shri George Fernandes has told the facts. If it is not correct, when you get an opportunity to rebut it, you can rebut it. There is nothing that prevents you from doing that.

SHRI MANI SHANKAR AIYAR: Sir, I am on a point or order. Your description of what Shri Fernandes has said as a fact, is erroneous. My specific request was that in view of the fact that Shri Krishna Murthy is not in this House to deny this allegation, either Shri Fernandes must validate the claim that these seven companies came into existence on the day Shri Krishna Murthy retired or he should not make such a charge even if you think is a fact. He knows that it is not a fact. I seek a ruling to protect the reputation of a man who had to resign from the Government because our Government had asked him to resign.

MR. DEPUTY SPEAKER: Shri George, Shri Mani Shankar Aiyar raised a very relevant point. When we name a particular person, and if he is not in the House, he cannot deny it. The point that has been raised is very valid.

SHRI GEORGE FERNANDES: Then, we should not talk about Harshad Mehta also, Sir.

MR. DEPUTY SPEAKER: Shri Mani Shankar Aiyar had raised a very valid point because that particular person is not in the House to deny it.

SHRI RUPCHAND PAL (Hooghly): Sir, Harshad Mehta also is not in the House.

MR. DEPUTY SPEAKER: Harshad Mehta is a subject matter of the discussion.

You cannot compare Harasad Mehta with Shri KrishnaMurthy. Harshad Mehta is a figure, a man, on whose name the entire thing is built up. Therefore, using the name of Harshad Mehta is not against the rules. So, now, I request Shri George Fernandes to continue his speech.

MAJ. GEN. (Retd.) BHUWAN CHANDRAKHANDURI (Garhwal): Shri Aiyar said something about the remark of Shri George Fernandes when somebody is not present. But what about the remark he himself passed about a persons who is not here? What is his justification?

SHRI MANI SHANKAR AIYAR: My Justification is that my point of order did not say, do not refer to a person who is not in the House. My point of order was that since a statement was made which on the face of the record is a factually in correct one. Shri George Fernandes alleged that seven companies came in to existence on the day when Shri Krishnamurthy resigned, since this is not true, I am only asking him to withdraw that one statement because the companies were registered and we know that they were in existence earlier

[Translation]

SHRI GEORGE FERNANDES: I never stated that the companies were launched on the day of the retirement of Shri Krishnamurthy. I just said that the news broke out on the day of his retirement, One of the Directors of the company in his wife and the other is his brother. This company had made investment in another company in which his son, daughter-in-law and brother were functioning as Directors. Again there is another company in which these three are the directors. Live this seven companies were floated-EDX Services Private Ltd. (Interruptions)

[English]

MR. DEPUTY SPEAKER: Mr. Reddaiah, why are you so sensitive? You will get a chance to rebut it.

SHRI E. AHAMED (Manjeri): If it is true let it be on the record on the deny it. If the is no truth in it let the hon. Member sustainable. This is a very serious allegation. Every member has the right and privilege to say whatever he feels. But he has made certain points. One may call them allegation or complaint or a Minister statement of fact. If there is no truth, let the hon. resign.

[Translation]

SHRI GEORGE FERNANDES: On the day of his retirement I wrote a two page letter to the Hon. Prime Minister, wherein I pointed out much more than what all I have stated in the House. However, I am still awaiting the reply from the hon. Prime Minister. 8 or 10 days have already passed since I despatched the letter.... (Interruptions) The Hon. Prime Minister will agree with me because all I have stated is substantiated with facts... (Interruptions)

15.18.hrs.

[English]

[SHRI RAM NAIK *in the Chair*]

SHRI MURLI DEORA (Bombay South): Every new Chairman will give him one hour time:

MR. CHAIRMAN: Mr. Deora, I would allow you to get up and say something if you want, provided, he yields the floor to you.

[Translation]

SHRI GEORGE FERNANDES: I will not speak much on Shri Krishnamurthy's affair because he has already tendered his resignation, which probably has been accepted too. I am not sure because no announcement has been made in this regard. No one can imagine about his deeds. The Prime and most posh residential address of India is in Delhi 23 A, Prithiviraj Road, where the TATA'S have built houses.

567 Discussion under Rule 193
Scam involving operations
[Sh. George Fernandes]

[English]

It is by cheque payment at Rs. 4000 per square foot. EDX Services Pvt. Ltd. earlier directors were Mrs. Krishnamurthy and Mr. Krishnamurthy's brother. When he became a Member of the Planning Commission, the director was one of his employees, and his brother because he got into the Government. The day he ceased to be in Government, back again into that EDX and Mr. Krishnamurthy when out of the Government receives payment for services in US dollars, in French francs and in British pounds.

[Translation]

Therefore, do not go into the details of this whole affair because I know that you had very friendly relations with him.

[English]

SHRI MANI SHANKAR AIYAR: I want to give a personal explanation.

(Interruptions)

MR. CHAIRMAN: Please do not disturb him.

Let him have his say. (Interruptions)

SHRI MANI SHANKAR AIYAR: I have been a personal friend of Mr. Krishnamurthy since September 1971 when I first met him in my capacity as Private Secretary to the Minister of Industrial Development; and I wish to add that I have been a personal friend of Shri George Fernandes since I was a servant of the Government - I served the Minister for several days in Baghdad - in October 1976. I also continue to be a personal friend of Shri George Fernandes despite the atrocities that he commits in this House. And

*Not recorded.

AUGUST 4, 1992 in Govt. Securities running 568
into thousands of crores of rupees

therefore I am not at all ashamed of the fact that I was, I am and I will continue to be a personal friend of Mr. Krishnamurthy, until these kind of charges are sustained in a court of law and Mr. Krishnamurthy is held guilty. On that day, I shall cease to be a personal friend of Mr. Krishnamurthy. Until then, I will not accept whatever this person who kept Mr. Krishnamurthy as his Secretary and who gets up today and says something in true - say it in an act of total lack of fidelity against a man who has served him with great distinction for two years when this person was a Minister. He now sits around making his kind of allegation - when he knows even better than I do of. (Interruptions) * Not recorded.

[Translation]

SHRI GEORGE FERNANDES: I just wanted to establish the facts that he is his spokesman.

[English]

MR. CHAIRMAN: He has said already that he holds you also in good esteem. He has said that.

(Interruptions)

[Translation]

SHRI GEORGE FERNANDES: I will not only substantiate each and every allegation but would like to give a hint that IADA. (Interruptions)

[English]

SHRI MANI SHANKAR AIYAR: Mr. Krishnamurthy is the person who introduced you to Siemens. (Interruptions)

SHRI GEORGE FERNANDES: We are waiting for all this to come out.

[English]

SHRIMANISHANKARAIYAR: You are a very well known individual; and the JP will turn on you too. (Interruptions)

[Translation]

SHRI RABI RAY (Kendrapada): Mr. Chairman, Sir, after you occupied the Chairman, you gave a ruling that any hon. Member desirous of raising point of order can do so only by rising from his seat. It does not be have the hon. Member like Shri Mani Shankar Aiyar to kept on commenting whole sitting in his seat. I am not sure whether will be allowed to speak or not, but your ruling should be adhered to.

[English]

MR. CHAIRMAN: I am thankful to him; let us not comment anything while sitting. Mr. George Fernandes will yield the Floor if somebody want to intervene.

SHRI GEORGE FERNANDES: I am prepared to yield the Floor to him to discuss any subject under the Sun.

MR. CHAIRMAN: We are discussing only about the scam.

[Translation]

SHRIGEORGE FERNANDES: We are prepared for everything....(Interruptions)

[English]

MR. CHAIRMAN: We should only discuss about the scam and please concentrate on it.

(Interruptions)

[Translation]

SHRIGEORGE FERNANDES: Had we been not prepared then we would have not

come out. (Interruptions) I would like to urge him to go and enquire about the House in Bombay which has been rented out and Rs. 500,000 were received as rent for that house during last year by EDX Services Pvt. Ltd. But where is that property located and what is the address? No property is actually owned, but still the payment of rent of Rs. 5,00,000 received was shown, in the accounts. I have got all the accounts with me. You just find out this from them and if any convincing reply is elicited then do inform us.

SHRI MANI SHANKAR AIYAR: If you know the details then do tell us.

SHRI GEORGE FERNANDES: I have only to submit that since you are emphethitically speaking without any proper knowledge about that, it only proves that you have come here to defend this on the maters for which even in the Prime Minister is not ready to defend. (Interruptions)

I am aware if it. He is in both the groups otherwise, for us...(Interruptions) Mr. Chairman, Sir, before I conclude the discussion on Banks ' involvement

[English]

MR. CHAIRMAN: How much time will you take?

SHRIGEORGE FERNANDES: I am on the penultimate point and I will finish very soon.

[Translation]

Before I conclude my speech in regard to the bank scandal I would like to speak in regard to a particular section which has been mentioned neither inside nor outside the House and that is the industrialist class of India. The Industrials have been actively involved in this scam, whether they are Tatas Ambanis, Birlas or any other industrial house, but no mention is being made about the

houses. I have mentioned various business hoses as an example, however, I would like to mention one name in particular, which is not at all being mentioned in the discussion; an inside trading is going on. Manipulation at such a large scale has taken place in the stock market just because of the craze to sell shares at higher rates, to increase their capital and to have a strong hold over one's own company. However, this aspect is not at all being discussed, as the hon. Minister of Finance has been reluctant even to refer to it. The involvement industrialists in security scam was ten times higher than that of the brokers involvement. The industrialists involved in this scam took the brokers unto their confidence and evolved the methods to generate resource to raise money. On the basis of their cordial relations with the Bank officials, they manipulated the stock market. I would like to mention at least one name definitely out of these sinners. There had been a discussion once in the House in this regard but the hon. Members did not take it seriously they had even committed a forgery to take the company in their own hands, however, the forgery was unveiled in the House thus preventing the company to be acquired by them. The name of that company is Larsen and Tourbro or Reliance. The rate of the share of Reliance was Rs. 176/- in July last year but its price was Rs. 132/- in December 1991; and it stood up to Rs. 151/- in January, Rs. 228/- in February, Rs. 437 in March and it came down to Rs. 360/- in April and it again came down to Rs. 280/- in May but remains static at 360/- afterwards. During the month of June it was selling at the rate of Rs. 230/- Do you know what was the reason for this? It was done because the company wanted of its shares has come down even in the Euro market. How this manipulation was made in the stock market?

Similar was the case with ACC shares. Can you claim that lit was an automatic

increase? There was also an insider trading in the shares of ACC. There was insider trading in Tata's shares and complete manipulation in Aubishi shares. Then the level of manipulation rose to such an extent as the Bank of Oman wrote to the Reserve Bank of India during the month of December last year that it has got a deposit of Rs. 100 crores in respect of Public Sector Undertakings. The Oman Bank was directed to put this amount at the disposal of Reliance. The Hon. Minister of Finance should clarify the position. Later on they made complaint but no action had been taken in this matter. This indicates at what a large scale insider trading took place; this the allegations are not baseless. Now, I come to my last point before I conclude.

[English]

MR. CHAIRMAN: You have already taken two hours. Please wind up.

SHRI GEORGE FERNANDES: You know that I not been allowed to speak for half the time. (Interruptions) I have been on my legs but if have not been allowed to speak. (Interruptions)

[Translation]

Now I come to my last point which relates to the Public Sector Undertakings.

I would like to read para 4 of Page 9 in the Janki Raman Committee of July 1992.

[English]

" Merchant banking subsidiaries of public sector banks have received large sums as inter corporate deposits and under PMS and similar schemes, and these funds have been made available to brokers under ready forward deals in many

cases these deals are in respect of transactions in shares and often the funds have been made available by public sector companies and public sector corporations. Where the funds are received under PMS, the subsidiary is acting only as an agent and the investment is made by the entity which has placed the funds."

Now, who is the entity? The entity can be the broker who has brought money from the public sector corporation or it can be the industrialist who has brought money from the public sector corporation. Both have been at work public sector enterprises. The brokers have been making deals with the concerned public sector corporation chiefs or the people who need money the industrialist who need money

[Translation]

Banks lay a condition that the loan facility would be provided only to those who have a considerable amount in their account. This is the exact source from where the money comes.

[English]

Now, Mr. Jankiraman has given a report in which he has said;

"where the funds are received under PMG, the subsidiary is acting only as an agent and the investment is made by the entity which has placed the funds."

Now, this is big a scam as any other scam.

[Translation]

Now I would like to ask a few concrete questions from the hon. Minister of Finance. As I have document with me here which relates to the finance Ministry and was handed over to me by the Lok Sabha Secretariat yesterday. It is

[English]

Most important notice of motion, by special messenger Minister of Petroleum and Natural Gas.

[Translation]

I had gave a Notice of Motion regarding the investments of ONGC and also a lost of the total investments made. I made an account of total transaction made by the national banks in the country during lunch hour when other Members were taking their lunch.

[English]

Rs. 4036 crores in different transactions. I know that it is not Rs. 4036 crores. There have been renewals every month. Monies have been deposited generally for a month for trading by the brokers on special interest for special considerations.

[Translation]

These people deposited money in foreign banks. The total amount deposited during the two years i.e. from 5.4.1990 to 7.2.92 was Rs. 1365 crores. Now I would like to know from the hon. Minister that since ONGC being a Public Sector Undertaking has its own rules and regulations, in respect of investments.

[English]

There is a special ONGC Act and that Act does not permit this kind of money being deposited with the banks for investment in shares or for former deals or for any kind of deals.

[Translation]

This is the money of the Government and there is a law also in this regard. I have a copy of the law in regard to it which may be applied in dealing with their money deposited

[Sh. George Fernandes]

in Reserve Bank or in State Bank or any other bank nominated on behalf of the Reserve Bank:-

[English]

Section 19 (3) of the ONGC Act, 1959 provides:

" All monies of the Commission shall be deposited in the Reserve Bank of India or with the agents of that bank or in a corresponding new bank constituted under the banking companies (Acquisition and Transfer of Undertakings) Act, 1970 or in such other bank as may be prescribed or in a Government treasury or be invested in such securities as may be approved by the Central Government."

Why do you nod your head. I have the documents. This law has not been amended. It is an unamended law. It was given to me during Question Hour. It is about deposits. There is no law for public sector undertakings, but there are laws for the O.N.G.C. How this law was violated by you people?

The hon. Finance Minister gave a statement somewhere, which I read. Because this question about the Chairman and managing director is being discussed for last several days. Someone said that some officer's son is working in a foreign bank. Then the Finance Minister said that he was not working. But he did not say that his daughter and his son in law are working in a foreign bank. How long will you people speak. The Finance Minister stood up and gave a certificate to Shri S.L. Khosla that the latter's son is not in a foreign bank. He is correct (Interruptions) in Latin it is said-

Suppressio very, suggestio falsi

It is well said, why does hon. Finance Minister protect these people is beyond my comprehension. Did the officer not tell him that his daughter and son-in-law are working

in a foreign bank even if the son is not there. Someone has misinformed. I can give names, I shall not refer to their names. I shall not refer to their names. I shall not refer to their names. Since the last two years public undertakings are playing their game. No one should say that our Government was there in 1990. An officer working with a public sector undertaking who indulged in corruption should not be exonerated on the ground that he was working when our party was in power. There is no such rule like I am not standing rare to discuss who was there on which date. How the public sector undertakings money was misutilized. How many companies deposited their money these banks? Shall I make a reference to 'SAIL' or the Port Trust. The Ministries which had money with them and with their public undertakings deposited the same in these banks in connivance with the brokers and industrialists. This money went to the Satta Bazaar or it went to different capitalists for their personal use. I say with utmost responsibility that a minimum of 2 and maximum of 5 percent commission was given for doing this work. You should seal all the files to these the companies which in the last two years, from the beginning of 1990, violated all laws to do this work which they were not authorised to do. Action should be taken against them for depositing the surplus in violation of all laws. (Interruptions)

The defaulters shall be jailed. I have written a letter to the Prime Minister and asked him.

[English]

I had asked him. "Have you asked your Ministers of Petroleum, Energy, Surface Transport, Communications, Steel and Industry to explain the circumstances in which the moneys of the undertakings or the money in their charge were given and for what consideration? And the least that you should do is to seek their resignation forthwith and I urge you do that".

[Translation]

The list will come. You need not worry

above that. Mr. Chairman, Sir, I shall conclude. Yesterday a question was asked and a challenge was thrown by Shri Murlidhara Deora who said.

[English]

SHRI SRIKANTA JENA (Cuttack): Sir, now Shri George Fernandes has alleged that these are the Ministries/Ministers concerned. They have deposited the moneys from out of the public sector undertakings under their charge in the banks. The money available in their portfolio management has gone to brokers and to the capital market. Ultimately the whole scam came up from these public sectors, only since money went from public sectors. Shri Fernandes is demanding resignation of the Ministers but the Finance Minister is keeping mum. This is the crux of the matter.

MR. CHAIRMAN: The Minister will reply in the end.

SHRI SRIKANTA JENA: Sir, we are discussing this issue. I am interested to know, the House will be interested to know.

THE MINISTER OF PARLIAMENTARY AFFAIRS (SHRIGHULAM NABIAZAD): Sir, I have other submission to make. This is going on as a one-sided affair.

MR. CHAIRMAN: Let him complete first.

SHRI SRIKANTA JENA: Money came from the public sectors. Several Ministers are in charge of these public sectors. Are Ministers not responsible? Shri Fernandes has alleged that the Ministers have violated the guidelines given by the Finance Ministry; they are responsible and they should resign. He has alleged six ministries and the Finance Minister is keeping mum. He has not said anything whether it is a fact or not. We would like to discuss this matter at length.

SHRI GHULAM NABIAZAD: I would like to inform the House that discussion on this particular subject started on 9th of July. After four days it will be one month since we

started discussing it. I think this has happened for the first time. We are doing at the expense of Government business. I do not say that this discussion is not important. This has its importance and that is why on the very first day when this matter was raised, we agreed for a fulfilled discussion and subsequently no less a person than the Prime Minister himself agreed for a Joint Parliamentary Committee to go into this aspect. Since we have agreed for a fulfilled discussion, that does not mean that we should discuss it for months together. But that is what is happening. We can discuss it for a day; for two days but not for 27 days. I would request that we should complete this discussion today. I think we are doing great injustice to Government business. It is the duty of the House to transact some Government business also.

I am seeing the trend in the House for the last two days. Whenever it comes to 6.00 o'clock, Members say we will continue the discussion tomorrow. I was going through the record and I found that out of seven hours that the discussion has taken place, the ruling party which is almost half of the total strength of the House has been given only one hour.

SHRI HARI KISHORE SINGH (Sheohar): You were trying to persuade your members but they were reluctant to defend you.

SHRIGHULAM NABIAZAD: So, I would request the Chair to give time to the ruling party Members also.

[Translation]

MR. CHAIRMAN: Since this point has come up I will only say that this has been going on for long.

SHRI GHULAM NABIAZAD: I have not said even a word. You, as the Chairman should judge for yourself. How can the ruling party, which is almost half of the strength of the House, get only one hour as against seven hours for which discussion has taken place.

MR. CHAIRMAN: Do not enter into arguments with the Chair.

Rajiv Gandhi Foundation connected with the Government of India? Please don't say that.

I would suggest that a meeting in this regard should be held with the Speaker. I will go by the list which has been prepared by the Deputy Speaker and I would urge Shri George Fernandes, since he has taken sufficient time, to finish this speech within 3 or 4 minutes. You should complete the last point which you were making.

[Translation]

SHRI GEORGE FERNANDES: I will obey your order and I finish within four minutes.

SHRI GEORGE FERNANDES: When there was a raid on Harshad Mehta on the 28th February, a raid was also conducted on the residence of Shri T.V. Ruia. Harshad Mehta gave Rs. 6.25 lakh in the name of Growmore Research and Management Limited, Rs. 6.25 lakh in the name of B.B. Jyotsna and Rs. 6.25 lakh in the name of his brother, Ashwin Mehta. On all he gave Rs. 25 lakh and T.V. Ruia gave Rs. 25 lakh. The money was given and this is on record. I should not name other people right now.

[Translation]

(Interruptions)

You challenged me when yesterday name of Shri T.V. Ruia was mentioned. It was said that I was ignoring the real culprits. (Interruptions)

A huge amount was spent on keeping records. The officials had to be sent to various places to conduct raids in connection with the scam neither you nor the august House can imagine it. Day before yesterday some one said here about Mundhra Scandal. It is correct that this scandal cannot be compared to that scandal. That was a matter of Rs. 1.26 crore. This is a matter of more than Rs. 10,000 crore, there is one thing common in both of them. I shall conclude by reading out one thing.

The other people's names are Shri P. Paliwal..... (Interruptions) I shall not go into too many details, otherwise there will again be a dispute. If Fair growth is named, I can name Shri P.D. Luthra also. We can name such people who are involved somewhere or the other and are related to people in power. I can say where the connections are Yesterday it is he only who said " what relationship Shri T. V. Ruia has got with the Congress Party. He also said that he is the President of the Congress party in Bombay. (Interruptions)....

(Interruptions)

I shall read out what Justice Vinain Bose had said..... (Interruptions).....

He is very far from the high command. If he wants I can prove it. After 28th February, within a period two months i.e. in the month of June T.V. Ruia's companies gave Rs. 7.5 lakh, Rs. 10 lakh and Rs. 7.5 lakh to the Rajiv Gandhi Foundation. So there are connections everywhere.....(Interruptions)

[English]

What Justice Vivian Bose says in his Enquiry, that I am going to quote now. He says:

[English]

SHRI MANI SHANKAR AIYAR: Is the

Mr. Mundhara's donations to Congress Funds and his action in keeping the Kanpur Mill open to please the Government and help them for political reasons fit in with the assistance theory and furnish a possible motive for giving him the money.... "... We, therefore, reach the conclusion that the object of the June transaction was to help Mr. Mundhra. As

regards the motive for this, it is obscure. We do not feel that we have been told the whole truth and we are not able to travel beyond the record. So far as the record goes, the only motive that suggests itself is the one we have referred to, namely a *quid pro quo* for the donations given by Mr. Mundhra to the Congress Funds and an attempt to fulfill the promises made to him about the Kanpur Mills.

[Translation]

Shri Feroz Gandhi had done all this. He had made this exposure.

Mr. Chairman, Sir, there is certainly a difference between these two cases, because that was a small case whereas this is a very big case. This work was done at that time by Feroz Gandhi on behalf of the Congress party for bringing cleanliness at high levels in politics and public life of this country. The scandal which has arisen here today is several times bigger than this. There is why you are standing here to defend it. You are refusing to reveal the facts. But there was one similarity. At that time it was connection of money and now also it a case of monetary connection.

Mr. Chairman, Sir, today I conclude the first chapter here and express my thanks to you.

[English]

MR. CHAIRMAN (Bombay South): Are you on a point of order?

SHRI MURALI DEORA (Bombay South): I am on a personal explanation because he has referred my name. Yesterday, when Mr. George Fernandes spoke about Mr. T.B. Ruisa and Bombay Congress (*Interruptions*) He said, Bombay Congress. (*Interruptions*) Yesterday he said, not today. Yesterday he said, and I got up and said this. I am the President of the Congress Party in the Bombay City for the last 11 years; and I have never seen Mr. T.B. Ruisa nor have I talked to him. (*Interruptions*) That was expunged. (*Interruptions*) Today

he referred to some other trust. I would request that this is not fair for Mr. George Fernandes to name anybody's name. Yesterday, in his speech, he referred to three-four persons and the last name he was looking at me and mentioned about one Mr. Anand Jain. I found out today in the morning and I was told - I do not know whether it is true that there was no FIR filed for him and his name was not mentioned in the court. That is what I was told. Yesterday you said you mentioned four names. It has come in the newspapers in Bombay Delhi and all over the country. FIR was not filed against.

[Translation]

SHRI GEORGE FERNANDES: No, I did not say that Mr. Chairman. Sir, in order to dispell misunderstanding if any, I would like to point out what I spoke yesterday. I said only this much that some of those people were present in the meeting. The names of four brokers and five Bank officers were mentioned in the F.I.R. file. But the names of other four persons were not included in the F.I.R. because of their political shelter even after their names were given. I told only this much.

SHRI MURALI DEORA: I would like to tell the same thing to Shri Fernandes. I want to say that neither do I have any relation with accused Shri T.B. Ruisa, nor have I any connection with him. Moreover I have not seen him for the last twenty years. Secondly I would inform Shri Fernandes, that I am not talking about those whose names are mentioned in the F.I. R. file, and it is not proper to name those whose names are not mentioned in the F.I.R. file. Everybody has got some self-respect. The persons whose names appear in newspapers face difficulties in doing other works. I have heard that the names you gone yesterday, were neither in the FIR nor are they mentioned anywhere. That is why, I am requesting him not to do so.

