

REPORT

JOINT COMMITTEE
TO
ENQUIRE INTO
IRREGULARITIES IN SECURITIES
AND
BANKING TRANSACTIONS
(TENTH LOK SABHA)

(VOLUME-II — APPENDICES)

Presented to Lok Sabha on 21st December, 1993

Laid on the Table of Rajya Sabha on 21st December, 1993



LOK SABHA SECRETARIAT
NEW DELHI

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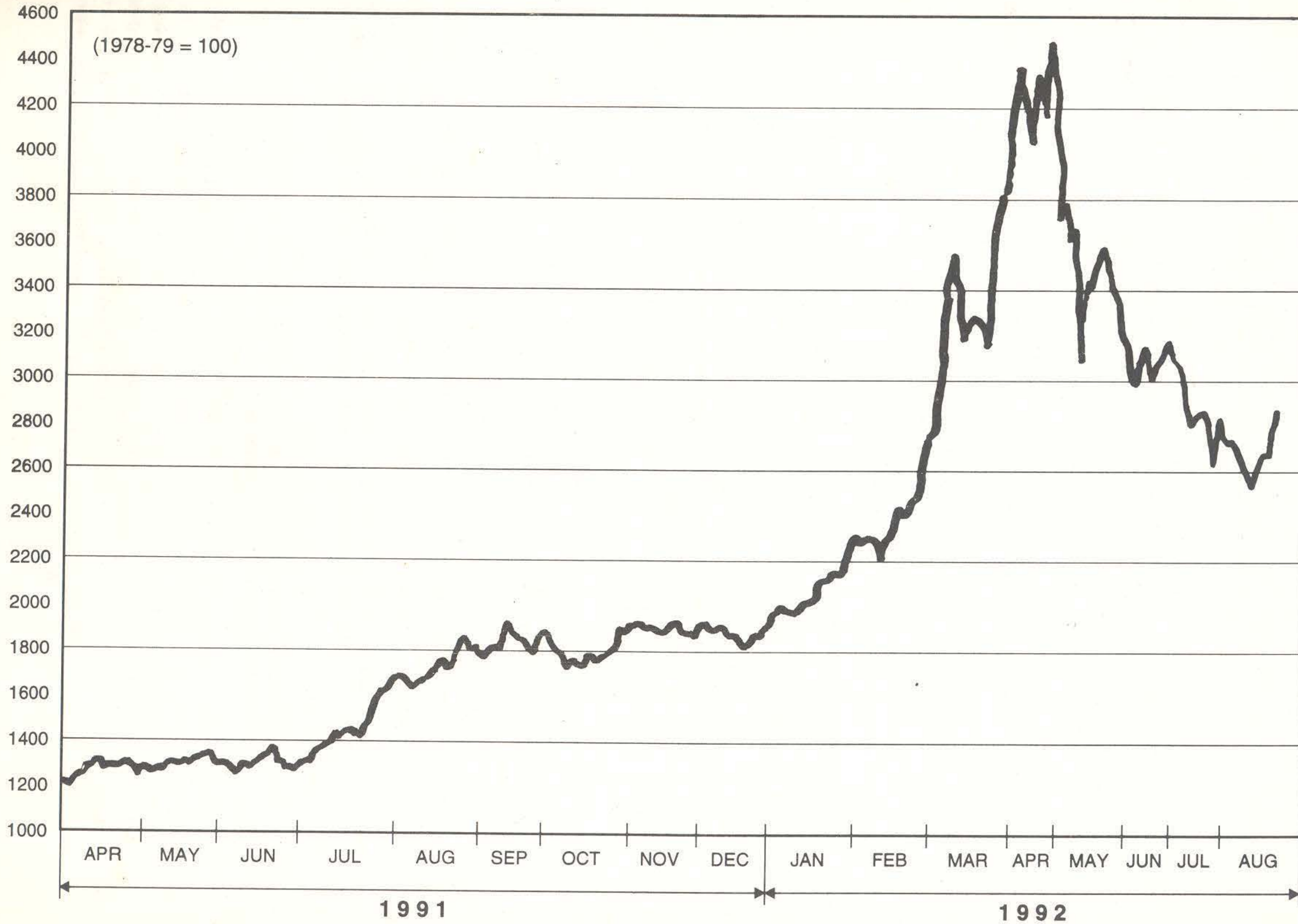
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**GRAPHIC REPRESENTATION OF
BOMBAY STOCK EXCHANGE (BSE) SENSITIVE INDEX**
from 1 April 1991 to August 1992



APPENDIX-I
(See para 1.2 of the Report)

A P P E N D I X - I I

(See para 1.4 & 16.14 of the Report)

Record Note on F.M.'s meeting with Presidents of Major Stock Exchanges on 28th March, 1992

Finance Minister took a meeting with Chairman, Securities and Exchange Board of India, and the Presidents of the major Stock Exchanges namely Bombay, Delhi, Calcutta and Madras, at 9.00 A.M. on 28th March, 1992. The Executive Directors of Madras, Ahmedabad and Bombay were present during the meeting. Secretary, Department of Economic Affairs, Secretary & Chief Consultant and Joint Secretary (Investments) also attended the meeting.

2. Welcoming the representatives of the Stock Exchanges, Finance Minister took note of the fact that the Stock Exchanges had been growing at a rapid pace ever since the present Government assumed office last year because of various liberalisations introduced and the policies announced by the Government on trade, industry and the capital markets. He indicated that it was imperative that the confidence of the investors in the capital market must be maintained, specially in the context of raising resources for the corporate sector, attracting foreign capital, and mobilizing domestic savings.

He warned that efficient functioning of the Stock Exchanges was critical if we were to protect the interests of the investors and that Stock Exchange authorities should, therefore, take serious note of this. Getting the Exchanges to function effectively, transparently and fairly was also crucial for enhancing India's credibility and dependability as a partner and to secure sizeable, long term financial flows from international institutions and funds. Steps must be taken very quickly to streamline operations, as any slackness on the part of Stock Exchanges could jeopardise the fate of the liberalisation process and hamper economic reforms. In this connection, Finance Minister also conveyed to the Presidents the anxiety that had been expressed on these points in Parliament.

3. With this objective in view, Finance Minister advised the Presidents of the major Stock Exchanges that they should immediately initiate necessary reforms in Stock Exchanges practices and procedures specially in the following areas:-

- (1) Increasing corporate membership;
- (2) Uniform and longer trading hours (at least 3 hours) on all Stock Exchanges;
- (3) A shorter, uniform and synchronized settlement period on all Stock Exchanges;
- (4) Self-regulation by Stock Exchanges and effective inspection of the books and records of the brokers, coupled with quicker and effective resolution of investors complaints; and
- (5) Arbitration should be faster, insider trading should be checked and price rigging and kerb deals effectively controlled.

4. Finance Minister also made it clear to the Chairman, SEBI and Presidents of the Stock Exchanges that, now that the SEBI had been given a primary role in regulating the Stock Exchanges and brokers, he would expect that all Stock Exchanges would cooperate with SEBI and promptly follow the directives and suggestions from the SEBI and Government on such matters and further that he would like concrete action to be ensured in all these areas of reforms within the next three months. He directed the Chairman, SEBI to furnish a progress report to him some time immediately after end June.

5. During the discussions that followed, the following other points were raised:
- (a) Chairman, SEBI, thanked the Finance Minister for providing statutory status to SEBI. He explained that he was in close touch with all the Stock Exchanges and kept getting periodic reports. He said that he would ensure that all Government directives would be implemented with speed and that his endeavour would be that all Stock Exchanges functioned efficiently with necessary advice from the SEBI and within the directives from the Government;
 - (b) Responding to the Finance Minister's exhortation, the Stock Exchanges assured him of their unstinted cooperation. The Presidents of Bombay, Delhi and Madras referred to difficulties of space in their present buildings, Bombay because of the Bank of Baroda and GIC occupying considerable space and Madras likewise with the Central Bank of India. Similarly, Delhi Stock Exchange wanted that the Khadi Gram Udyog Emporium should be asked to vacate its premises. Finance Minister directed that Stock Exchanges may write to the Government so that this could be followed up with the concerned authorities for appropriate action;
 - (c) On the question of appointing a custodian Bombay Stock Exchange referred to their proposal for income tax exemption of their shareholding units, which was pending with the CBDT. Finance Minister directed that this should be looked into expeditiously;
 - (d) As regards the SEBI's suggestion about the composition of Disciplinary Committee and the representation of non-brokers on the Governing Bodies of the Stock Exchanges, Stock Exchange Presidents felt that equal representation should not be insisted upon immediately, but could be considered subsequently.
 - (e) Other points that were raised included setting up of the National Stock Holding Corporation, the National Stock Exchange and publication of the liberalised guidelines for capital issues.

The meeting ended with a vote of thanks to the Chair.

A P P E N D I X - I I I

(See para 1.7 of the Report)

Statement by the Finance Minister on the "Situation arising out of the strike by share brokers resulting in closure of Stock Exchanges over the implementation of the provisions of Securities and Exchange Board of India Act and the steps taken by the Government in regard thereto in response to the Calling Attention Notice by Shri George Fernandes and other Members of the Lok Sabha on the 30th April, 1992"

The Securities and Exchange Board of India (SEBI) ordinance was promulgated by the President on 30th January, 1992. The ordinance provided for the establishment of a Board to protect the interests of investors in securities, to promote development of the securities market and to regulate it. The Securities and Exchange Board of India ordinance has since been replaced by an Act of Parliament during the current Session. The SEBI has been established on 21st February, 1992 under Section 3(1) of the Act.

2. The powers and functions of the SEBI include registering and regulating the working of stock brokers, sub-brokers and other intermediaries who may be associated with securities market in any manner. Section 12(1) of the SEBI Act provides that no stock-broker, sub-broker etc. shall buy, sell or deal in securities except under, and in accordance with the conditions of a certificate of registration obtained from the SEBI in accordance with the rules made under the Act. The proviso to the Section provides that a person buying or selling securities or otherwise dealing with the securities market as a stock broker, sub-broker etc. and such other intermediary who may be associated with securities market immediately before the establishment of the Board for which no registration certificate was necessary prior to such establishment, may continue to do so for a period of three months from such establishment or if he has made an application for such registration within the said period of three months till the disposal of such application. The SEBI Board was constituted on February 21, 1992. The three month period expires on May 21, 1992. Section 12(2) provides that every application for registration shall be in such manner and on payment of such fees as may be determined by regulations. Section 12(3) provides that the Board may, by order, suspend or cancel a certificate of registration in such manner as may be determined by regulations. However, no order under this sub-section shall be made unless the person concerned has been given a reasonable opportunity of being heard. Section 20(1) provides that any person aggrieved by an order made under the Act or the rules or regulations made under the Act or the rules or regulations made thereunder may prefer an appeal to the Central Government within such time as may be prescribed.

3. SEBI issued a letter dated 10th April, 1992 to Stock Exchanges advising them to supply to their members a copy of the application form for registration which was enclosed with the letter and to forward the application forms alongwith Cheques/Demand Drafts for the fees so as to reach SEBI by 20th May, 1992 in order to enable it to process the applications under the Act. The United States of America, Japan, Australia, Korea, Taiwan and Singapore have similar provisions for registration of brokers.

4. The members of the Calcutta Stock Exchange stopped trading on April 15, 1992 and of the other exchanges from April 16, 1992 in protest without informing or discussing the matter with the Government or SEBI. Subsequently the brokers expressed their concern about the levy of fees to be paid with the application. Taking note of the brokers concern, SEBI substantially reduced the one-time registration fee to 1/100th of 1% of the turnover of the individual brokers to be paid annually for a period of 5 years. The fees work out to Rs. 1000 per Rs. 1 crore turnover of the brokers. SEBI issued a press statement on this reduction of

fees on Sunday April, 19, 1992. SEBI has taken a flexible approach towards the fees at the same time ensuring that it performs the duty cast on it under the law. The registration fees will be required to be paid by the brokers on the grant of a certificate of registration by the Board under the rules and regulations framed under the Act and need not be remitted along with the application.

5. The Presidents and representatives of 15 Stock Exchanges had met in Bombay on 20.4.1992 to consider the letter from SEBI on registration. Subsequently, they submitted a representation each to the Finance Minister and to Chairman, SEBI. The main point in the representation is that there is no need for registration of members of Stock Exchanges with SEBI. Members of most of the Stock Exchanges in the country had refrained from trading as protest against the letter issued by SEBI from 16th April to 24th April, 1992. Trading resumed in most of the Exchanges on 27th April, 1992 and in all the Stock Exchanges on 28th April, 1992.

6. Section 28 of the SEBI Act provides that if the Central Government is of the opinion that it is necessary or expedient to do so in public interest, it may, exempt any person or class of persons buying or selling securities or otherwise dealing with the securities market from the operation of the provisions of section 12(1).

7. A writ petition has been filed before the Calcutta High Court challenging *inter alia* the validity of the letter dated 10.4.92 issued by SEBI to Stock Exchanges on registration of their members. The petition has been admitted by the High Court and accordingly the orders of the court are awaited in the matter.

8. The brokers are important intermediaries in the primary and secondary markets and are expected to render services to individual and institutional investors. Exemption from the requirement of registration by the brokers, as requested by them will considerably diminish the role of the statutory authority in meeting its objectives of ensuring the healthy growth of the capital markets and also in ensuring that brokers provide adequate services to the small investors.

A P P E N D I X - I V

(See para 1.9 of the Report)

Statement by the Finance Minister on the recent developments in the Stock Market in the Rajya Sabha on the 4th May, 1992

The stock market displayed high levels of buoyancy from January, 1992 until 27th April, 1992. The BSE sensitive index has been rising rapidly from the month of February, 1992 from the level of 2200 in the beginning of February to the recent level of 4467 on 22nd April, 1992. The index stood at 3674 on 29th April, 1992 as compared to 4388 on 2nd April, 1992, 3473 on 3rd March, 1992 and 2273 on 3rd February, 1992. The rise has been between 100 to 400 points a day on several days. The increase in prices of shares of companies listed on the stock exchanges was on account of several factors including the expectations of the investors generated by the improvement of overall economic environment and the rise in the level of foreign exchange reserves. The relatively low level of floating stock in the stock market, the excess of funds flowing into the market and speculative activity also contributed to this increase.

2. The stock market prices generally fell sharply on 28th and 29th April, 1992 and this was reflected in a sharp fall in the index. This was followed by recovery on 30th April, 1992 and on 1st May 1992. Technical corrections in the prices of shares are normal in the behaviour of the stock markets all over the world. Stock market prices are generally characterised by fluctuations on account of a large number of factors operating on the market in particular, and the economy in general. However, sudden large fluctuation in share prices can affect investor confidence in the market. It is, therefore, essential that the functioning of the Stock Exchanges are effectively regulated so that speculation is kept to the minimum. The Securities and Exchange Board of India has recently been given statutory powers for monitoring and regulating the stock market for ensuring the orderly and healthy growth of the stock market and for investor protection. It has already taken steps to call for applications for registration of brokers and other intermediaries.

3. I met the Presidents of the major stock exchanges on March 28, 1992 and impressed on them the need to maintain efficient and orderly stock market to promote the confidence of investors by streamlining operations and in particular to take urgent steps in the following areas :

- (i) capital adequacy norms for brokers ;
- (ii) uniform trading hours ;
- (iii) faster clearance and settlement of transactions ;
- (iv) increasing corporate membership ; and
- (v) checking insider trading and price rigging.

4. In the context of the sharp increase in prices of shares and to discourage the use of bank credit for speculative activity, Reserve Bank of India has asked banks to ensure that there is no increase in credit outstandings to individuals against shares, debentures and bonds. Further more, loans to individuals against shares and debentures/bonds would be subject to a minimum margin of 75% effective from 22nd April, 1992.

5. Further more, Income-tax Department has also conducted searches on several business and residential premises of a group of share brokers consisting of 8 individuals and 8 companies.

6. I may also add that some months ago, I had asked the Reserve Bank to set up a group to look into bank frauds and to report of any additional preventive and remedial measures that were required to minimise the scope for bank frauds. I have been informed that this group has nearly completed its work and it will be submitting its report shortly.

7. Prices of shares in stock exchanges are influenced by several short-term and long-term factors and are susceptible to fluctuations. Investments in shares are subject to market risks and, therefore, investors should make investments through the stock exchanges only after careful consideration of all relevant factors. There are several Mutual Funds operating in the stock market and small investors are availing of their services. However, excessive speculation is a destabilising factor in the stock market and needs to be kept under control for the protection of genuine investors, particularly small investors. SEBI and stock exchanges will have to be vigilant for ensuring that the exchanges and brokers function in an orderly and transparent manner.
8. The Indian economy and the capital market are quite large and are capable of absorbing fluctuations in prices on the stock market. There is no cause for undue alarm. Government is keeping a close watch on the situation.
9. It is true that in recent weeks, there has been an excessive bout of speculative activity in the stock market. Apart from expectations about the overall economic health of the economy, the relatively low level of floating stock in the market and the excess of funds flowing into the market also contributed to the increase in share prices until 26th April, 1992. Unfortunately, it appears that to a certain extent, bank funds have also been used for this purpose. In this context, I would like to take the House into confidence regarding certain investment transactions in Government Securities by the State Bank of India.
10. State Bank of India, like other banks holds Government Securities in its investment account. The banks are expected to carry out their transactions in securities according to the guidelines of Reserve Bank of India. The transactions in the investment portfolio of banks are reconciled with the Securities General Ledger (SGL) maintained by the Reserve Bank of India.
11. Acting on some information received, RBI has been examining the sale-purchase transactions in Government Securities undertaken by several banks including the State Bank of India sometime from 27th January, 1992. The examination included, *inter alia*, compliance by the banks with the instructions for the orderly conduct of such transactions issued by the RBI in respect of these transactions. Since some discrepancies have been noticed in the case of State Bank of India, a detailed scrutiny of the transactions on a contract by contract basis was carried out.
12. The State Bank of India also noticed discrepancies in the bank's investment accounts vis-a-vis SGL Account maintained by the RBI. It obtained the SGL Statement as on 29.3.1992 and 31.3.1992 and undertook reconciliation with the bank's investment account. The RBI's examination as well as the SBI's scrutiny revealed large gaps between the balances in the investment account and SGL account with the RBI. Preliminary scrutiny by the RBI has indicated that the bulk of investments in Government Securities made by the SBI and not backed by proper SGL forms i.e. the difference in the balance between the SBI books and the SGL account with the RBI are on account of a major stock broker. Obviously, this is a serious case of system failure and is also indicative of a possible collusion between some officials of the bank and the broker in question. In all such cases, the foremost concern of any banking institution is to safeguard its financial interest. The State Bank acted speedily in this matter after the discrepancies in its investment account came to its notice. It has been reported by the SBI that since then Rs.622.72 crores from this broker have been recovered. The final picture of the shortfall and the role played by various brokers will emerge only after the completion of the scrutiny now undertaken by the RBI.
13. The Reserve Bank is now looking into security transactions of all major banks. RBI proposes to audit all contracts relating to sale and purchase of Government Securities during the last six months covering such areas as the manner of concluding the contracts, taking delivery of securities, payments made, genuineness of the sale and purchase of Government Securities, particularly those put through by banks through brokers. This is being done with a view to further tighten up the systems and procedures, monitoring and supervision of these transactions

in order to ensure that irregularities that have been noticed do not recur again. The recent events do point to weaknesses in systems and procedures in some important areas of the working of our banking system. I have asked the Reserve Bank to look into all aspects of this matter. A Deputy Governor of the Reserve Bank will be incharge of inquiry into this affair. I can assure the House that appropriate action will be taken against all individuals who are found to have indulged in malpractices in these transactions.

A P P E N D I X - V

(See para 1.13 of the Report)

Copy of the Motion for Appointment of a Joint Committee as adopted by Lok Sabha on 6 August, 1992

"That a Joint Committee of both the Houses consisting of 30 Members, 20 from Lok Sabha and 10 from Rajya Sabha be appointed:

- (i) to go into the irregularities and fraudulent manipulations in all its aspects and ramifications in transactions relating to securities, shares, bonds and other financial instruments and the role of the banks, stock exchanges, financial institutions and public sector undertakings in transactions relating thereto, which have or may come to light.
- (ii) to fix responsibilities of the persons, institutions or authorities in respect of such transactions.
- (iii) in the above context, to identify the misuse, if any of and the failures/inadequacies in the control mechanism and the supervisory mechanism.
- (iv) to make recommendations for safeguards and improvements in the system for elimination of such failures and occurrences in future.
- (v) to make appropriate recommendations regarding policies and regulations to be followed in future.

That the Committee shall have the following 20 Members of the Lok Sabha as its members:

- (1) Shri Mani Shankar Aiyar
- (2) Smt. Basava Rajeswari
- (3) Shri Vijay Kumar Raju Bhupathiraju
- (4) Shri P.C. Chacko
- (5) Shri Nirmal Kanti Chatterjee
- (6) Shri Kamal Chaudhry
- (7) Shri Murli S. Deora
- (8) Shri George Fernandes
- (9) Shri Jaswant Singh
- (10) Shri Ram Niwas Mirdha
- (11) Shri Ram Naik
- (12) Shri P.G. Narayanan
- (13) Dr. Debi Prosad Pal
- (14) Shri Sriballav Panigrahi
- (15) Shri Shravan Kumar Patel
- (16) Shri Harin Pathak
- (17) Shri Rabi Ray
- (18) Shri P.M. Sayeed
- (19) Shri K.P. Unnikrishnan; and
- (20) Shri Sushil Chandra Varma

That the Speaker shall nominate one of the Members of the Committee to be its Chairman.

The Committee shall start functioning from the day it is duly constituted.

That the Committee shall be provided all assistance by the Government and its agencies.

That in order to constitute a sitting of the Joint Committee the quorum shall be one third of the total number of Members of the Joint Committee.

That the Joint Committee shall make a report to this House by the end of the next session of Parliament.

That the Rules of Procedure of the House relating to Parliamentary Committees shall apply.

That the Committee may if the need arises in certain matters adopt a different procedure with the concurrence of the Speaker.

That this House recommends to Rajya Sabha that the Rajya Sabha do join the Committee and communicate to this House the names of the members appointed from amongst the members of the Rajya Sabha to the Committee as mentioned above."

A P P E N D I X - V I

(See para 1.13 of the Report)

Motion for Appointment of a Joint Committee as adopted by Rajya Sabha on 7 August, 1992

"That this House concurs in the recommendation of the Lok Sabha that a Joint Committee of the Houses consisting of 30 Members, 20 from Lok Sabha and 10 Members of the Rajya Sabha be constituted:

- i) to go into the irregularities and fraudulent manipulations in all its aspects and ramifications in transactions relating to securities, shares, bonds and other financial instruments and the role of the banks, stock exchanges, financial institutions and public sector undertakings in transactions relating thereto, which have or may come to light;
- ii) to fix responsibilities of the persons, institutions or authorities in respect of such transactions;
- iii) in the above context, to identify the misuse, if any, of and the failures/inadequacies in control mechanism and the supervisory mechanism;
- iv) to make recommendations for safeguards and improvements in the system for elimination of such failures and occurrences in future;
- v) to make appropriate recommendations regarding policies and regulations to be followed in future made in the motion adopted by the Lok Sabha on the 6th August, 1992 and communicated to this House on the 6th August, 1992 and resolves that this House do join in the said Committee and do appoint 10 Members from among the Members of this House namely:

1. Shri S.S. Ahluwalia
2. Shri Triloki Nath Chaturvedi
3. Shri Jagesh Desai
4. Shri Dipen Ghosh
5. Shri Gurudas Das Gupta
6. Shri H. Hanumanthappa
7. Shri Murasoli Maran
8. Shri S. Jaipal Reddy
9. Shri Yashwant Sinha
10. Shri Ram Naresh Yadav

to serve on the said Committee".

A P P E N D I X - V I I

(See para 1.15 of the Report)

Composition of Study Groups of Joint Committee to enquire into irregularities in Securities and Banking transactions

Study Group - I

[Government of India including Ministry of Finance and Reserve Bank of India]

1. Shri Jaswant Singh — Convener
2. Shri P.C. Chacko — Alternate Convener
3. Shri Vijaya Kumar Raju Bhupathiraju
4. Shri George Fernandes
5. Dr. Debi Prosad Pal
6. Shri Sriballav Panigrahi
7. Shri P.M. Sayeed
8. Shri Triloki Nath Chaturvedi
9. Shri Gurudas Das Gupta
10. Shri H. Hanumanthappa

Study Group - II

[Banks, Financial Institutions and Finance Companies]

1. Shri Rabi Ray — Convener
2. Sqn. Ldr. Kamal Chaudhry — Alternate Convener
3. Shri Mani Shankar Aiyar
4. Shri Nirmal Kanti Chatterjee
5. Shri Ram Naik
6. Shri Shravan Kumar Patel
7. Shri K.P. Unnikrishnan
8. Shri Sushil Chandra Varma
9. Shri Murasoli Maran
10. Shri Ram Naresh Yadav

Study Group - III

[Public Sector Undertakings, Stock Exchanges, Securities and Exchange Board of India (SEBI) and Brokers]

1. Shri Jagesh Desai — Convener
2. Shri Dipen Ghosh — Alternate Convener
3. Smt. Basava Rajeswari
4. Shri Murli S. Deora

5. Shri P.G. Narayanan
6. Shri Harin Pathak
7. Shri S.S. Ahluwalia
8. Shri S. Jaipal Reddy
9. Shri Yashwant Sinha

The Study Groups will also examine the role of Investigating Agencies like C.B.I., Directorate of Enforcement, Income-tax Department and Directorate of Revenue Intelligence insofar as it concerns their area of study.

Working Group on Procedure and Programme

1. Shri Ram Niwas Mirdha — Chairman
2. Sqn. Ldr. Kamal Chaudhry
3. Shri Jaswant Singh
4. Dr. Debi Prosad Pal
5. Shri Rabi Ray
6. Shri K.P. Unnikrishnan
7. Shri Jagesh Desai
8. Shri Dipen Ghosh
9. Shri H. Hanumanthappa
10. Shri Yashwant Sinha

A P P E N D I X - V I I I

(See para 4.3 of the Report)

RBI Circulars dated 15.4.1987 and 1.12.1987 to banks relating to "buy-back" arrangements etc.

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
"THE ARCADE", WORLD TRADE CENTRE, CUFFE PARADE,
COLABA, BOMBAY 400005.

Ref. DBOD.No.Dir.BC.42/C.347-87

April 15, 1987
Chaitra 25, 1909 (Saka)

C o n f i d e n t i a l

To
All Scheduled Commercial Banks

Dear Sirs,

Buy-back arrangements in Government and other Approved Securities entered into by commercial banks.

Please refer to paragraph 10(a) of Governor's letter No.CPC.BC.84/279A-87 dated 31 March, 1987.

2. It has been observed that banks often enter into buy-back arrangements in respect of Government and other Approved Securities among themselves and with their large public sector and corporate clients. The banks are advised to follow the guidelines given hereunder in respect of their buy-back arrangements with banks and others.

A. Prohibition against buy-back arrangements in respect of Corporate Securities and Bond issued by Public Sector Undertakings.

Bank should not enter into buy-back arrangement in respect of their holdings of public sector bonds or corporate shares and debentures.

B. Buy-back arrangements in Government and other Approved Securities with (non-bank) clients.

- i) The buy-back deals should be exclusively confined to Government and other Approved Securities and the re-purchase dates should be fixed after a minimum period of 30 days from the date of sale of the securities in question.
- ii) The purchase/sale prices under the arrangement should be in alignment with the

proximate market rates prevalent on the date of the original transaction for the relevant Government and other Approved Securities.

- iii) No sales of Government and other Approved Securities under the arrangement should be effected by banks unless the same are actually held by them on their own investment portfolio either in the form of actual scrips or in SGL account maintained with Reserve Bank.
- iv) Immediately on sale, the corresponding amount should invariably be deducted from the investment account of the bank and its SLR assets for the entire period (minimum 30 days) of holding by the purchaser/counter-party.
- v) Interest on the securities at coupon rates would be paid by the banks after deduction of tax on the lines indicated in our circular No.DBOD.BP.BC.88/C.469(81-B)-86 dated 14 August, 1986.

C. Inter-Bank Buy-back Arrangements in Government and other Approved Securities

- i) While inter-bank buy-back transactions in Government and Other Approved Securities may be undertaken for short periods without the stipulation of any minimum period, the net differential in sale and repurchase prices of the securities in question (spread over the transaction period) together with the coupon rate of interest on the securities should not in aggregate exceed the prevailing ceiling on call money rate in the inter-bank market. In other words the transactions should be done to yield a net return at the lower of the following:
 - a) difference in sale and repurchase price of the securities (spread over the transaction period) together with interest at the coupon rate on the securities in question; or
 - b) the prevailing ceiling on call money rate in the inter-bank market.
 - ii) The other stipulations mentioned at B(ii) to (v) above would be equally applicable to transactions with banks.
3. A report on the buy-back arrangements indicating, *inter alia* profitability of transactions, should be submitted to the Board on a quarterly basis.
 4. A copy of this circular may please be placed before the Board of Directors for their information, under advice to us.
 5. Please acknowledge receipt.

Yours faithfully,

(P.D. Gupta)
Additional Chief Officer

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS & DEVELOPMENT
"THE ARCADE" WORLD TRADE CENTRE, CUFFE PARADE,
COLABA, BOMBAY-400005

Ref: DBOD.No. 60/C.347(PSB)-87

December 1, 1987
Agrahayana 10, 1909 (Saka)

To
All Scheduled Commercial Banks

Dear Sirs,

Buy-back arrangements in units of Unit Trust of India (UTI)

We have received inquiries from banks whether they can enter into buy-back arrangements in units of UTI under 1964 Scheme. We have examined the matter and have to advise that the units are not approved security for buy-back arrangements in terms of the instructions contained in our circular DBOD.No.DIR.BC.42/C.347-87 dated 15th April, 1987.

2. Please acknowledge receipt.

Yours faithfully,

(K. N. Vasudevan)
Deputy Chief Officer

A P P E N D I X - I X

(See para 4.6 of the Report)

RBI Circular dated 26.7.1991 regarding transaction in Securities

DEPUTY GOVERNOR

RESERVE BANK OF INDIA
CENTRAL OFFICE
BOMBAY

D.O. DBOD NO. FSC. 46/C 469-91/92

26 July, 1991
4 Sravana, 1913 (Saka)

SECRET

Dear Shri,

Investment Portfolio of banks — Transactions in Securities

It is a matter of great concern for us that certain banks are engaged in types of transactions in securities which they should not be undertaking. A list of such transactions is appended:

- (i) Ready forward (buy-back) deals at rates which have no relevance to the market rates, *inter-alia*, with a view to window-dressing their balance sheet/compliance of SLR requirements.
- (ii) Double ready forward deals with a view to covering their oversold position in a specific security.
- (iii) Sale transactions by issue of Bank Receipts (BRs)/SGL forms without actually holding the securities/without having sufficient balance in their SGL accounts.
- (iv) Issuing BRs/SGL forms on behalf of their broker clients without safeguarding banks' interest.

2. You may do away that with a view to helping the banks to overcome various deficiencies in the long-term securities market and to enable them to manage their short-term cash deficit/surpluses more efficiently, we have permitted banks to enter into buy-back deals in Government Securities among themselves (and not with their non-bank clients). It was our expectation that such deals will be undertaken by the selling bank, only if it holds sufficient securities (either in the Physical form or in SGL account), at market related rates and such deals will be properly reflected in their books of account. However, we observe that certain banks have been resorting to this type of transactions, without actually holding sufficient Securities either in physical form or in their SGL account (resulting in substitution of BRs/return of SGL forms for want of sufficient balance), at rates which have no relevance to market, with a view to window-dressing their profitability/maintenance of SLR requirement with the tacit understanding with the counter party banks. Some of the banks appear to be taking outright oversold position in securities and in their desperate bid to cover the oversold position in a particular security/ies enter into double ready forward deals and other banks oblige them in the matter.

3. Another disquieting feature observed is the extensive use of BRs by banks. 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 BRs 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. Some of the banks have also been issuing BRs on behalf of their broker clients, without verifying whether their broker clients hold the securities covered by the relative BRs.

