

1995 to introduce a system of closely monitoring cash deposits and withdrawals for Rs. 10 lakhs and above in deposits and all other accounts like cash credit/overdraft etc. These instructions have been reiterated to the Banks in May, 2002. RBI have also advised the Banks to keep a watchful eye on the transactions violative of normal banking operations and to undertake due diligence in respect of the "know your customer" principles. Irregularities, if any, have to be brought to the notice of RBI.

Hometrade.Com Scam

2157. SHRI K.B. KRISHNAMURTHY: Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether Government are fully seized of the ramifications of the recent hometrade.com Urban Cooperative Bank involving Government securities and if so, summary of the investigations made so far;

(b) the reasons for the Reserve Bank of India not acting on hindsight after the Madhavpura Urban Cooperative Bank scam and other Pune based Urban Cooperative Bank scams, to prevent the hometrade.com scam; and

(c) whether Government would probe the questionable role of the RBI in permitting Urban Cooperative Banks to continue perpetrating such frauds in regular succession?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE AND COMPANY AFFAIRS (SHRI ANANT GANGARAM GEETE): (a) Government and Reserve Bank of India (RBI) are fully seized of the ramification of the recent irregularities in securities transactions undertaken by certain Urban Cooperative Banks (UCBs). RBI has reported that while reviewing these transactions it was revealed that these UCBs are likely to incur financial loss of Rs. 170.64 crore as Home Trade and certain other brokers did not deliver the Government securities to the UCBs even though the banks had parted with funds to these brokers for purchase of Government securities. The scrutiny also revealed the following irregularities:

Routing transactions through individual brokers in excess of the prudential norms of 5%;

Non-observance of delivery versus payment mechanism;

Undertaking transactions with brokers as counter parties;

Undertaking simultaneous transactions i.e. sell and purchase with the same broker;

Laxity in internal control system, etc.

Transaction in Government securities in physical form in violation of the RBI instructions.

(b) and (c) RBI has laid down detailed guidelines under which all transactions in Government securities are to be undertaken only through SGL account where available but these banks undertook transactions in the physical mode and the physical delivery of the securities were not insured. These violations had come to the light in course of regular statutory inspections or as a follow up on off-site surveillance. These transactions were manifestly fraudulent transactions and did not reflect in any way on adequacy of regulatory guidelines. Further, the violations were not of the type observed in the case of Madhavpura Mercantile Co-operative Bank. In view of the manifest fraudulent transaction in violation of its guidelines and to forestall any further damage, RBI has taken several actions both on the policy level and against the individual banks to ensure that the irregularities of the type observed do not recur.

Sale of UTI's stake in ITC

2158. SHRI K.B. KRISHNAMURTHY: Will the Minister of FINANCE AND COMPANY AFFAIRS be pleased to state:

(a) whether it is a fact that the Unit Trust of India is planning to unload its stake of 14 per cent of ITC shares in the stock market;

(b) if so, whether UTI propose to offload the stake through an open bid system to ensure an attractive bid offer from interested buyers;

(c) whether ITC has been exerting pressure on Government to prevail upon the UTI not to off-load its stake in favour of British American Tobacco; and

(d) if so, whether Government would permit UTI to decide upon the choice of bidder on sole consideration of highest bid amount?