

[Shri P. V. Narasimha Rao] bited. My Government has been taking concrete and effective steps at every stage in the last few months as required in the circumstance*. The inquiry by the CBI and action by the Special Court will be pursued and whatever is required to be done as a consequence thereof, shall be done.

While this aspect is *being* fully attended to, I feel that there is need for a comprehensive inquiry, through the instrument of Parliament which not only fully establishes Parliamentary supremacy but also provides an effective safeguard to protect the country's interests. We have had consultations with all political parties in Parliament and there is consensus on the desirability of setting up a Joint Parliament Committee in this regard. I am, therefore, requesting the Hon'ble Speaker to proceed with the formation of a Joint Parliamentary Committee and entrust it with the task I have mentioned which may be completed within a reasonable time.

I would like to assure this august House that my desire and purpose remain, as they have been so far, to unravel the truth, and ensure the smooth transformation to a vibrant economy in the large interests of the nation.

SHRI DIPEN GHOSH (West Bengal): I want to know whether the Prime Minister accepts the *prima facie* case of...
(Interruptions) ...

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA): Nothing will go on record if anything is spoken without my permission. Now, Mr. R. K. Dhawan will speak.

SHORT DURATION DISCUSSION ON THE IRREGULARITIES AND FRAUDULENT TRANSACTIONS IN BANKS AND OTHER FINANCIAL INSTITUTIONS—Contd.

SHRI R. K. DHAWAN (Andhra Pradesh): Mr. Vice-Chairman, Sir, I

have listened to¹ the speech of the hon. Member Joshiji, with great attention. I know a Member's maiden speech is not to be commented upon. But the subject matter on which he was speaking was such that I expected that there would be some real and original contribution from him. I expected that he would make some real contribution to the debate because he is a very respected leader. Personally, I have great respect for him. He is the President of one of the leading opposition parties. I expected that there would be some originality in his speech. But I am sorry to say that he has taken the time of the House by quoting from various reports. (Interruptions) He has taken the time of the house by merely quoting from various reports which are already public documents. He has taken the time of the House in just repeating the things which are already known. (Interruptions) He said that the Finance Minister has said nothing new in his statement. What does he expect the Finance Minister to say? (Interruptions) Does he expect the Finance Minister to fabricate something? After all, the Finance Minister has to base his statement on the facts. He has to base his statement on the findings of the Enquiry Committee. The reports of the Janakiraman Committee are before you.

The statement talks about the action taken by the Government immediately after the scam came to the notice of the Government, what action the Government is contemplating and what remedial measures the Government is taking to prevent such financial scandals in the future. But Dr. Joshi says that there is nothing new in this statement. He has further raised the demand for the resignation of the Finance Minister. This is all they can do. I have been seeing the performance of his party, the Jan Sangh earlier and now the Bharatiya Janata Party. On flimsy grounds, they will always raise the demand for the resignation of some Minister. This is what was happening even during Mrs. Gandhi's time. They will simply demand 'resignation, resignation'. (Interruptions) Mr. Dipen Ghosh, you can reply when your turn comes. Please have some patience now. I am comment-

ting on the speech of Dr. Joshi. You will have your turn. *(Interruptions)* I am sorry to say that Dr. Joshi did not make any real contribution to the debate.

Now, I come to the subject which is being discussed now. It is a fact. All of us know. All of us agree. There is no denying the fact that the securities scam which had taken place has shaken the confidence of the people. It has shaken the confidence, it has (shaken the spirit, of the people, so far as the banking system is concerned. There is no denying the fact. It has happened. I can say that this is the biggest-ever exposure of irregularities in the banking system of the country. There had never been, in the history of the country, a scandal of such dimensions. It has really jolted the entire banking system. There is no doubt about it.

The Finance Minister has accepted it. The Prime Minister has accepted this. He made a statement just now. It is abundantly clear that this is a fraud. After all, a fraud is a fraud. When a fraud is perpetrated and it is found out later on, it is termed only as fraud. This is a very big fraud. Therefore, one can understand the anger and anguish of hon. Members of this House, not only of the hon. Members of this House but of the whole country as well. The magnitude of the scam cannot be minimised. In fact, this scam has brought disrepute to the banking sector. It has also brought into focus the total breakdown of the supervisory mechanism of the banking sector. It is amazing that some unscrupulous persons, in league with some bank officials, could manipulate security transactions for their own personal benefit, in violation, in gross violation, in total violation, of all banking rules, regulations and practices.

Sir, there is no need for me to go into the dubious means adopted by the various persons to hoodwink the banking system. Reports on this have appeared in the newspapers from time to time. There is, therefore, no need for me to go into the details. Dr. Joshi has already referred to them. This is a very serious matter. It is an unparalleled failure on the part of the management control sys-

tem of the banking sector. I do not think there is any parallel to this in the history of the country. This only shows that either the senior management personnel were behind the whole thing, or, they were totally ignorant as to what was happening under their very nose. When a scandal of such mind-boggling dimensions occurs, what do we do? It has happened. What do we do? A scandal is a scandal. It has happened. The question is, what should be done now? My view is that we should look at it dispassionately. We should search our hearts, look at it dispassionately and then we should arrive at our conclusions as to what was the origin of this scandal, who perpetrated it, who committed the irregularities, who committed this fraud, who are responsible and what action should be taken by the Government. I request all the hon. Members to look at the whole issue very dispassionately and then only they will come to the conclusion that it is a fraud perpetrated on the banking industry by certain brokers, certain bank officials, and the Government had nothing to do with this. We should not use this scam for sorting out political differences. We should not use it to attack the Government. We should look at it from various angles. If you search your heart, if you look at the details. If you look at the reports that the Janakiram Committee has produced, you will immediately come to the conclusion that there is ample scope to judge the honesty and straightforwardness of the Government, that the Government has nothing to do with it, that the Government has nothing to hide, that there is no criminality on the part of the Government.

Sir, the main purpose of the Opposition is to find out whether there is any culpable criminality on the part of the Government, and if you look at the report, you will find an answer to the contrary. It is well established and all of us also know that the moment this scandal surfaced, that some of the ones in the stock market were taking the country for a ride, the Government immediately swung into action. They did not wait. In spite of the fact that such an act on their part would paralyse the stock market and there would be resultant chaos, the Government did not

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bother about it. They immediately swung into action. So, if you assess the intention! and actions of the Government, I think, you will have no hesitation, you will join me in congratulating the Government for the prompt action which they took to unearth the scandal for the action they took to find out as to who was responsible for this. Also look at the speedier manner in which the Government handled the whole issue. You will compliment the Finance Minister and the Finance Ministry for their prompt action rather than blaming them asking for their resignations. You should congratulate them for their prompt action. Look at the speed with which they have functioned. In

the month of April it comes to the notice of the Finance Minister and immediately on 30th April he appoint a Committee. What else could he do? You can suggest what else he could do. After all, no Government can bring heaven on earth. You are senior Members of you have been partners in the Government. You know the functioning of the Government. Government takes action only after something surfaces, comes to light. Government cannot visualise that such and such fraud is going to take place, so they should take some prompt action. Many of you have been senior Members for various years. That is a different matter that because of your failures you had to go, but you know the working of the Government system. The moment it came to the notice of the Finance Minister, he took action, he appointed a Committee. (Interruptions). Much is being said about RBI, If you look at it, how did it happen, how did this fraud surface? It surfaced only when the Reserve Bank—after scrutiny found some shortages and violations in the securities filed by SBI. That is why the Reserve Bank of India immediately asked for detailed examination. So, personally I feel, we should praise the RBI for having found out such a thing, we should not blame them. It is not only the question of appointing a Committee. The Finance Minister appointed a Committee but the Government did not wait for the results of the Committee. The Government handed over the case of the CBI. The Government

wanted immediate action to be taken. That is why the matter was referred to CBI on 11th May, 1992, without waiting for the report. If you look at the dates, you will come to know whether the Government took prompt action or not. All of us know that the Harshad Mehta frauds took place in the months of January, February, March and April. And look at the dates of the frauds and the action taken by the Government. You will immediately come to the conclusion that there was no neglect or failure of will on the part of the Government. You should judge what's the will of the Government. The Government did not neglect the issue. There was no neglect. The Government machinery—the RBI, the CBI and all those persons—I personally feel deserve our appreciation for the coordinated effort and action taken and the manner in which they fought over the guilty. You have blamed the agencies. Which agency will work for the Government, which agency will be prepared to unearth the scandals and all that when on the one hand they are doing such hard work—they are working overnight to find out the frauds, trying to find out the guilty persons—and on the other without waiting for the results and ignoring the action taken by them, ignoring the arrests made by them, ignoring the FIRs filed by them, you start blaming them? Then do you think any agency will be prepared to work for any Government? If you are holding office, then no agency will work for you. So, please, for God's sake, don't blame the agencies which are doing such wonderful and good work.

You know, another allegation is being made that the Reserve Bank or the Government "were fully aware of all that was happening. But people who level such charges, such allegations, always forget that the Reserve Bank had always warned the public about the unusual boom in the speculative business leading to the index going up so high that it was bound to lead to a fall. So, the Reserve Bank knew it and the Reserve Bank has been cautioning the public about the speculative business. It was the RBI Governor who warned the public in successive meetings—he held a number of meetings in

the month of March 1991—against speculative investments. So did the Chairman of the SEBI I say you just want to wash away the fact? also and you don't have the heart to look at the facts. The Governor of the Reserve Bank and the Chairman of the SEBI have been warning the public not to indulge in this speculative business. Then you say, they had prior knowledge. It doesn't mean that they had prior knowledge. They were only worried as to why the prices were going so high.

Another thing is, our friends sitting in the Opposition are forgetting the facts. When it comes to them, they find it easy to forget the facts. The previous regime in 1990-91 had failed to put curbs on the opening of some financial schemes by some foreign banks and national banks. All of you were just ignoring that. A number of MPs had sent written complaints to the then Government, but the then Government just slept over it, just ignored it and allowed the opening of new financial schemes. At that time you did not raise it. And now you are totally ignoring what good economic work is being done. The new policies which are initiated, you are just trying to comment upon them, and you are just trying to criticize. Of course, it is your job to criticize, the Opposition is meant for criticizing—we should not mind it—but have some heart, look at it, be objective. I say, objective criticism is always welcome. But you must be objective in your criticism.

The rollover effect of such a lackadaisical attitude by the previous Government fucked the gamut of security handling and speculation into a vicious vortex of risky speculation and unethical mopping up of the value of the securities and stocks.

The Janokiraman reports are before you. You can go through them. Do you find anything there in those reports that the Government has ever tried to hide any facts? Look at the reports, have the time to go through them. Then you will not level all these charges which you are indulging in. Of course, in the reports

it is intriguing that six foreign banks are responsible for handling 70 per cent of these projections but their own cash deposit is only three per cent. This is quite intriguing. I am, sure the Finance Minister will certainly look into it as he has promised in his statement that he has devised certain means, methods and controls by which he would look into it. If you ask me, my personal opinion is that the entire speculative fever seems to have been fanned by these foreign banks. If they had not indulged in these things, our national bank would have been spared of all this criticism which they are facing today. And it is very heartening that the Finance Minister has said in his statement that he has initiated a special audit to go into these transactions. If the Government finds that these banks have violated any of the national rules, guidelines or policies, it should not hesitate to take action. He has made it abundantly clear in the statement.

Some people may even argue that when the foreign banks indulge in malpractices, there is no need to have them in our country. I am sure that some of you are going to say this. But, certainly, personally I do not share this view. I believe that in our new global economy, foreign banks can be partners in our growth. What is required is that the Government should initiate steps. It should ensure that securities are dealt with by the banks under strict control. But here I would request the Finance Minister that care should be taken to see that the guidelines do not completely close down the market. You have to look at the market also. The guidelines should not be framed in such a way that they close down the market.

All of us know that the size of the transactions in units, public sector bonds and securities have grown with the development of India's economy. It is a matter of fact that all public documents have repeated this time and again. What is required is that our financial system has to become capable of handling these complex transactions quickly and correctly. These transactions are increasing. The

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number and size of the transactions are increasing, and they have to be handled properly and correctly.

I feel that reforms in financial institutions and banks are absolutely essential. If we go the old ways, the problem will only increase; it will not minimise. Definitely, there is absolute need for reforms in financial institutions.

There is a great deal of asking the Government about moral responsibility for this scam. Sometimes they say, as Joshiji also said, that the Government should resign. Somebody else says that rather the Governor should resign. But what has happened? Whenever the Government or any of the agencies of the Government or the Reserve Bank finds out the guilt, in that case they are not bothered about the guilt that the Reserve Bank has been able to find out, they are not bothered about the guilt that the Government has been able to find out, that it has been able to unearth and the prompt action the Government has taken in this regard. They are bothered about only the moral responsibility. How can the Government own the moral responsibility for frauds? Frauds do happen. They happen throughout the world. Do you mean to say that the Government has a moral responsibility for every fraud? A fraud is a fraud. What is the meaning of responsibility? The fraud has to be dealt with when it happens. That is what the Government has done; it has dealt with the fraud. I have already said that if you go on asking for moral responsibility, if you go on blaming them, nobody will work. If thieves enter our house, should we burn the house? What we should do is that we should strengthen the defences from inside and outside the house. We cannot burn the house. So, here the fraud has been unearthed. The agencies have unearthed it. They have taken action, but you are blaming them! Who will work for you? As I said earlier, nobody will work for you. *(Time bell)*

One or two points more.

I am glad to find from the Finance Minister's statement of yesterday that the

Bureau of Frauds has been set up. I am not very happy with this name. I think, it should be "Bureau for Prevention and Detection of Frauds." "Bureau of Frauds" sounds a little funny. I would request the Finance Minister to consider this.

In fact, the whole Opposition has been clamouring for a JPC, thinking that it will be able to use the JPC stick. But, now, after the Prime Minister's statement, I can see their faces. They have nothing to say. I think that this debate is for the sake of a debate. They were going to ask for a JPC. That has already been announced. I do not think that they will have much to say.

You know what we should attack. We should attack the pernicious vice of speculation in the system. The perniciousness of speculative trading should be brought under control. So, for this, it is very necessary to strengthen the SEBI. We should modernise our stock exchanges. The settlement procedures should be simplified, and they need to become quicker. All this should have the highest priority in the Government's agenda. A scam should not slow down the progress to reforms. The Government should make stock exchanges modern and make them accountable also. If the stock exchanges are not accountable, repetition of frauds is likely to occur. So, my request to the Finance Minister is that stock exchanges should also be made accountable.

While concluding I would say I have no hesitation in saying that the Government has shown a remarkable sincerity and courage of conviction and frankness. Facts have been brought out very quickly and the guilty have been brought to book very quickly. For the first time a court has been sitting to dispense justice in order to ensure that the ill-gotten wealth by various unscrupulous persons is brought back to the banks.

I am sure this setback which has occurred today due to a lacuna in the system management is not going to lead us to a situation of a collapse in our economy. We have to see to it that because of this scam our economy does not col-

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lapse. Many people in various fields are complaining that since this fraud has taken place, banks are not looking after their genuine needs. When they go to banks they say they are not prepared to deal with their cases; I personally feel the Finance Minister should kindly take steps to see that our whole system does not collapse.

So far as this particular scandal is concerned I have concluded, but I have to make some general remarks about the banking system as such. My experience for the last 30 years has shown that the management of the bank, the Chairman and the Managing Director of the Board, have acquired immense powers over the years. They are so powerful—and if I may say so with due respect to the Finance Minister—that even the Finance Minister does not have such powers as the Chairman or the Managing Director of a bank has. So, something has to be done to bring them under control. They are lords unto themselves. I know of certain cases where the fate of industrialists depended on the whims and fancies of a particular Chairman. They do not just bother about the national loss. They don't bother how much money has been given to a particular industry. I know of a case where about Rs- 200 crores had been given to a party by various banking and financial institutions. He approached the bank because there was some revision in the cost due to devaluation and the bank had to pay only Rs. 15 crores. The poor man had to suffer for two months. Then he had to approach the higher authorities. These people are not bothered about the fact that they have already given Rs. 250 crores. They were not prepared because the Chairman did not like, to give Rs. 15 crores. So, please do see that something is done and their powers are brought under control. They have to be brought under some check so that our economy and our industry does not suffer.

I would like to refer to another field where I feel a scandal is bound to occur sooner or later. That is in relation to writing off loans and we call them as

'bad debts'. Is there any system by which the bad debts written off by the banks are brought to the notice of the Finance Minister? There are petty bad debts. Let them not send these statements to the Government, but here I am referring to the bad debts worth more than one lakh rupees and above in each case. The banks' Chairmen and Managing Directors have got powers to waive off loans upto Rs. 2 crores without the permission of anybody. I personally feel that there should be some method by which the Chairman or the Managing Director should refer them to the Finance Ministry explaining the circumstances under which they are going to write off those loans.

There is another matter to which I drew the attention of the Finance Minister the other day when I met him. I find sons, relatives and daughters-in-law of top officials are working in various foreign banks. A number of them are occupying high positions. My reports are—I hope they are not true—that they are not true—that they have been dealing with securities scam and speculation business. So far as I remember there are specific rules for Government officials that in case any of their dependents—son daughter-in-law or son-in-law—seeks an appointment in any organisation with which they have any official connections, they have to seek the permission of the Government; or if by chance those persons* happen to be in those places, before the officer has joined at that particular place, they have to inform the Government. That is some sort of a precautionary measure that the Government has thought of. I think the Government should ask all the senior officials to let them know, as to how many of their children are working in the nationalised banks and in the foreign banks, from which date and what are the positions they are occupying. This will be very good in the interest of the banking system. Thank you very much.

SHRI S. JAIPAL REDDY: Mr. Vice-Chairman, the incomplete story of the scandal is stranger than fiction. It is more enthralling than the biggest crime thriller. It is the biggest ever scandal in Indian history. I have also no hesitation in Stat-

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Before I proceed to analyse the various aspects of this multi-dimensional and mind-boggling scandal, I must refer to certain specific characteristics. One, of course, is the quantitative dimension which has been referred to both by Dr. Joshi and Mr. Dhawan. Second, the qualitative implications. Third, this report—though it is in two parts—is still utterly tentative and totally incomplete. Fourth, there is a symbiotic link between the scandal and Manmohanomics, Manmohanomics and the scandal are Sianese twins. The one could not have taken place without the other.