4. It will be absolutely essential for your bank to frame and implement a suitable investment policy to ensure that operations in securities are conducted in accordance with sound and acceptable business practices. While evolving the policy you are requested to keep in view the following guidelines:

- (i) Under no circumstances, the bank should hold a oversold position in any security, that is to say that no sale transactions should be put through without acutally holding the security in its Investment account.
- (ii) All the transactions put through by bank either on outright basis or ready forward basis and whether through the mechanism of SGL Account or Bank Receipt should be reflected on the same day in its Investment Account and accordingly for SLR purpose, wherever applicable.
- (iii) Transactions between your bank and another bank should not be put through the brokers' accounts. The brokerage on the deal payable to the broker, if any, (if the deal is put through with the help of a broker) should be clearly indicated on the notes/memorandum put up to the top management seeking approval for putting through the transaction and amount of brokerage paid, broker-wise, should be maintained.
- (iv) For issue of BRs, the banks should adopt the format prescribed by the IBA and should strictly follow the guidelines prescribed by them in this regard subject to above, the banks should issue BRs covering their own sale transactions only and should not issue BRs on behalf of their constituents including brokers.
- (v) The banks should be circumspect while acting as agents of their broker clients for carrying out transactions in securities on behalf of brokers.
- (vi) Any instance of return of SGL form from the public debt office of the Reserve Bank for want of sufficient balance in the account should be immediately brought to our notice with the details of the transactions.

5. We shall also be glad if a copy of the policy framework for undertaking transactions in securities approved by your bank's board, is forwarded to us.

6. Please acknowledge receipt.

Yours sincerely,

(A. Ghosh)

A P P E N D I X - X

(See para 4.14 of the Report)

Statement showing bank-wise analysis of transactions in securities during 1.4.1991 to 23.5.1992

(Rs. in crores)

Bank	Aggregate face value	Percentage to aggregate face value
Citibank	2,15,179	16.74
Standard Chartered Bank	1,88,034	14.63
Bank of America	1,59,478	12.41
ANZ Grindlays Bank	93,958	7.31
Canbank Financial Services Ltd.	90,282	7.02
American Express Bank	69,191	5.38
State Bank of India	54,343	4.23
Andhra Bank	42,135	3.28
SBI Capital Markets Ltd.	32,971	2.56
UCO Bank	28,906	2.25
Canara Bank	27,879	2.17
Bank of Madura Ltd.	25,729	2.00
Others	2,57,464	20.02
	12,85,549	100.00

APPENDIX - XI

(See para 4.21 of the Report)

Statements showing assets of notified persons and claims there against as intimated by the Custodian on 2.12.1993

(Rs. in lakhs)

Name of Notified Person	Shares/ Debs. intimated by Cos. Valued at mid Nov. 93 prices	Bonds	Receiv-ables	Immo-vable Proper-ties	Other Proper-ties	Other Secu-rities	Cash at Bank	Total [cols (2) to (8)]
H S M Group	71686.73	5794.50	6512.71	3170.49	13007.96	32735.32	8415.90	141323.61
Hiten P. Dalal	1794.33	—	547.75	27.00	4162.70	20956.19	815.76	28303.73
A.D. Narotam	7.77	—	2.00	5.95	2161.19	31.32	20.72	2228.95
Bhupen C. Dalal	176.24	—	25.11	51.80	719.46	21.00	58.38	1051.99
J.P. Gandhi	43.40	—	29.15	1.79	2.92	24.75	7.61	109.62
T.B. Ruia	1.35	—	—	1.00	113.18	—	0.02	115.55
Dhanraj Mills	763.61	—	—	7.29	222.15	—	12.02	1005.07
C.L. Khemani	0.19	—	—	1.53	12.81	—	5.51	20.04
A.N. Bavadekar	—	—	—	1.51	2.73	—	0.04	4.28
R. Sitaraman	0.53	—	—	—	—	—	1.16	1.69
FFSL	7703.33	4600.00	6400.00	—	14413.00	—	4253.00	37369.33
R. Ganesh	—	—	—	—	0.20	—	0.49	0.69
Deepak B. Mehta	—	—	—	—	—	—	0.06	0.06
Total	82177.48	10394.50	13516.72	3268.36	34818.30	53768.58	13590.67	211534.61

Remarks

1. Details of shares held are based on information given by the companies called by the Custodian. They continue to be received. It is possible that since the last book closure and before notification, sale/purchase on blank transfers have taken place but are yet to be registered. The position will be clear only when (i) purchasers submit shares for registration verified by the Stock Exchange and (ii) information regarding unregistered shares with notified persons are made available. The figures include certain shares/debentures acquired by notified persons after notification by way of bonus

shares. As regards right shares of certain companies for which moneys released by the Special Court from the attached accounts and paid for accordingly, the amounts are included in the receivables pending further payment towards these calls. Custodian has also filed an application in the Court for directions to notified persons to indicate their assets.

2. Harshad Mehta has so far sent to Custodian a list of transactions with banks and brokers valued Rs.1433.88 crores as dues to him-most on account of ready forward transactions. Out of this amount, investigation by the Custodian indicate that assets about Rs. 280 crore can be proved subject to the orders of the Court to whom they have to be submitted and notice given to all parties. This has been provisionally indicated under the respective columns.

3. Details of bonds held are based on information received from various PSUs. Value of bonds have been assessed at face value. The possibility of them having been sold in bank as in the case of shares cannot be ruled out. A Committee has been constituted by the Special Court to scrutinise purchase of these bonds etc. by bank etc. yet to be registered in their names. As on date PSUs have indicated that they had received Rs. 23 crores of bonds sold by the notified persons were transfer which has been kept pending.

4. Details of receivables are based on information obtained in response to public notice issued by the Custodian as well as CBI and Income Tax.

5. Details of immovable properties are based on information given by Income Tax Department and two buildings allowed by Court to be acquired by Harshad Mehta Group.

6. Other properties include securities (without full details) held by various banks, financial institutions as well as those seized by CBI/IT; jewellery etc. all of which are statutorily attached. Some of these securities may be included in those indicated by companies and others sold in blank. Actual position will be clear only on determination of title by Court. There are several cases filed in the Special Court in this regard.

7. Other Securities are the securities with blank transfer forms held by CBI, II Custodian, Banks and Financial Institutions where full details are available and have been valued at mid-November 1993 prices.

8. Dhanraj Mills have considerable real estates in Bombay, sale value of which will be considerable. The Custodian has applied to the Special Court for valuation of immovable properties.

Claims against the notified persons

(Rs. in crores)

I. Fairgrowth Financial Services Ltd.

A. As submitted before the Court :

i) Tourism Finance Corporation of India	5.00
ii) NHB	10.75
iii) Industrial Finance Corporation of India	3.54
iv) Industrial Reconstruction Bank of India	1.38
v) M/s Pripalu Enterprises (45,000 share of Hardelia Chemicals)	0.32
vi) Namtech Electronics	1.80
vii) Dolphin International	2.00
viii) Prag, Bosimi Synthetics	16.00
ix) Mura Black	2.00

B. As reported to the Custodian :	
i) Bank of Baroda	1.00
ii) BOI Finance	15.00
iii) Nedungadi Bank	5.06
iv) Tamilnad Mercantile Bank	2.85
v) Syndicate Bank	0.15
vi) Other individual claims	10.35
vii) ABFSL	240.00
viii) Income Tax	49.04
	<hr/>
	366.24
	<hr/>
II. Harshad Mehta Group	
A. As submitted before the court :	
i) SBI	774.91
ii) SBI Caps	18.65
iii) Canfina	2.90
iv) Income Tax	290.03
B. As reported to the Custodian :	
i) Canfina	25.00
ii) ANZ Grindlays Bank	0.27
iii) SBS	312.21
iv) SBI	105.10
	<hr/>
	1529.07
	<hr/>
III. Hiten Dalal	
A. As reported to the Custodian :	
i) Canfina	33.00
ii) -do-	4.30
	<hr/>
	37.30
	<hr/>
IV. Bank of Karad	
(involving Hiten Dalal, AD Narottam, TB Ruia, Bhupen Dalal and JP Gandhi)	
A. As reported to the Custodian :	
i) Canfina	374.35
ii) CMF	103.82
iii) SCB	1239.82
	<hr/>
	1717.99
	<hr/>
GRAND TOTAL :	3650.60
	<hr/>

APPENDIX - XII

(See para 4.21 of the Report)

**A comparative statement of claims against notified persons received in Custodian Office and exposure amounts indicated in the Janakiraman Committee's Report and the reasons for variations.
(As intimated by the Office of the Custodian to the Committee on 22.10.1993)**

Transaction	Figures		Notified persons	Remarks
	Custodian	Janakiraman committee (JCR)		
1	2	3	4	5
NHB with SBI	707.56 67.35	707.56	HSM	SBI has paid the amount to NHB. SBI has raised this amount as a claim against HSM. SBI has also lodged an additional claim of Rs. 67.35 crores towards interest on the principal amount.
NHB with ANZ Grindlays Bank	—	506.55	HSM	The matter is under arbitration hence Custodian's office has not taken this figure into account in their computation.
NHB with Stanchart		55.18	GRAM (HSM)	SCB has not lodged this claim with Custodian's office; hence not taken into account in their computation.
NHB with Canfina	—	1.91	Reported in JCR as "under investigation"	Canfina has not lodged this claim with Custodian's Office; hence not taken into account in their computation.
NHB with FFSL	10.75	—	—	NHB has lodged this claim with Custodian's office. JCR has not taken this into account as securities equivalent belonging to FFSL are being held by them. Custodian's Office has to take this into account as FFSL's attached property in terms of Sec.3(2) of the Special Court Act which has to be distributed under Sec.11 of the Act.

1	2	3	4	5
SBS with SBI	4.55 1.09	4.55	HSM 13% NLC bonds	SBS has claimed an additional amount of Rs. 1.09 crores towards interest which has not been taken into account in JCR.
SBS with SBI	67.74 32.99	67.74	HSM 5 cr. units of UTI	SBS has claimed Rs.32.99 crores towards interest which has not been taken of into account in JCR.
SBS with NHB		75.82	HSM	SBI has claimed this amount against HSM and they have since paid this money to NHB. RBI has confirmed that SBS's claim relates to the same amount and has resulted in duplication of claim.
SBS with SBI	26.82 13.47	26.82	HSM	Interest of Rs.13.47 crores has not been taken into account in JCR.
SBS with NHB	27.09 13.20	—	HSM	SBS has claimed this amount on account of payment for units (1964) made to HSM.
SBS with NHB	95.40 17.00	—	HSM	SBS has claimed Rs.112.40 crores against HSM being a wrong credit taken by HSM. This is not reflected in JCR.
SBS with ANZ	4.71	—	HSM	SBS has claimed this amount from HSM for loss suffered in ready forward deal. This is not reflected in JCR.
SBS with Canmutual	7.87	—	HSM	SBS has claimed this amount against HSM for loss suffered in ready forward deal. This is not reflected in JCR.
SBS call money transaction with other banks account	0.28	—	HSM	SBS has claimed this amount towards loss on account of differences in rate of interest paid by counterparty bank on call money transaction which were credited into HSM. This is not reflected in JCR.
SBI Caps transaction with UCO Bank,NHB & Canfina	105.11	105.11	HSM	No difference between the claim received by Custodian Office and JCR.
SBI Caps Transaction in units	16.25 2.40	16.25	Harshad S. Mehta	SBI Caps lodged further claim of Rs. 2.40 crores towards interest. This has not been indicated in the JCR.

1	2	3	4	5
Stanchart transaction with BOK & Metropolitan Bank	1239.82	1482.14	Dalal Group	Rs.931.84 crores towards transaction with BOK and MCB in which BRs/SGL forms are held by SCB has been indicated both in the JCR and to the Custodian's Office; hence no difference. In respect of transaction of SCB where they do not hold BRs/SGL amounting to Rs.400.35 crore indicated in JCR Rs.308 crores only has been indicated to the Custodian Office. Difference of Rs.92.35 crores therefore has not been taken into account in the Custodian's Office. Additionally SCB's transaction with Andhra Bank, ABFSL, KVB and ABN Amro totalling Rs.149.95 crores indicated in the JCR has not been claimed by Stanchart with the Custodian's Office; hence not taken into account in the computation.
Canfina Transaction with BOK, HPD (Cancigo), ABFSL, SCB, HPD,HKB/CMF NKA, Ashwin Mehta and Pallav Seth.	439.53	666.73	Dalal Group	Out of Rs.666.73 crores indicated in JCR, transactions amounting to Rs.139.51 crores relating to persons not notified has not been taken into accounting Custodian's Office computation, Rs.70.91 crores and Rs. 16.76 crores difference are on account of difference in value of securities taken by JCR.
CMF with BOK	102.97 0.85	102.97	Dalal Group	Difference of Rs.0.85 crore between JCR and that claim put by CMF with the Custodian's Office could not be explained as there is no detail in JCR.
ABFSL with FFSL	205.12 34.88	205.12	FFSL	JCR figures has been arrived at after netting the value securities belonging to FFSL held by ABFSL at the time of their report. Securities belonging to FFSL is attached property under Sec.3(2) of the Special Court Act.
Other claims relating to FFSL	67.19	—	FFSL	Other claims from various individuals/financial institutions such as Tourism Finance Corporation, Industrial Finance Corpn., IRBI Namtech Electronics, Dolphin International, Prag Bosimi Synthetics, Mura Black, BOB,BOI Finance,

1	2	3	4	5
				Nedungadi Bank, Tamilnadu Mercantile Bank, Syndicate Bank and other individual claims have been lodged with the Custodian's office. These are not reflected in JCR.
Overdraft charges by ANZ against HMG	0.27	—	HSM Group	ANZ has claimed this amount against HMG.
Income tax demand	49.04	—	FFSL	Income Tax has lodged claims against FFSL & HSM Group.
	290.03	—	HSM Group	
TOTAL :	3651.35	4024.45		

A P P E N D I X - X I I I

(See para 4.30 of the Report)

RBI circular dated 11.4.1988 re. compliance with guidelines on inter-bank buy-back arrangements in securities

Telegrams:
'Bankchalan'
Bombay

RESERVE BANK OF INDIA
Central Office, Post Box No.6089
Department of Banking Operations & Development
'The arcade', World Trade Centre,
Cuffe Parade COLABA,
BOMBAY - 400 005

Ref. DBOD.No.Dir.BC.127/C.347(PSB)-88

April 11, 1988
Chaitra 22, 1909 (Saka)

To : All Scheduled Commercial Banks

Dear Sirs'

Buy-back arrangements in Government and Other Approved Securities entered into by commercial banks.

Please refer to paragraph 9 (e) of our Governor's circular letter No.CPC.BC.91/279A-88 dated April 2, 1988. In terms of our circular DBOD.No.Dir.BC.347-87 dated April 15, 1987, banks were prohibited from entering into buy-back arrangements in public sector bonds or corporate shares and debentures. Banks were, however, permitted to provide buy-back arrangements in Government and other Approved Securities subject to adherence to certain procedures. As there was a sharp increase in such commitments, banks were cautioned in October 1987 to moderate their commitments under buy-back arrangements as a sudden unwinding of these arrangements by investors could result in a serious liquidity bind. However, these commitments still remain large and have had a depressing effect on the growth of deposits apart from having an adverse impact on the profitability of banks. The banks are, therefore, prohibited from entering into buy-back arrangements in Government and other approved Securities with non-back clients with effect from April 4, 1988. All such existing arrangements must be terminated on the date they expire or July 1, 1988, whichever is earlier. While banks are permitted to undertake outright purchases/sales, such transactions must be affected at market prices. While existing procedures for outright purchase/sale, transactions may be continued, the spirit of the instruction prohibiting buy-back arrangements with non-bank investors must be scrupulously observed. It may be noted that outright sale and purchase transactions with the same party and for identical or similar amounts would be construed as tacit arrangements violating the instructions prohibiting buy-back arrangements with non-bank clients. Accordingly, the instructions contained in our circular dated April 15, 1987, stand modified.

2. Banks may continue to enter into buy-back arrangements with other banks (inter-bank) in Government and Other Approved Securities subject to strict adherence to guidelines indicated in our circular dated April 15, 1987, *ibid*. As mentioned in our circular dated April 15, 1987, a report on the buy-back arrangements including *inter alia*, profitability

of transactions should be submitted to the Board on a quarterly basis.

3. It may be emphasised that the top executives in banks should bestow their special attention to inter-bank buy-back arrangements to ensure that the guidelines on the subject are strictly complied with in letter and spirit and any deviation/s viewed seriously and accountability fixed at all levels.
4. A report should be submitted to the Board setting out compliance with the instructions prohibiting buy-back arrangements with non-bank investors. The phased unwinding of buy-back commitments should be submitted to us at the end of each month. A full compliance report should also be submitted to us immediately after July 1, 1988.
5. A copy of this circular may please be placed before the Board of Directors for their information, under advice to us.
6. Please acknowledge receipt.

Yours faithfully,

(K.K. Mukerjee)
Chief Officer

A P P E N D I X - X I V

(See para 4.31 of the Report)

RBI Circular dated 20.6.1992 regarding transactions in securities

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS & DEVELOPMENT
CUFFE PARADE, COLABA, BOMBAY-400005

Please quote in reply

Ref. DBOD No. FSC.BC.143A/24.48.001/91-92.

June 20, 1992

Jyaistha 30, 1914 (Saka)

The Chairmen/Chief Executives of all Commercial Banks

Dear Sir

Investment Portfolio of banks - transactions in securities

Please refer to our D.O. circular letter DBOD.No.FSC.46/C.469 -91/92 dated 26 July 1991 in which banks were cautioned to refrain from undertaking certain transactions in securities which were considered irregular. Banks were advised to frame and implement a suitable investment policy to ensure that operations in securities were conducted in accordance with sound and acceptable business practices. While evolving policies with the approval of their respective Boards, banks were required to keep in view the guidelines prescribed therein.

2. The Committee appointed by the Governor of the Reserve Bank of India (RBI) to enquire into the securities transactions of banks and financial institutions has made a number of recommendations in paragraph 9 of its Interim Report. RBI has examined these recommendations and accepted them generally.

3. The following instructions are issued in accordance with these recommendations :-

I. INVESTMENT POLICY

Banks have been undertaking transactions in securities on their own Investment Account, on behalf of Portfolio Management Scheme (PMS) clients in their fiduciary capacity, and on behalf of other clients, either as custodians of their investments or purely as their agents. With the approval of their respective Boards, banks should clearly lay down the broad investment objectives to be followed while undertaking transactions in securities under each category mentioned above, clearly define the authority to put through deals, procedure to be followed for obtaining the sanction of the appropriate authority, procedure to be followed while putting through deals, various prudential exposure limits, and the reporting system. While laying down such investment policy guidelines, banks should strictly observe the following instructions.

Ready-Forward (buy-back) deals

- (i) Banks are prohibited with effect from 22 June 1992, and until further instructions, from undertaking inter-bank ready-forward deals in dated Government and approved/

trustee securities. Existing deals in dated securities should be completed on due dates without resorting to any extension or roll overs. As such, inter-bank ready-forward transactions may henceforth be undertaken only in Treasury Bills (of all maturities).

- (ii) All double ready-forward deals in Government securities including Treasury Bills are strictly prohibited.
- (iii) No ready-forward and double ready-forward deals should be put through even among banks, and even on their own Investment Accounts in any other securities, such as public sector undertakings (PSUs) bonds and Units.
- (iv) Similarly, no ready-forward and double ready-forward deals should be put through in any security including Government securities, on behalf on PMS Clients' Accounts or on behalf of other constituents including brokers.

Transactions in Government securities

- (v) All transactions in Government securities for which SGL facility is available should be put through SGL Accounts only.
- (vi) Before issue of SGL transfer forms covering their sale transactions, banks should ensure that they have sufficient balance in their respective SGL Accounts. Accordingly, under no circumstances, a SGL transfer form issued by a bank in favour of another bank should bounce for want of sufficient balance in the SGL Account. The purchasing banks should issue the cheques only after receipt of the SGL transfer forms from the selling banks.
- (vii) The SGL transfer form received by purchasing banks should be deposited in their SGL Accounts immediately. No sale should be effected by way of return of SGL form held by the bank.
- (viii) SGL transfer forms should be signed by two authorised officials of the bank whose signatures should be recorded with the respective Public Debt Office (PDO) of RBI and other banks.
- (ix) The SGL transfer forms should be in the standard format prescribed by the RBI and printed on semi-security paper of uniform size. They should be serially numbered and there should be a control system in place to account for each SGL form.
- (x) If the SGL transfer form bounces for want of sufficient balance in the SGL Account, the (selling) banks which has issued the form will be liable to the following penal action against it:
 - (a) The amount of the SGL form (cost of purchase paid by the purchaser of the security) will be debited immediately to the current account of the selling bank with the RBI;
 - (b) in the event of an overdraft arising in the current account following such a debit, penal interest will be charged by the RBI on the amount of the overdraft at a rate 3 percentage points above the Discount and Finance House of India's call money lending rate on the day in question; and
 - (c) if the bouncing of the SGL form occurs thrice, the bank will be debarred from trading with the use of the SGL facility for a period of six months from the occurrence of the third bouncing. If after restoration of the facility, any SGL form of the concerned bank bounces again, the bank will be permanently debarred from the use of the SGL facility in all the PDOs of the RBI.

Bank Receipts (BRs)

- (xi) No BR should be issued under any circumstances in respect of transactions in Government securities for which SGL facility is available.
- (xii) Even in the case of other securities, BR may be issued for ready transactions only, under the following circumstances:
 - (a) The scrips are yet to be issued by the issuer and the bank is holding the allotment advice.
 - (b) The security is physically held at a different centre and the bank is in a position to physically transfer the security and give delivery thereof, within a short period.
 - (c) The security has been lodged for transfer/interest payment and the bank is holding necessary records of such lodgements and will be in a position to give physical delivery of the security within a short period.
- (xiii) No BR should be issued on the basis of a BR (of another bank) held by the bank and no transaction should take place on the basis of a mere exchange of BRs held by the bank.
- (xiv) BRs may be issued covering transactions relating to banks' own Investment Accounts only, and no BR should be issued by banks covering transactions relating to either the Accounts of PMS Clients or Other Constituents' Account including brokers.
- (xv) No BR should remain outstanding for more than 30 days.
- (xvi) BRs should be issued on semi-security paper, in the standard format (prescribed by IBA), serially numbered, and signed by two authorised officials of the bank, whose signatures are recorded with other banks. As in the case of SGL forms, there should be a control system in place to account for each BR form.
- (xvii) Separate registers of BRs issued and BRs received should be maintained, and arrangements should be put in place to ensure that these are systematically followed up and liquidated within the stipulated time limit.

II. INTERNAL CONTROL SYSTEM

- (i) There should be a clear functional separation of (a) trading, (b) settlement, monitoring and control and (c) accounting. Similarly, there should be a functional separation of trading and back office functions relating to banks' own Investment Accounts, PMS Clients' Account and Other Constituents (including brokers') Accounts. While providing portfolio management service to their clients, the banks should strictly follow the guidelines issued on the subject (*vide* DBOD.No.FSC.69/C.469-90/91 dated 18 January 1991) and PMS Clients' Accounts should be subjected to a separate audit by external auditors.
- (ii) For every transaction entered into, the trading desk should prepare a deal slip which should contain data relating to nature of the deal, name of the counterparty, whether it is a direct deal or through a broker, and if through a broker name of the broker, details of security, amount, price, contract date and time. The deal slips should be serially numbered and controlled separately to ensure that each deal slip has been properly accounted for. Once the deal is concluded, the dealer should immediately pass on the deal slip to the back office for recording and processing. For each deal there must be a system of issue of confirmation to the counterparty, the timely receipt of

requisite written confirmation from the counterparty, which must include all essential details of the contract should be monitored by the back office.

- (iii) Once a deal has been concluded, there should not be any substitution of the counterparty bank by another bank by the broker, through whom the deal has been entered into, likewise, the security sold/purchased in the deal should be substituted by another security.
- (iv) On the basis of vouchers passed by the back office (which should be done after verification of actual contract notes received from the broker/counterparty and confirmation of the deal by the counterparty) the Accounts Section should independently write the books of accounts.
- (v) In the case of transactions relating to PMS Clients' account (including brokers) all the relative records should give a clear indication that the transaction belongs to PMS Clients/Other Constituents and does not belong to bank's own Investment Account and the bank is acting only in its fiduciary/agency capacity.
- (vi) Records of SGL transfer forms issued/received, should be maintained. Balances as per bank's books should be reconciled at quarterly intervals with the balances in the books of PDOs. If the number of transactions so warrant, the reconciliation should be undertaken more frequently, say on a monthly basis. This reconciliation shall also be periodically checked by the internal audit department. Any bouncing of SGL transfer forms issued by selling banks in favour of the buying bank, should immediately be brought to the notice of the Department of Banking Operations and Development (DBOD) of the RBI by the buying bank. Similarly, a record of BRs issued/received should be maintained. A system for verification of the authenticity of the BRs and SGL transfer forms received from other banks and confirmation of authorised signatories should be put in place.
- (vii) Banks should put in place a reporting system to report to the top management on a weekly basis, the details of transactions in securities, details of bouncing of SGL transfer forms issued by other banks and BRs outstanding for more than one month and review of investment transactions undertaken during the period.
- (viii) It is reiterated that banks should not draw cheques on their account with RBI for third party transactions including inter-bank transactions. For such transactions, bankers' cheques/pay orders should be issued.
- (ix) The Internal Audit Department should audit the transactions in securities on an ongoing basis and monitor compliance with the laid down management policies and prescribed procedures and report the deficiencies directly to the top managements of banks.

III. DEALINGS THROUGH BROKERS

- (i) If a deal is put through with the help of a broker, the role of the broker should be restricted to that of bringing the two parties to the deal together.
- (ii) While negotiating the deal, the broker is not obliged to disclose the identity of the counterparty to the deal. However, on conclusion of the deal, he should disclose the counterparty and his contract note should clearly indicate the name of the counterparty.

- (iii) On the basis of the contract note disclosing the name of the counterparty, settlement of deals between banks, viz., both fund settlement and delivery of security, should be directly between the banks and the broker should have no role to play in the process.
- (iv) With the approval of their top managements, banks should prepare a panel of approved brokers which should be reviewed annually, or more often if so warranted. Clear-cut criteria should be laid down for empanelment of brokers, including verification of their creditworthiness, market reputation, etc. A record of broker-wise details of deals put through and brokerage paid, should be maintained.
- (v) A disproportionate part of the business should not be transacted through only one or a few brokers. Banks should consider fixing aggregate contract limits for each of the approved brokers, and ensure that these limits are not exceeded.

IV. ACCOUNTING STANDARDS

Detailed instructions on accounting of investment transactions are set out in the Annexure to this circular.

V. AUDIT, REVIEW & REPORTING

- (i) Banks should undertake a half-yearly review (as of 30 September and 31 March) of their investment portfolio, which should, apart from other operational aspects of investment portfolio, clearly indicate and certify adherence to laid down internal investment policy and procedures and RBI guidelines, and put up the same before their respective Boards within a month i.e. by end-April and end-October.
 - (ii) A copy of the review report put up to the bank's Board, should be forwarded to the RBI by 15 November and 15 May respectively.
 - (iii) In view of the possibility of abuse, treasury transactions should be separately subjected to a concurrent audit by internal auditors and the results of their audit should be placed before the Chairman and Managing Director of the Bank once every month. These audit reports should be sent to the newly constituted Cell on Supervision of Funds Management Operations in banks in the Reserve Bank of India, Department of Banking Operations and Development, Central Office.
3. A copy of this circular together with the internal investment policy guidelines framed by the banks should be placed before the banks' Boards within a period of one month of receipt of this circular. A copy of the internal investment policy guidelines duly framed by banks with the approval of their Boards should be forwarded to us certifying that the same is in accordance with the guidelines indicated in this circular and that the same has been put in place.
 4. The aforesaid instructions will be applicable *mutatis mutandis* to the subsidiaries and mutual funds established by banks, except where they are contrary to, or inconsistent with, specific SEBI or RBI regulations governing their operations.
 5. Please acknowledge receipt.

Yours faithfully

(N.D. Parameshwaran)
Chief Officer

Encl. : As above

ANNEXURE

ACCOUNTING STANDARDS

- (i) All investments in securities other than approved securities should be classified under "current" category and should be valued at market price or cost whichever is less and depreciation should be provided for the shortfall if any.
- (ii) Vide paragraph 3 of our circular DBOD.No.BP.BC.129/22.04.043-92 dated 27 April 1992, we had indicated the manner in which banks, investments in approved securities should be bifurcated into "permanent" and "current" categories. Dealing securities are marketable securities that are acquired and held with the intention of reselling them in the short term. The financial results arising from such transactions must be seen as volatile, generating trading profit or loss from deliberate position taking. Investment securities on the other hand are acquired and held for yield or capital growth purposes (apart from for compliance of SLR requirement) and are usually intended to be held till maturity, except when liquidity needs arise. Unless governed by the special rule described below, gains and losses on sale of securities should be recorded at the time of sale as capital gains/losses. As stated earlier, approved debt securities classified under "current" category should be carried in the Balance Sheet at market price or cost whichever is lower, whereas approved debt securities classified under "permanent" category should be carried in the Balance Sheet either at book value (cost) or at market value, at the discretion of the banks, subject to their following a consistent accounting policy. Accounting of securities under various categories should be as under :

Approved debt securities under "permanent" category

- (a) If the investments are carried at book value, the difference between the acquisition price (acquisition cost) and the redemption price should be accrued over the period from the acquisition to the redemption date and should be recognised as income or expense.
- (b) Alternatively, the banks may choose to value such investments, on a consistent basis, at market value.
- (c) Should the banks elect to adopt the practice described in (a) above, when the securities are redeemed or sold before the original redemption date, the unaccrued portion of the amount referred to at (a) above should immediately be charged to the profit and loss account as capital gain or loss, as the case may be.
- (d) Should banks elect to follow the practice described in (b) above, the resulting revaluation gains/losses should be recognised as capital gain/loss.

Investments under "current" category

- (e) The investments under current category should be carried at lower of cost or market value, on a consistent basis.
- (f) Costs such as brokerage fees, commission or taxes incurred at the time of acquisition of trading securities should immediately be recognised as expenses, without any accrual.
- (g) The carrying value of securities under current category should be revalued at market prices on a quarterly basis. The gains/losses should be segregated by

entering them in specific "realised/unrealised gains/losses on trading of debt securities" account. The net amount of gains/losses from trading of debt securities shall be taken to the income statement.

- (iii) Each time a security is acquired, the bank should immediately record whether it is for investment account or for trading account and accordingly account for them in the respective accounts on the basis of laid down accounting policies. Transfer of securities from one account to another (i.e. Investment Account to trading Account or vice versa) should be done with the prior approval of the Board of Directors of the bank and should be properly documented.
- (iv) Potential losses should be recognised prior to the transfer of securities from current category to permanent category where market value as on the date of transfer is less than the carrying value in the books.
- (v) Banks may treat equity investments in subsidiaries as permanent investment.

A P P E N D I X - X V

(See para 8.25 of the Report)

List of PSUs and Financial Institutions who had Placed Funds with Citibank under PMS

1. HDFC
2. ICICI
3. Air India (2 Accounts)
4. GAIL
5. ITI
6. NFDC
7. NPCL
8. Pawanhans Ltd.
9. PFC
10. IDBI (9 Accounts)
11. IFCI
12. LIC Housing Finance
13. NHB
14. SCICI Ltd.
15. TFC
16. GIC Mutual Fund

A P P E N D I X - X V I

(See para 9.39 of the Report)

RBI Circular dated 5 September, 1991 Vigilance arrangements in banks and internal auditor to examine investment transactions

DBOD.No.SIC.BC.23/C.739(A-1)-91

September 5, 1991
Bhadra 15, 1913 (Saka)

The Chairmen/Managing Directors of all Public Sector Banks

Dear Sir,

Vigilance arrangements in banks

As you are aware, in the Action Plan discussions the vigilance set-up in the Public Sector Banks was, *inter alia*, reviewed. While banks have set up a Vigilance Cell, both at the Head Office and the controlling office levels to look into the vigilance cases in respect of both award staff and officers, it was observed that generally the Vigilance Departments have not been developed into an effective instrument in curbing the growing trend of vigilance cases in banks. In fact, in most of the banks, the vigilance function generally related to punitive role rather than preventive and detective vigilance, which are equally important. While the preventive role was generally confined to issue of circulars and reiteration of standing instructions regarding acceptance of gifts, hospitality from clients etc., the detective role arose mainly when complaints were received or if the internal inspections revealed adverse features in any particular account or an area which involved vigilance angle. However, the detective role in respect of sensitive areas such as advances, purchase/hiring of premises, stationery etc. involving large amounts was not performed *suo moto*. It is our assessment that absence of a regular system of preventive vigilance and looking into vigilance angle only on receipt of complaints or source information, had to a large extent, resulted in the detection of frauds, malpractices, irregularities, etc. at a very late stage.

