

13.46 hrs.

The Lok Sabha re-assembled at forty-six minutes

past Thirteen of the Clock.

(Mr. Deputy-Speaker *in the Chair*)

CALLING ATTENTION TO THE MATTER OF URGENT PUBLIC IMPORTANCE

Situation arising out of the collapse of Global Trust Bank and steps taken by the Govt. in regard thereto

Title: Shri Ajoy Chakraborty called the attention of the Minister of Finance to the situation arising out of the collapse of the Global Trust Bank and steps taken in this regard.

MR. DEPUTY-SPEAKER: Now, we will take up item no. 8 - Calling Attention.

SHRI AJAY CHAKRABORTY (BASIRHAT): 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:

"The situation arising out of the collapse of the Global Trust Bank and steps taken by the government in regard thereto."

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM): Mr. Deputy-Speaker, Sir, the Indian banking system comprises different bank groups, namely, public sector banks, private sector banks and foreign banks. The performance of all these groups of banks is monitored by the Reserve Bank of India through the mechanism of regular monitoring and annual financial inspections. The overall performance of 32 banks in the private sector over the years has been quite good except for certain banks, which failed due to non-compliance of statutory requirements and guidelines issued by RBI/Government of India.

GTB was a new bank in the private sector. It came into being in September 1994. Its performance was quite satisfactory till the slide was specifically noticed after 31st March 2001. Since then the financial health of GTB was causing concern to the Reserve Bank of India. The bank's performance for the years ending 31st March 2002 and 31st March 2003 was reviewed by the RBI through the annual financial inspections. The key indicators about the health of the bank were wrongly certified by the statutory auditors of the bank for both the years. The RBI inspection revealed wide variance with the balance-sheet figures published by the bank. In view of the erosion of capital of the bank, RBI directed the bank to infuse fresh capital so as to achieve a CRAR of nine per cent. However, GTB failed to locate a domestic investor who could infuse the requisite capital. Thereafter, the bank submitted a proposal to RBI from Newbridge Capital Limited, a limited partnership based in Cayman Island for investment in GTB. The proposal was not acceptable to RBI on account of certain requests by the investor for regulatory concessions and prudential forbearance, as also foreign jurisdiction for dispute resolution.

In view of the Bank's inability to raise the required capital from domestic investors or propose a voluntary merger with any domestic bank, on the recommendation of the Reserve Bank of India (RBI), Government placed Global Trust Bank (GTB) under an Order of Moratorium for the period from the close of business on 24th July 2004 up to and inclusive of 23rd October 2004. This was done to protect the interest of depositors of GTB who numbered around nine lakh, and the banking system. It will be observed that there was no sudden 'Collapse' of the Bank. The deterioration in its financial health came to RBI's notice when the Bank's performance was reviewed by it in July-October 2002. Even earlier, there were some disturbing developments. RBI initiated corrective action and provided an opportunity to GTB Management to infuse capital. When these efforts failed, on the recommendation of RBI the Government placed GTB under an Order of Moratorium to prevent its collapse.

It was essential to place the Bank under a moratorium to prevent a run on GTB and any malfeasance by Directors / Management. This action could not have been delayed. Thereafter, options for its rehabilitation were considered to protect depositors' interests and prevent any systemic risks. Apart from Oriental Bank of Commerce (OBC), some other investors also expressed their interest in GTB informally to the RBI. After evaluating all these options, RBI came to the conclusion that GTB's merger with the Oriental Bank of Commerce would be the most appropriate solution under the circumstances. Hence, immediately after notifying the scheme to SEBI, an announcement in this regard was made on the forenoon of 26th July 2004. The draft scheme was also notified for inviting objections.