SHRI N. K. P. SALVE; Manmohanomics? I was referring to the new economic policy... *(Interruptions)*... Mr. Jagesh Desai, you will have enough time to defend the new liberalisation policy. You don't believe, it. I know your views on it. I know your views on it, whatever you may say on record.

Now the magnitudes have already been referred to but they bear repetition. I do welcome the offer of the Prime Minister for a JPC enquiry. We have been so responsible, so restrained that, none of us ever said that the hands of the Prime Minister or the hands of the Finance Minister, were personally soiled. I have no doubt in my mind about the sincerity of the Government in knowing the truth'. But I know the attachment of the Prime Minister and the Finance Minister to their offices. I also know the tremendous talent for survival in this highly unstable polity. They would like to escape responsibility for the scandal with retrospective effect, though prospective display of integrity. Mr. Vice-Chairman, what are the magnitudes? Rs. 9,00,000 crores changed hands in securities transactions over a period of fourteen months. While I am uttering the figure, my mind is not able to contend with the colossal scale of the scandal. As Dr. Joshi has rightly pointed out, Rs. 6,00,000 crores were handled by only four foreign banks—in a

period of fourteen months. And, more than two lakh crores of rupees were handled only by four brokers. In the first report of the Janakiraman Committee, the hero was Harshad Mehta. But he is no longer the biggest hero. The hero of the second report of the Janakiraman Committee is Bhupen Champaklal Devidas who alone handled transactions worth Rs. 61,000 crores. Harshad Mehta is not even the second. The second person is H. P. Dalai. Harshad Mehta is only a good third.

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA): One minute, Mr. Reddy. I have to make an announcement. There will not be any lunch-break today as agreed upon by leaders.

SHRI S. JAIPAL REDDY; As for the qualitative implications, is this banking or buccaneering? It is worse than highway robbery. I do not think all the stories about high-sea piracy can stand anywhere before this kind of dacoity, daylight dacoity. Banks have been looted. Cheques given by nationalised banks in the name of other nationalised banks have been neatly and openly, credited into the accounts of private brokers. Non-existent securities have been manufactured on a stupendous scale. What is more, non-existing Bank Receipts, the so-called BRs, were also fabricated. And for this scandal to happen banking managers, broking mafiosi and corporate magnates had to collude on an inconceivable scale.

The third aspect is, the report is utterly tentative. The reports are only the tip of the iceberg. The second report of the Janakiraman Committee has completely Outdated the first report. When I read the two together, the first report of the Janakiraman Committee read like yesterday's newspaper. I thought I wasted all my time in reading it. I would like to correct Dr. Joshi in regard to one figure. The transactions which have not been matched according to the report so far, are of the order of Rs. Three lakh crores. I will not find fault with Dr. Joshi because he, like me, could not, (perhaps, simply think of the magnitudes'. And

now the report says that the losses could be of the order of Rs. 3500 crores. When the Bofors scandal broke out, there was a new enchanting phrase. It still rings loud in my ears. The phrase was "winding-up costs" I must congratulate the Finance Ministry on having coined its own phrase in regard to this scandal. The phrase is "problem exposure". The net loss is referred to as "problem exposure" What an exquisite exercise in euphemism! Mr. Vice-Chairman, there is no reference to the share market at all. This is not a mere securities scandal. It is shares-cum-securities scandal. The transactions in securities would not have gone up in such a way but for the buoyancy—absolutely unwarranted and ununderstandable buoyancy—in the share market. The report had not referred to the unsung hero—the small investor—who had lost. Nobody can calculate the losses incurred by the small investors. Dr. Manmohan Singh is responsible for patronising the creed of greed among the people. He is responsible for preaching the creed of greed. This is a new creed. According to the *Newsweek* the small investors had lost 25 billion dollars in this process—most of it may be notional loss. I really do not know. Seventy-five thousand crores of rupees have been lost by the small investor, according to the *Newsweek* which is an American Weekly because it is only the American magazine which carries conviction with this Government. . . . (Interruptions) . . .

SHRI VISHVJIT P. SINGH (Maharashtra): I hope *Newsweek* was not quoting you as it quoting you?

SHRI S. JAIPAL REDDY: Well, I thank you, Mr. V. P. Singh, for this tribute. I get tributes from both V. P. Singhs. Now, this report does not refer to the losses that may have been incurred by the mutual funds. Why did the mutual fund play in the share market when the share market was totally buoyant? Why did the Finance Minister maintain his criminal silence? I call it criminal. His negligence is criminal, his silence is criminal and the result is criminal but the intention is not. I do give a clean chit in regard to his intentions. He is a victim

of his own newly cultivated monetary philosophy. That is the problem. He has developed a tremendous vested interest in his newly acquired economic philosophy. (Interruptions)

Now what about the losses incurred by the public sector undertakings? Only one example was given in the interim report. We were cautioning not only against disinvestments, we were also cautioning against the methodology of disinvestments. When firms in Britain were privatised during the Thatcherite years, they took 1-1/2 years to revalue the capital assets of the public sector undertakings. You did nothing of the kind. You are a man in a hurry and you got profit making public sector undertakings' shares sold for a song in the market whose value went up ten times. (Interruptions). They were invested in favour of mutual funds which are subscribed to by the private investors whose shares are traded in the market and the report of course refers to the illegal way in which they were traded even before they were acquired. Well, I am not going into that. The IPC will certainly go into all those things. Now, why do I say that there is an organic linkage between the new economic policies and the scandal? Look at the period—periods which were not picked on by me. . . . but picked on by the Janakiraman Committee Report. The period starts from July, 1991. That is when your tenure, Mr Finance Minister, started. May I say the mental environment, as for this scandal, has been unconsciously but sedulously created by the ambience of licentiousness generated by your new Liberation Policy. And then look at the Government. Do you have a Government? The problem in third world democracies is that our Governments are soft. The attention of the third-world countries was drawn to this by none other than Gunnar Myrdal, in his Magnum Opus, Asian Drama, where he pointed out that India suffered from a soft state. In this country, the rate of conviction is so low that nobody believes that Bhupen Datta or Harshad Mehta will ever be convicted. They will be prosecuted. There will be charge sheets. All prosecutions too be launched. There will be special courts,

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but none of them may be convicted. The rate of conviction is so low. But may I tell you that I have got great respect for Mr. Manmohan Singh's personal integrity and professional competence. But today we don't merely need a technically competent economist, but a politically, administratively strong Finance Minister. May I say that he is a poor administrator? May I also say that nobody in his Department is afraid of him? This Finance Department, all these banks, are run by a coterie of bureaucrats who fancy themselves as great economists. They keep on changing positions.

These Governments, V. P. Singh's Government, Chandrasekhar's Government, Narasimha Rao's Government, Rajiv Gandhi's Government, come and go, but these bureaucrats remain there permanently and these banks are above everybody's scrutiny. These bureaucrats are above everybody's scrutiny. They pull invisible strings. That is the problem. Take Mr. Ratnakar, onetime Canara Bank boss, who is no more, of course. He was notorious for his competence and corruption...

(Interruption). No, no, no. We all know the association of his family and himself, with Fairgrowth. Take Mr. Pherwani. He was the UTI Chairman. He was removed for having surreptitiously sold the shares of LAT Company and he was brought back as the National Housing Bank Chairman. And now you know the fate of the National Housing Bank! You will go, Mr. Manmohan Singh, but your officials are not going. They are not IAS officers. I am not questioning the integrity or competence of any one of them, but it can't be a question of musical chairs. And now with these bureaucrats and their own links, blood links with foreign banks, leaks are bound to occur. This Government is a sieve through which everything pours out. The SBI keeps a watch on what the Government does. The SBI which is controlled and owned hundred per cent by the Government of India would like to know in advance as to what changes they are bringing about in the coupon rates so that they can make a fast buck and go in for a kill. It is no wonder that the Citibank has done the same thing. Our Finance Minister will feel uncomfortable

when I refer to the foreign banks. Now, look at the atmosphere created by the new economic policy. Mr. Harshad Mehta was invited in a right royal fashion for a presentation to the Finance Ministry, if not to the Finance Minister, on the eve of the Budget. Mr. Harshad Mehta was looked upon as a whiz-kid by the dons of Cambridge, by the dons of Harvard, by the dons of World Bank. What a credulity on the part of great economists! I am not an economist. I am a common man. I study economics in relation to the society in which I live. I don't take my instructions from elitist conclaves held in capitalist conclaves. The premises of Harshad Mehta were raided a few days before the Budget was presented. We would like to know from the Finance Minister as to what was found at the premises of Harshad Mehta. We also would like to know whether the Income Tax Officer who was responsible for this raid was shifted after this raid. The name of the Income Tax Officer is Mr. S. P. Nayak. This is my information. I am prepared to stand corrected.

Now, look at this. The banks can have licensed brokers. But, the licences can be given only by the RBI. I learnt that Harshad Mehta, Hiten Dalai and Abhay Narottom did not have the licence of the RBI at all. The licence was given by the SBI. Are the banks competent to issue these licences? If the banks themselves are competent, why is there any need for the RBI to issue the licences?

Now, I come to the role of the RBI.

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): Could you repeat that? I could not get that.

SHRI S. JAIPAL REDDY: Mr. Harshad Mehta, Mr. Hiten Dalai and Mr. Abhay Narottom did not have the licence of the RBI. They had nevertheless the licence of the SBI. The question is whether the banks can appoint their own brokers and give licences on their own. If the banks themselves are competent to do so, why is this power also vested with the RBI?

Now, I come to the RBI on a separate count, which is being sedulously protected

by Dr. Manmohan Singh. I don't know who is protecting whom. Frankly speaking, The Finance Minister going to such great lengths that I don't know whether the RBI Governor is protecting the Finance Minister or the Finance Minister is protecting the RBI Governor. I am not saying that the RBI Governor's hands were personally soiled. There is what is called responsibility, constructive responsibility, not to speak of moral responsibility. I never credit these people with any morality. Now, the RBI says that they issued a very wise circular which is being compared to a Delphic Oracle. On July 26, 1991, you know what was happening? Then what happened? Did you go into a long and deep slumber like Rip Van Winkle after that? What have you been doing since then? All the crimes which have been detailed in a lurid fashion in this document were referred to in the circular. Are you merely content with the analysis? Are you a research economist? Are you the Finance Minister? When 6 lakh crores of rupees transactions were managed by four foreign banks, what did the RBI do? The accounts of foreign banks are not published but they are made available to the RBI. I think the Finance Minister knows that. That is what I am told. Now coming to the Bank of Karad, it was controlled by Bhupen Dalai. The deposit base, its paid-up capital, was referred to by Dr. Joshi. This Bank with a paid-up capital of Rs. 45 lakhs, maybe, with a deposit base of Rs. 50 crores to Rs. 100 crores, gave BRs. Some BRs were of the order of a hundred crores. Did the counterpart not know the size of the bank? The unreconciled BRs of this bank were of the order of Rs. 18000 crores. The same is the story of the Metropolitan Cooperative Bank.

Now coming to the National Housing Bank, it is controlled hundred per cent by the RBI. The NHB played a leading part in it. We are told the Government is wielding all its clout and asking the SBI to cough up the money for the losses incurred by the NHB. The RBI issued a circular. I am asking a question- I want to know whether the RBI followed

its own circular. I also want to know whether the circular was made available to the Public Debt Office which is still working under the nose of the RSH.

Mr. Pherwani was asked to go. I made a statement elsewhere that while the famed technique of the Bofors gun was 'shoot and scoot', the technique of these banking officials is 'loot and scoot'. You loot and then resign. Relax and wait for a change in the Government and come back again. Now Mr. Pherwani is no more. I don't want to say anything about him. Why should not his assets be attached? Why were not his premises raided? His son-in-law, Mr. Sunil Javeri, is linked with Harshad Mehta directly. His daughter, Ms Javeri, is working in the famous Citibank. Citibank, which is so efficient, is incurring losses all over the world, but is making profits only in India. The Indian branch only is making profits. Did not somebody in the RBI try to find out as to why their Indian branch alone is so competent? The net profits of ANZ Grindlays went up in one year from Rs. 35 crores to Rs. 350 crores. Now the RBI says, "Look, we have ordered an investigation to catch the thief. Did you catch the thief? This inquiry was ordered because of Parliament. I give credit to Mr. R. K. Dhawan, Mr. Salve and others who raised their voice along with others. This credit must go to the whole of Parliament. Then this was exposed in the *Times of India*. The *Times of India* come to know of this when the famed car of Harshad Mehta, Lexus, reached SBI? It was the nexus with me Lexus—this Lexus car—which should be complemented for the exposure, not the RBI. If the RBI appointed a committee, it was close because this supreme body, Parliament which forced the Finance Minister, which forced the RBI Governor, who were reluctant judging by their tone and tenor to do what they did not want to do it was we in Parliament who forced the Government to constitute a CBI inquiry. We take the credit. The Parliament takes the credit. Now, I don't believe in the resignation of officiate. I

[Shri S. Jaipal Reddy] don't think the RBI Governor deserves to be treated with that grace. He must be dismissed. So many crores, thousands of crores are lost, and your blood does not boil! Are you worth your salt? The first quality of a public man is to be imbued with the public spirit, A public man must be capable of righteous indignation. He must be "affame with righteous indignation and if he is not capable of it then he is a cool bureaucrat, a careerist, a technocrat and not a public man. Let me tell you that. I do not have to refer to many other people. Mr. Khosla, ONGC, has a relative in the Citibank. I can read the names of many other bureaucrats whose children are working in foreign banks... (Interruptions)...

SHRI MENTAY PADMANABHAM (Andhra Pradesh): You can read the names of all those who are not having their relatives in the foreign banks.. . (Interruptions)...

..

MISS SAROJ KHAPARDE (Maharashtra): What about Mr. V. P. Singh's son? You mentioned that you have a list of bureaucrats; you must be having a list of your Ministers also.. . (Interruptions')...

SHRI S. JAIPAL REDDY: I have the names of your Ministers also. Please appreciate the restraint on my part. Please don't provoke me. Let me tell you that the ground from under your feet will slip Please don't provoke me.. . (Interruptions).. .

SHRI MENTAY PADMANABHAM: There are Minister in this Government are receiving pension from the World Bank and the International Monetary Fund.. . (Interruptions).. .

SHRI N.J.C.P. SALVE (Maharashtra): Sir, this is unfair ... (Interruptions)

SHRI MENTAY PADMANABHAM: Let them declare... (Interruptions)...

SHRI N.K.P. SALVE; Sir, a debate in the House has certain standards. He cannot say such things. . . (Interruptions) .. This should be expunged. . . (Interruptions)... It is unparliamentary . . . (Interruptions).. .

SHRI MENTAY PADMANABHAM-

BHAM; What is unparliamentary about it? (Interruptions)

SHRI MANMOHAN SINGH; Sir, I challenge him... (Interruptions)

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA); I will look into it. . . (Interruption)

SHRI MENTAY PADMANABHAM- (BHAM): What is unparliamentary about it. . . (Interruptions).. .

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA); Please don't shout. . . (Interruptions).. .

SHRI N.K.P. SALVE; He cannot make such allegations. . . (Interruptions) ... It is not desirable. . . (Interruptions) ...

SHRI MANMOHAN SINGH; Mr. Vice-Chairman, the hon. Member has stated that some Ministers! are getting pension from the IMF and the World Bank. I would like him to name those Ministers right here. If he cannot name them. . . (Interruptions) . . .

SHRI MENTAY PADMANABHAM: Sir, there is a procedure and at an appropriate time if the Chair allows me I will give all the details.. . (Interruptions).. .

SHRI S. S. AHLUWALIA; He must apologize . . . (Interruptions) . . .

SHRI MENTAY PADMANABHAM: After due notice I will come before the House and give the details. . . (Interruptions) . . .

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA): Nothing will go on record. . . Please sit down. . . . (Interruptions) . . .

2.00 P.M. This will not go on record.. . (Interruptions) . . . Nothing will go on record. . . (Interruptions) . . . Nothing of what Mr. Padmanabham says will go on record . . . (Interruptions) ... 2.00 p.m. SHRI MENTAY PADMANABHAM*

SHRI N.K.P. SALVE: Sir, with your permission, I only want to make one submission on a point of procedure.

*Not recorded.

Sir, three speakers have spoken, Joshiji has spoken, Mr. Dhawan has spoken and Mr. Reddy is speaking. Now, Sir, there is a certain standard which we are maintaining. This is a matter about which the whole nation is concerned. Is it necessary that we should reduce ourselves to this level, to the level of trading charges? ... (*Interruptions*) ...

SHRI KAMAL MORARKA (Rajasthan): Sir, the standard of the debate is always reduced by the other side. Mr. Salve, you should address your Members ... (*Interruptions*).. Whenever some Member speaks, somebody from that side gets up and says Something... (*Interruptions*)..

SHRI MENTAY PADMANABHAM: Sir, the standard is... (*Interruptions*)..

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA): Mr. Padmanabham, please sit down. Do not argue. ... (*Interruptions*)... I am not allowing you. It will not go on record. ... (*Interruptions*) .. I do not want any arguments... (*Interruptions*) .. There is a way; there is a method... (*Interruptions*)..

SHRI MENTAY PADMANABHAM*
SHRI N.K.P. SALVE: Sir, there is a standard in this House and the standard and the dignity of this House should not be allowed to be lowered. We may agree or we may disagree. ... (*Interruptions*).. What I say is applicable to all of us... (*Interruptions*)..

SHRI DIGVIJAY SINGH (Bihar): It is applied to your side. ... (*Interruptions*)..

SHRI N. K. P. SALVE: What I say applies to everybody. ... (*Interruptions*) .

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA): Yes, Mr. Jaipal Reddy, you please continue.. (*Interruptions*) .. No cross-talking, please... (*Interruptions*) .. Mr. Padmanabham, you cannot jump up every minute. ... (*Interruptions*)..

SHRI MENTAY PADMANABHAM: I am only taking your permission. ... (*Interruptions*)..

THE VICE-CHAIRMAN (SHRI J.

*Not recorded.

HANUMANTHAPPA): No, I am not allowing you. Yes, Mr. Reddy.

SHRI S. JAIPAL REDDY: Mr. Vice-Chairman, Sir, for my part, let me state categorically and unambiguously that I totally believe in the integrity of our Finance Minister as an individual... (*Interruptions*) .. I am only referring to the problems that have arisen from his policy and the atmosphere created by his policy pronouncements.

SHRI MURASOLI MARAN (Tamil Nadu): You mean to say that there is no connection between his individuality and his policy?