SHRI GEORGE FERNANDES: Sir, I said, yesterday, that after the F.I.R. was lodged, they were present in the meeting, the list of their names was put fourth to the Board. It was Mr. Kamath perhaps he was

the General Manager of Canara Bank or someone else of which cannot be said definitely.

[English]

MR. CHAIRMAN: Are you in agreement with him?

SHRI GEORGE FERNANDES: No, Sir. I am not in agreement.

MR. CHAIRMAN: Let him complete it.

SHRI MURALI DEORA: I have already completed it.

SHRI GEORGE FERNANDES: I must make a clarification.

Thus the names of four brokers and five Bank officers were included in it, not the accused; those who were present at a meeting called for a settlement. Besides, these were other four persons present in the meeting, including the Chairman and Managing-Director of the Canara Bank, Shri J V Shakti, a very famous name; their names were not mentioned as having been present at that meeting. How could the Chairman and Managing-Director of the Canara Bank be accused? At least not yet. How could the other officers of the Canara Bank not present be accused? How could the other officers of the Canara Bank were present as the accused? (Interruptions)

MR. CHAIRMAN: I think, both have clarified their positions. Shri Mani Shankar Aiyer, you can start now.

SHRI MANI SHANKAR AIYER (Mayiladuturai): Mr. Chairman, Sir, I am deeply grateful to you that you have given me the opportunity to speak immediately after the *manhasand* of the opposition has finished his intervention.

We owe as a Parliament a major debt to the film industry because we have stolen Shri Rajesh Khanna from the film industry. I

suggest, that as an earnest of the gratitude, we feel to the film industry, we return from Parliament to the film industry this great drama actor, whom, we have seen performing today, Shri George Fernandes. I have a specific role to suggest. Now that Helen has grown a little old, I suggest that this great strip-tease artiste who was telling us for the last 2 hours and 27 minutes that he was going to reveal all, just throwing off one veil after the other and then ended up looking nothing like but Shri George Fernandes. Maybe he is the right person to take on the role after Helen as a strip-tease artiste.

If that is not the role that he wishes to play, I suggest that the next thing we might do is to get Shri George Fernandes into the Business Book of Records because thus far we only have this great big book of Kannan which was shown to us just now, 15 lakh words upon how the stocks and shares of this country are run and the second position has now been taken by the number of words which we have heard from Shri George Fernandes over 2 hours and 27 minutes which have enlightened us certainly up to a point.

What is the main enlightenment that we have received from Shri Fernandes. He took 2 hours and 27 minutes to tell us that we are faced with a scandal of scandalous preparations. It takes us four words and three initials to say the something. It is a scandal of scandalous proportions and that is why we have proposed a JPC.

Sir, I appeared on a television programme with Shri Saifuddin Choudhury just before the start of this session. When the question of this scam came up, he asked me on the television screen whether we were willing to accept JPC? This was seen the ultimately effective way of handling the scam. I was unable to answer him there because I have no authority to do so. But I do say with some pride that I too have made my contribution to ensuring it that the main request of the Opposition in respect of this matter which came in the inter-sessional period, namely the establishment of a Joint Parliamentary Committee should be the path

that we follow.

I hope and pray that despite the forebodings that were expressed in Shri Jaswant Singh's intervention some one month ago, the opposition will not now play the same trick upon this country that they played when we established a Joint Parliamentary Committee on the Bofors Issue. I plead with Shri Fernandes as somebody who has really studied this issue, who has enormous amount of knowledge about what went wrong, who has got contacts that are invaluable, whose friendship with Shri Bhupen Dalal is one of the most interesting elements of this entire scam, that we have geniuses, fiscal geniuses like Shri George Fernandes fully participate in the work of the Joint Parliamentary Committee.

We would not regret Shri Jawant Singh's absence if the BJP were not to put him in because after all every time I see him, I find myself using words that have to be got expunged. When I see Shri George Fernandes, and I see the way in which he has gathered enough evidence to go on for 2 hours and 27 minutes and still have so much left to reveal to us, I want him in the J.P.C.

The most interesting thing about the names of the Ministers he would not reveal is that only if he does so, some of us back-benchers may be able to get in. This key information, he has been threatening to give this country for the last two months- and we have not heard any of it. It does not matter. I am hoping that as a result of Shri George Fernandes's participation in the Joint Parliamentary Committee, we will be able to arrive at the truth, which he is very anxious to arrive at and which, we on this side of the House match.

16.00 hrs.

Perhaps our interest to get to the truth is even greater than that of the Opposition. About one thing I am certain now; that our sincerity is no less than their sincerity, that our insistence on finding out what went wrong, and who was responsible and what was the nexus is at least as keen as theirs is,

because this scandal is a scandal which has affected us, not as a Government so much but as nation. All of us have been deeply wounded as a result of this scam and if we are able to discover how it went wrong, why it went wrong, who was responsible to make it go wrong, then perhaps, we would not only find those heads which we wish to see rolling, but also effect the systemic changes that are necessary to prevent the system from being misused in the manner in which it has been misused.

I am as concerned as Shri Fernandes or any of his colleagues is, to find out who the individuals were, who were responsible of all that has happened. But I suggest that, if we did not have systemic lacunae, we could not have had criminals exploiting those lacunae. And, therefore, until we find out what those systemic lacunae were, and how the criminals exploited those lacunae, we will not be able to sufficiently expose the links of the high ups with the criminals involved. If we start at the wrong end of this linkage, or if we concern exclusively with getting hold of Mr. X or Mr. Y, and then come here to shed crocodile tears over them, I do not think we will be able to undo the harm that has been done to us as a nation.

Now, the Joint Parliamentary Committee affords, first, the opportunity of understanding how this system was working, then attempt to understand what were the wholes in this system, which clever, if criminal, people like Shri Harshad Mehta were able to spot and then exploit; and having exploited them, to make so much money that it reaches astronomical proportions,, galactical proportions that were simply unconceived of by the ordinary Indian. Then we have to see who these criminals were associated with, among the establishments with a view to seeing whether there was active connivance or whether there was pressure quiescence and whether there was even encouragement by high level people to this kind of criminal activity.

Therefore, I do not think it would be fair on the part of Shri Somnath Chatterjee or

others to decide the attempts being made by the Finance Minister to draw attention to this systemic failure. I do not think the Finance Minister means that the systemic failure will expunge the responsibility of individuals. Those responsibilities will remain. But it is not possible for us to even gauge the depth of the criminality involved in establishing the personalities who have been associated with the scam until we first gauge the depths to which these wholes in the system, these lacunae in the system, reach

The JPC affords us a golden opportunity to look into all of this. We need to look at the linkage between improper procedures, which led to criminals acts, and then to the political linkages of these criminals. That, I think, is the job that we really need to do as a national exercise not as Government vests the Opposition, but all of us together against the enemies of this nation. Because those who who have been responsible for this scam cannot be treated merely as criminals, as common criminals. They are traitors, they are people who have so destroyed the financial institutions of this country that have damaged us in the eyes of the world, and damaged the prospects of the future generations whom we hold in trust as the governors of this country today.

If these systemic lacunae had not existed, we would not have had the scam. In other words, the systemic lacunae were the pre-condition for the scam.

Now, what were these lacunae? When did they arise? This is very important. If we are able to establish that these lacunae came into existence *swayambhu* on the 21st of June 1991, then there is simply no doubt that the present Government of India, the Government of Shri Narasimha Rao, of which Shri Manmohan Singh is the Finance Minister, is the only Government towards whom we have to turn. I am sorry, I should go one step further. If it turns out to be that it was not on the 21st of June 1992 that these lacunae came into existence but on the Budget Day 1992, then I think, we have to

hold the Finance Minister responsible. But if these lacunae existed earlier, I think, we need to go back, and see when they came into existence and why they came into existence.

Sir, I am completely convinced that at the time they came into existence, it did not come about because of any criminal intent. It is not my intention at all to suggest that when these lacunae came into existence, they were deliberately brought in with criminal intent in mind. It may be that one or the other individual was so far sighted that there was such a great chess player upon this board of the Stock Exchange that he was able to spot that if he created such a lacuna, he could exploit it four or five years later. If that is so, we will find it out in the JPC. The point is that in order to orient the work of the JPC in the right direction, this is not the forum for us to provide the answers; this is the forum for us to pose the questions. Unless the right questions are posed, the right answers will not come out. Consequently, I think it is extremely important to an understanding of what happened to make an assessment of not only what these lacunae were but when they arose. And, it turns out that they arose in the past, then we have to see whether they should have been plugged earlier or whether they could not have been plugged until the Janakiraman Committee report came before us.

Sir, let us take one of these lacunae to which Shri George Fernandes drew attention. He quoted from this rather bulky document, that he was carrying about that the reports of the assets and liabilities Scheduled Banks of were presented to the Reserve Bank of India as on Friday. I would submit that at least *prima facie* the first procedural irregularity which enabled this scam to take place was the precise one towards which Shri Fernandes has pointed his finger; that a bank was required to state where it stood only on a Friday. It was not required to tell the Central Bank of India, what it was doing on Monday, Tuesday, Wednesday and Thursday. And, of course, in the lines of the famous Greek song they never did it on a Sunday. So, if this very silly rule had not been

brought into existence, that the Central Bank will be informed of what is happening only as on the last Friday of the month or taking a specific day of the month, perhaps we would not have run into the kind of difficulty that we have. And may be one of the solutions in the future is that we must try and see whether by using modern techniques - I hope that we will have the cooperation of the CPI(M) dominated trades union here - that in order to prevent a scam which ultimately steals the money of the poor we can allow computerisation to take place in transactions that run into lakhs and crores and deals in sums of money as we have been told, which amount to lakhs of crores. Therefore, the second lacuna which we need to start seeing is that the absence of modern methods to deal with a modern economy has given the opening to criminals to be able to spot where we can go wrong. Then, Mr. Fernandes drew attention, I think quite correctly to the provisions of the Reserve Bank of India Act and the laws that as pertained thereto, which say that a directive can be issued by the Reserve Bank of India on the instructions of the Central Government.

Now, I think the fact that a directive was issued by the Reserve Bank of India in July, 1991 does amount to a recognition by the Reserve Bank of India.....

SHRIGEORGE FERNANDES: I am on a point of order. It was not a directive. It was only a request. Later when they found that that request was not being implemented, they wrote another letter which was still more of a request.

SHRIMANISHANKAR AIYAR: I accept the amendment. I am sorry. I made a mistake in saying this was a directive. I was thinking of a process where there is a relationship between commercial banks and the Central Bank and a process that leads eventually to a directive in case something has been spotted as going wrong and not being complied with. I agree that I made a technical mistake here. I withdraw what I have said. In July, 1991, the Central Bank, acting in exercise of the powers conferred on it by the

Reserve Bank of India Act, brought to the attention of commercial banks that a number of measures were being taken by the commercial banks which were not proper. I think it is important to take into account the date. In July, 1991, the present Government of India had been in power for a few weeks and I do not think all these illegal or improper methods that were being resorted to by commercial banks in their relationship with brokers and with the moneys of the public sector undertakings and with the moneys of the banks themselves started only on the 21st June, 1991. There had been a practice of these things going on for a long period. I have no idea when it started. It may have started on the 7th November, 1990, it may even have started on the 29th of November, 1989, it may have started on the 31st December, 1984. I do not know. But what we do know is that probably during the pendency of at least three Governments - the Government of Shri Chandra Shekhar, the Government of Shri Vishwanath Pratap Singh and possibly the Government of Shri Rajiv Gandhi - these sort of activities were rumoured to be undertaken in the stock market. It was dealt with, at that stage as a somewhat technical matter because while they were improper and wrong in themselves, they did not, at that stage, have the consequence of amounting to a scam. They amounted to the flouting of normal banking practices, banking customs and banking traditions and possibly banking laws. It was in the non-scam circumstances that in July, 1991 - with the politeness which comes naturally to Shri Venkitaraman and does not come naturally to Shri George Fernandes, a letter, in the usual language in which such letters are written, was addressed to the commercial banks concerned. Now, the Reserve Bank of India is not a policing Organisation. The Reserve Bank of India's role is not to investigate crime. That is the function of the CBI and of the late Shri Madhavan. The Reserve Bank of India's role is to spot where ... (Interruptions) Late in the sense late of the CBI. (Interruptions)

MR. CHAIRMAN: No, No, I think, it is only of late. That means 'recently'.

SHRI MANI SHANKAR AIYAR: It is the role of the Reserve Bank of India to attempt, to see what are the systemic failures that are tending to take place or are taking place and to alert the commercial banks to the fact that these systemic failures are not in accordance with usage, tradition or even the law. The Reserve Bank of India did this. It did rely, as it is the function of the Central Bank to normally rely on compliance reports that were submitted by the scheduled banks concerned. Now, many of the scheduled banks who submitted compliance reports were, in fact, complying with the letter of July, 1991. As Shri George Fernandes has rightly pointed out, the major criminals in this regard *prima facie* were four brokers and four banks. It was not the totality, and since the bulk of the commercial banks concerned were not only complying with the request made by the Central Bank of India, but also sent in compliance report that were accurate. I think it was reasonable on the part of the Reserve Bank of India to accept the compliance reports but to deal with them as a controlling authority, with some element of scepticism, trying to see whether there were ways in which these lacunae needs to be plugged. It was when the scam erupted that it became a matter of urgent pressing necessity to not only discover whether compliance reports had been sent but to discover whether accurate compliance reports had been sent, and to set in process a motion which would lead to the discovery of criminality, if such criminality existed. And that is exactly what started towards the end of January, 1992 before we were aware, as a Parliament, of the nature of the transactions being conducted on the Bombay Stock Exchange. It was, if I am not mistaken, very soon after this Lok Sabha brought into existence the new Act dealing with SEBI and gave it the powers to look into precisely this kind of issue. that I understand from the newspapers - I leave this to be authenticated or denied by the Minister of Finance - that there was a communication from the Chairman of SEBI to the Ministry of Finance saying that look, it seem to us that something is going wrong; tell us what we should do about it. And very properly, the Ministry of Finance said that you have come into existence precisely to

take action in such circumstances and wrote to them and said that as the Lok Sabha, representing the will of 850 million Indians, has given this responsibility to you, it is for you to act upon what you have heard.

The new SEBI is new. It will take a little time for them to get going and, therefore, the Ministry of Finance, in the Department of Revenue, started the process of discovering whether there was a scam and, if so, of what proportions. And mind you, Sir, at this stage, there has been no word in this, the highest forum of democracy in our country, about the existence of a scam. Mr. Harshad Mehta's name was never uttered here. It was merely being seen on the front pages of several magazines which our friends from the Opposition usually rely on to come up with their information. At that time, when action was being taken by us, some of the raids that were undertaken, began to reveal that there was a scandal of rather large proportions going on. And when it became clear towards the beginning of March, 1992, at a time when this House was still not seized of the matter, that it started becoming clear that there was a scam.

Those who were involved in the scam knew that there was a very long chain that if a debt owed to one bank could be paid off by credit obtained from another bank and then the debt owed to the second bank paid off by a credit obtained from the third bank, and so on and so on and so forth, then they could indefinitely allow themselves not to be caught and put nobody in any trouble. Where it went wrong was that at the end of the day when towards April, 1992, it became clear that there were a large number of Scheduled banks owned by the Government of India that were knee-deep in this crisis and could get themselves out only if the man whom they had been involved with, or the men they had been involved with went to getting money from somewhere else, when that moment of truth arrived, there was only one bank that in an overt sin of commission, knowing that this was method by which the criminal responsible could perhaps get bailed out, handed over a very large sum of money to that individual and then the buck stopped here. I think it is

extremely important for the Joint Parliamentary Committee, not this body, to ask who was the head of that bank. I think Mr. George Fernandes very correctly used the expression ultimately with respect to the National Housing Bank.

Now the National Housing Bank had as its Chairman a person who had distinguished himself as something of a financial genius but who, on the occasion of his leaving the financial institution for which he was responsible, went under something of a cloud. Now, who was responsible for naming a financial genius - on that there is no doubt - who went under a cloud - on which point also there was no doubt as the acting Chairman of that bank?

There is a difference between a Government which commits the sin of commission of appointing as Chairman, a man who is under a cloud and a sin of omission of another Government which does not remove him. At the same time, I would wish to compliment the Government of India, today's Government of India, the Government of Shri P.V. Narasimha Rao, that, throughout the life time of Shri Pherwani, they took the greatest care to ensure that even if Mr. Pherwani's financial genius was essential to such an important bank of the country, until the charge of moral turpitude upon him was removed without a shadow of doubt, they would not confirm him. That is why, the National Housing Bank remained without a proper fulfilled, well-installed Chairman for such a long time. I think it is the responsibility of the Joint Parliamentary Committee to make an inquiry as to how out of 850 million people, a Government which I charged yesterday with being the most corrupt Government this country has seen ever since independence, named that man as its acting Chairman. Why did they do it? Who was the link? Who were the people who went and talked to him? Why pick on someone like this is one of the questions. I am not concerned with it being a central question. But because Shri George Fernandes quite correctly described this as "ultimately" the Bank which was responsible, I think we should look into this question as well when

we meet in the Joint Parliamentary Committee.

Equally, there was this insider trading that has been going on. Does the evidence that we have with us suggest that insider trading began on Budget Day, 1992, in which case only Mr. Manmohan Singh is responsible? Did it begin on the 21st of June 1991 in which case Mr. Narasimha Rao's Government is responsible exclusively? Did it begin earlier, in which case we need to know what were the system failures that were responsible for allowing insider trading to take place and to give some credit to Government such as ours which, spotting the ills of insider trading that were taking place in our country, brought in that Act which I made a reference a minute ago, the Act which revamped the SEBI.

Let us look at this with fairness and equity in the long-term interest of the nation. I need to plead this because we heard in the House a very dangerous doctrine, a Jainsi doctrine, a doctrine which was applied in terms of law only in one country, Hitler's Germany, the doctrine of reverse jurisprudence. We were told by the representative of the Bharatiya Janata Party, Shri Jaswant Singh in another context, mention it because he is the one who opened this debate - that in such matters guilt must be proved, must be presumed and innocence must be proved. This is not a doctrine of the Government is either willing to accept, no methodology which we are willing to apply even to Mr. George Fernandes. I am assuming in the face of evidence that has been given that Shri George Fernandes is an innocent man, until he is proved in a court of law to be guilty. I used three words which were expunged by the Chair which I found have been used in the British Parliament. So I do not know why they were expunged because I cannot use three words, let me use a fourth word. I find it utterly sanctimonious on the part of Mr. Jaswant Singh to get up in this House and in effect charge a lady who was a martyr to this country and who led the Party, and who made political mistakes, also was responsible for high acts of statesmanship, to be described as invol-

in some way in the murder of a Police Officer who died in a car accident. Why do I have to assume that just because Shri Jaswant Singh and his ilk, who are capable of this sort of an act, say so that people who belong to this great Congress tradition are responsible for such an act. I cannot accept this, Mr. Chairman, that in the name of reverse jurisprudence, the Opposition will level charges which they assume to be true until the person charged is able to prove that they are not true. It is the first principle of natural law, and it is the first principle of our Constitution, and it is the first principle of our legal system and the first principle of our jurisprudence, if not of Hitler's jurisprudence, that a man is presumed innocent until he is proved guilty. Charges can certainly be laid. There is a method by which it is investigated. It is possible for the Police to file an FIR which turns out to be wrong; it is possible for a Prosecution to be conducted which is then rejected by the Courts and it is certainly true that while this long procedure is on, the person charged suffered a great deal. But at no point in our legal system, can we say that Shrimati Indira Gandhi is either a murderer or an accessory before the fact or accessory after the fact because some Police Officer died in a car accident. When such charges are made, I use four epithets epithets alienate the person who has made them one, expunged, two, expunged; three, expunged and fourth-sanctimonious. (Interruptions) I am prepared to concede that I greatly admire a system in which so powerful a man as Mr. Clark Clifford is actually sent to jail for the crimes that he committed. I would like that in this country, no one be above the law. If the President is responsible for a crime under the law, as an individual, he must go to jail; if the Prime Minister is, he must go to jail; if the Finance Minister is, he must go to jail, (Interruptions) If he is involved truly in the dynamite case, then, he too should go to jail. But until it is proved that Shri George Fernandes attempted to murdering

thousands of people, I will assume that he is innocent. It goes against all the information we have. But I, as a democratic individual and a non-Member of the BJP believe him to be an innocent.

[Translation]

SHRIGEORGE FERNANDES: You are a new comer to this House. Prior to this incident, I was interrupted twice in the House alleging that I had done it and during the period of Mrs. Indira Gandhi I had told that if anybody imposes dictatorship in this country, I would use dynamite again more meticulously. If there is dictatorship, every measure is right to remove it. (Interruptions)

SHRI MANI SHANKAR AIYAR: I would like to come to another very important constitutional point which I think the Joint Parliamentary Committee should bear in mind. When the Central Bank of India was established.

[Translation]

SHRI RAM NAGINA MISHRA: Mr. George has just now said that he will use dynamite again, more vehemently if dictatorship is brought back. There are varied opinions about it. There is a possibility that according to you or in my opinion. There may be dictatorship. If a senior Member challenges that he will use dynamite in the event of restoration of dictatorship, it is not fair, for the country. Shri Fernandes should not have said so.. (Interruptions)

MR. CHAIRMAN: There is no point of order in it. This is your personal opinion and that was his own.. (Interruptions)

[English]

SHRI MANI SHANKAR AIYAR: Mr. Chairman, Sir, I am grateful to Shri George Fernandes that he drew our attention to a document which I think... (Interruptions) I was talking about one other point. I was saying, when I was interrupted, that in 1937 when the Reserve Bank of India was set up, there was a Special Act which was designed

to keep it apart from the Government. Now this Act we have continued to persist with in the years since then. Perhaps, I am wrong about 1937, it was 1935. In British times, when the Reserve Bank of India was constituted, there was a deliberate act of Parliament that was designed to maintain for the Reserve Bank a certain element of autonomy vis-a-vis the Government of India. And that degree of autonomy has not only been maintained since Independence but even strengthened. I think that if we were to make the central bank of our country an arm of our Government, then that bank would not be able to perform its functions. Consequently, any sin of omission or commission committed by the Reserve Bank cannot and should not be automatically attributed to the Central Government as its responsibility. I think we ought to be very clear in our minds that if something has gone wrong with regard to the central bank of the country, what should or should not be done should be assessed in terms of the Act by which the Reserve Bank of India has been created and by which it has sustained.

As regards governmental responsibility, I think George Sahib had a very good point in drawing attention to the Rules of Business. I as a civil servant, have lived with these Rules of Business for many years and I had no idea when they were promulgated. I am deeply grateful to my friend Shri George that he has added this nugget of information to my rather small treasury of knowledge that the Rules of Business date back not only to the 24th of January, 1961 but have not been amended since then. I suggest that all the directions of the Government of India whether it was the Government of Pandit Jawaharalal Nehru uptill 1964, the Government of Shri Lal Bahadur Shastri till January 1966, the Governments of Shrimati Indira Gandhi between 1966 and 1977 and from 1980 to 1984, or of Shri Rajiv Gandhi from 1984 to 1989 or of Shri P.V. Narasimha Rao from 1991 till today or the Governments of the Janata Party between 1977 and 1979, of the National Front from 1989 till 1990 and of Shri Chandra Shekhar's interregnum from 1990 to 1991, should be judged by exactly the same yardstick. If it is found that there was

a procedural lapse, if it is found that there was a systemic lacuna which prevailed in 1991, then the Finance Minister in 1991 should be held to be exactly as culpable as the Finance Minister in 1990 if that lacuna existed then or the Finance Minister in 1977 if the lacuna existed then. You cannot have one swear type of since sance for the goose and another type of sauce for the gander. There has to be on law which we all observe especially as the law is dated. As my friend Shri George Fernandes has told me, I am not validating the truth of it, it is the Rules of Business dated 24th January, 1961 have remained unattended, virigin of since then. When you take this into account, I want to know if Mr. Ratnakar was an undesirable individual who should have been caught, earlier whether Mr. Ratnakar was flourishing for not flourishing between the 29th of November 1989 and the 21st of June 1991. If Shri Manmohan Singh is going to be held culpable in any way for anything that Mr. Ratnakar did or do not do, between the 21st June 1991 and the day on which he happily passed on, the 2nd January, 1992, if he is going to be held culpable for anything that gentleman or his company did in that period of six months and a few days, then I do not think those who were responsible for allowing Mr. Ratnakar to flourish between the 7th of November 1990 and the 20th of June 1991 or those who allowed him to flourish between the 29th of November, 1989 and the 7th of November, 1990 should be allowed to get away. And if it maintained that those Ministers were not really responsible for the excesses of Shri Ratnakar, then I do not think that you can hold Shri Manmohan Singh alone responsible for that. It comes back, again and again, to first, a question of systemic failure, and only then to a question of personalities.