After considering the objections to the draft scheme of amalgamation of GTB with the Oriental Bank of Commerce, RBI forwarded to the Ministry of Finance a copy of the scheme for sanction of the Central Government in terms of Sub-section (7) of Section 45 of the Banking Regulation Act, 1949. The Ministry of Finance notified the scheme w.e.f. 14th August 2004, amalgamating GTB with OBC. The scheme fully protects the interests of the depositors' and the Bank. So far as shareholders are concerned, their interests are addressed in the scheme to the extent of availability of funds after all dues and liabilities have been met as per the provisions of the scheme. The Scheme, thus notified, has protected the depositors' interest and prevented any systemic crisis, which could have followed in the wake of GTB's failure.

The Statutory Auditors appointed by GTB for the years ending 31st March 2002 and 31st March 2003 failed to identify the Non-Performing Assets of the Bank so as to reflect its true picture. This resulted in false certification by them. The position, thus reported by GTB, did not match the information revealed through RBI's inspection. The RBI has already written to the Institute of Chartered Accountants to take action against the Statutory Auditors under the relevant statutes. The Scheme also provides for action against any Director, Officer, and employee of the Global Trust Bank for liability on account of any criminal offence or for a statutory contravention or default committed by him or them before the date of amalgamation.

In order to avoid the recurrence of such failures in future, the RBI has taken several steps, which, *inter alia*, include introduction of capital adequacy standards on the lines of the Basel norms; prudential norms on asset classification, income recognition and provisioning; introduction of valuation norms and capital for market risk for investments; enhancing transparency and disclosure requirements for published accounts; aligning exposure / capital market exposure norms; introduction of off-site monitoring system and strengthening of the supervisory framework; introduction of Risk-based Supervision for banks and introduction of a framework for prompt corrective action.

SHRI AJAY CHAKRABORTY : Sir, the RBI has, ultimately, taken steps to merge the covetous bank with the Oriental Bank of Commerce. The GTB is violating the guidelines, and the norms specified by the RBI since its establishment.

Due to that reason, not only GTB, but also 12 other private banks have ultimately collapsed. After the collapse of the GTB, the small investors and the small shareholders are facing a lot of problems. In the RBI notification, it has been stated that for the protection of the interest of the small investors and the shareholders, the RBI had taken this decision. However, for quite a long time, I am sorry to say that the RBI was reluctant to take necessary steps against this Bank and against the unscrupulous management of this Bank.

One Ramesh Gelli, who was the former Chairman of this Bank, was the office bearer of Vysya Bank, when the Harshad Mehta scam took place. In that scam, Vysya Bank ultimately lost Rs. 1,000 crore. He served as the Chairman of this Bank.

After the amalgamation with the Oriental Bank of Commerce, the officers and employees of the Global Trust Bank are drawing the same salaries and other benefits, which they were drawing earlier in GTB, in the Oriental Bank of Commerce, whereas the salaries and other benefits of the officers and employees of the Oriental Bank of Commerce are much below than that of the GTB. This has created a peculiar situation in the institution where the officers and employees belonging to the same cadre are drawing different pay-scales.

Sir, I need not go into the details behind the collapse of this Bank. However, I would like to say that this scam was created by the management of the GTB; it is the result of the incapable and inefficient functioning of the management of the GTB. I wish to put some queries to the hon. Finance Minister and the remaining points will be covered by my other hon. colleagues, Shri Gurudas Dasgupta, Shri C.K. Chandrappan and Shri Basu Deb Acharia. I wish to put the following queries or points before the hon. Finance Minister.

1. On 24th of July, moratorium was announced on GTB's operations. However, on 26th of July, the RBI announced a merger with the Oriental Bank of Commerce. Despite 25th of July being a Sunday, which was a holiday, why was the RBI in so much hurry to take this decision or in whose interest was this decision taken?
2. Proper evaluation of assets and liabilities should have been done before any takeover or merger. In this case, however, the Oriental Bank of Commerce got no time to do the evaluation exercise.
3. Thirdly, the Oriental Bank of Commerce is a public sector bank with the private shareholders' representation in the Board of Directors. The Board meeting did not take place to consider the issue of merger of these two banks.
4. Fourthly, the Report of the JPC, in 2001, which looked into the Ketan Parekh scam case, clearly indicated that the GTB was involved in the scam. Then, why did the RBI not take any action against the GTB?