THE VICE-CHAIRMAN (SHRI H. HANUMANTHAPPA): Mr. Maran, you are having your chance and you are going to speak. Don't interrupt now. ... (*Interruptions*) ...

SHRI S. JAIPAL REDDY: I would like to emphasise that.

SHRI DIPEN GHOSH (West Bengal): Everybody knows whose relatives are working where... (*Interruptions*) ...

SHRI S. JAIPAL REDDY: Now, Sir, so much money has been made by so many people. Some people have lost, some people have surely gained. Where are these gains shown?

... [The Vice-Chairman (Shri M. A. Baby) in the Chair]

How are they being made known? One proud claim of this Government is that it improved our foreign exchange reserves position. It is not the same as foreign exchange position. Our reserves position has improved because of the savage import compression, because we raised loans and because we floated the India Development Bonds at high rates of interest. But then the Government should also take note of the money that has gone outside the country through the *hawala* market. The amount which went out of the country through the *hawala* market is of the same order as the loans that this Government raised! Otherwise, the gains made by some would have remained locally. SHRI MANMOHAN SINGH: No, no.

SHRI S. JAIPAL REDDY: Now, this is a proposition which can be contested.

[Shri S. Jaipal Reddy]

I welcome the Government's offer of the appointment of the JPC once again. But let me also state that while it is good so far as it goes, it is not enough. It should be headed by an Opposition leader. That is number one.

Number two, the terms of reference of the Joint Parliamentary Committee are of crucial importance. The terms of reference must be settled mutually between the Government and the Opposition parties before this Committee is appointed. If the terms of reference are restrictive, it will be difficult for the Joint Parliamentary Committee to do its job. And now why did this scandal take place?

SHRI N. K. P. SALVE: Will you yield (or a while? Sir, the JPC has been announced by the Prime Minister because that was the demand, and whatever may have been its impact on the course this debate is going to take, I only hope the Opposition does not find escape routes to again back-out of the JPC and... *(Interruptions)*

SHRI KAMAL MORARKA: Sir, that will not happen.

SHRI MEINTAY PADM ANABHAM: We do not want a scuttled or truncated JPC.

SHRI DIPEN GHOSH: Let it be headed by Mr. N. K. P. Salve. *(Interruptions)*

SHRI MENTAY PADM ANABHAM: Sir, we do not want any JPC of Bofors vintage.

THE VICE-CHAIRMAN (SHRI M. A. BABY): Please, Mr. Jaipal Reddy.

SHRI S. JAIPAL REDDY: Sir, I don't think the Government is interested in suppressing the truth. This Government is only interested in escaping from the responsibility for what has happened on account of its policy. *(Interruptions)* Therefore, we are prepared to co-operate with you by being on the JPC. We will certainly try to know the truth. But in the meantime, you must also go ahead with a few reforms. We have been stating time and again that the banks must be brought under the scrutiny of the Comptroller and Auditor-General, and

there must be a standing committee of Parliament to look into the affairs of banks, and not this Bureau of Frauds. No, it would not help.

Mr Vice-Chairman, I must bring to your notice two of my personal experiences. I put a question way back in 1985 as a Member of the Eighth Lok Sabha as to whether particular company of this country had raised, in 1985, Rs. 100 crores in 24 hours from various nationalised banks. To my misfortune, it turned out to be an Unstarred Question. The written answer was, "the details were being collected." And I forgot about the question because we politicians waste most of our energy and are obliged to spend most of our energy on public relations. And I forgot the question. But I was rudely reminded of my forgotten question by the Parliament Office. After two years, eleven months and one week, the answer was, "your question cannot be answered for it relates to bank transactions." To give this answer, the Finance Ministry took two years, eleven months and one week, I may state that the period was indicated by the office of Parliament itself. I had my second experience when I was a Member of the Public Accounts Committee, in the Committee, the Members were enquiring into the urban land leased out in Delhi, the land relating to Le Misridien hotel and the land relating to the Holiday Inn. The ownership of the land still belongs to the NDMC. In 1988-89, by that time each of these hotels was owing Rs. 20 crores by way of rent to the NDMC. This land, which was not owned by the hotels and for which they were to pay Rs. 20 crores each by way of rent, was hypothecated to banks to raise loans to build these 5-star hotels. And we called the Bank Chiefs. And they came. What did they say? They said, "we will not tell you how we granted the loans." They had the audacity to come before the Public Accounts Committee and say this. It is on record. You can refer to the Committee Report. Therefore, Sir, there must be a standing committee of Parliament. I agree with Mr. R. K. Dhawan that, the bank chiefs think that they are the tribal chieftains and they are sovereign. When we as Members

of Parliament go to villages, the village bank Branch Manager will not call on a Member of Parliament. He will say: 'It is my working time, I am in the bank. The Member of Parliament should come to me'. How is this sovereignty granted to banks? So, you must think of this. You are a good economist. You must be able to devise a number of reforms.

How did these shares go up so much? Some companies came to be called Harsbad scrips. I do not want to name the companies. You know which companies came to be called Harshad scrips. When Mr. Harshad Mehta was acquiring 5 to 6 per cent of the holding of the companies, the corporate captains were not feeling uncomfortable because they were themselves in collusion with the broker. They were making a huge killing. Did you order an enquiry against those companies? And if not, why did you not? What were the profits made by these magnates? They were guilty of inside trading which I suppose is illegal in this country. Mr. Salve or Bhandareji should be able to throw light on this. Therefore, I blame the whole Government because it is this Government which went on a liberalisation spree which gave a licence to these brokers and buccaneers; to loot. It was an open season for loot and these are the wages of your deregulation and they are the fruits of the loot. Thank you.

SHRI MURLIDHAR CHANDRAKANT BHANDARE (Maharashtra): Mr. Vice-Chairman, the finale of the debate on this very very important issue which has shaken the whole nation has come even before the debate has commenced, in the *suo motu* statement made by the hon. Prime Minister. He has requested the Speaker to form a Joint Parliamentary Committee. This should ordinarily be the end of the debate. But I think the debate will serve another purpose and it is useful that we should have a full-fledged debate on this issue because what we say today will guide the proceedings before the Joint Parliamentary Committee. I am quite sure that the proceedings before the Joint Parliamentary Committee will be

such as to get the co-operation of all the parties in this House and the other House. I am quite sure that the proceedings before the Joint Parliamentary Committee will be open and held under public gaze. In fact, I want a specific assurance that some of the proceedings will at least be held in public by the Joint Parliamentary Committee without having the compulsion of holding them in *camera*. I still remember my days when we went to the Legislative Council of Bombay when the first Mundhra Inquiry Commission was going on, presided over by the most eminent judge, Chief Justice Chagla. There were loudspeakers and we could sit down on the lawns to listen to all that happened. I am quite sure that this in-depth enquiry will clarify everything that is doubtful in the minds of the people, or that is of any doubt in the mind of any Member.

THE VICE-CHAIRMAN (SHRI M. A. BABY): In this case instead of loudspeakers, you can have closed circuit television.

SHRI MURLIDHAR CHANDRAKANT BHANDARE: I have listened with considerable interest, particularly because Murli Manoharji made his maiden speech and, of course, I never miss an opportunity to listen to my friend, Jaipalji. But I must admit that whereas Murli Manoharji has been superficial and shallow. Mr. Ja'pal Reddy's speech has been irrelevant. I will make good my submission. I am carefully weighing my words. Dr Murli Manohar Joshi started by saying that the statement of the Finance Minister did not throw any light whatsoever on what had already appeared in the Press.

SHRI G. SWAMINATHAN (Tamil Nadu): Sir, on a point of order. Is it right on the part of a hon. Member to term the speech of another hon. Member as being shallow or irrelevant?

SHRI N.K.P. SALVE: He is not casting any aspersions.

SHRI G. SWAMINATHAN: It is not right on the part of the hon. Member to say like this in regard to the speeches of other Members.

SHRI S. JAIPAL REDDY; I do not find any fault with it. It is a comment on my speech. I

SHRI G. SWAMINATHAN; He should not cast aspersions on another Member.

SHRI MURLIDHAR CHANDRAKANT BHANDARE; There are no aspersions.

SHRI G. SWAMINATHAN; He cannot say that the speech of one hon. Member was shallow and that of another was irrelevant. It is not right because casting aspersions on another Member is prohibited in the House, according to the rules. I know the rules. That is why I am objecting.

SHRI MURLIDHAR CHANDRAKANT BHANDARE; Mr. Jaipal Reddy himself is not objecting.

SHRI G. SWAMINATHAN; That is a different matter.

SHRI S. JAIPAL REDDY; He belongs to a friendly party. He is tendering ad vice.

SHRI PRAMOD MAHAJAN (Maharashtra); He is only giving you advice as to what you should talk and how you should talk.

SHRI MURLIDHAR CHANDRAKANT BHANDARE; Now, one thing is interesting here. There was a time when the proceedings in the House of Commons were the material for publication by the newspapers the next day. It is now said that what is published in the newspapers in the morning and what is read by the Members at their breakfast tables becomes the subject of Zero Hour at 12 O'clock in both the Houses. However, in this matter, the whole information about this scam or scandal came from the Government itself. According to me, it is euphemistic to call it as a scam <x a scandal. According to me, it is daylight robbery. It is a dacoity, where the national funds have been systematically siphoned off by the criminal actions of a few brokers and some officials of banks, to which I will come a little later.

Here, the leakage of the scam has not come out because of any newspaper report. It has not come out of any investigative journalism. It has not come out because of some revelation by any rival broker of Harshad Mehta, Bhupen Dalai or some other person. It has not come out because of information provided by any bank employee. Normally, the inside information comes out whenever a bank employee, who is otherwise unhappy, gets his opportunity to take revenge. For the first time, such a thing has come out because of an investigation which was made by the Reserve Bank itself.

May I take your permission, in this context, to mention a few relevant days? I will come to the details of the scam a little later. But the must, undoubtedly, scrutinise very carefully as to how this scam came to light because this is very relevant for determining the *bona fides* of the Government. It was discovered by the RBI itself and the news of the scam appeared, for the first time, in the 'Times of India', in April, 1992. This was as a result of the RBI's scrutiny into the transaction!; of the State Bank of India last March, where it found shortage of securities in the possession of the State Bank of India. What did the RBI do? The RBI pursued the investigation and by March, 1992, found *prima facie* evidence of a nexus between some brokers and some officials of certain banks. Then, there was a crash. Then, what happened? What did the Finance Minister do? He came before the House and told the House as to what had happened. On 30th April, 1992, he appointed the Jankiraman Committee the Janakiraman Committee, submitted two interim reports. These have been an invaluable source for our discussion today. On 11th May, 1992, without waiting for any report from the RBI he refers the case to the CBI, on 16th May, 1992, he convenes a meeting of the Chief Executives of banks and financial institutions and directs them to forthwith revise their systems, internal control mechanism and investment policies. Heads have rolled, people have been arrested, put up before the courts and many of them are still in police custody. On 6th June an Ordinance is promulgated to set up a Special Court

for trial of the offenders in the securities scam and also to appoint a custodian who has notified 39 individual organisation for attachment of offences.

Let us look at what the Income-tax Department has done. As early as on 28th February, 1992, there was a first raid. Well, in a highly complicated matter like this a first raid would not have disclosed anything because it is after a very very 'serious investigation by those who are knowledgeable that this scam could be unearthed, but they did follow it up by a large number of searches and today assets worth Rs. 72.5 crores have been seized. The point which I am making is—I am not under-estimating the scam at all—I am anguished, I am angered and more than that I am ashamed that something like this should happen. Look at the magnitude of the scam. The budgetary deficit is Rs. 4,872 crores, while the figure of the scam is Rs. 3,542 crores. It is mind boggling. It is likely to be higher, but not lower after full investigations are made.

Some people say that there have been scams in other countries, in USA, U.K., Japan. This is no argument at all. There should not have been any scam at all in our country and I do not want to be consoled that there were scams; in other countries also. These two situations are incomparable because here the victims are poor people. There are middle class people, there are petty shop keepers, there are pan wallas, there are even domestic servants who have tried to make some fast back in the rising market which resulted ultimately in a crash because of the scam. But it is undoubtedly true that there was a spurt in the market. The total value of the stocks which was hovering around Rs. 60,000 crores till 1991 came to Rs. 40,000 crores in the last one year. The Bombay stock exchange index rose by 358 per cent in 15 months. And thus there was the crash. That is where I am worried. How many people must have lost their valuable money? On an average, about 10,000 new investors flocked everyday to the shock market. Whether it was an office or a shop or a restaurant, people only talked of shares

and share prices. In my home city of Bombay, in the suburban trains which carry lakhs of commuters; everyday, everybody discussed only about shares and the price of shares, which share to buy and which share will go up by what amount. There was some kind of frenzy at that time and even a taxi driver was up to date with the share prices. In 18 months the 2 crore investors in India made an aggregate profit of Rs. 1,80,000 crores. Nobody knew what was happening. Many of us were told that NRIs were putting their money here, and it is to my utter shock today that it is neither the NRI's money nor the money of any smuggler but it is the common man's hard-earned money which has been deposited in the banks. It is this money which has been swindled because what has happened is that the scam is a security scam. That is why I found him a little irrelevant. It is not a scam in the shares as much as it has been a scam in the securities. The Government money has been diverted, every known canon of banking principles has been abandoned, and yet we come to the serious situation where, as has been correctly pointed out by the hon. Finance Minister, the very banking system has failed. Now where do we go from here?

There are two demands which have been made by the Opposition. The first I join in. There is undoubtedly a case for inquiry. That inquiry should be done in a way which will not only inspire the confidence of the Members of Parliament but which will also inspire the confidence of the entire nation. And I am glad that with his *suo motu* statement the hon. Prime Minister has taken the wind out of the sails of the Opposition by conceding to appoint a Parliamentary inquiry at the earliest opportunity. It shows that the Government has nothing to hide. It shows the political will of the Government that it will uncover the truth, it will punish those who are responsible for it—and I am glad that some of us will be actively associated with that process. I am quite sure that the role which will be played by the Opposition on this occasion will be one when there is not one word whispered against any Minister, any member of the Cabinet,

[Shri Murlidhar Chandrakant Bhandara] particularly, the Finance Minister. Therefore, to the extent the objection of the Opposition that it requires an inquiry, the objection is valid and has been fully met.

But when they go further, I totally dissociate myself from them. When they call for the resignation of the Finance Minister or when they call for the resignation of the Government, I think they are sadly mistaken. In the Finance Minister we have got a man of the highest rectitude. But, for a man of his rectitude in his position, let me tell my friends on the other side, today we would not have got where we have got to be. We have got all this material, we have got all this information which we have shared with the rest of the country only because of his openness, frankness, rectitude, dedication to parliamentary democracy and dedication to the people's welfare.

Ultimately, frauds do happen. I mean, there is no way crimes can be prevented. You can have ten Indian Penal Codes and yet murders will be committed. You have traffic rules. My esteemed friend, Mr. Jaipal Reddy, said it was because of the budget, it was because of the liberalization. Let us test it. I have certain reservations which I am going to express just now, in a minute, but I can tell you that it is like saying that the traffic rules will be broken if you bring in speedier or high-powered cars. The speed limit will be 35 miles, but if you bring a big car which runs at 80 miles per hour, well, it will be broken in Connaught Place because you have brought this. Well, there are no rules at all which can ultimately prevent a crime. A crime has to be committed, when it is committed it has to be detected and, when it is detected, the remedy has to be taken. On this point I want to just quote one of the world's leading econonomists. He observed:

Financial crises are a part of the economy's self-regulating mechanism. An efficient financial system should promote economic growth. Crises serve that purpose because they clear away bad credit so that the institutions can expand, lending

credit to credit-worthy investors, contributing to the out-turn of the business cycle. Lessons from the earlier scams abroad show that crises also enhance the efficiency of the system by improving regulation."

Something good comes out of every bad thing. I am an external optimist.

SHRI S. JAIPAL REDDY: So am I.

SHRI MURLIDHAR CHANDRAKANT BHANDARE-. I am quite sure that though there has been a gross negligence, there has been a failure in observing the bye-laws the guidelines, the rules and regulation!?, and the essential core, even the discipline which is expected in the banks, has failed, we will have a small satisfaction that we have detected it at the earliest and that it will not be done again

People have said that the banking system has failed. Well, I do not subscribe to that view because even now the common man, the citizen generally has full faith and confidence in the banking system. Out of 80 banks, only 8 or 9 banks have done all this *gameky* if I may use that expression. Therefore, what is important is that the common man has not really lost the confidence, or the common man has not even lost the confidence in the share market. I will tell you why. The index was 2,300 on the budget day and 1,800 in the pre-budget period. The peak was 4,545. These are tainted shares. Nobody knows whether these are genuine shares, these are forged shares, these are tainted shares or these are attached shares. I want the Finance Minister to end this immediately and see that the stock exchange starts operating as early as possible and restore the confidence of the people in the system. But, when it closed, even after the arrest of these notorious financial decoits, if I may call them, it closed at 3,000 points. Now, therefore, it is wrong to say that. The resilience of our financial system is very strong.

I have my differences with the Finance Minister. Let me air them, do not like

that while on the one hand he should exempt the shares from the wealth tax, he should tax for the purpose of wealth tax even one house in the occupation of a citizen. To him a house is an unproductive asset: to me a house in self-occupation is a home, it is a *vastu* where families forge the ties of love, where the spiritual values which distinguish this country from the rest of the countries amidst the rest of the material world, get saved.

I like differences. I do not like the incentive for a common man to save was taken away. At least for those whose incomes were upto a lakh of rupees, the incentives were taken away by amending the provisions of section 80CCA and other things. But I do feel that this was not on account of any liberal policy or the budget.

Two more things I have to say, and I want the House to listen to me, particularly about foreign banks. I was in London last week. There is a very strong and almost a vicious propaganda there that the RBI is twisting their arms to pay 1 billion pounds which are reflected in these reports. Now, first of all, I want the hon. Finance Minister to send a complete *brivi* to our High Commission to show the involvement of the foreign banks in this whole scam. During the period of about fourteen months between 1st April, 1991 and 23rd May, 1992, the *earn* tracts entered into by banks exceeded 58,000 in number and Rs. 900,000 crores in face value of the securities. More than two-thirds of these transactions were entered into by only four foreign banks. The same four foreign banks accounted for 70 per cent of the transactions in units. Secondly, again it is said that a total number of transactions reported to be in respect of units of the UTI amounts to 6,5* with an aggregate value of Rs. 7-2,760 crores, accounting for 8.03 per cent of the total. However four foreign banks alone account for transactions on an aggregate value of Rs. 51,633 crores i.e. 70.96 per cent of the total, transactions in units. The figures are there with the Standard Chartered Bank, Bank of America, Grindley's Bank, City

Bank, all in the lead, keeping the Indian banks far behind. I am not defending the Indian banks, but I do want to know why his statement which he made yesterday, was very silent about the important aspect of recovery. We have been told that the foreign banks have been asked to pay this amount. My information is that the foreign banks have brought this amount; but my further information—I hope that my information is entirely wrong — that they are not going to pay the amount, but would file suits, and prevent this amount being paid to the Government of India. I would like the hon. Finance Minister to make....