Sir, we were told that the Bank of Karad with a capital on only Rs. 30.72 lakhs - thank you for the exact figure, it is the kind of information which enables me to go to sleep with a good conscience - was able to indulge in bank receipts of Rs. 1,200 crores. Now, I do not think that this scandal satarted when the bank receipts value reached Rs. 1200 crores. The scandal started on the date that

the bank receipts reached Rs. 30.72 lakhs. Whose was the Government when the Bank of Karad started indulging in a totality of bank receipts equal to its capitalised value? Which was the Government that permitted it to rise beyond Es. 30.72 lakhs? Which was the Government which kept absolutely quiet when Rs. 30.72 lakhs became a crore, a crore became a five crores; five crore become fifty crore; fifty crore became a hundred crore, a hundred crore became five hundred crore became state thousand crore? If it had not risen from Rs. 30.72 lakhs to Rs. 1,199 crore, it could not have reached Rs. 1200 crore. So let us, in determining the personalities who are culpable, discover where the system went wrong during the period when several individuals were involved.

Now I come to the Standard Chartered Banks activities. Were they confined to this the criminality, this consorting with the high and the mighty, this easy access to the establishment, this business of giving gifts to one another, receiving gifts from Harshad Mehta and giving him little gifts in exchange for the big one? Was it all confined to the period between the 21st of June, 1991 and some date at the end of April 1992? Was not the Standard Bank involved in undesirable activities even criminal activities, between the 29th of November, 1989 and the 20th of June 1991? And if so, should we not ask those who were responsible for our system in those days to stand up at least a little away, perhaps get down on their knees rather than stand up and say *mea culpa*.

SHRI SYED SHAHABUDDIN (Kishanganj): I think you are belonging to a point which do not merit so much attention and so much of time. Those Finance Ministers have come and gone, whether they have done well or done ill by their office, but they are no more with us. We are concerned with the present, for the moment. We can only take the skin of Shri Manmohan Singh.

SHRI MANI SHANKAR AIYAR: I accept the point that they have come and gone. We cannot get them to resign because the people

of India have kicked them out. But I cannot accept that Shri Manmohan Singh should carry the can for mistakes that were committed before he came into office nor can I accept that he did nothing about it, when we all know from the record that within two weeks or so of his coming into power, the Reserve Bank of India took the precaution of saying that if they go on doing these procedural irregularities, they are going to arrive at some difficulty.

SHRI SYED SHAHABUDDIN: You are claiming under credit us. Even that circular might have been initiated before Dr. Manmohan Singh took office.

SHRI MANI SHANKAR AIYAR: Shri Bhupen Dalal's son has been mentioned. The name of Shri Bhupen Dalal, who is a source of so much information to our friend, Shri George Fernandes, The friendship between Shri Bhupen Dalal and Shri George Fernandes is also, I submit, a subject worthy of investigation by the Joint Parliamentary Committee.

[MR. SPEAKER *in the Chair*]

I want to know when Mr. Bhupen Dalal's son became a director of the Bank of Karad or continued as a director of the Bank of Karad. Did the Railway Minister of the then Government assuming collective responsibility for the sins of the Government to which he belonged, did the Kashmir Affairs de-facto Minister of that Government stand up in that Cabinet to which he was going in his crumpled *pyjamas* on a regular basis and tell them that the greatest sin that has afflicted this country is that my friend, my close friend, my informant Mr. Bhupen Dalal's son is a director of the Bank of Karad? Did he at that time get up and say that he had a report of the Bank of Karad and had on its cover a photograph of Shri Sharad Pawar? He did not do it. When he knew, I did not.

The difference is that since Mr. Bhupen Dalal did not tell him what a criminal he was, whereas apparently on a daily basis and convivially he was informing Mr. George Fernandes of all of his activities, he does

nothing when he was a Minister. And now he says that because the people of India have kicked him out of this House and out of the Government, he is not responsible for the excesses he committed and then holds my friend Mr. Manmohan Singh, a monument to integrity, a man who is a messiah of the great changes that are taking place in this country, a gentleman who is going to be responsible for making India one of the great economic powers of the 21st century, responsible. You are attempting to throw mud on him.

I would like to assure Mr. George Fernandes that it is not a Teflon Finance Minister that we have. It is a man who is an absolute symbol of honesty and integrity. Your attempt, and worse the attempts of that gentleman, who as Prime Minister of India employed this person as his Chief Economic Advisor and is now crying on a regular basis in this House because he has become Finance Minister and this man has been so discredited that not only has he ceased to be the Prime Minister but has become a footnote in history, and one of the most despised footnotes in history at that and because he is full of jealousy and full of rage he spends his time abusing an honest and good man whom we have here, will not succeed.

The same applies to banking, which is not a subject of Parliamentary scrutiny. If, as I believe and George agrees, banks should also be brought under parliamentary scrutiny, he should have done something about it when he was a minister twice over in 1977 and 1989. Now I hope one of the results of the Joint Parliamentary Committee will be that we will be able to fulfill our joint duty.

Equally this applies to bankers receipts. Bankers receipts did not begin on the 21st of June 1991. If bankers receipts had not existed, this scam would not have been taken place. I think it was the duty of the previous Finance Ministers, including the gentleman who was the Finance Minister of India from the 31st December 1984 till January 1987, to hold themselves responsible for having allowed the system of bankers receipts of the kind that Mr. George Fernandes showed us

without which there would have been absolutely no scam

Similarly the involvement of four foreign banks cannot be held against all foreign banks. Yet about these four foreign banks which have been so involved, if their criminality was known earlier than in the last few weeks, then these banks should have been closed down at the time when they were indulging in the activities that we now know about. They were not., They were permitted to continue by the two previous governments. I do not see how the Finance Minister can be held responsible for the sins of either Standard Chartered or anybody else.

Equally, a charge was made that the reason why we do not act against these foreign banks is that these foreign banks employ the children or other relatives of government officers. These relatives were employees of these foreign banks when the two previous governments were in office. If it is such a crime as is now being made out for some Secretary to the Government of India to have a child who is bright enough to be taken by Citibank or Standard Chartered, if it is such a crime, surely it was the duty of those who were in office when these crimes were originally being committed to have put a stop to it. They allowed it to happen. If they had not allowed many of these officers to have their children work in these banks, they would not have been in a position today to say, "When we allow those children to work, we are not at fault; when you allow them to work, then you are conniving with them".

The something is about the charge that has been made against Mr. Krishnamurthy. We were told first that on the day he resigned, he founded seven companies. This was amended so to say that on the day he resigned, there seven companies came to the forefront. If they came to the forefront...

[Translation]

May I know the then Government did not take immediate and prompt action against them. When these seven companies came

to the notice of then Government, the Government did not take action against them because they were innocent. It is not fair to level allegation of such kind against a person who is not present in the House but he rendered services to him as a Secretary during his Ministership. Because of such betrayal you are in opposition and we are in the Government. We are loyal. We know how to commend and adhere to our principles. You do not know these two persons. One of the persons served you and it is not good to level such allegations against him. It seems to me that... (Interruptions)

SHRI HARI KISHORE SINGH (Sheohar): Did he render his services to him or he served the Government?

SHRI MANI SHANKAR AIYAR: He served him and not the Government alone.

SHRI HARI KISHORE SINGH: Please point out what service did he render to him.

SHRI MANI SHANKAR AIYAR: I will let you know. I shall stop my strip-tease only when Shri Fernandes puts an end to his strip-tease strategies. I want to know it...

[English]

Mr. George Fernandes referred to the ONGC Accounts for two years. It was he himself who said that it was for two years. We have been in office only for a year and the accounts of this year, the year that started in April 1992 have not still been presented. The accounts were presented to his Government. Those accounts, according to Mr. George Fernandes, showed that his Government was guilty of conniving in the breaking of the ONGC Act. Why do he not know it earlier? He tells us that he did not know; it was only today that somebody told him. What sort of a Minister was he? He was a Minister from 1989 to 1990, when we had an ONGC act. He is so concerned about it today because he only learned about it today. Sir, are you surprised that he was booted out by the people of India? We cannot have such an irresponsible Minister. Everyone knows now.

He has mentioned the ONGC; he has mentioned the SAIL; he has mentioned the Port trust. It is clear that all public sector undertakings were investing their surplus funds in the stock market through brokers. Was this a personal failure? Was this a systemic failure? I think it there was something systematically wrong. And that we should first establish what was the systemic mistake and then attempt to correct it; once we correct it, in that process, we will discover who are the personalities involved who had criminal links with criminals. Against them, let us proceed in the courts of law.

Simply by pretending in Press Conferences that, "I have got lists; I have got seven Ministers' names; I am going to get them tomorrow" I am going to come out with the names day after tomorrow", this kind of drama alright for 'Helan in Bollywood'; but it is not suitable for a distinguished Member of this House.

Sir, I wish to draw attention to a very serious and extremely unfounded charge that was made by Shri George Fernandes with respect to the Rajiv Gandhi Foundation. Firstly, Mr. Speaker, Sir, when he charged the Rajiv Gandhi Foundation with having received moneys from Mr. T.B. Ruia and others after the scam was known, he was attempting to establish that there is a nexus between the Government and the Rajiv Gandhi Foundation. He was attempting to make out that sums of money given to the Rajiv Gandhi Foundation constitute bribes to the Government of India. I take serious objection to this at an institutional level and also take serious objection to this at a personal level owing to the fact that even though Mr. George Fernandes does not know how to be faithful to those who are good to him, I will never depart from my plighted truth to be good to a man who was good to me. I will not stand in this House and suffer totally unfounded allegation being made to besmirch either the reputation of that dead person or the reputation of his widow, who is the chairperson of the Rajiv Gandhi Foundation. (Interruptions). I am not yielding.

Also when Mr. George Fernandes gets up and quotes from the Vivian Bose Inquiry Commission, as he did, the reference was to

the sums of money that were paid by those involved in that scandal into Congress funds. When he reads that portion out and then sits down with that smug smirk upon his face, then we know that he is attempting in the devious ways for which he is well known to pretend that the Rajiv Gandhi Foundation constitutes Congress funds. It does not. This is a foundation that has been established for carrying forward the ideals of one of the greatest Indians that this century has seen. And if there was no intention one Mr. Fernandes' part to draw any parallel or any connection between Congress funds and the Rajiv Gandhi Foundation, then I just do not see what was meant by his referring to sums of money that may or may not have been paid to the Rajiv Gandhi Foundation.

The Rajiv Gandhi Foundation is not the Central Bureau of Investigation. It is not for us to sit around and find out the antecedents of everybody who makes the contribution. There is only one cheque that the Rajiv Gandhi Foundation would reject. It is a cheque which we receive from the criminal hands of Mr. George Fernandes.

And I call those hands criminal because I think, the Joint Parliamentary Committee should investigate while it is checking on systemic failures, the systemic failure that was responsible for the scandal of the New India Cooperative Bank in which Mr. George Fernandes is not only knee-deep, he is not only waist-deep, he is not only neck-deep, he is head-deep, in the filth of that New India Cooperative Bank and, if not his blood-brother, at least his political brother, Mr. Ranjit Bhanu, is the Chairman of this Bank. Had it not been for the failure of the system that Mr. Manmohan Singh is running, Mr. George Fernandes and his friends would not have been allowed to get away with the criminality involved in the New India Cooperative Bank.

I suggest that while we look into all other things, the G.P.C. should also probe the links of Mr. George Fernandes with this Bank as also probe the links of Mr. George Fernandes with Bhupen Dalal. (*Interruptions*)

[Translation]

SHRI GEORGE FERNANDES: Mr. Speaker, Sir, I have to point out two things. The first point is for clarification, and I have to clarify the last issue. When hon. Members deliver a speech in the House, many things are spoken just for fun. Therefore, I would like to you clarify one thing because time and again the friendship and conviviality between Shri Bhupen Dalal and George Fernandes, have been mentioned and many other words have been used to describe it.

After one week of his release from jail. Shri Bhupen Dalal came to meet me today for the first time (*Interruptions*) He told me everything about this episode. Prior to this incident I had no connection or relation with Bhupen Dalal. And I want to say this thing for the sake of record only. I have nothing to do with his allegations. Secondly, he has mentioned about the New India Cooperative Bank. I want to say only this much that I challenge the Government to investigate whatever it can do under the Joint Parliamentary Committee because the valour of the Government lies in such investigation only.

[English]

MR. SPEAKER: Well, we have been discussing this matter for a pretty long time and I think we shall have to conclude the discussion today itself. Now, we have not restricted the Members from making their points here and we would not like to. But then this matter has to be concluded today and I hope the Members will cooperative with me in this respect.

May I request Mr. Indrajit Gupta to speak?

SHRI INDRAJIT GUPTA (Midnapore): Mr. Speaker Sir, you have called me at a stage when you are proposing to impose a sort of guillotine. Of course, I would not presume to speak for two hours and twenty minutes. But I hope, at least, minus the two hours part of it, I will be allowed to make a few

points. I do not really want to take up much time because we are now in a situation where the Joint Parliamentary Committee is about to be finalised; its terms of reference have been finalised; the composition is not yet finalised. I hope it will be done. Sir, in a day or two, mainly at your initiative. And the JPC can commence its work. I am not in favour of anybody at although their speeches or through this debate, wittingly or unwittingly, trying to prompt the work of the JPC because the JPC is a common venture of the whole House and we have decided on that mechanism, and device and everybody here thinks rightly that the Joint Parliamentary Committee is the most effective representative and impartial, objective instrument which can be fashioned by us, by this Parliament for making a comprehensive probe into this whole affair. I am saying this for one reason. Without meaning any disrespect to the Prime Minister, I have to say and I do not think that the statement that was made in the House yesterday by the Prime Minister goes with the approaching context of the JPC. Of course, I understand his compulsions because the newspapers and the Press....

MR. SPEAKER: To be fair to him, I must say that this suggestion for JPC also has come from the Government side, may be from the Prime Minister himself.

SHRI INDRAJIT GUPTA: It is true. For some days, the Press was hinting at or publishing or suggesting some Ministers names.

MR. SPEAKER: You were very nice to me when you said that at my instance, this was done. But I must say that it was at the instance of the Government.

SHRI INDRAJIT GUPTA: Large number of Ministers, without being names, perhaps, were being hinted at as being involved in one way or the other or in the scam. And what was happening in the last few weeks? I dare to say that a number of people in this country and certainly the newspaper-reading public

at large would be nursing some suspicions. I is inevitable in a matter like this. And, therefore, the Prime Minister thought it fit, I suppose, to come here and make a statement saying that from whatever information he had been able to obtain and from whatever inquiries he had made, he was convinced that none of his Ministers are involved in any way. But, Sir, I think it is better that this matter should have been left to the JPC. It is for the JPC to find out, if it comes across any evidence, if it is able to investigate the various links in this whole affair and if it comes across something which involves or implicates one or more Ministers. This should be left to the JPC. Things being what they are in this country, I do not think that the Prime Minister giving blanket assurance that as far as he is concerned, no Ministers are involved, is going to convince anybody.

SHRI INDRAJIT GUPTA (Darjeeling). He made it clear that on the basis of the information given by the Ministers to the Prime Minister, he was saying so. This is qualified. (Interruptions)

17.00 hrs.

SHRI INDRAJIT GUPTA: I do not expect every Minister to be like Mr. Chidambaram. I do not expect every Minister to admit that he is in any way mixed up with this affair. If we are to go by that, I think it would be better if the Ministers who have assured the Prime Minister of their innocence were to furnish some kind of an affidavit. Would they be prepared to make an affidavit and make it available to the Prime Minister or make it available to the House? The way in which it has now been done, I will not say that it is a breach of priety, but I do say that in an indirect way, it does seek to pre-empt the Parliamentary Committee's work and thinking.

THE MINISTER OF HEALTH AND FAMILY WELFARE (SHRI M.L. FOTEDAR): I may just remind the hon. Member that it is not incumbent on the members of the Council of Ministers to furnish any property statement to the House. But under the rules of business, every member of the Council of Ministers is

supp - ed to furnish the account of his property - both moveable and immoveable - first at the time of his appointment as a Minister and secondly on 31 March of every year. So, all the Members of the Council of Ministers are supposed to furnish the account to the Prime Minister. And same is the procedure in the States also. So, I do not think it is necessary that the Prime Minister should ask the Ministers to furnish a statement because the Prime Minister has already got the property statements of all the members of his Council of Ministers every year in his office.

SHRI INDRAJIT GUPTA: I do not know why Shri Fotedar is emphasising the words 'supposed to be'. He is supposed to do this, he is supposed to do that and so on. Does he mean to say that they may not have, actually been doing it?

SHRI M.L. FOTEDAR: No. no. It is obligatory on the part of the Ministers.

THE MINISTER OF PARLIAMENTARY AFFAIRS (SHRI GHULAM NABI AZAD): It is a must.

[Translation]

SHRI RAM VILAS PASWAN (Rosera): But how many hon. Ministers of this Government furnish the statement of their property. One fourth of the hon. Ministers have not furnished.

SHRI M.L. FOTEDAR: You might not have furnished it during your tenure.

SHRI RAM VILAS PASWAN: Shri Sitaram Kesri said yesterday that he did not have the information.

[English]

SHRI M.L. FOTEDAR: Shri Ram Vilas Paswan is not correct. Shri Kesri has stated that he did not give any statement to the Prime Minister in response to some query. He must have given this statement.

SHRI M.L. FOTEDAR: Yes, version is correct.

(Interruptions)

SHRI INDRAJIT GUPTA: I think Mr. Fotedar has made the case worse! But anyway, that is upto him. At best, one can say that the Prime Minister's statement was a sort of *prima facie* judgement on the basis of what his Ministers have told him. It is all right. He is entitled to make such a statement. He has to have some confidence in his Ministers and he has made a *prima facie* statement. I am saying this, because in this House when other people make *prima facie* observations, objections are raised. Even a person like the Home Minister did it a few weeks ago about what he had seen in Ayodhya. When he stated that he was, *prima facie* of the opinion that the court's order has been violated, there was a big hullabaloo and pandemonium in this House that when there was a court going to the whole affair, he should not have made a statement which might pressurise that court. In the same way, I am saying that when no less a person than the Prime Minister has made a *prima facie* observation which he is entitled to do about the conduct of his Ministers, I would not have objected to, if the JPC was not about to start functioning. But when the JPC is in the offing, which the Prime Minister himself has suggested and proposed, and when the whole House has accepted it, I think a little more patience should have been shown and the matter should have been left to the JPC.

Secondly, we read now in the newspapers - if it is wrong, it should be contributed and I will be happy that the Reserve Bank has decided to appoint a private firm of chartered accountants to examine the functioning of the RBI and redefine its functioning.

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): I think there is some misunderstanding. As far as I understand, this is a management firm which has been engaged by the Reserve Bank to help them to streamlining their management functions. It has got nothing to do with redefining the functions of the Reserve Bank.

SHRI INDRAJIT GUPTA: But why should this be done just at this moment? Streamlining the functions of the Reserve

Bank or for that matter of any Commercial Bank or any of the public sector bank will surely form part of the observations and recommendations of the JPC. The Terms of Reference have called upon the JPC to make specific recommendations as to how to streamline, improve and make more efficient the functions of the bank. Why should they pick this moment to appoint some private firm to do this?

SHRI MANMOHAN SINGH: Don't expect this. Once it has come to the notice, is not it obligatory on the part of the Management to find ways and means of improving that? That in no way impinges on the work of the JPC.

SHRI INDRAJIT GUPTA: It is a peculiar situation.

SHRI RABI RAY: I want to bring the notice of what the Governor of the Reserve Bank of India has said. I am quoting from the *Statesman*.

"The Reserve Bank Governor, Mr. S. Venkitaraman, today said, the leading Management Consultant firm A.P. Ferguson and Company had been asked to assist an internal task force set up by RBI to strengthen its functioning in view of the vastly changed economic scene.

MR. VENKITARAMAN said, it had become imperative to take stock of the latest situation in the wake of the Government's new economic reform and liberalisation programme to better regulate the banking system and focus the future role of RBI.

It was for this purpose that the internal task force consisting of 24 officers was set up a year ago and it was allowed to take management expertise from the firm".

So, you are going to make a policy

SHRI MANMOHAN SINGH: That is not going to be done.

SHRI INDERA JIT (Darjeeling): You should go by what the Finance Minister has said.

SHRI INDRAJIT GUPTA: JPC is there to decide whether they should go by what he has said and what he has not said. Who are you to say this?

SHRI RABI RAY: It is the statement of the RBI Governor.

SHRI INDRAJIT GUPTA: We will go by what the JPC has said; eventually. Why have they set it up? Why are you going to set it up?

Anyway, everything is going on record. All the records of these discussions will also be available to the JPC.

Many things have been stated here. Many names have been mentioned. Many allegations have been made. Many counter-allegations have been made. They will, surely, if necessary, be examined by the JPC, by calling for those records. Many things can be verified by JPC. So, we have taken note also of what the Finance Minister has stated here about the news on RBI.

SHRI MANMOHAN SINGH: You asked me, that is why I have clarified.

SHRI INDRAJIT GUPTA: That is all right. It is your job to clarify it. You were once the Governor of the Reserve Bank of India, just as Mr. George Fernandes, was the Minister at various times to which my friend over there kept on referring. You had also served as Governor of the Reserve Bank, the same Reserve Bank which presides over the banking system of our country. I do not think that the things which are coming to light now, which according to you are systemic failures are only some things which have not developed over-night. They had been going on for years. I am sure, you were the Governor then. These things were already

SHRI MANMOHAN SINGH: I think, you are just trying to re-charge me. You said yourself that let the JPC find that out. I left Governorship of the Reserve Bank, eight years ago. Now, without knowing anything, you are levying charges. It does not behove of a senior Member like you to say that these things were going on when I was the Governor of the Reserve Bank. If you have any shred of evidence, you should produce it here.

SHRI TARIT BARAN TOPDAR (Barrackpore): Was there any different system at that time?

SHRI INDRAJIT GUPTA: I have not made any charge on you. I am sorry that you got provoked. All I said was that you were the Governor of Reserve Bank.

SHRI MANMOHAN SINGH: I left the Governorship, eight years ago.

SHRI INDRAJIT GUPTA: Are you trying to imply that eight years ago, these banks were not there?

SHRI MANMOHAN SINGH: I do not know.

SHRI INDRAJIT GUPTA: You do not know! So, it is now for the JPC to find that out (Interruptions)

SHRI MANMOHAN SINGH: If you are saying that you know it, then you say it here. Without knowing, you are imputing motives.

SHRI TARIT BARAN TOPDAR: Are you afraid of it?

SHRI MANMOHAN SINGH: I am not afraid of any one of you. I can assure you that. My conduct during the last twenty years that I had been in the Government will vouchsafe for it. If you have anything, then I would say, you don't have to say it here, you don't have to wait for the JPC, you give all your evidence to the Leader of the Opposition and I will abide by the decision of the Leader of the Opposition. You don't have to wait for

SHRI HARI KISHORE SINGH: Nobody has accused you.

SHRI INDRAJIT GUPTA: I am really very very sorry. I do not know why you are talking in terms of being afraid or not afraid.

But, I am really, sincerely sorry that my words have provoked you to this extent (Interruptions)

MR. SPEAKER: I do not see innuendoes in his statement. Let us not instigate matters in the House.

SHRI INDRAJIT GUPTA: Another matter which is also reported in the Press - It may be wrong; I do not know; somebody can here contradict that one also - there is a report which has disturbed us, namely it may not have anything to do directly with the Ministry of Finance; but it is a connected matter - that the Department of Personnel is preparing some sort of a case or a dossier against Mr. Madhavan; it is reported in the Press on the front page today that a case is being prepared in accusing him for having violated the Official Secret Act, not now, but with retrospective effect; some case is being built up that during Mr. V.P. Singh's regime, Mr. Madhavan was guilty of violating the Official Secret Act; and a kind of a case or a dossier is being built up against him. But this is also a strange thing because nobody knew about it all these years it has only come to light now when he has put in his papers having even entrusted with this very crucial investigation. So, it seems more than a coincidence to me. I am saying all these things that on the eve of JPC starting its work, some of these things do not taste very well in the mouth as to what is going on. However, I leave it because I do not want to provoke anybody.

I also think that after all now we should concentrate on some of the points, some I cannot go through all of them, which we would like JPC to go into. There are so many things in the interim report of Mr. Janakiraman. I am giving one instance from

page eight. It reads as follows:

Almost all the payments made by the National Housing Bank by means of an account payee cheque drawn on the RBI and issued in favour of the counter party bank have been collected and credited to the current account of Harshad Mehta maintained with SBI and ANZ Grindleys Bank".

Now, surely, an obvious thing that we should try to find out is on whose instructions they did this; when this big sums of money, so many hundreds of crores of rupees worth of payment was made by the National Housing Bank and put into the personal account of Harshad Mehta by an account payee cheque, on whose instructions were they doing it; somebody must have instructed the bank. Is that not to be found out, Dr. Manmohan Singh?

