

**SHORT DURATION DISCUSSION
ON IRREGULARITIES AND FRAU-
DULENT TRANSACTIONS IN
BANKS AND OTHER FINANCIAL
INSTITUTIONS—Contd.**

THE MINISTRY OF FINANCE (SHRI MANMOHAN SINGH): Madam Deputy Chairman, I am very grateful to all the hon. Members who have taken part in the debate on this vital issue which concerns the whole nation.

Madam, I share the great concern, anguish and anger of the House that such a thing has happened. At this stage, I can assure the House that our approach in dealing with this unfortunate aberration is that we must find the truth, the whole truth, that we must punish all those who are guilty of having perpetrated this fraud, all those who are involved in it, and that we should take steps to recover the money. Now, this is the guiding principle that we have adopted in dealing with this massive fraud on the banking system.

Issues have been raised with regard to the responsibility of the Government, the responsibility of the Reserve Bank of India. Also, names of certain individuals have been mentioned who are in no position to defend themselves in the House. The role of foreign banks have been brought in. Instead of dealing with all these issues raised by Members individually, I think I will deal with the broad class of issues that have been raised.

First of all, I would like to deal with the responsibility of the Government. What is the responsibility of the Government? I would like to say that the Government lays down the banking and monetary policies, in consultation with the Reserve Bank of India. The Government does not directly supervise the banks. They are supervised by the Reserve Bank of India in accordance with the provisions of the Banking Regulation Act, and the Reserve Bank

of India Act. Madam, as you know, there are nationalised banks. There is the State Bank of India. There are private banks. There are foreign banks. As far as the private banks and the foreign banks are concerned, their functioning is directly the responsibility of the Reserve Bank of India. As far as the co-operative banks are concerned, the responsibility is shared between the NABARD on the one hand, and the Registrars of Co-operatives in the respective States on the other. The Government, of course, have Directors on the nationalized banks, as also on the State Bank of India. I should like to tell this House what these Boards do. Most of the credit decisions of the banks are taken in the management committees of these banks. This applies also to the State Bank of India. Now, Government Directors are not there on the management committees. What comes to the Board are broad policy issues and there I do accept that Government have a responsibility. But Government cannot police the micromanagement of the banks. That is one that I do want to submit to this august House.

Now, in this House, issues of morality have been raised, responsibility has been brought up. Some people have brought up the issue of a famous case which happened, I think, nearly 35 years ago. Hon Shri Viren Shah or somebody else has mentioned this. I have studied three-fourths of the Mundhra Commission report; I have a copy of it before me. Now, the issue involved in that particular case was the case of a specific transaction put through by the LIC. Then that issue was investigated. It was brought out that that transaction was put at the behest of the Ministry of Finance. This was not disowned and the Rt. Hon'ble Justice Chagla, rightly or wrongly, came to the conclusion that the then Finance Minister knew of it and approved it. I would respectfully submit that there is no parallel between that case and the case

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now. If anybody can show that this fraudulent transactions were put at my behest or that I knew about those transactions, I would certainly accept the responsibility. I would not be worthy of being the country's Finance Minister...

SHRI VIREN J. SHAH (Maharashtra): That was never my intention.

THE DEPUTY CHAIRMAN: I would be very, very thankful to the Members if they permit the Finance Minister to make his statement so that his chain of thought is not broken.

SHRI MANMOHAN SINGH: I Solemnly affirm that I had no knowledge of these transactions. I became aware of something going wrong in the banking system, that bank funds were being channelled wrongly to the stock market, some time in the month of March. That is how this investigation into the State Bank began, and that I had clarified in the course of my reply to the questions last year. I think it was Shri Morarka...

SHRI DIPEN GHOSH (West Bengal): It was the inefficiency of the system.

... (Interruptions) ...

THE DEPUTY CHAIRMAN: Just now I have made the request, half a minute before...

SHRI MANMOHAN SINGH: I think Shri Morarka is not here... (Interruptions).

THE DEPUTY CHAIRMAN: Half a minute before only I have made the request. Please.

SHRI MANMOHAN SINGH: I think I was not here, but I was looking at the record. He said, well, we take credit, politicians take credit when things go right, why should

they not take discredit when things go wrong? Now I admit, I think there is some truth in that, but how far are you going to stretch it? I will give you an instance. In May, 1991 a most ghasty thing happened. A future Prime Minister of this country was murdered in the State of Tamil Nadu. Tamil Nadu was then directly under the President's Rule. Would you then say that the then Government, the then Home Minister and the then Prime Minister were responsible for that murder? I am not going to argue that.

SHRI MURASOLI MARAN (Tamil Nadu): Yes, the Tamil Nadu Government must have taken the responsibility and resigned.

SHRI MANMOHAN SINGH: I am not going to argue that. Therefore, I am saying, there was a failure of the machinery there, but from that you cannot conclude that somebody in Delhi, therefore, must own moral responsibility and resign.

SHRI INDER KUMAR GUJRAL (Bihar): Madam, the relevant parallel would be Lal Bahadur Shastri's resignation. He was not driving the train himself, and he resigned... (Interruptions)...

SHRI MANMOHAN SINGH: I would like to say that I have great respect for Shastriji. In this matter, I have searched my heart. I do not believe that I have done anything immoral or... (Interruptions)...

SHRI DIPEN GHOSH: Then Lal Bahadur did an immoral thing or what?... (Interruptions)...

THE DEPUTY CHAIRMAN: Now, please.

SHRI MANMOHAN SINGH: On that point, therefore, I want to clarify certain points... (Interruptions)

THE DEPUTY CHAIRMAN: Please let him answer. Please. (Interruptions).

SHRI YASHWANT SINGH (Bihar): Madam, I want to make one point. The hon. Finance Minister has drawn a parallel. I think it is very unfortunate that he should refer to that. I would appeal to him to be restrained in his presentation. Let him not further excite or agitate Members' minds which are already agitated.

SHRI MANMOHAN SINGH: I am sorry if I have hurt anybody's feelings, that was not my intention. I apologise to the hon. Member if I have hurt his feelings. I am not making that accusation. I am saying that you cannot run the affairs of this Government that way. There is an old American saying that, if there is a theft in a village, you ask for the resignation of the mayor. This country's Government cannot be run in this way. That is all I am submitting. If you find any direct act of omission or commission on my part, by all means hold me responsible, but I would respectfully submit that this matter is before the JPC. My conduct should be investigated by the JPC, and if it comes to that conclusion, I think, that will be a different matter.