SHRI MURASOLI MARAN: Not pay the Government, but pay the law-years.

SHRI MURMDHAR CHANDRA-KANT BHANDARE: That is another thing. (*Interruptions*). Well, I am not a bank's lawyer anyway. I am a poor man's lawyer. Think about these things.

As I have mentioned earlier, share markets should be opened. I have some reservations about the Ordinance. I will mention them when it comes for legislation.

Now I come to the point about the statement on setting up of Bureau of Frauds. We have known that there has been a system failure. We have known that there has been a wilful and culpable non-obedience of various guidelines, but my point is are you sure you are going to really enforce those guidelines? Then I won't blame you. Actually nobody expected that such a big scam was at the bottom of such a wide network. I am against creating too many parallel bodies. Let us not become emotional and say we will call it a Bureau of Frauds. It will be really fraudulent if another fraud were to occur in spite of the Bureau of Frauds. I would seriously like you to consider whether your power, under the Banking (Regulations) Act are adequate or inadequate. So, instead of creating

[Shri Murlidhar Chandrakant Bhandara]

parallel bodies, instead of multiplying the activities, let us resolve to implement the actions under the existing laws. I am against proliferation of laws. I am against multiplicity of authority. It is only a proposal. Therefore, I would like the Finance Minister to carefully consider this aspect of the matter before he does it.

There is one more aspect which I want to mention. Names have been mentioned. I think we owe it to the people to find out whether insidious influence has been brought upon. But at the same time we have our Constitution. Every individual has his place in the society. Kindly find out how many relations got appointments on their merits. Let us not condemn somebody just because he is employed by a bank. He may be a first class Commerce Graduate. We must protect such persons.

SHRI S. JAIPAL REDDY: I agree that all the children of bureaucrats or Ministers, who have been appointed...

SHRI MURLIDHAR CHANDRAKANT BHANDARE: Therefore a linkage has to be established with it so that we will know that there are brilliant sons of the public figures and there are parasites to the public figures also. You have taken certain banks into liquidation. These liquidation proceedings should not affect the staff working in those banks. The hon. Finance Minister will do well to apply to the court where the liquidation proceedings are pending. ... (Interruptions)... These two or three banks whichever are to be taken to liquidation, I will request the Minister to move a scheme for amalgamation of these two or three banks with some other banks so that the depositors and the staff do not suffer. If the banks are taken to liquidation, the staff will be thrown on the road. So, I want an assurance from the Minister that not a single employee and not a single member of the staff will be affected by these

liquidation proceedings. The Minister may also take care of the shareholders who have got nothing to do with all these things.

As I said earlier, we are extremely fortunate in having a Finance Minister who alone can take steps to uncover this scam to its logical conclusions; and who alone can bring that financial discipline. The main demand of the Opposition is conceded and granted. It has come from us. There was not even a question of making a demand. For the first time we all sat together and found a way out to satisfy the nation as to how we will go about to find out the truth and to punish the guilty. I am quite sure that the result of the enquiry will be very meaningful and fruitful. But in the meantime we hope that there will be no slackening, there will be no wavering, there will be no dithering of the action which has to be taken against the economic decoits.

SHRI ASHIS SEN (West Bengal): Thank you, Mr. Vice-Chairman. The *suo motu* statement given by the Prime Minister a little earlier has given us a scope to confirm what we have been demanding. The Prime Minister has accepted that there is a *prima facie* case existed. He has agreed for a Joint Parliamentary Committee investigation which is absolutely necessary. It is necessary to find out the involvement of political personalities also who are outside the purview of the present CBI and Income Tax enquiries.

The Prime Minister has also spoken in the first paragraph that the new economic initiatives taken by the Government to strengthen and accelerate the economic growth are in no way inhibited. I would like to say that the entire episode flows from that very economic policy. The growth whether in the industrial field or agriculture field or any field for that matter has shown a decelerating trend. Therefore, there is no question of strengthening the economy through this particular policy.

Today, the country is undergoing a trauma. If we look at the unprecedented criminal financial offences, in the history of our country's banking and financial affairs, as an aberration, as an instance of mere system failure which the Finance Minister wanted us to believe, it cannot be construed otherwise than as an attempt to portray a scam as a sham.

Lakhs of crore_s of rupees are involved. Bofors, ABB deals of the Railways, appear to be a drop in the lake. How much of the stock-deal harvest has gone out of our country? I feel that a Forex inquiry and investigation has to be undertaken. Yes, serious concerns have been expressed; it is true that certain steps have been taken to locate the sources. But where does the genesis lie? We are concerned with it. Can you vouchsafe that the current economic policy of the Government, the policy of liberalisation in every sphere, in the name of freeing the economy from the shackles of controls, checks, regulations and supervision, has no bearing on what has so far been detected? I feel it has. There is no use saying that these frauds and irregularities are not due to the (financial liberalisation, as the Finance Minister wanted to tell us yesterday in page 9 of his statement. The behaviour of the economy is a direct fallout of this very policy. The permissiveness within this policy has created fertile ground for this shameful scandal. In a Press interview, what did Harshad Mehta state? It is reported that he has said that the new economic policy has been a boon to him. It has been a boon to him. The Budget was prepared 'in the direction of boosting the economy in an, artificial manner. The sudden creation of more and more capital which was the expectation of the Finance Minister and the Government was given too much of emphasis. But how is the Stock Exchange to be considered a handy instrument? Bank deposits are increasing by leaps and bounds, at a rapid pace. But, instead of using these

resources for productive purposes by giving timely succour to the sick and weak industrial establishments, the Government is going ahead with reference «f these case_s to the BIFR for closure, exit; that is, retrenchment. Extensive permission for mutual funds—not to bank_s alone but to other organisations, non-banking institutions also—has resulted in large-scale diversion of bank resources. With a small amount out of these resources, say Rs. 50,000/-or Rs. 1 lakh each, to the small industries, they would have survived and continued to maintain the employment that they were giving. That has been ignored. And what do these mutual funds do? Speculation's, in the stock market. Boosting of stock market has become an important feature of this economic policy. Every day, new shares are floated. Huge amounts are amassed. But where does the money go? Is it applied for productive purposes? Do we find new industries coming up and the old one_s expanding and more employment generated? No, absolutely no. Who, then, are the beneficiaries of that artificially created boom in the marke* and so much of capital formation? Obviously, the fraudulent operators. When the policy, the economic policy pronounced and sought to be implemented by the Finance Minister, demands that all public-sector undertakings will have to find resources to show more profits, without any Budgetary assistance where needed, they are but prone to find channels unwelcome and shady. Nationalised banks are no ex-ceptior in this connection. Disinvestment of shares by PSUs and these shares finding their way to unscrupulous hand_s for speculation is a pointer. The Finance Minister must have to take note of it. If he ha_s not then. I am asking: him to note it. The State Bank of India accumulated hundred of crores from oil-company deposits needed to import oil. Funds, therefore, were to be deployed. But they could not be used *for* the purpose meant. Came in the brokers. A nexus developed with the fund managers and speculative operators. Operation gained the upper hand. They

[Shri Ashis Sen]

go from bank, to bank. The brokers having tasted an easy access to Bank's funds travelled to foreign banks, private Indian banks, a system developed, a system of fraudulent use of bank resources, fake BRs, forged bills and so forth. I am not talking about the Bank of Baroda with a small amount of capital for the sake of repetition. I am not talking about the Metropolitan Cooperative Bank. But what about the Standard Chartered and what about the Grindlays? Are we not to take care of that and see that this access to fraudulent activities is widespread and it has flowed from the very economic policies which the Government of India is trying to implement? A system has developed. The Janakkaman Committee's report speaks of collusion between the unscrupulous brokers and bosses of banks and the financial institutions. The banks violated the RBI guidelines. Under the cover of ingenuine inter-bank transactions, money was siphoned off to brokers' accounts. But the Committee does not say about the role of the Reserve Bank. Mr. Bhandare said that the Reserve Bank inspectors went there and detected this. There is neither a compliment nor is there an accusation about the Reserve Bank's role in the matter of locating and finding out the obnoxious thing that is going on in the financial system. The report mentions about the computerisation of Public Debt Office (PDO) of the Reserve Bank. What I feel is that the State Bank of India, the Grindlays, the Standard Chartered Bank, all these banks are highly computerised. In spite of the computerisation, how was it that the frauds could not be detected? Janakkaman has stated in his report: "Had PDO been computerised, things would have been detected earlier." Anyway, when compared with what is happening in these banks having full computerisation and what Janakkaman has said about the PDO, they do not go together. The report says that transactions worth Rs. 3,440 crores had no security backing. How had all this happened? It is

because the managements of the banks and the financial institutions paid little attention to run the institutions on proper lines. They were after the directions of the Minister—profit, profit, profit—in any way they can do it, and now they say, catch them and tell them that they have gone in a wrong way to make the profit. Therefore, they are guilty. This is what the Finance Minister admits, that the RBI's supervisory function was not effective. Then what was the Ministry's role in toning up this function? Why do you try to evade responsibility? What about the political interference? There is no mention about it and we have a lot to say about that. In the political field of intervention, why not speak out in how many cases the banking activities were sought to be diverted in the way in which they desired? Instances will come up not on the question of scam alone. On other subjects also. I will be able to give instances—how there were political influences to siphon off banks' funds. The Reserve Bank issued a circular of caution in July 1991. But what about its follow up? This circular was so secret that it was sent to the Chairmen of the Banks only. It was not sent to the in-charges of Reserve Bank, banks in different parts of the country who were entrusted with the responsibility of conducting investigations or inspections. It was not effective because its inspection wing was not fully utilised. There are now more than 62,000 bank branches but in the name of austerity, inspection staff have not been increased nor are they given the required time for thorough inspection. The inspection teams put in hard labour and unearth very many misdeeds of the banks in their inspection reports. But what happens thereafter? The copies of the reports do come to the Finance Minister, try. But like the Reserve Bank, the Finance Ministry also was sleeping over them because so many important people are involved in it. Now after the securities scam, thorough inspections are being conducted. This is what the Finance Minister says. The imperative need, therefore, is to strengthen the RBI's monitoring

system. If this is not done, there will be repetition of more and more scandals of this, type. The Finance Minister is clequent about the Narsimham Committee's report. What does this Committee say? liberalised control over banks and financial institutions, allow foreign banks more and more to enter into our country, curtail investments in Government securities by reducing Statutory Liquidity Ratio. Are not these recommendations detrimental to our banking and financial system? Competition between Indian Banks and Multinational foreign banks is one of the themes of the Narasimham Committee Report. Competition for what? Competition of how to excel in frauds and in fraudulent activities. That is what the Narasimham Committee has suggested. And the Finance Minister wants that to be implemented! The Narasimham Committee was appointed not for real reconstruction of our financial or banking system, but for meekly following the directives of the IMF, and the World Bank in return for loans of billions of dollars leading to virtual mortgaging of our country and its economy. I know the Finance Minister will loudly say it is not so, this is our independent Economic Policy. Even what that independent Economic Policy is leading to is clear from the events we are finding. The Narasimham Committee's prescriptions are made to suit this very Economic Policy of the Government. Even now the Government must retreat from implementing this Committee's recommendations. These developments too warrant this. I want to request the Finance Minister to have a second thought, after seeing all that have happened in recommendatory deregulations, as to whether he should like to follow these recommendations of the Narasimham Committee or he should try to put an end to them.

The Finance Minister has spoken of non-traditional banking activities. He has not stated in his statement yesterday what these non-traditional activities are for.

stering profits. Mutual funds and speculative activities which are prohibited by law. The banks are prohibited from carrying out these activities by law, if I am not incorrect. Then why have they been allowed? Why have the Government and the Reserve Bank of India winked over it? Only to see that the share market, Sensex, importers go up. The brokers have used the SGLs for misdeeds. The Janakiraman Committee says, "If SGLs are not presented to the RBI, how can irregularities be detected?" Without going into this matter, the first thing RBI did was to suspend four tiny officers who are in no way involved in this affair. This is readily to show that the Reserve Bank is taking action, by suspending the small officers. Is it fair? Should not the Government have made known to them that was a wrong way of investigation? Should he not have pulled up the Reserve Bank authorities for that?

I am now referring to some other aspects relevant to the scam. The Finance Minister may please apprise the House whether it is a fact that Harshad Mehta made a seminar presentation on 25th February, 1992 just before the Budget at North Block, Finance Minister's office, before top officials about stock exchange affair and how Sensex barometers can be whipped up. He should also say whether a Member of the Planning Commission was an intermediary between Harshad Mehta and the Ministry...

SHRI MPEN GHOSH: Ex-member.

SHRI ASHIS SEN: Ex-member, I stand corrected. To the Ministry was Mehta a licence-broker? He should have said this in a categorical term and I expect it.

My second point is that the National Housing Bank is the original source of this scandal. Is it a wholly owned subsidiary of RBI? It is. There is no Board and Pherwani was the Chairman and he had acted as the sole proprietor. Can it be called a collective failure, as has been sought to be portrayed by the Finance Minister here in the statement and elsewhere? There was no Board. Can

[Shri Ashis Sen] it be called a collective failure? Pherwani was accountable to whom? He was removed from the UTI. Why was he removed? Because of his bad credentials. Then why was he placed as the Chief of the National Housing Board and by whom? The National Housing Board is for the housing finance. How did it operate in speculative lines? What did the Reserve Bank do to keep a watch over its subsidiary?

My third point is that it was within the Government's knowledge that there was a 'flush of funds in the market. Illustratively, the Janakirman Committee Report says that between July 1991 and April 1992 the State Bank of India alone undertook, on its own investment accounts, transactions worth over Rs. 27,000 crores. National Housing Bank accounted for Rs. 12,000 crores, the Standard Chartered Bank accounted for Rs. 1,055 crores and the Canbank accounted for Rs. 527 crores and so on. What was the Government doing? Is it not a fact that all RBI inspection reports were made available to the Government?

My fourth question is; Is it not a fact that the erstwhile Chairman of the Canara Bank, Mr. N. D. Prabhu and of the Punjab National Bank, Mr. Varshney, were on the payroll of Harshad Mehta on a fabulous amount of Rs. 1 crore to Rs. 2 crores per annum, being engaged in Fairgrowth Group of Companies and Mazdas to help Mehta's fraudulent operations? Why haven't they been booked and their relations' assets and properties attached? Why have the bank Chairmen been asked to go on leave and resign? Why do you allow them to go like that? When they are asked to resign they go on resigning. It clearly shows that they have got certain involvement. Why have they been simply allowed to go without being caught in the net? Why should they be allowed to go as very hon'able citizens of the country?

My fifth point is that the Allahabad Bank Chairman, Shri R. L. Wadhwa, had resigned tearabout the time the scam came to in rface. He resigned before the

expiry of this term in 1993. Have his antecedents been critically examined before accepting his resignation or was he allowed to go smoothly so that he could not be caught? All bank Finance Limited is an Allahabad Bank subsidiary. Its affairs have been scrutinised by the RBI. I would like to know from the Finance Minister whether it has been so- Was Mr. Wadhwa's role above board when public sector undertakings' bonds were sold before they were listed in stock exchange to one Raheja who had close links with the Citibank earlier called Citibank of New York?

My sixth point is that Harshad Mehta's bank accounts were frozen. He was not nabbed for nearly three weeks. Why? The accounts were de-frozen before taking him into custody. Does it not mean that he was given enough time to errse the evidence and smuggle out the funds? Why was it done that way? The Finance Minister may please inform the House whether the Government had a say in the matter and whether the Government had intervened because of the earlier nexus of bringing Harshad Mehta to the Finance Ministry in the North Block to find out ways and means for raising the barometer of senses I would like to know whether that is one of the reasons why the Ministry tried to see that this Harshad Mehta and other good gentlemen—I will not call them rascals—have been allowed to move about scot-free.

My seventh point incidently is that there are CBI reports against the IFCI Chairman, Shri Davar. There are a lot of complaints against him. Why has he been allowed to gracefully resign? Why has he not been hauled up for his financial misdeeds while in office? There was an inquiry but it did not go beyond that. But I have got positive proof with me to show that this gentleman, Mr. Davar, is one of the architects of many a financial misdeed while in office in IFCI.

SHRI JAGESH DESAI (Maharashtra):
Madam, I am on a point of order.

SHRI ASHIS SEN There is no subject for a point of order.

SHRI JAGESH DESAI: Please listen to me. You cannot make allegations against a person who cannot be present here.

SHRI DIPEN GHOSH: Harshad Mehta is there.

SHRI JAGESH DESAI: Harshad Mehta's name is there in the Janakiraman Committee Report.

SHRI ASHIS SEN: Janakiraman is a committee but Harshad Mehta is a person. *(Interruptions)*

SHRI G. SWAMKNATHAN: Sir, I son. *(Interruptions)*.

SHRI KAMAL MORARKA: Sir, a fraud has been committed in the banking system. The Chairman has been removed by this Government. It is the common knowledge of the commonman on the street. *(Interruptions)*.

SHRI G. SWAMINATHAN: Sir. I am on a point of order. When there is a discussion we can mention the names of the persons who are involved. It is for the hon. Minister either to defend it or accept it. The Minister is here to defend. Whether the name of a person is there or not, it is for the Minister to decide either to defend him or not to defend him.

SHRI ASHIS SEN: May I continue? Mr. Jagesh Desai wanted to say something about the IFCI.

Sir, the BCCI scam was there in the US and England but normal business was not affected by that. But, in the context of what has happened here, industries, especially the small ones, are in palpitation for want of funds. Everywhere there are worries, banks are talking to the clients of resource crunch. Government has to intervene to ensure flow of funds to the industries. Otherwise, so many lakhs of industries will go out and this Economic Policy will be fully implemented to have flowers in desert.