14.00 hrs.

I now come to my fifth point. GTB's balance sheet for the year ended on March 31, 2002 showed a net worth of Rs.400 crore and a profit of Rs.40 crore. However, the inspection report of RBI showed GTB's net worth to be negative. What action was taken by RBI against GTB for this falsification of records?

These are my five queries to the hon. Finance Minister. I hope the Finance Ministry and the Reserve Bank India will take necessary steps to ensure that such instances, which hit the interest of the small investors of the country, will never occur in the future.

SHRI GURUDAS DASGUPTA (PANSKURA): Sir, I must confess that I have to congratulate Shri Chidambaram. He is laughing. Probably he believes it to be a left-handed compliment. No, Sir, I really compliment Shri Chidambaram, a leading lawyer of Supreme Court. I do not compliment Shri Chidambaram, the Finance Minister of India. It is very important. Defence of the guilty person is the essential requisite of becoming a leading lawyer. How can I expect Shri Chidambaram to forget his profession after he has taken over the responsibility of being the custodian of the finances of the country? I compliment Shri Chidambaram, the lawyer.

Why do I do that? I do that because he has prepared his statement in a way to let off the guilty. The management of GTB consisted of criminals from day one. However, the guilty in this particular case has been the Reserve Bank of India, the regulatory agency, the authority which is vested with the responsibility of financing, controlling, and monitoring the financial system of the country.

Sir, I do not think Shri Chidambaram will be angry with me if I go a little into history. I must say that Shri Chidambaram appeared on the scene later. It was a crime committed during the period of the earlier Governments. Shri Chidambaram comes into the picture later on, I admit that.

This was a special private sector bank. It was set up during the days of euphoria generated by the process of liberalisation. As you know, there was a kind of euphoria let loose in the country in 1991-92. The present Prime Minister was the Finance Minister of India then. I do not link the two incidents, but this is an irony of fate. There is no reason to link the two, but this is an irony of fate. It was a tragedy that the former Finance Minister was present in the Inauguration function of the Global Trust Bank in 1994. You know who was the Finance Minister then. I am only saying this because the euphoria was so intense then that licence for setting up private banks was given to every Tom, Dick and Harry in the country. It was given by the Reserve Bank of India to whoever had applied for it.

Some things were said about Ramesh Gelli. He is a person on whom the Government of India conferred Padma Shri. How can I forget him? Just imagine, the person who is responsible for collapse of a bank is recipient of Padma Shri. Who is glorified here? Is it Padma Shri which is glorified? Is it the person who is glorified? Is it the system which is glorified?

Shri Bhardwaj is sitting hear. He is the custodian of law, appropriateness, and scruples of the country. Will he kindly look into it and examine as to who were the people who took these decisions? From day one, Gelli was a criminal. This gentleman was once the Chairman of Vysya Bank.

You remember Harshad Mehta; you have not forgotten his name I think. The man is no more but his misdeeds remain in the history of India only to tell the people as to how the whole system could be manipulated.

He was the Chairman of the Vysya Bank and the Vysya Bank was identified to be involved in the scam. My poor self was a member of the Joint Parliamentary Committee. We looked into it and the Vysya Bank was identified as a conduit for diverting funds to launder the stock market. It is there in the Report. It is not that the RBI can claim that they do not know it. Ignorance is not a virtue, it is only a defence of the failure.

