

set-up has to change itself. Instead of thinking of having control, they should try to assist the industry. They should try to guide the industry. They should try to help the industry. So much of advanced technologies are available throughout the world. They should collect all the latest technological advancement. They should get all the results of R&D of various countries. They should keep these data in store and also they should have a centre at the national level and many centres at the different State levels and at the district headquarters, to disseminate all the information, all the research findings which are available to them. If Japan is progressing now, it is because Japan is making so much research and development in its own area. At the same time it is collecting whatever information is available throughout the world, and it is having a library, technological library, at the national level and at different headquarters' levels. I request the Industry Minister to immediately start a department only to gather information not only of technology but also about the inflow of capital. He should see to it that this department is working well to collect information and store them and to disseminate the information to those who require it.

Madam, the development of heavy industries and large industries cannot alone help this country, because we are gradually coming out of the concentration of labour in agriculture. Still there is a stress on the agricultural sector. Even now more than 65 per cent of our population is engaged in agriculture. They should be brought out. Only 40 per cent should be allowed to work there. The cottage industries and village industries should be encouraged. Our artisans should be given more training to produce very fine products. Our products of handicrafts are carrying their rich marketing potential in the whole world. If you make them to produce fine goods, it will invite a very quick market in the world. It will solve our problem of foreign exchange. At the same time, it will give gainful employment to the village artisans and traditional artisans.

Madam, once again, repeating what I said earlier, that it is only the will of the country that will take us to prosperity. Only through cooperation and unity we can take the country to a different sphere. I appeal to all, here and there, on this side or that, on the treasury benches and in the Opposition, to forget for a moment, 'I belong to this community or that, I belong only to the country, I am an Indian'. Let us unite and work for the prosperity of the country. India will one day become a power of the world, India is going to lead the world. And for that let us prepare ourselves, unite and work hard, let us save our country and save our people.

With these words, I conclude, Madam.

Thank you.

THE VICE-CHAIRMAN (SHRIMATI SUSHMA SWARAJ): Mr. N. E. Balaram. Mr. Balaram, you have been allotted six minutes. You know that at 5 o'clock the Finance Minister has to make a statement. Would you like to start and finish?

SHRI N. E. BALARAM: I cannot finish within six minutes I will speak tomorrow.

THE VICE-CHAIRMAN (SHRIMATI SUSHMA SWARAJ): The Finance Minister to make a statement on recent developments in the stock market.

[5.00 P.M.]

STATEMENT BY MINISTER

Recent Developments in Stock Market

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): Madam Vice-Chairman, the stock market displayed high levels of buoyancy from January, 1992 until 27th April, 1992. The BSE sensitive index has been rising rapidly from the month of February, 1992 from the level of 2200 in the beginning of February to the recent level of 4467 on 22nd April, 1992. The index stood at 3674 on 29th April, 1992 as compared to 4388 on 2nd April, 1992, 3473 on 3rd March, 1992 and 2273 on 3rd February, 1992. The rise has been between 100 to 400

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points a day on several days. The increase in prices of shares of companies listed on the stock exchanges was on account of several factors including the expectations of the investors generated by the improvement of overall economic environment and the rise in the level of foreign exchange reserves. The relatively low level of floating stock in the stock market, the excess of funds flowing into the market and speculative activity also contributed to this increase.

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

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

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

(v) checking insider trading and price rigging.

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

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

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

Prices of shares in stock exchanges are influenced by several short-term and long-term factors and are susceptible to fluctuations. Investments in shares are subject to market risks and, therefore, investors should make investments through the stock exchanges only after careful consideration of all relevant factors. There are several Mutual Funds operating in the stock market and small investors are availing of their services. However, excessive speculation is a destabilising factor in the stock market and needs to be kept under control for the protection of genuine investors, particularly small investors. SEBI and stock exchanges will have to be vigilant for ensuring that the exchanges and brokers function in an orderly and transparent manner.

The Indian economy and the capital market are quite large and are capable of absorbing fluctuations in prices on the stock market. There is no cause for undue

alarm. Government is keeping a close watch on the situation.

It is true that in recent weeks, there has been an excessive bout of speculative activity in the stock market. Apart from expectations about the overall economic health of the economy, the relatively low level of floating stock in the market and the excess of funds flowing into the market also contributed to the increase in share prices until 26th April, 1992. Unfortunately, it appears that to a certain extent, bank funds have also been used for this purpose in this context, I would like to take the House into confidence regarding certain investment transactions in Government Securities by the State Bank of India.