Some corporate giants have a vested interest in bailing out Harshad Mehta and

his ilk. A powerful lobby is in the field for an 'operation cover-up'. While we thank the print media for revealing write-ups, it is also true that in the media protective arguments are also being put forward to put the culprits behind the screen by saying that there was nothing illegal in what these criminal economic offenders have done. They have just taken advantage of the loopholes in the system. Some of these unscrupulous brokers like Bhupen Dalai and others are reportedly on the Boards of newspapers. An orchestrated campaign is being conducted against monitoring officials primarily so as to divert the attention from the criminals and shield them. I would urge upon this House and the representatives of the press to help in the location, detection and hauling up of the culprits instead of trying to cover up the people who are social criminals and who have helped in the ruination of lakhs of small investors in different parts of the country because of this scandal.

THE VICE-CHAIRMAN (SHRI M. A. BABY): Please conclude.

SHRI ASHIS SEN: I will take only two minutes. It is relevant to point out here that All India Reserve Bank Employees Association has demanded a probe into the properties/assets of high officials of various banks and financial institutions and called for utmost caution in selecting top officials.

The Finance Minister has proposed the setting up of a separate supervisory body under the aegis of the Reserve Bank of India. That is not a solution. The RBI inspection wing with the expertise built up over the decades has to be strengthened and follow up action ensured. Banks and financial institutions should be banned from speculative activities. Mutual funds should also be closed to save small investors. All financial institutions besides banks should be brought under the monitoring role of the country's central bank instead of allowing them to function as independent empires. In addition to RBI inspections, the Comptroller and Auditor

[Shri Ashis Sen] General of India should have an exclusive wing for auditing banks and financial institutions. To overcome the lack of a coordination and coherent policy, ad-hocism, overlapping of functions, and for a proper and balanced deployment of resources, all financial institutions should come under the overall control of an autonomous central authority, i.e. a national banking and financial council which shall oversee them and be responsible to the Parliament. BEFI and other trade unions in the banking industry made many constructive suggestions to the Narasimhan Committee but they were honoured by rejection. The Janakiraman Committee, the Income Tax people, the CBI sleuths are doing their job. The size and expanse of the scam are too wide and this is the direct and inevitable result of the economic policy of the Government. Ramifications are spread far and wide. Reports are in circulation that family members of high officials in the Government are employed by the involved foreign banks. All this is taken together, I assert on behalf of my party that the Finance Minister should accept moral responsibility and resign. He should respond to the justified demand and set a precedent. All those officials involved in the scam, including the Governor of the Reserve Bank of India are to follow him. The Prime Minister this morning spoke about a Joint Parliamentary Committee. I too want that a Committee be set up very soon and the results brought out as quickly as possible. The entire thing should be brought to the attention of the public and the House. Thank you.

THE VICE-CHAIRMAN (SHRI M. A. BABY): Shri Jagesh Desai.

SHRI JAGESH DESAI: Mr Vice-Chairman, first of all, the whole country is very much concerned. Never in the history of our country after independence or even earlier was a fraud of this magnitude committed. As such we are all concerned. I am very happy that the Prime Minister after consulting the Opposition and our own party people announced the setting up of Joint Parliamentary Commit-

tee. We welcome the measure taken by the Government. Sir, when we discuss this issue we should discuss it with a view to finding out how this has happened and what steps we need to take in future so that this kind of fraud will not repeat. It is only in that angle that I am going to speak. I do not want and nobody wants that somebody escape from his responsibility. The people who have done this are criminals. They have completely shaken the faith of the people and harsh action that is available under the law should be taken against them. The people involved may be officials, politicians or anybody else, nobody should be spared and the Prime Minister has made it very clear that even if a Minister is involved, he too will not be spared. This is very necessary because otherwise, the same thing will be resorted to again. I would like to go into the reasons as to why this has happened. One of the reasons is the reconciliation that is not done in the banks. If this had been done and pointed out much earlier it would not have recurred subsequently. But this was not done and this is where the Reserve Bank of India failed.

I may tell you about my experience, Sir—you were also in the Committee—of the Committee on Government Assurances. We had called at that time certain officials, the Reserve Bank Officials were also present. We had taken up individual cases of different banks and we had tried to examine why the fraud had happened. And when we put the question whether in some cases, it had come out after reconciliation, they said "Yes". And as such, in this case also, if the Reserve Bank of India*. Public Debt Office and the State Bank's Securities Wing had reconciled at an earlier date, this could have been detected and more losses could have been avoided. Secondly, regarding the vigilance, in this case I am very happy that the CBI is doing excellent work. I compliment also the Janakiraman Committee (that within a short period, they have pinpointed that these are the reasons and this is the modus operandi and this is the amount. But this is an interim report. The figure is not final because if you will see the second interim report para

seven, it says that in some banks, the reconciliation accounts are still not completed. If that is completed also. I fear, as has happened in all the cases that came out probably this figure may also go high and as such first of all, the Government should see in regard to those whose accounts are not reconciled—two months have passed—what are the reasons why it has not been reconciled or whether there are any complications and as such they are not able to do it. I would like to know from the hon. Minister the reason* why some of the banks—you have not given the names—and some of the institutions—you have not given the names; all right, you may not give the names—have not reconciled and when they will be reconciled? Secondly, as far as the vigilance part is concerned, what we have seen is that the CBI looks in to the frauds. I think, if I remember the figure correctly, 339 officials of the banks for the period 1985 to 1988—in three years—I do not know the latest figure—256 cases are still under investigation. So, even one of the cases they have not completed the investigation and if that is the way the cases are being conducted by the CBI, how are you going to stop the frauds? So, apart from the kind of fraud which has been committed in the recent scam, I also want to talk about the other frauds committed in the banks. In the year 1989, frauds of over Rs. 50 crores were detected. In 1990, it has gone up to Rs. 100 crores. Every year, it is going up. Even then, the Government has not taken action which is required. You have appointed a committee of eight very high-level officials. On 3-10-1991, the Reserve Bank of India had set up an eight-member high-level committee under the chairmanship of its Deputy Government to enquire into various aspects relating to frauds and malpractices in the banks and the Committee had been asked to submit its report within three months. What has happened about that? What action has been taken on the report? Have they said that this is because of reconciliation? If so, were the banks advised that they should complete the reconciliation? Many banks have not done the reconciliation. So, the minimum that I want is that in future, we

should not again find ourselves in this kind of a situation. The bank should complete the reconciliation work and the inter-bank reconciliation should be completed. I am saying this because most of the frauds are concealed and detected after reconciliation.

In this connection I would also like to draw the attention of the House to the fact that a report has been submitted by the Committee on Government Assurances on 12th May 1992. I would like to know whether the Ministry has seen that report at all and whether any action has been taken on that or not. Is it not a fact that that Committee has said that reconciliation should be done within a particular period? Have you given any direction to the banks that they should reconcile their accounts? They have also said that there should be a separate wing in the OBI for looking into only the bank frauds and that by such officers who, aide well-versed in the banking system should be in the CBI. I would like to know whether you have taken any action on that or you are going to do that. I would request the Ministry and the Government to look into the report of the Committee on Government Assurances which should not be treated just like a bunch of papers. We have not laboured for months for this. For full one month the Committee examined the officers of the Banks. If you, Sir, were a Member, Mr. Gurudas Das Gupta was a Member, I was a Member and Dr. Bapu Kaldate is the present Chairman of the Committee. They have submitted a report. If the Government is lethargic and does not do anything on that report, then, I am sure, such things will be repeated.

Now, I come to the question of the foreign banks. I am astonished to see that four foreign banks are involved in transactions amounting to nine lakh crores, just in fourteen months! I know something about banking and accounting and so, I can say something on this. It comes to three thousand crores per day! It means that everyday not less than two thousand five hundred crores' worth of transactions were done by these four

[Shri Jagesh Desai] banks. And, what was the requirement for portfolio management? Was it necessary that they must do this kind of transactions worth Rs. 2,500 crores every day? Was not the Government looking into this aspect? I am asking this question because these four are foreign banks. I am very happy that, for the first time in the history of our Parliament, four foreign banks' accounts are going to be audited by the special auditors and it may be because of this. I am sure that this audit will be conducted in the same spirit in which they have been appointed. There may be pressures because they are foreign banks, some are American and some British. But the auditing should be done properly. I am sure that this Government will see to it that these accounts are audited properly and in depth. If persons equipped with the knowledge of banking, accounting and this kind of transactions are appointed, then, I am sure, they will bring out the truth and tell in what manner all this has been done.

I am sorry about one thing. The leader of the BJP, Dr. Murli Manohar Joshi, who is a very very senior leader, mentioned two things. He is a Professor. I do not want to claim any such thing. He asked why the foreign banks should have involved themselves in the purchase of securities. Foreign banks also are to⁵ maintain the Statutory Liquidity Ratio as all the Indian banks are required. I may be wrong, probably. But, as far as I know, all the banks are required to do it and all the banks which are registered as banking institutions in India are required to do it. But what I am concerned about is the magnitude of the transactions that they have done. Secondly, he was talking that the foreign banks are sending money abroad. As far as I know, no foreign banks can send any remittances except the profit after tax. They cannot send the money of excess of that. He had mentioned those two aspects. So, I would like to say that that is not the correct position. The correct position is like this as I have stated. *(Interruptions)* I have said that they were not required to

purchase such a huge amount for portfolio management. They were asked: "why were you purchasing in excess? We would like to know why you are doing it." They say, "we are trading." They explained, "we are trading. That is allowed in the international law." Are we going to allow this kind of trading at all? So, I would like to know whether in future we are going to have some restrictions on the foreign banks. Or not because in our experience, we have seen that out of Rs. 9 lakh crores Rs. 6 lakh crores are done by them. I think, the Government should ponder over this whether we are going to have some kind of restriction on foreign banks or not.

Secondly, I would like to talk about the mutual funds. What I have seen is that the Allahabad Bank has sold the shares of public sector through the mutual fund to the foreign banks. If I remember correctly, when Mr. Yashwant Sinha was the Finance Minister, of that time, this idea was mooted that 20 per cent disinvestment can be done in the public sector.

SHRI H. HANUMANTHAPPA (Karnataka): He was an utter failure as Finance Minister. *(Interruptions)*

SHRI JAGESH DESAI: He had promised ...

श्री चतुरानन मिश्र (बिहार) : वह तो अटल फेल्योर था ।

What is the English word for this failure?

SHRI JAGESH DESAI: He had promised that it will be sold only to mutual funds. At that time also. I asked whether subsequently this will be the instrument again to come to the private sector. I think, I was given the reply, 'no'. Now, I am finding, that the American Banks have purchased the shares through the mutual funds. Are you going to allow them?

AN HON. MEMBER: It cannot be allowed.

SHRI JAGESH DESAI: The Allahabad Bank has given. This cannot be allowed.

SHRI YASHWANT SINHA (Bihar): The same policy they are following.

SHRI JAGESH DESAI: I want to know whether the Government will stop at least the foreign banks and the multinationals from purchasing shares in this manner. Yes, foreign collaboration is a different thing. But as regards the existing shares...

श्री चतुरानन मिश्र : ग्लोबलाइजेशन कैसे होगा ?

SHRI JAGESH DESAI: Whether the existing shares also can be transferred in this manner or not should be looked into. As regards the Reserve Bank Governor, let me make it very clear...

SHRI H. HANUMANTHAPPA: He has done commendable work.

SHRI JAGESH DESAI:..that the Reserve Bank—I would not say the Reserve Bank Governor—itsself in the month of January, 1992 initiated the inspection of some banks, and from that this information was received. And I must compliment the 'Times of India'. If it had not appeared in the 'Times of India', we would all might have been in dark. So, I compliment the 'Times of India'. I myself raised this issue in the House. Mr. Gurudas Das Gupta and myself raised this issue in the House on that basis only. So, what I want to say is that report was leaked out and it appeared in the 'Times of India'. That was the basis on which it all started. After that, the Government took timely action. I would not like to go into the details because Mr. Bhandare mentioned all those details. And I am convinced myself that the Government has taken prompt action, timely action, and I must say strong action.

SHRI YASHWANT SINHA: They have been shouting thief, thief with us

SHRI JAGESH DESAI: Now, you refer to the Governor of the Reserve Bank. I think, in all the Government Department there are some frauds, some corruption and some irregularities. Do you want that all the heads should be rolled? I don't think that it is a correct approach. You pin-point the responsibility and punish that person. If you don't pin-point the responsibility and ask the head of a Department to resign owning moral responsibility. I think, by that you will demoralise the bureaucracy. And if I go farther, I think no Secretary will be able to work because in every department there would be some kind of a fraud sometime. .. (Interruptions).

SHRI CHATURANAN MISHRA: Is it only some kind of fraud?

SHRI JAGESH DESAI: How is the Governor of the RBI involved? He is not.

श्री चतुरानन मिश्र : मैं एक बात आपसे पूछना चाहूंगा कि यह एक दिन में नहीं हुआ, एक रात में नहीं हुआ, एक हफ्ते में नहीं हुआ, महीनों होता रहा, तो आदमी सब कहाँ था ? वह जिन्दा है या मर्दा ?

SHRI JAGESH DESAI: When they came to know about it, immediately instructions were issued and all action was taken. So please don't demand this kind of resignation. That is not going to help you.

SHRI CHATURANAN MISHRA: You dismiss him; we will not demand.

SHRI JAGESH DESAI: Let us find out how in future this can be avoided. That is why we have to put our mind together.

SHRI YASHWANT SINHA: Why was the Chairman of the SBI asked to go on leave?

SHRI JAGESH DESAI: It must have come up in the meeting of the Board of Directors.

SHRI YASHWANT SINHA: How do you promote one MD to function as the Chairman? There are two Managing Directors and one of them is now functioning as Chairman.

SHRI JAGESH DESAI: I don't know 'the circumstances. Only the Minister can say.

SHRI V. NARAYANASAMY (Pondicherry): He is not the Minister.

SHRI JAGESH DESAI: What I want to say is that this kind of fraud should be prevented, and that is why Joint Parliamentary Committee is going to be formed. The JPC should also see that those who are involved are adequately punished. At the same time the Committee should also apply its mind over the matter and call experts to give evidence with regard to the banking system. In the banking system, reconciliation is the most important part. Whatever lack of supervisory control was there, has been admitted by the Government. And that is why when this Committee is formed, it should look into all these aspects and I am sure that all those who get associated with the JPC will keep that angle in mind because we all want to serve the country. We want that the public sector like banking should not be tarnished. Both these banks, Bank of Karad and the Metropolitan Cooperative Bank, are not nationalised banks. We feel that there is scope for nationalisation of such banks in the country. That is why I feel we should apply our mind and suggest means to improve the banking system and how loopholes can be plugged. If the JPC works keeping that angle in view, it will help the system, it will help the country. I am very happy that the Government has taken prompt action. Our Prime Minister has announced that a Joint Parliamentary Committee will be formed. This is a very welcome step.

With these words, I thank you for giving me the opportunity to speak.

THE VICE-CHAIRMAN (SHRI M. A. BABY): There is an announcement to be made. Shri C. K. Jaffer Sharief, Minister for Railways, will make a statement at 5 O'clock today-regarding derailment of train No. 8033, Ahmedabad-Howrah Express.

SHRI GURUDAS DAS GUPTA: I am on a point of order, Sir. Yesterday, if I am allowed to refer to the discussions we had in the presence of the Leader of the House and the Leader of the Opposition, it was agreed upon unanimously, without any dissent whatsoever, that this discussion will go on uninterrupted, and only the Prime Minister who had expressed his desire to make a statement, is quite welcome to do so, otherwise this discussion should go on uninterrupted. Now if the Ministers at their own will decide to intervene at any point of time, this discussion will remain incomplete today which will spill over tomorrow. And since tomorrow is the day for election, and it is Friday, then this discussion will spill over to the first day of the next week. As a result, the whole discussion will lose all its lustre and relevance.

SHRI YASHWANT SINHA: Monday is the day of Presidential elections.

SHRI KAMAL MORARKA: The maximum that can be allowed is that the Minister should come and place the statement. He should place the statement and go. He should not start reading it. We are not going to permit it. (Interruptions).

THE VICE-CHAIRMAN (SHRI M. A. BABY): We can do it like this. As has been proposed by Mr. Kamal Morarka, the Minister can come and place the statement. Normally, it is the privilege of the Members of the Rajya Sabha to seek clarifications. In this case, if agreed to, the clarifications can be sought later on.

SHRI KAMAL MORARJI. The Minister should not start reading it. He should come and place the statement. It should be taken as read.

THE VICE-CHAIRMAN (SHRI M. A. BABY): ; Rajya Sabha should not be deprived of the privilege of having the statement made.

SHRI V. NARAYANASAMY: When a statement is made, the Minister will have to read the statement.

SHRI KAMAL MORARJI: We will not allow it. He should just place it.

THE VICE-CHAIRMAN (SHRI M. A. BABY): Now, Mr. Kamal Morarka please.

SHRI KAMAL MORARJI: Mr. Vice-Chairman, Sir, I am very sad at the tenor of the debate on this crucial issue.

Dr. Murli Manohar Joshi initiated the debate in what I thought, a very very moderate way, placing the facts, without raising any controversy. What he said were incontrovertible facts, based on the reports of the two reports of the Janakiram Committee. These are the questions that would strike the mind of any person when he goes into these two reports. He only placed all the facts before the House.

Then, we had the speaker from the treasury benches. Mr. R. N. Dhanoo spoke. I could not really understand what he was trying to say. But the purport of what he was trying to say was that scandals would occur. Government cannot predict them and that this Government had done the best the moment it came to its notice. So far so good.

Then, Mr. Jaipal Reddy spoke. With a proper punch, he placed the responsibility on the shoulders of the Finance Minister.

I saw two more Members from the other side speak. Sir, frankly, I am at a loss. The Finance Minister said in this House yesterday that he would like this debate to be conducted in a non-partisan way. He said that it was a matter of concern to the entire country, to the Parliament, and that we should look at it as such and see how it can be solved. We heard Mr. Jagdish Desai and the other speaker before him from that side. From their speeches, this is what I have understood. I do not claim any intelligence. But what I have understood is that the Finance Minister need not resign because he was not even aware of it; he came to know it only from the newspapers just like all of us. The Governor of the Reserve Bank of India need not resign because he was the person who found out the theft. Why should a person who has found out the theft resign? The Chairman of the banks need not resign because someone else did it, I would like to know whether a theft had at all taken place? I am coming to the conclusion that no theft had at all taken place; it is an illusion. If it is a fact I do not know whether it is a fact that Rs. 3,000 odd crores of public money had been embezzled, I do not see why they are afraid to take the responsibility.