Sir, the point is that Mr. Gelli, after the Report of the JPC, after he was indicted, and after the Bank was indicted, was given the permission. Another eminent lawyer is sitting there. A person with a criminal record is being inducted into the Judiciary. How do you like it? How do you like the Judiciary to become? Mr. Gelli became the Chairman with the gracious approval of the Reserve Bank of India. You know, that euphoria was so great that the former Finance Minister had to grace the occasion. ...*(Interruptions)* This is the background. ...*(Interruptions)*

MR. DEPUTY-SPEAKER: You should seek the clarification. ...*(Interruptions)*

SHRI GURUDAS DASGUPTA : I would implore upon you to give me a little time. ...*(Interruptions)*

MR. DEPUTY-SPEAKER: You are giving speech.

...*(Interruptions)*

SHRI GURUDAS DASGUPTA : After all, it is globalising the economy. Globalisation is the slogan, Liberalisation is the creed, and Mr. Chidambaram is the custodian of the new philosophy. How can I become so brief? Collapse of Global Trust Bank is only a repetition of history. It is a repetition of the sordid tale of deceit, fraud, manipulation, collusion, falsification of audit report, on the one hand and on the other hand, the colossal failure of the Reserve Bank of India in performing its duties.

Under Section 21 of the Banking Act, RBI has the statutory responsibility of protecting the value of the deposits of the common people in a bank. It has not performed its duty. I would like to know from the hon. Minister, is he ready? My charge is a charge of collusion; my charge is a charge of falsification; my charge is a charge of fraud; and my charge is a charge of RBI not performing its duties. Mr. Chidambaram is known for his open-mindedness. I plead with him, please accept the suggestion of having a Joint Parliamentary Committee to look into the matter.

Sir, I give you three instances as to why I say that it is a case of collusion. First is the reports of the Inspectors. You do not believe the poor inspectors who are down below. Our Ministers are having faith only in the Governors and Deputy Governors. But the Inspectors at the down below had produced two reports saying that the audited reports were all false and the auditor, who had been engaged in exchange of hefty sum, had given a false report. It was pointed out in 2001-02 but the top management, for reasons known to them, did not take any action.

Secondly, the JPC - I am not referring to the JPC of 1992-92, I am referring to the JPC which looked into Ketan Parikh which was headed by Shri Tripathi - says that there was enough evidence of malpractice, misappropriation and diversion. They said it. What did they say? The report was submitted two years back. Therefore, these are all open documents. Despite that, why was the Bank management allowed to continue till 2004? Inspector""s report spoke of falsification and fraud. If you have respect for Parliament - I believe, you have respect for Parliament - you must have respect for the creature of Parliament.

JPC is a creature of the Parliament. That is of all party Members. That JPC said: "Look into it." But no action was taken. On 31st March, 2002, the Annual Report of the GTB showed a net worth of Rs.400 crore and a net profit of Rs.40 crore. The Balance Sheet was certified by the Chartered Accountants whom they hired. But the RBI Report said that its net worth

was negative. It was said that they earned a profit worth Rs.40 crore. But, according to the report submitted by the Inspector, the worth was negative. What was the action taken, Shri Chidambaram? I do not hold you responsible because somebody else was at that time at the head. But please do not resort to cover it up. Why was this report not taken note of by the RBI Governor, Deputy Governor, Finance Minister and Finance Ministry as far back as 31st March, 2002? How do I say that it is verified? The very next year the Balance Sheet said this.

MR. DEPUTY-SPEAKER: Please conclude. There are two more speakers.

...(Interruptions)

MD. SALIM (CALCUTTA – NORTH EAST): How these things have happened and how these things are now being covered up!

SHRI GURUDAS DASGUPTA : Sir, I implore upon you that let the nation know who are the custodians of our financial system. Shri Chidambaram, I believe, is a bold man. He will take a bold decision. He will boldly agree to the suggestion that I am making. Let there be another JPC of his own choice. Let him choose the people. They must make an on-the-spot objective study. No action was taken in 2002. No action was taken in 2003. In between, during that period, there was a JPC, which said that this man was swindling the funds. Who has funded? The Bank of Karad has funded Harshad Mehta and other brokers. Shri Chidambaram must be knowing these three persons. Now, the Global Trust Bank has funded Ketan Parekh. Who is Ketan Parekh? He is a criminal now in jail.