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): I will do that.

SHRI INDRAJIT GUPTA: Perhaps you already know; I do not know.

SHRI MANMOHAN SINGH: Sorry, I do not know.

SHRI INDRAJIT GUPTA: I should also like the JPC to go deeply into the role of statutory auditors of the banks; every bank has a statutory auditor; these Audit Reports always certify. There is a common column. They always write at the end before the signatures of the auditors that they have gone into the accounts and the accounts have shown "a true and fair view of the state of Affairs". This is the standard formulation used by auditors, certified auditors, statutory auditors. But, in spite of writing this thing, giving a sort of overall certificate to the bank for showing their true and fair view in their balance-sheet, for example, the Bank of Karad - it was submitted to statutory audit every year - has to be liquidated by the Reserve Bank of India in spite of such Audit

They are registered members of the Institute of Chartered Accountants of India - all these auditors. The Chartered Accounts of India Institute was created by an act of this Parliament. They are supposed to be honest professionals. Now, in view of what is happening, in view of the fact that even the Janakiraman Committee Reports says that there are so many cases in which slipshod auditing is done, a large number of branches of various banks are not audited at all, not visited by the auditors, their books are not examined and these balance sheets quite obviously are not revealing the true state of affairs. They have not revealed, for example, the huge amount of bad and doubtful debts, the advances which can never be recovered. These are never shown clearly and now only after all this business has come out about various banks, it is very necessary that a question should be asked that what are the statutory auditors trying to do.

They cannot detect frauds when they examine the balance-sheets, they cannot detect any kind of manipulation of accounts, they cannot detect forged banker's receipts, they cannot detect deposits of crores of rupees in individual account payee's accounts. Then these reports are submitted to the banks, to the Government of India, to the Reserve Bank of India and are obviously being taken at their face value. Nobody questions and they only look at the signatures of the auditors, that is finished.

17.17 hrs

[SHRI SHARAD DIGHE in the Chair]

I think such a state of affairs is extremely dangerous. It must be happening in other companies also, but at the moment we are concerned with the banking spheres, where the public keeps such money, where ordinary people have deposited their money in order to keep it in safe custody of the banks, little knowing that money would be diverted by the back-door by certain corrupted people and handed over to racketeers on the stock market in order to speculate.

Shri Janakiraman was a nominee of the Reserve Bank of India on the Board of the National Housing Bank. He was a representative of the RBI. He was a representative of the RBI on the Board of the State Bank of India. Really speaking, I do not know what is his focus stands to preside over this Committee, which he has been entrusted to deal with.

Non performance of the assets are not shown. The extent, as I have said, of bad and doubtful non-recoverable debts is not shown. It is being allowed. JPC will, no doubt, go into all this. The Narasimhan Committee has said that at least 20 per cent of all bank loans are bad and irrecoverable. But the Governor of the Reserve Bank of India says that, of course, there are no indications of fraud which could have been guarded against in good time. I do not know what indications he is looking for. He has sought the alibi, I think, for the Reserve Bank of India by saying that they cannot act as a detective agency. This is the word he has used. We cannot go about looking in-to the affairs of every bank of the country. These things are known to so many people. They are coming out with it now and it is too much to expect that the Reserve Bank of India never received reports and never bothered to look into any of the reports, and therefore, now say, that is not possible to anticipate any fraud. How do these things happen? That is why, I had said the other day, please do not take it ill, that what you have succeeded in doing unwillingly is to destroy the public confidence and trust in this banking system, without which the banking system can never flourish. It rests entirely on the confidence and trust of the public.

In July 1991 the Reserve Bank of India issued a circular, very famous, now well known and quoted so often, prescribing a news standard format for preparing balance-sheets because they had come to know. They had come to know in spite of what the Governor says now. They had got the indication that some very undesirable practices were being indulged in by several banks, if not all.

Therefore, they prescribed in June 1991

a new format, a standard format, which was circulated to all the banks for preparing the balance sheets in a more transparent way. I would like to know whether it is not a fact that this model format has not been complied with by the majority of banks in spite of it being sent to them; and if so why it is being allowed to go on like this by the RBI. So, the RBI Governor's excuse that the frauds cannot be anticipated is, I think, a bogus claim, it is not an honest argument at all. Since securities are being bought and sold I do not want to labour that point; Banker's receipts, without the money being actually transferred, and only the security papers and certificates are being transferred, from hand to hand and bank to bank. I am sure that such an operation could not be unknown to the Reserve Bank of India. But nothing was done to check it or stop it.

Forexample, this National Housing Bank was set up in order to finance housing projects in this country. What they have done for housing, the House may kindly be told. I do not think that they did anything for housing. But they managed to get Rs. 707 crore from the S.B.I. which was later transferred as you know in favour of certain brokers. The allegation being made is that virtually the management of the State Bank was "persuade" by one Additional Secretary of the Finance Ministry whose name I better not mention because objection may be taken—I have got his name and by Shri Janakiraman himself to give this amount of Rs. 707 crore to the National Housing Bank not for housing purposes, but for something much less creditable. This money eventually wound up in Harshad Mehta's account.

Take another example, the State Bank of Patiala. On whose advice or under whose pressure did the State Bank of Patiala loan Rs. 6 crores and 50.57 lakhs — a little over six and a half crores of rupees — and advance it to a company, M/s. Dynavision of Madras? This company belongs to the Obul Reddy group. After this loan was sanctioned, the Assistant General Manager, who was in charge of the credit of the State Bank of Patiala once the sanction of this loan went through, this gentleman who was a junior

man — there were several above him— was given a promotion and the Managing Director of the State Bank of Patiala, Shri Panduranga Rao who actually sanctioned the loan was cleared by that same Assistant Finance Secretary, until he became ultimately the Chairman of the IRBI. He would up as the Chairman of the IRBI. Is this only a systemic failure? — I would like to ask the Finance Minister.

I am sure that the system is full of many failures, defets, loopholes, and all sorts of things. It is not that if a system has got too many loopholes and defects in it, therefor, inevitably the people must take advantage of that and behave in a corrupt and dishonest fashion. Then we will be condemning our entire system.

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): I think the individual account has been referred to and an individual has been named. I am sorry, I do not have - I think knowledge about individual accounts of a particular bank.

I would respectfully submit that there are proper ways of investigating all these cases. If you had given me advance notice, I would have come prepared. On the spur of the moment, you had mentioned a particular account of a particular individual and the role of various people. I am sorry, I cannot, I think, answer all these things.

SHRI INDRAJIT GUPTA: I do not expect you to do. I am putting this on record. I hope that the JPC will go into all these things which have been alleged here ... (Interruptions)

SHRI MANMOHAN SINGH: I agree with you.. (Interruptions)

SHRI INDRAJIT GUPTA: The terms of reference now agreed upon are wide enough to cover both systemic failures as well as accountability of certain individuals. The terms of reference cover both. I am satisfied provided the JPC goes into those. There are many other cases... (Interruptions)

SHRI MANMOHAN SINGH: What I do

object is that you mentioned a particular individual being responsible and that he was given promotion in an undesirable manner. I would submit respectfully that these things need to be substantiated. Unless you have proof for all these things, how can we, I think, go on discussing these things simply on the basis of the allegations that you have levelled?

SHRI INDRAJIT GUPTA: My saying it does not make a proof. It is an allegation, which the JPC can go into. I do not expect you to reply also because obviously "you cannot know..." (Interruptions)

SHRI MANMOHAN SINGH: What would happen supposing if this individual turns out to be innocent? You have made this charge, I think, on the floor of the House. It will be in the press tomorrow. And day after tomorrow, supposing after proper investigation it turns out that this individual is innocent, what redress he has against all these allegations that you make on the floor of the House?

SHRI INDRAJIT GUPTA: Well, he will be cleared by the JPC.. (Interruptions)

SHRI MANMOHAN SINGH: How will he be cleared? Once you make the charge,, it is given wide publicity. I am much junior to you in years, wisdom and knowledge. But I respectfully submit to you that this does not enhance the reputation of Parliament as the highest tribune of our nation.. (Interruptions)

SHRI INDRAJIT GUPTA: That is why, I did not mention his name, I can mention his name.. (Interruptions)

SHRI MANMOHAN SINGH: You mentioned Mr. Pandu Rao.. (Interruptions)

SHRI INDRAJIT GUPTA: He is now the Chairman of the IRBI. You need not bother. He has managed for himself, all right.

The only point to be found out is that whether he was the man who sanctioned the loan or not. That is all. But the point, which the Finance Minister should be more worried about in my opinion, is that this loan of Rs. 5 crore given by the State Bank of Patiala in

this way to a firm, Dyna Vision Limited, which was in a very bad shape I should say, has become totally bad... (Interruptions)

SHRI DIGVIJAYA SINGH (Rajgrah): Sir, I am on a point of order. Particularly in this debate, allegations have been widely made by all sides. Sir, I would like to draw your attention to the rule 353, in which procedure regarding allegations against any person is well laid out. Sir, I request you to kindly intervene in such matters, where specific allegations are being made against any person, who is not here to defend himself. If the hon. Member wants to make an allegation, let him follow the rules of procedure, let him make a specific allegation; let him give it in writing and let it be replied to by the Minister. (Interruptions) I am not saying that you do not make any allegation. If you want to make an allegation, for God sake make it specific and give a notice to the Chair... (Interruptions)

SHRI BHOGENDRA JHA (Mandhubani): The name of Mr. Pandu Rao was mentioned by the Finance Minister, and that name should be deleted. Shri Indrajit Gupta has not named anyone.

The Finance Minister has named him... (Interruptions)

SHRI INDRAJIT GUPTA: No, I have named Mr. Pandu Ranga Rao. You were not here and you did not hear not it. (Interruptions)

SHRI DIGVIJAYA SINGH: Sir, I want a ruling from you.

SHRI INDRAJIT GUPTA: If the Chair wants to have it deleted, then he is free to do. (Interruptions)

MR. CHAIRMAN: If you want to make any allegation against the Government Officers or officers of the public undertakings, I think, notice should be given in advance so that the concerned Minister will be ready.

SHRI INDRAJIT GUPTA: We are prepared to give him notice provided that

leads to some response from the official bench... (Interruptions)

SHRI DIGVIJAYA SINGH: That is obvious... (Interruptions)

SHRI INDRAJIT GUPTA: The point is that when this loan was given the Directors who are supposed to give some personal guarantees and they had agreed to that, but my information is that on record there are no guarantees of this type, as had been promised. Still the advance went through.

Now, take another case. I have to mention this name because I think they will not object. He has already been dismissed by you. I am referring to Shri Margabandhu who was backed from the UCO Bank. There was a CBI, rather a Vigilance Commission's Report against him. The report is available. I think, I can mention that. The Vigilance Commission's Report said that he was found to have two apartments in Madras. one apartment in Bangalore and shares and fixed deposits amounting to Rs. 50 lakhs in the lockers. (Interruptions) However, later on Vigilance Commission cleared him. I do not know how it cleared him. In 1988, Shri Margabandhu was the Chief General Manager of the State Bank of India, Madras. At that time, the present Reserve Bank Governor, Shri Venkitaramanan, was the Finance Secretary. Now, I am saying something to Shri Venkitaramanan's credit. I believe when he came to know that Shri Margabandhu was amassing a lot of wealth, he was instrumental in getting him transferred out of Madras. It is very strange that the same Shri Venkitaramanan has now approved the appointment of Shri Margabandhu as Chief Managing Director of the UCO Bank, knowing fully well this man's record, knowing the Vigilance Commission's reports against him and himself having been instrumental in getting him transferred from Madras. Subsequently, appointed him again as a Chief Managing Director. This is a puzzle which I would like the JPC to go into and clarify. I believe, appointments in the banks on that level is done by a small Committee of the Cabinet consisting of Home Minister, Finance Minister and the Prime

Minister. So, they approved of it. Surely, they must have looked into papers and files.

I also want to know why Shri Margabandhu has not been arrested. So many people are being arrested and have been arrested and why has he not been arrested? He is staying comfortable in the guest house of the UCO Bank in Madras. He has not been arrested. (Interruptions). I am told that according to the banking rules in respect of the offices, if anybody is kept in the police custody or judicial custody for more than 48 hours then it is obligatory to suspend him. I would like to know whether any of these people have been suspended or to according to the rules who have been kept in custody.. I believe that nobody has been suspended, or at least that is not known.

The Deputy Governor of the Reserve Bank of India submitted a report in 1990 pointing out certain serious irregularities which were being committed by foreign banks. I want to know what was done about that report, whether any action was taken on it, if not why?

Now, we are finding that at least four prominent foreign banks are involved in the scam in various ways. But, in spite of the report submitted at that time by the Deputy Governor of the reserve Bank, nothing was done. If some precautionary or preventive measures have been taken in time perhaps these four banks would not have been so easily implicated by the lure of making higher profits in the scam. Perhaps the Minister is of the opinion - I do not know - that taking action against foreign banks is undesirable because it would create some repercussions abroad or it would act as a disincentive to foreign capital to come in.

SHRI MANMOHAN SINGH: I have never said so.

SHRI INDRAJIT GUPTA: I am very glad.

Then, Sir, on the 15th of July, 1992, that

is, even less than a month ago, I find that there is a sort of circular letter written by Mr. Mahadevan Managing Director of the State Bank of India, Central Office, Bombay, addressed to 'Dear Colleagues'. The State Bank of India, as you, know is up to its neck in this whole affair. It is a pity because it is a premier bank out of all our public sector banks. In this letter he is explaining to bank colleagues: "The plethora of reports circulating sometimes tend to blur the basic facts and confuse issues.... These facts, which are simple and easy, represent a fraud on the Banking system." this is what he is saying - "The modus operandi was, when instructions to sell or purchase securities were issued. - here I think JPC will be given useful guideline - "at the transacting level, an altogether different set of transactions was put through, the fraud being cleverly concealed by ensuring that the net of sales and purchases actually put through, agreed with the net of sales and purchases ordered" - though actually something else was done - " and by maintaining a separate set of computerised records to match the sales/purchases ordered so that *prima facie* the transacting branch records would tally with those at the Treasury and Investment Management Department at Central Office, who ordered the sales/purchases. The fraud was further made possible" - I mentioned this the other day - "because of non-reconciliation of our branch books with those of the Public Debt Office, Reserve Bank of India, for quite some time". For years together, there was no reconciling of the branch books with the Public Debt Office of the Reserve Bank of India which is supposed to do this job. Now, Mr. Mahadevan is admitting it after all this time.

Further he says: "... the fraud has been perpetrated in some of the other banks and financial institutions also and not on the State Bank of India alone." - some compensation I must say - "Certain receipts and payments are disputed and we had to make a payment of about Rs. 707 crores to National Housing Bank, under protest." Why was it under protect? Somebody was twisting his arm that he has to pay this amount to the National Housing Bank....(Interruptions)

Then he says: " it is time for all of us to know the truth, refuse to be demoralised by the reports in the press etc., and face the adversity with courage and fortitude." This is all very good, brave talk, And finally he says towards the end of the letter: " We have already decided to revamp our systems and procedures to the extent called for and are trying to enlist the services of an eminent and outstanding Banker to advise us on these aspects. " That means he also is a believer in systemic failures.

I find that in April this year, a circular has been issued, enjoining upon the banks to maintain a certain risk-assets ratio. I think you know about that, Sir. This is supposed to be bringing the system into conformity with international standards which we never bothered about all these years. This circular has been issued to maintain some ratio between the assets which are risks, which are non-performing perhaps, and the money held by the banks against those. That has now been introduced or is going to be introduced. Whether it will be carried out or not, I do not know. Whether there will be any supervisor or monitoring agency which will see to it that this is enforced, or not, we do not know. The JPC will, I am sure, go into this.

These are some of the things, a few out of many things, which I think the JPC will have to make a thorough probe into apart from the accountability of individuals who must not be spared. We have been assured many times that nobody will be spared. They have to be identified and nailed either for their dereliction of duty or their collusion and complicity in this whole affair plus then the JPC has to go thoroughly into the system itself and make specific recommendations as to how this system failure can be obviated or avoided in future. Because after all, what is at stake is the whole banking and financial structure of the country and it is not an easy job to restore the confidence of the public even after what has happened.

The Reserve Bank of India which is supposed to be the bankers bank, I do not think has functioned as the bankers bank at all. It is oblivious if what is going on in the

banks. Rather, the Bank of Karad functioned better and it is known as the brokers bank. One is the bankers bank, one is the brokers bank. The brokers were certainly patronising the Bank of Karad. Very well. It tried to help them to the extent possible and then it got caught and it is now ordered to go into liquidation but now is being merged with another bank to save it.

This is all I have to say because I think enough has been said here to arouse enough doubts about suspicious role of various people but basically I would say that the Government cannot escape and the Finance Ministry cannot escape, at least its moral responsibility, for what has happened.

I am sorry that Dr. Manmohan Singh seems to think that weary are out of for his blood. Nobody has made any allegation that he is directly involved in it. But what about the moral responsibility? This whole structure, this whole system, over which he presides and the Reserve Bank of India, whose Governor also has said very categorically that he is not to blame for anything and anybody who accuses him is a criminal. These are the words he has used. You cannot argue with a man like that. You can argue with Dr. Manmohan Singh perhaps. You cannot argue with somebody who dismisses all bring to outline arguments by saying that " You are a criminal because you are criticising me. " I do not know what kind of person he is. I have not met him nor had the good or bad fortune to know him.

I seriously suggest to the Government that people who have got this kind of an attitude towards the public and towards public criticism should be considered whether they are fit to hold such high posts.

As far as Finance Minister is concerned, I am sorry, but we cannot absolve him of the moral responsibility for what has happened. Nobody has said that he himself has been mixed up in any of these scandals or taken money or done anything like that. Far be it from me to suggest such a thing. But moral responsibility is something which conforms to the highest standards and norms and

conventions of our parliamentary system. It should. I do not want to go into old instances and, that is why, we have been saying that in all property, it would have been better, it would have contributed to strengthening the creditability of our system and the faith or confidence of people of this country in parliamentary system, as such, if he has submitted his resignation on this ground that "Though I am innocent, I have nothing to do with all these things but I feel that I am morally responsible". But then he is very obstinate on this point and refuses to accept.

SHRI MANMOHAN SINGH: I know the reasons why you want me to resign.

SHRI INDRAJIT GUPTA: I know. I know you do not want to oblige me. I am only very sorrowful in those days you were not here - about poor people like Lal Bahadur Shastri and so on. What crime did they commit to own up moral responsibility and resign? Perhaps you will say he was a fool. He should never have done such a foolish thing. May be. I do not know. But people have respected him for that act.

There are other Ministers also who had resigned without being directly involved but who felt that it was their moral responsibility in a parliamentary system of Government that they should resign.

SHRI MANMOHAN SINGH: Who are those people?

SHRI INDRAJIT GUPTA: Who are those people? You want me to go through that again. There was one predecessor of yours. Of course, I admit that he did not come forward himself to resign. He was asked to resign. (Interruptions)

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): I think you are talking of more responsibility. I think the Chagla Commission's report was about investigating the role of the Finance Ministry in a particular transaction. They directly held the then Finance Minister responsible. There is no

SHRI INDRAJIT GUPTA: I believe you know the instance of Shri V.V. Giri also.

SHRI MANMOHAN SINGH: I am sorry, I do not know. But you have referred to the predecessor of mine. (Interruptions)

SHRI INDRAJIT GUPTA: Shri V.V. Giri was Union Cabinet Minister also, who later was elevated to the Presidency of this country. (Interruptions)

SHRI MANMOHAN SINGH: But I do not know. I do not know anything.

SHRI INDRAJIT GUPTA: Of course, it was not a financial or banking case on which he took moral responsibility. It was a different matter. So, it is not that as though such things have never happened. That is why we have pleaded with you that if you, in your wisdom choose to stand rock-like, steadfast, in your chair, you are welcome to do so. Let the country and the people judge for themselves. Thank you,

SHRI MANMOHAN SINGH: Thank you.

DR. (SHRIMATI) K.S. SOUNDARAM (TIRUCHENGODE): Mr. Chairman, the security scam, as it is popularly known, has shaken the nation to the depths. No single failure of the Government and its apparatus has created such a consternation in the country as the security scam did. Was it really a security scam? Hats off to the intelligent phraseology. The ire is turned towards the men, a handful of leading stock-brokers. Is it true that they are the only villains of the episode? Did they, by themselves, act without any cooperation from the banking sector? Why the role of bankers, who are supposed to be the custodians of the public money, underplayed?

Sir, so as long as the focus is directed against the stock-brokers, the truth, the bare truth, around the scam will never be out. What a variety of scams the share-brokers in connivance and collusion with the bankers

some occupying the highest position in the banking hierarchy, enacted in throwing the entire system out of gear and brought disrepute to the banking institution. Where shall we go to salt it, if salt itself loses its favour.

The brokers, the kiggin in the entire security scam, through their dubious role in the read forward deals, in the matter of accommodation of bills, in call-money transactions, in rediscounting bills of exchange, portfolio management scam and the most glaring security General Ledger scam, illegally diverted the vast sums of money from the banking system and routed it to the selected share-brokers and they, on their part, created a boom in the stock-market.

When the Bombay Stock Exchange index moved from 3017 points on February 29, 1992 and reached an astonishing figure of 4387 points on April, 2, 1992, the Government was a silent spectator saying that it is the economic reforms that have created a revival and said if the people have money and desire to invest in stocks why should the Government intervene, little knowing that the revival of the economy is not the real reason behind the boom in sock-market.

To say that the banks are innocent victims is a travesty of truth. The vast sums of money that were siphoned-off from the banking system is the real culprit of the game.

Now, the question is: Is it only dressing up their annual report and balance sheet the banks entered into these types of unsavory and illegal transactions with the brokers? Did they not get any personal pecuniary gain by that transaction? Here, a thorough probe of the personnel assets of the bankers concerned is quite necessary.

The impression tried to be created is that the RBI really bust the same, but it is not so. Since the reconciliation of all the transactions up to the end of February in State Bank of India differed from the books

of PDO in RBI, SBI initiated action to physically verify and reconcile.

At that time SBI stumbled on the huge difference of approximately Rs. 500 crores and this the truth of scam came out. It is regrettable that now everyone is keen on taking credit rather than getting to the bottom of the affair.

I may not be doing justice if I fail to touch the role of RBI in this scam. Did RBI, the custodian and watch dog of the banking operations, play its role rightly both in letter and spirit? No, Sir, the RBI also bungled. The slackness of the RBI in the crucial role of maintaining and reconciling the SGL is the main failure that contributed for the banks illegal transactions with the stock brokers. I leave it to the wise judgment of this august House whether the RBI Governor should own moral responsibility for the failure of the RBI in discharging its duties and resign.

The RBI's subsidiary, National Housing Bank do not come unscathed either as it had a key role to play in a bull operator's gameplan. Today the NHB has no deal tickets no confirmation of deals, and no record of BRs for its innumerable transactions. Yet, it paid hundreds of crores to the SBI and a foreign bank. But ironically it does not know why. The only reason why the NHB was the first to secure its money was because of its powerful parent, the RBI which is desperate to insulate itself from the fallout of the scam. In the case of Shri Mehta, there are a few signs of belated and half-hearted action but there seems to have been total inaction as far as Shri Bhupen Dalal's foreign dealings are concerned.

According to the intelligence sources various Government agencies are in possession of some information about his business dealings abroad, including a travel agency in the Middle East. But there was no follow up on the little but vital clue. Dalal's London operations are officially known and they could have served as a basis for further investigation.

Yet another lapse appears to have

[Dr. Shrimati K.S. Soundaram]

occurred on the part of the RBI, the CBI, and the Finance Ministry enforcing the ANZ Grindlays Bank to disclose the source of Shri Mehta's foreign remittance.

From these documents, it is clear that large amounts came from Canary Island, a tax haven, and there is a cross reference to its New York Branch. The Bombay's enforcement bank could have forced the foreign banks to part with all the destabilising involving massive transfers of money from abroad.

While some of the enforcement officials are equally honest and possess the same investigative skills as Shri Madhavan does, attempts are now underway to details the entire directorate. Since no one of the junior officials is powerful enough to commit such a gross negligence the moot question is who were the invisible players who delayed the action on this vital front?

Therefore, Sir, I would say that it is not the system that failed. But it is the men behind the system by their greediness and rapaciousness brought disrepute to the banking system. Let the land of justice be even on all those guilty men however high placed they may be to bring back investors' confidence.

Sir, before I wind up my speech, I suggest that to avoid scams staging a comeback in future we should develop an integrated structure to regulate the stock exchanges and money markets.