State Bank of India, like other banks holds Government Securities in its investment account. The banks are expected to carry out their transactions in securities according to the guidelines of Reserve Bank of India. The transactions in the investment portfolio of banks are reconciled with the Securities General Ledger (SGL) maintained by the Reserve Bank of India.

Acting on some information received, RBI has been examining the sale-purchase transactions in Government Securities undertaken by several banks including the State Bank of India sometime from 27th January, 1992. The examination included, *inter alia*, compliance by the banks with the instructions for the orderly conduct of such transactions issued by the RBI in respect of these transactions. Since some discrepancies were noticed in the case of State Bank of India, a detailed scrutiny of the transactions on a contract by contract basis was carried out.

The State Bank of India also noticed discrepancies in the bank's investment accounts vis-a-vis SGL Account maintained by the RBI. It obtained the SGL Statement as on 29-2-1992 and 31-3-1992 and undertook reconciliation with the bank's investment account. The RBI's examination as well as the SBI's scrutiny revealed large gaps between the balances in the investment account and SGL Account with the

RBI. Preliminary scrutiny by the RBI has indicated that the bulk of investments in Government Securities made by the SBI and not backed by proper SGL forms i.e. the difference in the balance between the SBI books and the SGL account with the RBI are on account of a major stock broker. Obviously, this is a serious case of system failure and is also indicative of a possible collusion between some officials of the bank and the broker in question. In all such cases, the foremost concern of any banking institution is to safeguard its financial interest. The State Bank acted speedily in this matter after the discrepancies in its investment account came to its notice. It has been reported by the SBI that since then Rs. 622.72 crores from this broker have been recovered. The final picture of the shortfall and the role played by various brokers will emerge only after the completion of the scrutiny now undertaken by the RBI.

I have also seen reports about involvement of some of the banks and institutions in financing stock market speculation. All these matters are being looked into by the Reserve Bank.

The Reserve Bank is now looking into security transactions of all major banks. RBI proposes to audit all contracts relating to sale and purchase of government securities during the last six months covering such areas as the manner of concluding the contracts, taking delivery of securities, payments made, genuineness of the sale and purchase of Government securities, particularly those put through by banks through brokers. This is being done with a view to further tighten up the systems and procedures, monitoring and supervision of these transactions in order to ensure that irregularities that have been noticed do not recur again. The recent events do point to weaknesses in systems and procedures in some important areas of the working of our banking system. I have asked the Reserve Bank to look into all aspects of this matter. A Deputy Governor of the Reserve Bank will be in charge of inquiry into this affair. I can assure the House that appropriate action will be taken

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against all individuals who are found to have indulged in malpractices in these transactions.

THE VICE-CHAIRMAN (SHRIMATI SUSHMA SWARAJ): Now, clarifications. Shri Dineshbhai Trivedi.

SHRI SURESH KALMADI (Maharashtra): Madam, what about me?

उपसभाध्यक्ष (श्रीमती सुषमा स्वराज): उन्हें विमान पकड़ कर जाना है, इसलिए उन्होंने रिक्वेस्ट की है। उनके बाद आपका नाम है।

SHRI DINESHBHAI TRIVEDI (Gujarat): Thank you, Madam. First of all, I want to put the record straight. Why are we discussing the stock market, for the first time? We are all exercised, for the first time, in the history of post-independent India. If I am not mistaken, we have debated this for the last several days. Why? This is the basic question. The atmosphere all over the country has become like that. Madam, you have just to go out and hear what people talk. Earlier, people used to talk about the country. Farmers used to talk about the rain, fertilizers, the independence struggle, our leaders, what have you. But, today, wherever you go, whether you travel in a bus, or, you sit in a park, or, you travel by air, irrespective of what quarter people come from, they only discuss the share market. They only discuss the capital market and nothing else. He may be a clerk. He may be just a peon. He may be an executive. A person may have money, or, he may have no money at all. What we are worried more is about the poor category of people. There are people who have borrowed money. They have invested their pension. They have taken advance from their salary. They have invested their entire savings. They have even mortgaged their belongings. They have put money in the stock market. I want to put the record straight. This is the reason why we are exercised, for the poorer sections of the people. Otherwise, we have no business. The share market was considered, till recently, to be a gambling. Madam, I can say from my personal experience. I come from a family

where business was there, but never we talked about the capital market. We have never talked about the stock market. The reason was very simple. The stock market was considered to be a gambling and nothing beyond that.