2. Our inspections/special scrutinies have revealed that there was no built-in system to review and streamlining of procedures which appeared to afford scope for acts of misconduct and for initiating measures for prevention such as surprise visits of sensitive spots, periodical screening of the style of living and ostentatious spending of incumbents working in sensitive areas, weeding out of undesirable elements, etc. In other words, the Vigilance Department was yet to assume the role expected from it; its foremost task is not limited to taking action after malpractices have been committed, but initiating measures to prevent them. In fact, the vigilance cases arise only when there has been lack of preventive vigilance.

3. We have also observed that staff responsibility for commission of serious irregularities, such as injudicious use of powers, gross negligence at different stages in appraisal of the credit proposals, non-obtention/timely revalidation of documents, disbursement before complying with terms and conditions of sanction and laxity in post-disbursement supervision, do not get reflected in the reports of the internal inspections carried out by banks. Similarly, responsibility for lack of observance of prescribed procedures in awarding contracts, acquisition/hiring of premises, placement of purchase orders, etc. does not get fixed as part of an on-going system established for overseeing preventive vigilance. Very often, it is observed that appropriate records evidencing a detailed examination and adherence to prescribed procedures and laid down safeguards/precaution in exercise of powers vested in officials are not maintained. The audit/inspection of such exercise of

powers at RO & HO deptts. seemed to be practically non-existent. The internal audit/inspection machinery and other elements of control mechanism and reporting systems do not seem to have become an effective tool of control.

4. Another disquieting aspect noticed was the tendency on the part of banks to gloss over the staff accountability aspect of irregularities, malpractices, etc. Even if gross irregularities come to the notice, the staff accountability is examined only when the question of monetary loss and/or write-offs arise, by which time either the records are not traceable and/or the concerned officials have retired or left the service of the bank. Even in cases where substantial losses are likely to arise, in the absence of definite evidence of gratification or malafide intention (which is often difficult to prove), benefit of doubt is given by banks to the concerned officials and no deterrent punishments are awarded. It is also observed that the vigilance investigation is generally not very comprehensive or effective, particularly when senior officials and executives are involved. There is a tendency in such cases to shift responsibility on to the lower level functionaries who are also often let off with minor punishments, not at all commensurate with the gravity of the irregularity. Dismissal of delinquent officials is rare. More importantly, weeding out of officials of doubtful integrity is seldom resorted to. It was also observed that the question whether vigilance angle is involved or not was, in the case of certain banks, determined by other than vigilance department officials. In short, staff accountability is not made use of as an effective tool of preventive vigilance.

5. As you are aware, quite often, issues relating to individual borrowal accounts/transactions of banks alleging corruption, favouritism and nepotism, are raised in Parliament/Committees of Parliament and the Press. Reserve Bank/Government are called upon to explain their roles in these transactions and often it was found delicate to explain the position due to non-observance of the laid down procedures at various levels, spot/oral sanctions by the senior executives, absence of adequate information/data thrown out by the internal inspection reports and other relevant records of banks, etc. This becomes all the more difficult when individual transactions result in substantial loss to the banks and/or avoidable additional expenditure and banks have, for one reason or the other, not fixed appropriate responsibility on the concerned officials treating them as minor deviations from laid down procedures not warranting any deterrent action. It must be recognised that banks must be able to prove that the best possible commercial judgement was made and the losses were in the normal course of business.

6. In view of the social responsibility and accountability cast on the public sector banks and with a view to curtailing the incidence of corruption and malpractices, there is an imperative need to structurally strengthen and revitalise the internal control and Vigilance machinery. In the context of the various deficiencies observed in the effective functioning of the Vigilance Departments, it would be necessary for banks to undertake the following measures:

- (a) Examine the vigilance and internal inspection/audit set-up from the point of view of their capability to effectively discharge their responsibilities and take steps to strengthen the machinery to the extent necessary. Effective linkages between the machinery for vigilance, internal inspection/audit and disciplinary action must be established so that they work in close coordination. The officials posted to these Departments should have sufficient experience and exposure and they should be headed by officials of sufficient seniority and proven integrity.
- (b) Location of sensitive functional spots with regular and surprise inspections of such

spots. The internal inspection/audit officials may be impressed upon the need for making indepth study of corruption/fraud prone areas during the course of inspections so that there is no scope for such malpractices/irregularities remaining undetected. There should be a proper scrutiny of personnel who are posted in such sensitive posts which involve dealings with members of the public on a considerable scale. Rotation of officer and non-officer staff in operational areas should be done strictly at prescribed intervals.

- (c) A regular and effective system of inspection of H.O. Departments and Zonal/Regional Office should be introduced. It is necessary that such departments/offices are inspected/audited at specified periodical intervals, as in the case of branches, by very senior officials.
- (d) There should be regular system of revenue audit. The reasons for leakage of income unearthed during such audits should be analysed in depth with a view to finding out whether the mistake is genuine or deliberate. Stern action should be taken against the officials responsible for the lapses.
- (e) A system of exclusive scrutiny of credit portfolio with focus on larger advances and Group exposures, at various branches, at regular intervals may be introduced. The summary of the important findings may be submitted to the Committee of the Board.
- (f) The internal inspection team during the course of inspection of the branches, controlling offices and Head Office should carefully scrutinise the deals connected with purchase of stationery, hiring/de-hiring and purchase of premises, costly furnishing of office/residential premises etc.
- (g) Investment portfolio is another sensitive area which receives scant attention from internal inspection team. The internal auditors should critically examine the investment transactions, in order to ensure that they are undertaken in accordance with the laid down policies. It should in particular be ensured that these transactions are all above Board *i.e.* undertaken on business consideration alone and are in the best interest of the bank and is not intended to pass on undue benefits to the brokers.
- (h) A relook may be made into the system of sanction, obtention and timely revalidation of documents, disbursement and post disbursement supervision and evolve clear cut demarcations which would enable fixing of responsibility for lapses quickly. In this connection the guidelines framed for delegation of powers for sanction of advances, post sanction monitoring, etc, should clearly indicate as to what constitutes abuse of authority, negligence in non-compliance with the terms of sanction, post sanction monitoring etc. We reiterate that non-observance of the prescribed procedures and safeguards, laxity in sanction, disbursement and post sanction follow-up of credit facilities and non-compliance with the terms of sanction should be viewed seriously and appropriate action taken against the officials concerned. In other words, bank officials are trustees of public funds and negligence resulting in loss should also be viewed seriously and deterrant punishment awarded.
- (i) Staff accountability should be examined as soon as there is a shift in health code classification, *viz.*, from Health Code No. 1 to No. 2 and so on, instead of waiting till filing of suits or write offs.
- (j) Sufficient care should be taken to record confidential reports/performance appraisals from the vigilance angle. More extensive use of the available powers should be made while reviewing the cases relating to persons who are past useful service or are vigilance

suspects. It is important to ensure that evidence/records should be properly built up in such cases to stand up in any judicial scrutiny.

- (k) Preparation of "Agreed lists" as per the laid down procedures should be done meticulously. Efforts also should be made to maintain proper surveillance on officers of doubtful integrity and officers who are on the "Agreed" list. A system for weeding out of undesirable elements should be introduced. Persons of doubtful integrity and those appearing in the "Agreed" list should not as a rule be posted to sensitive posts.
 - (l) The disciplinary cases should invariably be disposed of as per the time ceiling prescribed by the Govt. of India *vide* their letter No. 37/6/88 dated 7.11.1988. Similarly, wherever necessary, simultaneous departmental proceedings should also be instituted so as to have a speedy decision on the vigilance cases as brought out in our circular DBOD. No. GE.BC.117/C.408A(89)-90 dated 31.5.1990.
 - (m) Instances have come to our notice in some banks where the advice and recommendations of the CVO have not been accepted by the disciplinary authorities and minor punishments were awarded taking a lenient view. Such cases of non-acceptances should be brought to the notice of CMD explaining the reasons for deviation and quarterly report of such cases submitted to the Board.
 - (n) All cases involving, *prima facie* irregularities/lapses on the part of senior officers (Scale IV & above) and/or where the amount involved in the transaction is larger say exceeding Rs. 5 lakhs and above should be put up to the Board/Management Committee. Similarly status Report on action taken on complaints of irregularities on the part of senior officials and/or transaction involving large amounts should also be placed before the Board from time to time.
 - (o) Quarterly review relating to vigilance disciplinary cases should be carried out as indicated in Govt. of India's letter No. 10/12/90/Vig/CVOs dated 24.10.90.
7. The steps taken/proposed to be taken by the bank for implementing the above suggestions along with this circular may be put up to the Board. We may be advised of the action taken in this regard.

Yours faithfully,

Sd/-
(N.D. Parameswaran)
Chief Officer

A P P E N D I X - X V I I

(See para 10.16) of the Report)

RBI Circulars dated 15/4/1987, 2/5/1989, 18/1/1991 and 30/7/1992 regarding PMS

Telegrams: RESERVE BANK OF INDIA P.B. No. 6089
'BANKCHALAN' CENTRAL OFFICE
Bombay DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
"THE ARCADE" WORLD TRADE CENTRE, CUFFE PARADE,
COLABA, BOMBAY - 400005

CONFIDENTIAL

DBOD No. Dir. BC.43/C.347-87

April 15, 1987
Chaitra 25, 1909(S)

All Scheduled Commercial Banks

Dear Sirs,

Portfolio management on behalf of clients

It has been noticed that certain banks have, in effect, been raising resources at rates higher than those stipulated in our Directives on Interest Rates on Deposits. As far back as in November, 1979, the then Governor, *vide* his circular letter No. CPC.BC.38/279-A-79 dated 24 November, 1979 had, *inter alia*, cautioned banks to avoid accepting special deposits at preferential rates from financial institutions and others as this would be tantamount to circumvention of the policy of reducing their reliance on Participation Certificates.

2. In the more recent period, it is observed that some banks have been accepting funds from depositors at rates above those stipulated in the Directives on Interest Rates on Deposits by treating them as a sharing of their advances/investment portfolios. Accepting deposits at rates above those stipulated in the directives under the cover of portfolio management would be construed as a violation of the directives. Furthermore, portfolio management being used to alter the net demand and time liabilities on reporting Fridays would be considered as a gross infringement of the directives. While legitimate portfolio management could be undertaken (subject to the guidelines indicated in our circular DBOD No. Dir. BC. 42/C-347/87 of date), operations under the cover of portfolio management which in effect, violate the directives on interest rates and reserve requirements would invite the consequences falling on infringement of these directives.

3. A copy of this circular may please be placed before the Board of Directors for their information, under advice to us.

4. Please acknowledge receipt.

Yours faithfully,

(P.D. Gupta)
Additional Chief Officer.

Telegrams:
'BANKCHALAN', Bombay

Post Box No. 6089

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
"THE ARCADE" WORLD TRADE CENTRE, COLABA, BOMBAY-5.

Ref. DBOD.NO.BP(PSC) BC. 120 /C.469-89

May 2, 1989
Vaisakha 12, 1911(S)

CONFIDENTIAL

All scheduled commercial banks

Dear Sir,

Portfolio management on behalf of clients

Please refer to paragraph 14(i) of Governor's circular No. CPC.BC.98/279A-89 dated 27 March, 1989. As mentioned therein, inspite of our cautioning the banks time and again about the manner in which some banks were providing portfolio/fund management services to non-bank clients, instances have come to our notice of continued violations of our instructions in this regard. In some cases the fund entrusted was for short periods of 30 days and the investment transactions were notional than real, with a view to providing a particular yield to investors.

2. Normally, portfolio/fund management services are offered in respect of medium/long term funds of the clients and not for short-term placements. It has, therefore, been decided that portfolio /fund management services may, hereafter, be offered by the banks/their subsidiaries to their individual/corporate clients, subject to the following guidelines:

- (i) It may be undertaken only at the customer's risk, without guaranteeing a pre-determined return.
- (ii) It may be handled on behalf of parties in respect of their long term investible funds.
- (iii) The minimum period for which funds are placed for management by the clients should be one year.

There will, however, be no objection to shuffling of relative investments during the period.

- (iv) The transactions should be booked at market rates only.
- (v) Proper accounting and documentation of such transactions should be ensured.

3. Banks which operate merchant banking subsidiaries must ensure that their subsidiaries do not undertake such business which they themselves are prohibited from doing in regard to portfolio/fund management.

4. Please acknowledge receipt.

Yours faithfully,

(T.K.K. Bhagavat)
Chief Officer.

RESERVE BANK OF INDIA
CENTRAL OFFICE

DEPARTMENT OF BANKING OPERATIONS & DEVELOPMENT
CENTRE - 1, WORLD TRADE CENTRE, CUFFE PARADE, COLABA, BOMBAY-400005

Ref. DBOD.NO.FSC.BC. 69 C.469-90/91

CONFIDENTIAL

January 18, 1991
Pausa 28, 1912 (Saka)

The Chairmen/Chief Executives of all scheduled commercial banks

Dear Sir,

Portfolio management on behalf of Clients.

Please refer to our Circular DBOD.NO.BP(FSC)BC.120/C.469-89 dated 2 May, 1989 prescribing the guidelines to be followed by banks/merchant banking subsidiaries of banks while providing portfolio management services to their constituents. It was indicated in that circular that portfolio management services may be offered by banks/bank subsidiaries to their clients in respect of their long term investible funds and that the minimum period for which the funds could be accepted for management by the banks/bank subsidiaries from their clients should be one year. While allowing banks to provide portfolio management services to their clients, it was envisaged that only banks which have the necessary expertise and organisational capability to extend such a service on their own will provide such services. It was not intended that a bank will act as a mere intermediary by accepting funds for management and place such funds with another bank for management. It was also envisaged that portfolio services will be provided by banks, on a suitable management fee, for enabling their clients who had long-term investible resources to build up a portfolio of securities at their own risk, and without making any commitments with regard to the minimum yield to their clients. By the very nature of the services to be rendered, banks were not to deploy such funds for lending in money market, bills market, etc. It was further envisaged that the banks providing such services will keep the identity of funds accepted from their clients for portfolio management distinct by maintaining client-wise record of funds received and investments made there against and earnings thereon, and not mixing the bank's own investments with those of clients' portfolios and likewise, not utilising portfolio funds for their own investments or otherwise.

2. Our scrutiny of 'portfolio management services' provided by some banks, however, has disclosed certain disquieting features as under :

- (i) Banks have been accepting short term funds, *i.e.* for a period less than one year, for portfolio management.
- (ii) Banks have been accepting funds for portfolio management and instead of managing such funds themselves, placed such funds with other banks for management.
- (iii) Banks have been deploying portfolio funds in call money market and bills market.
- (iv) Banks have not been maintaining client-wise records of funds accepted for portfolio management and investments made there against. They have been using portfolio funds for their own investments with those of their clients.

3. It has, therefore, been considered necessary to issue further guidelines to banks on this matter. Portfolio management services (PMS) may be provided by banks/their subsidiaries to their clients henceforth, subject strictly to the following revised guidelines.

- (i) Only those banks which can provide such services on their own should undertake the activity. Funds accepted for portfolio management from their clients, should not be entrusted to another bank for management.
 - (ii) 'PMS' should be in the nature of investment consultancy/management, for a fee, entirely at the customer's risk without guaranteeing, either directly or indirectly, a pre-determined return. The bank should charge a definite fee for the services rendered independent of the return to the client.
 - (iii) 'PMS' should be provided by banks/their subsidiaries to their clients in respect of the latter's long term investible funds for enabling them to build up a portfolio of securities; in any case the funds should not be accepted for portfolio management for a period less than one year. In the case of placement of funds for portfolio management by the same client on more than one occasion, on a continuous basis, each such placement should be treated as a separate account and each such placement should be for a minimum period of one year.
 - (iv) The funds accepted for portfolio management are essentially expected to be deployed in capital market instruments such as shares, debentures, bonds, securities, etc. In any case, portfolio funds should not be deployed for lending in call money/bills market, and lending to/placement with corporate bodies.
 - (v) The bank providing PMS to its clients should maintain client-wise account/record of funds accepted and investments made there against, and all credits (including realised interest, dividend, etc.) and debits relating to the portfolio account should be put through such account. The tax deducted at source in respect of interest/dividend on securities held in the portfolio account should be reflected in the portfolio account. The holder should be entitled to get a statement of account of his portfolio account.
 - (vi) The bank's own investments and investments belonging to the PMS client should be kept distinct from each other. If there are any transactions between the bank's investment account and portfolio account, they should be strictly at market rates. Though the bank can hold the securities belonging to the portfolio account in its own name, on behalf of its PMS clients, there should be a clear indication that securities are held by it on behalf of 'portfolio account'. Similarly, while putting through any transactions on behalf of a portfolio account, a clear indication should be given to the effect that the transaction pertains to the 'portfolio account'.
 - (vii) In the bank's general ledger a 'clients' portfolio account should be maintained and all the funds received by it for portfolio management should be reflected in it on day-to-day basis. The balance lying in this account *i.e.*, the funds undeployed, if any, from this account should be treated as outside borrowings of the bank and it should maintain CRR/SLR on such funds. The bank's liability to its clients in respect of funds accepted by it for portfolio management should be properly reflected in the published books of accounts of the bank/subsidiary.
4. The above guidelines supersede all our earlier instructions on the subject.
 5. Any violations of our above guidelines will be viewed by us very seriously.
 6. Please acknowledge receipt.

Yours faithfully,

(N.D. Parameswaran)
Chief Officer.

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
CUFFE PARADE, COLABA, BOMBAY-400005

Please quote in reply

Ref. DBOD NO. FSC.BC.11/24.01.009/92-93

July 30, 1992
Sravana 8, 1914 (Saka)

The Chairmen/Chief Executives of all Commercial Banks

Dear Sir,

Portfolio management on behalf of clients

Please refer to our circular DBOD.No.FSC.BC.69/C.469-90/91 dated 18 January, 1991 prescribing detailed guidelines to be followed by banks/merchant banking subsidiaries of banks while providing portfolio management services to their constituents.

2. It is observed that some banks have been accepting funds from their clients for management under different schemes without naming such schemes as Portfolio Management Scheme (PMS), to avoid compliance with our guidelines on PMS. At times, funds have even been taken in the guise of short-term deposits in utter disregard of the interest rate prescriptions of the Reserve Bank of India and lent out as inter-corporate deposits to entities in the private corporate sector at extremely high rates of interest. In one case, securities have been moved between a PMS client's account and the bank's own investment account and sold, solely with a view to booking profit in the bank's annual accounts. It is, therefore, clarified that acceptance of funds by banks from their clients for management (other than deposits for specific periods which are subject to the Reserve Bank's interest rate directives and common ground rules of Indian Banks' Association (IBA) and internal deposit rules of individual banks) by whatever scheme/name should be subject to the Reserve Bank's guidelines on PMS. In other words, apart from deposit taking, the banks should accept funds from their clients for management only under the terms and conditions stipulated for the PMS and not under any other scheme.

3. Subsequent to the issue of Reserve Bank's instructions *vide* FSC.BC.143A/24.48.001/91-92 dated June 20, 1992 on "Investment Portfolio of Banks - Transactions in Securities". It has come to our notice that some banks have been considering proposals under which they would provide a guaranteed rate of return on funds received for portfolio management. Banks should recognise that provision of such guarantees is strictly prohibited.

4. Attention of banks is particularly drawn to the following stipulations contained in our aforesaid circular of 18 January 1991, for strict compliance :-

- (i) PMS should be entirely at the customer's risk, without guaranteeing, either directly or indirectly, a pre-determined return.
- (ii) The funds should not be accepted for portfolio management for a period less than one year.
- (iii) The portfolio funds should not be deployed for lending in call/notice money, inter-bank term deposits and bills rediscounting markets and lending to/placement with corporate bodies.

- (iv) Banks should maintain client-wise account/record of funds accepted for management and investments made there against, and the portfolio clients should be entitled to get a statement of account.
 - (v) The bank's own investments and investments belonging to PMS clients should be kept distinct from each other, and any transactions between the bank's investment account and clients' portfolio accounts should be strictly at market rates.
 - (vi) There should be a clear functional separation of trading and back office functions relating to banks' own investment account and PMS clients' accounts.
 - (vii) PMS clients' accounts should be subjected to a separate audit by external auditors (*vide* paragraph 3.II(i) of Circular DBOD.No.FSC.BC.143A/24.48.001/91-92 dated 20 June, 1992)
5. We hardly need to emphasise that violation of these instructions will be viewed seriously and will invite deterrent action against the banks which will include raising of reserve requirements, withdrawal of refinance from the Reserve Bank and denial of access to money markets, apart from prohibiting the banks from undertaking the above activity.
6. The aforesaid instructions will have applications *mutatis mutandis* to the subsidiaries of banks, except where they are contrary to specific RBI or SEBI regulations governing their operations.
7. Please acknowledge receipt and confirm having noted these instructions for strict compliance.

Yours faithfully,

(N.D. Parameswaran)
Chief Officer.

APPENDIX - XVIII

(See para 10.31 of the Report)

Names of auditors who in 1991-92 conducted audit of securities transactions of certain public sector banks, foreign banks, private sector banks, subsidiaries and mutual funds which have been adversely commented upon in Janakiraman Committee Report and not considered for bank audit by RBI during 1992-93

Sl.No. Name of the Bank	Name of Auditors
(A) Foreign Banks	
(i) ANZ Grindlays Bank	M/s. A.F. Ferguson & Co., Calcutta
(ii) Bank of America	M/s. S.B. Billimoria and Co., Bombay
(iii) Citibank	M/s. Price Waterhouse, Bombay
(iv) Standard Chartered Bank	M/s. Lovelock & Lewis, Bombay
(B) Private Sector Banks	
(i) Bank of Karad (under liquidation)	M/s. B.C. Abhayankar & Co., Sangli
(ii) Nedungudi Bank	M/s. Varma & Varma, Calicut
(iii) Bank of Madura Ltd.	M/s. Somasundaram & Rajamani, Madurai M/s. V. Pichailkuty & Co., Madras
(C) Public Sector Banks	
(i) State Bank of India	M/s. Ratan S. Mama & Co., Bombay
(ii) State Bank of Saurashtra	M/s. A.H. Dalal & Co., Bombay
(iii) UCO Bank	M/s. Basu Dey & Kapoor, Calcutta
(iv) Syndicate Bank	M/s. K.V. Aiyer & Co.,
(v) Andhra Bank	M/s. G.S. Madhava Rao & Co., Hyderabad
(D) Subsidiaries & Mutual Funds	
(i) Canbank Financial Services Ltd.	M/s. K.V. Narsimhan & Co., Bangalore M/s. Manian Suresh Sunder & Vithal, Bangalore
(ii) SBI Capital Market Ltd.	M/s. Price Waterhouse, Bombay
(iii) Andhra Bank Financial Services Ltd.	M/s. Brahmayya & Co., Hyderabad
(iv) Allbank Finance Ltd.	M/s. S.C. Dutta & Co., Calcutta
(v) Canbank Mutual Fund Ltd.	M/s. C.C. Chokshi & Co., Bombay

**Name of audit firms approved by RBI for appointment as auditors for 1992-93
who conducted audit of banks during 1991-92**

S.No.	Name of the Bank	Name of Auditors
(A) Foreign Banks		
1.	ABN Amro Bank	M/s. S.B. Billimoria & Co., Bombay
2.	Hongkong & Shanghai Banking Corporation Ltd.	M/s. A.F. Ferguson & Co., Bombay
3.	The British Bank of the Middle East	M/s. A.F. Ferguson & Co., Bombay
4.	Societe Generale	M/s. C.C. Chokshi & Co., Bombay
(B) Private Sector Banks		
1.	The Nedungadi Bank Ltd.	M/s. Varma & Varma, Calicut
2.	Bank of Madura Ltd.	M/s. V. Pichailkutty & Co., Madras

A P P E N D I X - X I X

(See para 11.2 of the Report)

Statement showing the names of the Chairmen and Managing Directors or other high ranking officials of the banks and their subsidiaries etc. who were proceeded against or removed from their posts or were asked to proceed on leave in the wake of Scam

- (1) Shri M.N. Goiporia, Chairman, State Bank of India was asked to proceed on leave.
- (2) Shri M.J. Pherwani, Chairman, NHB resigned.
- (3) Shri K. Margabanthu, Chairman and Managing Director, UCO Bank was asked to proceed on leave *w.e.f.* 11.5.92 and subsequently his services were terminated on 8.7.1992.
- (4) Shri C.L. Khemani, Deputy Managing Director, State Bank of India was asked to go on leave.
- (5) Shri R. Venkatakrishnan, General Manager, UCO Bank was shifted from the position held by him and placed in non-operational position and departmental proceedings are being initiated.
- (6) Shri R.S. Pai, Executive Director, Syndicate Bank asked proceed on leave on 14.8.1992 and later his services were terminated *w.e.f.* 3.7.1993.
- (7) Shri B. Sreenivasa Rao, GM, Andhra Bank suspended.
- (8) Shri Y. Sunder Babu, MD of Andhra Bank Financial Services Ltd. suspended.
- (9) Shri C. Gopal Raj, General Manager, Regional Office, Madras of SBI Capital Market was asked to proceed on leave and explanation called for which has since been received by the bank.
- (10) Shri B.R. Acharya, GM, Canbank Mutual Fund placed under suspension.
- (11) Shri P.S. Nat, Chief Executive, Stanchart vacated the office.
- (12) Shri A.P. Rao, the then MD, CANFINA was asked to proceed on leave.
- (13) Shri R.K. Iyer, Director, Local Currency Group, Stanchart. Shri Iyer's services were terminated.
- (14) Shri C.R. Kanade, Chairman, Bank of Karad (BoK) and two of its Directors Shri Bhupen C. Dalal and Shri Milan Dalal were removed.
- (15) The Board of Directors of Metropolitan Coop. Bank (MCB) has been superseded. (Subsequently the two banks *viz.*, BoK and MCB were taken into liquidation).
- (16) Shri A. Sabhapathi, Chairman, Bank of Madura Ltd. has been removed by RBI.

A P P E N D I X - X I X

(See para 11.2 of the Report)

Statement showing the names of the Chairmen and Managing Directors or other high ranking officials of the banks and their subsidiaries etc. who were proceeded against or removed from their posts or were asked to proceed on leave in the wake of Scam

- (1) Shri M.N. Goiporia, Chairman, State Bank of India was asked to proceed on leave.
- (2) Shri M.J. Pherwani, Chairman, NHB resigned.
- (3) Shri K. Margabanthu, Chairman and Managing Director, UCO Bank was asked to proceed on leave *w.e.f.* 11.5.92 and subsequently his services were terminated on 8.7.1992.
- (4) Shri C.L. Khemani, Deputy Managing Director, State Bank of India was asked to go on leave.
- (5) Shri R. Venkatakrishnan, General Manager, UCO Bank was shifted from the position held by him and placed in non-operational position and departmental proceedings are being initiated.
- (6) Shri R.S. Pai, Executive Director, Syndicate Bank asked proceed on leave on 14.8.1992 and later his services were terminated *w.e.f.* 3.7.1993.
- (7) Shri B. Sreenivasa Rao, GM, Andhra Bank suspended.
- (8) Shri Y. Sunder Babu, MD of Andhra Bank Financial Services Ltd. suspended.
- (9) Shri C. Gopal Raj, General Manager, Regional Office, Madras of SBI Capital Market was asked to proceed on leave and explanation called for which has since been received by the bank.
- (10) Shri B.R. Acharya, GM, Canbank Mutual Fund placed under suspension.
- (11) Shri P.S. Nat, Chief Executive, Stanchart vacated the office.
- (12) Shri A.P. Rao, the then MD, CANFINA was asked to proceed on leave.
- (13) Shri R.K. Iyer, Director, Local Currency Group, Stanchart. Shri Iyer's services were terminated.
- (14) Shri C.R. Kanade, Chairman, Bank of Karad (BoK) and two of its Directors Shri Bhupen C. Dalal and Shri Milan Dalal were removed.
- (15) The Board of Directors of Metropolitan Coop. Bank (MCB) has been superseded. (Subsequently the two banks *viz.*, BoK and MCB were taken into liquidation).
- (16) Shri A. Sabhapathi, Chairman, Bank of Madura Ltd. has been removed by RBI.

A P P E N D I X - X X

(See para 11.2 & 11.3 of the Report)

List of Names of the accused figuring in the various cases registered by Central Bureau of Investigation

I. STATE BANK OF INDIA

1. Shri C.L. Khemani,
Dy. Managing Director (T&IM)
Central Office,
State Bank of India,
Bombay.
2. Shri A.N. Bavadekar,
Deputy Manager,
Security Division,
Main Branch, State Bank of India,
Bombay.
3. Shri R. Sitaraman,
JMG-I, Officer,
Securities Division,
Main Branch, State Bank of India,
Bombay.
4. Shri Harshad S. Mehta
5. Smt. Jyoti H. Mehta
6. Shri Ashwin S. Mehta
7. Shri Sudhir S. Mehta
8. Shri Pankaj V. Shah
9. Shri Atul Parikh
10. Shri Hiten Mehta
11. M/s. Growmore Research & Assets Management Ltd.
12. M/s. Growmore Leasing and Investment Ltd.
13. M/s. Mazda Industries and Leasing Ltd. and others.

II. UNITED COMMERCIAL BANK

1. Shri K. Margabanthu,
Former Chairman and Managing Director,
UCO Bank, Calcutta.

2. Shri B. Roy Chaudhary,
Dy. General Manager,
UCO Bank, Zonal Office,
Bombay.
3. Shri S.V. Prabhu,
Asstt. General Manager,
UCO Bank, Nariman Point Branch,
Bombay.
4. Shri R. Venkatkrishnan,
General Manager (T&IM),
UCO Bank, Calcutta.
5. Shri Harshad S. Mehta
6. Shri Ashwin S. Mehta
7. Shri Sudhir S. Mehta
8. Smt. Jyoti H. Mehta
9. Shri N.S. Eshwar Chandra
10. Shri Sunil Samtani
11. M/s. V.B. Desai

III. STANDARD CHARTERED BANK

1. Shri Bhupen C. Dalal
2. Shri J.P. Gandhi
3. Shri Hiten P. Dalal
4. Shri A.D. Narottam
5. Shri Hemant B. Vyas
6. Shri K.K. Kapadia,
Vice-Chairman,
Metropolitan Co-operative Bank Ltd.,
Bombay.
7. Shri Arvind Mohan Lal,
Ex-Manager, MTU,
Standard Chartered Bank,
Bombay.
8. Shri Jaideep Pathak,
Ex-Manager,
Standard Chartered Bank,
Bombay.
9. Shri T.B. Ruia and others.

IV. CANBANK MUTUAL FUND

1. Shri Anil Narichania,
Asstt. General Manager,
Canbank Mutual Fund, Bombay.
2. Shri Hiten P. Dalal
3. Unknown officials of Bank of Karad Ltd. and others.

V. CANBANK FINANCIAL SERVICES LTD.

1. Shri M.K. Ashok Kumar,
Executive Vice-President, Canfina, Bangalore.
2. Shri Hiten P. Dalal
3. Shri Abhay Narotam
4. Shri Bhupen C. Dalal
5. Shri T.B. Ruia
6. Shri J.P. Gandhi
7. Unknown officers/officials of Bank of Karad Ltd. and others.

VI. STATE BANK OF SAURASHTRA

1. Shri M.S. Srinivasan, Manager (Funds),
Funds Management Cell,
State Bank of Saurashtra,
11, S.K. Brolvi Road, Fort, Bombay.
2. Smt. Radha Srinivasan
3. Shri Harshad S. Mehta
4. M/s. Chandrakala & Co., Madras and others.

