

Title: Situation arising out of large scale winding up of Non-Banking Financial Companies resulting in loss to investors and steps taken by the Government in this regard.

13.16 hours

SHRI KIRIT SOMAIYA (MUMBAI NORTH EAST) Sir, I call the attention of the Minister of Finance to the following matter of urgent public importance and request that he may make a statement thereon:

"Situation arising out of large scale winding up of Non-Banking Financial Companies resulting in loss to investors and steps taken by the Government in regard thereto."

... (Interruptions)

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THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): Sir, with your permission, I lay ... (Interruptions) the statement on the Table in response to Calling Attention raised by Shri Kirit Somaiya. ... (Interruptions)

">THE MINISTER OF FINANCE (SHRI YASHWANT SINHA): Reserve Bank of India has put in place a comprehensive regulatory and supervisory mechanism for regulating and supervising the activities of NBFCs. Company Law Board has been authorised under the RBI Act to adjudicate the claim of depositors with specific power to direct the defaulting companies for making repayments. Regional Benches of CLB have been directing defaulting companies for making payment to depositors. If an NBFC fails to honour the orders of CLB, the Reserve Bank can launch prosecution proceedings against it. The Reserve Bank has appointed Nodal Officers at its Regional Offices for instituting prosecution proceedings in such cases. The Reserve Bank has also constituted coordination committees at four metro centres to oversee the implementation of CLB orders by the NBFCs. Full-time Special Officers have been appointed to ensure compliance with RBI directions to protect the interests of depositors. The bank has initiated adverse action against errant NBFCs for various defaults and contravention of provisions of RBI Act and directions issued thereunder. Adverse action against NBFCs involves issuing prohibitory orders prohibiting them from accepting further deposits, from alienation of assets, filing winding up petitions, launching criminal proceedings against NBFCs and their management for serious violation of the RBI Act, etc. The bank also files complaints with the Economic Offences Wings (EOW) of the State Police Authorities for curbing unauthorised acceptance of public deposit. In several cases, the courts have appointed Provisional Liquidators and have also restrained the NBFCs from disposing of their assets in any manner.

"> I wish to inform Hon'ble Members that in the last two years, RBI has issued prohibitory orders to 73 companies, has filed winding-up petitions in the respective High Courts against 12 NBFCs, has filed criminal complaints against 17 NBFCs, has filed police complaints against 6 NBFCs and has

">appointed Special Officers to monitor the repayment of deposit in 4 problematic NBFCs.

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">*Laid on the Table.

"> The process of regulatory strengthening has been reinforced with the creation of an independent department, viz., Department of Non-Banking Supervision in RBI for focused attention to the supervision of NBFCs. To facilitate closer and continuous monitoring of NBFCs, the Department of Non-Banking Supervision has opened 16 regional offices to supervise NBFCs having their registered offices under their respective jurisdiction.

"> A conference of Chief Ministers and Finance Ministers was organised on 14th September, 1998 to discuss the important issues relating to NBFCs. The State Governments were requested to enact legislation on the lines of Tamil Nadu Protection of Interests of Depositors (in Financial Establishments) Act, 1997 to protect the interests of depositors in NBFC. State Government of Andhra Pradesh, Assam, Haryana, Himachal Pradesh, Gujarat and Maharashtra have taken suitable steps in this regard.

"> With a view to reviewing the existing regulatory framework and addressing some of the shortcomings in dealing with the investor's complaints, a Task Force was constituted by the Government in August, 1998. The Task Force submitted its recommendations in October, 1998. A number of recommendations of the Task Force have been implemented by way of issue of directions by RBI in December, 1998. The requirement of minimum Net Owned Fund (NOF) for registration with RBI as an NBFC has been raised from Rs. 25 lakhs to Rs. 200 lakhs with effect from 21st April, 1999. A new Act on NBFC is under consideration to give effect to the recommendations of the Task Force on NBFCs, provide greater depositors' protection and to address the difficulties experienced while administering the existing statute. In addition, provisions making certain offences as cognizable offence under the Criminal Procedure Code, 1973 have been proposed to be incorporated in the new Act. RBI has also taken an intensive publicity campaign to educate the prospective depositors.

"> While the failure of a few NBFCs cannot be ruled out even in an environment of strict regulations, it would be Government's endeavour to work towards a healthy NBFC sector with adequate disclosure norms and strict prudential stipulations so that the prospective depositors can take informed decision while considering the option of placing deposits with NBFCs.

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">MR. SPEAKER: Maj. Gen. (Retd.) B.C. Khanduri.

"> ... (Interruptions)

">MR. SPEAKER: Shri Ramakant S. Angle.

"> ... (Interruptions)

">MR. SPEAKER: Shri Shripad Y. Naik.

"> ... (Interruptions)

">MR. SPEAKER: Shri Basudeb Acharia.

"> ... (Interruptions)