AN. HON. MEMBER: You acknowledge that?

SHRI DINESHBHAI TRIVEDI: What is the reason we are exercised over this, for the first time? In your wisdom, you have done it. I do not object to it. For the first time, the ISI mark, the Agmark, of the Government, has been put on it, and a measure of respectability has been given by the Government to the capital market. That is why everybody thought that the Newton's Law of Motion was not going to be applicable, namely, whatever goes up would not come down. Everybody talked of 5,000, 10,000, 18,000, 25,000, etc.

Madam, what bothered us most was — it was reported in yesterday's newspapers also—that the Finance Minister had also said that the stock market would not crash. I have personally heard.

SHRI MANMOHAN SINGH: I have not said that. (Interruptions).

SHRI DINESHBHAI TRIVEDI: It is a matter of record. That is why I said that it was reported in the Press (*Time bell*). I will be very brief. I will take just another two minutes.

In every forum, there was a signal given that the stock market was going to be very sturdy. That is why, Madam, everybody argued just one thing, that about Rs. 50,000 crores were to be augmented from the stock market. Therefore, the Government became an interested party and they would see to it that the stock market did not crash. Of course, the Finance Minister is a learned person. He has got all the background. He is an economist himself. But why, for the first time, this has arisen? Suddenly, what has happened? People have started rushing to the stock market. It has become a *satta*. The

Agmark, the ISI mark, of the Government has been put on it. The Finance Ministry is on record saying that it is a reflection of the policies. Even in this statement, it has been said that the stock market is going up, that it is a reflection of the Government's policies, that people have got confidence. If this be true, the reverse should also be true. Suddenly, people have lost confidence. What worries me most is this. Your public sector undertakings' shares have also to be sold in the market. That also comes to the stock market. So, my first clarification is, what is going to happen to your deficit budget exercise if the stock market for PSUs does not work out to your expectations, because you have just now said that it is speculation? So, what is going to happen to your deficit?

Sir, just now you have mentioned about regulation, that you have got SEBI and other bodies. Very recently the SEBI law you have passed through Parliament. May I ask, what kind of institutions have we got? The SEBI Chairman suddenly decided like a muscleman that now they all have to pay Rs. 5 lakhs. They also have muscles. So, next day he said, Rs. 2½ lakhs and then he says, now, Rs. 50,000. And ultimately, he said, not even that, you have only to register. What is this? Are we a banana republic? On what basis did the Chairman of SEBI do this? Has he done this on his own, or has he taken previous permission? He has to take previous permission for such kind of orders as per the rules and regulations. Have the rules and regulations been made? If not, who has given him the permission? If you want a mature, controlled market, is this the example you are setting? You want to set examples. You want to get funds from the Euro market, etc. Is this the way? Who will have confidence in your Indian economy market? We are most disturbed about the poorer lot. The rich people could know much before even we come to know in Parliament about what is going to happen. (*Time bell rings*). Just last word and this is very important. Do you have a contingency plan about which I had asked earlier also? Should

this fail—I hope this does not fail—do you have a contingency plan to fall back upon? I hope in future the investor should get a proper message that the Government is not responsible for whatever happens, and we will not be exercised as long as the poorer lot are saved.

SHRI SURESH KALMADI : Madam, thanks to the economic policies, the stock market did go up. But when the stock market goes up, it goes in the form of a curve, and when it started going up in a perpendicular form, certainly the fears arose that there must be something wrong. Madam, there has been rampant speculation and manipulation through the banking circles into the stock market. It is very evident from the statement of the Minister. He has already admitted in his statement that an amount of Rs. 622 crores was involved in one transaction, but he also says that the amount was returned. I shudder to think if the amount was not returned and I do not know if the person who took this amount of Rs. 622 crores paid any interest or not. We would like to know whether he has paid the interest and since when he was doing this. It is mentioned in the press reports, not in your statement, that a junior officer in the State Bank of India committed a computer error. I do not know if it is so straightforward. How many more officers are involved? We would like to know whether bank receipts were in the possession of the bank or in the possession of the broker. If they were in the possession of the broker, how could they go in his possession when they ought to have been in possession of the bank? We would like to know whether only the State Bank is involved or a subsidiary of the State Bank of India is involved. We would like to know if any other nationalised bank is involved, if any other foreign bank is involved. We would like to know if it is only one broker, Harshad Mehta, who is involved or there are some more brokers involved. We would like to know whether it is only Rs. 600 crores or it is Rs. 6000 crores. We would like to know whether the Deputy Governor is going into the matter, whether the CBI is also going into the matter and whether the