VII. SBI CAPITAL MARKETS LTD.

1. Shri R. Sitaraman,
JMG-I Officer,
Securities Division,
State Bank of India (Main Branch),
Bombay.
2. Shri C. Ravi Kumar,
Officer of National Housing Bank, Bombay.
3. Shri Anil Sharma,
Former Senior Manager,
SBI Capital Markets Ltd.,
New Delhi.

4. Shri Harshad S. Mehta
and other unknown persons.

VIII. NATIONAL HOUSING BANK

1. Shri C. Ravi Kumar,
Asstt. General Manager,
Funds Management Group,
National Housing Bank,
Bombay Life Building, 3rd Floor,
45, Veer Nariman Road,
Bombay-15.
2. Shri S. Suresh Babu,
Asstt. Manager,
Funds Management Group,
National Housing Bank,
Bombay Life Building, 3rd Floor,
45, Veer Nariman Road, Bombay-15.
3. Shri R. Sitaraman,
Officer, Junior Management Grade - I,
Securities Division, State Bank of India,
Main Branch, Bombay.
4. Shri Harshad S. Mehta.

IX. POWER FINANCE CORPORATION

1. Shri M. Prasad,
Director (Finance),
Power Finance Corporation,
Chanderlok Building,
Janpath, New Delhi.
2. Shri Prahalad Rao,
Dy. General Manager (Finance),
Power Finance Corporation,
Chanderlok Building,
Janpath, New Delhi.
3. Shri M. Ravi,
Dy. Manager (Finance),
Power Finance Corporation,
Chanderlok Building,
Janpath, New Delhi.
4. Shri V.N. Deosthali,
the then scale I Officer,
UCO Bank, Hamam Street Branch,
Bombay.
5. Shri Harshad S. Mehta.
6. Shri Mohan D. Khandelwal.
7. Certain officials of ANZ Grindlays Bank and other unknown persons.

X. FAIRGROWTH FINANCIAL SERVICES LTD.

1. Shri K. Dharmapal,
Managing Director,
Fairgrowth Financial Services Ltd.,
Bombay.
2. Shri R. Lakshminarayana,
Executive Director,
Fairgrowth Financial Services Ltd.,
Bangalore.
3. Shri R. Ganesh,
Asstt. Vice President,
Fairgrowth Financial Services Ltd.,
Bangalore.
4. Shri Srinivasan,
Vice-President,
Fairgrowth Financial Services Ltd.,
Bombay.
5. M/s. Fairgrowth Financial Services Ltd.,
having its registered office at Bangalore.

XI. ANDHRA BANK FINANCIAL SERVICES LTD.

1. Shri Y. Sunder Babu,
Former Managing Director,
Andhra Bank Financial Services Ltd.

A P P E N D I X - X X I

(See para 11.40 of the Report)

Statement showing names/designations of officers/staff in Banks/Institutions against whom departmental action has been initiated for their involvement in the irregularities committed in the securities transactions

1. State Bank of India
 1. Shri R. Sitaraman JMGS I
 2. Shri K. Kailasam Asst. Gen. Manager (SMGS V)
 3. Shri A.N. Bavadekar MMGS III
 4. Shri A.D. Padhye Asst. Gen. Manager (SMGS V)
 5. Shri M.M. Sharma Dy. Gen. Manager,
Bombay Main Br.
 6. Shri D.M. Shah Head Clerk, Securities Dept.,
Bombay Main Br.
 7. Shri A.J. Gokhale Computer Operator, Securities Dept.
Bombay Main Br.
 8. Shri R.L. Kamath DGM (T&IM), Central Office
 9. Shri R.K. Dokania Chief Manager (T&IM),
Central Office
 10. Shri T.P.N. Rao MMGS II (T&IM), Central Office
 11. Shri H.K. Vakil MMGS II (T&IM), Central Office
2. State Bank of Saurashtra
Shri M.S. Srinivasan Ex. Manager, FMC, Bombay
3. Andhra Bank
 1. Shri R. Dhana Kumar Officer, MM III, Fort Branch
 2. Shri S.P. Kamath Officer, JM I, Fort Branch
 3. Shri R.V. Shenoy Officer, JM I, Fort Branch
 4. Shri M.N. Askari Officer, MM II, Fort Branch
 5. Shri N. Ramesh Officer, MM III, Central Accounts
Dept., Hyderabad
 6. Shri J.S. Sastry Cheif Officer,
Central Accounts Dept.,
Hyderabad

7. Shri G.D. Bhalla Chief Manager, Fort Branch, Bombay
8. Shri A. Krishnamurthy Dy. General Manager,
Zonal Office, Bombay
9. Shri G.V.R. Gopala Krishnarao Asst. Gen. Manager,
Central Accounts, Hyderabad
4. The Metropolitan Co-operative Bank Ltd. (in Liquidation)
1. Shri K.K. Kapadia,
Vice-Chairman An Enquiry under Section 83 of
Maharashtra Co-op. Societies
Act, 1960 has been ordered on
16.6.92 and Shri M.B. Tribhovan,
Dy. Registrar, C.S. (K/E) has
been appointed as Enquiry officer.
2. Shri K.M. Vyas, Director
- The officials of the bank who were associated along with the above directors as
co-signatories are :
1. Shri V.C. Desai Chief Executive Officer
2. Shri M.S. Kushte Accountant
3. Shri D.P. Gandhi Officer
5. Syndicate Bank
1. Shri E.R. Seshadri Deputy General Manager
2. Shri B.P.D. Pai Asst. General Manager, SMGS V
3. Shri R. Sundareshan Divisional Manager, SMG IV
4. Shri H.K. Shenoy Manager MMGS III
6. Nedungadi Bank Ltd.
1. Shri K.P. Gangadhara Menon Chairman (Since Retired)
2. Shri P. Sreedharan Asst. Gen. Manager
3. Shri K.V. Srinivasan Manager, Bangalore Branch
4. Shri H.S. Chidambara Accountant, Bangalore Branch
5. Shri T. Sasikala Accountant, Bangalore Branch
7. Standard Chartered Bank
1. Shri P.S. Nat Chief Executive, India
2. Shri R. Kannan Executive Director,
Investment Banking Div.
3. Shri R.K. Iyer Director, Local Currency Group
4. Shri A.M. Lal Manager, Money & Investments
Unit (MIU)

- | | | |
|-----|--|--|
| 5. | Shri J. Pathak | Dealer (earlier Processing Officer, MIU) |
| 6. | Shri Manoj Rane | Dealer |
| 7. | Shri V. Srinivas | Dealer |
| 8. | Shri V.R. Srinivasan | Manager, CCDS |
| 9. | Shri S. Mulgaonkar | Staff Officer, MIU |
| 10. | Shri S. Chandrasekhar | Manager, LCG Support |
| 11. | Shri V. Saigal | Relief Manager |
| 12. | Shri S. Kanal | Dealer, Equities |
| 13. | Shri G. Rajagopalan | Dealer, Equities |
| 14. | Shri B. Sivakumar | Dealer |
| 15. | Shri K. Colabawala | Director, Operations |
| 16. | Shri R.E. Moore | Director, Internal Control |
| 17. | Shri P.J. Appanna | Senior Manager, Internal Control |
| 18. | Shri R. Seshadri | Manager, Internal Control |
| 19. | Shri J.S. Jayakar | Asst. Manager, Internal Control |
| 8. | Vijaya Bank | |
| 1. | Shri K. Shivaram Shetty | Chairman & M.D. (Since Retired) |
| 2. | Shri K. Kristappa Shetty | General Manager |
| 3. | Shri K. Aithappa Shetty | Dy. General Manager |
| 4. | Shri N. Jayaprakasan | Divisional Manager |
| 9. | Federal Bank Ltd. | |
| | Shri Raju Philip | Branch Manager |
| 10. | Banque Indosuez, Bombay | |
| | Shri B. Ratnam | Manager, Capital & Money Markets Department |
| 11. | Bank of Madura Ltd. | |
| | Shri S.P. Sabapathy | Chairman (removed by RBI) |
| 12. | The Hongkong and Shanghai Banking Corporation Ltd. | |
| | Shri Yogesh Kapur | Executive/Dealer Merchant Banking, New Delhi |

13. National Housing Bank
1. Shri P.K. Parthasarathy Executive Director
 2. Shri S.D. Hosangadi CGM, Bombay
 3. Shri B.C.S. Baliga DGM
 4. Shri P. Jambukeswaran AGM
 5. Shri Rakesh Bhalla AGM
 6. Shri V.R. Katre AGM
 7. Shri C. Ravi Kumar AGM
 8. Shri S. Suresh Babu Asstt. Manager
14. SBI Capital Markets Ltd.
1. Shri C. Gopal Raj The then General Manager, SBICAP, Madras
 2. Shri C.R.L. Narasimhan The then Asstt. General Manager, SBICAP, Madras
 3. Shri S.K. Kumar The then Chief Manager, SBICAP, Madras
 4. Shri S. Nanda Kumar Deputy Manager, SBICAP.
15. Andhra Bank Financial Services Ltd.
1. Shri B. Srinivasa Rao Overseeing General Mgr. of ABFSL
 2. Shri Y. Sundara Babu Managing Director, ABFSL
 3. Shri Anand Madabhushi Sr. Vice-President of ABFSL
 4. Shri Tharian Chacko Sr. Vice-President of ABFSL
 5. Shri R. Kalyan Raman Sr. Vice-President of ABFSL
16. Canbank Financial Services Ltd.
1. Shri A.P. Rao Managing Director
 2. Shri G. Subramanian Executive Director
 3. Shri M.K. Ashok Kumar Executive Vice-President
 4. Shri S. Mohan Assistant Vice-President
 5. Shri N. Balasubramanian Assistant Vice-President
 6. Shri K. Ganeshan Assistant Vice-President
17. Canbank Mutual Fund
1. Shri B.R. Acharya General Manager
 2. Shri Anil M. Narichania Asstt. General Manager

3.	Shri P.J. Subba Rao	Asstt. General Manager
4.	Shri Joseph D'Souza	Divisional Manager
5.	Shri Bipin Divecha	Manager
6.	Shri Pravin Malik	Manager
18.	BOI Finance Ltd.	
	Shri A.V. Jog	Chief Executive and Whole time Director
19.	DB Financial Services (India) Ltd.	
1.	Shri Ravi Savanal	Chief Executive Officer (Financial Service Company)
2.	Ms. Lata Sriram	Manager
20.	United Commercial Bank	
1.	Shri V.N. Deosthali	Scale I Officer
2.	Shri R. Venkatakrishnan	GM (T&IM)
3.	Shri B. Roy Choudhury	DGM
4.	Shri S.V. Prabhu	AGM
5.	Shri S.V. Ramanathan	Div. Manager
6.	Shri Sunil Gorawara	Sr. Manager
7.	Shri K.P. Pandey	Sr. Manager
8.	Shri Mahavir Singh	AGM
9.	Smt. Subha Mukherjee	Officer
10.	Shri T.R. Gulati	- do -
11.	Shri N.L. Naik	
12.	Shri D.P. Patel	
13.	Shri M.V. Sidhaye	
14.	Shri H.M. Shaligram	
15.	Shri R.G. Kapadia	
16.	Shri H.C. Parekh	
17.	Shri P.S. Gokhale	
18.	Shri P.M. Ratnakar	
19.	Shri M.N. Barve	
20.	Shri P.A. Karkhanis	
21.	Shri A.C. Saha	GM Credit
22.	Shri K. Mallikarjunan	AGM

The following banks have stated that they have not initiated any departmental action against the officers/staff for the reasons indicated against them.

1. Citibank

The bank has stated that it has reorganised the securities department by introducing stringent internal controls, strengthening the risk management process and rotating key personnel. The bank has also discontinued the operation of PMS and has paid most of the customers their dues by entering into settlements. The following officers at the former Treasury Department of the bank have left the bank.

- (i) Shri A.S. Thiyagarajan (Former Global Finance/Investment Bank Head)
- (ii) Shri S. Ramesh Kumar (Treasurer)
- (iii) Shri S. Sakhuja (Relationship Manager Fiduciary Customers)
- (iv) Shri P. Purker (Dealer)
- (v) Shri K.R. Bharat (Risk Manager)

In addition two dealers have since resigned and the bank has accepted their resignation.

The bank has also advised RBI that the bank's Inspectors from New York who specialise in investigating personnel integrity issues concerning their officials visited India and have not uncovered any issues as of date. The bank has assured the Inspectors that in case the RBI uncovers any such matters the bank would pass on the information to them.

2. Bank of America

According to the bank, no official has been identified as being directly involved in the Scam — The bank has advised RBI that it did not play any direct role in the 'scam' either as participant or victim. The bank did not issue any bogus bank receipts (BRs) nor were any such receipts issued in the bank's name. The bank did not participate in any other activity by means of which persons were induced to part with their money for securities when in fact no such securities existed. The Bank did not defraud anybody nor was the bank defrauded. The bank was prudent in managing risk in its trading practices. The bank has effected personnel changes in its Treasury operations in Bombay. Sarvashri Alok Agarwal, Vice-President and Country Treasurer and Sandeep Sachdeva, Vice President and Head Securities Trading were replaced. Besides, the bank has a new Country Manager, Mr. Ambi Venkateswaran.

3. ANZ Grindlays Bank

The bank has advised that no member of its staff has been involved in any irregularity/collusion/offence and no cases have consequently been registered or departmental action taken.

4. Corporation Bank

The bank has advised that it has just received copies of the fifth and sixth reports of the Janakiraman Committee. Since the bank's name has appeared for the first time the bank is carrying out an indepth study of the various points raised in the report.

5 Karnataka Bank Ltd.

The bank has stated that its Kasturba Road Branch, Bangalore had effected 4 BR transactions aggregating Rs. 6.00 crores in July, 1991 on behalf of its constituents M/s. Fairgrowth Financial Services Ltd. with the consent of its Head Office. In view of the instructions contained in RBI circular dated 26 July, 1991 such transactions were stopped immediately. The above transactions were effected in good faith and with bonafide intentions. As such the question of initiating any action does not arise.

6. Karur Vysya Bank Ltd.

The bank has advised that the fifth Report of the Janakiraman Committee was received by the bank on 21st May, 1993 and the bank is examining the various aspects dealt with by the Committee.

7. Indian Bank Mutual Fund

The Fund has stated that no action has been initiated as none of its officers/staff are involved in the irregularities committed in the securities transactions.

8. Indbank Merchant Banking Services Ltd.

The Company has advised that it has not initiated any action against its officers/staff as none of them are involved in the irregularities committed in the securities transactions.

9. Allbank Finance Ltd. NIL

10. PNB Capital Services Ltd. NIL

11. Bank of Karad Ltd. (in liquidation)

1. Shri C.S. Raje, Officer Shri Raje was taken in custody by the Central Bureau on 22/23 June, 1992 and was later released on bail. Shri Raje has not been permitted to resume duties pending advice from CBI about their findings and actions (Charge Sheet etc.) taken/proposed to be taken against him. No internal action has been taken against him for the reason mentioned above.
2. Shri Sudhakar Ail, Clerk Shri Ail was taken in custody by the CBI on 22/23 June, 1992 and was later released on bail. Shri Ail has not been permitted to resume duties pending advice from CBI about their findings and actions (Charge Sheet etc.) taken/proposed to be taken against him. No internal action has been taken against him for the reason mentioned above.

12. Bombay Mercantile Co-operative Bank Ltd.

(Extract from letter 56/cii/87 dated 27 May, 1993, Bombay Mercantile Co-operative Bank Ltd. to UBD, RBI)

Disciplinary action

The disciplinary action was not initiated because it was observed that the comments regarding diversion of funds to brokers account made by the Janakiraman Committee in its 3rd Report mentioning our bank were not based on facts as on record. The facts, as per the Bank's record, are that the payorders issued by our Bank were in favour of Bank of India 'crossed account payee' and these were forwarded to Bank of India along with a forwarding letter on printed letterheads signed by duly authorised signatories. The forwarding letters were duly acknowledged either by the Brokers, M/s. Bhupendra Champaklal Devidas, or the Bank under proper stamp. These letters were, thereafter, replaced by a forged cyclostyled letter conveying instructions for crediting the proceeds of the payorder into some Mr. H.K. Dalal's account in Bank of India, Stock Exchange Branch, with whom the Bank was never concerned. On our pointing out the forgery *vide* our letter dated 27th August, 1992 sent to the Broker, CBI and RBI, Mr. S.P. Singh and Mr. H.A.W. Dande, Inspectors of Police of CBI had repeatedly visited our office, looked into the records, seized some papers, and took statements of some of our employees, etc. Superintendent of CBI had also called our former Managing Director, Mr. J.T. Basrai, in the background of our letter No. 55/MD/587 dated 27th August, 1992.

In view of the above that the CBI is seized of the case, Board of Directors thought it fit to wait for their report and take criminal/disciplinary action against the concerned employee found guilty by the CBI.

In a communication furnished to the Committee on 13.8.1993, the Ministry of Finance stated that Shri J.T. Basrai, Managing Director "was not given extension in service. He was relieved from service with effect from 31.1.1993."

APPENDIX - XXII

(See para 12.5 of the Report)

Statement showing broker-wise analysis of transactions in securities during 1.4.1991 to 23.5.1992

(Rs. in crores)

Broker	No. of Transactions	Aggregate face value	Percentage aggregate face value
Direct	33,282	5,41,945.39	42.16
Hiten P. Dalal	6,253	1,27,504.04	9.92
Harshad S. Mehta	2,607	68,839.24	5.35
Somayajulu & Co.	1,961	48,344.28	3.76
Batliwala & Karani	3,873	43,857.03	3.41
N.K. Aggarwala & Co.	1,833	43,698.83	3.40
M/s. V.B. Desai & Associates	2,501	40,196.87	3.13
C. Mackertich	1,824	37,684.93	2.93
D.S. Purbhoodas & Co.	1,651	36,067.98	2.81
Asit C. Mehta	2,273	34,867.46	2.71
Bhupen Champaklal Devidas	1,619	34,264.07	2.67
Darashaw & Co.	1,663	24,930.90	1.94
Hemdev & Co.	1,308	19,179.64	1.49
Excel & Co.	1,417	18,032.36	1.40
P.R. Subramanyam & Co.	841	12,110.68	0.94
B.D. Agarwal	830	10,460.83	0.81
Chandrakala & Co.	943	9,972.51	0.78
G.N. Hegde	746	9,886.44	0.77
A.R. Financial Services Ltd.	611	9,287.67	0.72
Mukesh Babu	780	9,110.39	0.71
Aswin Dand	430	8,860.00	0.69
Kotak Mahindra & Co.	867	8,655.28	0.67
Stewart & Co.	487	8,502.28	0.66
A.D. Narotam	600	7,693.68	0.60
L.K. Pandey	405	5,179.42	0.40
Others	15,666	66,417.03	5.17
	87,271	12,85,549.23	100.00

APPENDIX - XXIII

(See para 12.7 of the Report)

Names of brokers accounting for 20% or more business of securities transactions in Banks/Financial Companies during April, 1991 to May, 1992

S. No.	Name of the Bank	Total Volume of Transaction (FV) (Rs. in crores)	Name of Broker	Volume of Business (FV)	Percentage to the total Volume
1	2	3	4	5	6
1.	State Bank of India	54344	Harshad S. Mehta	17382	31.99
2.	State Bank of Bikaner & Jaipur Ltd.	482	A.R. Fin. Services	220	45.64
3.	State Bank of Hyderabad Ltd.	4147	A.R. Fin. Services	854	20.59
4.	State Bank of Indore	2480	i) Batliwala & Karani ii) A.R. Financial Services Ltd.	615 589	24.80 23.75
5.	State Bank of Mysore	519	i) G.N. Hegde ii) Mukesh Babu	108 104	20.81 20.04
6.	State Bank of Patiala	2488	H. S. Mehta	806	32.40
7.	State Bank of Travancore	351	i) M/s V.B.Desai & Associates ii) Batliwala & Karani	96 91	27.35 25.93
8.	Allahabad Bank	8586	i) C. Mackertich ii) Stewart & Co.	3239 2693	37.72 31.37
9.	Andhra Bank	42136	i) H.P. Dalal ii) Batliwala & Karani	19670 10454	46.68 24.81
10.	Bank of India	14664	Darashaw & Co.	4014	27.37
11.	Canara Bank	27880	H.P. Dalal	8327	29.87
12.	Indian Overseas Bank	10516	i) Somayajulu & Co. ii) H.P. Dalal	4295 2509	40.84 23.86
13.	Oriental Bank of Commerce	374	M/s V.B. Desai & Associates	124	33.16
14.	Union Bank of India	1935	Darashaw & Co.	1156	59.74

1	2	3	4	5	6
15.	United Bank of India	3158	Batliwala & Karani	986	31.22
16.	UCO Bank	28907	Harshad S. Mehta	10033	34.71
17.	Bank of Tokyo Ltd.	599	Swastik & Co.	322	53.76
18.	ANZ Grindlays Bank	93958	H.P. Dalal	19097	20.33
19.	Hongkong & Shanghai Banking Corporation Ltd.	10194	H.P. Dalal	4580	44.93
20.	Bank of Madura Ltd.	25729	Chandrakala & Co.	5504	21.39
21.	Jammu & Kashmir Bank Ltd.	1017	N.K. Aggarwala & Co.	720	70.80
22.	Lakshmi Vilas Bank Ltd.	58	Madan & Co.	23	39.66
23.	Sangli Bank Ltd.	407	G. Pushpanathan	156	38.33
24.	Vysya Bank Ltd.	2008	i) Madan & Co.	665	33.12
			ii) Chandrakala & Co.	437	21.76
25.	Bank of Karad Ltd.	15767	A.D. Narotam	7311	46.37
26.	Bank of Bahrain & Kuwait Ltd.	503	P.R. Subramanyam & Co.	286	56.86
27.	SBI Mutual Fund	5051	Asit C. Mehta	1826	36.15
28.	BOI Mutual Fund	2209	i) M/s V.B. Desai & Associates	914	41.38
			ii) Batliwala & Karani	495	22.41
29.	Canbank Mutual Fund	24223	H.P. Dalal	9630	39.76
30.	Allbank Finance Ltd.	214	i) M/s. V.B. Desai & Associates	105	49.07
			ii) L.K. Pandey	48	22.43
31.	Indbank Merchant Banking Services Ltd.	6028	Kotak Mahindra	1615	26.79
32.	Andhra Bank Financial Services Ltd.	8878	Fairgrowth Financial Services Ltd.	2558	28.81
33.	United Western Bank Ltd.	489	Puran & Co.	221	45.19

Note: Source RBI.

A P P E N D I X - X X I V

(See para 12.46 of the Report)

RBI Circular of 9 March, 1992 Re. DO's and Don'ts for Directors on The Boards of Private Sector Banks

RESERVE BANK OF INDIA
CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
CENTRE 1, WORLD TRADE CENTRE,
CUFFE PARADE, COLABA, BOMBAY-400005.

Ref. DBOD. No. BC.94/16:13:100-92

March 9, 1992
Phalguna 19, 1913 (SAKA)

Chairman of all
Private Sector Banks

There have been several disturbing developments in the functioning of the Boards of Directors of some of the banks in the recent past and we consider it necessary to restate certain basic principles, although most of them ought to be quite obvious to bankers.

2. We need hardly emphasise the line of distinction between a Board of Directors with which the overall management of a bank vests and the day-to-day administration. The Board is essentially a policy making body and it meets only periodically to deliberate on the issues put up to it by the bank's Chairman and Chief Executive Officer. As the bank's conscience keeper and watchdog, the Board is expected to guide and lead the bank. The Chairman, who is a professional banker, is the only full time Director and in his capacity as the executive Chairman, he heads the bank in its daily operations, and also heads the Board. It is thus fully recognised that while the Board will take decisions on all matters which are beyond the delegated powers of the Chairman and on policy issues, the Chairman as the whole-time Director will look after the day-to-day affairs of the bank. We, however, regret to observe that there are directors who made themselves parties to certain business deals. These relate to credit proposals, purchase of premises, evaluation of securities, etc. If a Director were to sponsor or back a credit proposal, directly or overtly, it is obvious that the bank cannot be objective in credit appraisal or in credit supervision. It is also questionable whether directors should take it upon themselves to visit branches, controlling offices or departments in regard to any detail of operations. Similarly, we feel it is no part of their duties to be directly interested in fixation/purchase of bank premises or to evaluate, any immovable properties charged to the bank. Sponsoring candidates for recruitment or promotion or interfering in any other manner with the selection/appointment process, or in transfers of staff, and more importantly interfering in cases of disciplinary proceedings instituted against corrupt/delinquent/recalcitrant employees will not have any healthy effect on industrial relations or the general level of efficiency in the Bank. As a director on the Board of a bank, he is only expected to contribute his own experience, expertise, perception and direction in policy formulation and appraisal of the bank's performance. We, therefore, believe that directors should distance themselves from these activities. Only then would they have the moral right to question the bank's actions and guide it towards proper functioning and health. In some banks, directors have also formed conflicting groups resulting in lack of harmony and coordination among the members of the Board. As a result, the Boards of these banks fail to function as homogeneous units and it becomes difficult for the Chairman to perform his

duties as the Chief Executive of the bank as also for the Board to take unbiased decisions. It is, therefore, essential that directors on the Boards of private sector banks should refrain from engaging in such direct involvement in the bank's functioning as they are inconsistent with their role and responsibility as directors of the bank. In this connection, we enclose a list of DO'S AND DONT'S applicable to directors of banks. We must emphasise that the list is illustrative and not exhaustive. We have to reiterate that directors on the Boards of private sector banks should perform their role in such a manner as to assist the Chairman and strengthen the management to bring about qualitative and quantitative improvement in the working of the bank. We also invite a reference to our circular DBOD.No.App.BC.22/C.318(BN)-84 dated 16th March, 1984 advising certain guidelines on the role and functions of non-official directors which are applicable to other elected directors also. It may be stated that the Reserve Bank of India will take a serious view of any deviation from the role expected of directors on the Boards of private sector banks and consider such action as may be necessary in the interests of those banks.

3. We have also observed that some banks had not observed proper procedures for allotment of shares by way of rights issue which facilitated the interests of certain groups to enable them to acquire a controlling/dominant interest. It is, therefore, necessary that banks frame prudential guidelines for allotment/transfer of shares taking into account the provisions of the Companies Act, 1956 and the extant instructions of the Reserve Bank of India and ensure strict adherence to the guidelines to obviate any scope for unhealthy practices in such allotments/transfers of shares.

4. Another aspect of the functioning of directors on the Boards of private sector banks is their tenure of appointment. Section 10A of the Banking Regulation Act, 1949 provide that no director of a banking company, other than its Chairman or wholetime director shall hold office continuously for a period exceeding eight years. As certain instances of persons who vacated their office as directors pursuant to the aforesaid provisions but who subsequently got themselves re-inducted into the Board by co-option or re-election came to our notice, we advised banks, *vide* our circular DBOD.No.Leg.94/C233-84 dated 10th September, 1984, that such co-option or re-election would be tantamount to circumvention of the legal requirements and would be viewed with concern. You were also urged to persuade such members to resign and co-opt new members in their place.

5. It is again observed that in some banks certain directors still continue beyond a period of 8 years by adopting devious methods. They cease to be directors for a short period at the end of the 8-year period and then get themselves inducted again by co-option or re-election. You will appreciate that this is not in consonance with the spirit of the provisions of Section 10A(2A)(i) of the Banking Regulation Act, 1949. We would again request you to ensure that such members are persuaded to resign and new members are co-opted in their place with a view to injecting fresh talents and keeping the Board broadbased and well diversified. If, however, it is considered essential that in very exceptional cases of directors who have completed the tenure but whose continued association with the bank is considered to be desirable in view of their expertise and experience, it should be ensured that there shall be a minimum gap of two years between the date on which such a director ceases to be a member of the Board by virtue of his having completed the tenure of 8 years and his reappointment, at any future date. In this connection, it may be noted that continued violation of the spirit of the aforesaid provisions of the Banking Regulation Act, 1949 would be viewed by the Reserve Bank of India with disfavour.

6. A copy of this letter may please be placed before the next meeting of the Board of Directors of your bank for their information and necessary action.

7. Please acknowledge receipt of this circular to the Chief Officer, Department of Banking Operations and Development, Reserve Bank of India, Central Office, World Trade Centre, Colaba, Bombay-400005.

Yours faithfully,

(Kum. V. Visvanathan)
Executive Director

Encls.

Endt. DBOD. No. 954 /16:13:100-92 of date.

Copy forwarded for information to the Joint Chief Officer, Reserve Bank of India, Department of Banking Operations and Development, Ahmedabad/Bangalore/Bombay/Bhubaneswar/Calcutta/Guwahati/Hyderabad/Jaipur/Kanpur/Madras/New Delhi/Patna/Trivandrum/Bhopal/Chandigarh/Jammu.

(L.M. Fonseca)
Deputy Chief Officer.

S T A T E M E N T

DO'S

- (i) Attend the Board meetings regularly and effectively.
- (ii) Study the Board papers thoroughly and used the good offices of the Chief Executive for eliciting any information at the Board meeting.
- (iii) Ask the Chairman to furnish you with the Board papers and follow-up Reports on a definite time schedule.
- (iv) Involve yourself as Director on the Board thoroughly in the matter of formulation of general policy and also ensure that performance of the bank is monitored adequately at Board levels.
- (v) Be familiar with the broad objectives of the bank and the policy laid down by the Government and the Reserve Bank.
- (vi) All constructive ideas for the better management of the bank and for making valuable contribution would be welcome.
- (vii) You must work as a team and not sponsor or be prejudiced against individual proposals. Management on its part is supposed to furnish full facts and complete papers in advance.
- (viii) Try to give as much of your wisdom, guidance and knowledge as possible to the management.
- (ix) Try to analyse the trends of economy, assist in the discharge of management's responsibility to public and formulation of measures to improve customer service and be generally of constructive assistance to the bank management.

DONT'S

- (i) Do not send any instruction to any individual officer of the bank or give direction to individual officer in any matter.
- (ii) Do not involve yourself in any matter relating to personnel administration - whether it is appointment, transfer, posting or a promotion or a redressal of individual grievances of any employee.
- (iii) Do not interfere in the day-to-day functioning of the bank.
- (iv) Do not approach or influence for sanction of any kind of facility from an individual Branch Manager or any other official.
- (v) Do not involve yourself in the routine or every day business and in the management functions.
- (vi) Do not participate in the Board discussion if a proposal in which you are directly or indirectly interested comes up for discussion. Disclose your interest well in advance to the Chief Executive.
- (vii) Do not reveal any information relating to any constituent of the bank to anyone as you are under oath of secrecy and fidelity.

- (viii) Directors should not send for individual officers of the bank or give directions to such officers on any matter.
- (ix) You should discourage the individual employee or unions approaching you in any matter.
- (x) You may indicate your directorship of the bank on your visiting card or letter heads, but the logos or distinctive design of the bank should not, however, be displayed on the visiting card/letter head.
- (xi) Directors should not directly call for papers/files/notes recorded by various departments for scrutiny etc. in respect of agenda items to be discussed in the meetings. All information/clarification that they may require for taking a decision will be made available by the executive.
- (xii) Directors are expected to ensure confidentiality of the Bank's agenda papers/notes. Ordinarily, it is suggested that by way of abundant precaution, the Board papers may be returned to the bank after the meeting.
- (xiii) Do not sponsor any loan proposal, buildings and sites for bank's premises, enlistment or empanelment of contractors, architects, doctors, lawyers, etc. Do not do anything which will interfere with and/or be subversive of maintenance of discipline, good conduct and integrity of the staff.

A P P E N D I X - X X V
(See para 13.26 of the Report)

**Letter dated 22nd July, 1982 from Shri Ram Niwas Mirdha, MP to
Shri Pranab Mukherjee the then Minister of Finance
regarding functioning of stock exchanges**

Ram Niwas Mirdha, MP
Rajya Sabha.

17, Safdarjung Road,
New Delhi.

Dated: 22 July, 1982

Dear Shri Pranab Mukherjee,

Once again the Bombay Stock Exchange has been engulfed in payment crises. This has become a recurring feature of this exchange which shows that whatever machinery that exists for over-seeing the working of the stock exchanges has failed to discharge its responsibilities. That this should happen with Government representatives sitting on the governing boards of stock exchanges is most regrettable.