Sir, all of us know what the politicians do. If a nuclear blast takes place, the Prime Minister makes a statement and we all clap. He has not done it. The scientists have done it. If we win a war, the Defence Minister makes a statement and we all clap. The soldiers died, not him. It is the privilege of the politicians, to take credit for the work done by some invisible people working under us because we happen to occupy the Chair. Conversely, Sir we should be man enough, when people working under us fail us whoever they may be we should be ready to bear the cross. Those of us, who are not prepared to bear responsibility for failures, should not enter public life. Nobody has forced anybody to come to Parliament. It is entirely a voluntary activity.

[Shri Kamal¹ Morarka]

Now my objection is to use of the word 'scam'. It has suddenly become a common word across the country. I tried to refer to various dictionaries but I could not get the exact meaning. In American lingo, as I understand, the word 'scam'

means a 'confidence trick', that you play a confidence trick to enrich yourself. Sir, this is not scam. There are four findings of the Janakiraman Committee. One of them may be scam, the other is embezzlement, defalcation and misappropriation of public funds. Scam is a very mild word, but unfortunately, it has got a wide publicity in the context of this particular scandal. I wish the Members should understand the implications of this more seriously. I would like to quote from para 3 of the Finance Minister's statement which says: "The findings of the Committee confirm that unscrupulous brokers, in collusion with certain bank officials, have manipulated securities transactions of banks..." The adjective 'unscrupulous' is only for brokers. Bank officials are clean. Sir, if this is not pushing things under the carpet, what is it? As I understand, brokers are free citizens of this country. The law will take its own course. If anybody has done something wrong, he is answerable to the law. But bank officials are the custodians and trustees of public funds, accountable to Parliament. We have accepted that the banks do not come under the purview of the Public Accounts Committee because we were told that the watchdog for the banks was the Reserve Bank. The Banking Regulation Act, 1949, has given vast powers to the Reserve Bank of India. The powers are so vast that the Reserve Bank of India can virtually do anything with the banks, it can merge banks, it can take over banks, it can supersede banks and it can liquidate banks. And today we are told what could the Reserve Bank do? Reserve Bank has been referred to by the Supreme Court as a watchdog expert body.

Excuse me. Treasury Beaches. Those, who are not interested, may kindly leave. Let the other Members hear. Mr. Jacob...

SHRI JAGESH DESAI: They know it. They know all about this.

SHRI KAMAL MORARKA: I would like Mr. Jacob to hear me. Mrs. Margaret Alva, my complaint is that he is paying more attention to you than to me.

SHRI BHUVNESH CHATURVEDI (Rajasthan): That is the complaint of everybody.

MISS SAROJ KHAPARDE: Are you feeling jealous?

SHRI KAMAL MORARKA: The statement of the Finance Minister is a very comprehensive one. He calls brokers 'unscrupulous' and does not pass any judgement on the bank officials. Then he says, I quote: "... in clear violation of the established rules, guidelines and prudent business practices." None of these is an offence. Prudent business practices may be prudent or not, nobody bothers about that. What has happened is neither a violation of prudent business practices nor violation of established rules and guidelines, it is a criminal activity that has taken place and very mildly he tries to save bank officials. I understand, in Parliament sometimes it becomes necessary to protect the officials under you but this is not one such case. This is a case where we have the Prime Minister coming and telling us in a proper statement that though there are Janakiraman Committee reports, CBI inquiry. We shall continue to that. Meanwhile the Prime Minister feels that the matter is serious enough for Parliament to appoint a JPC and at the same time, we have an array of Members trying to whitewash this matter. Sir, my objection is not what the JPC will do or will not do or what the Government is doing or not doing. My objection is to the mental attitude of this Government,

the Ministers and the Members, of the Congress Party. Sir, in the last one year they degenerated this country into a state of licentiousness. Liberalized economic policy may be a matter of debate. No economic policy has been liberalized. What you have done is, you have liberated the mind from responsibility and accountability. What they have done is not liberalization; they have done liberation, I don't object to their policy so much. Their policy has to be discussed on merits. I don't need the excuse of this scam to do go. But what I do object to is this array of statements of the Finance Minister and the Governor of the Reserve Bank. Sir, have you seen those statements? Only a person with a very thick skin can read those statements or make such statements.

Sir, The Governor of the Reserve Bank is not here. He has given one interview to The Week. Only one sentence I will read. The statement is long but the main point is, "I found out the fraud, I nailed it, so why are you asking me to resign?" That is one part. He says, "It is unfair for politicians to criticize. They have allowed the system to flourish; they are responsible for all this."... (Interruptions)... Now Sir, this is what I have come to know. Who is responsible for it? Who should resign? Not the Finance Minister, not the Governor of the Reserve Bank, not the Chairmen of the Banks. It is the MPs! They must resign! The journalists, for exposing [the scam, must resign! That is the new thinking of this Government. Other charges were made here. The politicians involved in this scam should resign.

Sir, I assure you. I have also studied this matter. No politician is involved in this scam. Ask me why. For the last one year after this Government has come to power, ask the man in the street, who is running this Government? They will say* Mr. Narasimha Rao, Mr. Manmohan Singh. Mr. Chidambaram. They

have not heard of a fourth Minister. Bank Chairmen do not listen to these Ministers. Except the Finance Minister even the Ministers of State if they ring up a Bank Chairman even to transfer an official, they don't listen. There is no question of any scam having taken place because this group of Ministers, has no influence on the Bank Chairmen. Nobody listens to them. So, for heaven's sake, don't blame people who are incompetent to do this thing. (Interruptions)...

Sir, I might be mistaken. The man in the street has heard of two more Ministers: Mr. Arjun Singh and Mr. Sharad Pawar. Not because of their performance in the Human Resources Development and Defence Ministries. The public thinks these are the people who may create trouble for the PM... (Interruptions) ...

Sir, we are living in an era when we understand what we are doing. A fraud of this dimension takes place; the Prime Ministers act. I have no complaint against the Prime Minister. He has acted with proper form, but whatever he is doing is being undone by this kind of statements. The statement betrays total lack of any guilt, any remorse. On the contrary, the signal is, all is well with the banking system; carry on.

Sir, the Finance Minister* says, on page 8, how many places were raided, how many officials were arrested. Now he says, "Chairman, National Housing Bank, has resigned. Chairman, UCO Bank and Chairman, SBI were asked to go on leave." No. Only Chairman, UCO Bank, was asked to go on leave. Chairman, SBI, had to be asked to go on leave after Mr. Janakiraman gave his first report. Till then he was not to go on leave. When the scandal broke out the Chairman, State Bank was sitting Chairman State Bank was sitting-raman nailed him, there was no way out. Then he was asked to go on

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leave. And what happened in the State Bank. The Managing Director becomes the acting Chairman. So it is Tweedledum and Tweedledee. How Parliament is going to get back the funds. I don't know. Has the Government sent an officer ^ unimpeachable integrity to take cringe of the State Bank? No. No. What I understand from the corridors of power is that one of the Managing Directors who is acting as Chairman, is trying to become Chairman. If that happens, then, I think, the JPC, is a sham. There is no use of having JPC if the mind of the Government is not clear to punish those who are involved in this scam or in the embezzlement.

Again there are two aspects. One is, an officer of the bank causes loss to the bank by a wrong decision-making. But when we know and we find officers who have taken money, who have enriched themselves and their relatives at the cost of public funds. It is not a system failure. It is dishonesty. I have not understood why we are hesitating to name the people who have been found to be dishonest, when there is blatant dishonesty to enrich themselves at the cost of the public exchequer. The Prevention of Corruption Act and all that is a long way off. But here is a solid evidence. Just now I am not asking, mind you, that you put everybody in jail. But please sack them all. At least 25 to 30 top officials of these five banks should be sent on leave or their services should be terminated today. Today is too late. It should have been done two months ago. But do it without any further loss of time. I am afraid of one thing. They have announced the JPC. Now they will say that any further action they will take after the report of the JPC. That is not good, Sir. The JPC can give you further data. Every time Janakiraman goes into the matter, he finds names of two more banks. In Report no. 1 he gave some figure. In Report No. 2 he added two banks, one Ratnakar's company and Rs. 500 crores. Let him proceed further. This figure will go on

increasing. The names of the people involved, go on getting added. That is not the issue. The issue is: Is the Government serious about taking action?

On the question of the Finance Minister's resignation my colleagues have demanded it. I am not demanding it. Why? Because he is not involved, and, then, resigning or not resigning on moral grounds is an entirely personal matter. Morality differs from person to person. Lai Bahadur Shastri resigned. I don't think it was anybody's case that he was driving that train at Ariyalur or he had ordered that accident. He thought that since this took place, he should resign his position. Today, if somebody wants to follow Lai Bahadur Shastri or wants to follow either more illustrious precedents on the other side. It is entirely up to the individual. I am not a person to ask anybody to resign on moral grounds. Well, morality is a personal thing.

SHRI BHUVNESH CHATURVEDI:

What about TTX?

SHRI KAMAL MORARKA: TTK's case was different from that of Lai Bahadur Shastri. Maulana Azad forced him to resign.

SHRI DIPEN GHOSH: TTK was forced to resign by Feroze Gandhi. Unfortunately there is no Feroze Gandhi on your side nowadays.

SHRI KAMAL MORARKA: Another thing I want to bring to the attention of the Government. This again speaks of the mental attitude of the Government. Sir, the Government through this statement has very cleverly put about the Narasimham Committee Report implementation that if computers were there, this fraud would not have taken place. I have not understood how dishonesty could be prevented by a computer.

SHRI JAGESH DESAI: It could have been detected earlier.

SHRI KAMAL MORARKA: Okay.

Sir, if the fire alarm does not go on you say that the alarm has to be more effective. But, it somebody has deliberately lit the fire, how does it absolve him? Here is a case where you go on talking about the system failure, early detection. *Are bhai*, there are people who have deliberately done this fraud. Have you put them in jail? No. Have you dismissed them? No. Do they still have access to you? Yes. How do you answer all this? The CBI cannot do anything about it. By the time the CBI does this all, further scams must be going on.

They talk of deregulation and liberalisation. All genuine borrowers and depositors have come to grief ever since this has come out. Today if you go to the bank officials, they say they are busy with this. You may be busy with this. How can you bother the citizens? We have not come to do anything of this type. You please do something normal.

Sir, the problem is that Mr Jaipal Reddy tried to say this, and they did not agree—I am not saying that that—this scandal is a direct result of the New Economic Policy. Their economic policy is yet to take off. There is no New Economic Policy. It is a result of the attitude and mentality created by the pro-You have created a public mind. The nouncement of the New Economic Policy. Finance Minister in his speech has said: "Creation of wealth should not be looked down upon". That is how Harshad Mehta interpreted it. He has created wealth. Don't look down upon him, because that is your clarion call. Now, you would stand up and say you did not mean

that. You meant honest wealth. For (honest wealth nobody is looked down upon. For it no sermon is required. Mahatma Gandhi or Jawaharlal did not say that they frowned upon creation of wealth. You have created a climate in this country. The atmosphere created is that a few people should become rich. They can bring economic growth to the country and finally it will trickle down to the poor. In the unemployment and exist policy situation there has to be a security net for the poor but what is happening is the direct result of your entire mental policy. A bank Chairman draws Rs. 10,000 to Rs. 15,000 a salary. If he does one such transaction, he earns more than what he can earn in his entire career.

He knew there is a sermon, a signal to him that nothing will happen to him. The Finance Minister has said banks should make profits. The Finance Minister has himself admitted at one place when he said:—I am happy —, that because of the tough interest regime the banks could not make profit and, therefore, they went into these avenues. That is the right answer. You came to power in July 1991 and you told them to make profit. Harshad Mehta got the signal and started making profit. If you try to make high profit, there is a high risk and one day you are caught. All that will happen. The common man will never understand all these technical terms like securities, backward deal, forward deal and double forward deal. The sum and substance of the matter is that you are asking the bank Chairman to do something -which he cannot do under the existing guidelines; but you

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tell them to do it. Because you ask them to do it, naturally they will also put 'something in their pocket also. You cannot take action because the general mentality has flown from your speeches. So, my first request to the Government is that they must restrain themselves while making a speech. It is for the Finance Minister and the Governor of the Reserve Bank to see how they will catch the officials. That is their business. But my point is, stop talking things to the Press which give an signal as if nothing has happened. The RBI Governor says he was the watch-dog. A watchman says, "A thief broke in, stole something and ran out. Why are you dismissing me? I saw the thief; I detected who has broken in". When he broke in and stole the thing, he was sleeping. That is the problem. We are not saying you were involved in the theft, but what we are saying is that you failed to do the duty for which you were appointed.

This Governor's term is expiring. It is up to the Finance Minister if he wants to change him or not, but what I want to ask him is to appoint a Reserve Bank Governor who is tough. There are enough people in the country whose mere appointment will immediately lead to resignations of twelve bank chairmen. I can give the names if you want. If you appoint one, twelve bank chairmen will resign and go, because they know their tricks will not work. All that has happened in this country is because we are living in a feudal society. To know who is corrupt and who is honest we do not have to go to the CBI or to the Intelligence Bureau. Go to Udyog Bhavan. The 'leone' there will tell you which Officer is honest and who is not. This is a feudal society. Everybody knows everything. This is a small place. Everybody in Bombay knows which bank chairman takes money and which bank chairman is honest. If the Government means business, they can bring the guilty to book within no time. But, if the intention of the Government is

to gloss over the whole thing and make an excellent statement in Parliamentary form and decorum you can claim that immediately on reading in the papers you appointed CBI and the Janakiraman Committee. Immediately after the report has come we have agreed to the formation of the JPC. What more can the Government do? They can do a lot more to show that they are a tough Government and that such frauds would not take place.

We were not a part of the National Front Government. In fact, we came out of the National Front. But today an unkind remark about Mr. V. P. Singh's son being in the Citibank is not called for. Yes, JPC is meeting. Let somebody give details that Mr. V. P. Singh's son being in the Citibank got favours from the then Government. The nexus is to be established. 4.00 P.M. Do it there. Here there is a nexus between a group of people. I am surprised that this gentleman, Mr. Harshad Mehta has visited the North Block. I did not know it. But Mr. Krishnamurthy himself has agreed that he had brought him there. I am not saying that he is not a citizen of the country. There is a Directorate of Revenue Intelligence, there is an Economic Intelligence Bureau, there are hundreds of officers....

[THE VICE-CHAIRMAN (SHRI MATI SUSHMA SWARAJ): in the Chair.]

SHRI KAMAL MORARKA: If that has happened, it is objectionable. When he was under the adverse notice of the Enforcement and Revenue Intelligence Authorities, then, that person has no business to visit the North Block. Be that as it may, the Finance Ministry is a colossal organisation. On the 26th July, 1991, the then Deputy Governor of the Reserve Bank of India. Mr. Amitab Ghosh has written a letter about it which is given by the Janakiraman Committee in their first report the had warned that these types of transactions are taking place and we

should see that they do not take place. In this one month after they came to power, they knew that some banks were misbehaving. This scandal has broken out in May. What has happened in ten or eleven months? The Reserve Bank of India could not detect it. From a thousand crores of rupees of exposure of the State Bank of India, in these months, it went up to Rs. 9000 crores. Today, Mr. Jagdish Desai wants us to believe that the moment they came to find out about it, it was more than Rs. 22,000 crores. No. You have allowed it to mount. You have patronised it. You have glossed over it. You have given a signal to the officers that nothing will happen as long as you make money and the more money you make, the greater Indian you are. That is what Mr. Harshad Mehta has done. He wanted to prove himself to be a great Indian in the eyes of the Finance Minister. He made lots of money. I repeat, this entire socio-economic philosophy will have to change. In a country like ours, where 90 per cent people are poor, where the total number of taxpayers is 1 per cent, all this, will not work. It can work only in this manner. Here liberalisation cannot come. The poor people do not know what you are talking about. But if you unleash this kind of liberalisation, it will only liberate the people from accountability and responsibility.

Mr. Lalpal Reddy called the Chairman of a Bank as a Tribal Chief. He is totally mistaken. He was a Tribal Chief before this Government came. Now he is a sovereign Head of State. There is a big change. A Tribal Chief, at least, listens. During the Indira Gandhi Government—Mr. Dhawan is not here—a telephone call was enough to send shivers down his spine. Today, that is not the case. Even if the Secretary to the Prime Minister telephones, nothing will happen. I am not suggesting it is right or wrong. But let us understand the change in the situation. Mr. Manmohan Singh's clarification call is that

Minister should not interfere with the office of the Chairman of a Bank. The Finance Minister in his Budget speech has run down the writing off of farmers' loans to the extent of Rs. 1500 crores. We had written off Rs. 10,000 per farmer and that has to be frowned upon as a profligacy. Here five parties have taken away Rs. 3,500 crores. You want to cut the fertilizer subsidy which is only Rs. 7000 crores. It has got serious repercussions in the country. The four *dalals* can swindle away your Rs. 3,500 crores and you want us to debate it in the Parliament. Money is money for this country. If you criticise Rs. 1500 crores loan waiver scheme and subsidy to the farmers and then gloss over this scandal, you are really brave people. If you think that you can face the electorate with this kind of distorted logic, it is all right. You can be staunch because you are in a majority, contrived majority, but you will not be able to face the electorate.

[The Vice-Chairman (Shrimati Sushma Swaraj) in the Chair.]

Madam, I do not want to take much time of the House. I think I have covered most of the points. Only the final point is rather touchy. So I left it to the end. It relates to the question of foreign banks. With our newly developed relationship with IMF and the World Bank. I can understand the Government's hesitation in taking action against them. But after Janakiraman Committee's report, ANZ Grindlays Bank's licence should have been cancelled. We could not do it, we don't have a Government in this country. We are a Banana Republic. They must be asked to pack off. The Standard Chartered Bank has brought in \$ 800 million into the country to make up for the losses. According to the Governor of the Reserve Bank of India, after the final accounting is done, the final money we require is more than that. But just now, we have got some money, Rs. 800 crores. I think, or whatever it is. ANZ

[Shri Kamal Morarka]

Grindlays Bank is refusing. They say they do not agree. The total securities transactions in fourteen months are worth Rs. 9 lakh crores. And two-thirds of the transactions were cornered by four foreign banks. They may say that these are normal transactions. Mr. Jagesh Desai is saying, "How can we stop them?"