[Translation]

SHRI S.M. LALJAN BASHA (Guntur): Mr. Chairman, Sir, there was never a scam of such enormous dimension after the independence. So we should all rise above party affiliations so that a broker like Harshad Mehta who is involved in the biggest scam is to born again. We should discuss the whole matter and inform the Government that the money of the poor people in the Banks is not safe at all. Common man has lost confidence

in the working of banking system. Government should take all steps to re establish this confidence.

Without security a sum of rupees sixty crores of the Progressive Construction Company has been involved in the scam in our state of Andhra Pradesh. Shri Manmohan Singh is well conversant how the present congress M.P's and ex M.P's can make irregularities in banking system. We have written many letters to them but till now there is no response. Today an honest officer like Shri Madhavan is being harassed. Now this is for the CBI officials to find out the facts and expose the scandal. This is an occasion where we should all rise above party considerations and try to expose the scandal so that such big scandals do not get repeated. We shall have to make joint efforts in this directions. A bungling of about two hundred crores has been found in Guntur district. Farmers had mortgaged their gold in order to buy the shares. All this is how accounted money has been misused. There are no know abouts of unaccounted money. Politicians are backing persons like Harshad Mehta and their unaccounted finances are being allowed to flow out of this country without receipts. It is for the Finance Minister to check this tendency. Persons like Harshad Mehta who were not even among the income-tax payers ten years ago are the potential income-tax payers, with Rupees forty to fifty crore income-tax.

[English]

MR. CHAIRMAN: Shall we extend the time of the House by another one hour.

SOME HON. MEMBERS: Yes.

MR. CHAIRMAN: For the present, I extend the time of the House by one Hour.

SHRI GHULAM NABI AZAD: Sir, we will have to finish it today only.

[Translation]

SHRI S.M. LALJAN BASHA: Is it not necessary for the Government to investigate

the accounts of people like Harshad Mehta who are paying an income-tax to the tune of Rupees forty to fifty crore annually. People pay income tax but Government is unaware about the source of that Income Tax; it does not investigate if the person is cheating the Government by making irregularities in bank accounts. It is for the Government to look to it. The higher officials in the Government and Banks guided people like Harshad Mehta how to draw money from the Banks. All these people thus join to make by scandals to the tune of crores of rupees. But the unemployed people have to face great difficulties, they do not get a loan of rupees one lakh from the Bank.

18.00 hrs.

We can well imagine the working of our banking system economic conditions by the fact that crores of rupees are withdrawn by a notorious person like Harshad Mehta. I would like to submit that Government should give a serious thought to it and make arrangements in future so that scandals do not occur in future. Government should take measures after serious considerations. Government should not pressurise the sincere officers of the CBI but should support them whole heartedly in order to expose the truth. It is utmost necessary to promote the honest and sincere people and punish the guilty.

It is also necessary to punish the ex-MP's of Congress who have been found involved in big bank scandal. The system should be so ineffective that once a person has been elected as a congress M.P. it becomes very easy for him to draw amount of fifty to hundred crores of Rupees from the banks. I want that action should be taken against the Congress M.P.'s involved in the scandal. Shri Manmohan Singh knows about the people of Andhra Pradesh, who are found guilty, but no action has been taken against any person.

Nobody should be allowed to move scot-free and unpunished whether he is a M.P or a Minister. In future. In future the Government should see that criminal people

should not be allowed to move scot free.

I would also like to submit that there should be necessary amendment in the Lokpal Bill. With these words, I thank you.

[English]

SHRI K.P. SINGH DEO (Dhenkanal):
Mr. Chairman Sir, first of all I would like to thank Shri Jaswant Singh for raising a discussion on the statement on irregularities and fraudulent transactions in banks and other financial institutions which have been popularised as scam by the Press. Although Shri Somnath Chatterjee would like to put the blame on the Finance Minister, he has never uttered the word scam anywhere in his speech which he gave here nor has it been referred to in any Government document.

In fact the *India Today* has called it the mother of scam. Just like Saddam Hussain called the Gulf war the mother of battle, it is the mother of scam. Shri Jaswant Singh also has called it as monumental, mind boggling, landmark, scandalous, equivalent of a Defence Budget, cross-country dimensions. I agree with him. A soldier always talks forthrightly and I am glad he used these terms because this is nothing short of this.

That nexus between bankers, brokers, buccaneers and bureaucrats and a crisis of Himalayan proportion has been amply stated in this House. I must also compliment Shri George Fernandes for his impressive homework and his research and development on this subject. I really compliment him for the masterly way he has gone about finding out information to justify his arguments here.

But there is a silver lining in this. We must draw conclusions, inferences from the arguments made by hon. Members. It will help us in future as well as I am sure it will help make the job of the JPC much more fruitful and easier because of the fund of information which has been laid at our doorstep in the parliamentary debate which has taken more than eight hours. Although the hon. Parliamentary Affairs Minister did mention that it has taken 27 days, for 27 days

he issued a three-line whip and I have not left Delhi even on Saturdays and Sundays. I do not know when the Parliament sat, since everyday I go home at about seven p.m. For the last three days we are having this debate and a lot of important points have been made. In my opinion it is a classic case of failures. The hon. Finance Minister said that it is a system failure. I will say that it is an operational failure, a management failure and administration failure where procedures and guidelines were given a go by. There is a failure in accountability, a failure in responsibility and also there is a failure in the personnel policy. I do not know whether the JPC will have time or it will cover in its ambit, the recruitment, the promotion and the entire gamut of personnel management and personnel development in the banking system because as we say in the Army, the man behind the weapon counts, the man behind the human element is the most important one, whether it is the age of computers, whether it is the pre-historic age, whether it is the bullock cart age. This scandal which has been unearthed just gives ample evidence that probably our personnel policy needs to be looked into or scrutinised more minutely. I feel that it is a breach of trust because all of us here as well as those in the Government and the public sector undertakings are trustees of the people. Like we, the trustees of the people's faith here in Parliament, so are these officials trustees of the people's faith especially in the banks.

This conspiracy and fraud has led to a crisis of confidence. This has been eulogised and romanticised by our Scribes, by our vigilant Press. While unearthing it, they have also romanticised Harshad Mehta. Sir, I would humbly submit that it is not only Harshad Mehta who is on trial, it is not only the entire banking system which is on trial, but it is our parliamentary democracy and all of us sitting here in this House and in the Rajya Sabha are also on trial.

A charge has hit Shri Sharad Pawar for not applying his mind, herein by Mr. Indrajit Gupta, it comes to my mind that when we

debate - there is a report - and when we sanction money and when we pass these by way of Demands for Grants, I do not know how much mind we apply. Do we effect proper scrutiny or not is something which we must ponder about. Therefore, I felt that instead of trying to say something about Harshad Mehta - he is a genius person who was hoodwinking the entire nation, successive Governments - not only the present Government, but the previous Governments. We do not know for how long these scandalous irregularities have been going on. I do hope that the Joint Parliamentary Committee's scope will be widened to get at the root of it and not be confined only from 1990 onwards. That is my first humble submission.

It is rather baffling, how this entire thing has happened. May be in Parliament we are not so adept at the working of the banks or the guidelines or the regulations or rules or the internal system. But there are experts in this country; there have been people who are experienced in banking system. When the boom about which Dr. Pal was mentioning in his intervention, took place early in November, even at that time, it has baffled most of the economic experts, most of the banking experts in this country, who took it as a measure of a vibrant stock market.

Now I would like to get down to the points raised. The Finance Minister has been under heavy criticism, first of all, for the role of the RBI as well as the Finance Ministry. Let us see whether the Finance Ministry or the Reserve Bank of India has taken any steps, whether they knew anything was happening. If one goes through the events chronologically, Mr. Manmohan Singh came to Government in June, 1991. Within a few weeks, he appointed Narasimhan Committee to look into the financial aspect when he was introducing his macro-economic restructuring.

MR. CHAIRMAN: Please wind up.

SHRI K.P. SINGH DEO: Sir, I will require some more time. Otherwise, I might have to sit down.

MR. CHAIRMAN: I have given you ten minutes.

SHRI K.P. SINGH DEO: I have to answer some of the points made by the hon. Opposition Members. Within ten minutes, I cannot do it, Sir.

MR. CHAIRMAN: Don't mind.

SHRI K.P. SINGH DEO: I am willing to sit down.

MR. CHAIRMAN: We want to conclude this debate today.

SHRI K.P. SINGH DEO: That is all right. I must have my full say, Sir. In October, 1991 being mindful of the dangers of bank frauds, it is on his instances - the Finance Ministers instance - that the RBI set up a Committee under Mr. A.Ghosh, Deputy Governor of RBI, to look into the aspects of frauds and malpractices. The report was submitted on the 3rd of July.

On 30th January, 1992, was the establishment of Stock Exchange Board of India. Then he came to Parliament - on the very first instance - because it was done by an Ordinance and Parliament was not in session.

What is SEBI:

The objectives were to promote orderly and healthy growth of the securities market and for investors' protection"

I need not go into the entire thing because this was introduced here in Parliament. So the operative words are "investors protection". At that time, nothing had appeared either in the Press or no scandal had been unearthed. So this was the initiative he had taken himself.

Then in February, 1992 much before the scandal surfaced, Income-tax authorities raided selected brokers. Separately Reserve Bank of India was also pursuing certain leads relating to transactions in securities in the State Bank of India - all at the initiative of the

hon. Finance Minister. In March, 1992 the problem first erupted when Reserve Bank of India, scrutinising into the State Bank of India's transactions, indicated shortages in its possession of securities. This was alerted by the Reserve Bank of India. Operative part is:

"It was alerted by the Reserve Bank of India to the State Bank of India management who found that Rs. 649 crore of securities through a broker, Harshad Mehta, has not been received."

When confronted with this discrepancy, Harshad Mehta paid an amount of Rs. 622.72 crore between 13 April 1992 and 24 April, 1992. Continuing investigation by the RBI traced that the funds used by Harshad Mehta to SBI traced that the funds used by Harshad Mehta to SBI represented payments from the National Housing Board to ANZ Grindlays which were deposited in Mehta's account.

Now one may say that National Housing Bank is the creature of the Reserve Bank of India. I would submit that there has been not only laxity but dereliction in not unearthing it before this inquiry was made because that shows there was a total failure whether you call it systemic, whether you call it collusion, or whatever. It was a failure to see through what was happening with NHB and ANZ Grindlays which were depositing in Mehta's account. Since prima facie evidence of a nexus between brokers and bank officials was emerging, ambit of securities was widened. As a result, further investigations took place and RBI incurred instances of serious irregularities whereby bank funds ostensibly for purchase by one bank from another of Government securities, public sector bonds, units or similar instruments appeared to be siphoned into the accounts of brokers and possibly used for speculative purposes in the stock markets on which we now have information that it was made. In the end of April and the beginning of May, the issue figured in Parliament. The Finance Minister shared with the House the then available information and assured action

against all individuals who were found to have indulged in malpractices. On 30th April, 1992, at the instance of the the Finance Minister, RBI appointed the Janakiraman Committee to look into various security transactions of banks. The Committee has already submitted two reports from which all hon. Members have been quoting for the past few days. From 9th of July till date i.e. 27 days, a major portion of what we have been quoting is from the Janakiraman Report.

Preliminary findings confirm that unscrupulous brokers and individuals, in collusion with certain bank officials have manipulated transactions for their own purposes in a variety of ways in clear violation of established rules and guidelines. Sir, may I ask as to how many State Governments are violating the guidelines of the Centre like that of the Jawahar Rozgar Yojana and rural development? The Government of Orissa have deposited Rs. 25 crores over the last couple of months. The Industrial Promotion and Investment Corporation of Orissa Limited and the Industrial Development Corporation of Orissa Limited have also deposited Rs. 25 crore in Andhra Bank Financial Services Limited even after the so-called scam - if you do not like the word scam, you can say irregularities - has been unearthed. And today's paper carries the news that NALCO, the National Aluminium Company has been showing Rs. 1000 crore profit. It came three days back. They have deposited Rs. 148 crores deposited by the Power Finance Corporation. The list is endless. I must compliment the vigilant Press for bringing out this and for having done investigative journalism. Shri Jaswant Singh referred to the hon. Finance Minister's statement as an accountants report. He himself knows, having been to the Staff College of Wellington, that any report which is given will be a very dry report. A report cannot be spicy with sensational news items. Therefore, what the Finance Minister has given us is a very truthful and forthright statement of what had been happening, based on the investigation as well as the Janakiraman report. Sir, in a different type of manipulation, credit has

been extended to brokers through transactions engineered to represent a discounting of bills amounting to Rs. 3542.79 crores out of which Rs. 1967.84 crores amounts to National Housing Bank, State Bank of Saurashtra, State Bank of India Capital Market and Standard Chartered Bank. Rs. 1470.12 crore worth transaction took place in the Standard Chartered, Canara Bank Financial Service, Canara Bank Mutual Fund to purchase securities in return of bank receipts of Bank of Karad and Metropolitan Cooperative Bank. This amount was again diverted to the brokers. Apart from clear violation of established rules and regulations and guidelines, there has been a serious failure of internal control system, involvement of senior bank management and a total collusion among the three segments of banking - the nationalised banks, the private banks and the foreign banks. The modus operandi of these entire irregular transactions has been the misuse of the bank receipts, overtrading buy-back arrangement without backing up security, bill discounting and giving accommodation and debiting of inter-bank cheques in the brokers' accounts, forging of bank receipts and unit certificates, cheating, fraud, collusion and nexus among the wrong does and so on.

Therefore, I must submit that the investigation must go on and most vigorously, because if these investigations are not followed up properly, the effect will be left in Parliament where my of the members have stated that a good number of Ministers and officials are under a cloud. Those who say these things wish that the Prime Minister should not have made that statement so that till the end of the JPC's work, those Ministers and Members of Parliament and officials continue to remain under a cloud. This would indeed be the disastrous for this country. This is nothing but disinformation, innuendo, half-truths and half-suggestions. The press may like this sort of sensational things and would like to give it a wide coverage. But these half-truths and snide remarks will have a more detrimental effect on the morale of our people than an attack by China or Pakistan or any other people who have already attacked us, because this is an internal treat to our

security. Those people want to continue with this disinformation campaign, this maligning and character assassination, thereby trying to keep every one in a defensive posture so that they may have their way. And what is their way? It is nothing but a ploy to hit at the liberalisation process started by the hon. Finance Minister most manfully, courageously and boldly.

Now Sir, as I mentioned earlier, I would like to quote a few sentences from an article entitled "Crisis and after: Reform more urgent than ever" written by Manu Shroff and published in The Economic Times:

The securities scandal has prompted some to argue that India is not ripe for financial liberalisation. Others have blamed the scandal on such liberalisation as has taken place. When the air is charged with suspicion, it is difficult to take a cool and collected view. And, despite the patent fact that the major institutions involved are in the public sector, the scandal is being used to denigrate privatisation moves. Policy makers are under tremendous pressure to devise methods to prevent recurrence of such irregularities and fraudulent practices and to ensure that the outstanding claims are settled. But they have even a more daunting task ahead of them, viz. to prevent the financial crisis from deflecting the course of economic reform".

I only hope that it is not such a diabolic attempt.

MR. CHAIRMAN: Please conclude.

SHRI K.P. SINGH DEO: I have not even stated my operative part.

MR. CHAIRMAN: I have been ringing the bell for the last ten minutes. Please sit down. I am calling Shri Nirmal Chatterjee.

SHRI K.P. SINGH DEO: I am hardly on my feet for ten minutes.

MR. CHAIRMAN: You cannot ignore, the Chair like this. Please sit down.

SHRI K.P. SINGH DEO: I am hardly on my feet for ten minutes.

MR. CHAIRMAN: You cannot ignore the Chair like this. Please sit down.

SHRI K.P. SINGH DEO: Then you will have to throw me out of the House.

MR. CHAIRMAN: Please conclude immediately.

SHRI K.P. SINGH DEO: That is what I am trying to do Sir. I am completing immediately. If you keep on ringing the bell, I cannot do it. You are diverting my attention. Anyway, I am concluding Sir.

Now, what has been the Government's role? It has acted promptly. A case was registered by CBI on 11.5.92. Janaki Raman Committee gave its first interim report on 2nd June, second one on 6th of July. Special Government Ordinance was issued on the 6th June. Legislation is to be taken up and a detailed investigation on the role of public sector undertakings also is to be taken up.

The most important thing of lasting values, which we much bear in mind is the robustness of our banking system, the credibility of our banks, the initiatives of Government, the capable and dynamic sum of bankers and our image abroad. What I referred to the image abroad is, there is an article in the Indian Express and I would like to quote as it will be more meaningful for Shri Nirmal Chatterjee and his colleagues. I quote:

"China gains as scam scares away investors -

Mostly engaged in the power generation and infrastructure sector, these companies are also listed on either of the two stock exchanges now functioning in mainland China the reopened Shanghai Stock Exchange and the new stock exchange in Shenzhen.

The Chinese companies also follow internationalised accounting practices which more in tune with global accounting procedures than their counterparts in India.

The current inflation rate in China is only 3 per cent compared to India's 12.5 per cent. Besides BZW Investment Management have reportedly characterised the Chinese stock markets as well integrated, allowing computerised transactions and the state exercising a highly regimented control on the listing of companies.

I only hope that he will not oppose modernisation and computerisation because China has much larger population than India and it has not thrown out anybody.

The growth of economy is our most essential thing. While aberrations should be chided, it should not be an obsession and hinderance to further progress. What can be done to emerge from the darkness of this scandal? It is a blot on the system. There is no two opinion about it. This is an opportunity to do something. The guilty must be punished, accountability and responsibility must be fixed, justice should be done to those who are wronged. We must rise above the game of shuttling blame from one quarter to another and grasp the nettle of the financial reforms now and carry on. It is now or never.

I would like to conclude by saying that two men looked out of prison bars one saw mud, the other stars. There is a silver lining for everything. For every dark cloud there is a silver lining. We must grasp the situation and bring in the much needed reforms.

I would here like to submit the role of Lokpal. This very House had passed the Lokpal Bill on 1st December, 1967. Because of corruption especially in banking and other governmental agencies, a common man cannot get redressal of his grievances. Parliament is not the only form, neither are

the law courts. Lokpal is a creature of the Administrative Reforms Committee of 1966 and it was passed here on the 1st of December, 1967 as Private Members' Bill moved by Shri P.K. Deo. Today, the Prime Minister of this country wants to even include himself. But I am sorry to say that in a State like Orissa, my own home State, the Lokpal was functioning but when it was about to inquire into three Ministerie, the Lokpal was dismissed by an ordinance. So, to root out corruption, an institution like Lokpal must be instituted as quickly as possible. I would like to congratulate the Prime Minister and the Finance Minister for taking action immediately agreeing with the sentiments of the House by ordering for a Joint Parliamentary Committee, which I hope will not delay the proceedings because the entire country, the banking system, politicians, bureaucrats, officials everyone is under a cloud. They must finish the work as quickly as possible. I would say that the ambit of JPC should be extended so that it can go into the root of corruption not up to 1990 but even further, if necessary.

Thank you very much for your cooperation, Sir.

SHRI NIRMAL KANTI CHATTERJEE
(Dumdum): Thank you, Sir, for calling me.

Sir, I will not go into details because of two reasons, firstly, enough details have already been stated and secondly because more details will come out via the JPC.

But, on the basis of the details already known, I want to raise a few questions and suggest a few things to the Finance Minister.

Sir, the list of crimes are so many. They need not be mentioned separately. One paper has correctly indicated that there was so much anarchy in the system that when you bought gold, you have delivered a consignment of what but in the books, the deal had probably been entered as a sale of something else. This is the kind of thing that had taken place. Forgery of documents had taken place. That is well known. Cheques against the name of one party have been deposited in the name of other party. When

the goods were not delivered as has been commented upon, but the promises have been made and the money collected. The bankers' receipts have been widely issued. If anybody or any group of people do this kind of things what would be the normal reaction of the rest of the society? The reaction would be that they should be punished. Is that really so?

If those who are guilty and who belong to a Club and have contacts at different places, then what is the response? The response is that they will issue a particular guideline. That is precisely what the Reserve Bank of India did on 26th July. When punishment was being called for, a guideline was issued. What I want to underline from this. I agree that there is something wrong in the system but perhaps we mean different things by this word. It is a system where such things can be perpetrated, if you belong to a Club, if you have contacts and if you discuss things on the Golf Links. This is what has happened. A question was asked as to when was this made known and not the other question when did it start. I remember that one day Dr. Singh stated in the House that he does not know really why stock prices behave in a particular manner. It was Dr. Singh speaking as an Economist indicating his ignorance about the special field. The Finance Minister was not speaking.

It was also known to the Finance Minister what was happening in the stocks market. In the Circular of the Reserve Bank of India, they mentioned those points which the Janakiraman Committee took pains to prove in the two interim reports.

What was going on on the ground was known to him though the economists were unaware of how things behaved in the stocks market. The question is since when it was started? Has the new economic policy any relationship with this kind of happening? I know it is my suspicion; I should not say I know. One of the reasons why Dr. Manmohan Singh is cheated is because he feels that the whole thing can very easily be related to his new economic policy. The point is not that it originated with it; let us distinguish it; the

origin has to be traced in handling our public sector almost not since independence but somewhat later. The arrangements were made. I am not interested in the individuals guilt as such. They are important. The individuals have to be punished. But something else is much more important.

The public sector was made an object of loot by the private sector. That is the meaning of this. The public sector always, whether it is industrial or in the financial sector, was allowed to be looted by some people in the private sector. That is a story after independence. Can anybody deny this?

We made references. We have made references today also. About NALCO, a reference was made. Imagine this that when all this is going on, the NALCO's fund was being invested at a rate which was lower than available even from other public sector banks. Why? Because by offering them to a particular type of bank which is dealing, which is sending those funds into the hands of the brokers, some deals must have been taking place. You see the figures; it has come in today's papers. There are seven or eight banks. The first two Andhra Banks - 20 per cent; the next offering of fund was 25 per cent. Why did they have to offer this fund at 20 per cent to Andhra Bank? Perhaps JPC will enquire into it. This is the way that the public sector has been made to behave throughout this decade; perhaps it was accentuated, accelerated in 1980s.

On the liberalisation that was taking place, I think, Dr. Manmohan Singh made another correct statement on another occasion. He threw the Congress manifesto on our face stating that you say this is due to IMF and the World Bank. Here how it had been mentioned in the manifesto. And you are absolutely right.

The process was going on which culminated as a statement in the election manifesto. What the IMF and the World Bank really did was that they forced the pace exactly as the present policy of the Government has forced the pace of this scam; it has accelerated and enlarged the

dimensions of the operation. That is what has been done. This has a resolution with this.

Am I talking sense, let us find out? What is Dr. Singh's own statement, that we have arrived at a stage when public sector is no longer the prime mover in the economy. Whom does it encourage?

THE MINISTER OF FINANCE: (Shri Manmohan Singh) : I do not recall it.

SHRI NIRMAL KANTI CHATTERJEE: You have said it straightaway. You did say when we questioned you. Anyway, if you did not say it, it is wonderful. But the whole economic policy is to replace public sector with the profit motive as the chief goal in life. It is this since 1980s. What else liberalisation means? What else competition means? That you run after profit, that is the by all and end all of all your activities. This psychology, this permissiveness, this atmosphere, this environment has been generated by the new economic policy. That has caught the banks also.

Repeatedly the Narasimhan Committee, the IMF and the World Bank and this Government have told that banks are inefficient. What is the proof of that inefficiency? You are not making enough profits. And the bankers, the Chairman and others tried to provide that they can make profit both for the banking sector and for themselves. That is the story.

We started by thanking Shri Jaswant Singh. Why do you start really thanking him? In another forum, I said, let us thank Shri Harshad Mehta, it is he who has ripped open the civil society that you are trying to generate in our country. What is your policy? What is the new economic policy? You are afraid, the foreign banks have been mentioned, not in the first interim report but in the second interim report. It was unavoidable and yet there is fear in the mind of the Government that to see that they are not rubbed rather severely. Why? It is the legitimate deduction

from their approach to save the Indian economy. We have to get foreign funds, that is the alternative, that they are contemplating. If foreign banks have rubbed, if the veil over the foreign banks has turned apart, foreign funds may not come. This is how it is related with the new economic policy. The approach, which is the public sector also, where will they invest their funds. This power finance corporation or these people.

They have allowed freedom so long as they are able to earn profits. Old ideas during the Nehruvian days, that our economic activity would be governed by socially infirm purposes, is given a go bye. Is this the climate? Shri Mani Shankar Aiyer seems to be the champion of those values. Does he feel today that those are the values which are being pursued by the present economic policy? Anybody. Will answer in the negative. This really is the lesson, which we should learn. Should we, in our policies, continue to be driven by the goal of maximisation of profit, depending on the private sector? With that private sector which has enriched itself tremendously through loot of the public sector.

Let us not forget that the public sector did not only mean the socialistic pattern, it also meant building up the private sector and that was at the cost of the public sector.