Several Members have asked me this question about the stock market. Also some Members have said that this scam is a direct consequence of the policies of economic liberalisation. I strongly repudiate that sort of a suggestion because this scam happened when the financial markets were under tight control. If you are referring to the financial liberalisation, it is only in June that the control on capital issues was removed. What is it that you are hinting at when you say that this was directly the consequence of the policies of financial liberalisation?

It has also been mentioned that the stock markets behaved in a particular way. I have looked at the behaviour of the stock markets. Between January, 1990 and October, 1990 the stock markets went up by 108 per cent. Then there was a decline, and then in

1991 the stock markets started at about 1000. I have looked at the behaviour of the stock markets in 1991. I think that till February the markets were roughly behaving in a manner which could be justified. After that, I think there was an excessive rise. I do submit to you that Finance Minister I was worried about that. Now the question is: If I knew what was happening to the prices, what mechanism did I have to control the prices and what did I do? First of all, in January I gave the SEBI statutory powers. As ordinance was issued. The SEBI was there as an advisory body for the last five years. It had no teeth. We brought an ordinance. We converted that ordinance into an Act of Parliament in the last session of Parliament so that thereafter the stock markets could be policed effectively, that the pernicious practices of insider-traders could be dealt with effectively. When the markets started rising after the presentation of the budget, I was constantly in touch with the Chairman of the SEBI. On the 28th of March I convened a conference of all the office-bearers of the leading stock exchanges in the country, that is, Bombay, Madras, Calcutta and Delhi. I told them that what was happening in the stock exchanges was not in the interest of our country and that they must see to it that the stock markets were properly policed and that the practices that were giving rise to speculative rises in prices were curbed. I would have pursued that matter, but then, within a few days, there was a strike of brokers. When these brokers went on strike, the attention got diverted to dealing with the consequences of that strike.

At another level I had instructed the Governor of the Reserve Bank, as early as in October, 1991, that speculation in the stock market should not be fanned by bank funds. That is why in the credit policy that was announced in the month of October, 1991, the margin requirements for lending against

shares were tightened. I asked him to take further action in the credit policy that he announced in April, 1992. It is true that the markets were behaving in an erratic manner, but quite honestly at this stage I did not know that the securities market was the mechanism which was being used to pump money into the stock market. When in March we started discussing this matter, some clues were brought to my notice. I asked the Governor of the Reserve Bank to pursue this matter. He reviewed certain transactions of certain individuals with a particular bank and he came to the conclusion that the securities market was being misused. The starting point was the State Bank of India, so then we investigated the State Bank of India. By the first week of April the Reserve Bank had asked the State Bank of India to explain the whole matter. Between April 10 and 18, the State Bank of India was able to square up these transactions. Thereafter the Reserve Bank of India came to the conclusion that that was not the end of the matter. They pursued it and traced it to the National Housing Bank and A.N.Z. Then, of course, there was a public...

श्री चतुरानन मिश्र (बिहार) : आपने यह ठीक कहा कि आपने रिजर्व बैंक के गवर्नर से कहा कि इसको देखें कि कोई इस तरह की बात हो रही है। आपके दिमाग में यह प्रश्न उठा। क्या कारण है कि रिजर्व बैंक के गवर्नर जो उसके बहुत नजदीक थे और जिम्मेदार भी थे, उनके दिमाग में यह प्रश्न नहीं आया? इसीलिए हम लोग कहते हैं कि उनके ऊपर जिम्मेदारी है।

SHRI INDER KUMAR GUJRAL: The hon. Minister may also let us know particularly about the National Housing Bank. How did it happen that the Reserve Bank did not come to know and after your initiative it came to its notice?

SHRI KAMAL MORARKA (Rajasthan): The Hon. Minister is quite right when he said that the Reserve Bank Governor put restrictions on

margin for lending for these shares, but in a particular case we have found out that the money from the banks had not gone through the lending window. It had gone from the Treasury. So, I would like him to shed light on that.

SHRI MANMOHAN SINGH: This is with regard to the role of the Government in this matter.

Now, I come to the role of the Reserve Bank of India. The hon. Member, Shri Gurudas Das Gupta, has mentioned that the Reserve Bank of India knew about it. He mentioned a particular report of the Reserve Bank of India with regard to the working of the foreign banks, which was available in 1990. I have looked at that report. On the whole, that report is very complimentary to the foreign banks. At the end of it the Reserve Bank did say that in their portfolio management scheme, they did find irregularities. I crave the indulgence of this House to make a distinction between irregularities and fraudulent transactions. I had been Governor of the Reserve Bank. Many a time you find irregularities, but from that I don't think it is self-evident that these irregularities are in the nature of fraudulent transactions. So, I submit to this august House that these irregularities were discussed by the Reserve Bank of India with those particular banks and thereafter those banks were asked to correct those things. But those irregularities which came to their notice at that time did not point to fraudulent transactions. In any case, those banks are the victims of that fraud. I do not think anything has been proved to say that those banks are responsible for perpetrating the fraud.

A reference has been made to the circular of July 1991. It is true that the Reserve Bank of India noticed in a number of small banks that these facilities of the BRs and the securities portfolios were being mis-

used. The Reserve Bank issued a circular in July and I have seen that the Standard Chartered Bank and the State Bank of India sent explicit letters to the Reserve Bank of India that they were fully complying with the instructions contained in that particular circular. One can take a view that the Reserve Bank of India should not have been satisfied with that, but when a bank like the State Bank of India says under the signature of its Chairman that they were fully complying with those instructions, I really don't blame the Reserve Bank of India when they believed the word of the Chairman of the State Bank of India. Now in retrospect one can be wiser by the event. One could have said that having discovered this thing, the Reserve Bank of India should have ordered there and then a special audit. But that I think is by hindsight. I do not doubt the intentions of the Reserve Bank of India. I do not believe that the Reserve Bank of India was in any way in the business of covering up. In fact, when the Reserve Bank of India and I came to know towards the end of the year—in January—that these three particular banks—I would not like to name them, they are small banks—were not obeying these instructions, the Reserve Bank of India asked for a special report. In fact, action was being contemplated against those banks. In the meanwhile, I think the bigger dimension of the problem, that is, the State Bank of India matter, came to the notice of the Governor of the Reserve Bank of India. He said "Well, let us look at this matter in totality." In the press, for example, it has been said that the Governor of the Reserve Bank of India wanted to take action against the Bank of Karad in March but he was prevented from doing so, at the behest of some political power. I talked to the Governor. I have also looked at the file. I can tell you there was no such indication. There was a thinking on the part of the Governor that in this particular case, action should be taken. But after discussions with officials, they came to

the conclusion that this action should be postponed until the credit policy meeting was convened. Madam, I would like to submit to you that there are a large number of small banks in our country.

