

Bank officials involved in scams

†2905. SHRI MAHENDRA SAHNI: Will the Minister of FINANCE be pleased to state:

- (a) the number of bank scams that have come to light till date during the last one year;
- (b) the number of officials found involved in each case; and
- (c) the details of action taken against them and the steps taken by Government to check the recurrence of such cases?

THE MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI S.S. PALANIMANICKAM): (a) Reserve Bank of India (RBI) has reported that no-scam except Initial Public Offering (IPO) related irregularities had come to light during the last year. In December, 2005, it came to the notice of RBI that there were irregularities in some banks regarding IPO finance which facilitated cornering of retail portion of shares by certain individuals/entities. Investigation by RBI showed that ten scheduled commercial banks were found to be involved in facilitating the manipulation of the IPO process by a few individuals/groups for cornering of retail allotment of IPOs by misusing the banking facilities. The banks involved were Bharat Overseas Bank Ltd., Indian Overseas Bank, Vijaya Bank, ICICI Bank Ltd., HDFC Bank Ltd. (twice), Standard Chartered Bank, Citibank, JDBI Ltd. (twice), ING Vysya Bank and Centurion Bank of Punjab Ltd.

(b) and (c) RBI had advised the banks concerned to examine staff accountability and take action against the officials involved in the irregularities. Accordingly, the banks had reported that staff accountability had been examined in case of a total of 90 officials and disciplinary action/ punishment varying from 'issuing warning letter' to 'relieving from duties' had been taken against the officials involved.

Immediately after the IPO related irregularities were found out, RBI imposed monetary penalty under section 47A(1)(b) of B.R. Act, 1949, on the ten banks mentioned above. In addition to the penal action initiated under section 47A(1)(b) of B.R. Act, 1949, following measures were taken:

- The Home Regulators of the two foreign banks involved were apprised of the fact of the imposition of the penalties. In case of ING Vysya Bank, the overseas parent group was apprised of the penalty.

†Original notice of the question was received in Hindi.

- A directive was issued on January 23, 2006, prohibiting the banks from crediting 'account payee' cheques to account of any person other than the payee named therein.
- All scheduled commercial banks, excluding RRBs, were advised to take a review of IPO financing and related matters, like opening of multiple accounts, adherence to Know Your. Customer (KYC)/ Anti Money Laundering (AML) guidelines, and RBI instructions on IPO financing, advances against shares, etc. and put up a report on the findings before their Audit Committees under advice to RBI.
- Special examination of the internal control systems of the banks concerned was undertaken and the deficiencies revealed by the examination were brought to the notice of these banks specifically, for necessary corrective action and the same is closely monitored. Further, a Circular incorporating the deficiencies observed in the internal control system in these banks was issued to all banks (excluding RRBs) for taking appropriate action under oversight by the respective bank's Audit Committees and the Board of Directors.

SEBI's caution against funds invested from Mauritius

2906. SHRI S.S. AHLUWALIA: Will the Minister of FINANCE be pleased to state:

(a) whether it is a fact that SEBI has cautioned against acquisition of controlling stakes in several Indian companies in the secondary market by funds invested from Mauritius;

(b) if so, the details thereof indicating rationale behind the note of caution sounded by SEBI;

(c) the steps taken, if any, by Government to address the same;

(d) whether the National Security Council had earlier cautioned about the FDI flowing in from tax havens viz., Mauritius, Cyprus, Cayman Island etc.; and

(e) the details thereof indicating the measures evolved/introduced, if any, to safeguard the market and the national security?