What else has this scam done? This has not been mentioned or underlined. At one stroke, it has been demonstrated what we from the left are repeatedly insisting that even the revenue deficit can be covered if the tax measures are properly implemented. We are not quarrelling. You have reduced the rate to 40 per cent, okay, but collect it. By one stroke Harshad Mehta has indicated how much is escaping the net of taxes, how much you are charging. Why is it that such a palace where he was living - it was known to all was not taxed? How much tax was he paying? Rs. 3 crores, Rs. 4 crores, Rs. 5 crores of additional direct tax could be easily collected. This has been indicated by this scam. If that is so, then your entire thesis of depending on indirect taxes, reduction of customs duty etc., and not depending on direct taxes blows out.

That is the revenue aspect. The other aspect is the Government's responsibility, particularly during the eighties. Are you not responsible for the fact that all these can be done in a manner away from the critical eyes of Parliament? Who had done that? Again and again we have raised the issue, and again and again you have responded to it by introducing secrecy clauses in all your banking Acts. We are not allowed to know, what is the maximum amount issued by cheque to any one individual, what is his name, what is the bank concerned.

Why? Because the private sector activity is always done in secrecy. It is always one upman ship, you do not want one to be detected by the other.

We have moved away from very far from what we started with. When we say that your policies are responsible, during the course of the eighties, you have introduced these amendments in all your Acts. You were taking your steps for liberalisation, not today. Not today. It was in the early eighties. And independently of that, - independently of that - the whole course of development of strengthening the public sector and strengthening the private sector through your activities was leading us to this inevitable position.

Shri Singh mentioned this. He wants our industrialists to be integrated with the global scene. He thinks that our industrialists have become mature enough. This scam proves that. Our capitalists, do not move for the tortuous path of industrialisation. They shift to the service sector; they shift to the financial sector because every day you get a two per cent return. Why take the trouble? There are workers, there are trade unions, there are battles, and there are management problems. This is still the quality of the Indian industrialist about whom he takes pride and says that they are a match for the multinational abroad. And what is the latest news? After the scam, after the non-industrialists like Harshad Mehta have tasted it, the Birlas are moving into the banking system. The latest report is that the industrialists now have seen that the financial sector is much

more profitable, much more quick in their returns and therefore they are moving into those sectors. The attempt is there.

Sir, I charge the Government that this scam not only restrict itself to the share market of a bank but it is also in the public sector enterprises, whose shares were sold. I have a list as to how many shares of the public sector enterprises were sold. Some details have come out in the Janakiraman Committee report. My charge is that the Ministries are involved not in the same sense as Shri George has raised it. I have got a list. I do not want to take your time. A Company whose paid up capital is Rs. 65 crore has earned the profit of Rs. 150 crore and its share is being sold at the past price. You have collected Rs. 3,000 crore in the Budget last year by selling shares of the public sector enterprises. If those shares were directly sold, can you imagine how much could you have collected? There is now a ratio called 'P' ratio. We are shocked that the 'P' ratio in the share market now stands at 55, which is almost a world record. The price earning ratio at which the shares were sold was only eight. All of them were profitable companies. When the share market indicates 55, it takes into account losing companies as well as profitable companies. The current value of the shares, which were sold often in the market, as per the estimate, would have a Price Earning Ratio of 250. Instead of collecting Rs. 3,000 crore through this, you could have collected not only Rs. 6000 crore but you could have wiped out the entire revenue budget and fiscal deficit. The charge is not against individuals. The charge is against the Government for creating a particular type of atmosphere where all these can be done. I assert that it is a part of the scam that these shares were sold in this manner. Some details are there in the Janakiram Committee report. The rest of the details will perhaps emerge in the . What the lesson to be learnt from this is that it is not Harshad Mehta alone, as an individual. But collectively the policy, the approach that you are adopting is generating this kind of scam. Who is responsible for raising these shares? Is it Harshad Mehta? Is it Reserve Bank of India? Who is responsible for defrauding our

revenue to the extent of Rs. 10,000 crore through sale at the price earning ratio of eight only? Is this scam which is less than that? Are you not responsible for this?

Since 1980s we are all reporting through various committees that bank accounts are not reconciled to the extent of more than one lakh crore of rupees. The accounts are not reconciled. You incite the greed in any banker which is there prevalent, as enunciated by your policies. We have been drawing the attention of the Government to this non-reconciliation of the banking system. But not acting on that will the Government be not held criminally liable?

MR. CHAIRMAN: Please conclude.

SHRI NIRMAL KANTI CHATTERJEE: I am concluding with two simple comments. The references have been made to the Finance Secretary do if a Member of the Planning Commission fixes up an appointment with him? Can he deny that? (Interruption). I am giving an example. Long time back when Shri Vishwanath Pratap Singh was the Finance Minister, he made a rule that no individual industrialist will be allowed to enter in his chamber. One day, I had an appointment with him. To my surprise, I was kept waiting because one industrialist was meeting him. When I got my chance, I asked him you told me that you do not allow. His answer was I could not deny this man because he was a Member of Parliament and he was asserting his right. (Interruptions). He tried to generate this kind of atmosphere. Has the Finance Minister succeeded in generating this kind of atmosphere? (Interruptions).

MR. CHAIRMAN: Please conclude.

SHRI NIRMAL KANTI CHATTERJEE: I checked with him if he remembers that. But he

MR. CHAIRMAN: Hereafter, nothing is going one record.

(Interruptions)

MR. CHAIRMAN: You have asked for only 15 minutes. I have you more than 25 minutes.

SHRI NIRMAL KANTI CHATTERJEE: I think, your clock is not correct.

(Interruptions)

SHRI PRITHVIRAJ D. CHAVAN (Karad): Mr. Chairman, Sir, this debate on the Security Scam has been going on for almost a month. This has rocked the nation to its very foundations. It is, perhaps, the biggest scandal in this country and perhaps the biggest scandal in the world.

It has shattered the credibility of Indian banking system, our capital market, the regulatory role of our Central Bank - in fact it has put a big question mark on the maturity of India's financial sector.

The fraud is so widespread that all types of financial institutions are involved either as wrong-doers or as victims....(interruptions).

MR. CHAIRMAN: One minute please. We extend the time by one hour more.

SHRI RAM VILAS PASWAN: Sir, at 7.30, the Deputy Speaker has invited us.

MR. CHAIRMAN: It is to be concluded today and the time is extended by one hour more.

SHRI HARI KISHORE SINGH: Sir, the hon. Deputy Speaker has very cordially invited us. Do you want us not to honour his invitation?

MR. CHAIRMAN: For M.Ps., the first priority is parliament work. (Translation)

SHRI RAM VILAS PASWAN (Rosera): Mr. Chairman Sir, the hon. Deputy Speaker has invited us to a Dinner at 7.30 P.M. I would urge that we should inform him that the House would sit till 8 P.M.

[English]

SHRI PRITHVIRAJ D. CHAVAN: Sir, there are private banks involved, there are State-owned banks, there are cooperative banks, there are foreign banks, Mutual Funds, non banking financial institutions, private finance companies and even public sector undertakings. But the bottom line is that a few criminals in collusions with bankers and perhaps some bureaucrats, have stolen hundreds of crores from ordinary unsuspecting citizens.

Not only the people in this country but the entire international community is eagerly waiting to see the Government's response and for the ability of this nation and its political system to recover the loot, punish the guilty and to take effective measures.

The question that is uppermost in the minds of the people of India is - "How could it happen" "What were the reasons for such a massive failure of regulatory mechanism?"

The opposition's charge that Government's new economic policies of liberalisation and deregulation are responsible is not sustainable. On the contrary, it was the delay in reforming the financial sector in time that caused it.

Reforms are urgently needed. They are long overdue. We have to reform our financial institutions. There is need to discipline the capital market. There is need to grant more autonomy, more authority to SEBI. There is need for laws on insider trading, independent audits and stricter enforcement of laws we have.

If you look at the whole affair dispassionately, above partisan considerations, you will realise that the origin of this scandal goes back to the unstable political situation which emerged after the 1989 elections. It is not my intention to blame any political party or any Opposition leader. People voted in a particular way, we cannot help it. But the fact remains that the two non-Congress governments which ruled in 1990 and 1991 were unfortunately preoccupied

with their survival on a day-to-day basis. Nation's attention was diverted from development policies and economy to Mandal and Mandir. Disturbed social conditions forced the economy on the backburner. Nobody was minding the grove. And conditions became ripe for the famous 'Broker-Banker-Bureaucratic' nexus to take advantage of this paralysis of governance.

When the criminals realised that on account of obsolete procedures and delays in reconciliation, the system could be breached, they started bending the rules. And when no one found out, because the Governments were too busy to act, they became bolder, and ultimately, having tasted the blood, went on to cheat the nation on an unprecedented scale.

There is an important lesson here. Whenever there will be grave political instability at the Centre, there will be a strong possibility of such scams recurring.

Our economic policies did certainly not cause this scam. However, they strained the system to a breaking point. This should have been anticipated by the RBI and the Finance Ministry.

Our Government had to undertake an immediate fire-fighting operation. Some decisions were inevitable - decisions like tight money policy with floating interest rates, higher SLR/CRR requirements, higher margin money on Letters of Credit. All these resulted in extreme liquidity crunch. There was an increased demand for securities, Call money rates shot up to 60 per cent. The activity in the money market had heated up. The Government also raised the coupon rate on certain securities. I submit that this coupon rate issue is an issue which the J.P.C. will have to look into. This made the banks dump low yield securities in favour of higher-yielding securities. The volume of transactions was bound to increase. This figure off nine lakh crores, that has been said had to increase to that level. The call money rates had gone so high that banks started using the subterfuge of ready forward and buy-back deals in securities to raise cheaper call money. The

Banker's Receipts were being used as counter-felt currency.

My humble suggestion is that the Public Deptt. office at R.B.I. was not ready for such spurt in securities transactions and reconciliation lagged. The R.B.I. should have really acted at that time they should have enhanced the PDO operation, automated it broken the stranglehold of unions. I will have to be done. I am sure the Government will take suitable action in this regard.

I submit that the malpractices and irregularities had started in early 1990 but it was our Government which finally blew the whistle. Although we all agree that it should have happened earlier, the credit must be given for having unearthed the scandal.
(Interruptions)

SHRI RIKANTA JENA : You must give credit for that to the journalist, Sucheta - Dalal, who is responsible for it (Interruptions)

SHRI PRITHVIRAJ D. CHAVAN: Please listen to me.

The next important question is - after having discovered the scam, did the Government act promptly - and the answer is a resounding Yes. I will not recount here all that has been done because the House has been kept fully informed of the position and what the Government has done in this regard. But every step, from Janakiraman Committee reports composition and constitution of special courts, CBI enquiries arrests and raids, and now the J.P.C. - all these clearly show that the Narasimha Rao Government has been sincere and how seriously it has been dealing with the subject.

Is there anybody trying to stall the probe? It is but natural that those involved will try certainly to obstruct justice. But the Prime Minister has repeatedly assured the House on a number of occasions, here and outside, that no one whatever high position he may be occupying, will be spared if found guilty and

Sir, the Deposit Insurance Corporation has paid upto Rs. 30,000 and nearly 90 per cent of the depositors have been paid upto Rs. 30,000. But what about the remaining depositors who have deposits over the Rs. 30,000 limit? Much of these moneys are trust funds. For example, the Mathadi Kamgars of Bombay most of whom come from the area of operation of this bank, had lakhs and lakhs this is their provident fund money, gratuity money etc. There are deposits from the Karad and Kolhapur municipalities. They have deposits of more than Rs. 30,000. They are not getting back anything. I make an earnest appeal to the Government to look into this and see that these small employees who deposited their life's savings are not put to loss.

Sir, on the 11th of July, the Doordarshan, in its evening news bulletin, announced that the Bank of Karad is being taken over and the Reserve Bank of India has given permission for the take-over. We were all very happy to hear this news. It was said that the R.B.I. has given permission and the Bank of India will be taking it over. That News Bulletin further said - I have got a report from that News Bulletin - that now the uncertainty faced by two lakh depositors is over. The employees distributed sweets, the depositors congratulated the Government. Suddenly the next day we find that it is not so. So I will request the Finance Minister to please look at these small people who have lost their money for no fault of theirs. I personally know these people who have invested Rs. 50,000/- or so. They are directly hurt by this scam. Their money must be returned. You must find a way out to give them their money. I wish that the Finance Minister will give a categorical assurance to these people in his reply. I hope that the Doordarshan's role and the RBI's role will also be investigated, as to how there is a tremendous lack of communication between the Ministry of Finance and the Reserve Bank of India. (Interruptions)..An amount of Rs. 30,000/- has already been returned, but we are worried about the remaining larger amount. I have an assurance from the Finance

Minister that he is looking at it very sympathetically and I hope some solution will come out so that all the money can be returned.

Sir, I have some suggestions. I feel that there is a need to set up more benches of the Special Courts so that justice is done immediately and stalling tactics are not used by these criminals. The SEBI needs to be given more authority. We have already had one Bill, but some more authority has to be given. There is a strong legislation required against the insider trading. Insider trading is common throughout the Western world, but there are strong laws in the United States of America and other Western countries. We have no law for insider trading. Then, there is also a need to look at the conflict of interest situation, disclosure of assets and relations working in business establishments, banks, foreign banks by everybody, whether bureaucrats, parliamentarians or Ministers. Everybody should disclose his assets and the Parliament will have to look at it very seriously.

Then, Sir, some laws are required to be enacted to make the evasion of taxes a criminal offence like in the western countries. We have to amend the service rules of the bureaucrats to stop them from joining dubious financial institutions immediately after retirement. The RBI needs reforming; there has to be automation on a large scale, there has to be a data communication net work which links up every bank in the country with a satellite network, so that the reconciliation takes not months as it does now, but only seconds. Only then, we can think of competing internationally. The auditors who are auditing the institutions which are under cloud should be suspended for any further Government work.

There is also a need to list all the public sector undertaking shares on the stock exchange immediately. We all suspect a major fraud and a major problem in the disinvestment of public sector units. This needs to be looked into and I hope the JPC's terms of reference will certainly focus on and the real situation will come out. We need

transparency in financial reporting, balance-sheets of the banks, non-banking institutions and only then can we really judge what is going on in these institutions. Special audits and automatic enforcement on evasions have to be brought in into the financial system. We have taken some initial steps by increasing the capital base of all these financial institutions as per the BIS recommendations. The risk based assets are to be made 8 percent of the deposits. It is a welcome step.

There is also another worry about the take-over of the various small banks by large business houses. We have a number of small banks like Sangli Bank in my area which are threatened. The House knows about small banks which are being taken over by large business houses. This will negate the whole concept of nationalisation that Indiraji did. One needs to very seriously look into the whole affair. Another point, which has been raised time and again in this House and outside is about the parliamentary control over banks and other financial institutions. The time has come for it and am sure the JPC will look at it. The Narasimhan Committee has also recommended it. The public sector banks did revolutionise the Indian financial sector, but they also have some problems in terms of controlled interest rates, high SLR/CLR requirements, directed credit for social reasons, loan waivers, public sector work culture, outdated labour laws and opposition to modernisation. These things have virtually made the Indian banking system uncompetitive and unfit for global competition.

There is an allegation and insinuation against some officials turned down. It is very unfair. One particular instance regarding a meeting when certain officials of Finance Ministry have given interview to certain brokers. We all know such a thing should be avoided. I maintain that there is no way for a Finance Ministry official or any official of the government of India to know whether a person is going to be booked for some criminal offence one month or two months. If you create this kind of atmosphere, the entire bureaucracy will be demoralised. Officials will stop meeting private citizens.

[Sh. Prithviraj D. Chavan]

Only the officials will meet in any official meetings. The bureaucracy will close the doors to any non-official citizens.

There is also unfortunate reference time and again during all these debates to ex-World Bank employees. It is very unfortunate some citizens of India have gone and worked in World Bank. When they come back, they join the Government with rich experience. Institutions should not be made against them. If the House feels that working in World Bank is a crime, you can make a legislation to debar it but we cannot adopt double standards. It is very unfair. If the House feels that India need not remain member of World Bank, they are welcome to do it. But we are members of World Bank. People go there on deputation and gain rich experience they come back and help the country. There is nothing wrong. This insinuation must stop.

One point which the hon. Member Shri George Fernandes made in his excellent presentation to the House. I congratulate him for that, he has done lot of work. He spoke about the mis-use of BRs. Bankers receipt is an instrument which is invented in India. It was invented only because we do not have a modern communication system. Physically it is impossible for securities to be taken from one place to other place because they could be lying at, say Calcutta or Bombay. During time, they issue receipts. But the problem is not BRs. But the problem is that the laws are broken. Suppose today I write a cheque for Rs. 100/- without balance and somebody pays. It is not a problem. It is a cheque facility. A system like BR has to be regulated properly. If anybody breaks a law, he has to be hauled for it. We have heard cases of Bank of Karad, where SGL account of Bank of Karad was overdrawn. They wrote SGLs when the securities were not available. Even if an ordinary citizen writes a cheque, if it bounces, he is arrested. Why was not this done in case of Bank of Karad? This has to be looked into.

Although inter-connected, there are three distinct dimensions to this whole

scandal. First is, of course, the blatant manipulation of the stock market by a few brokers. The second is bank fraud. PSU disinvestment and deposits is the third one.

All these things are inter-connected but they have to be separately looked at and separate regulatory mechanism will have to be brought in.

In conclusion, the political will of the Parliament, and all the political parties, going beyond partisan politics, will have to be summoned, if we want to clean the system and restore confidence in India's financial sector. The JPC has an historic task ahead to identify and punish the guilty and to suggest reform. It has to play its role not only as an investigative agency but also as a reforms commission. And I am sure Parliament and the JPC will rise to the occasion.

[Translation]

SHRI RABI RAY (Kendrapara): Mr. Chairman Sir, I thank you for giving me an opportunity to speak. I would not like to repeat the views expressed by the people who spoke prior to me. We have a serious objection, and that is the accountability of the Executive, the main objective of the Parliament has not been fulfilled. Mr. Chairman, Sir, Hon. Finance Minister who has got love and respect for the MPs is present here. I am discussing this question because the people of our country say that bungling of such enormous proportions has never taken place in this country. Therefore, I would like to submit that some arguments have been given and Shri Manmohan Singh should stand and reveal the truth in the House. I can say that he is to be held responsible for the whole scandal since he is the Finance Minister. I expected that he would resign from his post after the scandal because he has not been nurtured in congress culture and the example of Shri Lal Bahadur Shastri to before him.

Mr. Chairman, he would have done a great service to the democratic process of this country by resigning since he is accountable for the scandal, being the finance

[Sh. Rabi Ray]

Minister of the country. But it has not been done the democratic process of the country has received a corresponding set back. Therefore, I think it is not the dignity of the Finance Minister that he defended RBI Governor with various arguments while he should have been suspended.

I think all the hon. Members of the House will agree with me that the Parliamentary democracy has not become as strong in our country as it should have become. It has rather become weak.

MR. CHAIRMAN: Sir, I would like to say that many people have been against Nehru's policy from the very beginning. I would like to relate one incident. One Shri Mudgal was the Member of Parliament during his time. His name had figured in a scandal. He had received commission. When the charge was proved Shri Jawahar Lal Nehru brought a motion to terminate him from his Membership of the House. It has happened in this House. I am saying all this just to avoid repetition of what Shri Nirmal ji has said. Shri Manmohan Singh has introduced a new liberal economic policy in his budget of 1991-92. Sir, I would like to say that Government of India propogated consumerism widely and people were asked to adopt consumerism and consumerist culture.

I would like to cite an example. In the Economic Survey of 91-92 a systematic strategy has been laid down to propagate Consumerism, Consumerist Culture among the people by the Government of India. This led to Harshad Mehta scandal. Mr. Chairman, Sir, I request you and Shri Mani Shankar Aiyar to listen me.

[English]

* In order to give the tax-evaders the opportunity, the Government announced a scheme under which any person could make a deposit in the National Housing Bank on or before the 30th November, 1991. The amounts deposited would be

provided complete immunity and enquiry of investigation. Subsequently, the operation of the scheme was extended to the end of January 1992 to cut down the delay in the disposal of applications by the Settlement Commissioner; the provision for objecting to the admission of applications was deleted."

[Translation]

MR. CHAIRMAN: Sir, you can see how the Government has supported consumerism, and luxurious way of living of the rich people. I would like to say that today 4 boys who were bonded labourers, have been freed. Their names are: Dahru Oroan 10 years, Vinod Mehta 11 years, Shagun Ram 10 years, Shambhu Chero 13 years.

They were working in a carpet loom upto 31st July. They have been freed. Similarly, in Mirzapur and Bhadoi in Uttar Pradesh 4 children have been freed out of the 1 lakh 50 thousand children working as bonded labourers. I would like to know the relation between 1 lakh 50 thousand and other crores of the children who are working as bonded labourers and Harshad Mehta on whom the discussion is going on. I would like to say that it was the outcome of the Government's support to the spread of consumerism and luxury. I would like to say that we have to keep these things also in mind.

MR. CHAIRMAN: Sir, a rail accident had taken place in Shri Lal Bahadur Shastri's time. 500 people were killed in that accident. He resigned owning the responsibility. After that when I was not the member of the House another Railway Minister had also pretended to resign. But actually he did not resign. He told a later that the Prime Minister Shri Rajiv Gandhi had asked him not to resign so he was not resigning. Shri Basudeb Acharia was saying that 800 people had died in the Rail accident. I donot want to name him. He is known to everyone. He is still a cabinet Minister. If we want the democracy to flourish we must present an ideal before the country. We can serve democracy only by following

the foot steps of great men. The Finance Minister has failed to provide that kind of leadership to the country. That is why I said that democracy has weakened.

Mr. Chairman, Sir, on 30th April Shri Manmohan Singh stated in this House.

[English]

I am not going to lose my seat so far as this scam is concerned.

[Translation]

This is only because of it I sought his resignation and dismissal of R.B.I. Governor. It has not link with J.P.C. J.P.C. has been announced. It is being constituted. People are happy perhaps they think that the J.P.C. is a solution to all the problems. But we are seeking Shri Singh's resignation out of love. We were hoping that we would resign suo moto but he did not resign. So I am forced to say these things. You still have a time to resign and to dismiss R.B.I. Governor and thus he can set an example. (Interruptions)

Shri George is saying that it will be right if dismissal of the Governor and his resignation come simultaneously.

I would like to make a point about the present Banking System. I would like to know Government's reaction to Inter Bank Reconciliation statement of 1991 of Rs. 2 Lakh 31 thousand crore presented by Parliamentary Committee on Government Assurances. Balance sheet shows that in 1991-92 Canara Bank earned profit of Rs. 156 crore.

[English]

The Canara Bank failed to take into account the figures of as many as 554 branches which remained un-audited.

[Translation]

It is true that the bank had earned profit,

but it is also true that its 554 branches remained un-audited. Canara Bank has not been audited. Ministry of Finance and R.B.I. do not know the real position.

[English]

"The Bank of Baroda with a stronger bottom-line-profit 95 crores rupees - has 915 unaudited branches while the smaller Bank of Hyderabad has 262 unaudited branches with only the management certifying the returns. The Indian overseas Bank - profit 9 crore rupees - has failed to audit the accounts of 492 branches and offices while the Central Bank whose profits are placed at 3049 crore rupees has a massive 1495 unaudited branches.

Calcutta's big three have their own tale of glory. The UCO Bank whose losses for 91-92 are 2098 crore rupees and the accumulated losses of 119 crore rupees has 852 branches unaudited while the United Bank of India - profit 668 crore rupees has not taken accounts of 660 branches. They are unaudited.

The Allahabad Bank with a better profits of 28 crore rupees leads the pack with 950 unaudited branches."

The point to make is, whether it is the unaudited Central Bank of Shri Margabandhu or UCO Bank, the annual reports are equally contaminated. For example, consider the case of the Bank of Baroda. Certainly it is one of the best, which has reported a net profit of Rs. 95 crore for the year ended 31st March, 1992, up from Rs. 56.66 crore. The bank too, like its other nationalised counterparts, does not quite believe in balancing its books or auditing its accounts before announcing its profits.

I have been going through the various audited accounts of the nationalised banks

for the year ended 31st March, 1992 which have been published in various newspapers. I found that certain audit notes/notes-on-account are common in almost all the published accounts of the banks. On enquiry I found that these notes have been in the audited accounts for last so many years. On sample basis I am reproducing the audit note/notes-on-accounts of one large, one medium, one small and one SBI Group banks, appearing on the audited published accounts for the year ended 31st March, 1992. These audit/account-notes are significant in view of the Stock-Bank-Scam as well as daily reported frauds in the nationalised banks, as per Government statistics the frauds reported between 1986-91 were 9496. These account notes also give the sorry state of accounts of the nationalised banks.