SHRI GURUDAS DAS GUPTA (West Bengal): Can I read out this part? I am just reading out for your kind information. Page 13 about the transactions in foreign banks. "A scrutiny of portfolio management in some banks reveals serious irregular cases" not regular cases; "suitable action is being taken against the banks." Madam, I would only crave your indulgence. What action has he taken with regard to the report that was submitted as far as back as 1990?

SHRI MANMOHAN SINGH: I have already mentioned that in these matters, discussions take place between the Reserve Bank of India and the bank concerned. These discussions did take place. I have already explained that position and this was the report submitted in 1990. I have been assured by the Reserve Bank of India that discussions were held with the concerned banks and at that stage there was no indication that these irregularities were in the nature of fraudulent transactions.

Madam, now in the case of the Bank of Karad, I submit to you that there is no basis for the conclusion that anybody at political level interfered with any decision that the Reserve Bank of India wanted to take in this matter. The Reserve Bank of India was worried about the behaviour of the Bank of Karad in March. I have seen the relevant file myself. All that they did was "Let us warn the bank. But further action should be postponed until the credit policy meeting in April." I am myself satisfied with the Reserve Bank of India's intentions which were honourable, even though I think, in retrospect one could argue that if they had taken quicker action, maybe this thing would have been stopped at an earlier date.

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Madam, the Reserve Bank of India is a great national institution. I would like to say that...

SHRI GURUDAS DAS GUPTA: About the Bank of Karad...

THE DEPUTY CHAIRMAN: Please don't interrupt him. I am not permitting anything. Without my permission, it is not going on record. Mr. Minister, please don't yield. If we allow like this, we will never finish our business... (Interruptions)... I am not allowing. I am not permitting.

SHRI GURUDAS DAS GUPTA: He has referred to the first letter. I am producing the second letter. That letter spoke of irregularities. It was in the month of January... (Interruptions)....

THE DEPUTY CHAIRMAN: I warn you, please don't interrupt. Let the Minister finish his reply first. If you still have any doubt, you may take my permission and ask a question. If you interrupt this way, we will never be able to finish our business.

SHRI GURUDAS DAS GUPTA: I accept Madam.

SHRI MANMOHAN SINGH: In fact, referring to the second letter in March, the Reserve Bank of India again wrote to these three banks and their Chief Executives were called. This is with regard to the second letter, not with regard to the first letter of July. All that I want to show is that the Reserve Bank of India was not inactive in this matter though, I submit, one can argue that if they had been more active, maybe some of these things could have been avoided. That is, by hindsight, I think you can come to that conclusion. To reasonable persons, I would like to say that the Reserve Bank of India is a great national institution and I would respectfully submit that comments on the Reserve Bank of India and its Governors should be made with great restraint. (Interruptions).

SHRI DIPEN GHOSH: Are they holy cows?

SHRI S. JAIPAL REDDY (Andhra Pradesh): Madam, I think the Finance Minister is taking undue advantage of the restraint we have shown so far. Are we to treat him as a holy cow? Are we to treat the RBI Governor as a holy cow? (Interruptions)...

THE DEPUTY CHAIRMAN: That is his view-point. Let him speak. (Interruptions)... Nothing will go on record without my permission. I have requested hon. Members very pleadingly to let him finish. I am quite sure that you are not going to be satisfied with his answers. Maybe, he is not satisfied with your arguments. But that does not mean that you should not permit him to speak. He did not interrupt you when you spoke.

SHRI S. JAIPAL REDDY: *

THE DEPUTY CHAIRMAN: No. I am not permitting you.

SHRI S. JAIPAL REDDY: *

SHRI GURUDAS DAS GUPTA: *

THE DEPUTY CHAIRMAN: I am on my legs. Please sit down. All of you, take your seats.

SHRI MANMOHAN SINGH: Madam,...

THE DEPUTY CHAIRMAN: Just a minute, Mr. Finance Minister. When everyone of you was making his view-points on the floor of the House, I am sure the Finance Minister did not interrupt him. When he is making his reply, please have the courtesy not to interrupt him. If you are still not satisfied, you can ask for permission to speak. I may allow you. But this is not the way. (Interruptions)

*Not recorded.

SHRI DIPEN GHOSH: *

THE DEPUTY CHAIRMAN: Whatever it is, I am not permitting you. Please sit down. You may call anybody great or may not consider anybody great. But let him finish. No more interruptions, please.

SHRI MANMOHAN SINGH: I do not wish to imply that if the Reserve Bank of India has done anything wrong, it should be put under the carpet. I am not going to do that. If I discover that anything has been done by the Reserve Bank which is wrong, I will not shield anybody. I can assure you of that. But I would like to point out to you that we are dealing with this in a very uncertain situation. I think my colleague, Shri Yashwant Sinha, would support me on this. I think the situation that this country faced from December 1990 onwards was a most unusually difficult situation on the balance of payments position. And I can certify to you that a very substantial part of the Governor's time was taken in dealing with this unprecedented crisis in the balance of payments. One has only 24 hours a day. Therefore, you cannot expect that in all matters, the Governor... (Interruptions).

THE DEPUTY CHAIRMAN: Please let him finish

SHRI DIPEN GHOSH: *

THE DEPUTY CHAIRMAN: No. I am not permitting you, Mr. Dipen Ghosh. This is not the way the House should run. I will not permit a running commentary, please. Anybody who is speaking without my permission, except the Finance Minister, will not go on record. Let me use my discretion, please.