[SH. SURESH KALMADI]

Finance Minister has received some sort of interim report in the matter. Madam, the State Bank, of course, is no doubt at fault. I read it in the newspapers that the CBI has moved in, but I would like the Minister to confirm it. I am hoping that the CBI has entered, because even for small matters the CBI has been used. For such a major fraud if the CBI has not moved into action, I would be very surprised. I am sure the hon. Minister would confirm it. Probably he has not said it because the CBI does not come under his Ministry. I am sure he will confirm that the CBI has moved into it. But if it has not moved, I think it is too late; the culprits, probably, would be out of the net. Madam, not only the State Bank of India but the entire banking system is now under a cloud and I would like to know what the Reserve Bank of India has been doing about the matter. What did they do?

The major weakness in the operation of the Government security market is the outdated, tardy and inefficient settlement system of the Public Debt Office of the Reserve Bank of India. It has such a small staff and there is no modern equipment. Everything is done manually and thousands of crores are going through this office. It takes 15 days, and in the present case it has gone over 15 days. And it has gone unnoticed till it came out in the newspapers. And it is not the first time that such a thing is happening. Sometime back such things were noticed. A false C.R. was issued by a certain bank and all that the Reserve Bank of India did at that time was to issue fresh guidelines. I hope that in this case it would not be issue of guidelines but some stern action is going to be taken against these people.

Madam, it is clear that the RBI should be an effective regulatory body. In spite of the vast powers vested in it, it has failed to inspect, supervise and control the banking system. I would like to ask the hon. Minister whether the Government would freeze the account of Harshad Mehta till the CBI inquiry is over or till the inquiry by the Governor of the Reserve Bank of India is over. I would suggest

that his account be frozen. And, while this inquiry is going on, would the officers of the State Bank of India be asked to resign, or be suspended? Otherwise there cannot be a fair inquiry. This is my submission, Madam.

SHRI DIPEN GHOSH (West Bengal) : Madam Vice-Chairman, I must compliment the Finance Minister....

AN HON. MEMBER : Why?

SHRI AJIT P. K. JOGI (Madhya Pradesh) : For a change you have done the (Interruptions)....

SHRI DIPEN GHOSH : The whole difficulty is, when the Yudhisthir had said "Ashwathama hataha," that is not the last word and our Mr. Ajit Jogi did not call to wait for the last part of the sentence. I must compliment the Finance Minister....

SHRI V. NARAYANASAMY (Pondicherry) : For what?

SHRI DIPEN GHOSH : Because he has spoken in his statement some half truth and some untruths. Anyway, I must compliment the Members of this House belonging to both the sides, including Mr. N.K.P. Salve, Mr. Jagesh Desai and Mr. Suresh Kalmadi, because had the Members of this House not raised this issue, the Finance Minister would not have come out with this statement. That is why I pay him a compliment.

Madam, first of all I admit that I am not interested either in a boom or a slump in the stock market because I do not indulge myself in speculative activities. I am very much concerned at the speculation that has taken place in connection with this, whatever one may call it, boom or crash in speculative activities in the stock market. I totally agree with the Union Finance Minister when he says, and quote :

"... excessive speculation is a debiliting factor in the stock market and needs to be kept under control for the protection of genuine investors, particularly small investors"

Madam, after a careful reading of this statement, one will conclude that the Union Finance Ministry was aware that this development might take place some day, at some point of time. Therefore, the Finance Minister has himself reported, and again I quote :

“...Reserve Bank of India has asked banks to ensure that there is no increase in credit outstandings to individuals against shares, debentures and bonds.”

Also, at another place the Union Finance Minister has said :

“...a group to look into bank frauds and to report of any additional preventive and remedial measures that were required to minimise the scope for bank frauds.”

This indicates that the Finance Ministry was quite aware of this type of development that might take place anyday, at any point of time, and therefore, had taken certain steps.

[The Vice-Chairman (Shri Bhaskar Annaji Masodkar) in the Chair]

Yet, there has been a scam in the State Bank of India, and the State Bank of India is owned by the Government of India and controlled by the Union Finance Ministry. It is not a private bank. The State Bank of India is the largest nationalised bank in our country. In fact, in certain areas of activities, in certain fields, the State Bank of India happens to work or function on behalf of the Reserve Bank of India which is the central bank of our country and on behalf of the Government also.