SHRI JAGESH DESAI: I have not said that. Please do not say like that. I have said it was not necessary for them to have gone to that extent.

SHRI KAMAL MORARKA: He supports my view-point. He says that they should not have gone to that extent.

Madam, the fact is that at no time in the past history have foreign bank got such a large chunk of the security business. It is not a consequence of their policy. It is an accident. But it has taken place. And two-thirds of Rs. 9 lakh crores is about twice the GDP of the country. You must be knowing what you are talking.

SHRI JAGESH DESAI: It is the total turnover.

SHRI KAMAL MORARKA: What is the total GDP of the country? Rs. 5 lakh crores is the GDP.

SHRI JAGESH DESAI: Please listen to me, Mr. Kamal Morarka. You know it. But you are speaking like this. This Rs. 9 lakh crores is the total transaction in fourteen months. This average comes to about Rs. 300 crore., per day.

SHRI KAMAL MORARKA: I am not disputing that. The fact is that two-thirds of the total transactions were cornered by four foreign banks. One of these foreign banks., which has run into trouble, refused to pay. If we have a Reserve Bank, if we have a Finance Ministry, please send them packing. Grindlays Bank should be asked to get out of the country. We lose nothing. I was in Europe fifteen days ago. A banker there educated me more than anything I had heard here.

They know everything. None of them approves of what has happened in Standard Chartered Bank or Grindlays Bank. Such banking practices in America will land them in prison. Nobody is going to excuse them. But, as I told you earlier, as I told the House earlier, this is not liberalisation, this, is liberated mind. They have liberated themselves from accountability and responsibility; common sense not yet, but likely to allow soon. Liberalisation is one thing. But this kind of things, this country cannot afford. In the whole statement of 12 pages, the words "foreign banks" appear once. He is labouring on computers and the Narasimham Committee. I take this opportunity to request the Finance Minister. Please give a burial to the Narasimham Committee. Do not talk about it again. The talk of implementing the Narasimham Committee report is turning the chairmen of the banks into sovereign bodies. They think that soon there will be no Department of Banking: soon there will be no priority sector; soon there will be no lead bank scheme; soon there will be no service area approach. Everything that Mrs. Gandhi did, everything that nationalisation was meant for, has been quickly and rapidly undone in one year of this Government. That is their biggest achievement. This, might not be the cause of what they have done or the effect of what they have done. But it is certainly a symptom of their mental framework. The earlier they reform their ways, rather governance, the better for the country. I am not worried if the Government goes. We are here to elect a new one. But if the banking system collapse's., all of us put together will not be able to. make it all right again. It is a thing much more difficult to put together than the Government of the day. They must understand their limitations. Mr. Manmohan Singh is not here. Naturally he feels that he knows what we are going to talk. But my request to Mr. Thakur is. please take a "U" turn at least in your public pronouncements because they are giving totally wrong

s.gnals. They are giving the signal to the crook to go ahead and the honest and poor man is feeling frightened. That is what I want to say. Madam. Thank you.

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI

RAMESHWAR THAKUR): I would like to say this for the information of the hon. Member. The hon. Finance Minister is in the Lok Sabha.

SHRI H. HANUMANTHAPPA: Madam Vice-Chairman, I have nothing much to add. I am not disputing the scandal; I am not disputing the scam; I do not dispute that it has happened. Everything is crystal clear and the whole world, the whole country, knows that this incident has taken place and this much we have lost. I want to speak about the action from the Government. Mr. Kamal Morarka was very vehement in saying what is the mentality of the Government towards this incident. I would like to tell him that the day it was brought to the notice of the Government, the Government became active and every day it is acting in that direction to find out the truth. I do not want to go into the detail's as to how much is lost, who are involved in it, which are the banks and all that. Everything is on record. All the reports are crystal clear. In fact, the Opposition was under this impression that the Janakiraman Committee report may not come; the Government may hide it; they may not give it. But the Government is so transparent that the day the report was received, simultaneously, it was made public and was given to the Members of Parliament and public. This very fact shows the intention of the Government, the mentality of the Government. Today, we are listening to a statement of derailment. Nobody expected derailment. But when once derailment takes place, we may find out the reasons and punish the guilty and see that such things do not happen again. This is where the Government is interested now. There is no use of questioning the bonafide in-

tentions of the Government and attributing motives, that you are involved, you are responsible, this man is involved or that man is involved. That is not the case. Today, the Government is alert, the Government is active. You are reading every day how the CBI is proceeding, how many raids have been conducted by it, how many people have been arrested, how many of them have been produced before the court and how much money has been recovered and in what way the Government is moving. Besides the CBI enquiry, besides the Janakiraman Committee report, the Government is very open today. The Prime Minister has made a statement that the Parliament may also look into this scandal and he announced the constitution of a Joint Parliamentary Committee. We have to think beyond all these things and find out the reasons why the system has failed. If there are loopholes in the system, then it is the duty of everyone of us to think over it and suggest ways and means to plug the same. Is it because of the new economic policies? I don't think that this scandal has taken place because of the new economic policies. We have to go deep into the system that is functioning. When this thing came to the notice of the Reserve Bank in the month of March, they issued a circular. But I request the Finance Minister to throw light on one thing. The Finance Minister said that compliance reports have been received from the Banks somewhere in September. Has the SBI sent its compliance report? Has the Karad Bank sent its compliance report? Has the Mercantile Bank sent its compliance report in pursuance of the RBP's circular? If so, what is the content of that compliance report? Who is responsible for sending such false reports? Subsequently, Revenue Intelligence have found that the thing were not all right. I would like to know whether there is a compliance report from the SBI. If there is a compliance report, how can things continue like this? Who is responsible for this? If the report is false, who is responsible for sending a false report? In your reply, you have mentioned half

[Shri H. Hanumanthappa] a dozen banks from whom the compliance reports have been received by the Reserve Bank of India. Did anybody look into those compliance reports? On 2nd September, when you got the information that everything is not all right, did you carry out checks on those banks? Why have you not fixed the responsibility?

The other thing is about the cheques from one bank to the other bank credited to Harshad Mehta's account. Your statement does not say anything about it. Even if I give a cheque for Rs. 10,000 to Mr. Desai, how can it go to Rameshwar Thakur's account? But this has happened. I have not given. I am not going to give you also. Don't expect. This is only an example. Don't expect. But the point is this. Is that clerk or accountant not responsible? Why don't you say that this is the person whom you have dismissed on this ground? Your service rules are there. If a person misbehaves, punishment can be given, but not without an enquiry. There is no doubt that you cannot hang a man without an enquiry. That is how there is some delay. Kamal Morarka is vehemently arguing why you have not done this, why you have not done that. But the day we do it, Kamal Morarka himself will come and say, "You have not given him an opportunity to defend, you have not given him a chance to explain or whatever it is." Some person is responsible to credit these cheques into a wrong account. When did it come to your notice? Do you recommend to the Janakiraman Committee to find it out that a cheque issued in the name of another bank has been credited to some individual? That shows that there is no overlooking of the banking transaction's, that shows that there is no internal checking of the banking transactions. So it gives room for irregularities in the banking system. It is not enough if you attempt only this scam and continue the OBI investigation etc., but the whole banking system should come under review and if you want to re-establish the credibility of the banking system, you have to go before the coun-

try, before the nation and say that these are the steps you have taken. This is only one side. Unearthing loopholes or taking action is a different thing. I request the Finance Minister to come out with his action plan to re-establish confidence in the banking system; otherwise, we will be landing in a great trouble; nobody will have confidence in the banking system. So I request the Finance Minister to bifurcate both these issues. You need not wait till the CBI completes its enquiry, you need not wait till the guilty are punished, you need not wait for the JPC report also. Simultaneously you should work out and find out the lacunae and come before the nation and the Parliament and say that these are the actions you have taken and hereafter you will leave no stone unturned to see that such incidents do not recur. This confidence should go immediately side by side while taking the action. At the same time, the Prime Minister has time and again repeated—and even the Finance Minister has also said that no guilty person will be spared or will be let unpunished. As and when the guilty are brought to book, the Government should go on taking action against them under various rules, service rules, banking rules, criminal rules. Action should be taken against them immediately. To infuse confidence in the minds of the public I want that the action be taken, immediately by the Finance Minister. Thank you.

SHRI MURASOLI MARAN: Madam Vice-Chairman, at long last the hon. Prime Minister has conceded the demand of all political parties by appointing a Joint Parliamentary Committee. It was the demand of not only the political parties, but also of the labour unions connected with the banking system. I would like to join hands with Shri Jaipal Reddy in making a request that the JPC chairmanship should be given to the leader of an Opposition Party; otherwise, it will be like the notorious JPC of the yesterdays. . . (*Interruption*) . . .

SHRI SUBRAMANIAN SWAMY: Or you will boycott it.

SHRI MURASOLI MARAN: Not necessarily. At the same time I know that this is a fraud or a gross misappropriation or an embezzlement of such magnitude that, the JPC can deal with it only with the assistance of an investigating agency. Therefore, I would like to request the hon. Prime Minister that the office of the Comptroller and Auditor-General should help, aid and assist the JPC. Further, I also demand that there should be an enquiry into the mysterious death of Mr. Pherwani because he was one of the key figures in the scam. Madam, we did not like, and we were not satisfied with, the Jana-kiraman Committee Report because he was hamstrung by the doctored terms of reference prepared by the Reserve Bank of India. This is like applying a bandaid to a cancerous wound. That is why we have demanded a JPC. The Janakiraman Committee was also hamstrung by the fact that Mr. Janakiraman is the Deputy Governor and also a Director of the State Bank. So, a serving officer of the Reserve Bank cannot obviously do the job. It is to be handled by a different body because Reserve Bank of India cannot be the prosecutor, the jury and the judge.

Another point I want to make is the timing of the scam, the genesis of the fraud. The Janakiraman Committee's first Report, even though it is very restrained in not attacking the Government or the Reserve Bank, contains some throw-back sentences about the genesis of this fraud. It says, "there has been a significant increase in the volume of transactions in securities and capital market instruments since July 1991". So, July is the month when the scam started. We also know that it was in the month of July the package of new economic policy—in terms of Mr. Jaipal Reddy "Manmohanomics"—really came into effect. (*Interruptions*). It is very difficult to pronounce. Just like Reaganomics, it is Manmohanomics. Dr. Manmohan Singh hoisted his flag of new economic policy in the month of July and, fortunately or unfortunately, this scam

also started during the same period. Mr. Harshad Mehta appeared on the TV screen in praise of the proposals of Dr. Manmohan Singh and Mr. Pherwani, the late lamented Pherwani, hailed the reforms as a boon and as an economic miracle of the century and the hon. Finance Minister took the credit for the lottMng-up of the stock market. On May 4, Ke has gone on record saying the boom is due to the soundness of his reforms. So, at that point of time nobody ever questioned, when the industries were in recession, when the inflation was around 13 per cent, how the stock market can continue to move upwards. The share prices were rising to dizzy heights. How was it possible? The Finance Ministry did not consider it and the Reserve Bank of India did not even think of it. I am afraid, wfaea the right signals were not forthcoming for their new economic policy, they manufactured it as a PR exercise. They wanted to create an artificial boom perhaps. But later it ended as Frankenstein monster and became a volcano be-c?use of which we are suffering now. What is the magnitude of the fraud?

Madam, so many persons, hon. Members who have preceded me, have made a clear account of the magnitude of the fraud. Now, the Minister says the "net problem exposure"—they are coining new phrases—is estimated at Rs. 3,192 crores, but, according to the second Interim Report of Mr. Janakiraman, the scam amount has increased by Rs. 500 crores.

It has increased from Rs. 3078 crores to Rs. 3542 crores. Some knowledgeable people say that the total magnitude may be thrice that amount. The second Report has pointed out that as much as 30 per cent of the 9 lakh crores worth of transactions—that is almost twice the GDP of India—has been entered into the bank and financial institutions over a period of 14 months and they have been conducted outside the books and, therefore, cannot be reconciled. Another factor is, Rs 270,000 crores have no records. There is no way to trace the trading profits of the fantastic

[Shri Murasoli Maran]

amount. What is the probable direct tax on this profit? At the rate of one cent it would be another Rs. 2700 crores. There is a feeling that perhaps the Finance Minister has fixed a ceiling on the scam amount so that it may not scare away some of our foreign investors. It is very clear that only a handful of brokers and handful of banks have reaped the benefits. But I am sorry to find that the Finance Minister has a soft corner for the Reserve Bank of India perhaps due to nostalgic reasons. The Reserve Bank of India is a monitor-cum-guardian of our banking system. In his statement he has referred to the guidelines issued in July 1991. At the same time he says in the next sentence that guidelines were not followed. Then there was a confidential report prepared by Mr. Gurumurthi, a Joint Chief Officer, on the working of the UCO Bank which noted grave irregularities in the securities trading by the UCO Bank in 1988-89 and in some case in 1984. The report particularly mentions the Hamam Street Branch of UCO Bank that has issued money against serious irregularities. I would like to know what happened to those instructions, those guidelines, those findings of the report. So far 10 long months have passed, no serious action is taken. Therefore, there is a total failure on the part of the Reserve Bank of India to supervise and monitor the transactions conducted by commercial banks. The Finance Minister, has already stated in his statement that the RBI cannot undertake micro-management in all cases and it is only in identified problem cases that detailed scrutiny with on-site inspection, is undertaken. This is a brazen admission of the failure of the role and powers of the Reserve Bank of India. If they cannot undertake the micro management, why should there be a Reserve Bank. The Reserve Bank is Government's bank and Bankers' Bank and they have issued guidelines. But how can the Finance Minister who was once the Governor of the Reserve Bank of India confess in his statement that the Reserve Bank cannot undertake micro-management? I think it is better if he distances himself from defending the Reserve Bank of India. His love for the Reserve Bank of

India is very high. Even agreeing for the time being that micro-management is not possible in all cases, I would like to ask the hon. Finance Minister what happened to the National Housing Bank which is a hundred per cent owned by the Reserve Bank of India. Not only that, it was created for the purpose of increasing the housing stock in this country which is a critical need of the people. They have no business to enter into the securities business and it should have been the last priority. But the NHB was involved in, it in a very big way like the State Bank. The State Bank is unique from all public sector banks because its main shareholder is not the Government of India but the Reserve Bank of India and both of them are responsible. I would fix the guilt on the Reserve Bank of India as it failed to monitor the system. It was the Reserve Bank of India which appointed Mr. Pherwani who was removed from UTI only a year ago for his involvement in helping a Bombay-based industrialist. It was the Reserve Bank of India which was instrumental in appointing top-ranking speculators on the Board of Bank of Karad. I would say the scam would not have taken place but for the carelessness and failure of the Reserve Bank of India in supervising, monitoring and guiding the banking system. All securities transactions are done in Bombay and within a radius of a few kilometres of PDO, that is the Public Debt Office. All action was taking place there but the PDO kept its eyes closed. The Reserve Bank of India kept its eyes closed. They cannot escape the blame. The attitude of the Government and the Reserve Bank of India has given rise to suspicion that they are trying to shield big officials by finding scapegoats and alibis. That is our contention. So it is the duty of the JPC to find out whether the bulls acted independently or whether the bulls in the securities jungle have been guided by big elephants, white elephants in Delhi or in Bombay. Now the second report has given very shocking information. For example it says, the share held by the Government of India in public sector undertakings have been sold. So the second Janakiraman Committee report says that in respect of shares given for sale to mutual funds and other

banks the sales were dearly violative of condition 15 of the terms and conditions on which bids were invited which required that the off-loading of share holding shall be through normal stock-exchange transactions. Not only that, the prices for the sale of public sector undertakings were fixed in a 'devil may care' way. Proper prices were not fixed. I would like the hon. Finance Minister—who is not here, but I am sure both the Ministers of State will take note—to respond to this. We all know that Ms. Margaret Thatcher is the *guru* of privatisation. What happened in UK when the British Government under Ms. Margaret Thatcher privatised the industry? If you want to, follow the free market economy you should have all the systems controls. I would like to quote from an article written by John Moore who was the Secretary of the Treasury at that time. It appeared in the Harvard Business Review;

When they wanted to privatise certain public sector undertakings they offered the shares first to the employees and the workers. So they were given first priority. I am reading it out, Madam;

"In British Aerospace, 89 per cent of the eligible workforce bought the shares".

Not one per cent or two per cent.

In the Associated British Ports it was 90 per cent, and in the British Telecom it was 96 per cent. In both Amairsham and Cable and wireless, 99 per cent of the public-sector undertakings shares were purchased by the workera and employees".

Not only that, in spite of the unions' to the workers asking them not to buy the shares, they could sell shares to the extent of 99 per cent in one public sector undertaking.

SHRI VIREN J. SHAH (Maharashtra): I think, Mr. Maran; 99 per cent of the employees bought the shares and it is not that 99 per cent of the shares were bought by the employees... (*Interruptions*).

SHRI MURASOLI MARAN: I will read it out: "Employees; responded enthusiastically to the Offer Of shares at the British Aerospace. -Eighty-nine per cent of the - eligible workforce bought shares..." You are right.

SHRI VIREN J. SHAH; That is the difference.

SHRI MURASOLI MARAN: Even assuming, as he says, that ten per cent of the shares were purchased by the workers, what happened to the balance of shares? They did not sell them to the big sharks or to the foreign banks. Preference was given to the small shareholdeis. Their interests were protected and they were given a quota. So, nobody could buy more than a certain percentage. That is how they protected them and privatisation was introduced in the U.K. But, now, what are you doing? You are dumping the shares in the market and they in turn are dumping the shares in foreign banks. That is why I want to suggest that you should come out with a clear-cut policy on what you are doing with regard to our shares in the public sector undertakings.

We are talking about moral responsibility and other things. In 1957, a similar incident took place. Of course, it was not a scam. The LIC purchased shares from an adventurous person called Mundhra. But the value was not even one crore of rupees; it was less than one crore. At that time, Mr. T. T. Krishnamachari was the Finance Minister, Mr. H. M. Patel was the Principal Finance Secretary and Mr. H. V. R. Iyengar was the Governor of the Reserve Bank of India. What happened? It was not such a scandal Mr. Morarka said that morality is- a personal matter, But, in this matter, they took it so personally that the heads of two persons rolled.- Mr. T. T. Krishnamachari resigned and Mr. H. M. Patel went out of the Government and only Mr. H. V. R. Iyengar continued with his prestige somewhat shaken, So I would like to mention one thing. Some-

[Shri Murasoli Maran] body should take the moral responsibility. "Scam" is a word which cannot be found in the dictionary. Very soon, if such a position continues and if we allow criminals to go scot-free, then, the word "accountability" will also be erased from our dictionary. Thank you.