SHRI DIPEN GHOSH: *

SHRI MANMOHAN SINGH: I would like to narrate to this hon.

House that when I was a student, I think, Sir Paul Chambers, who was then the Chairman of the Imperial Chemical Industries, came... (Interruptions)

SHRI DIPEN GHOSH: He is a student of Oxford... (Interruptions)

THE DEPUTY CHAIRMAN: Mr. Dipen Ghosh, please cool down. Let him speak. Don't get so excited. (Interruptions)

SHRI MANMOHAN SINGH: I would like to say that in life, you have to take many decisions when you do not have complete information. Now, I was quoting Sir Paul Chambers. He stated: "If out of ten decisions that you took, five turned out to be correct, the shareholders would consider the job well done. If out of ten, seven turned out to be correct, that would be considered an outstanding performance. But I don't think human institutions are so infallible that you can expect each individual each institution to be right in ten out of ten cases." (Interruptions).

SHRI DIPEN GHOSH: You have been proved as an outstanding person. ... (Interruptions) ... The Reserve Bank of India's Governor has been proved as an outstanding Governor. (Interruptions).

THE DEPUTY CHAIRMAN: Mr. Dipen Ghosh and Mr. Gurudas Das Gupta, again I am reminding you, please don't make a habit of just getting up like this. Is it not becoming of you. Please don't do it." (Interruptions).

SHRI GURUDAS DAS GUPTA: No Minister in the past has behaved in the way in which he is behaving. It is unusual. (Interruptions)

THE DEPUTY CHAIRMAN: Mr. Gurudas Das Gupta, don't do it.

SHRI MANMOHAN SINGH: Therefore, I would submit that an institution as well as an individual has to

*Not recorded.

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be judged in totality. I submit to you that in this particular incident, the Governor's conduct has been consistent with what I would expect him to do. When he came to know that certain things were wrong... (*Interruptions*)

SHRI MURASOLI MARAN: Madam, let him not give any certificate of good conduct to anybody. Let him defend himself. Let him not defend anybody. (*Interruptions*)

THE DEPUTY CHAIRMAN: If anybody speaks without my permission, it will not go on record. If my request has not been complied with, I have to use my discretion. What else can I do? I have no other way.

SHRI MANMOHAN SINGH: If that is the wish of the House... (*Interruptions*)...

SHRI DIPEN GHOSH: Is it becoming of the Finance Minister to give a certificate of conduct?

THE DEPUTY CHAIRMAN: Let him speak. He has got his viewpoint. He has got a right to speak. (*Interruptions*) Mr. Gurudas Das Gupta, at least, have respect for yourself. I am requesting you. I know that you are agitated. Have some courtesy and listen to him. He listened to you patiently when you were speaking.

SHRI GURUDAS DAS GUPTA: He did not listen to me. He never listened to me.

THE DEPUTY CHAIRMAN: Okey. Let him speak.

SHRI MANMOHAN SINGH: I think, Madam, Shri Inder Kumar Gujral asked about the National Housing Bank. It is true that what has happened in the National Housing Bank is simply deplorable. Now, it has been said that because the National Housing Bank is a subsidiary of the Reserve Bank of India, therefore, the Re-

serve Bank of India is responsible for this. I would like to submit to this House that even the State Bank of India is owned 98 per cent by the Reserve Bank of India. It has a separate management, management structure. What has happened in the National Housing Bank is deplorable. But that does not mean that the Reserve Bank of India was a party to that sort of fraudulent transaction. (*Interruptions*)

SHRI INDER KUMAR GUJRAL: Madam, he has referred to me. You have to permit me. When I raised the issue of the National Housing Bank, kindly keep in mind the fact that the Reserve Bank of India acted like a sleeping goddess and if anything happened under it, it is not being held responsible. If or its subsidiary bank, it is not responsible; for the nomination of Directors it is not responsible. Is there something like a moral responsibility or not? Is there any constructive responsibility of any one or not? I am asking a simple question. Is the Reserve Bank of India Governor not responsible at all? If the RBI Governor is not responsible at all, if the Minister is not responsible at all, then let us forget the whole thing!

SHRI MANMOHAN SINGH: I am not saying that the Minister is not responsible for it. I would like to say that I accept responsibility for what happened in the financial system. I am not running away from my responsibility. I think it is for the House to judge whether I have discharged that responsibility or not, but all I am saying is that when a fraud is committed, since I think really there is no foolproof method to avoid a fraud in modern life.

From the fraud you cannot conclude that the whole system is rotten. There are a lot of defects. I have mentioned myself there are weaknesses in the system, in the management structure and in banking services. The Reserve Bank of India supervi-

sion-system needs to be strengthened. In fact, if the House would remember, I had set up the Narasimham Committee with one specific term of reference to look into the supervisory arrangements because I was aware of the fact that in the type of world in which we live, we need a much more modern supervisory system. So I do recognise that the supervisory system has proved inadequate, but this does not lead to culpability to the conclusion that the Reserve Bank or its Governor has been a party to this fraud... (*Interruptions*)...

SHRI SUBRAMANIAN SWAMY (Uttar Pradesh): I think Mr. Finance Minister should know that his defence of the Reserve Bank Governor is far beyond the call of duty. I don't think he should go so far to defend him.

SHRI N. K. P. SALVE (Maharashtra): Let him come to the next point.

SHRI MANMOHAN SINGH: Now I come to various other issues.

SHRI DINESHBHAI TRIVEDI (Gujarat): Madam, please give me half a minute. Now there are three claimants of who discovered the fraud. It is a matter of fact that the State Bank of India Managing Director has gone on record saying that he has discovered the fraud, and the RBI Governor says that he has discovered the fraud. The hon. Minister has just now mentioned that it was he who brought the Reserve Bank Governor's attention to what was happening in the market; that itself proves that the Reserve Bank Governor totally failed in his supervisory duty also. Secondly, ...

THE DEPUTY CHAIRMAN: That is enough. Mr. Finance Minister, please carry on... (*Interruptions*) ... You can't make a speech. I am so sorry.

SHRI DINESHBHAI TRIVEDI: Madam, last point... (*Interruptions*)...