Bank of Baroda (Deposits - Rs. 19,049 crore)

"Balancing of books in certain branches of the Bank, reconciliation of control accounts with subsidiary ledgers\schedules (inter-alia pertaining to deposits, drafts, advances, suspense accounts, clearing differences etc.) and reconciliation of accounts with other banks (including Reserve Bank of India, State Bank of India and foreign banks) continue to be in progress, bank has old debit and credit balances in various heads of accounts including balances in foreign accounts, such as inter-branch transactions, drafts paid without advice, drafts payable, other inter-branch accounts, balances pertaining to dividend/interest/refund orders paid/ payable which are being.."

[Translation]

Mr. Chairman, Sir, the same type of thing which I have read is given to Bank of Baroda every year. United Bank of India (Deposit 5369 crore) balancing book and format one of same type.

[English]

"Inter-bank reconciliation including Reserve Bank of India, inter-branch reconciliation including Demand Drafts payable, Drafts paid ex-advice, items in transit, Clearing of old items in suspense account etc..."

State Bank of Hyderabad (Deposits Rs. 3178 crore)

"From the aforesaid facts may I ask the following questions in respect of each of the Nationalised banks and SBI and its subsidiaries. In reply the figures of each bank may be split in respect of (a) Branches - audited, and (b) Branches - not audited separately.

(a) the gross amounts (debit and credit amounts separately stated) involved in the accounts to which the aforesaid audit/account notes relate.

(b) date upto which the accounts referred to in audit/account-notes aforesaid have been reconciled cleared and/or adjusted."

Gross amounts adjusted to revenue account (debit and credit separately) in the last five years (yearwise figures) on such reconciliations of such accounts referred to above.

What action the RBI and/or the Finance Ministry have taken from time to time in the last five years as and when annual accounts were received with such audit/account notes.

Has the RBI or Government fixed a target date to get the aforesaid accounts set right?

Are the newspapers correct in estimating the amount involved in such irregular accounts at Rs. 10 thousand crore?

On going through the audited accounts

[Sh. Rabi Ray]

of the aforesaid banks I also find that about 40 per cent of the branches of such banks are not audited. In this connection may I ask the following questions?

The quantum of deposits, advances and interest involved in each bank in respect of its unaudited branches for the year ended 31st March, 1992.

Why these branches are not audited when so much of irregularities are being reported by auditors and frauds officially reported every year.

In view of the scam and various irregularities reported in Press and otherwise, is the Government thinking too get each and every branch of a bank audited for the year ended 31st March, 1993 and onwards?

On going through these published audited accounts I find that in almost all the banks the following note appears in respect of bad and doubtful advances.,

"Advances include amounts due from industrial units which have been taken over nationalised under Central/State enactments, from sick/weak units and from defaulting borrowers. These have been considered recoverable by the bank after taking into account appeals/petitions against awardees/ad hoc payments received in certain cases, cases pending before the Board for Industrial and Financial Reconstruction, the existing or proposed rehabilitation/nursing programmes, estimated value of existing and prospective securities, worth of the guarantors and borrowers, legal proceedings against them, claims (lodged or to be lodged) available under various guarantee schemes of the Government and prospects of recovery".

In this connection may I ask the following questions in respect of each of the bank?

Amount of advances involved as on 31.3.1992.

Value of security held in respect of such

advances on 31.3.1992 as estimated by the bank management giving break up of (a) land and buildings, sheds etc. (b) plant and machinery, (c) tools and stores, (d) raw materials (e) finished goods (f) book debts and (g) any other security held.

[Translation]

I have brought to your notice that how after recommendation of Parliament 400-500 branches of one Bank have not been unaudited. I have told you the real position of even those Banks which have been audited. In this context, I would like to tell you that all this happened due to the consumerism. I am confident that Shri Manmohan Singh would agree with Shri Indrajit Gupta who raised this question. It was necessary for the Governor of R.B.I. to make a statement when the discussion was going on in the House. The Statesman reports from Bombay, I read it out:

[English]

"The Reserve Bank of India Governor, Mr. S. Venkitaramanan, today said the leading management consultant firm, A.F.Ferguson and Company, had been asked to assist an internal task force set up by RBI to strengthen its functioning in view of the vastly changed economic scene, reports UNI.

Mr. Venkitaramanan said it had become imperative to take stock of the latest situation in the wake of the Government's new economic reform and liberalisation programme, to better regulate the banking system and focus the future role of RBI.

It was for this purpose that the internal task force, consisting of 24 officers., was set up a year ago..."

[Translation]

The Governor of R.B.I. has dared to do this without permission of the Parliament, which also indicates consumerism. The hon. Minister of Finance should throw light on this issue. I am coming to the last point.

It has caused severe damage to the credibility of the whole financial sector. Its implications and ramifications are far deeper and wider and transcend the narrow procedural/criminal aspects being investigated by CBI/RBI. It is not a simple 'systems failure'. The MOF and RBI cannot escape direct responsibility. The question of political accountability is most important. The search light of enquiry needs to be focussed on the informal power structures for the sake of promoting purity and probity in public life. The role played by the deceptive milieu of the NEP in misleading the small investor needs to be investigated.

If we take this background into account and if we wish to pursue all these issues and aspects thoroughly then the only effective way of accomplishing this objective is to set up an open high level judicial enquiry which has to be conducted by a sitting Judge of the Supreme Court who is of patent eminence and standing. It is just not possible to activate this by means of low level, narrow-focussed investigations subject to the administrative control of the executive and prejudiced by self-absolving pronouncements of the chief actors.

[Translation]

Mr. Chairman, Sir, I would like to say in the end that in the opinion of the House as it has been related in the House today, that there are no charges against Shri Madhavan and it seems to us that the Government of India is hatching conspiracy against him by collecting false charges. Now a J. P. C. is likely to be constituted by this House. It is my suggestion that there should be no deliberate conspiracy against a good, diligent and honest officer like Madhavan by Government of India. A public opinion has been formed throughout the country that Madhavan is an honest person and is inquiring into the entire episode honestly. But the Government does not want to allow him to work honestly. I suggest the Government that the services of Madhavan should be retained so that J.P.C. may function properly. That is what I like to

[English]

SHRI CHETAN P.S. CHAUHAN (Amroha): Mr. Chairman, Sir, I thank Shri Jaswant Singh for initiating the debate on this scandal, share scandal, the scam which has cornered the attention of everybody in the last three months.

The credibility of the banks has been lost. This is one of the biggest scandals in the history of Indian share market and according to some, may be this is the biggest scandal in the world. People have lost their hard-earned savings; as I have said earlier, the banks have lost their credibility. Clever managers and executives working in the banks and financial institutions with their dubious schemes have collected crores of rupees. The rules, procedures and practices of the banks have been flouted. With the shoddy deals amongst the bankers and brokers, funds have been misused and misappropriated. The BSE index jumped from 1209 in April 1991 to 438. The turnover increased from Rs. 60,000 crore to Rs. 2,40,000 crores this year. The *modus operandi* has been mostly the Bankers' Receipts and the Securities General Ledgers.

Time and again, the Finance Minister has been saying that it is the breakdown of the system. Having worked in the banking industry for over 20 years, I do not agree with the Finance Minister because the securities in the transactions which take place are maintained by the Public Debt Office of the Reserve Bank of India. All transactions regarding the securities are recorded in the Securities General Ledger and the Bankers Receipts issued by the banks are also recorded. The settlement between the banks is unusually done between 15 days and 30 days. Shri Harshad Mehta took full advantage of this. That is the reason crores of rupees have been utilised. Knowing the system of the RBI, and, as I said with the experience of the bank, we submit weekly statements, fortnightly statements, monthly statements and quarterly statements to the Reserve Bank of India. The Reserve Bank of India, I

must also say, the departments, are quite efficient. In certain cases, when the statements are not submitted, they give a grace of about 15 days and we get a notice of 15 days. The notices usually are sent to the higher authorities. In case the action is not taken by the branch or the zonal office, the notices are sent to the head offices, to the chairmen and action is immediately taken. The responsibility and the supervision of the banks and the banking transactions are all done by the Reserve Bank of India. As such, I will hold the Reserve Bank of India solely responsible for this scam. The Reserve bank of India definitely had knowledge about the scam. That is the reason way back in July, 1991, a circular was issued by the RBI. I will read out the warning given by the RBI concerning the use of BRs:

"It has been our intention to ensure that the banks do not undertake sale transactions in securities without actually holding them and do not issue BRs unless they are in a position to deliver the securities within a reasonable time. contrary to our above expectation, banks have been issuing BRs freely (without regard to whether they will be in a position to deliver the securities there against within a reasonable time) and against an initial outstanding BR, a series of transactions are put through by further issue of BRs and in the final analysis only the BRs are exchanged and no security is delivered."

It goes on. But with this I only want to say that the RBI was very much aware about the unhealthy practice which was going on.

Subsequently, when the budget was presented here, the SLR, which used to be around 39 per cent, was reduced. Once this amount was reduced, the SLR was reduced to 35 per cent and now to 30 per cent. The banks had surplus money. Once the banks had surplus money, the surplus money had to be invested. The RBI, the Finance Ministry and the other departments should have definitely planned as to where these funds

would be invested by the banks because even if the banks advanced the loans, they have certain limitations and the limitations of the loans cannot be increased overnight.

Sir, by the excessive use of misuse of BR, the amount involved is Rs. 1417.12 crores. With this, the credibility has also been lost, as I said. Some time back the LCs issued by the Indian banks were not accepted in the foreign banks in foreign countries and that is the kind of situation where we have come today. The ordinary investors outside India have lost confidence in the banking system and banking industry and as a result, a lot of NRIs have started withdrawing money from the banking system. Thing have gone to such an extent that the National Housing Bank which is wholly-owned subsidiary of the Reserve Bank of India failed to honour the commitments or the cheques which were presented and the bills also could not be paid on a particular day. Sir, we cannot forget that, from the records which are available and the information that we have, the Reserve bank of India or the Finance Ministry has taken action against the senior executives of the banks and brokers. But no action has been taken against any official of the Reserve Bank of India and the bureaucrats. I have a list of about 17 people. They are senior bureaucrats connected with finance and the children of some of those who are working in the banks are employed in foreign banks. I would say that there are doubts as to whether because of these links of the bureaucrats with the foreign banks and with their kith and kin employed in banks, some important confidential reports have been leaked out. There has been a mention that the coupon rates were increased and suddenly, overnight, the foreign banks came into the market and bought a lot of securities as a result of which they made a lot of money. I suggest that a separate regulation should be framed to prevent influence and confidential information should not be leaked out in future.

Coming to the SLR, as I have said, deposits are nearly Rs. 150 lakh crores in the banking sector. Now, having seen that SLR

was reduced and additional funds were available to the banks, no plan was formulated. My senior Member, Atalji, when he was speaking on the Budget, mentioned here that liberalisation is being brought and concessions are being given. But is this system and the people ready to accept liberalisation? And this is one of the reasons that the scam has taken place. This kind of surplus money which was available in the banks had to be invested and through the connivance of the brokers, this money has been misutilised.

Another very serious thing that has been mentioned here is the Portfolio Management Scheme. Under the portfolio management scheme of public sector undertakings, my information is that nearly Rs. 40,000 crore are invested by public sector undertakings of the State and Central Government Departments. It may even be more but we just do not have system to find out the full information. Now, under this portfolio management scheme in vogue, money can be invested in the banks only and again through the bank, it may be invested in securities, but only in the those securities which are approved by the Government of India.

The usual practice is that in most of the banks, their financial services are used as a front. Money is taken by the banks and the banks pass the money out to their financial services and though these financial services to the brokers. In this way, the money is utilised in the share market. This is against the guidelines of the Reserve Bank of India. As I said earlier, I was once a part of this system and we too used collect money from the public sector undertakings. I know very well how these transactions take place and I would like to warn the Finance Minister to look into these aspects also because this also is a very big scam. Commissions are exchanged and money is given to the banks which offer some kind of an incentive.

Here I would like to mention another point. Why is the Government encouraging the foreign banks? These foreign banks

have no commitments like the nationalised banks who have responsibilities such as priority sector lending upto 40 per cent. Whereas, the foreign banks have to pay just 10 per cent for the first time. This way, what is happening is that the foreign banks are taking away the cream from the industry and they leave the rest to the nationalised banks. I would suggest that the Finance Ministry may frame the rules in such a way that the public sector undertakings should not be allowed to deal with these foreign banks. They should deal only with the nationalised banks.

A lot has been said about Harshad Mehta, the bull. I would like to the Finance Ministry to inquire into the bear cartel also. It is a fact that the bears did lose a lot of money. They need somebody to finance them. The biggest bear goes by the name of one Mr. Ajay Kayan of Calcutta. He has his firms cartel all over the country. I would just read one passage before I conclude. I quote:

"However, the bears must still have made heavy losses, though it is difficult to estimate them. One member of the cartel, for instance, is believed to have been short by 30 lakh shares in Apollo Tyres in February 1992. He bought them at Rs. 275 against the selling price of Rs. 150, but it is still not clear where he got the money to fund his Rs. 37.5 crore loss. As for Koyan, he only says, "We are very comfortable," which is entirely possible.

There are, then, two loose ends in the grant securities scam. Standard Chartered is still unable to trace Rs. 1,055 crore which seems to have vanished. Where did the money go? The bears have managed to cover their enormous losses effortlessly. Where did the money come from? And is it possible that there could be link between these two questions?

The answers lie with the bears like Ajay Kayan, Manu Manek, who finance them and Hiten Dalal, the man through whom Standard Chartered's money flowed out. No one else knows the whole truth behind the bear cartel."

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Scam involving operations
[Sh. Chetan P.S. Chauhan]

I would like inquiries be made into these aspects. Thank you very much. (Interruptions)

20.00 hrs.

SHRI SRIKANTA JENA: Sir, you please allow me to say a few words.

MR. CHAIRMAN: No. The Janata Dal has taken disproportionately longer time. Now, I am taking the permission of the House to extend the time for this discussion till the end of the reply by the Minister. Several hon. Member: Yes.

THE MINISTER OF FINANCE (SHRI MONMOHAN SINGH): Mr. Chairman, Sir, I am very grateful to all the hon. Members who have taken part in the debate. What has happened in the financial system is not a partisan issue. It is our collective responsibility to find out the truth and the whole truth. Our Government will offer its fullest cooperation in finding out the truth and the whole truth. The prime Minister has assured this House that whosoever is found guilty, however high he or she may be placed will be punished and on that point our commitment is to ensure that we get to the root of the problem to find out how this thing has happened and who are persons responsible for this fraud. In this, there should be no doubt with regard to our commitment. (Interruptions)

MR. CHAIRMAN: When you were speaking the Finance Minister was listening calmly and now, you should listen to him.

SHRI BASUDEB ACHARIA (Bankura): Sir, on moral grounds, the Finance Minister should resign.

SHRI SRIKANTA JENA: Sir, I am on a as point order.

MR. CHAIRMAN: What is your point of order?

SHRI SRIKANTA JENA: Sir, if the JPC has to take everything into account and to find out who are the culprits, then what is the use of having this Finance Ministry and the

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into thousands of crores of rupees
Finance Minister? let them resign. After he gets a clean report from the JPC that he is not involved in this affair, then let him come back. Till the JPC's Inquiry is completed, he should not be in the Office.

THE MINISTRY OF PARLIAMENTARY
AFFAIRS (SHRI GHULAM NABI AZAD):
This is very wrong.

SHRI SRIKANTA JENA: Sir, he should resign.

SHRI BASUDEB ACHARIA: This is a very valid point. Let him resign.

SHRI SRIKANTA JENA: If the Finance Minister, after a long nine-hour debate says that only the JPC will find out who were the persons who were involved and he cannot do anything, then what is the use of having this discussion? What is the point? What was the necessity of having a discussion for nine hours in this House and in the end, if he says that he will only act after the JPC's recommendations are received?

MR. CHAIRMAN: It is not fair that after such a long debate, you do not want to listen to the reply of the Finance Minister. If you have got any point, I will allow you after the Minister completes his reply. You may not agree with me but you must listen. I will allow you after his reply.

SHRI MANMOHAN SINGH: I started by saying in my initial statement on the 8th of July that this scandal is not due to any single factor. There has been a system failure that we cannot deny. (Interruptions)

SHRI SRIKANTA JENA: No, Sir. The system has been made to fail; the system has not failed. (Interruptions)

MR. CHAIRMAN: This is not the procedure that after every sentence you get up interrupt him. (Interruptions) I will not allow you. To follow that procedure. Yes, the hon. Minister, you please go on. Only because you do not agree you should not interrupt.

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running Scam involving operations into thousands of crores of rupees

SHRI MANMOHAN SINGH: In addition, I have also stated that there has been a collusion between certain functionaries in the banking systems as well as the stocks market operators.

SHRI BASUDEB ACHARIA: Not the Finance Minister.

SHRI MANMOHAN SINGH: I will come to that; I am going to deal with that. Now our efforts will be to find out the truth in all these matters; and all those guilty, you can rest assured we will punish them.

Now I come to this issue; this issue has been raised about the responsibility of the Finance Minister. I think I owe to this House and I owe to the country to explain my conduct; and I do not have to wait for the JPC to pronounce; of course, the JPC will pronounce. But I thought, as a preliminary, I should take this House into confidence and explain the role I have played in this affairs.

Now, there are three aspects of this problem. There is a banking system; there is also a stock market problem; there is also a management of the public sector and the public sector disinvestment. References have been made to all these three issues. Now what did I do. Our Government came into office on the 21st of June. Within one month, I had presented the Budget; and I would respectfully submit that no Finance Minister had presented two regular Budgets in a short period of seven months. But even then I did not allow that. I think I was worried about the banking system. On the 18th August I recorded a note saying that all over the world these financial sector frauds were taking place and therefore we should be alert and that the Reserve Bank of India should appoint a group to go into this aspect. That group was appointed by the Reserve Bank, if I remember correctly; I am speaking from my memory, on the 18th of September. That group included Dr. Madhavan as its member; that group went into the causes of fraud in the financial system; that report has only recently been received. So it was not that I was totally inactive. Now, what else

did I do? I was worried about the health of the banking system.

Shri Rabi Ray has mentioned about irreconciliation in inter-branch transactions. This is not one year problem; that is a problem which has persisted for several years. The weakness of the banking system, the lack of effective supervisory arrangement - if you read the terms of reference of the Narasimhan Rao Committee, which was appointed by me within one month of our Government coming into office, you would see what they contain. One of the terms reads as follows:

"To review the existing supervisory arrangement relating to the various entities in the financial sector in particular the commercial banks and the term lending institutions and to make recommendations for ensuring appropriate and effective supervision."

And what did the Committee find? The report of this Committee was made available. All these things that have been mentioned by Shri Rabi Rai about the irreconciliation, the inadequate supervision for bad and doubtful debt, these are problems with our banking system; these problems require a solution; and that is why this Committee was appointed. Therefore, I think I do not plead guilty to the charge that I was negligent in my duties with regard to what the Finance Minister's role should be in looking after the banking affairs. Shri George Fernandes has read out the rules of business. I have been in Government long ago. Now you have said, for example, the Home Minister is responsible for law and order; a murder takes place in one particular place; are you going to say that the Home Minister is responsible for that? (Interruptions).....

SHRI BASUDEB ACHARIA: Do not compare. Why are you comparing?

MR. CHAIRMAN: Please take your seats....(Interruptions) No Interruptions please. (Interruptions)... You do not add to the noise.

SHRI A. CHARLES (Trivandrum): He can only give facts. (Interruptions)

SHRI MANMOHAN SINGH: Shri Chandra Shekhar is here. he talked of ministerial responsibility. I have great respect and regard for him. I would like to submit to this House, that in April last year a ghasity tragedy took place, a future Prime Minister of the country fell victim to the bullets of the assassins. Who was the Home Minister then? who was the Prime Minister then? Would you say that person was responsible for that tragedy? We have never said that.

But this logic that Shri Chandra Shekhar and his friends on the left are pushing forward, let me say, I do not buy this theory that if you have a theft in the village, therefore, you should ask the Mayor to resign. It is an outmoded theory and that is why, I think, our communist friends are becoming outmoded today.

I think, I can share with this House a joke which is very common in Russian. (Interruptions)

THE MINISTER OF STATE IN THE MINISTRY OF PARLIAMENTARY AFFAIRS AND MINISTER OF STATE IN THE MINISTRY OF SCIENCE AND TECHNOLOGY (DEPARTMENT OF ELECTRONICS AND DEPARTMENT OF OCEAN DEVELOPMENT) (SHRI RANGARAJAN KUMARAMANGALAM): This cannot go on. Mr. Chairman Sir, I will have to request you that this cannot go on like this. (Interruptions)

MR. CHAIRMAN: Please sit down. Why do you make noise when they are sitting quite? Please do not make noise.

(Interruptions)

MR. CHAIRMAN: Yes, please go on.

(Interruptions)

SHRI BHOJENDRA JHA (Madhubani): There is a point of order.

MR. CHAIRMAN: No point of order please.

SHRI BHOJENDRA JHA: Sir, I have a point of order. Even today he is still the Finance Minister of the country and a Cabinet Minister. So he cannot pass remarks like that about the internal affairs of that country.

MR. CHAIRMAN: It is no point of order. Please sit down.

(Interruptions)

SHRI MANMOHAN SINGH: I want to relieve the tension of the House. I am not going to criticize any country. I am only mentioning to you a joke which is common now in Moscow. In a school, a school teacher asks the school children to donate money for a country 'X', in the name of the Communist Party of that country. Misha is a child in that school. He says, "I am sorry, I am not going to contribute because my father has told me that there is no Communist Party in that country." Next time, the teacher says, "let us raise some money for trade unions in that country 'X'." Misha says, "I am not going to contribute because there are no trade unions in that country." Third time, the teacher says, "this time, let us raise some money to help the poor people in that country 'X'." But Misha says, "Madam, I am not going to contribute because my father says, in that country there is no Communist Party, there are no trade unions, so there can be no poverty."

This is the state of knowledge of the Communist party. (Interruptions)

[Translation]

SHRI NITISH KUMAR: Mr. Chairman, Sir, we are not laughing at this joke but at the hon. Finance Minister himself.

[English]

SHRI BHOJENDRA JHA: There shall be a communist party.

681 Discussion under Rule 193 SRAVANA 13, 1914 (SAKA) in Govt. Securities 682
running Scam involving operations into thousands of crores of rupees

SHRIGHULAMNABIAZAD: You should have asked for tutors for coaching. (Interruptions)

MR. CHAIRMAN: It is all right. It was only a joke. Please sit down.

(Interruptions)

[Translation]

SHRIGEORGE FERNANDES: This joke is suitable for the club of the rich people but not seemly for the dignity of the House... (Interruptions) Such joke may be cast in the club of the rich people. It is not proper for the dignity of the House... (Interruptions)

[English]

SHRI MANMOHAN SINGH: You are the last persons to tell us what is right for the country... (Interruptions)

[Translation]

SHRI GEORGE FERNANDES: These people have not a bit*.... (Interruptions)

SHRI BHOGENDRA JHA: The hon. Minister of Finance is speaking against the interests of the country in the name of a joke.

[English]

SHRI NIRMAL KANTI CHATTERJEE: Is it this that he is trying to emulate, that there should be no socialist movement, and there should be no trade unions? (Interruptions)

SHRI MANI SHANKAR AIYAR: The Soviet Union does not want any communists and India does not want any communists. This is a * * party in the whole world. You are the * * * party in the world. You are just the ..

SHRI BASUDEB ACHARIA: The Finance Minister is merely mocking at us. We are walking out in protest.

SHRI BHOGENDRA JHA: He is not India's Finance Minister. He is a * * who is speaking here. (Interruptions)

SHRI A. CHARLES: You all can go. (Interruptions)

MR. CHAIRMAN: Order, order please.

SHRI BHOGENDRA JHA: It is not the Finance Minister that is speaking but the * * is speaking from his mouth. (Interruptions) The * * is Speaking.

MR. CHAIRMAN: Order, order.

20.19 hrs.

At this state, Shri Basudeb Acharia and some other hon. Member left the House.

SHRI SRIKANTA JENA: We are really very sorry that the Finance Minister is not taking this discussion so lightly. He is not talking it seriously. This is most unfortunate. He should have resigned and gone (Interruptions)**

SHRI BHOGENDRA JHA: We do not want to sit in this House. We are walking out in protest.

20.20 hrs.

At this stage, Shri Bhugendra Jha and some other hon. Members left the House. (Interruptions)

At this stage, Shri Srikanta Jena and some other hon. Members left the House

MR. CHAIRMAN: The leader of the Opposition wants to speak now.