THE VICECHAIRMAN (SHRIMATI SUSHMA SWARAJ): Mr. Surinder Kumar Singla.

**आपकी मेंडन स्पीच है, प्रथम वक्तव्य है
श्रीपति ;**

**श्री सुरेन्द्र कुमार सिंगला (पंजाब)
पहले बोल चुके हैं।**

उपसभाध्यक्ष (श्रीमती सुषमा स्वराज) :
ठीक है, बोलिए।

SHRI SURINDER KUMAR SINGLA: Madam, it is true that this financial scandal has rocked the country, has shaken the conscience of our nation. People are worried. But they are fully assured today that this Government took the most expeditious, courageous and prompt action against the culprits. In fact, if one looks into the history of bank frauds all over the world, whether it is in the U.K. or elsewhere, one would find certain things. Recently, the case of the BCCI was there. It was established in 1979 and, from day one, this Bank indulged in massive irregularities. But it took nearly eight to ten years for the Bank of England to know that such irregularities were taking place and they could discover these irregularities only after long investigations even though the Bank of England is known for its efficiency and for its power. But, in this case, it is only the Finance Minister who really asked the Reserve Bank of India to scrutinise the SBI transactions in March 1992. They did indicate shortages that these securities were being offered at less than the money receivable. When it came to be known that there are serious irregularities involved, the Finance Minister himself appointed the Janakiraman Committee whose interim reports were submitted, and they have come to public knowledge!. One should appreciate the open view of

the Finance Minister and the Prime Minister that they are not for hiding any information from this country. They are, in fact, interested to unravel the truth about those who were involved, the brokers and the bankers. And immediately they went ahead with appointing a Special Court and ordering a CBI enquiry, and came with arresting people and suspending and terminating the services of people who were involved in this bank fraud. After the scandal came to be known to the Government, they took stringent measures to deal with the problem. It seems strange that instead of asking to deal with the most powerful people having wealth around Rs. 4,000 crores or so, they are asking for the resignation of the Finance Minister on a moral ground. Rather they should have complimented the Finance Minister that he took the boldest and the courageous steps to deal with this scam that arose. I think, one has to define what basically is the area of accountability how you can really stretch accountability to the day-to-day dealings and what happens in the banks. The Finance Minister and the whole Government is dealing with the policy issues Day-to-day affairs are looked after by the Board Management. You cannot really have a moral issue involved in this.

Jaipal Reddyji mentioned about the economic policies' linkage with the scandals. In fact, liberalisation is on two fronts— industrial liberalisation and trade liberalisation. I do not know how Mr. Jaipal Reddy links the liberalisation in the field of industry and trade to produce a scandal in the banking industry. In fact, liberalisation has not taken place in the banking industry. I would admit, you would admit and a lot of people would admit privately that today the Indian banks are the most inefficient banks, the costliest banks. In fact, if you bring liberalisation in the banking industry if you open up the banking sector in terms of providing competition and to produce the most efficient and the cheapest service, you would have revolutionised it. In fact, if you had

modernised the banking sector, this scam would not have occurred really. If you had introduced computers and if the day-to-day reconciliation of accounts had taken place, you would have caught this scam earlier. In fact, it is the liberalisation policy that made the system transparent and the accountability being built up. But this scam came in the way.

SHRI VIREN J. SHAH: The Stan-chart and ANZ Grindlays have total computerisation. Why all this had not been brought out?

SHRI SURINDER KUMAR SINGLA: I am talking about the Reserve Bank. They are not really having a computerised system as a central bank which should have control over all this. In fact, if the banks are modernised and banks are opened in the private sector in a competitive manner, then possibly they would be more efficient and less costly.

The other point is about the promise of the Finance Minister in his statement yesterday to build an inspection and control system so that the entire system can be monitored. It would say that the powers of the Bank's Chairman are so enormous, and the bureaucratic controls so powerful that it has to be brought under check so that an element of accountability could be introduced. Thank you.

SHRI G. SWAMINATHAN: Madam Vice-Chairman, when we were four Members in this House, the time allotted to our party used to be six minutes. After the biennial elections, six of us have come, and I understand only ten minutes have been allotted to us. Thus there is an improvement by only four minutes. I would crave the indulgence of the hon. Vice-Chairman to give me some more time because the points that are to be covered on this matter are so wide-ranging and the arguments are so widespread that it is very difficult to cover all those points within the short span of time allotted to our party.

However, I would try to restrict myself within the timeframe available to me.

Many points have been raised and one of the most important points which, according to me, sets the whole climate into a picture of economic horizon, is that the new economic policy is the reason for the scam. Nothing else can be wider off the mark than this statement because it has been said by many hon. Members who preceded me that the new economic policy started somewhere in July 1991 and also the securities market got enlarged by July 1991 which is the reason for this security scam. The reason why the security market and the stock market expanded is, mainly because of the enthusiasm the new economic policy gave to capital market in the country. The capital market in the country was suppressed by the various policies that were announced by the then Governments and the policy followed by the Government over a period of 40 years, and once they felt that freedom was coming, the liberalisation is coming, the people wanted to invest in the stocks and shares, which will also a long way to expand the capital market and industrial market in the country. India is well-known for its savings compared to many other countries. Regarding stock scam somebody has taken undue advantage of the system. Therefore, it is not the system which is to be blamed. The Finance Minister has to be congratulated for the enthusiasm he has created.

It has been said that because of the IMF loans this has happened. This is one argument being advanced. Another argument being given is that the Finance Minister asked the banks to become profitable. He was also asking them for creation of wealth and capital. I am not able to understand the logic behind all these arguments I would like to ask the hon. Members from that side whether the present Finance Minister is responsible for going to the IMF for loan. The reason why we went to the IMF for loan is the forty years of economic planning in the country which has gone away. The reason is the restrictive

[Shri G. Swaminathan] market which we had. I would like to point out that whatever *ism* we have been following has failed. This is the case with all the countries which have followed this system, whichever is the country, whether it is India, or Sweden, or even the capitalist countries like Britain, the G 7 countries. As I said in my speech on the Budget, the system has not worked. The system has never worked, whether in India or in any other developing country. Whichever country had been following this system had always gone to the IMF for loan. This is the case with the USSR. You must have read it in the newspapers. The former President of the Soviet Union, Mr. Gorbachev, had gone to the G 7 countries and pleaded before them for some assistance. Even his successor, Mr. Yeltsin, is now going to these countries and asking for money. This only shows that the system which they had been following has failed.

Now, when we know that the system is not working, that the system has not worked we have to think of a new system. We have to think how the system can be developed in a different manner. The Members from the other side have not said what system we should adopt. If they do not accept this new system, they should tell us what system we should adopt. Should we continue with the old system? Do they feel that we will become successful if we continue with the old system? If they feel that this new system will not work, which the Finance Minister and the Prime Minister feel will work, they should tell us what is the system that we should adopt.

Sir, about one-and-a-half years or two years back, I read an interview in the magazine 'India Today'. Mr. Chandra Shekhar was the Prime Minister of the country at that time. Mr. Kamal Morarka who was a part of that Government of Mr. Chandra Shekhar said, while talking about his Government, that it is ruling the country with a contrived majority. With what majority he contrived to rule over the country of that time. I do not know. At that time, the Editor of 'India Today' met Mr. Chandra Shekhar. The party is known as the Samaj-

wadi Janata Party. The Editor asked him about socialism. The correspondent said that socialism would mean that everybody in the country would become poor because if the GDP which was very low had to be shared by everybody, everybody would become poor. Mr. Chandra Shekhar was asked whether he wanted this type of socialism. He said that if socialism meant poverty for everybody, he would accept that socialism. This is what he had said."

All countries, including China and the USSR, want that their people should become rich. China is evolving a policy to make its people rich. If we want to make the people rich we have to make capital available to the people. We should also see that the banks are run profitably. Recently, people have been talking that most of the banks are in the red. If the banks are in the red, I do not know how can we run the economy. Banks have to become profitable. If the Finance Minister says that banks have to be run profitably, you ask how dare he say that. I would like to ask my friends, Mr. Jaipal Reddy and others. Do they want that the banks should be run at a loss? Do they want the country to become rich, or, do they not want the country to become rich? Do they want the people to have capital, or, do they not want the people to have capital? I would like to ask, particularly, Mr. Kamal Morarka. He is an industrialist himself. Would he like his industry to run at a loss, or, would he like to run it profitably? Of course, as an industrialist, as a capitalist, he would like his industry to be run profitably. If I have an industry, I would like my industry to be run profitably. Similarly, we want the economy to generate surplus. We do not want to have a deficit economy. We cannot run the Government in that way. ■

Sir, I feel that the new system which has been evolved is the thing needed at the present moment. I say this with all conviction. On the other hand, if you want to tread the old path, the poor will become poorer and there will be no country on the earth which will be ready to give you loan. Our position is so bad that the Finance Minister himself has

said in this Parliament that we are like 'beggars and beggars are not the choosers. We go to other countries, to Japan, with a begging bowl. Our Prime Minister has a talk with the Prime Minister of Tokyo, our Finance Minister has a talk with the Finance Minister of Japan, but what do they talk? There is a photograph of both the Prime Ministers, but one Prime Minister is the lender and the other is the borrower. A photograph of both the lender and the borrower is there. This is our position. Madam, Japan is a surplus country. I have visited Japan many a times. When I visited Japan in 1970, I was welcomed, I was taken around by JDB and they welcomed the tourists from other countries, including India, but last time, about a year when I went to Japan I found a lot of change, nobody welcomed us, no tourist is welcome there. I asked one of the important persons in the hotel as to why there was such a change in a period of twenty years. He said that in those days Japan wanted tourists, Japan wanted foreign exchange, but now we have so much of surplus foreign exchange that we want our people to go abroad and spend the foreign exchange. That is the surplus condition in Japan today. That is the condition in most of the countries, like Taiwan and Singapore. There the new economic policy has been successful and that is why their condition has changed.

I would like the hon. Minister to continue his new economic policy so that the financial condition of the country could improve.

Another argument is that the Finance Minister should own the responsibility and resign. They have not gone to the extent of asking that the Prime Minister should resign. Suppose, we envisage the position that Shri Manmohan Singh, with all his integrity—a person with hundred per cent integrity. He knows what he talks—resigns and you also envisage that the Prime Minister also resigning day after tomorrow. What kind of election, what kind, of Government, what kind of party system what kind of absolute majority this Parliament will have, I

do not know. We want a strong Government to go ahead with this new economic policy. The Thatcherian Government was strong in Great Britain, but this Government, unfortunately, does not have a majority, does not have the full backing of its own party. With new elections it would be very difficult for you to get a strong Government which could implement the new economic policy. As it is, this new economic policy is going to create a lot of problems in the next three years. This is what Mr. Manmohan Singh himself has said on the floor of this Parliament, I do not anticipate that some miracle will happen tomorrow because of the new economic policy. Even the West German Government is in difficulty today. The other day, Upendrajai called us to a parliamentary meeting. The West German Minister was there. West Germany was a model of economic prosperity, while East Germany was a model of economic poverty. Even the unified Germany is finding the position so difficult that the German Minister said that it would take them three years to balance the economy of the West Germany and the East Germany. If this is the condition of a country like West Germany which is giving billions of dollars, as loan to other countries, what would be the condition of India which does not have funds, which has to borrow from other countries to maintain its people? Naturally, our position cannot be enviable during the next three years.

Coming to the scam, Madam, it is not a unique feature. * Wherever there is a share market, wherever there has been increase in the share capital, this scam has taken place. It has happened in USA, it has happened in U.K., and it has recently happened in Japan. This is not a unique feature for this country. I would only like to point out one or two points. One is regarding computerisation of bank accounts. Some hon. Members, on the other side do not take it seriously. As a member of the Committee on Papers Laid on the Table, I had an opportunity to go to various

[Shri G. Swaminathan]

banks. Hie Committee visited various banks, including Canara Bank, Punjab National Bank, State Bank of India and wherever we went, we were surprised to find that their accounts had not been reconciled. Banking transactions had not been reconciled for months together. In a private company if you do not reconcile the accounts on the same day, you will be in trouble. Be-5.00 P.M. cause you don't know what money you have to receive¹, what money you have to Reconciliation has not been done in banks for months, for years. Some banks said it was one-and-a-half years. And computerization is objected to by the union. I do not want to mention which union has been objecting to it. Some of the hon. Members, belonging to a party, to which the union belongs, have been objecting to the computerization of accounts in the banks, and I personally feel that it is one of the reasons why detection of irregularities could not be discovered earlier.

There was an argument that the Grindlays Bank and the chartered Bank have full computerization and why there also this problem came up. They took full advantage of the system of Indian banks. Whereas they were fully computerized, we were not computerized, and they took advantage of the system. The system is not tamper-proof. We have to make the system tamper proof. That is what I want to make very clear. With this kind of a system which is not tamper-proof, which had loopholes—as has already been mentioned by the hon. Members Harshad Mehta got in Ex Bank Chairmen. These Ex Bank Chairmen had been paid, I am told, crores of rupees and they told them what were the loopholes in the system. The loopholes did not develop during Mr. Manmohan Singh's period, the loopholes did not appear during Mr. Narasimha Rao's period. The loopholes had been there during the period of the previous Congress Government, during the period of Mr. V. P. Singh and during the period of Mr. Chandra Shekhar. What

Harshad Mehta had done was that he had taken advantage of the loopholes which had been in existence for years—and he was a crook. These Bank Chairmen like Ratnakar and Prabhu went and brought crores of rupees for him and utilized the loopholes to get it.

Madam, I also wish to say that the Bank Chairmen are something like Maharajas. I will give you one example of a Bank Chairman whom I came to know, which I think the hon. Minister should also know. This Chairman belonging to a large nationalized bank in this country went from Madras to Mahabalipuram. To Mahabalipuram on way to Kovalam Beach he took four AC cars. This is a small instance of how the Bank Chairmen move about. He took four AC cars and in each car there were two people, and there were four drivers in all. These people went to Mahabalipuram. On their way, at Kovalam Beach they wanted to have their lunch. There they approached a 5-star hotel. The man said that each lunch would cost Rs. 225 at his particular place. Then he said, unless you order for 21 meals, we will not be able to provide food for eight people. Then the officers did not know what to do. They went and asked the Chairman, "Sir, what should we do?" He said, "Order for 21 meals, at Rs. 225 per meal." Then they went, placed the order and came back. They were only eight people. Then somebody told the Chairman, "Sir, there are four drivers and they should also take their lunch. Of course, we have ordered for 21 meals". Then he said, "That is a good thing we will take our meals and these drivers will also take their meals". Then they went to the hotel man and said. "Will you give food for these four people also?" He said, "No, you said only eight people and I told you that 21 meals will have to be ordered, which you have ordered. But we have cooked food only for eight people. You have to pay at the rate of Rs. 275 per meal for 21 people." They paid it. And then, what should they do with the drivers? They ordered *a la carte* meals

for each fellow at Rs. 200. So, this is how the money is squandered.

Another Chairman—you may find it out—whenever he wants to go to Calcutta he books a plane ticket for Calcutta, another for Delhi, another for Cochin, book, another ticket for Allahabad Or somewhere else and so he has four plane tickets. Three tickets he cancels and on one he goes. When I asked an officer why he does these things, he said, "He does not want his officers to know where he is going. He may go to Calcutta but they should not know it".

There are many instances like this which I would like to elaborate for the information of the hon. Minister. These Bank Chairmen are behaving in an obnoxious manner. You have to control them. If you don't control them, they will not only become uncontrolled but they will try to control the Government and your Government is already in trouble.

Madam, I have many more points to cover but, for want of time, I have to close. Thank you very much.

उपसभाध्यक्ष (श्रीमती सुषमा स्वराज) :
मुझे एक मसले पर सदन की इच्छा जाननी है। आज बाद दोपहर सदन को सूचित किया गया था कि शाम 5 बजे रेल मंत्री ग्रहमदाबाद-हावड़ा एक्सप्रेस की डिरेलमेंट के बारे में सदन में वक्तव्य देंगे। तो आप लोग क्या चाहते हैं कि अभी केवल वक्तव्य सदन के पटल पर रख दें और सोमवार को स्पष्टीकरण दें या अभी वक्तव्य पढ़ें और स्पष्टीकरण भी अभी दें। सोमवार को स्पष्टीकरण लेना चाहेंगे? अभी केवल वक्तव्य सदन के पटल पर रख दें?

SOME HONOURABLE MEMBERS
Table, Table.

SHRI SUBRAMANIAN SWAMY:
Don't derail the discussion!

उपसभाध्यक्ष (श्रीमती सुषमा स्वराज) :
रेल मंत्री जी, सदन की इच्छा के मुताबिक

केवल अपना वक्तव्य सदन के पटल पर रख दें और यह डिबेट जारी रहेगी।

STATEMENT BY MINISTER

Derailment of 8033 Ahmedabad— Howrah Express on Badnera—Wardha section of Central Railway

THE MINISTER OF RAILWAYS
(SHRI C. K. JAFFER SHAREEF):

Madam, I lay on the Table of the House a statement regarding the derailment of the 8033 Ahmedabad-Howrah Express on 9.7.1992 on the Badnera-Wardha section of Central Railway.

SHORT DURATION DISCUSSION ON IRREGULARITIES AND FRAUDU- LENT TRANSACTIONS IN BANKS AND OTHER FINANCIAL INSTITU- TIONS—Contd.

THE VICE-CHAIRMAN (SHRIMATI
SUSHMA SWARAJ); Shri Syed Sibtey
Razi.. Not present. Dr. Y. Sivaji.

DR. YELAMANCHILI SIVAJI
(Andhra Pradesh): Madam, the Report of the Janakiraman Committee is misleading. The appointment of the Janakiraman Committee is also deceitful. Janakiraman happens to be the Deputy Governor of the Reserve Bank of India. He happens to be on the Board of Governors of the State Bank of India as well as the National Housing Bank. All these three are the culprits in this scam. Appointing one of the culprits to investigate into the same is something funny.

Mr. Janakiraman, in his Report, wants to assert that the Reserve Bank of India itself came to know about this scandal and that on 30th June it started investigation on its own. But the facts are to the contrary. The fact is that on 28th February the Income-Tax Department raided the offices of Harshad Mehta, and they found and seized the computerised accounts. Harshad Mehta do not co-operate with the Department