THE DEPUTY CHAIRMAN: I am sorry you can't do it.

SHRI DINESHBHAI TRIVEDI: If the SBI management has failed, have you asked for the resignation of the entire SBI directors? It is your contention not mine. ... (*Interruptions*)...

SHRI MANMOHAN SINGH: I am sorry, I have answered that question yesterday. I have not said that I discovered he fraud... (*Interruptions*)...

SHRI DINESHBHAI TRIVEDI: I think he has no idea. ... (*Interruptions*)... But you have just now said that you brought the attention of the Governor of the RBI... (*Interruptions*)

THE DEPUTY CHAIRMAN: What are we having? Mr. Trivedi, this is not the way to treat an answer. There is no football match going on over here.

SHRI MANMOHAN SINGH: I say I discussed with the Governor, I discussed with the Chairman of SBI, all these matters on a day-to-day basis. From out of this the idea emerged that funds are flowing into the market. And in fact, if you look at a question—I don't know if I have answered it in this House or the other House—, on 24th April I did point out that a very large amount of funds was flowing into the market. So I am not claiming that I discovered the fraud. That sort of allegation, I respectfully submit, is not warranted. ... (*Interruptions*)...

SHRI DIPEN GHOSH: *

SHRI SUKOMAL SEN (West Bengal): *

THE DEPUTY CHAIRMAN: Please, no comments. ... (*Interruptions*)... No comments are going on record. (*Interruptions*)...

SHRI DIPEN GHOSH: *

*Not recorded.

THE DEPUTY CHAIRMAN: No comment is going on record. No comment is going on record.

SHRI MANMOHAN SINGH: Long before the *Times of India* reported it, the Reserve Bank of India, I think, had asked the State Bank of India to reconcile their securities portfolio and that task has been completed by the time the *Times of India* made that report. So it is not correct to say that the *Times of India* discovered the fraud. ... (Interruptions) ...

Now I come to the role of foreign banks. Now, Dr. Murlī Manohar Joshi has referred to the role of foreign banks. I am not here to defend the foreign banks. The Reserve Bank of India has ordered a special audit of the transactions of the foreign banks. But I would like to say that in this matter also one should remember that nearly 53 per cent of the deposits of the foreign banks are FCNR deposits. Of the total amount of FCNR deposits in our system, nearly 40 per cent are accounted for by the foreign banks. It is true that, whether we like it or not, non-resident Indians get better service and, therefore, we have, I think, such a large proportion of FCNR deposits being accounted for by the foreign banks. Now, what has been revealed in the Janakiraman Committee Report, I think, does not warrant the sweeping conclusions of the type that have been drawn. If they have committed any irregularities, that would be revealed by the audit. But I would respectfully submit that trading in securities, having a portfolio management scheme, is not a crime and we have a reputation to defend of treating the foreign banks, once they are in our country, in the same way as we treat our domestic banks and I propose to stick to that path. But if any foreign bank is guilty of having violated our rules and regulations and our laws, you have not assurance that we will take

the strictest possible action against them.

I think, a reference was made to the links between certain officials and the foreign banks. Now, I cannot provide a foolproof answer to that. I have, I think, mentioned in this House that a reference was made to myself that I have some children in the banks. I explained to this House, as far as I am concerned, I have no relative—I am saying no relative of mine, not only my dependent children but no relative of mine—in the banking system, leave aside the foreign banking system.

Now, I want to say that a reference was made allegedly to coupon trade. As far as the Ministry of Finance is concerned, ...

SHRI R. K. DHAWAN (Andhra Pradesh): What about the other Finance Ministry officials?

SHRI MANMOHAN SINGH: All that I would say is that I am going to refer all that to the Cabinet Secretary to hold whatever investigations he wants. One investigation has been done. I think a reference was made to the Chairman of the Oil and Natural Gas Commission that he had a son working in the Citibank. The Chairman of the Oil and Natural Gas Commission has written a letter to, I think, the hon. Member and in the copy to me he has denied that he has any sons working in the Citibank. (Interruptions) ... I am telling you about one particular case. I have this confirmed information from the Chairman of the Oil and Natural Gas Commission that he has no sons working in the Citibank and that his son is a university professor somewhere.

SHRI JAGDISH PRASAD MATHUR (Uttar Pradesh): The Chairman of the ONGC is being sent on leave. Are you aware of it?

SHRI MANMOHAN SINGH: I am sorry, you raised this question. ...

(Interruptions)... A question was raised about his son and that Rs. 300 crores were deposited in the Citibank because of his connection. Now, I think, you can draw your own conclusion.

SHRI JAGESH DESAI (Maharashtra): I would like to know whether permission has been taken or not.

SHRI MANMOHAN SINGH: I am going to refer these reports to the Cabinet Secretary to see if any violation of the Service Conduct Rules has been taken place. (Interruptions)...

SHRI R. K. DHAWAN: You said that the ONGC Chairman had written a letter saying that the report of his son being employed in the Citibank is false. Do you mean to suggest... (Interruptions)...

THE DEPUTY CHAIRMAN: If you interrupt this way he cannot finish. (Interruptions)... No, he cannot also interrupt. (Interruptions)... Considering the number of interruptions you have already done—if you go by the time and number—I think, Mr. Dhawan has got a right to interrupt. (Interruptions)...

SHRI MANMOHAN SINGH: Only one particular case was mentioned in the House; other cases were not mentioned. Newspapers have carried reports of the dependents of other officials being employed in foreign banks. I am going to ask the Cabinet Secretary to look into this matter if any Service Conduct Rules have been violated. I have no other information. I don't propose to defend anybody who has willingly or in any manner violated the norms that our Government expects from its officials. Madam, these are some of the points which were made in the course of the debate. I believe that I have covered most of them. Now I come to the point which Shri Gurudas Das Gupta brought up. Shri Gurudas Das Gupta brought up a number of cases. I have already replied ... (Interruptions).

THE DEPUTY CHAIRMAN: Let him deal one by one. He can't take all the names and all the points at the same time.