MD. SALIM : The entire Kolkata Stock Exchange collapsed because of him.

SHRI GURUDAS DASGUPTA : The Bank of Karad is a private bank responsible for colluding with Harshad Mehta and other brokers. Within a span of five years, another private bank collides with Ketan Parekh, now in jail!

There is another important point. Why was no action taken despite the three concrete reports? I charge, not Shri Chidambaram, but the then management of the RBI of covering up and not taking action, of refusing to perform this statutory duty, of being hand in glove with the manipulation and distortion of the system. RBI is responsible. Not only now but in our JPC Report of 1991-92, we had also indicted the Reserve Bank of India. But the Government did not take any action. Now again, in the second JPC, RBI has been indicted.

Now I place before you another testimonial, another evidence, which is absolutely accurate to say that Reserve Bank is responsible. Mr. Lawyer Chidambaram, please ask for a lenient action against the culprit but do not cover up the culprit. If you tell them that you cannot take that action against RBI, the whole Indian system will be in jeopardy. The whole of India will look at us. I agree if you take a lenient stand as a good lawyer, but do not try to defend by saying that the Reserve Bank of India did not do anything. That is not all.

There is one more collusion. Before the collapse, just see the collusion. Shri Ramesh Gelli who was the Chairman, RBI, reduced his holdings in Global Trust Bank. Shri Gelli was knowing that the Bank was on the verge of collapse because he had done all the misdeeds. Therefore, in order to protect himself, he was diluting his own stake from nine per cent to seven per cent.

He had diluted his own stake from nine per cent to seven per cent. There are Directors of RBI on the Board. What did they do? On the one hand, he was committing criminality and on the other hand he was diluting his shares so that he did not have to bear the brunt of the collapse.

Secondly, two months before its collapse, all the FIIs (Financial Institutional Investors), all the FDIs and all the NRIs had reduced their stake. How could they get the signal? Therefore, it was all a calculated, manipulated conspiracy to commit a fraud. Before the bank came to collapse, they protected themselves by withdrawing their funds, by withdrawing their capital. Mr. Gelli, his son, his sister, his family together reduced their holdings. NRIs reduced their holdings. As a result, what happened, you all know. It became a public sector bank, with 53 per cent as public holdings and 47 per cent as holdings of others. Criminals had planned their action in a way that they could withdraw their money, and the poor investors who had their stake, who had purchased the shares were to be defrauded. The poor investors were totally defrauded.

Sir, the question is, what is to be done now? There was a person with doubtful credentials who was granted permission to float a bank. Euphoria was so great that the Finance Minister could not prevent himself from attending the meeting, the inaugural programme.

From day one, they had been destabilising, they had been diverting and they had been making use of the signboard of a private bank under the patronisation of the liberalised policy to eat the money. There were enough warnings, but no warning was heeded to by the RBI. And, a person there purposely did it. What is to be done?

Mr. Chidambaram would say that he has rescued the bank. Yes, Mr. Minister, you have rescued it. I compliment it. But at what price?...(Interruptions)

SHRI P. CHIDAMBARAM: He is complimenting for that, very good!

SHRI GURUDAS DASGUPTA : I agree that he has rescued the bank. But would you, Mr. Minister, let me know as to why such a hurry was there to amalgamate. There have been collapses of 12 private banks in India during 10 years period.

Liberalisation means fraud. Twelve private banks had collapsed in the country, gentleman! Have you ever looked into the reasons for it? The latest one is the GTB.

My essential point is that the collapse of the GTB only says that the Reserve Bank of India has not done its job, SEBI has not done its job. I want a criminal case to be filed against Mr. Gelli. He has not said whether he has done it..

In July, the bank was taken over. Today is 1st December. If you were in such a hurry to amalgamate the bank, why till today you are not in a hurry to take action against Mr. Gelli? Are you again fond of him because he has been found to be a brilliant banker to be given the *Padma Shree*!