The stock exchanges in the country have been turned into dens of speculative and illegal activities. Forward trading in shares was made illegal in 1969 but the type of transactions that are allowed in the stock exchanges are illegal in letter as well as spirit of law. Terms like "carry-forward" and "Badla" smack of forward trading which is banned under law. Even the mild restraints imposed from time to time under the existing systems are flouted with impunity. Margins imposed for trading are not enforced, huge transactions are not even recorded and illegal trading outside the stock exchanges is regularly reported in newspapers as kerb rates.

It is regrettable that such a crisis should develop at a time when large number of middle-class people have started making investment in shares and debentures. Proper functioning of the stock exchanges is essential if new investments to be made in the private corporate sector. The Government should firmly step-in to curb unhealthy speculation and it should not give into the demand that curbs on forward-trading be removed because it would only make legal the pernicious practices that obtain at present. Stringent measures are necessary to stop the rot in the stock exchanges.

With best wishes,

Yours sincerely,

Sd/-

(RAM NIWAS MIRDHA)

Shri Pranab Mukherjee,
Minister of Finance,
New Delhi.

A P P E N D I X - X X V I

(See para 13.26 of the Report)

**Reply dated 26th August, 1982 from the then Minister of Finance to
Shri Ram Niwas Mirdha, regarding functioning of stock exchanges**

D.O. No. 1/19/SE/81

MINISTER OF FINANCE
INDIA
NEW DELHI-110001
AUGUST 26, 1982

My Dear Mirdhaji,

Kindly refer to the correspondence resting with my D.O. letter No. 2729/82-VIP(I), dated the 11th August, 1982 regarding the improper functioning of the Stock Exchanges.

2. I agree with you that the crisis which developed at the Bombay Stock Exchange because of excessive speculative activities should have been avoided. However in the last few weeks the Stock Exchange Authorities appear to have been able to overcome this crisis although a prominent bull-operator and two other members had to be declared as defaulters and their memberships terminated.
3. While I do agree with you that we should ensure that crisis of the type that took place should not occur again, the operations on Stock Exchanges are such that it is rather difficult to always ensure that there would be no crisis whatever. This is particularly so as the volume of transactions in the last two years has assumed unprecedently large proportions, and are often put through by the members of Stock Exchanges through other members and not in their own names. None-the-less, we have been trying to streamline the functioning of the Bombay Stock Exchange with a view to ensuring that there is no recurrence of the type of crisis that took place recently at the Exchange. We have already directed the Bombay Stock Exchange authorities not to close the market except on normal holidays to stiffen collection of additional security deposits to inspect regularly the books of accounts and other documents of the parties indulging the under-reporting and to take deterrent disciplinary action against erring members, etc. The Stock Exchange authorities have already started complying with these directives. As a result, there is today a greater degree of orderliness in the operations in the Exchange. Investors also seem to have resumed their interest. Other measures are also under consideration. We are, keeping a close vigil on the operations of the Exchange and will take suitable further corrective measures to improve the working of the Exchange.
4. The question of legality of the transactions conducted in respect of the more active scrips, called list 'A' securities traded on the Bombay Stock Exchange has already been examined by us. We were advised that these do not impinge on the provisions of the Notification issued by the Government on the 27th June, 1969 prohibiting contracts for the "clearing", known

in popular parlance as forward trading, in securities. However were examining various steps in order to strengthen the regulatory capacity of the authorities and to curb excessive speculation. The basic issue is that the Stock Exchange must be regarded as a public institution rather than private body of the brokers.

Yours sincerely,

Sd/-
(PRANAB MUKHERJEE)

Shri Ram Niwas Mirdha,
Member of Parliament,
17, Safdarjung Road,
NEW DELHI.

APPENDIX - XXVII

(See para 13.34 of the Report)

Details about the Meetings of the Governing Board of the Stock Exchange, Bombay and Attendance by Government Nominee

Year (April-March)	Total No. of Meetings	No. of Meetings attended by Government Nominees by name	
		Name	No. of Meetings Attended
1988-89	28 (23 Regular & 5 Emergency)		
		Shri P.R.Bindu Madhavan (Director - MOF)	3
		Shri Paul Joseph (Jt. Director-MOF)	3
		Shri S.A.Dave (Chairman-SEBI)	6
1989-90	36 (28 Regular & 8 Emergency)		
1.4.89 to 13.10.89	17	Shri P.R. Bindu Madhavan (Director - MOF) (Retired on 13.10.89)	NIL
13.10.89 to 31.3.90	19	Shri S. Joshi (Deputy Secretary-MOF) (Appointed on 13.10.89)	3
1.4.89 to 15.12.89	24	Shri S.A. Dave (Chairman - SEBI) (Retired on 15.12.89)	2
15.12.89 to 31.3.90	12	Shri U.C. Dikshit (Executive Director-SEBI) (Appointed on 15.12.89)	9
1.4.89 to 15.12.89	24	Shri Paul Joseph (Jt. Director-MOF) (Retired on 15.12.89)	2
15.12.89 to 31.3.90	12	Shri K.N. Atmaramani (Chief General Manager-UTI) (Appointed on 15.12.89)	5

Year (April-March)	Total No. of Meetings	No. of Meetings attended by Government Nominees by name	
		Name	No. of Meetings Attended
1990-91	65 (35 Regular & 30 Emergency)	Shri U.C. Dikshit (Executive Director-SEBI)	50
		Shri K.N. Atmaramani (Chief General Manager-UTI)	22
1.4.90 to 1.8.90	19	Shri S. Joshi (Deputy Secretary -MOF) (Retired on 1.8.90)	1
1.8.90 to 31.3.91	46	Shri Paul Joseph (Jt. Director - MOF) (Appointed on 1.8.90)	3
1991-92	40 (30 regular & 10 Emergency)	Shri Paul Joseph (Jt. Director - MOF)	2
		Shri K.N. Atmaramani (Chief General Manager-UTI)	11
		Shri U.C. Dikshit (Executive Director-SEBI)	36
1992-93	51 (39 Regular & 12 Emergency)	Shri Paul Joseph (Jt. Director - MOF)	6
		Shri K.N. Atmaramani (Chief General Manager - UTI)	14
1.4.92 to 15.2.93	48	Shri U.C. Dikshit (Executive Director - SEBI) (Retired on 15.2.93)	40
16.2.93 to 31.3.93	3	Shri C.B. Bhave (Senior Executive Director-SEBI) (Appointed on 15.2.93)	3

A P P E N D I X - X X V I I I

(See para 14.1 of the Report)

Department of Economic Affairs Communication dated 11th March, 1964, reg. banking arrangements/with State Bank of India or its subsidiaries

BANKING ARRANGEMENTS

Banking arrangements for Local Bodies, Statutory Authorities, Government Corporations and Companies.

The undersigned is directed to state that the Government of India have had under consideration the question of the banking arrangements of local bodies in Centrally administered territories, Statutory authorities which derive the bulk of their income from Central Government grants or the proceeds of central cesses, and corporations and companies wholly owned by Government or in which more than fifty percent of the capital is held by Government. It has now been decided that in supersession of the orders contained in this Ministry's O.M.No. F.4(17)F1/51 dated the 22nd Oct., 1962, but subject to any special provision in any Act of Parliament or of a state legislature; the principles mentioned below should be followed:

- (i) All local bodies should keep their funds with Government in a personal or other deposit account at a treasury or sub-treasury, but
 - (a) at any place where there is an office or establishment of a local body, but no treasury or sub-treasury, a current account with the State Bank of India or with any of its subsidiaries referred to in paragraph (ii) below, or
 - (b) at any place where there is such an office or establishment but no treasury or sub-treasury and no office of any of the banks mentioned at (a) above a current account with one of the scheduled banks referred to in paragraph (iv) below:

may be opened. If at any place where a local body has an office or is required to function, there is no treasury or sub-treasury and no office of any bank mentioned in sub-paragraph (a) or (b) above, (and if it is also proposed to open an account with any other bank which may be functioning locally) the orders of the local Government or administration should be obtained before the proposed account is opened. The amounts deposited in various accounts outside the treasury or sub-treasury should be limited, in accordance with the orders of the authorities competent to prescribe limits for this purpose under the relevant statutes, bye-laws or regulations, to suitable ceilings which may be prescribed for this purpose. Any sums in excess of the limits fixed should be periodically withdrawn and credited to the local body's deposit account at the treasury or sub-treasury.

- (ii) All statutory authorities, societies, incorporated under the Societies Registration Act, 1860 and the Universities or institutes of technology which derive the bulk of their income from Government grants or from cesses should, as far as possible keep their cash balances and funds with Government in a personal deposit or other account at treasury. If for convenience of day to day working they have to keep an account with a commercial bank they may open a current account with one of the offices of the State Bank of India or of its subsidiaries, namely, the State Bank of Bikaner and Jaipur, Indore, Hyderabad, Mysore, Patiala, Saurashtra and Travancore.

- (iii) Corporations and companies which are wholly owned by Government or in which Government own more than fifty per cent of the capital should ordinarily maintain their accounts with the State Bank of India or any of its subsidiaries. Any surplus funds which are required to be invested with banks should also be invested in these banks.
- (iv) If a branch of the State Bank of India or of any of its subsidiaries is not in existence at any place, at which any of the office of the institutions mentioned in sub-paragraphs (ii) and (iii) above is located or has an office branch or establishment, an account may be opened at that place with one of their scheduled banks. For this purpose, however, only a scheduled bank. The deposits of which as shown in the last annual balance sheet are Rs. 10 crores or more should normally be chosen, and the question of opening an account with any other bank should be considered only if no such scheduled bank has an office at the place where the account is to be opened. An account opened with any bank other than the State Bank of India or any of its subsidiaries should ordinarily be only a current account. A ceiling for the amount to be held in such current account should be prescribed and the bank should be instructed to remit, to some convenient account of the institution concerned with the State Bank of India or any of its subsidiaries amounts in excess of this ceiling at periodical intervals.
- (v) The statutory rules, bye-laws, articles of association or other orders should be amended suitably wherever this may be necessary, so as to conform to the foregoing instructions.

2. The instructions contained in the foregoing paragraph will come into force with immediate effect so far as the opening of new accounts and the investment of fresh funds are concerned. Current accounts which are not authorised under these instructions, should be closed at an early date and the funds should be withdrawn and utilised in accordance with these orders. Any amounts already deposited with any bank, otherwise than in current account and otherwise than in accordance with the provisions of this O.M. need not be withdrawn immediately, but as and when the accounts mature for payment or the amounts are due, the funds should be withdrawn and dealt with in accordance with the instructions contained in this Office Memorandum.

3. The provisions of this Office Memorandum will not apply to the Life Insurance Corporation, the Indian Airlines Corporation or the Air India Corporation, in view of the specialised nature of their business. The existing arrangements will continue in these cases and special orders will be issued separately if in relation to any institution this is considered necessary.

(Deptt. of Eco. Affairs No. 11(1)/BC-64 dt. 11th March, 1964)

A P P E N D I X - X X I X

(See para 14.2 of the Report)

Department of Banking Communication dated 22nd May, 1973 regarding banking arrangements with nationalised banks

Banking arrangements for local bodies, Statutory Authorities, Government Corporations and Companies.

A reference is invited to the Department of Economic Affairs, office Memorandum No. F.11/(1)BC/64 dt. the 11th March 1964, on the subject indicated above. It was stated *inter alia* in the O.M. that local bodies in centrally administered territories, statutory authorities which derive the bulk of their income from Central Govt. grants or the proceeds of central cesses and corporations and companies wholly owned by Government of India or in which more than 51% of the capital is held by Govt. should, where Government treasury or sub-treasury does not operate deposit their surplus cash balance by opening a current account with the State Bank of India or with any of its subsidiaries. It has been decided in the context of the nationalisation of fourteen major banks that in partial modification of the O.M. dated the 11th March, 1964, referred to above the principles mentioned below should be followed:

- (a) Local Bodies/Statutory Authorities where the existing rules permit the local bodies and statutory authorities to avail of the services provided by the banking system they may adopt the following guidelines :
 - (i) A new local body/statutory authority referred to above will be free to choose any of the following public sector banks namely, the State Bank of India, its seven subsidiaries and the fourteen nationalised banks.
 - (ii) Every local body/statutory authority may also as far as practicable, deal with only one public sector bank. If the local body/statutory authority has offices at different places, where for convenience of day to day working it is desired to have banking arrangements with any other public sector bank, it is open to that body/statutory authority to avail of such arrangements in consultation with its principal banker. If any special difficulty arises in working out such arrangement, it may approach the Department of Banking through the administrative Ministry concerned.
 - (iii) If an existing local body/statutory authority wishes to transfer its account from one public sector bank to another, it will approach the administrative Ministry concerned indicating the reasons for the proposed change. The administrative Ministry in its turn will consult the Department of Banking for advice before giving necessary directions in the matter.
- (b) Public Sector Undertakings. In so far as Corporations and Companies wholly owned by Govt. or in which more than 51% capital is held by Government are concerned; it is hereby clarified that the existing instructions according financing of working capital requirements of the public sector undertakings contained in the Ministry of Finance, Bureau of Public Enterprises O.M. No. BPE/1(49)/ADV(F)71 dt. the 24th June, 1971, will also be applicable for availment of all other banking facilities. If any special difficulty arises in following such arrangements, the undertaking may approach the Department of Banking through the Bureau of Public Enterprises.

2. The statutory rules, bye-laws, articles of association or other orders should be amended suitably, wherever necessary.

3. The Ministry of Industrial Development etc. are requested to bring these instructions to the notice of all such bodies/public sector undertakings under their administrative control for information and necessary action.

(Deptt. of Banking No. F 7(4)/BO III/72 dt. 22nd May, 1972)

A P P E N D I X - X X X

(See para 14.2 of the Report)

DPE Communication dated 3rd January, 1992 regarding banking arrangements of PSUs with foreign/private sector banks

DPE/14(19)/90-Fin.
GOVERNMENT OF INDIA
MINISTRY OF INDUSTRY
DEPARTMENT OF PUBLIC ENTERPRISES

14, CGO Complex, Lodi Road,
New Delhi, the 3rd Jan.'92

OFFICE MEMORANDUM

Sub : Banking arrangements of Central Government Public Enterprises

Reference is invited to this Office Memorandum No. BPE/1(86)/Adv(F)/72 dated 7.5.1973 and O.M. No. BPE/1(24)/87-Fin (PSU) dated 10.4.1987 on the subject cited. The extent policy that public sector enterprises should have banking arrangement only with public sector banks has since been reviewed and it has now been decided that Central Public Sector enterprises can undertake normal banking transactions with any bank of their choice including foreign/private sector banks.

Sd/-

(T.S. NARASIMHAN)
Joint Secretary

To

1. Secretaries of all administrative Ministries/Deptts.
2. Financial Advisers of all administrative Ministries/Deptts.

Copy to : Chief Executives of all Central Public Sector Enterprises

Sd/-

(T.S. NARASIMHAN)

A P P E N D I X - X X X I

(See para 14.3 of the Report)

Ministry of Finance's communications dated 1st Dec., 1987 and 5th February, 1988 reg. investment of surplus funds in Government Securities, PSU Bonds, Government Treasury Bills

No.2(232)-8(DON)/87

R.R. GUPTA

Secretary
Government of India
Ministry of Finance
Department of Expenditure
New Delhi 110001 dt. 1.12.1987.

During the annual Budget reviews Ministries have projected additional requirements of funds in the current year. In the current situation it is not possible to agree to any increase in Budget. On the Other hand, some cuts are inescapable to contain the Budget deficit. Accordingly, Ministries have to make internal re-adjustments to contain their total expenditure within their Budgets. Besides, to raise resources to meet the expenditure on drought relief, Government have decided on certain savings and reductions in expenditure. These should be secured. In the light of the above and relevant factors the Revised Estimates of Plan and non-Plan expenditure in the current year for your Ministry are being worked out and will be communicated to you separately. These limits have to be strictly adhered to. You may, however, ensure that salary payments and contractual/obligatory payments are met within the allocations.

2. In the context of the situation arising out of the drought in the country economy measures were decided by the Government and conveyed to you in my earlier letters. These have to be strictly observed. No new starts should be sanctioned during the current year. In respect of on-going schemes, funds may be provided only to meet the minimum immediate requirements and the balance budget provision beyond such requirements if available, should be surrendered.

3. Government have taken the following further decisions to enforce economy :-

- (i) Further release of funds to public sector undertakings and autonomous bodies should be confined to match the external assistance receipts during the year or to cover minimum immediate requirements.
- (ii) Release of funds to State Governments etc. for implementation of the schemes should be done after examining the full justification for such release with reference to the existing instructions on the subject. In cases where such instructions are not fully complied with and the releases are considered necessary, the matter should be referred to the Ministry of Finance.
- (iii) Existing instructions regarding re-appropriation of funds should be strictly enforced. Re-appropriation of funds between various schemes or heads of expenditure should not be allowed merely because savings are available under certain schemes/heads of expenditure. As a temporary measure the existing delegation of powers under Rule 10, of DFP Rules in regard to re-appropriation of funds is reduced from Rs. 2 crores to Rs.1 crore.

These instructions apply to Scientific Departments as well.

4. Public sector Undertakings should be instructed that they should invest funds available with them which are surplus to their immediate requirements in public sector bonds, Govt. treasury bills or as deposits with Govt. terms deposits kept with banks, as and when they mature, should also be invested in the above manner.

5. I shall be grateful if these instructions are strictly complied with and I may kindly be kept informed of the action taken.

With regards,

Yours sincerely,

(R.R. GUPTA)

Secretaries to
all Ministries/Departments,
Government of India,
New Delhi.

Copy to : All Financial Advisers.

(R.R. GUPTA)

IMMEDIATE
D.O. No. F.16-2 (CDN)/87
Government of India
Ministry of Finance
Deptt. of Economic Affairs
New Delhi dt. 5.2.1988

M.S. Sastry,
Additional Secretary.

Dear Shri Mishra,

Kindly refer to D.O. letter of even number dt. 1.12.1987 from Secretary (Expenditure) conveying certain decisions to enforce economy. It was, *inter-alia*, indicated therein that public sector undertakings should invest their surplus funds in public sector bonds, Government treasury bills or as deposit with Government. This is to clarify that the instructions apply only to funds which are not received for a period exceeding 6 months. However, as far as possible surplus funds of public undertakings should be invested in public sector bonds or 182 days treasury bills for which secondary markets are available.

Yours sincerely,

Sd/-
(M.S. SASTRY)

Shri S.N. Mishra,
Secretary,
Ministry of Civil Aviation.

APPENDIX - XXXII

(See para 14.4 of the Report)

Investment of funds in Short-term, Certificate of Deposit, PMS, Units, PSU Bonds, Government Securities, Mutual Funds during 1991-92

(Rs. in crores)

Sl. No.	Organisations	Short term	C.D.	PMS	ICD	Units	PSU's Bonds	Govt. Securities	M.F.	Total
1	2	3	4	5	6	7	8	9	10	11
1.	STC	165.09	34.63	-	568.50	-	-	-	-	768.22
2.	ITPO	12.35	-	-	27.80	5.90	-	-	-	46.14
3.	ECGC	200.75	-	-	-	-	-	-	-	200.75
4.	Spices Trading Corp. Ltd.	0.60	-	-	0.60	-	-	-	-	1.20
5.	MMTC	531.74	9.97	-	-	-	-	-	0.50	542.21
6.	NPCIL	679.00	2.84	180.00	5.40	-	-	-	-	867.24
7.	Uranium Corp. of India Ltd.	10.13	28.50	-	-	-	-	-	-	38.63
8.	Indian Vaccines Corp. Ltd.	-	-	-	-	8.03	23.37	-	-	31.40
9.	Bharat Immunologicals & Biologicals Corp. Ltd.	10.52	-	-	-	-	-	-	-	10.52
10.	ET&T Corp. Ltd.	2.00	-	-	8.00	-	-	-	-	10.00
11.	IAC	126.14	288.43	-	-	-	-	-	-	414.57
12.	IAAI	-	370.69	-	-	-	-	-	-	370.69
13.	Indira Gandhi Rashtriya Uran Academy	1.20	5.54	-	-	-	-	-	-	6.74
14.	AI	88.73	674.88	49.28	23.00	23.00	424.76	-	-	1200.65
15.	National Airport Authority	11.97	14.00	-	-	-	-	-	-	25.97
16.	Pawan Hans Ltd.	7.23	-	81.25	81.50	-	-	-	-	169.98
17.	Vayudoot	2.00	-	-	-	-	-	0.24	-	2.04
18.	Hotel Corp. of India	3.70	-	-	-	-	-	-	-	3.70
19.	ONGC	2150.44	-	100.00	-	77.59	327.09	-	115.98	2771.10

1	2	3	4	5	6	7	8	9	10	11
20.	HPCL	214.47	-	-	-	-	-	-	-	254.61
21.	BPCL	233.21	-	-	108.00	5.09	-	-	-	397.20
22.	IBP Co. Ltd.	6.00	-	-	-	14.87	-	-	-	20.87
23.	Lubrizol India Ltd.	19.00	-	-	-	-	-	-	-	19.00
24.	EIL	-	29.17	-	-	-	-	-	-	29.17
25.	Cochin Refineries Ltd.	538.03	-	-	-	7.40	-	-	-	545.43
26.	Bongaigaon Refineries & Petrochemicals Ltd.	249.16	7.69	-	-	-	14.20	-	-	271.05
27.	Madras Refineries Ltd.	664.48	-	-	-	-	1009.70	-	-	774.18
28.	Gas Authority of India Ltd.	0.85	-	-	105.79	-	55.27	-	29.58	191.49
29.	Oil India Ltd.	176.28	6.97	80.00	-	-	-	-	-	263.25
30.	Indian Oil Corp. Ltd.	3591.71	-	-	-	-	132.70	203.82	-	3928.32
31.	ONGC Videsh Ltd.	28.50	-	-	-	-	-	-	-	28.50
32.	Centre for Development of Telematics.	20.88	1.83	-	-	-	-	-	-	22.71
33.	Telecommunication Consultants (I) Ltd.	6.85	3.21	-	-	-	6.03	-	-	16.09
34.	Hindustan Tele-printers Ltd.	13.54	-	-	7.04	-	-	-	-	20.58
35.	Videsh Sanchar Nigam	4.00	-	-	128.23	-	-	-	-	132.23
36.	Hindustan Latex Ltd.	1.55	7.24	-	-	-	-	0.01	-	8.80
37.	India Tourism Dev. Corp.	12.20	-	-	-	-	-	-	-	12.20
38.	Educational Consultants India Ltd.	2.41	0.75	-	-	-	-	-	-	3.10
39.	Andrew Yule & Co. Ltd.	1.78	-	-	-	-	-	-	-	1.78
40.	Engineering Projects India Ltd.	10.91	-	-	-	-	-	-	-	10.91
41.	Hindustan Salt Ltd.	0.98	-	-	-	-	-	-	-	0.98
42.	National Industrial Dev. Corp. Ltd.	1.52	4.45	-	-	-	-	-	-	5.97
43.	Scooters India Ltd.	0.15	-	-	-	-	-	-	-	0.15
44.	Tyre Corp. of India Ltd.	1.60	-	-	-	-	-	-	-	1.60

1	2	3	4	5	6	7	8	9	10	11
45.	Engineering Products India Ltd.	10.91	-	-	-	-	-	-	-	10.91
46.	Burn Standard Co. Ltd.	8.20	-	-	-	-	-	-	-	8.20
47.	Cement Corp. of India Ltd.	0.26	-	-	-	-	-	-	-	0.26
48.	Hindustan Paper Corp. Ltd.	-	1.75	-	-	-	-	-	-	1.75
49.	MUL	42.98	-	38.71	26.37	5.11	-	-	-	113.17
50.	Braithwaite & Co. Ltd.	1.81	-	-	-	-	-	-	-	1.81
51.	Instrumentation India Ltd.	-	-	-	-	0.10	-	-	-	0.10
52.	Cycle Corp. of India Ltd.	-	0.01	-	-	-	-	-	-	0.01
53.	National Bicycle Corp. of India Ltd.	-	-	-	474.89	-	-	-	-	474.89
54.	Cotton Corp. of India Ltd.	-	26.22	-	161.75	-	-	-	-	187.97
55.	Central Cottage Industries Corp. of India.	5.45	-	-	-	-	-	-	-	5.45
56.	North Eastern Handloom & Handicrafts Dev. Corp.	0.29	-	-	-	-	-	-	-	0.29
57.	Steel Authority of India Limited	-	156.01	-	-	-	-	-	25.23	181.24
58.	Metallurgical Engineering Consultants India Ltd.	21.30	1.86	-	-	13.13	1.00	-	-	37.29
59.	Hindustan Steel Works Construction Ltd.	10.15	-	-	-	-	-	-	-	10.15
60.	Kudremukh Iron Ore Company Ltd.	286.60	4.81	-	65.00	-	-	-	47.75	404.16
61.	Bharat Refractories Ltd.	9.76	-	-	-	-	-	-	-	9.76
62.	Manganese Ore India Ltd.	13.91	2.39	-	-	-	-	-	-	16.30
63.	Metal Scrap Trade Corp. Ltd.	32.57	0.70	-	-	-	-	-	-	33.23
64.	National Minerals Dev. Corp. Ltd.	115.34	3.94	-	-	-	-	-	-	119.28
65.	Indian Iron & Steel Co. Ltd.	0.01	3.34	-	-	-	-	-	-	3.35

1	2	3	4	5	6	7	8	9	10	11
66.	Visvesvaraya Iron & Steel Co. Ltd.	-	1.04	-	-	-	-	-	-	1.04
67.	National Film Development Corp. Ltd.	-	-	7.64	-	-	-	-	-	7.64
68.	RITES	-	7.10	-	-	-	-	-	2.20	9.30
69.	IRCON	46.63	10.25	-	-	-	-	-	-	56.88
70.	IRFC	3076.28	2.26	29.00	7.00	-	-	-	219.00	3323.54
71.	Konkan Railways	9.99	6.29	-	-	-	-	-	-	16.28
72.	Hindustan Aeronautics Ltd.	-	-	-	-	-	45.00	-	-	45.00
73.	Mazgaon Dock Ltd.	15.00	-	-	-	-	-	-	-	15.00
74.	Mishra Dhatu Nigam Ltd.	37.00	-	-	-	-	-	-	-	37.00
75.	Mineral Exploration Corpn. Ltd.	1.00	-	-	-	-	-	-	-	1.00
76.	National Aluminium Co. Ltd.	1039.59	-	145.80	-	-	-	-	-	1183.79
77.	Bharat Gold Mines Ltd.	3.00	-	-	-	-	-	-	-	3.00
78.	Hindustan Zinc Ltd.	126.57	-	-	-	.3	-	-	-	126.87
79.	Mineral Development Corpn. Ltd.	-	.01	-	-	-	-	-	-	.01
80.	The Bisra Stone Lime Co. Ltd.	-	-	-	-	-	-	-	-	-
81.	Indian Fire Bricks & Insulation Co. Ltd.	3.30	-	-	-	-	-	-	-	3.30
82.	Sponge Iron India Ltd.	2.00	1.44	-	-	-	-	-	-	3.44
83.	Hindustan Prefab Ltd.	15.55	-	-	-	-	-	-	-	15.55
84.	HUDCO	2440.01	-	-	1007.10	-	-	-	-	3447.11
85.	Bengal Chemicals & Pharmaceutical Ltd.	1.29	-	-	-	-	-	-	-	1.29
86.	Rashtriya Chemicals & Fertilizers Ltd.	8.83	-	-	32.00	-	-	-	-	40.81
87.	Fertilizers & Chemicals Travancore Ltd.	-	-	-	-	-	-	-	-	-
88.	Paradeep Phosphates Ltd.	1.87	-	-	-	-	-	-	-	1.87
89.	Fertilizer Corp. of India Ltd.	1.00	-	-	-	-	-	-	-	1.00

1	2	3	4	5	6	7	8	9	10	11
90.	Hospital Services Consultancy Corp. India Ltd.	115.00	150.00	-	-	-	-	-	-	265.00
91.	Indian Medicines Pharmaceuticals Corp. Ltd.	-	-	-	-	-	-	-	-	-
92.	National Thermal Power Corporation	-	-	-	-	-	-	-	-	-
93.	Power Finance Corp.	549.39	4.94	-	-	-	-	-	-	554.33
94.	National Film Deve- lopment Corpn. Ltd.	-	-	3.50	-	-	-	-	-	3.50
95.	Highway Authority of India	-	2.00	-	-	-	-	-	-	2.50

**Investment of Funds in Short-term, Certificate of Deposit, PMS,
Inter-Corporate Deposit, Units, PSU Bonds, Government Securities,
Mutual Funds during 1992-93 (upto December, 1992)**

(Rs. in crores)

Sl. No.	Organisations	Short term	C.D.	PMS	ICD	Units	PSU's Bonds	Govt. Securities	M.F.	Total
1	2	3	4	5	6	7	8	9	10	11
1.	ITPO	2.17	14.75	-	11.50	6.01	-	-	-	34.43
2.	ECGC	131.87	-	-	-	-	-	-	-	131.87
3.	Spices Trading Corp. Ltd.	0.34	-	-	0.16	-	-	-	-	.50
4.	MMTC	167.17	10.89	-	-	-	-	-	-	178.06
5.	NPCIL	290.00	54.81	-	-	-	-	-	-	344.81
6.	Uranium Corp. of India Ltd.	13.63	3.93	-	-	-	-	-	-	17.56
7.	Indian Vaccines Corp. Ltd.	-	1.00	-	-	-	-	-	-	1.00
8.	Bharat Immunolo- gicals & Biologicals Corp. Ltd.	3.99	-	-	-	-	-	-	-	3.99
9.	ET&T Corp. Ltd.	4.00	-	-	4.00	-	-	-	-	8.00
10.	IAC	170.45	205.22	-	-	-	-	-	-	375.67

1	2	3	4	5	6	7	8	9	10	11
11.	IAAI	24.50	310.96	-	-	-	-	-	-	335.46
12.	Indira Gandhi Rashtriya Uran Academy	1.25	.24	-	-	-	-	-	-	1.49
13.	AI	75.83	832.39	10.00	12.00	-	33.70	-	-	963.92
14.	National Airport Authority of India	76.78	44.54	15.00	-	-	5.48	-	-	141.80
15.	Pawan Hans Limited	1.25	30.69	70.50	95.50	-	-	-	-	197.94
16.	Vayudoot	71.25	2.88	-	-	-	-	0.01	-	74.14
17.	Hotel Corp. of India	0.45	-	-	-	-	-	-	-	0.45
18.	ONGC	1025.64	80.01	-	-	161.42	136.38	-	-	1403.45
19.	BPCL	134.30	-	-	70.00	38.83	-	-	-	243.13
20.	IBP Co. Ltd.	-	20.69	-	-	-	0.02	-	-	20.71
21.	EIL	-	-	-	40.00	-	-	-	-	40.00
22.	Cochin Refineries Ltd.	297.36	115.49	-	-	-	-	-	-	412.85
23.	Bongaigaon Refinery & Petrochemicals Ltd.	215.33	1.44	-	-	7.12	-	-	-	223.89
24.	Lubrizol India Ltd.	13.00	-	-	-	-	-	-	-	13.00
25.	Madras Refineries Ltd.	39.00	-	-	-	-	39.00	-	-	78.00
26.	Gas Authority of India	1.81	20.82	-	183.73	-	53.09	-	32.05	291.50
27.	OIL	39.23	-	20.00	-	-	-	-	-	59.23
28.	IOC	400.02	-	-	-	-	89.12	-	74.00	563.15
29.	ONGC Videsh Ltd.	-	5.52	-	-	-	69.89	-	-	75.41
30.	The Antrix Corp. Ltd.	0.50	-	-	-	-	-	-	-	0.50
31.	Centre for Develop- ment of Telematics	12.70	-	-	-	-	-	-	-	12.70
32.	Telecommunications Consultants India Ltd.	17.00	3.98	-	-	-	6.03	-	-	27.01
33.	Hindustan Teleprinters Ltd.	14.00	-	-	7.00	-	-	-	-	21.00
34.	Hindustan Latex Ltd., Trivandrum	4.62	-	-	-	-	-	-	-	4.62