SHRI MANMOHAN SINGH: I have already answered about the circular that he quoted with regard to the foreign banks. I have also looked into the case of the Andhra Bank. I am satisfied that the Andhra Bank or the Director of the Reserve Bank of India in that particular meeting had committed no impropriety. Indeed there was a discussion in that meeting on what amount ought to be provided for bad and doubtful debts. It is a normal procedure for the auditors to have a discussion with their clients. In this particular case the auditors had a discussion with their clients and at the end of it the auditors had signed that report. Therefore, the type of inferences which my hon. friend was drawing, I submit to him respectfully that I don't share those inferences. He also brought... (Interruptions).

SHRI GURUDAS DAS GUPTA: Can I make a point?

SHRI MANMOHAN SINGH: No, let me finish.

THE DEPUTY CHAIRMAN: Let him finish. You had already made your point.

SHRI MANMOHAN SINGH: He also brought up a case of the Bank of Baroda, if I remember correctly. I have looked into the balance sheet. I am satisfied that there is nothing wrong with the balance sheet. The Bank of Baroda has no balance with the Bank of Karad. They have a balance with the BCCI against which they have a deposit of the BCCI. The whole amount is fully secure. So, the Bank of Baroda has not committed any impropriety. Madam, through you, I want to say one thing that banking is based on trust. If people lose faith in our banking system, if, today, there is a run on the banks, no-

[Shri Manmohan Singh]

body can really provide all the cash. This is not only true of India but this is true of every country, that the system does not have cash to provide it to every depositor. Therefore, it is incumbent on us that whenever we bring such charges—the Bank of Baroda is a bank of repute in our country—we ought to be a little more careful. I don't want to hurt the feelings of my colleague. I don't want to accuse him of malintentions. His intentions are entirely honorable. But I have looked into this particular matter. I am satisfied that the Bank of Baroda has not done anything wrong. Yesterday, he referred to the case of seven banks. I am prepared to look into those seven banks. Let me be very candid with you. Over the year bad and doubtful debts have accumulated in our banking system. In fact, if you look at the Narasimham Committee Report, that was one of the reasons why I appointed the Narasimham Committee. It was appointed to clean up the banking system. It is not a one-day operation. We are going to move towards a transparent system where there will be adequate capital provisions, proper income recognition norms. But it requires, if I have to move towards the standard international norms, about Rs. 3000 crores more to be pumped into the capital of the banks. If I have accumulated in our bank bad and doubtful debts which have accumulated over the last several years, I need to provide for Rs. 10,000 crores. Now, all these things cannot be done overnight. If you look at the Report of the Narasimham Committee that was one area... (Interruptions).

श्री चतुरानन मिश्र : हम ही लोगों के भाषण के चलते यह सब हुआ ?

SHRI MANMOHAN SINGH: That is one area which is of concern. This is not a partisan matter. I share the concern that we must over a period...

SHRI CHATURANAN MISHRA: You say that our criticism has led to

misappropriation of Rs. 10,000 crores. (Interruptions).

SHRI MANMOHAN SINGH: I did not say that.

SHRI CHATURANAN MISHRA: You are again defending them.

SHRI MANMOHAN SINGH: I am saying, over a period of time bad and doubtful debts have accumulated. They have not accumulated in the last one year, they have accumulated over a long period of time. We have to clean up our banking system. That is a task which requires infusion of a large amount of capital into the banking system. Therefore, those who are worried about such large 1.00 P.M. amounts of bad and doubtful debts. I expect them to support the tenor of the report of the Narasimham Committee. But my friends here get agitated whenever I mention the Narasimham Committee. If you really are serious about making the Indian Banking system viable, competitive and efficient, there is no other alternative but to take the route of more capital adequacy, proper income recognition and proper provisioning; that is the direction in which we propose to move... (Interruptions) ...I thank the hon. Members who have taken part in this debate. If any doubts have been left I will be happy to clear them. Thank you... (Interruptions)...

SHRI GURUDAS DAS GUPTA: Madam, since he referred to me in the last part, I am inviting his attention to some of my submissions which he might have forgotten. I had referred to a secret report of the United Commercial Bank which was submitted in January, 1992 and which was signed by Mr. Gurumurthy. I am just reading a small paragraph:

"Apart from the official transactions, the bank's Bombay Hamam Street Branch, unauthorisedly indulged in investment transactions of a large magnitude with daily turn-

over varying between Rs. 100 crores and Rs. 1000 crores at the behest of certain brokers by issuing bank official receipts thereby exposing the bank to serious risk."

This is an absolute fraud... (Interruptions)...

THE DEPUTY CHAIRMAN: I am not allowing a full discussion. No... (Interruptions).... Please, Mr. Gurudas Das Gupta... (Interruptions)...

SHRI GURUDAS DAS GUPTA: I am not discussing, I am just referring to it... (Interruptions)...

THE DEPUTY CHAIRMAN: You have already made your point... (Interruptions).... Just a minute... (Interruptions).... Please... (Interruptions)....

SHRI GURUDAS DAS GUPTA: Madam, this is a case fraud and it was brought to the notice of the Reserve Bank of India in January, 1992 and he comes to know of the so called scam only in April. In between four months have passed. At least in the case of the Reserve Bank of India, what happened?... (Interruptions).... In the case of Andhra Bank... (Interruptions)....

उपसभापति: वस हो गया। अब आप बैठ जाइये। वस बैठिये।

SHRI GURUDAS DAS GUPTA: Rs. 44000 crores was suggested by the auditors towards provision for bad and doubtful debts. But the Bank did not meet the requirement and the auditors... (Interruptions)....

THE DEPUTY CHAIRMAN: I am not permitting you to start another discussion. I have no authority to start this discussion all over again... (Interruptions).... Please, no. That is over... (Interruptions).... Finished... (Interruptions).... Please take your seat... (Interruptions).... Please do not strain... (Interruptions)....

SHRI GURUDAS DAS GUPTA: One point. In the case of Andhra Bank, Rs. 44,000 crores was the suggestion of the auditors to which the management did not agree and afterwards the auditors were pressurised to sign it and the provision was brought down to a very small amount and as a result the bank is showing profits. I am protesting... (Interruptions)....