Let us know from you, Mr. Chidambaram. There were too many skeletons in the cupboard. Mr. Chidambaram, kindly have courage to expose the cupboard and tell the nation. There has been the Harshad Mehta scam, there has been the Ketan Parekh scam and there has been the GTB scam. You -- not you but the RBI; not you but those who run the financial system -- have been found to be totally incompetent to protectâ€¦!(*Interruptions*)

MR. DEPUTY-SPEAKER: Please sit down.

...(Interruptions)

SHRI GURUDAS DASGUPTA : My arrows are equally towards you gentlemen, sitting on my right side....(*Interruptions*)

I would like to tell Shri Chidambaram, do not carry the crime of the earlier Government. He may institute an inquiry, register a criminal case against Gelli, take action against all those officers who have been found to be guilty and find out the collusion. In order to find out the collusion, in order to set up a foolproof system, he should take action because the system did not work. It did not work in 1991-92. It did not work in Ketan Parikh's case. The system did not work in Global Trust Bank. Please let us know his remedy for setting up of an effective system to protect India's financial system from the hands of Gellis and these political patronages.

MR. DEPUTY-SPEAKER: Shri Chandrappan, you may only seek some clarifications in a few minutes time because Shri Dasgupta has taken too much time.

SHRI C.K. CHANDRAPPAN (TRICHUR): I will not take that much time.

Sir, the Finance Minister while replying to the debate on the Budget said that, be soft-spoken so that the others will listen and you will also be a soft person. I think this is a very soft statement he had made.

The fifth point in the statement says that the RBI directed that, if necessary, criminal cases can be launched against the Directors and other people responsible. Is it not a very soft approach to these people? I will not describe all that has been described by my predecessor. Not only the RBI, SEBI also did the same. There was an order from SEBI in 2002 that the brokers dealing with the share of GTB were prevented. But all of a sudden SEBI withdrew that just on the eve of the collapse of the bank. The result of this has been told by Shri Dasgupta. While withdrawing this ban what really happened was, all those, who wanted to escape from the sinking boat, escaped. They were the big sharks, the promoters, including Gelli, Padma Shri, his relatives and everybody. They diluted their share and SEBI gave them the loophole. It showed them the path, the way they could escape. Then came Shri Chidambaram's great friends, the foreign investors, NRIs, FDIs, FII's and others. They also escaped through that route. The way out was shown to them by the SEBI. It showed them the way to save themselves. But the poor investors were the ordinary people, people like me and probably like you, Sir. You are also an ordinary person. Their investment, which was 43 per cent, in the meantime had risen to 53 per cent. The poor fellows, not knowing what was happening, invested more. Shri Chidambaram says in his reply to those investors that if something is left after everybody has looted the bank, a share of that will be given to them or they will not be compensated. But in a great hurry when RBI and SEBI were acting, they did not take care of the interest of the country, the interest of the people. This is my complaint. I do not want to go into all the details. Shri Chidambaram, who always thinks that the private sector is going to play a very glorious role in the country, should know that 17 private sector banks during this period have collapsed in the country.

I do not want to repeat those names. It is the result of ten years of new economic policy unleashed by Mr. Chidambaram and his friends. The Global Trust Bank is the 18th in the list.

There is another interesting thing. Once all these banks defrauded people and the banks collapsed, now the Government is asking the healthy public sector banks to take this burden on their shoulders. I do not understand the logic behind this. These public sector banks are now to take care of all the sins that are committed by private sector tycoons and banks which are of Harshad Mehta variety. Is it not a very irresponsible thing to do?

In the meantime, I must say that when you are adopting the policy of entrusting all those banks which are collapsing to public sector banks, I understand, in Hyderabad a number of cooperative banks are collapsing. They are also licensed by RBI and I think they are 17 in number. Probably, it is not directly connected with this but it is better that you make an investigation about it. Nobody is taking care of this. Maybe, because poor people and cooperative banks are involved and no big sharks are there.