1	2	3	4	5	6	7	8	9	10	11
35.	India Tourism Dev. Corp.	9.10	-	-	-	-	-	-	-	9.10
36.	Educational Consultants India Ltd.	2.88	1.10	-	-	-	-	-	-	3.98
37.	Andrew Yule & Co. Ltd.	0.11	-	-	-	0.04	-	-	-	0.15
38.	Engineering Project India Ltd.	3.90	-	-	-	-	-	-	-	3.90
39.	Hindustan Salt Ltd.	0.19	-	-	-	-	-	-	-	0.19
40.	National Industries Dev. Corp. Ltd.	1.15	3.61	-	1.50	-	-	-	-	6.26
41.	Tyre Corp. of India Ltd.	0.40	-	-	-	-	-	-	-	0.40
42.	Engineering Products India Ltd.	10.91	-	-	-	-	-	-	-	10.91
43.	Burn Standard Co. Ltd.	0.11	-	-	-	-	-	-	-	0.11
44.	Cement Corp. of India Ltd.	0.97	-	-	-	-	-	-	-	0.97
45.	Hindustan Paper Corp. Ltd.	-	0.12	-	-	-	-	-	-	0.12
46.	MUL	8.00	-	1.30	42.60	-	-	-	-	51.90
47.	Bharat Bhari Udyog Ltd. (Braithwaite & Co. Ltd.) (BWT)	0.20	-	-	-	-	-	-	-	0.20
48.	Instrumentation India Ltd.	0.21	-	-	-	-	-	-	-	0.21
49.	Cycle Corp. of India Ltd.	2.54	0.96	-	-	-	-	-	-	3.50
50.	National Bicycle Corp. of India Ltd.	-	-	-	307.00	-	-	-	-	307.00
51.	Bharat Ophthalmic Glass Ltd.	0.41	1.00	-	-	-	-	-	-	1.41
52.	Cotton Corp. of India Ltd.	6.00	62.00	-	-	-	-	-	-	68.00
53.	Central Cottage Industries Corp. of India	4.85	-	-	-	-	-	-	-	4.85
54.	National Small Industries Corp. Ltd.	-	-	-	-	-	-	0.10	-	0.10
55.	GIC Mutual Fund	-	85.25	-	-	-	45.85	-	-	131.10

1	2	3	4	5	6	7	8	9	10	11
56.	North Eastern Handloom & Handicrafts Dev. Corp.	0.63	-	-	-	-	-	-	-	0.63
57.	National Textiles Corp.	-	33.61	-	-	-	-	-	-	33.61
58.	Steel Authority of India Ltd.	5.24	202.88	-	-	44.37	-	-	-	252.49
59.	Metallurgical & Engineering Consultants India Ltd.	26.99	1.86	-	22.00	13.13	1.00	-	-	64.98
60.	Hindustan Steel Works Construction Ltd.	1.50	0.72	-	-	-	-	-	-	2.22
61.	Kudremukh Iron Ore Co. Ltd.	31.00	-	-	113.00	-	-	-	-	144.00
62.	Bharat Refractories Ltd.	3.14	-	-	-	-	-	-	-	3.41
63.	Manganese Ore India Ltd.	18.31	3.85	-	-	-	-	-	-	22.16
64.	Metal Scrap Trade Corp. Ltd.	24.43	0.72	-	-	-	-	-	-	25.15
65.	National Minerals Dev. Corp. Ltd.	159.65	17.41	-	-	-	-	-	-	177.06
66.	Indian Iron & Steel Ltd.	-	1.72	-	-	-	-	-	-	1.72
67.	Visvesvaraya Iron & Steel Corp. Ltd.	-	0.07	-	-	-	-	-	-	0.07
68.	National Film Development Corp. Ltd.	-	2.15	-	-	-	-	-	-	2.15
69.	IRCON	3.20	3.60	-	-	-	-	-	1.90	8.70
70.	IRFC	948.80	-	-	-	25.00	-	-	-	973.80
71.	Konkan Railways	1.49	-	-	-	-	-	-	-	1.49
72.	Hindustan Aeronautics Ltd.	-	-	-	10.00	-	-	-	-	10.00
73.	Mazagaon Dock Ltd.	10.00	-	-	-	-	-	-	-	10.00
74.	Mishra Dhatu Nigam Ltd.	-	-	-	26.00	-	-	-	-	26.00
75.	Mineral Exploration Corpn. Ltd.	1.00	-	-	-	-	-	-	-	1.00
76.	National Aluminium Co. Ltd.	243.00	114.79	148.00	-	-	-	-	-	505.79

1	2	3	4	5	6	7	8	9	10	11
77.	Bharat Gold Mines Ltd.	-	-	-	-	-	-	-	-	-
78.	Hindustan Zinc Ltd.	14.87	-	-	-	-	-	-	-	14.87
79.	Mineral Development Corpn. Ltd.	0.50	0.01	-	-	-	-	-	-	0.51
80.	The Bisra Stone Lime Co. Ltd.	1.35	-	-	-	-	-	-	-	1.35
81.	Indian Fire Bricks & Insulation Co. Ltd.	-	-	-	-	-	-	-	-	-
82.	Sponge Iron India Ltd.	-	-	-	-	-	-	-	-	-
83.	Hindustan Prefab Ltd.	11.00	-	-	-	-	-	-	-	11.00
84.	HUDCO	792.68	316.32	-	885.10	-	-	-	-	1994.10
85.	Bengal Chemicals & Pharmaceuticals Ltd.	-	-	-	-	-	-	-	-	-
86.	RCF	2.50	-	-	-	-	-	-	-	2.50
87.	Fertilizers & Chemicals Travancore Ltd.	-	-	-	-	-	-	-	-	-
88.	Paradeep Phosphates Ltd.	1.87	-	-	-	-	-	-	-	1.87
89.	Fertilizer Corporation of India Ltd.	1.00	-	-	-	-	-	-	-	1.00
90.	Hospital Services Consultancy Corp. (India) Ltd.	132.00	50.00	-	-	-	-	-	-	182.00
91.	Indian Medicines Pharmaceuticals Corp. Ltd.	-	-	-	-	-	-	-	-	-
92.	National Thermal Power Corporation	-	-	-	-	-	-	-	-	-
93.	PFC	-	-	-	-	-	-	-	-	-
94.	National Film Dev. Corp. Ltd.	-	-	-	-	-	-	-	-	-
95.	Indian Road Construction Co. Ltd.	1.96	-	-	-	-	-	-	-	1.96
96.	Dredging Corporation of India	6.05	-	-	-	-	-	-	9.25	15.30

APPENDIX - XXXIII

(See para 14.165 of the Report)

Statement showing investments of funds by OADB in PMS and other similar schemes from 31.3.1992 to 27.5.1992

Sr. No.	Date	Bank/Subsidiary/ others	Amount invested (Rs. in crs.)	Instru- ment	Interest rate/yield rate (%)	Period
1	2	3	4	5	6	7
1.	31.03.92	Canfina	115.18	I.A.S.*	18.30	1 year
2.	01.04.92	Syndicate Bank	20.09	P.M.S.	18.25	1 year
3.	02.04.92	Canfina	11.97	I.S.**	18.30	1 year
4.	06.04.92	Canfina	3.75	I.S.	18.30	1 year
5.	08.04.92	Canfina	6.38	I.S.	18.30	1 year
6.	16.04.92	Canfina	19.38	I.S.	19.25	30 days
7.	24.04.92	Allbank Finance Ltd.	39.56	P.M.S.	19.10	1 year
8.	24.04.92	Corporation Bank	10.00	P.M.S.	19.25	1 year
9.	27.04.92	Corporation Bank	1.15	P.M.S.	19.50	1 year
10.	28.04.92	Syndicate Bank	14.27	P.M.S.	19.51	1 year
11.	29.04.92	Syndicate Bank	81.69	P.M.S.	19.51	1 year
12.	30.04.92	Syndicate Bank	18.44	P.M.S.	19.51	1 year
13.	02.05.92	Syndicate Bank	0.86	P.M.S.	20.05	1 year
14.	04.05.92	Syndicate Bank	12.33	P.M.S.	20.05	1 year
15.	12.05.92	Syndicate Bank	44.68	P.M.S.	20.05	1 year
16.	14.05.92	Syndicate Bank	6.02	P.M.S.	20.05	1 year
17.	14.05.92	Canfina	25.26	I.S.	20.10	1 year
18.	15.05.92	Canfina	24.24	I.S.	20.10	1 year
19.	16.05.92	Canfina	0.16	I.S.	20.10	1 year
20.	18.05.92	Canfina	2.25	I.S.	20.10	1 year
21.	19.05.92	Canfina	4.30	I.S.	20.10	1 year
22.	20.05.92	Canfina	15.10	I.S.	20.10	1 year
23.	21.05.92	Canfina	2.30	I.S.	18.60	91 days
24.	22.05.92	Canfina	3.50	I.S.	18.60	91 days
25.	23.05.92	Canfina	34.65	I.S.	18.60	91 days
26.	25.05.92	Canfina	34.38	I.S.	18.60	91 days
27.	26.05.92	Canfina	4.45	I.S.	18.60	91 days
28.	27.05.92	Canfina	7.55	I.S.	18.60	91 days

*Investment Advisory Services

**Investment Services

APPENDIX - XXXIV

(See para 14.289 of the Report)

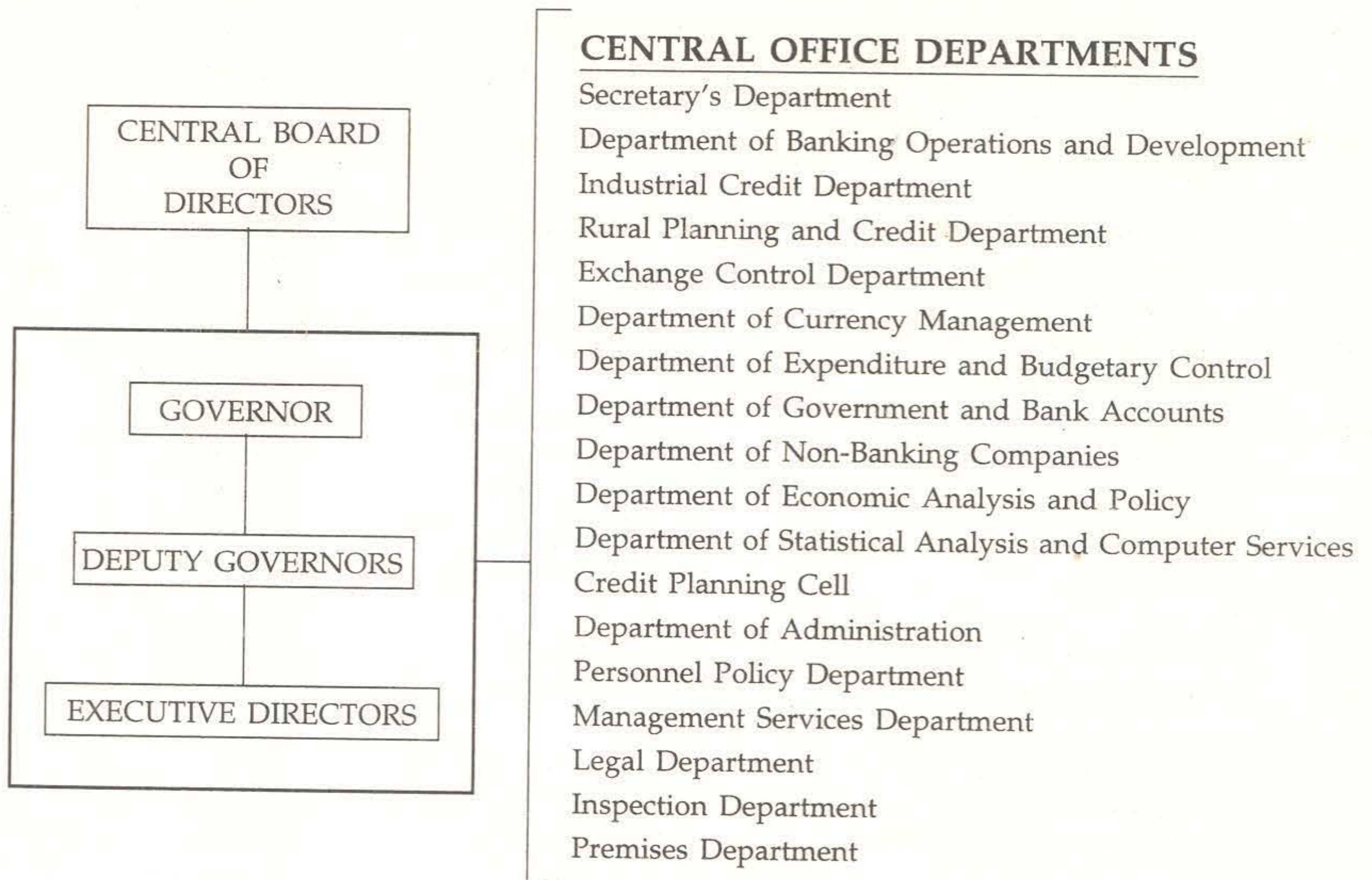
Details of Bonds issued by IRFC

Series	Date of Allotment	Amount Subscribed (Rs. in crores)
I. Public Issue	15.04.1987	559.40
II. Public Issue	26.02.1988	400.00
III. Public Issue	23.03.1989	100.00
Private Placement	07.02.1989	500.00
IV. Public Issue	12.01.1990	100.00
Private Placement		
"A" Series	16.12.1989	300.00
"B" Series	22.12.1989	50.00
"C" Series	28.12.1989	165.00
"D" Series	30.12.1989	35.00
"E" Series	01.01.1990	350.00
V. Public Issue	18.03.1991	100.00
Private Placement	28.08.1990	1070.00
VI. Private Placement		
"A" Series	15.07.1991	800.00
"B" Series	30.11.1991	700.00
K.R.C. (Konkan Railway Corporation)		
"C" Series	10.02.1992	10.00
"C" Series	10.02.1992	10.00
"D" Series	24.02.1992	20.64
"E" Series	10.03.1992	70.00
"E" Series	10.03.1992	1.00
<hr/>		
Total:		
Public Issue:		1259.40
Private Placement:		4081.64
		<hr/> 5341.04 <hr/>

APPENDIX - XXXV

(See para 15.3 of the Report)

RESERVE BANK OF INDIA ORGANISATIONAL SET-UP



TRAINING ESTABLISHMENTS

Bankers Training College, Bombay
College of Agricultural Banking, Pune
Reserve Bank Staff College, Madras
Reserve Bank of India Services Board

CHAIRMAN

A P P E N D I X - X X X V I

(See para 15.102 of the Report)

List of Banks which did not respond to the RBI Circular Dated 26 July, 1991

Private Sector Banks

1. Bank of Karad (under liquidation since 27-5-92)
2. Bareilly Corporation Bank Ltd.
3. Benares State Bank Ltd.
4. Bharat Overseas Bank Ltd.
5. Jammu & Kashmir Bank Ltd.
6. Punjab Co-op. Bank Ltd.
7. Tamilnad Mercantile Bank Ltd.
8. Bari Doab Bank Ltd.
9. Ganesh Bank of Kurundwad Ltd.
10. Kashi Nath Seth Bank Ltd.

Foreign Banks

11. Abu Dhabi Comm. Bank Ltd.
12. ABN Amro Bank
13. American Express Bank Ltd.
14. Bank of Bahrain & Kuwait (B.S.C.)
15. Bank of Tokyo Ltd.
16. Banque Indosuez
17. British Bank of the Middle East
18. Credit Lyonnais
19. Deutsche Bank A.G.
20. The Sakura Bank Ltd.
21. Societe Generale
22. Sonali Bank
23. Sanwa Bank

Public Sector Banks

24. State Bank of Bikaner & Jaipur
25. State Bank of Saurashtra
26. Bank of Baroda
27. Central Bank of India

A P P E N D I X - X X X V I I

(See para 15.111 of the Report)

Chronology of events leading to the issue of the Bill Discounting Circular

- 15.10.1990 A self-contained note put up by Deputy Governor, Shri Amitava Ghosh to the then Governor, RBI. Note suggested that before issuing guidelines discussions with major banks may be held.
- 27.10.1990 Governor returned the file with instructions to convene a meeting.
- 12.1.1991 Note re-submitted for consideration of top management by DBOD as the meeting did not take place.
- 5.2.1991 Deputy Governor proposes a meeting for discussing the note to which the then Governor gave his assent.
- 14.3.1991 Chief Officer, DBOD, suggests that the issue may be discussed at a meeting of the Management Committee.
- August, 1991 Issue discussed in the meeting of the Management Committee and the Chief Officer, DBOD also discusses it with M.D of SBI and Chairman, Bank of Baroda, who do not find any difficulty in implementing the proposals of the draft circular.
- 24.12.1991 RBI nominee Director, Shri R. Naanjappa, highlights the grave shortcomings in the bills portfolio of Karnataka Bank.
- 13.1.1992 Note highlighting irregular bill discounting facilities outside consortium arrangements to industrial houses like M/s. Mc Dowell and Co. Ltd., Madura Industrial Fabrics Ltd. In the case of the former bill discounting facility was extended from 11.7.1991 while the borrower opened their current account only on 16.8.1991.
- 16.1.1992 Chief Officer reiterates the need for issuing the bill discounting circular as he observes that some of the industrial groups shift from one bank to another as and when their dealings come to RBI's knowledge and some sort of restrictions placed on them.
- Nil(date) Governor, RBI, asked letter to be issued to Karnataka Bank and that the circular may be discussed by Executive Director with him and the draft circular also rechecked.
- 18.5.1992 Retyped draft circular submitted to Co.
- 22.7.1992 Few changes carried out by Executive Director including adding a para about penalties for contravention.
- 22.7.1992 Circular seen by Deputy Governor and approved by the then Governor.
- 27.7.1992 Circular issued.

A P P E N D I X - X X X V I I I

(See para 15.111 of the Report)

Instances of irregularities in Bill Discounting — Some major irregularities as contained in the Note of DBOD of 1 October, 1990

- (a) American Express Bank sanctioned sales bills discounting limits to Reliance Industries Limited (RIL) for supplies made by them to the dealers outside the consortium arrangements. 35 dealers had been sanctioned limits aggregating Rs. 40.05 crores without taking into account their networth, sales and working capital requirements.
- (b) The same bank also provided sales bill discounting facilities to 16 investment companies apparently belonging to RIL group. In each of these cases, barring one, uniform limit of Rs. 450 lakh each was sanctioned. All prudent banking norms seem to have been thrown to winds. In the case of two of these companies, the networth was a mere Rs. 44 thousand and Rs. 50 thousand respectively.
- (c) The Bank though not a member of the consortium for providing working capital limits to Mahindra and Mahindra and Raymonds Woollen Mills Limited has been discounting the purchase bills of the former and sales bills of the latter in violation of relevant instructions.
- (d) Banque Indosuez drew a bill for Rs. 543.98 lakhs on Southern Petrochemical Industries Corporation Ltd.(SPIC) and the proceeds of the bill discounted were used to adjust an import bill of SPIC. The Bank thereafter similarly drew and discounted bills for Rs. 644.86 lakhs and Rs. 352.28 lakhs respectively and the proceeds were utilised to finance import bills of SPIC due for payment.
- (e) A bill dated 17th July, 1989 for Rs. 5 crores was drawn by Banque Indosuez on Essar Gujarat Ltd. The bill maturing on 17.10.1989 was discounted by the bank on 19.7.1989 and payment made to SBI, Commercial Branch, Bombay for credit to the account of Essar Gujarat. Interest was charged at the concessional rate of 15% front end. There was no evidence of any trade transactions. In the same way, 4 bills dated 21.9.1989 for Rs. 35 lakhs each drawn by the bank on Essar Gujarat Limited were also discounted on 23.9.1989.
- (f) Citibank against a sanctioned limit of Rs. 45 lakhs discounted bills worth Rs. 146 lakhs of M/s.Daykon Financial Services Ltd. The bills included payment of monthly electricity charges, etc. Similarly, in the case of two other private parties, M/s. Kaycee Agencies and M/s. Zolash Clearing and Shipping Agency bill discounting limits were granted by the Citibank for customs duty. In the case of a few clients bill discounting facility was extended without these clients even being the customers of Citibank.
- (g) Citibank sanctioned purchase bill discounting facility to Raymonds dealers on account of their dealings with Raymonds. There was no credit appraisal. The total outstanding in the bills discounting portfolio on account of 31 dealers of Raymonds as on 25.9.1990 was Rs. 16.07 crores.
- (h) On a day's check of a single day rediscounting transactions it was found that the bank had rediscounted bills with other institutions which have maturity of more than 90 days to the tune of more than Rs. 14.56 crores in contravention of the eligibility criteria.

- (i) The State Bank of Hyderabad discounted three bills for an aggregate sum of Rs. 400 lakhs on 9.3.1989. These bills were drawn on the same day by M/s. Ashwal Investments Pvt. Ltd. on M/s. Dodsal. The bills did not cover goods in trade and were accommodation bills as the drawee could have also availed credit against the book debts.
- (j) Six bills for Rs. 293.84 lakhs were drawn by M/s. Monoplan Investments Pvt. Ltd. on Steel Authority of India Ltd. The bills cover sale of CR and HR coils by MIPL to SAIL. While the former would not be manufacturing or trading in this commodity the latter is the supplier of these items.
- (k) The Executive Committee of State Bank of Hyderabad sanctioned on 21 November, 1989 to Monoplan Investments Pvt. Ltd. an L/C limit of Rs. 275 lakhs under consortium arrangements, out of all the aggregate consortium limit of Rs. 1200 lakhs. It has been considered that the bills discounted under the L/C were accommodation bills issued for raising funds for the benefit of the above financial company, engaged in hire-purchase and leasing activities.
- (l) During the period October, 1988 to March, 1989, State Bank of Hyderabad discounted 44 bills drawn by MIPL or by its sister concerns though MIPL was not sanctioned any credit facility by the bank and in fact, it was enjoying the cash credit (Hypothecation) limit of Rs. 450 lakhs with SBI and a bill discount facility of Rs. 50 lakhs with Citibank under multiple lending. No credit appraisal was done before extending the discounting facilities and approval of the Executive Committee was obtained almost after a year without any mention of the irregularities in the bills or the mode of sanction of the facilities.
- (m) The State Bank of Hyderabad sanctioned an L/C limit of Rs. 10 crores to Reliance Industries Ltd. though it was not a consortium member and nor was the consortium informed in the matter.
- (n) The bank allowed guarantee facilities even before regular credit limit were sanctioned to Dodsal Ltd., a construction company. The Nariman Point branch of the bank on 9.3.1989 discounted a bill amounting to Rs. 240 lakhs where Dodsal Ltd. was the drawee and Ashwal Investments (P) Ltd. the drawer which was beyond the discretionary powers of the branch. It was, however, stated that this was done on the oral sanction of the General Manager (Operations).
- (o) 17 L/Cs aggregating Rs. 628.58 lakhs issued between 4 August, 1988 and 30 May, 1989 to Snowchem India were beyond discretionary powers of Branch Manager (Rs. 50 lakhs only). The company also failed to retire the bills drawn under L/Cs, resulting in raising unauthorised overdrafts in the current account on continuous basis since April, 1989, maximum outstanding for Rs. 108.06 lakhs on 26th June, 1989.
- (p) Andhra Bank had sanctioned L/C limit of Rs. 50 crores to Reliance Industries Ltd. though it was not a consortium member and nor was the consortium informed in the matter.
- (q) Vijaya Bank had sanctioned sale bills discounting limits to 14 corporate borrowers, front companies of Reliance Industries Ltd. aggregating Rs. 69.35 crores. Similarly, it had sanctioned purchase bill discounting limits to 16 borrowers aggregating Rs. 27.05 crores. The purpose of these limits was to finance supplies made to and purchases made from RIL. The sanction did not take into account the business activities and transaction of the parties their financial position and whether the relative bills represented genuine suppliers. Furthermore, the parties were also not among those who enjoyed regular working capacity facilities with the bank.

- (r) Vijaya Bank discounted drawee bills to the extent of Rs. 300 lakhs drawn by M/s. Mc Dowell Co. Ltd. on M/s. Udaipur Distilleries Ltd. These bills represented the price difference realisable by the drawer.
- (s) Advances totalling to Rs. 78.51 crores were made by Indian Bank to corporate borrowers, front companies of RIL in the form of discount usance bills varying between 6 months to 60 months covering shares of RIL. The RBI Inspectors have observed that the sanctions were given hurriedly within a time span of one to fifteen days to companies with inadequate capital base, unrealistic projections of turnover, below the rate of interest prescribed under RBI directives. No enquiries were made regarding the utilisation of advance nor were these reported to the consortium.

A P P E N D I X - X X X I X

(See para 16.18 of the Report)

Chronology of events in regard to the reconstitution of the Board of Directors of RBI

- April, 1985 - File put up initiating action to appoint a non-official director against the vacancy caused by the demise of Shri Cheddi Lal. Letter sent to the then Governor, RBI from the then Secretary (Banking) on 9th April, 1985 seeking the RBI's recommendations.
- May, 1985 - RBI reminded on 17.5.1985 to expedite its reply. Another reminder sent to RBI on 31.5.1985.
- June, 1985 - Certain recommendations received from RBI on 19th June, 1985.
- Sept., 1985 - Certain clarifications were sought from RBI on 30.9.1985 in this regard.
- Oct., 1985 - Interim reply received from RBI on 28.10.1985.
- Nov., 1985 - RBI's clarification received on 18.11.1985.
- Jan., 1986 - The then MOS (Finance) and F.M. had approved certain names for appointment.
- Feb., 1986 - A proposal was submitted to the ACC on 7.2.1986. Action was also initiated to verify the antecedents of the persons proposed.
- Sept., 1986 - The Establishment Officer informed that ACC had indicated that it would like more names. The then Governor, RBI was requested on 18.9.1986 to suggest a panel of suitable names keeping in view the above observations of ACC.
- Sept., 1986 - Certain names were recommended by the then Governor, RBI vide his letter dt. 24.9.1986.
- Feb., 1987 - The then Governor, RBI was requested to send proposals for appointing non-official directors in place of those directors whose tenure was due to expire in March, 1987. RBI's recommendations were received on 23.2.1987.
- March, 1987 - The file was put up soliciting the approval of the then MOS (Finance) and F.M. for nomination of non-official directors on the Central Board of RBI.
- Feb., 1988 - The file was received back from the PS to the then MOS (Finance) without any approval since the Hon'ble Minister had demitted office in the Finance Ministry.
- May, 1988 - The file was re-submitted to the then F.M. and was received back with certain directions.
- June, 1988 - File was re-submitted again soliciting the approval of the then F.M. but was received back without any decision in July, 1988.
- August, 1988 - File was put up to the then MOS (Finance).

- March, 1989 - File received back for discussions.
- June, 1989 - The then MOS (Finance) made certain recommendations for consideration of the F.M.
- Dec., 1989 - The file was received back with instructions to put up to the new Finance Minister as the Government had changed.
- Jan., 1990 - An Appointment Board was constituted in Jan., 1990 under the Chairmanship of Governor, RBI to make recommendations regarding appointment of non-official directors on the boards of public sector banks and financial institutions. This Board, however, was not entrusted with the work of recommending people for appointment as non-official directors on the Central and Local Boards of RBI.
- June, 1990 - The matter was again considered and it was decided to write to Governor, RBI for obtaining fresh names. Letter was sent to RBI on 22.6.1990. Certain names were received from RBI in June, 1990. However, no decision could be taken.
- April, 1991 - RBI informed that since the names suggested by it were done quite some-time back it would be desirable to review the list. RBI promised to send a revised list for Government's consideration.
- Jan., 1992 - The revised recommendations of RBI were received.
- Oct., 1992 - The names were considered in the Banking Division and final selection was made with the approval of FM in Oct., 1992.
- Dec., 1992 - The proposal was submitted to the ACC and its approval is awaited.

APPENDIX - XL

(See para 17.5 of the Report)

Investigative Agencies

Category - I

Unreconciled/Partially Reconciled Amounts

Case No.	Date of Regn.	Department	Amount involved (in crores)	Group
1. RC.8(A)/92-SIU(X)	29.05.92	SBI	Rs. 669.000	HSM
2. RC.41(A)/92-BOM.	11.06.92	UCO Bank	Rs. 90.360	HSM
3. RC.11(S)/92-BOM.	20.06.92	SCB	Rs. 1239.820	DG
4. RC.43(A)/92-BOM.	20.06.92	Canbank Mutual Fund	Rs. 103.820	DG
5. RC.44(A)/92-BOM.	20.06.92	CANFINA	Rs. 374.350	DG
6. RC.50(A)/92-BOM.	08.07.92	SBS	Rs. 174.950	HSM
7. RC.51(A)/92-BOM.	08.07.92	SBI Caps	Rs. 105.110	HSM
8. RC.52(A)/92-BOM.	13.07.92	NHB	Rs. 1214.300	HSM
9. RC.18(S)/92-BLR.	25.07.92	ABFSL	Rs. 211.120	—
10. RC. 7(A)/93-HYD.	15.03.93	ABFSL (Solidaire)	Rs. 0.405	—
11. PE.1(A)/93-ACU-II	15.07.93	SBI, Bombay	Rs. 37.460	HSM
12. RC.4(A)/93-BSC/DLI	20.08.93	SBI Caps	Rs. 16.250	HSM
13. RC.39(A)/93	22.07.93	NALCO,ABFSL	Rs. 439.000	—
14. RC.40(A)/93	22.07.93	NALCO, CANFINA	Rs. 290.000	—
15. RC.I(S)/93-BSC-DLI	20.09.93	SCB	Rs. 25.948	HSM
16. RC.8(BSC)/93-BOM	30.09.93	Bank of India	Rs. 97.359	DG
TOTAL			Rs. 5089.252	

(Cases appearing in bold print are the 9 priority cases)

Category - II
Reconciled Amounts

Case No.	Date of Regn.	Department	Amount involved (in crores)	Group	
1.	RC.2(A)/92-ACU (I)	23.07.92	PFC	Rs. 394.240	HSM
2.	PE.2(A)/92-ACU	25.09.92	MUL	Rs. 38.970	HSM
2A.	RC.2(A)/93-ACU	15.04.93	MUL	.	
3.	RC.3(A)/92-ACU	16.11.92	ONGC	Rs. 730.520	HSM
4.	PE.5(A)/93-DLI	26.02.93	IRFC (Deutsche Bank)	Rs. 30.660	-
5.	PE.3(A)/93-BOM.	01.03.93	IRFC (SCB)	Rs. 496.500	-
6.	RC.1(A)/93-BSC	01.03.93	SBS	Rs. 0.275	Other*
7.	PE.1(A)/93-ACU	05.03.93	ONGC	Rs. 141.680	VBD
7A.	RC.2(A)/93-ACU	23.06.93	ONGC		
8.	PE.2(A)/93-HYD.	12.03.93	ABFSL (Goldstar)	Rs. 2.000	DG ^{\$}
9.	RC.2(A)/93-BSC	19.03.93	UCO Bank/SBS	Rs. 0.204	HSM
10.	RC.7(S)/93-BOM.	30.03.93	LIC Mutual Fund	Rs. 173.730	DG/ Narotam
11.	RC.1(A)/93-ACU	31.03.93	IFFCO	Rs. 32.930	HSM
12.	RC.1(BSC)/93-BO	02.06.93	Syndicate Bank, FFSL	Rs. 132.221	Other**
13.	RC.2(BSC)/93-BO	02.06.93	Syndicate Bank, FFSL	Rs. 203.850	Other**
14.	RC.3(BSC)/93-BO	02.06.93	Andhra Bank	Rs. 25.925	DG
15.	RC.4(BSC)/93-BO	02.06.93	Andhra Bank	Rs. 130.000	DG
16.	RC.5(BSC)/93-BO	02.06.93	Andhra Bank	Rs. 11.000	DG
17.	PE.1(A)/93-BSC/DLI	17.06.93	KRIBHCO CANFINA	Rs. 140.500	-
18.	PE.2(A)/93-DLI	13.08.93	Allbank	Rs. 40.315	YSN Shares & Sec. P. Ltd.
19.	PE.3(A)/93-BSC-DLI	13.08.93	SBI Caps	Rs. 26.440	C.Mackertich Stewart Co.
20.	RC.3(A)/BSC-DLI	25.05.93	SBS	Rs. 366.000	HSM
21.	RC.24(A)/93-BOM.	23.03.93	UCO Bank	Rs. 12.250	HSM
22.	RC-5(A)/93-BSC/DLI	09.11.93	BoA	Rs. 128.000	HSM
23.	PE.21(A)/93-DLI	18.11.93	DDA Slum Wing	Rs. 15.856	HSM
TOTAL				Rs. 3294.066	

\$Dalal Group

*Chanderkala & Co.