THE DEPUTY CHAIRMAN: Please, Mr. Gurudas Das Gupta, take your seat. This is not the way... (Interruptions).... Don't raise your hand. I am tired... Don't raise your hand. I am not permitting you... (Interruptions).... Please, please... (Interruptions).... There is a procedure... (Interruptions).... Just a minute... (Interruptions).... even allowing me to announce the procedure. There is a procedure and we had a discussion. I had promised that if you were very, very dissatisfied... (Interruptions).... You could raise it... (Interruptions).... But you cannot raise new points, new evidence... (Interruptions).... No, I cannot allow that... (Interruptions)....

SHRI GURUDAS DAS GUPTA: There is a copy of my speech. This is a copy of my speech. I referred to all the points... (Interruptions)....

THE DEPUTY CHAIRMAN: If you have already referred, आप इकट्ठा हो बोल दीजिएगा।

SHRI MANMOHAN SINGH: I have no information on this. I will supply this information about the United Commercial Bank... (Interruptions)....

SHRI GURUDAS DAS GUPTA: But I had made that point on that day. You have forgotten... (Interruptions)....

THE DEPUTY CHAIRMAN: वस हो गया।

[The Deputy Chairman]
He will find out and let you know.
Whatever you said he will find out..
(Interruptions)

डा० मुरली मनोहर जोशी (उत्तर प्रदेश) : महोदया, मैं आपके माध्यम से वित्त मंत्री महोदय का ध्यान इस बात पर आकृष्ट करना चाहता हूँ कि इस विषय पर उन्होंने एक बयान दिया था और उसके बाद से यहां यह बहस शुरू हुई। हमने इस बारे में चर्चा ज्यादा की थी कि यह घोटाले क्यों हुए और इसकी जिम्मेदारी किस पर है। लेकिन वित्त मंत्री से यह अपेक्षा नहीं थी कि वे रिजर्व बैंक के गवर्नर की जिम्मेदारी नहीं है, इस पर यहां बयान दें। इसके लिए तो जे०पी०सी० बैंक की कि इसकी जिम्मेदारी है, किसकी नहीं है। और आप कह रहे हैं कि उन्होंने सुपरविजन नहीं किया स्टेट बैंक खुद कह रहा है कि हमारी तरफ से यह फॉड डिस्कवर हुआ। स्टेट बैंक का मैनेजिंग डायरेक्टर चिट्ठी लिखता है उनको, और खुद लिखता है अपने कुलीज को उसमें कहता है कि हमारे और रिजर्व बैंक के पी०डी०ओ० में रिकॉसिलिएशन नहीं है इसलिए यह फॉड डिस्कवर हो सकी है। मैंने आपसे निवेदन किया था कि हजारों करोड़ रुपया 30 हजार करोड़ रुपये के करीब अन रिकसाईल्ड पड़ा है आपने उसके बारे में क्या किया? फारेन बैंक को आप यह कहते हैं कि जब वह हिन्दुस्तान में आ गए तो आप उन्हें बाकी बैंकों के बराबर सुविधा देते हैं। क्या यह बाकी बैंकों के बराबर सुविधा देना है कि वह सारे बिजनेस का 70 परसेंट ले जाए? यह तो बराबरी नहीं हुई। आप कहते हैं कि एन०आर०आई० फंडज वहां हैं। यह तो एक अजीब बात है कि एन०आर०आई० फंडज आए तो साथ में फारेन बैंक्स भी आए। (व्यवधान) रिजर्व बैंक ने ये इतना क्यों नहीं किए कि ये फंडज हिन्दुस्तानी बैंक में जमा होते? आखिर सुपरविजन उनकी एफी शिएंसी, उनकी दक्षता, यह सब उनकी जिम्मेदारी थी। यह क्या मतलब है कि (व्यवधान)

उपसमापति : अभी पूरा भाषण न करें प्लीज।

डा० मुरली मनोहर जोशी : फारेन बैंक आप लाए हैं... (व्यवधान)

THE DEPUTY CHAIRMAN: No, you cannot raise another discussion... (Interruptions) I cannot permit another speech.

DR. MURLI MANOHAR JOSHI: He has not answered this question. मैंने कहा था कि फारेन बैंक्स के बारे में आप यह बतायेंगे, फारेन बैंक्स में आखिर 70 परसेंट... (व्यवधान)

SHRI YASHWANT SINHA: The Finance Minister, unfortunately, has not touched on many important points which have been made in this House. I have been listening to the debate. I know the points which have been made. He has totally ignored them. That is why the Members are not satisfied.

SHRI DIPEN GHOSH: His statement can be concluded in one sentence.

DR. MURLI MANOHAR JOSHI: You say only one thing that the Reserve Bank is a holy cow or a sleeping beauty. उसने कुछ नहीं किया। And all is well with the God in the heaven and all are happy with the share market. हर्षद मेहता का प्रेजेंटेशन हुआ था आपकी पूर्व फाईनांस मिनिस्ट्री से मैं सवाल पूछा था उसके बारे में आपने कोई जवाब नहीं दिया।

... (Interruptions) ...

SHRI GURUDAS DAS GUPTA: We are totally dissatisfied with the reply

THE DEPUTY CHAIRMAN: It is not fair, Mr. Gurudas Das Gupta. If somebody is making a point and I have identified him, please don't get up like this. Have some control over yourself.

डा० मुरली मनोहर जोशी : नेशनल हाउसिंग बोर्ड के बारे में आपने यह तो कह दिया कि डिफ्लोरेबल है लेकिन वही तो सवाल है, यह डिफ्लोरेबल क्यों है? क्योंकि रिजर्व बैंक नेशनल हाउसिंग बोर्ड को नहीं देख सका, स्टेट बैंक की नहीं देख सका। मैं और बाकी बैंकों की बात नहीं कहता, य दो तो खास ऐसे हैं... (व्यवधान)

उपसभापति : फाईनांस मिनिस्टर सहब, आप यह दो सवालों का जवाब दे दीजिए। (व्यवधान)
We have got special mentions. We cannot go on with this.