Under these circumstances, very serious crimes are committed by the Global Trust Bank and the owners of it. It is now being put on the shoulders of the public sector banks. Now I would like to know whether the Government would take

criminal action against those who leaked this information to big sharks to escape from the sinking boat. He said that there are provisions in the RBI directive but whether those provisions are being invoked or not. Has anybody who is responsible for the collapse of these banks been charged? If Mr. Chidambaram is kind enough, why not he also agree for another Joint Parliamentary investigation on this so that a better policy framework can be framed to see how this situation could be met with? It is because, I am sure, this is not the last private sector bank to collapse. It is a process which will continue. Then how is the Government going to face it? I would like to know whether the public sector banks should always bear the burden of it and also those who were responsible for the collapse and those who willingly planned this collapse and whether they should be allowed to go scot-free. I would also like to know whether only a directive is enough or more stringent action is necessary. What about criminal cases against those who are responsible? What about a parliamentary probe? These are some of the questions which I would like the Minister to answer.

SHRI BASU DEB ACHARIA (BANKURA): Sir, these cases of virtual collapse of private sector banks are the result of nearly one and a half decade of liberalisation and privatisation globally. Whenever the private sector banks are in trouble, the public sector banks are asked to bail them out. In the instant case also, when Global Trust Bank collapsed, a moratorium was imposed and then subsequently, this bank was merged with Oriental Bank of Commerce which is a public sector bank.

The hon. Minister in his statement has stated that it has not happened suddenly or abruptly. The financial health of the Global Trust Bank was concerning the Reserve Bank of India and the performance of the bank during the period ending 31st March, 2001 to 31st March, 2002 was reviewed by the Reserve Bank of India through its annual financial inspection. So, the problem started since 2001 and it almost became clear that the bank would collapse one day. Why did the Reserve Bank of India not take action at the appropriate time?

The Global Trust Bank, since 2001, had sent out signals that things were not moving in the right direction. Alarm bells were sounded on a number of occasions, there were wake up calls for the regulators to step in and take appropriate steps to prevent it from virtual collapse. But that was not done. No firm action was taken to put the affairs of the bank back on the rails. Although there were warnings given, although there were adverse reports coming, although the Reserve Bank of India knew that things in the Global Trust Bank was not moving in the right direction, yet why was no action taken at the appropriate time to prevent the bank from its virtual collapse? Even right from 1997-98, the Advance Portfolio became a source of worry. Increasing exposure to capital market through advances meant digging its own grave.

FERA had enquired into the affairs of the bank and it was found that funding was made to a corporate for a non-existent refinery. So, fraud had continually been committed by this bank through all these years and in spite of that no action was taken. The Ministry of Finance had then decided to merge the bank with the Oriental Commercial Bank. The Non-Performing Asset of the bank in the year 2002 was more than Rs. 1200 crore. In spite of this, no action was taken.

Sir, I would like to know from the hon. Minister whether a JPC would be constituted by him to enquire into the entire affairs of the Global Trust Bank or not. The earlier JPC in their report on the stock market scam had pointed out that something was wrong with that bank. A Parliamentary Standing Committee also commented on this and in spite of that no action was taken.

I would like to know from the hon. Finance Minister whether a JPC would be constituted to inquire into the entire affairs of the Global Trust Bank. Secondly, the person who was responsible for the collapse of this Bank was Mr. Gelli. I want to know whether Government will take action against that person. I would also like to know, in order to evolve a foolproof system, whether the Government would make a proposal so that such a type of fraud would not be committed in financial institutions.

MR. DEPUTY-SPEAKER: Now the Minister may reply.

MAJ. GEN. (RETD.) B. C. KHANDURI (GARHWAL): Sir, I would like to speak for few minutes.