**Amarchand & Hariram

GRAND TOTAL = Rs. 8383.318 crores (Category-I & Category-II)

Category - III
Anti-Corruption Cases

Case No.	Date of Regn.	Department	Nature of offence
1. RC.2(A)/92-ACU(II)	08.07.92	Margabanthu (UCO Bank)	Disproportionate Assets
†2. RC.2(A)/92-ACU(V)	25.07.92	Krishnamurthy	Bribe
*3. PE.3(A)/93-DLI.	18.01.93	Anil Sharma (SBI Caps)	Disproportionate Assets
3A. RC.63(A)/93-ACB	03.11.93	Anil Sharma (SBI Caps)	P.C. Act
4. RC.9(A)/93-BOM.	11.02.93	R. Sitaraman (SBI)	Disproportionate Assets
†5. RC.11(A)/93-BOM.	19.02.93	R. Sitaraman (SBI)	Misappropriation
6. RC.1(A)/93-ACU(I)	20.05.93	C.L. Khemani (SBI)	Disproportionate Assets

†These have since been charge-sheeted.

*This has since been converted into a regular case RC.63(A)93-DLI

A P P E N D I X - X L I

(See para 17.15 of the Report)

**D.O. Letter from Shri Samit Datta, Director, CBI
to Shri L.K. Singhvi, Director of Enforcement
regarding material/evidence indicating violations of FERA**

D.O.No.85/NB/DCBI/92

Central Bureau of Investigation,
Government of India,
North Block, New Delhi-1

SAMIT DATTA
DIRECTOR

June 30, 1992.

My Dear Singhvi,

Please refer to your D.O. letter No. INF/HQ/128/92-NCO dated 30th June, 1992 regarding material/evidence indicating violations of FERA.

While seeking extension of remand for Harshad S. Mehta, CBI did mention about some evidence of possession of foreign accounts etc. As explained today personally, this was based on material furnished to us by your Bombay office. We have no fresh evidence barring one paper which I have handed over to you today. That paper too, was obtained from the Income-tax Department.

A separate team has to be constituted to look into FERA violations by Harshad S. Mehta and Dalal Group of brokers. You may like to do the needful. CBI would confine itself, at the moment, in the investigation of the security scam. I assure you that in case something is available of FERA violations, the same will be furnished to you promptly by our Bombay team headed by Shri K. Madhavan, JD(E) CBI.

With regards,

Yours sincerely,

Sd/-
(Samit Datta)

Shri L.K. Singhvi,
Director of Enforcement,
Lok Nayak Bhavan,
New Delhi.

APPENDIX - XLII

(See para 17.30 of the Report)

Summary of transactions of PSUs with Harshad S. Mehta

	PSU Name	Entries		No. of Entries	Amount (in Rs.)		
		From	To		Receipts/Cr.	Payments/Dr.	
1.	104	Bharat Petroleum Corporation Ltd.	24.01.90	24.01.90	2	3,00,69,900.00	3,00,69,900.00
2.	3050	CIFCO Finance Ltd.	02.07.88	04.08.88	8	60,55,200.00	60,55,200.00
3.	101	DDA (Slum Wing)	05.01.90	06.04.90	5	6,40,65,000.00	4,24,80,000.00
4.	92	Discount & Finance House of India Ltd.	26.10.89	02.11.91	779	4,797,09,47,418.05	4,905,09,28,644.72
5.	214	Engineering Export Promotion Council	31.08.90	08.05.91	25	50,28,13,965.76	50,23,84,484.53
6.	7060	General Ins. Corp. of India	12.06.87	15.01.88	24	7,67,600.00	8,41,625.00
7.	263	Housing Dev. Finance Corp. Ltd.	27.02.91	23.05.91	6	9,34,28,278.00	6,19,99,384.00
8.	261	IFFCO Limited	25.02.91	29.05.91	5	12,20,03,915.00	8,09,18,832.50
9.	80	Indian Oil Corp. Ltd.	06.02.91	07.05.91	13	304,48,56,164.37	307,95,41,095.89
10.	9010	Industrial Finance Ltd.	11.06.87	04.06.90	66	5,36,37,540.55	5,38,58,363.05
11.	9002	Investment Corp. of India	31.03.89	31.03.89	1	—	181.50
12.	12013	Life Insurance Corp. of India	01.06.87	17.07.91	168	94,88,795.50	39,18,58,337.48
13.	111	Maruti Udyog Ltd.	05.11.90	07.05.91	28	126,42,63,242.40	126,38,54,552.40
14.	335	National Organic Chemical Ind. Ltd.	01.10.91	31.03.92	7	20,35,33,125.34	20,22,66,575.34
15.	123	National Thermal Power Corporation	12.03.90	11.06.90	9	152,51,60,000.00	121,21,82,970.00
16.	228	NPCIL	14.11.90	31.03.91	13	50,12,32,905.28	30,06,16,444.13
17.	39	Oil & Natural Gas Commission	07.06.89	24.10.91	411	5,316,15,99,708.01	5,146,50,92,091.63
18.	135	ONGC Videsh Ltd.	26.03.90	31.03.91	20	54,23,73,130.98	55,42,74,350.57

	PSU Name	Entries		No. of Entries	Amount (in Rs.)	
		From	To		Receipts/Cr.	Payments/Dr.
19. 15007	Oriental Insurance Co. Ltd.	05.06.87	21.09.89	40	13,97,964.00	10,62,211.50
20. 90	Power Finance Corporation	19.12.89	31.03.92	131	1,769,32,50,093.17	1,541,76,19,974.46
21. 21003	UTI	03.06.87	13.04.92	190	46,89,81,488.82	118,07,74,408.09
22. 21004	United India Insurance Co. Ltd.	05.06.87	10.04.90	77	37,41,388.50	34,65,496.50
GRAND TOTAL :					12,726,36,66,823.73	12,490,21,45,123.29

APPENDIX - XLIII

(See para 17.34 of the Report)

List of PSU Cases Involving HSM Group

S. No.	Case No.	Date of Regn.	Department	Amount involved (in crores)
1.	RC.2A/92-ACU(I)	23.07.92	PFC	Rs. 394.240
2.	PE.2(A)/92-ACU(VII)	25.09.92	MARUTI UDYOG LTD.	Rs. 38.970
2A.	RC.2(A)/93-ACU(VII)	15.04.93	MARUTI UDYOG LTD.	
3.	RC.3(A)/92-ACU(I)	16.11.92	ONGC	Rs. 730.520
4.	RC.1(A)/93-ACU(II)	31.03.93	IFFCO	Rs. 32.930
TOTAL:				Rs. 1196.660

LIST OF PSU CASES INVOLVING M/s. V.B. DESAI GROUP

S. No.	Case No.	Date of Regn.	Department	Amount involved (in crores)
5.	PE.1(A)/93-ACU(I)	05.03.93	ONGC	Rs. 141.680
5A.	RC.2(A)/93-ACU(I)	23.06.93	ONGC	
TOTAL:				Rs. 141.680

LIST OF PSU CASES INVOLVING NO BROKERS/BROKERS NOT IDENTIFIED SO FAR

S. No.	Case No.	Date of Regn.	Department	Amount involved (in crores)
6.	RC.39(A)/93	22.07.93	NALCO, ABFSL	Rs. 439.000
7.	RC.40(A)/93	22.07.93	NALCO, CANFINA	Rs. 290.000
8.	PE.5(A)/93-DLI	26.02.93	IRFC DEUTSCHE BANK	Rs. 30.660
9.	PE.3(A)/93-BOM.	01.03.93	IRFC	Rs. 496.500
10.	PE.1(A)/93-BSC/DLI	17.06.93	KRIBHCO/ CANFINA	Rs. 140.500
TOTAL:				Rs. 1396.660
GRAND TOTAL				Rs. 2735.000

APPENDIX - XLIV

(See para 17.83 of the Report)

Details of Assessment in the Case of HSM Group (Income Tax)

S. No.	Name of the Assessee	Status	A.Y.	Income returned	Income assessed	Net Demand	Penalties initiated
1	2	3	4	5	6	7	8
1.	Sh. Harshad S. Mehta	Ind.	88-89	29020	26657740	31027344	271(1)(a), 271(1)(c) & 273
	-do-	"	90-91	3494650	1906699461	2013871091	271(1)(c)
2.	Sh. Sudhir S. Mehta	"	87-88	60210	608222	683523	271(1)(a), 271(1)(c) & 273
	-do-	"	88-89	83310	761580	783778	271(1)(a), 271(1)(c) & 273
	-do-	"	90-91	475880	2587674	2240314	271(1)(c)
3.	Sh. Ashwin S. Mehta	"	87-88	132630	1838851	2167947	271(1)(a), 271(1)(c) & 273
	-do-	"	88-89	126860	303895	225040	271(1)(a), 271(1)(c) & 273
	-do-	"	90-91	1422210	30109320	29301815	271(1)(c)
4.	Sh. Hitesh Mehta	"	87-88	49620	356137	379578	271(1)(a), 271(1)(c) & 273
	-do-	"	88-89	55680	193105	154348	271(1)(a), 271(1)(c) & 273
	-do-	"	90-91	311450	3373136	3185679	271(1)(c)
5.	Smt. Rasila S. Mehta	"	87-88	39090	39090	531	—
	-do-	"	88-89	38500	152496	115565	271(1)(a), 271(1)(c) & 273
	-do-	"	90-91	280870	1088743	816230	271(1)(c)
			14			2084952718	

1	2	3	4	5	6	7	8
6.	Smt. Pratima H. Mehta	Ind.	88-89	53010	1820077	2036115	271(1)(a), 271(1)(c) & 273
	-do-	"	90-91	184260	2701420	2667442	271(1)(c)
7.	Smt. Deepika A. Mehta	"	87-88	41025	914287	1058122	271(1)(a), 271(1)(c) & 273
	-do-	"	88-89	107860	1263207	1351877	-
	-do-	"	90-91	1454020	6611340	5465079	271(1)(c)
8.	Smt. Jyoti H. Mehta	"	88-89	61870	1480670	1627737	271(1)(a), 271(1)(c) & 273
	-do-	"	90-91	1020980	3599450	2614731	271(1)(c)
9.	M/s. Growmore Research & Assets Management Ltd.	Co.	90-91	2460741	25400834	30027604	271(1)(c), 271(b) & 271B
10.	M/s. Growmore Exports P. Ltd.	"	90-91	102762	120497	8436	271(1)(b), 271(1)(c) & 271B
11.	M/s. Growmore Leasing & Investment P. Ltd.	"	90-91	46865	11123406	14500186	271(1)(c) & 271B
12.	M/s. Atur Holdings Pvt. Ltd.	"	90-91	(-)57767	228700	241373	271(1)(c), 271(1)(b) & 271B
13.	M/s. Harsh Estates P. Ltd.	"	90-91	(-)169254	338750	381230	271(1)(c), 271(1)(b) & 271B
14.	M/s. Orion Travels P. Ltd.	"	90-91	(-)301149	53351	60861	271(1)(b) 271(1)(c)
			13			62040793	

Associate Brokers

1.	Shri Atul C. Vyas	Ind.	90-91	22090	2819250	3148133	271(1)(c), 271(1)(b) & 271B
2.	M/s. Jayantilal Khandwala & Sons	R.F.	90-91	6473042	8081186	388961	271(1)(c) & 271B
3.	M/s. Hanuman Trading Co.	R.F.	90-91	486130	574100	406	—
4.	Shri Rajendra Kumar Banthia	Ind.	90-91	100890	1201790	1233687	271(1)(c)
5.	Shri Girdharilal S. Biyani	"	90-91	209970	2990390	3151178	271(1)(c)
6.	Shri B.R. Mohata	"	90-91	357270	386720	377143	—
7.	M/s. V.B. Desai Prop. Sh. J.R. Shroff	Ind.	89-90 90-91	10355000 3456770	35670130 21086550	29399734 16995719	271(1)(c) 271(1)(c)
			8			54694961	

**Details of Assessment in the Case of
HSM Group (Wealth Tax)**

S. No.	Name of the assessee	Status	A.Y.	Net wealth returned	Net wealth assessed	Net demand	Penalties initiated
1.	Smt. Pratima H. Mehta	Ind.	90-91	(-)18,60,222	7,60,388	3,520	18(1)(c)
2.	Smt. Rasila S. Mehta	-do-	-do-	(-)15,21,408	6,70,702	2,901	-do-
3.	Smt. Deepika A. Mehta	-do-	-do-	(-)1,25,37,135	(-)66,73,722	Nil	-
4.	Shri Hitesh S. Mehta	-do-	-do-	(-)53,17,083	(-)23,73,599	Nil	-
5.	Shri Sudhir S. Mehta	-do-	-do-	(-)36,59,150	(-)81,762	Nil	-
6.	Shri Ashwin S. Mehta	-do-	-do-	36,70,600	3,89,13,676	9,42,448	18(1)(c)
7.	Miss Reena D. Jhaveri	-do-	-do-	6,22,900	7,65,335	711	18(1)(c)
8.	Shri Harshad S. Mehta	-do-	-do-	(-)7,79,88,100	181,76,46,934	4,98,60,160	18(1)(c)
9.	Smt. Jyoti H. Mehta	-do-	-do-	(-)1,24,08,804	(-)76,93,285	Nil	
10.	M/s. Growmore Research & Assets Management Ltd. Co.	-do-	-do-	6,69,200	6,69,200	Refund (343)	18(1)(b)
						5,08,03,397	

Associate Brokers

S. No.	Name of the assessee	A.Y.	Status	Return Wealth	Assessed wealth	Net payable	Penalty initiated
1.	Shri Rajendra Kumar Banthia	90-91	Ind.	25,45,711	26,36,800	4,442	18(1)(c)
2.	Shri Girdharilal Biyani	86-87	-do-	Nil	7,15,130	2,325	-do-
3.	-do-	87-88	-do-	43,411	8,32,900	2,914	-do-
4.	-do-	88-89	-do-	Nil	7,21,200	2,592	-do-
5.	-do-	89-90	-do-	1,02,644	11,09,600	8,302	-do-
6.	-do-	90-91	-do-	2,24,810	19,63,700	20,835	-do-
						41,410	

S. No.	Name of the assessee	A.Y.	Status	Return wealth	Assessed wealth	Net payable	Penalty
1.	M/s. V.B. Desai Prop. Sh. J.R. Shroff	87-88	Ind.	2724200	8027460	81162	18(1)(a) & 18(1)(c)
		88-89		5258000	13548327	126883	-do-
		89-90		10496400	25770739	442456	18(1)(c)
		90-91		12091900	22748790	264562	-do-
						915063	

APPENDIX - XLV

(See para 17.93 of the Report)

Details of Assessment of Dalal Group — Income Tax

S. No.	Name of the assessee	A. Y.	Returned Income	Assessed Income	Demand raised	Penalties initiated
1.	M/s. Killick Slotted Angles Ltd.	90-91	(Loss) Rs. 51,98,650	Rs. 79,69,608	Rs. 74,01,932	271(1)(c)
2.	M/s. Cifco Properties Ltd.	90-91	Rs. 2,100	Rs. 34,720	Rs. 29,376	271(1)(c)
3.	M/s. Filtrona (I) Ltd.	90-91	(Loss)Rs. 52,05,018	Rs. 74,12,278	Rs. 68,03,653	271(1)(c)
4.	M/s. Bombay Swadeshi Stores Ltd.	90-91	Rs. 6,66,506	Rs. 8,23,973	Rs. 1,24,431	271(1)(c)
5*	M/s. Jaikrishna Pvt. Ltd.	90-91	Rs. 71,550	Rs. 71,550	Nil	271(1)(c)
6.	M/s. Foods & Inns Ltd.	90-91	Rs. 21,81,745	Rs. 24,22,730	Rs. 1,31,592	271(1)(c)
7.	M/s. Premier Consolidated Capital Trust (I) Ltd.	90-91	Rs. 15,75,760	Rs. 84,54,025	Rs. 80,26,601	271(1)(c)
8.	M/s. S. Ramdas & Co.	90-91	Rs. 12,37,700	Rs. 15,19,570	Rs. 8,50,968	271(1)(c)
9.	M/s. Oceanic Investments Pvt. Ltd.	90-91	Rs. 56,576	Rs. 3,91,502	Rs. 3,07,125	—
10.	M/s. Dravya Finance Ltd.	90-91	Rs. 2,96,850	Rs. 10,23,740	Rs. 6,71,919	271(1)(c)
11.	M/s. Ramniklal Mohanlal	90-91	Rs. 15,60,728	Rs. 6,36,924	Rs. 3,44,578	271(1)(c)
12.	Shri Haresh S. Jhaveri	90-91	Rs. 10,03,088	Rs. 11,15,610	Rs. 4,18,834	271(1)(c)
GRAND TOTAL:					Rs. 2,51,06,009	

*In the case of M/s. Jaikrishna Pvt. Ltd. addition of Rs. 16,19,196 is made, but it did not disturb the total income since it is absorbed by carried forward loss.

APPENDIX - XLVI

(See para 18.58 of the Report)

**Enquiry Report
Goldstar Steel and Alloys Ltd., Hyderabad**

In pursuance of a direction from the Honourable Joint Parliamentary Committee contained in a communication from the Lok Sabha Secretariat, vide their Office Memorandum No. 10/1/JC(SBT)/92 dated May 18, 1993 addressed to the Ministry of Finance, the Ministry requested the Securities and Exchange Board of India (SEBI) to conduct an enquiry into the transactions that took place between Shri H.P. Dalal, Andhra Bank Financial Services Ltd. and Shri N. Krishna Mohan, Managing Director, Goldstar Steel and Alloys Ltd. on which certain observations were made in the 5th Report of the Janakiraman Committee (Para 8.1-8.2, pages 181-182). The observations of the Committee are reproduced as under:

"8. Andhra Bank Financial Services Ltd.

8.1. In the fourth Report of the Committee (*vide* paragraphs 16.1 to 16.4 - Chapter V) certain 'back to back' transactions, which took place between April 1992 and October 1992, between HPD, Andhra Bank Financial Services Ltd. and Shri N. Krishna Mohan, Managing Director of Goldstar Steel and Alloys Ltd.(GSAL) were mentioned.

8.2. It was reported by ABFSL earlier that the 'loan' of Rs. 2 crores with due interest was repaid on 26 October, 1992. On further enquiry it is observed that Shri Krishna Mohan repaid a total sum of Rs. 2,22,15,140.00 through five cheques, which were realised by ABFSL between 10 October 1992 and 26 October, 1992. The source for the repayment of the loan is traced mainly to three refund orders dated 23 July 1992 for an aggregate amount of Rs. 2,20,14,790.00 issued by GSAL, which were debited to 'GSAL - Refund Orders A/c with State Bank of India (Industrial Finance Branch), Hyderabad. **It is observed that the refund orders account with the branch was running in overdraft.** Reconciliation of the 'Refund Orders Account' between SBI, Industrial Finance Branch, Hyderabad, Karvy Consultants P. Ltd., Registrars to the right issues of GSAL and the company is stated to be still in progress." (Highlighting ours)."

This observation of the Committee is preceded by a reference to the same transaction in their Fourth Report.

1.2. In the context of this observation, the Honourable Joint Parliamentary Committee observed that the Refund Order Account in which the Rights Issue money of GSAL was deposited could not be overdrawn as it was held in trust to be refunded to those who could not be allotted shares of the company. The Honourable Committee, therefore, further observed that in overdrawing from this account, "the company committed a gross violation" and desired that an enquiry into this matter may be conducted by SEBI.

1.3. Directly connected with this reference of overdrawal which is a serious lapse attributable to collusion between the company and the bank, there is another issue having more serious implications and that is whether the subject refunds as mentioned

in the Report of the Committee (ibid) were genuine and were issued in the normal course as in the case of refunds issued to other investors. In other words, if the refunds issued to the subject parties were not really due to them, then it may be possible to infer that they were issued solely for the purposes of enabling the parties to repay the 'loan'.

2. On receipt of this reference, a formal request was made to the Governor, Reserve Bank of India, to make available the back-up papers on the basis of which the Committee had made their observation. It was also requested that the State Bank of India (Industrial Finance Branch), Hyderabad, may be directed to afford necessary facilities to the team from SEBI to examine the relevant accounts of the Company maintained with them. A similar request was also made to the Chairman, State Bank of India to direct their Industrial Finance Branch at Hyderabad to afford necessary facilities to the team from SEBI for examination of the accounts of the company. The Department of Company Affairs were initially requested directly and again through the Ministry of Finance to seek the assistance of the Registrar of Companies, Hyderabad for examination of the company's records relating to the subject issue. Further, the connected market intermediaries of the subject issue, namely M/s. SBI Capital Markets Ltd., Lead Managers and M/s. Karvy Consultants(P) Ltd., the Registrars, were called for discussion and to make available such records or documents that they may have in their possession which could have a bearing on this enquiry. An official from the Hyderabad Stock Exchange, the regional exchange for the company, was also called for discussion.

3. The Department of Banking Operations and Development of Reserve Bank of India made available the back-up papers. Further, in a communication from the Reserve Bank of India on June 09, 1993, it was confirmed that their Regional Office at Hyderabad will provide assistance to the team from SEBI in procuring relevant records from the banks. Similarly, at the instance of the Chairman, State Bank of India, officers from the State Bank of India (Industrial Finance Branch) also visited our office on June 09, 1993 for a discussion. The connected market intermediaries could not make available the relevant records claiming that the same had been returned to the company, however, certain relevant details were gathered during the course of discussions with them. Meanwhile, it was gathered that the documents relating to the subject Rights Issue had been taken into custody by the Central Bureau of Investigation (CBI) for their enquiries.

4. The team from SEBI visited Hyderabad between June 16-19, 1993. Further discussions were held in Hyderabad with the officials of Hyderabad Stock Exchange and some Issue related documents were also obtained. Formal discussions were held with the officers of the Department of Banking Operations and Development at the Regional Office of the Reserve Bank of India. The team was informed that virtually entire bank records relating to the subject Rights Issue had been taken by the CBI. Accordingly, informal discussions were also held with the officers of CBI and bank records and other relevant documents were seen. In the absence of proper authorisation from the appropriate authority, the officers from the CBI expressed their reluctance in making available photocopies of the documents in their possession.

5.1. Coming to the specific point on which enquiry has been directed by the Honourable Joint Parliamentary Committee that is whether the GSAL — Refund Order Account went into overdraft, it is gathered from the records that the Refund Order Account of the company did go into overdraft of Rs. 30,69,000/- on November 04, 1992. It is further gathered that the bank transferred Rs. 40 lakhs to this Refund Order Account by debiting the company's Cash Credit Account maintained with them. It is further gathered from the records of Reserve Bank of India that there was no proper authorisation for such accommodation and that the Reserve Bank of India enquiry in this matter has also raised

doubts about the genuineness of these refunds. However, it is gathered that the State Bank of India who had simultaneously been asked to explain the circumstances under which the overdraft was allowed to occur have already submitted their explanation to the Honourable Joint Parliamentary Committee.

5.2. During the course of enquiry it was gathered that after the account had run into overdraft, the bank called for an explanation from the company. While explaining the reasons as to why the company could not quantify the exact amount of refund disburseable, it was submitted to the bank that as the data relating to refunds at the end of the Registrars got corrupted on account of computer virus, the amount could not be quantified. The explanation of the company is *prima facie* untenable. The basis of allotment had been finalised by the Hyderabad Stock Exchange on July 23, 1992. On July 23, 1992, the company was aware that the issue had been over-subscribed 1.87 times. Because by that date they had the details of total subscription and accordingly total refund. It is, therefore, evident that the amount of refund due could immediately be calculated thereafter. The Refund Order Account bearing no. 1/141 was opened by the company on August 08, 1992 with the State Bank of India (Industrial Finance Branch), Hyderabad. **Yet for some reason, the company initially decided to transfer only Rs. 10 crores on August 08, 1992 in this account from their Rights Issue application moneys. Subsequently, further sum of Rs. 410.89 lakhs were credited in this account on various dates between September 11, 1992 to November 14, 1992. In other words, the amount of Rs. 410.89 lakhs which too should also have been quantified as soon as the basis of allotment had been finalised, was deposited in the Refund Order Account in instalments as late as nearly six months after the closure of the Issue. It is worthwhile mentioning that out of the excess amount of Rs. 1410.89 lakhs which was due in the Refund Order Account as early as July 23, 1992, Rs. 401.89 lakhs were credited to this account only between November 05-14, 1992. It should be noted that even though the refund orders started getting issued from July 23, 1992, the Refund Order Account itself was opened on August 08, 1992. In other words, the account was opened after the refund orders had begun to be issued.**

5.3 The enquiries at our end lead to the conclusion that the amount of overdraft quantified at Rs.30.69 lakhs by the State Bank of India, Industrial Finance Branch, Hyderabad, may not be revealing the correct state of affairs. It may be relevant to recall that according to the Registrars, M/s. Karvy Consultants (P) Ltd., the company for reasons best known to them had decided to keep the entire work relating to receipt of subscriptions, allotment of shares as well as refunds pertaining to the promoters with themselves leaving only the work relating to other shareholders with the Registrars. It is here that the catch lies. None else other than the company, therefore, are in a position to quantify the receipt of subscriptions on promoters account or the amount refundable on their account. Moreover, it is also relevant to mention that the company insisted on the Registrars returning all their issue related documents which were given back to them between September 28, 1992 to October 20, 1992 including blank refund stationary in all numbering 309 which was returned to the company on October 03, 1992. The subject refunds were issued by the Company on October 03, 1992 amounting to Rs. 2.20 crores which was debited to the Refund Order Account of the company by October 09, 1992., It is to be noted that the promoters contribution as repeatedly been claimed at Rs. 12.05 crores which none else than the company knows and for which there is no definite evidence. If according to the Registrars, M/s. Karvy Consultants (P) Ltd. the promoters were allotted shares worth Rs. 7.96 crores, an amount of Rs. 4.09 crores was refundable to the promoters. It is not clear why only a partial refund of Rs. 2.20 crores to the subject parties has been issued from the Refund Order Account leaving a balance of Rs. 1.89 crores still refundable on the promoters account for which apparently there is no matching fund in the company's Refund Order Account.

5.4 The details in the Refund Order Account further reveal that in a seriously objectional transaction a deposit of Rs. 27 lakhs was made in cash by the company in this account. During the course of enquiry it was also gathered that the Refund Order Account of the company was credited with a sum of Rs. 1.40 crores on November 06, 1992, long after the issue had closed. Further enquiry revealed that this amount had come from M/s. Aditya Spinners, a company in which Shri N. Krishna Mohan is substantially interested. The enquiries further revealed that the said sum of Rs. 1.40 crore was paid mainly out of a loan of Rs. 1.33 crores taken by M/s. Aditya Spinners from IDBI. The above mentioned two credits of Rs. 27 lakhs in cash and Rs. 1.40 crores from M/s. Aditya Spinners is highly irregular. It stands to reason that a Refund Order Account can under no circumstances run into overdraft nor can there arise any occasion to supplement such overdraft from outside funds. However, the fact that the Refund Order Account of M/s. GSAL was allowed to run into overdraft and that outside funds were permitted to be credited to the Refund Order Account establishes the complicity of the bank.

5.5 While analysing the reasons for the need to bring in external finance in the Refund Order Account, interestingly it was found that the extent of external finance brought in approximately matches with the amount of refund issued to the subject parties. It is on record that Rs. 40 lakhs had been credited to the Refund Order Account from the company's Cash Credit Account. In addition, a sum of Rs. 27 lakhs cash was also credited to this account on November 05, 1992 and further an amount of Rs. 1.40 crores was brought as loans from M/s. Aditya Spinners, a company in which Shri N. Krishna Mohan is substantially interested. These three amounts taken together add up to Rs. 2.07 crores.

5.6 M/s. Karvy Consultants (P) Ltd. are on record to have issued refunds amounting to Rs. 1219.97 lakhs to shareholders other than promoters. It is obvious that these refunds had been issued prior to October 03, 1992 before they returned the blank refund stationary to the company. Records reveal that the Refund Order Account of the company which was opened on August 08, 1992 had a credit of only Rs. 1009 lakhs till November 05, 1992. In other words, if the refunds issued by M/s. Karvy Consultants (P) Ltd. amounting to Rs. 1219.97 lakhs, which were issued on July 23, 1992, with the normal validity period of three months were presented for encashment, the Refund Order Account was already in a deficit of Rs. 210.97 lakhs on account of refunds issued to regular shareholders only. Added to this was the refund of Rs. 220 lakhs to the subject parties, namely, Shri N. Krishna Mohan, M/s. Kanna Investment Ltd. and M/s. Krishnarama Industrial Investments Ltd., which as stated earlier had been debited to the Refund Order Account by October 09, 1992. If these two amounts of Rs. 210.97 lakhs and Rs. 220 lakhs were actually debited within the normal validity period of the refund orders, **the overdraft amount would be as high as Rs. 430.97 lakhs.** If, however, the refunds issued to the regular shareholders were held back and despatched in late September or early October, the company could be held responsible for misuse of public funds for as much as 3 to 6 months as all shareholders unable to encash their refunds within the normal validity period would have approached the company for re-validation. And this is exactly what seems to have happened as the company was required to put additional Rs. 410.89 lakhs in November, 1992, including external finance of Rs. 2.07 crores (Rs. 40 lakhs as overdraft + Rs. 27 lakhs cash + Rs. 1.40 crores from M/s. Aditya Spinners) In other words, it is possible to conclude that the overdraft could have been any amount varying between Rs. 30.69 lakhs to Rs. 430.97 lakhs. According to the Janakiraman Committee Report "reconciliation of the 'Refund Orders Account' between SBI (Industrial Finance Branch) Hyderabad. M/s. Karvy Consultants Pvt. Ltd., Registrars to the Rights Issue of GSAL and the Company is stated to be still in progress."

5.7 Therefore, the final finding of this enquiry in regard to the reference made by Honourable Joint Parliamentary Committee is that the Refund Order Account of

M/s. GSAL maintained with the State Bank of India (Industrial Finance Branch), Hyderabad, went into overdraft which could be any amount between Rs. 30.69 lakhs to Rs. 430.97 lakhs, a reconciliation of which is "stated to be still in progress", and in clear complicity with the bank, the company, instead of bridging the gap with the amounts disburseable as refunds which should have been available with the refund bankers after the basis of allotment was finalised, credited not only cash but also amounts brought from third party, namely, M/s. Aditya Spinners, a company in which Shri N. Krishna Mohan is substantially interested.

6.1 Now coming to the point related to the reference made by the Honourable Joint Parliamentary Committee, *i.e.*, whether the refund issued to the subject parties was really due to them, which will be examined in succeeding paragraphs with reference to the application made by the subject parties, the payments made for the shares applied for by them and the refund orders itself it may first be appropriate to outline in detail the standard procedure which a company and other concerned intermediaries such as collecting bankers, the concerned Regional Stock Exchange, etc., are expected to observe in the event of a Public/Rights Issue.

GENERAL ISSUE PROCEDURE IN CASE OF A RIGHTS ISSUE (at the time of CCI)

- A board meeting is called wherein the company has to decide about the proposed rights issue, the terms of offer and the objects of the issue. The same is approved by the board.
- After the approval at the board meeting, the proposal for the rights issue has to be issued by a notice to all the shareholders of the company to be passed at an AGM/EGM in terms of Section 81(IA) of the Companies Act, if the company proposes to issue shares to persons other than the existing shareholders of the company.
- After approval at the shareholders meeting, the Company has to make an application of the Office of the Controller of Capital Issues (CCI) in a prescribed format alongwith a copy of the resolution passed at the said AGM/EGM.
- In case of assisted units, the company would have to mention in the application to the CCI, the special terms and conditions under which the financial institution concerned have permitted the company to raise capital from the shareholders.
- In case, the promoters (in a rights issue), *i.e.* persons identified to be in charge of the management of the company, are required to bring in funds prior to the opening of the issue to bridge any cost overrun, the institutions would specify the amounts and the time periods by which the same should be brought by the said promoters.
- Thereafter, CCI would consider the application in terms of the Capital Issues Control Act and issue a consent order with such terms and conditions as deemed fit by CCI.
- In the case of assisted units, while CCI would take cognizance of the condition laid down by the institution for promoters contribution, CCI would always insist that monies proposed to be collected in the issue should be kept in a separate account and the same should not be utilised till the allotment is completed.
- Thereafter, with a copy of the said CCI, consent order, the draft letter of offer is filed by the lead manager with SEBI for issue of Acknowledgement Card.
- SEBI would vet the draft letter of offer, taking on record the disclosures made in the said draft letter of offer, and issue the Acknowledgement Card with such other terms and conditons as deemed fit by SEBI.