[Translation]

SHRI LAL. K. ADVANI (Gandhi Nagar): Mr. Chairman, Sir, I express my regret that this discussion is ending in this manner. I may also be having some thoughts about

**Expanded as order by the Chair

the communist party but it was not relevant in the context of the discussion taking place today. Provocative statements have been made unnecessarily. It would have been better if that had not taken place. At present the Government is in an unfortunate situation and is defending a big racket. By talking in this way you have given them an opportunity to stage a walk out. Thus was not proper. (Interruptions)

SHRI GHULAM NABI AZAD: Let me make it clear. I think, you do not know. You were not here. I was sitting there only. They had decided two hours back to walk out when the Finance Minister start replying to the debate. Actually they were consulting each others how to find fault with the Finance Minister so that they can walk out. They tried half a dozen times and ultimately they walked out. Now the cat has come out of the bag. Shri Jaswant Singhji has started this discussion on 9th. Now this clearly shows that a group of Opposition Parties in this House were not keen in this and that is why they had diverted the attention of the House to other issues, seem to Ayodhya...(Interruptions)

SHRI MANMOHAN SINGH: It was not my intention to hurt anybody's feeling. I was trying to relieve the tension. And if I have hurt any Member's feeling I apologise to them. That was not intention. I thought that it was a light hearted joke. But if it hurt anybody's feeling, I apologise.

I was explaining my role what I did in the areas of the banking system.

Now with regard to the stock markets, if you look at census, in January 1990 census was 750. In October 1990 it rise to 1560. It was an increase of 108 per cent in a period of ten months. Our Government was not in office at that time. Then, it fell to around 1,000, more than a fifty per cent fall, in January 1991. In October 1991 it rose by 21 per cent. I can truthfully say that I was worried about at that time. In fact in the very first week when I became Finance Minister,

I was asked in a press conference you are painting such a gloomy picture of the economy, yet the stock markets are booming". And I said - this you can verify - that a booming stock market in a collapsing economy makes no sense. Therefore, I was worried about this stock market. And yet the word of the Finance Minister can have undesirable effect. I had to be very careful what I said in public. In October, when the credit policy for the busy season was being formulated by the Reserve Bank I asked the Reserve Bank to ensure that no money was made for speculative purposes; whether they were commodities for speculation or speculation in the stock market. If you read the credit policy statement of October 1991, you would see that the credit merchants for purpose of financing stock were greatly tightened. That was, I think, the period when census was rising. Until January I had a feeling that this was probably a correction for what had happened in the earlier years. But in January when census started rising again, I was worried about what was happening in the stock market. On 30th January the Chairman of SEBI wrote a letter to the Secretary, Department of Economic Affairs, pointing out that the stock market prices were rising at a rate which is not healthy. In reply the Finance Ministry wrote back that SEBI had by then been given full powers to do whatever was necessary. But I do not rest content with that. I called the Chairman of SEBI and at his suggestion I called a meeting on 28th March. This meeting was called much earlier but because of my parliamentary pre-occupation, it had to be postponed twice. Finally, this meeting with all the major office bears of the Stock Exchange was held in my Office on the 28 March. I discussed with them what was happening in the stock markets trade practices and related issues. At that meeting they had assured me that when they go back, they will do whatever is possible to see that the stock markets do not behave in an abnormal fashion. Quite honestly at that time, I did not know in January what was the source of money flowing into the stock market because on the face of it, the Credit Policy for October, 1991 was tightened to an extent that large sums of money could not

flow into the stock market. The Credit Policy was further tightened. But, I did start discussing with the Governor of the Reserve Bank around February-March that he must find out what is the source which is feeding this stock market's speculation. Some information was received that this money was coming from abroad. That was one clue which was followed but it did not lead to anywhere and it is in that process that the Reserve Bank of India started looking at the banking system. They found that the Bank of Karad again was doing what they had detected in March, 1991. On the 4th of March the Governor of the Reserve Bank recorded a note in the file, which I have seen, in saying that some action should be taken against the Bank of Karad because they have not followed the instructions of the Reserve Bank. This was an internal note. It was discussed within the Reserve Bank and finally it was said that one more warning should be given to the Bank of Karad and that final action should be postponed until the announcement of the Credit Policy. I think, Shri Jaswant Singh had asked this question as to who had prevented the Governor of the Reserve Bank from taking action against the Bank of Karad in March, 1992. I have discussed this matter with the Governor. I have also got a written communication from him that no political influence whatsoever was brought to bear on him in this particular matter. I can assure in this House that I never interfered in the Reserve Bank in taking or postponing action against the Bank of Karad and the Governor of the Reserve Bank had assured me that no other political influence was brought to bear on him.

Now, I was explaining that, at the same time, the income tax offices were also active. On 28th February, the income-tax office, raided the group of eight brokers. Now, unfortunately, the income-tax office took a long time to find out what they got because they did not have access to the password, his access would not co-operate with the income-tax authorities. Actually, the income-tax people came to know only towards, I think, the middle of May or thereafter. I wish to assure the House that whatever was

possible at the policy level in the Ministry of Finance to deal with the problems of the banking system with the stock market and rising prices, I was alert. If these things have happened, I am not saying that I knew everything, but whatever was humbly possible at the level of the Finance Minister, I did perform my duty.

Now, a reference as made to public sector investment and I have stated publicly that we needed this disinvestment. This was a commitment made not by the previous Government. Shri Chandra Shekhar had announced in the House that they would have a programme of disinvestment to the extent of Rs. 2500 crores. We had a huge budget deficit and we felt that we have to do it. That was the right decision. But, I also stated publicly that we were going into unchartered waters and we had no experience of doing these things. I was also aware of the fact that similar things in many other countries had landed the Finance Minister into difficulties. Therefore, I said that we must adopt a course of action which would not lend into those problems. So, instead of selling each unit's shares separately, we decided that we shall bundle them into a selected unit, that we will not sell it in the market because then there will be charge of manipulation, that we will sell it to the Mutual Funds because all these Mutual Funds happen to be in the public sector, so that even if the Government loses money, the money will be made by the public sector Mutual Funds. The public of India as a whole would gain even if the Government acts foolishly. These were the motives why we chose that particular path of disinvesting.

The Janakiraman Committee has brought out that the Allahabad Bank and the SBI Capital sold these shares in violation of the guidelines that were laid down at the time of bidding. I have looked at those guidelines. I have my doubts whether there was, in strict sense of the term, any violation by these two banks. But I think we will pursue that and if there has been any violation of those bidding guidelines or bidding conditions, we will take action on that. I do want, therefore, to assert that whether it was the stock market aspect

or the banking aspect or the public sector disinvestment aspect, I think what was humanly possible was done in the Ministry of Finance.

Now I come to certain questions which were raised in the course of the debate. Reference has been made to the role of the bureaucrats in the Ministry of Finance. Shri V.P. Singh is not here. He said, how was Harshad Mehta invited to the Ministry of Finance. I stated yesterday and I repeat that we did not invite Harshad Mehta for any meeting. All that happened was that he met a then member of the Planning Commission, and said that he had certain ideas as to we need not depend upon the IMF, that he had an idea an alternative strategy. The Member suggested to the Finance Secretary that it might be good for the Finance Secretary to here his views. The Finance Secretary, as he meets many other persons, saw that person. No other official of the Ministry was present. This was not a seminar, this was not a meeting. Let me say, the Finance Secretary did the right thing. If Harshad Mehta at that time had sought an interview with me—personally, as a citizen of India, I did not what he was doing - I might have also granted him an interview. Therefore, I think the Finance Secretary's conduct is absolutely above board and I stand by what he did.

Shri George Fernandes is not here. Yesterday I think he referred to the wife of a Secretary in my Ministry saying that she was on the Board of Trustees of CANFINA. It has led to complete demoralisation of the top bureaucracy. Such charges are made where people have no recourse or redress against this sort of wild charges. I do, therefore, want to place on record what my views are. He made an explicit reference to the wife of a particular high official of the Ministry of Finance saying that she influenced the CANFINA. She is and she was on the Board of Trustees of Canbank, Mutual Fund, but she was a Trustee even when that particular official was working with Shri V.P. Singh. Therefore, this lady did not become the trustee when this particular gentleman

came to the Ministry of Finance. If you look at the academic qualifications of that lady she has a ph.D from MIT. She is one of the brightest economists of our country and I say with all authority that in the eighties, the brightest and the finest work of India's industrial sector has been done by that lady. Now if you malign that lady, she has no resource. I think hon. speakers have been saying this, and if it is said on the floor of the House, I think it really hurts. It has demoralised the top officials of the Ministry of Finance and I think the House must ponder over the consequences of such senior Member as Shri George Fernandes, leaving such wild charges.

I said yesterday and I repeat that if anybody has any information against me or my officials, I accept full responsibility for the conduct of my officials, whether they have done with my knowledge or without my knowledge. You do not have to wait for the J.P.C. to settle this matter. Let them take matter to the hon. Leader of the Opposition and I will abide by his assessment whether any wrong-doing has been done. (Interruptions)

SHRI CHETAN P.S. CHAUHAN (Amroha): Sir, I have a point of order. I can understand it if one person, one bureaucrat or one family member being named. But when is a list of 17 to 20 bureaucrats whose kith and kin are working in the foreign banks or in other banks, it leads to doubts. That is all. It is not that we are linking it directly. But that definitely leads to doubts. The possibility of leakage of certain confidential papers is there.

MR. CHAIRMAN: It is not a point of order.

SHRI MANMOHAN SINGH: Sir, since the hon. Member has brought up the point of leakage of the coupon rates, let me say that I also heard that there was a talk long before this scam discussion became a public knowledge and I also heard that there was a talk going round that there was probably, a leakage of the coupon. It was in that context that I asked the Governor of the

Reserve bank of India to do a sample check of the securities. He did do a sample check of the securities transactions of the State Bank of India. It was found that the State Bank of India did buy about Rs. 400 crores of securities during the time/period when the coupon rate was announced, or was to be announced. We subsequently asked the State Bank. The State bank has explained that they needed these securities because they got low deposits and, therefore, for the purposes of S.L.R. they needed more securities and, therefore, they had to buy securities.

I conclude that this may not be the conclusive thing. The J.P.C. is at liberty to pursue any further leads it may have. But as far as my Ministry is concerned, I would like to point out that with regard to the coupon rate, there were only four people who knew what was happening. Apart from myself only the Finance Secretary, the Secretary (Economic Affairs) and the Additional Secretary (Banking) were knowing it. I can assure the hon. Member that none of us have any son or daughter working in any foreign banks. I have seen papers being circulated in the ? Central Hall where somebody said that I had a son-in fact I have no son- who working in the City Bank. Then somebody said that I have a daughter working in a foreign bank. I have three daughters but none of them is working in the banking system and that applies to the officials who are working with me. As far as other officials are concerned, I feel that the officials have as much right, I think, that they cannot interfere with what their children - when they grow up- do. therefore, it would be a sad day where if a person became an official of the Government of India and, therefore, his children are debarred from pursuing what is best in their interest. Therefore, I do not buy this argument that by having their children in any particular bank they have committed a crime. But as a measure of abundant caution, I have written to the Cabinet Secretary to hold an enquiry to find out if there is any truth in all these allegations. I am still awaiting from the Cabinet Secretary the results of this enquiry. If anybody is found guilty, I may assure you- and through you the House has

my assurance - that we will not spare anybody.

This is with regard to the coupon rate. Several other issues have also been mentioned. Let me reply them.

Shri Jaswant Singh brought up this whole issue of the decline in moral fervour, decline of the value system in our country. I personally, fully agree with him. When people talk of the nexus between industrialists, politicians and bureaucrats how does this arise? It arise because of the excessive discretionary control of the Government in the Management of the economy. Why would anybody care about bureaucrats' children if bureaucrats did not have economic power? Why would anybody care about politicians' sons if politicians' actions did not decide the destiny or the fortunes of one particular industrial house? It is this that we are trying to correct by removing, I think, the obstacles to economic of our country, by minimising the scope for discretion in the exercise of economic policies, by dismantling this licence-permit raj. I think we are trying to remove this underlying process of what has come out in our system.

Favours are done and favours are taken, I think it is a fact of life. this is not something which can be corrected overnight. We do need moral revival; we do need, I think re-emphasis on the ancient values for which our country was known, but that is not enough. We must deal with those economic instrumentalities, the economic system which encourages this type of behaviour and that is precisely what is the purpose of economic reforms that we have launched. It is in this sense that I submit to this House that this scam is in no way connected with the liberalisation track. In fact, some economists have done an econometric exercise. I have already mentioned that the stock market prices rose by 108 percent between January, 1990 and October, 1990. It is my guess that this mechanism of diverting banking funds to the stock markets was in operation even then.

The Bank of Karad thing came to the

notice of the Reserve Bank of India, not when our Government came into power, but in March, 1991. So, I am not blaming any particular Government. I would be the last person to blame either Shri V.P. Singh or Prof. Madhu Dandavate, that they did this thing or that this was done with their knowledge. But, I think, this is a fact that this thing was going on. As I also said in my statement, I wish the Reserve Bank of India had been a little more alert. Having issued the circular in July, 1991, they did ask for compliance reports. I have seen the compliance report of the Bank of India. Quite frankly, if the State Bank of India had given me any statement, I would have believed it 100 per cent. The State Bank of India is the pride of India. I would never distrust the statement of the State Bank of India and that was the state of my mind, and therefore, when the State Bank of India at the level of the Chairman of the State Bank of India tells the Governor of the Reserve bank that they are fully satisfying all the conditions laid down in the July, 1991 circular, then I think it is to much to blame the Governor of the Reserve bank.

Similarly, I have seen the compliance report signed by the management of the Standard and Chartered Bank. It is true that the Reserve Bank of India, looking backward, could have ordered a special audit. But, I think, in human affairs, you have to act on the basis of imperfect information and that was in that particular case the Reserve Bank of India thought that the Bank of Karad, after all, is a small entity. It was not a big player. They did not know the magnitude of the amount involved in the transactions of the Bank of Karad. Therefore they left it at that. But, they went back to the Bank of Karad, Bank of Madura and one other bank in January and February again and that is how they discovered that these things were going on. In the meanwhile, when they discovered discrepancies in the State Bank of India, then I think, the problem became much bigger and subsequent story is all that is known.

Therefore, I have said in my statement earlier, that I wish the PDO's office in the Reserve Bank of India has been Computerised so that this process of reconciliation of SGL accounts, which the hon. Member referred, should not be undertaken on a fortnightly basis, but could have been done on a daily basis, if the whole system had been Computerised. But, I know the tremendous resistance that our unions play, for example, in computerisation; computerisation is no solution to all these problems, but it would have certainly helped to unearth this fraud much earlier than has been the case. I also mentioned that *ex-post-facto*, in retrospect, it appears that the supervisory arrangements in the Reserve Bank of India need to be strengthened and that is what I said in my statement on the 8th of July that we are going to set up a strong supervisory agency to look at the functioning of the banking system. That was one of the recommendations of the Narasimham Committee and that is what we are going to implement.

Sir, some hon. Members have criticised me for shielding the Reserve Bank of India. I want to share with the House what have been my motives. I felt intensely said when the State Bank of India somehow got involved into these transactions. I have already said that the State Bank of India has been a source of pride to us and now if without adequate evidence, I go on to say that the Reserve Bank of India is also in the same category, you can imagine the consequences of creditworthiness of our country. Credit is normally based on trust. Our banking system may have many difficulties. But if all round an impression gets round or is created that everybody working in the banking system, from top to bottom, is a crook, I think you will criticise me, but I think if I had adopted any other course, than what I did, I would have done a great disservice to the cause of maintaining creditworthiness of our country. It is not my intention to shield anybody in the Reserve Bank. If anybody is found guilty of having nor performed his duties, I think the JPC will find out and this was my intention.

Also what were my courses of information? It is one thing to say there has been a scam. The only agency, I think, I have to find out the truth was from the Reserve Bank of India. If right from the beginning I had said that the Reserve Bank is suspect, I am afraid, we have very honest reports from the Reserve Bank of India. It is a tribute to the staff of the Reserve Bank that despite all these attacks on the Reserve Bank, I think they have out the truth and if I also join the chorus that the Reserve Bank is also managed by crooks, we might very well have been debating all these things, but we would never have found the truth.

I respectfully submit to this august House that what I said in defence of the Reserve Bank was an act of duty and it was not in any way an attempt to shield myself, as Shri Chandra Shekhar said yesterday. He said I have skeletons in the cup board, and therefore I dare not criticise the Governor of Reserve Bank. Let me assets once again that I have no skeletons in the cup board. I challenged him yesterday and I challenge anybody else, if they know anything about my conduct, let them take it to the Leader of the Opposition. I will abide by that verdict.

References have been made to the role of the foreign banks. Some people have said I have been soft on foreign banks. Our position is that, all banks in our country, whether they are Indian banks or foreign banks, have to abide by the laws of our country. But I did say and I said it before that in the changed circumstances, a large presence of the foreign community in our country is to our advantage. You look at what is happening in China today. If you want to increase your exports, how are you going to increase your exports? First the importance about the soundness of that particular exporting entity and if you have a bank here to certify that "No. This is a very good party," I think you have crossed one hurdle. We want more foreign investment in this country. When an industrialist abroad wants to invest something in our country, he does not come to out banks. He goes to his bankers and they assess our creditworthiness, they assess our economic prospect and if some of these

banks are present her. I think and I honestly feel that their assessment about our performance, about the potential of our economy, would be much more constructive. It is for nothing today you find India figuring on the top pages of fortune and in the last one year, I respectfully submit we may not have solved all problems. but we have created a climate in the rest of the world that India is now awake, that this country is a country of tremendous potential. People talk of Russia. People talk of China. But I think when you take a long-term view, several people say that, if any country needs longer term attention, it is a country like India. It is in that context that we have to look at the role of the foreign banks. I do not want to shield any foreign banks if they have violated our laws. I have stated earlier the Reserve Bank has ordered a special audit of the security transactions of the four foreign banks. Now, Sir, Shri Vishwanath Pratap Singh asked me whether that audit has begun I can assure him, through you, that audit is already in progress. But we should not jump to conclusions. There was, in 1991-92, a large increase in security transactions. But why did it happen? I think my friend Shri Chavan gave us the right explanation. You would recall that before our Government came into office, the previous Government has put a very tight import squeeze. I was associated with Shri Chandra Shekhar. They wanted to go back to the old quantitative control system. I said that control system is obsolete; let us rely on the credit mechanism. So, credit tightened; the margin requirement was strengthened. So, industrialists, having to get more money from the banking system, felt they could not get it and therefore imports were depressed. There was a very tight credit squeeze. It is in this atmosphere that banks felt that they were short of funds. Therefore, in order to meet this statutory liquidity requirements of a tight money market regime, there was a large increase in the security transactions among the banks. Let me say that bankers' receipts are the buy-back arrangements. There is nothing immoral about this, These are techniques of financial innovations. If properly used, I think they are positive instruments of financial development. If misused, I think they can do

type of harm that they have inflicted on our system. But the background of this was the tight money policy; the fact that the banks had needed more money; the call-money; market rates were rising and in the process they had therefore to have more securities and in the process there was scope for misuse. It is so because if the call money market rates are as high as 60 per cent, they soon discovered that by diverting bank funds to the stock market, you can find a cheaper route to satisfy the various requirements. But having said that, I would like to assure this House that we will pursue all these matters, whether they concern Indian Banks and foreign banks, it would be a sad day if merely on the basis of hearsay or without solid evidence, charges are levelled against one bank or one individual because we are a country which takes pride in being a country governed by the rule of law. Everybody in our country is innocent so long as he proves himself to be otherwise.

Sir, when I talk to foreign businessmen this is the one thing they mention. They say that know China is doing a great deal. China offers today much better terms to any foreign investments than we do. But everybody says that he knows India has a settled system of jurisprudence. We are a country governed by the rule of law. I think we should not lose that reputation. Therefore, whether it is dealing with foreign banks or Indian banks or individual bankers, I think we should have certain degree of restraint when we come to criticise various entities. It is not my intention to shield anybody. Whosoever has committed offence, whether he is foreign bank of Indian bank or official of any bank or in the Government he or she will be effectively punished.

Sir, Shri Vishwanath Pratap Singh yesterday raised some questions about he raids which were conducted on the 28th of February. I have mentioned that though raids were conducted on a group of brokers on 28th of February but the decoding of the computer took a long time. Therefore, it was only towards the month of May that some

information became available. On the basis of that information, one particular person Nirenjan Shah was raided by the Income-tax Office and that information was further passed on to the Enforcement Directorate. A question was asked by Shri Jaswant Singh what action was taken. I think three or four persons were arrested by the enforcement Directorate for violation of FERA. Further work is in progress. I can assure the House that whosoever has violated out FERA, laws whosoever might have taken money out of the country - I do not know its extent today - whosoever might have indulged in that offence will be brought to book as well.

Shri V.P. Singh asked why a particular Commissioner of Income-tax was shifted and was there any political motive? I have looked into these files. I am satisfied that this particular officer was one of the individuals dealing with some of the cases. When the Harshad Mehta group cases became so large, the Board of Direct Taxes felt that time had come to centralise all these cases in the hands of a single authority. It was this which led them to the centralisation and not any political intervention which was implied by Shri V.P. Singh.

I believe, I have covered most of the points that were raised in the course of this debate. I have left no questions unanswered. I will be very happy to provide any further explanation. I would conclude by re-assuring this House that our Government takes the task of going to the Joint Parliamentary Committee very seriously. And Shri Jaswant Singh should rest assured that we want to provide every possible assistance to the Joint Parliamentary Committee to get at the truth and the whole truth and whosoever is found guilty or accountable for these misdeeds he or she will not be spared.

SHRI RAM NAIK: I had raised an issue whether the Ministers have submitted their letters to the Prime Minister stating that they are in no connected with the scam. Reply has not come whether such letters have been given and if they have been given, what are the contents in that? This is an issue which I had raised, but no reply has come.

SHRI MANMOHAN SINGH: That question is addressed to the Prime Minister. The Prime Minister yesterday in his statement explained the position that on the basis of such enquiry that he has made, he is satisfied that none of his Ministers was involved.

SHRI PRITHVIRAJD. CHAVAN (Karad): What about the position of take over the Bank of Karad by the Bank of India as was reported.

SHRI MANMOHAN SINGH: With regard to the Bank of Karad, the position is that the Reserve Bank of India had filed a suit of liquidation of the Bank of Karad. I share the concern of the hon. Members about the fate of depositors as well as employees of the Bank of Karad. Therefore, the Reserve Bank of India has been exploring ways and means of dealing with this human problem. We have, in the first instance, paid Rs. 30,000 to all the depositors. I think nearly out of a deposit of about Rs. 90 crores, about Rs. 45 crores of deposits have already been paid back. As regards the rest of the money, the Bank of India has been approved by the Reserve Bank of India to take over certain branches of the Bank of Karad. But this requires the approval of the high court. I feel when this materialises the employees' interests would be taken care of and the assets, I believe, are sufficiently large also to protect the interests of depositors. That is the present state with regard to it. (Interruptions)

SHRI RAM NAIK: I had raised this issue. When some of the branches could be taken care of, they should take care of all the branches. Why one branch is taken over and why the other branch is not taken over? Why is this unnecessary discrimination? After all it is not the fault of those employees, it is not the fault of the depositors. Whatever should be done, should be done uniformly to all.

That much suggestion should be given to the Reserve Bank.

SHRI MANMOHAN SINGH: I take note of that suggestion.

MAJ. GEN. (RETD) BHUWAN CHANDRA KHANDURI (Garhwal): The Minister in his earlier part of the reply said that he had given instruction or told the RBI in October, 1991 that no money is to be handed over or given for speculative business.

21.00 hrs

In the event we know, large sums of money has gone into this. I would like to know from the Minister, whether instructions were violated by the RBI or the had issued specific instructions and those were violated by various Banks.

SHRI MANMOHAN SINGH: Sir, I have already mentioned that legally large scale money could not have flown from the banking system to the stock markets. The fact that money in fact flew from the banking system into the stock market was in violation of the approved guidelines of the Reserve Bank of India and that is what they came to discover in the month of March that this was happening in a big scale.

MAJ. GEN. (RETD) BHUWAN CHANDRA KHANDURI: My point was that you have said instructions/guidelines were given in July. Thereafter, you have told RBI, again in October 1991 that no money should be made over for this business. In spite of that - money has gone out. I just want to know - I am not talking of July 1991 guidelines, I am talking about your directions in October 1991 - whether they were disobeyed by RBI in not giving specific instructions to other banks or whether they were violated by other banks in spite of specific instructions given

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running Scam involving operations into thousands of crores of rupees

[Maj. Gen Bhuwan Chandra Khanduri]

consequent to your directions in October 1991.

SHRIMANMOHAN SINGH: Sir, I have stated that there have been violations of the Reserve Bank's instructions by the concerned banks.

MR. CHAIRMAN: Now, the House stands adjourned to meet again tomorrow at 11.00 a.m.

21.01 hrs.

The Lok Sabha then adjourned till Eleven of the Clock on Wednesday, August 5, 1992/Sravana 14, 1914 (Saka)