डा० मुरली मनोहर जोशी : और यह आप हाईड साईड से हमको कहते हैं कि हम रिजर्व बैंक के गवर्नर के बारे में कह रहे हैं। मुझे कहना यह है... (व्यवधान) यहाँ मैंने कहा है वह हर्षद मेहता फाईनांस मिनिस्ट्री में तशरीफ लाए थे, उन्होंने आपके सामने प्रेजेंटेशन दिया आपको बताया कि यह... (व्यवधान) जी हाँ, फाईनांस मिनिस्ट्री में मैंने कहा है। अब वह तो ठीक है कि दिन में घंटे तो 24 ही होते हैं, मगर रिजर्व बैंक के गवर्नर के पास इन्फास्ट्रक्चर होता है, रिजर्व बैंक के गवर्नर के पास उसकी टीम होती है; लेकिन यह तो बहुत अच्छी बात है कि the present Governor defends the former Governor and the former Governor defends the present Governor. यह तो एक प्रजीव चीज है, यह मैं नहीं समझ पा रहा हूँ। देखिए मैंने कहा था कि जो इन्क्वायरी आपने करवाई है उसमें भी एह... (व्यवधान)

उपसभापति : जोशी जी, उन्हें जवाब तो दे देने दीजिए क्योंकि उसके बाद अभी स्पेशल सेशन मेरे सामने 12 हैं।

डा० मुरली मनोहर जोशी : मैं कहना चाहता हूँ... (व्यवधान) जवाब तो दीजिए। ... (व्यवधान)

THE DEPUTY CHAIRMAN: I have to move on to the other business.

डा० मुरली मनोहर जोशी : अगर फारेन बैंक्स के पोर्टफोलियो मैनेजमेंट में इररेगुलैरिटीज थीं तो इसके बारे में, खास तौर पर पंप हो रहा था मनी हिन्दुस्तान की इकोनोमी में तो उसके बारे में अगर कोई खास ध्यान न किया जाए, गौर न किया जाए, मैंने आपसे कहा था कि आप मुझे बताएं कि पिछले सालों में शेयर मार्केट का बिहेवियर क्या था, यह बताएं कि यूनिट्स की ट्रेडिंग में, सैक्युरिटी के ट्रेडिंग में कितने ट्रान्जेक्शन हर साल होते हैं?

उपसभापति : जोशी जी, प्लीज।

डा० मुरली मनोहर जोशी : वह आपके जवाब में नहीं है।

उपसभापति : बस मंत्री जी के जवाब बाद मामला खत्म। ... (व्यवधान) नहीं, मामला खत्म।

डा० मुरली मनोहर जोशी : क्या इस जवाब के बाद हर्षद मेहता का स्कैंडल खत्म?

उपसभापति : यह मामला खत्म... (व्यवधान) स्पेशल सेशन। बोलिए। ... (व्यवधान) आप कह रहे हैं बैंकों में घोटाला है, मैं अपने टाईम में तो घोटाला नहीं कर सकती।

SHRI N. K. P. SALVE: Madam, I seek your indulgence for half a minute on a very important point. Madam, the cardinal principle of any sound banking system is the interest of the depositor. With reference to the Karad Bank—a very small bank, Madam—you are penalising the people who are guilty of committing the fraud. Please be unsparing on them and anyone who is connected with it. But regarding the interests of the

[Shri N. K. P. Salve]

depositors which are Rs. 50 to Rs. 60 crores worth—you are protecting the National Housing Bank, very rightly, and the State Bank—why don't you afford the same protection to the depositors of the Karad Bank? Is it not necessary in the interests... (Interruptions), in the interests of ensuing higher credibility of the Indian banking system?

उपसभापति : बोलिए, अब बिल्कुल शांति से सुनिए। प्लीज, कभी-कभी शांति से सुनना चाहिए। हाँ, बोलिए।

SHRI MANMOHAN SINGH: Madam, I share the sentiments that the depositors of the Karad Bank should be helped. We are making every effort to see that their interests are protected to the maximum possible extent. I would also like to... (Interruptions) I would also like to reply to some points... (Interruptions). Now I think a reference was made by an hon. Member as to why the NRI funds... (Interruptions).

श्री चतुरानन मिश्र : आप इतना धीरे बोलते हैं, आय शेयर देड ब्यूज, आय शेयर देड ब्यूज, लेकिन यह सुनने में आता है, आय शेयर द स्कैम। इसलिए आप जोर से बोलिए।

THE DEPUTY CHAIRMAN: Please let him speak. You don't disturb.

SHRI MANMOHAN SINGH: A reference was made by an hon. Member as to why the foreign banks should have such a disproportionate amount of NRI funds. I am sorry I cannot help it. If they provide better service, if non-resident Indians have better confidence... (Interruptions). So, therefore, there is nothing... (Interruptions).

SHRI JAIPAL REDDY: Madam, as a protest against the totally unsatisfactory reply of the hon. Finance Minister, we stage a walk-out... (Interruptions).

[At this stage, some hon. Members left the Chamber]

श्री चतुरानन मिश्र : हम वित्त मंत्री जी के जवाब से असंतुष्ट हैं, इसलिए वाक आउट करते हैं।

विपक्ष के नेता (श्री सिकन्दर बहल) : हम फायनेंस मिनिस्टर साहब के जवाब से संतुष्ट नहीं हैं, लिहाजा हमारे पास कोई चारा नहीं है कि हम हाउस से वाक आउट कर जाएं।

(इसके पश्चात कुछ माननीय सदस्य सदन छोड़कर चले गए)

उपसभापति : फायनेंस मिनिस्टर का रिप्लाय कन्क्लूड हो गया। स्पेशल मेंशन श्री सिन्हे रजी। जो डिस्कशन था, वह कन्क्लूड हो गया। मंत्री जी, आपका जवाब हो गया अगर आपको दूसरे हाउस में काम हो तो आप जा सकते हैं।

THE DEPUTY CHAIRMAN: Special mentions... (Interruptions)

SHRI VISHVJIT P. SINGH (Maharashtra): Madam, before you start special mentions, may I mention one special mention?

THE DEPUTY CHAIRMAN: Yes.

SHRI VISHVJIT P. SINGH: Madam, our banks have been here for years, ever since they were nationalised to provide service to the poor of this world, to the poor of the country. They were not here to provide service for the rich people and to-day we are changing our attitude. We are trying to provide service also for the rich. That is why, the rich people deposit their money there. So, Indian banks have always been here to service the poor of this nation. I want to place that on record.

THE DEPUTY CHAIRMAN: That is being put on record. यह खतम हो गया। स्पेशल मेंशन श्री सिन्हे रजी।