

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:245

ANSWERED ON:08.12.2006

IPO SCAM

Pateriya Smt. Neeta

Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has lifted restrictions on the banks found involved in the Initial Public Offering (IPO) scam;
- (b) if so, the details thereof;
- (c) the name of the banks against which restrictions have been lifted; and
- (d) the corrective measures being taken to prevent such scams?

Answer

MINISTER OF THE STATE IN THE MINISTRY OF FINANCE (SHRI P.CHIDAMBARAM)

(a) to (d): A statement is placed on the table of the House. Statement referred to in reply to parts (a) to (d) of Lok Sabha Starred Question No. 245 for answer on 8th December, 2006 on `IPO Scam` raised by Shrimati Neeta Pateriya

(a) to (d): The Reserve Bank of India (RBI) has informed that it has imposed monetary penalties on ten commercial banks for their involvement in IPO irregularities. These ten banks are: Bharat Overseas Bank Ltd., Indian Overseas Bank, Vijaya Bank, ICICI Bank Ltd., HDFC Bank Ltd., Standard Chartered Bank, Citibank, IDBI Ltd., ING Vysya Bank and Centurion Bank of Punjab Ltd. It has also issued a number of directives and advices to the commercial banks to improve operational standards and risk management practices. It has, however, not imposed any restrictions on these banks.

As per the extant policy guidelines, RBI takes into consideration a number of factors, including the regulatory comfort, while processing authorization requests from banks. In view of the regulatory discomfort arising out of the involvement of these banks in the IPO related irregularities, the applications received from them for opening of branches, chests etc., were kept pending initially. However, after ascertaining from them of the steps taken/ corrective actions initiated by them to avoid recurrence of the irregularities, necessary authorizations and other regulatory approvals are being issued.

The Securities and Exchange Board of India (SEBI) has informed that it had passed ex-parte interim order in April, 2006 directing a few banks that were functioning as Depository Participants (DP) not to undertake any fresh business as a DP until the enquiry was completed and final order passed. Subsequently, this direction has been discontinued in case of some banks, including HDFC Bank Ltd., IDBI Bank Ltd. and ING Vysya Bank Ltd.

SEBI and RBI have taken various measures to prevent recurrence of such IPO irregularities. The measures taken by RBI include:

a.All scheduled commercial banks, excluding Regional Rural Banks (RRBs), have been advised to take a review of IPO financing and related matters, like opening of multiple accounts, adherence to Know Your Client / Anti Money Laundering 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.

b.On the basis of special examination of the internal control systems of the banks concerned, RBI has brought the deficiencies revealed by such examination to the notice of these banks for necessary corrective action. A Circular incorporating the deficiencies observed in the internal control system in these banks has been issued to all banks (excluding RRBs) for taking appropriate action.

c.A directive has been issued prohibiting the banks from crediting `account payee` cheques to account of any person other than the payee named therein.

The measures taken by SEBI include:

a.The depositories, on a directive from SEBI, have advised their respective DPs to verify the genuineness of the dematerialized account holders where 20 or more dematerialized account holders have a common address and to close those dematerialized accounts where the DPs were unable to do this verification.

b.The depositories have been advised to put in place a system including the necessary software to identify multiple accounts suspected to be benami / fictitious.

c.The depositories have been directed to issue directions to DPs making Permanent Account Number card compulsory for all categories of dematerialized account-holders in respect of all dematerialized accounts opened by them on or after April 1, 2006.

d.The depositories have been advised to activate International Securities Identification Number only on the date of commencement of trading on stock exchanges in case of IPOs.