- Meanwhile, the company fixes a record date for book closure which is decided in consultation with the regional stock exchange and communicates the same to all shareholders giving them a period of 45 days for registering all transfers.
- After SEBI Acknowledgement Card is obtained by the lead manager, the letter of offer is then filed with the stock exchange and then issued to the shareholders, whose names appear on the record date, along with the Composite Application Form by registered post.

An account is opened with the collecting branches, as mentioned in the letter of offer, where in all issue application money will be credited by the bankers to the issue. This is in conformity with the condition laid down by CCI that all issue amounts should be kept in specific bank accounts and should not be utilised till the basis of allotment is finalised.

- The progress of the issue is monitored by the company, lead manager and the registrars to the issue and accordingly the issue closing date is determined..
- In case the response to the issue is not satisfactory, *i.e.* if the 90% minimum subscription is not obtained, an application is made to the regional stock exchange for extension of the issue closing date.
- The stock exchange would consider the request made by the company and accordingly communicate its decision in writing.
- After the issue is closed, the applications and the final certificates are collected from the various bankers to the issue and reconciled by the registrars to the issue and the final reports prepared for deciding the basis of allotment.
- Depending upon the response to the issue, the basis of allotment is finalised by the stock exchange.
- The registrar to the issue applies the basis of allotment, decided by the stock exchange, on the applications received by the company and the list of allottees and non allottees are prepared.
- The funds available in the application account is then divided between the company and the refund order account. While the former is in accordance with the list of allottees the latter is in accordance with the list of non allottees.
- The amount available to the company is only the total issue offer amount along with oversubscription retained by the company, if permitted by CCI, and the balance is transferred to the refund order account for refund to the non allottees.
- Normally, the balance in the refund order account is maintained as a short term deposit by the refund banker and periodically amounts are transferred into the refund order account of the company by the refund banker, by breaking the short term deposit, as and when refund orders are debited to the said account. No other credits can be made into this account.
- After three or six months, the account is reconciled with the refund orders yet to be encashed. While some balance would be still left in the account, the account can never have a debit balance.
- A list of allottees is filed with the ROC in the form of "return of allotment".

6.2 Coming to the Rights Issue of M/s. Goldstar Steel and Alloys Ltd., (GSAL), GSAL is a company promoted by Shri N. Krishna Mohan, Shri P.V. Prabhakar Rao and Shri C.V. Hanumantha Rao. The company was incorporated on January 28, 1986. The company is in

the business of production of sponge iron at Sreerampuram in Andhra Pradesh. The company's total authorised capital has been declared at Rs. 54 crores and the paid up capital at Rs. 44.80 crores through their maiden public issue in 1991. From the application made to the Controller of Capital Issues at the time of their first public issue, it is gathered that Shri N. Krishna Mohan had a shareholding of 150000 shares of the company. It is further gathered that two associate concerns of Shri Krishna Mohan, namely, M/s. Kanna Investments Ltd. and M/s. Krishnarama Investments Ltd., had holdings of 1742000 and 2283688 shares of this company respectively. It is gathered that on August 09, 1991, a proposal for fresh issue of shares "to meet cost overrun" was taken on the records of the company. On December 07, 1991, the company moved an application to the Controller of Capital Issues for consent to make a Rights Issue which was obtained on January 14, 1992. In the meeting of the Board of the company on January 30, 1992 a resolution was passed to make the Rights Issue. On March 01, 1992, the company filed a draft Letter of Offer, the approval to which was granted on March 10, 1992. In the meantime, on March 08, 1992, the format of the Composite Application Form was approved. The company's Rights Issue of Rs. 22.40 crores opened on March 28, 1992. Over and above this amount, the company offered shares worth Rs. 1.12 crores to its employees, thus making the subject Rights Issue of an aggregate amount of Rs. 23.52 crores consisting of 23520000 shares of Rs.10/- each at par. As stated in the prospectus, out of this amount Rs. 8.80 crores had been brought in by the promoters including their friends, relatives and associate concerns by February 26, 1992. According to the post issue details furnished by the company it is gathered that the Rights Issue was oversubscribed 1.85 times resulting in a total subscription of Rs. 40,82,73,000/- out of which promoters contribution was stated to be Rs. 12.05 crores. In accordance with the permission granted by the CCI while approving the company's subject Rights Issue, the company was allowed to retain 15% of the oversubscription resulting in a retention of further amount of Rs. 3.36 crores. In effect, therefore, the total amount retained by the company as a result of this issue was Rs. 26.88 crores and according to the certificate granted by as the refund bankers, namely, State Bank of India (Industrial Finance Branch) a sum of Rs. 14,10,89,000/- were remitted to the credit of the company's Refund Account. From the details of refund as certified by M/s. Karvy Consultants (P) Ltd., the Registrars to the subject issue, refunds amounting to Rs. 12,19,97,050/- was issued by them. From the records it is gathered that on April 24, 1992, the company wrote to the Hyderabad Stock Exchange that they proposed to extend the closing date by two weeks to May 11, 1992 because they had received a number of complaints from their existing shareholders regarding non-receipt of application forms. Though there is no formal extension granted by the Exchange on record, the issue closed on May 11, 1992.

6.3 From the papers obtained from the Reserve Bank of India, on the basis of which Janakiraman Committee had made their observations (ibid) it is gathered that sometime in April, 1992, M/s. Andhra Bank Financial Services Ltd. received an oral proposal from Shri N. Krishna Mohan, Managing Director, Goldstar Steel and Alloys Ltd., through Shri C. Sasi Kanth, Vice President (Finance), for a short term loan of Rs. 2 crores against pledge of shares of Goldstar Cements Ltd. The purpose of the said loan was declared to be investment in his rights entitlement in the on-going Rights Issue of GSAL. ABFSL arranged the loan through Shri Hiten P. Dalal at an interest rate of 23% and added further 1% as their service charge. On record there is a communication dated April 17, 1992, from Shri N. Krishna Mohan to M/s. Andhra Bank Financial Services Ltd. requesting for the payment of Rs. 2 crores in favour of M/s. Goldstar Steel and Alloys Ltd. in instalments of Rs. 1 crore each. It is gathered from the records that ABFSL maintained that "from the records available with (them) it (was) not clear whether the loan was given to Shri Krishna Mohan in his individual capacity." However, from other documents available on record Shri Krishna Mohan himself seems to have maintained that this loan was availed of by him

in his individual capacity. It is also on record that Shri Krishna Mohan wanted the loan to be directly credited to the account of GSAL. In other words, allegedly a personal loan for Shri N. Krishna Mohan was taken through the accounts of M/s. Goldstar Steel and Alloys Ltd. It is gathered from the records that the reasons for routing this personal loan through the company account was to effect faster cheque clearing. The amounts for the said loan were received by ABFSL by two cheques from Shri Hiten P. Dalal on April 12, 1992 and April 28, 1992 for Rs. 1 crore each drawn on Andhra Bank, Fort Branch Bombay and credited to ABFSL Current Account No. 5605 maintained at the same branch. In turn, ABFSL disbursed the loan to Shri Krishna Mohan by cheque No. 441856 dated April 21, 1992 and No. 441868 dated April 28, 1992 drawn on Andhra Bank, Sultan Bazar Branch, Hyderabad. Shri Krishna Mohan in his turn placed 1350000 shares of M/s. Goldstar Cements Ltd. with ABFSL as collateral for this loan. Records reveal that these shares were held by ABFSL in trust for Shri Hiten P. Dalal in October, 1992 the said loan alongwith interest amounting to Rs. 23,11,450/- was repaid to ABFSL. The details of repayment are as under:

- a. Cheque No. 343171 dated October 03, 1992 for Rs. 76,26,000/- drawn on State Bank of India, Hyderabad, Punjagutta, Hyderabad by Shri N. Krishna Mohan, realised by ABFSL on October 12, 1992.
- b. Cheque No. 634757 dated October 03, 1992 for Rs. 71,28,000/- drawn on Canara Bank, Ahmednagar Branch, Hyderabad by M/s. Kanna Investments Ltd. realised by ABFSL on October 10, 1992.
- c. Cheque No. 0952990 dated October 03, 1992 for Rs. 72,46,000/- drawn on Indian Bank, Begumpet Branch, Hyderabad by M/s. Krishnarama Industrial Investments Ltd. realised by ABFSL on October 10, 1992.
- d. Cheque No. 0553361 dated October 19, 1992 for Rs. 96,310/- drawn on Vyasa Bank Ltd., Ameerpet Branch, Hyderabad by Shri N. Krishna Mohan.
- e. Cheque No. 0553362 dated October 19, 1992 for Rs. 2,15,140/- drawn on Vyasa Bank Ltd., Ameerpet Branch, Hyderabad by Shri N. Krishna Mohan.

6.4 As regards the source of funds utilised for repayment, it is gathered from the records that the repayments were made by Shri Krishna Mohan from out of funds procured by him through refund orders issued from 'GSAL - Refund Orders Account' in his own name and in the names of his associate concerns, namely, M/s. Kanna Investments Ltd. and M/s. Krishnarama Industrial Investments Ltd., the details of which are as under:

Refund Order No. & Date	Cheque No.	Amount (Rs.)	In favour of	Date of Credit in drawee's account
333801/ 23.07.92	158691	76,40,040	Shri N. Krishna Mohan	08.10.92
333802/ 23.07.92	158690	72,46,450	M/s. Krishnarama Indl. Invt. Ltd.	09.10.92
333803/ 23.07.92	158692	71,28,300	M/s. Kanna Invt. Ltd.	07.10.92

6.5 From the details above, it *prima facie* appears that the money obtained through the Refund Account was used for repayment of the said loan unless the drawers (Shri N. Krishna Mohan and his associate concerns) of the cheques issued in favour of ABFSL can establish

that funds were available with them even apart from the moneys received on refund. This fact, however, can only be verified with reference to the respective bank accounts of the drawers.

7.1 Before analysing the information available from other records, it may be relevant to list in brief certain important information contained in the company's Letter of Offer and instructions contained in the Composite Application Form which has a bearing on the findings of this report. The Letter of Offer, inter-alia, mentioned that as the Rights Issue was made to meet the additional cost of project, the private promoters, viz., Shri Krishna Mohan his friends, relatives and Associate Companies have given advances against their entitlements of New Equity Shares on Rights basis, to an extent of Rs.880 lakhs as on February 26, 1992 in accordance with the stipulations made by the Financial Institution for purposes of pro-rata disbursement of term loan(s) and the said fund have been utilised by the Company to meet the cost of the project. The basis of offer was stated to be in the ratio of 1:2, i.e., one New Equity Share for two existing equity shares held on the record date, i.e., March 17, 1992. Further, the allotment procedure was also mentioned in the Letter of Offer in the event of over-subscriptions. The Letter of Offer further informed that subscriptions received against this Issue, excluding the amount already received as indicated above (reference is perhaps to the sum of Rs. 8.80 crores given as advance by the private promoters as on February 26, 1992), will be kept in specific Bank Accounts and the company would not have access to such funds unless they have received an approval from the concerned Regional Stock Exchange for allotment.

7.2 The instructions in the Composite Application Forms listed State Bank of India, Securities Department, Bank Street, Hyderabad, Bank of Baroda, Lakdi ka pul, Khairtabad, Hyderabad, Canara Bank, Abids Road, Hyderabad, Indian Bank, Bank Street, Koti, Hyderabad and Andhra Bank, Sultan Bazar, Koti, Hyderabad alongwith 32 concerned branches of the said banks as the Collecting Bankers for this Rights Issue. The instructions also reiterated the procedure for utilisation of the subscription amounts received against this Issue as mentioned in their Letter of Offer.

8.1 As regards the application and the payments made by the concerned parties in regard to the shares applied for by them, an examination of records available with various agencies indicates that the allotment of equity shares in the Rights Issue to the subject parties, namely, Shri N. Krishna Mohan, Kanna Investments Ltd., and Krishnarama Industrial Investments Ltd., is highly suspect and as explained in the subsequent paragraphs, there is no definite evidence of payment made by the said parties towards the total number of shares applied for by them.

8.2 As mentioned earlier, from the application made to the Controller of Capital Issue at the time of their First Public Issue, the holdings of the subject parties was shown as — Shri N. Krishna Mohan: 150000, M/s. Kanna Investments Ltd.: 1742000 and M/s. Krishnarama Industrial Investments Ltd.: 2283688. Accordingly, their rights entitlements in the ratio of 1:2 would have been 75000, 871000 and 1141844 respectively. However, from the records of the Registrar of Companies, Hyderabad, which were amended by the Company after the original had been filed merely in an attempt to bring the figures in line with the entitlement as shown by the subject parties in their share application forms as well as the statement of entitlement as given in the Register of Allotment filed with the Hyderabad Stock Exchange, it is worthwhile noting that Shri N. Krishna Mohan does not appear as such in this list as a shareholder. However, there are two similar sounding names, i.e., Shri K.M.N. Ganti and Shri Krishna Mohan Nendraganti, which, perhaps, are that of Shri N. Krishna Mohan. That the revised figures filed with the Registrar of Companies are suspect is further corroborated by the fact that in case of Shri K.M.N. Ganti

(GSA009771) in the original statement filed by the Company sales of shares had been shown in the lots of 100 each and all sales were shown to have been effected on July 24, 1992. For some inexplicable reason, in the amendment filed subsequently revising the original figures, the sales have been shown in the lots of 1000-1500 each and that too on September 18, 1992.

8.3 It is interesting to note that in the records of Hyderabad Stock Exchange the entitlements of Shri N. Krishna Mohan (not Shri K.M.N. Ganti or Shri Krishna Mohan Nendraganti), M/s. Kanna Investments Ltd. and M/s. Krishnarama Industrial Investments Ltd. have been shown as 1191550, 871000 and 1141835. Accordingly, the holdings of these three parties works out to 2283100, 1742000 and 2283670. The details of figures in the application forms are as under:

Name	K.M.N. Ganti	M/s. Krishnarama Indl. Investments Ltd.	M/s. Kanna Investments Ltd.
Shares as on record date	2383100	2283670	1742000
No. of shares offered	1191550	1141835	871000
Amount payable	Rs. 1,19,15,550	Rs. 1,14,18,350	Rs. 87,10,000
Shares accepted	1191550	1141835	871000
Additional shares applied	1025194	1328755	1782596
Total shares applied	2217464	2470590	2653596
Amount paid	Rs. 2,21,74,640	Rs. 2,47,05,900	Rs. 2,65,11,460

8.4 However, the details gathered from the Share Allotment Register of the subject issue submitted by the Company to the Exchange are as under:

S.No.	138866	138917	138919
INHO No.	509717	509768	509770
CAF No.	9717	9768	9770
Name	Sh. N. Krishna Mohan	M/s. Kanna Investments Ltd	M/s. Krishnarama Ind. Investments Ltd.
Entitlement	1191550	871000	1141835
Addl. shares applied	1981930	363080	1000000
Total shares applied	3173480	1234080	2141835
Amount paid	Rs. 3,17,34,800	Rs. 1,23,40,800	Rs. 2,14,18,350
Shares allotted	1489440	1088750	1427290

8.5 It is evident from the above tables that while in the records of Hyderabad Stock Exchange Shri N. Krishna Mohan (not Shri K. M. N. Ganti) had applied for 3173480 shares for which he allegedly paid Rs. 3,17,34,800/ according to the application form of Shri K.M.N. Ganti (not Shri N. Krishna Mohan) application was made for only 2217464 shares for which a sum of

Rs. 2,21,74,640 was payable. Similarly, M/s. Kanna Investments Ltd. according to the records of Hyderabad Stock Exchange applied for 1234080 shares for which it supposedly paid Rs. 1,23,40,800/-, the actual application was made for 2653596 shares for which an amount of Rs. 2,65,11,460/- was payable. Finally, in the records of Hyderabad Stock Exchange M/s. Krishnarama Industrial Investments Ltd. applied for 2141835 shares for which supposedly an amount of Rs. 2,14,18,350/- was paid but in the application the concern had applied 2470590 shares for which an amount of Rs. 2,47,05,900/- was payable. Interestingly, the payment details such as amount paid, cash/cheque/draft number, date and the bank on which the cheque has been drawn are blank in all the three application forms.

8.6 To sum up, therefore, while the three subject parties according to the records of Hyderabad Stock Exchange are reported to have paid a total amount of Rs. 6,54,93,950/-, according to their application forms they are supposed to have paid Rs. 7,34,16,500/-. Interestingly, the details of the payments made by the subject parties filed by Shri N. Krishna Mohan with the Central Bureau of Investigation adds upto a marginally different figure of Rs. 7,34,22,100/-. It is, therefore, evident that none of the figures either in regard to the number of shares or in regard to the amount paid can be accepted as correct. It may not be unreasonable to conclude, therefore, that in view of the discrepancy in the figures as they appear in the application forms of the subject parties and the figures as they appear in the share allotment detail filed with the Hyderabad Stock Exchange, the allotment, if any, made to Shri K.M.N. Ganti (not to Shri N. Krishna Mohan) and his two associate concerns, M/s. Kanna Investments Ltd. and M/s. Krishnarama Industrial Investments Ltd. was completely irregular and perhaps even illegal.

9.1 As regards payments for the shares applied for by the concerned parties, the records reveal confusion worse confounded. It is seen from the records that in all the documents if there is any one figure that has been repeatedly mentioned by M/s. Canbank Financial Services Ltd., the post issue Lead Managers of the company, M/s. C. Ramchandram & Company, auditors and the company itself in various documents and correspondence, as the promoters contribution is the figure of Rs. 12.05 crores. This amount obviously includes the contribution made by the three subject parties and going by various records also includes the said 'loan' of Rs. 2 crores from Shri Hiten P. Dalal. However, as explained in succeeding paragraphs, if all the records are reconciled keeping this amount of Rs. 12.05 crores as constant, the statistics thrown up do not match with the final figures of either the total amount of subscription received or the amount refundable being claimed by the company in respect of the subject Rights Issue.

9.2. According to the final post issue certificate granted by M/s. Canbank Financial Services Ltd., the post issue Lead Managers of the company, the total subscription received from the subject Rights Issue was Rs. 40,82,73,000/- of which Rs. 26,88,00,000/- were retained and the balance amount of Rs. 13,94,73,000/- was refundable. The total amount of subscription received includes the promoters subscription of Rs. 12.05 crores and employees contribution of Rs. 1.12 crores. In other words, the subscription made by shareholders other than promoters was Rs. 27,65,73,000/-. According to the details of refunds given by the Registrars, M/s. Karvy Consultants (P) Ltd. as certified by the Company Secretary of M/s. GSAL, M/s. Karvy Consultants (P) Ltd. issued refunds to shareholders other than promoters amounting to Rs. 12,19,97,050/-. In other words, the contribution from public against which shares were issued to them would amount to Rs. 15,45,75,950/-.

9.3 However, according to the communication dated June 08, 1993 from M/s. Karvy Consultants (P) Ltd., total amount for which shares were allotted to the promoter shareholders (for which processing was done by the company) amounted to Rs. 7,96,37,950/- and that to shareholders and renounees other than promoters amounted

to Rs. 17,79,62,650/-. These figures together with the amount shown as preferential allotment to the employees amounting to Rs. 1.12 crores works out to Rs. 26.88 crores, the final amount for which share allotments have been made even as certified by the company. Therefore, the break-up of figures given by the Registrars should be accepted as correct.

9.4 If the above figures are pieced together with the other information available on other records, the total contribution received works out as under :

Promoters	12,05,00,000
Shareholders other than promoters	29,99,59,700
Employees	1,12,00,000
<hr/>	<hr/>
TOTAL	43,16,59,700
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(*)Rs. 17,79,62,650/- for which shares were allotted plus Rs. 12,19,97,050/- which was the amount refundable.

As against this the company reported total receipt of only Rs. 40,82,73,000/-. **The discrepancy works out to Rs. 2,33,86,700/-.**

9.5 As for refunds, there is on record a certificate from the Chief Manager (Credit) the State Bank of India (Industrial Financial Branch) dated December 03, 1992, certifying that an amount of Rs. 1410.89 lakhs was remitted to the credit of company's Refund Account, a figure which does not tally after reconciliation.

9.6 If the promoters contributed Rs. 12.05 crores and shares worth Rs. 7,96,37,950/- were allotted, the refund on promoters' account works out to Rs. 4,18,62,050/-. The refund to shareholders other than promoters as certified by the Registrars amounted to Rs. 12,19,97,050/-. These two amounts taken together works out to Rs. 16,38,59,100/- as against Rs. 14,10,89,000/- credited to the Refund Account of the company. **Once again the discrepancy in the Refund Account works out to Rs. 2,27,70,100/-.** In other words, if all the figures available on the records are reconciled, the company has not accounted for the receipts to the extent of Rs. 2.34 crores and has under-stated the refund to the extent of Rs. 2.28 crores.

9.7 It is in this context that even the certificates given by the Chartered Accountants, M/s. C. Ramachandram & Company dated June 15, 1992, certifying that M/s. GSAL has received Rs. 1205 lakhs from promoters towards their rights entitlements becomes questionable. It is gathered that the auditors certified this amount exclusively on the basis of the records and documents supplied by the company without reference to the bank records. It is further relevant to mention that Shri G. Satyanarayan, Chartered Accountant who certified the amount of refund due to the subject parties also did that on the basis of correspondence and documents produced by Shri N. Krishna Mohan as they did not have "time for checking up with any external evidence." In the context of the figures reconciled in the previous paragraphs the amounts mentioned by the two auditors in their respective certificates prima facie becomes questionable.

9.8 Another reason why this amount of Rs. 12.05 crores allegedly contributed by the promoters comes in doubt is that in the statements submitted by the company to the Hyderabad Stock Exchange, the company has given detailed break-up of 'actual figures' of applications, shares and amount. In the statement dated June 18, 1992, the number of promoters application has been shown at 8000 and the number of shares applied for by the

promoters has been shown as 12050000 (worth Rs. 12.05 crores). In their statement dated June 22, 1992, while the figure of shares applied for by the promoters remains unchanged, the number of applications has been shown as 6755. And finally in their statement their statement dated July 23, 1992, the date on which the Exchange approved the basis of allotment, once again while the number of shares shown to have been applied for by the promoters remains unchanged the number of applications has been shown as 9677. **In other words, if 12050000 shares had been applied for through 6755 applications and the number of applications by the promoters was 9677, it implies that 2922 applications by promoters though filed did not seek allotment of any shares. However, in successive corrections the promoters are reported to have applied for 12050000 shares for which a subscription of Rs. 12.05 crores is reportedly have been paid. If, however, the amount of Rs. 12.05 crores claimed to have been paid by the promoters as their subscription towards rights equity shares is correct, the conclusions drawn in paragraph 9.6 above that the company has not accounted for receipts of Rs. 2.34 crores will stand. On the other hand, if the amount of Rs. 12.05 crores as promoters subscription is not correct then the obvious conclusion is that the statement filed by the company with the Hyderabad Stock Exchange and the Registrar of Companies is false.**

9.9 The correctness of the promoters contribution of Rs. 12.05 crores is also in doubt as there is no evidence of this amount having been paid by the promoters. It is claimed by the company in their Letter of Offer that a sum of Rs. 8.80 crores had been brought in by the private promoters, namely, Shri N. Krishna Mohan, his friends, relatives and associate concerns as advance towards their rights entitlements as on February 26, 1992, in accordance with the stipulation made by the financial institutions for the purposes of *pro-rata* disbursement of term loan. However, nowhere on record shown to the enquiry team, any such stipulation from the financial institutions were available. Further, there is no bank record to show the receipt of this amount and to conclusively establish that this amount was brought in as advance subscription for the Rights issue as is being claimed by the Company. Moreover, if the promoters contribution was finally Rs. 12.05 crores, it implies that Rs. 3.25 crores were brought in by the promoters after February 26, 1992, which incidentally includes Rs. 2 crores 'loan' from Shri Hiten P. Dalal which was brought in two instalments of Rs. 1 crore each on April 21 and 28, 1992. In fact these two cheques have been drawn in favour of M/s. GSAL and not in favour of M/s. GSAL — Rights Issue Accounts though the Issue had already opened on March 28, and remained open till May 11. Further, these cheques had been deposited in the Current Account No. 3/129 maintained with SBI (Industrial Finance Branch) and not in one of the designated collecting banks. Further, these amounts which were not supposed to be utilised by the company prior to finalisation of the basis of allotment by the Hyderabad Stock Exchange. **It is, therefore, merely the company's claim that these amounts are also part of the promoters' subscription towards their rights entitlements which is not backed by any evidence.**

9.10 Finally, as stated earlier the quantum of payment made by the subject parties itself is in question. While according to the records of the Exchange the subject parties paid an amount of Rs. 6.54 crores, according to their individual application forms the amounts paid by them is supposed to be Rs. 7.34 crores the details of which have been left blank in their application forms. Taking the entire promoters subscription at Rs. 12.05 crores as stated by the Company and co-relating it to the alleged payment of Rs. 6.54 crores or Rs. 7.34 crores, the balance contribution of Rs. 5.51 crores or Rs. 4.71 crores came from promoters other than the subject parties. It is relevant to recall that the company has claimed that out of the promoters contribution Rs. 8.80 crores had already been brought in as advance by promoters which includes the three subject parties as on February 26, 1992. In other words, a sum of Rs. 3.25 crores was brought in between

February and May 11, 1992, the date on which the issue closed. If the final allotment to the promoters was only for Rs. 7.96 crores, refunds of approximately Rs. 4.09 crores was due to promoters including the subject parties. However, it stands to reason that in the absence of exact amount paid by the subject parties the exact amount of refund due to them cannot be quantified.

10.1 As regards the refund orders themselves, it is gathered from the papers available that these refunds do not seem to have been issued in the normal course. The subject refund orders have been prepared on ordinary typewriters as against the general refund orders which were prepared on computer by the Registrars, M/s. Karvy Consultants (P) Ltd.

10.2 The discussions with M/s. Karvy Consultants (P) Ltd. reveal that the company allotted only that portion of the work to them which related to the shareholders and renounces excluding promoters, keeping with themselves the entire work relating to the promoters. It was also confirmed by M/s. Karvy Consultants (P) Ltd. that the work relating to the promoters was handled by the in-house Registrars and Share Transfer Agents of the company, namely M/s. SIDVIN Financial Services Ltd. Moreover, the company insisted on return of all issue related records in September, 1992 which were duly given back to them between September 28, 1992 to October 20, 1992. Among the records and documents returned to the company, there were blank stationary of refunds numbering 309 in all bearing MICR Nos. 158690 to 158998 which were returned to the company on October 03, 1992 duly receipted by Shri Sasi Kanth, Vice President (Finance), GSAL. It is pertinent to note that the refunds issued to Shri Krishna Mohan and the other two concerns bear MICR Nos. 158690, 158691 and 158692. It is, therefore, evident that these three refund orders were received blank by the company only on October 03, 1992 and issued by Shri Krishna Mohan to himself and to his associate concerns on October 03, 1992 itself ante dating them to July 23, 1992. There could be two reasons for ante dating — one, normally refunds are supposed to accrue on the date the basis of allotment is approved by the regional stock exchange which in this case was July 23, 1992; and two, that the parties concerned wanted the refunds to look as if they were issued in the normal course to avoid scrutiny by the disbursing bankers. In any case, antedating refund orders does not conform to transactional propriety and should have been avoided. The fact that these refund orders were issued by Shri Krishna Mohan on October 03, 1992 is perhaps further corroborated by linking the repayment of the loan by Shri Krishna Mohan to ABFSL. Shri Krishna Mohan and his associate concerns issued cheques in favour of ABFSL on October 03, 1992 after the availability of funds from the refund accounts had been ensured.

10.3 In any case, since the application had been made in the name of Shri K.M.N. Ganti, the refund could not have been issued in the name of Shri N. Krishna Mohan.

11.1 One possible inference as to why this amount was paid to the subject parties if it was not really due to them is that the fact whether the 'loan' was to the company M/s. GSAL or to Shri Krishna Mohan has been a matter of controversy in this deal. While the amount of Rs. 2 crores was brought into the company's account and since the company did not in turn disburse this amount to Shri N. Krishna Mohan, M/s. Kanna Investments Ltd. or M/s. Krishnarama Industrial Investments Ltd., the liability for repayment of the said amount was that of the company and not that of the subject parties. However, in order to demonstrate that the said amounts had been taken on account of the subject parties and not directly by the company this unusual method of routing the repayment by disbursing almost the exact amount of principal together with interest through the Refund Order Account was adopted.

11.2 Yet another inference that can be drawn from this scenario as it emerges from various records and documents made available to the enquiry team is that the amount of Rs. 8.80 crores being claimed as promoters contribution brought in by February, 1992, was actually not brought in. The enquiry team saw a copy of the company's current account number 3/129 from March 11, 1992 with the CBI where only an amount of over Rs. 3 crores (including the two cheques of Rs. 1 crore each from Shri Hiten P. Dalal, a broker who subsequently became 'Notified') was shown to have been deposited. It is, therefore, possible to grant that the balance of Rs. 3.25 crores, the remaining part of the promoters contribution was actually brought in. It is pertinent to note that even the record seen with CBI does not show any evidence of the payment of Rs. 8.80 crores except the statements given by Shri N. Krishna Mohan himself in respect of his own contribution and that of his two associate concerns. It is also relevant to recall that according to the Registrars, M/s. Karvy Consultants (P) Ltd., the entire matter pertaining to subscription allotment and refund of the promoters was handled separately by the company. In effect, therefore, the Registrars too are in no position to confirm the receipt of Rs. 8.80 crores. Moreover, from various records and documents it is evident that the company claimed to have deposited this amount received from promoters in separate account, i.e., their current account number 3/129 with SBI, Industrial Finance Branch, Hyderabad. It, therefore, stands to reason that if any refund was due to the promoters it should have gone from this account in which the promoters subscription had been deposited. However, it was done only to the extent of Rs. 40 lakhs as against the refund of Rs. 2.20 crores. The fact that the company resorted to this unusual arrangement of bringing in external finance to the extent of Rs. 1.67 crores to enable them to issue a refund of Rs. 2.20 crores to the subject parties raises serious doubts whether the refund was actually due to them in the normal course.

11.3 The available records do not give any definite evidence of either the amounts paid by the subject parties, namely, Shri N. Krishna Mohan, M/s. Kanna Investments Ltd. and M/s. Krishnarama Industrial Investments Ltd., or the details of shares remaining unallotted in their cases which could result in refund. Therefore, till such time that the claim of the subject parties can be verified with reference to third party evidence, it cannot be conclusively stated whether the amounts paid to them as refunds was actually due to them.

11.4 In view of the discussions above, finally on this related issue, it may be possible to conclude that:

- (i) There is confusion with regard to the number of shares applied for by the subject parties namely, Shri N. Krishna Mohan, M/s. Kanna Investments Ltd. and M/s. Krishnarama Industrial Investments Ltd., the number of shares allotted to them and the number remaining unallotted which could lead to refunds;
- (ii) there is no definite evidence of identifiable payments by promoters towards their subscription for the new Equity Shares in the subject Rights Issue;
- (iii) the Auditors' certificates in regard to payments by promoters and refund due are prima facie questionable as they are based exclusively on company records which have not been cross verified with reference to bank records;
- (iv) the 'loan' may have been to the company M/s. GSAL and not to Shri N. Krishna Mohan, a confusion which is prima facie on account of the company's account and

the account of promoters subscriptions being mixed and not kept identifiably separate;

- (v) an unusual arrangement of crediting external finance to the Refund Order Account was resorted to in order to enable the company to disburse refunds to the subject parties; and
- (vi) in any case no refund was due to Shri N. Krishna Mohan as the application was made in the name of Shri K.M.N. Ganti. Therefore, the enquiries conducted so far justify an inspection of the company's records and books of accounts under Section 209A of the Companies Act to verify the application monies received from the promoters, the allotment made and the refund due to them.