So, Mr. Vice-Chairman, that makes me more concerned. The Reserve Bank of India issued certain guidelines. The Finance Ministry was aware of these developments that might take place some day. That is why a group was constituted to go into the details and to suggest certain preventive measures so that bank frauds should not take place. Yet this type of scam could take place. So, it betrays a failure

of the system, and at the same time there must be some nexus between these speculators and the banks. Otherwise, this would not take place. The brokers, I understand, the speculators, I understand, but not the banks, banks which include the State Bank of India, the Reserve Bank of India, all nationalised banks. There was a nexus between these two. Despite so many instructions etc. etc. from the Union Finance Ministry, it could take place.

Mr. Vice-Chairman, Sir, it is true, as the Finance Minister has stated, that, in fact, there was diversion, diversion of Government funds, Government securities to the stock market because actually the Finance Minister has also noted :

“...relatively low level of floating stock in the market and the excess of funds flowing into the market also contributed to the increase...”

So, naturally, there was diversion.

SHRI N. K. P. SALVE (Maharashtra) :
Embezzlement.

SHRI DIPEN GHOSH : My first question after reading this statement is whether in the assessment or in the review of the Union Finance Ministry the hon. Finance Minister considers that there is a prima facie case against the State Bank of India for having violated the Reserve Bank of India guidelines and the Finance Ministry guidelines, and for that what action

SHRI P. SHIV SHANKER (Gujarat) :
About that the Finance Minister is very clear.

SHRI DIPEN GHOSH : I know that.

What action has the Finance Minister already taken against the State Bank of India? That is not reported in this statement. This is one.

Second, there is a report — in the Statement there is an admission — that the Income-tax Department had conducted a raid on as many as eight individuals and eight companies. My information is that

[SH. DIPEN GHOSE]

in the house of Harshad Mehta — which Mr. Kalmadi has referred to — the Income-tax officials having decoded from the computer maintained by Harshad Mehta found out certain incriminating documentary information. I would like to know whether the Union Finance Ministry was aware of this Income-tax Department's findings and what action the Union Finance Ministry has taken on the basis of the Income-tax Department's information collected through raids on these companies and brokers, including Harshad Mehta.

Third, the money has been returned. Mr. Kalmadi has wondered, had it not been returned, what would have happened? May I know when it was returned? What was the exact date? Through which process was it returned? My information is that the State Bank of India in one single cheque had issued this money of Rs. 622 crores to Harshad Mehta. So, what is the exact information that the Union Finance Minister now possesses as to when the money was returned to the State Bank of India and through what process?

Lastly, in his last paragraph the Finance Minister has admitted that there has been a system failure on all these things. I wonder whether the Finance Minister will agree with me or not. At least previously he would not have agreed with me, but

today I want to know whether he would agree with me that all frauds and scams could take place despite all these instructions etc. etc. There is a famous secrecy clause under which the banking operations had taken place. I have a letter written by the Union Finance Minister saying that there is a secrecy clause and because of that certain banking operations could not be disclosed to me or that they could not ascertain that information. After disclosure of this type of frauds and scam I would like to know whether the Government is prepared to do away with that secrecy clause about banking operations and adopt transparency in the banking operations.

Before I conclude, I want to know one more thing. The Deputy Governor of Reserve Bank has been asked to enquire about all this. Will the hon. Finance Minister kindly say what exactly are the terms of reference of that inquiry?

ALLOCATION OF TIME FOR DISPOSAL OF GOVERNMENT LEGISLATIVE BUSINESS

THE VICE-CHAIRMAN (SHRI BHASKAR ANNAJI MASODKAR): I have to inform Members that the Business Advisory Committee at its meeting held today the 4th May, 1992, allotted time for Government Legislative Business as follows:—

Business	Time Allotted
1. Consideration and return of the Appropriation (No. 2) Bill, 1992, as passed by Lok Sabha	1 Hour
2. Consideration and return of the Finance Bill, 1992, after it is passed by Lok Sabha	6 Hours
3. Consideration and passing of the following Bills, after they are passed by Lok Sabha :—	
(a) The National Commission for Minorities Bill, 1992	2 Hours
(b) The Army (Amendment) Bill, 1992	1 Hour
(c) The Foreign Trade (Development and Regulation) Bill, 1992	3 Hours
(d) The Air Corporations (Transfer of Undertakings and Repeal) Bill, 1992	3 Hours