प्रो. विजय कुमार मल्होत्रा (दक्षिण दिल्ली) : उपाध्यक्ष जी, चूंकि यह मामला पिछले सेशन से चला आ रहा था और उस समय नहीं हो पाया था. इनका नाम नहीं था, इसलिये आज इन्हें चांस दिया जाये।

MR. DEPUTY-SPEAKER: You may put only questions or seek clarifications.

MAJ. GEN. (RETD.) B. C. KHANDURI : Sir, I will sit down before you ring the bell. I want to be very brief and I would only want to put specific queries to the Minister based on what he has said in his statement.

Would the Minister confirm or deny that no public sector bank was willing to take over GTB and it was almost thrust on it?

Secondly, you have said that based on the recommendations of the RBI, OBC was asked to take over the Bank. It is stated that RBI did not recommend it. In fact, in the initial stages, the RBI had said that no public sector bank is willing to take it and it should not be taken over. If this was subsequently done and referred to them, it was only after the Government made up its mind and then picked up a bank and told the RBI to just put their thumb mark on it. You may please confirm it.

Thirdly, every hon. Member has said and I am also repeating that the whole merger was done in a hurry and in a non-transparent manner. Simultaneously, the next day, people had talked about large quantum of selling of shares from the time you decided till the time you actually issued instructions. The previous speakers have given the names of big FIs and all that. But a large number of ordinary shareholders have suffered because people in the management have sold very large quantum of shares and the percentage of it is something unusual. The management would have benefited and the people would have suffered because of some leakage somewhere, and insider trading has taken place. Could you please tell us the quantum of shares which the management people have sold during this time and at what value was it done? Now the value has become zero and the ordinary people have suffered a great deal. Therefore, insider trading should be clarified by you.

My last point is, GTB has been favoured without any reason. It has been favoured unfairly. I am told, and you may please correct me, that the employees of the GTB who are getting the private sector emoluments would continue to get the same emoluments which are much higher than the OBC employees who are working in the same grade. Thus you got a loss-making bank, merged with a bank which is supposed to be making profit and put their officers and employees at a lower pay scale. There is a lot of discontentment on it. Are you aware of it? If so, what are you going to do about it?

MR. DEPUTY-SPEAKER: As a special case, I have allowed Maj. Gen. Khanduri to seek clarifications. It will not be repeated in future.

SHRI P. CHIDAMBARAM: Mr. Deputy-Speaker Sir, I am grateful to the hon. Members for their views expressed during this very brief debate on the Calling Attention Motion as well as for the pointed questions raised by them which gives me an opportunity to add to the statement that I have made in response to the notice.

The first thing that I wish to make clear is, action was taken in the GTB case after this Government came into office. Now, I am not looking for applause on this ground. All I am pointing out is that within days after this Government took over Office, when I received information about the state of affairs of the GTB, I consulted with the RBI and requested the RBI to look into the matter expeditiously and make its recommendations. This wound, if I may say, has been festering for two to three years. If there had been forbearance or indulgence, that forbearance and indulgence relates to a period prior to the 24th of May and not after 24th of May, 2004. The RBI is the Central Bank of India. The RBI is also the regulator of the banking industry. In some countries the banking regulator is different from the Central Bank. We have combined these functions of the RBI. The RBI, therefore, can only act in a manner that it does not induce any systemic consequences and systemic implications.

In this case, it is possible to argue that the RBI perhaps showed forbearance for a longer period than was absolutely necessary. It is equally possible to argue, as RBI has done, that in every action that the RBI took the implicit message was that the action that it takes should not cause a run on the bank or cause any systemic consequences. Now, I do not wish to be judgemental. Each one can draw his own conclusions. But the fact does remain that Mr. Ramesh Gelly, under a certain dispensation, was shown indulgence. Let me assure you that if anyone has done any criminal act, he will be punished.

Let me add now that since action was taken in the case of Global Trust Bank, I have not kept quiet. I have not been idle. I have closely monitored the situation. The scheme under which Oriental Bank of Commerce has taken over the GTB makes it absolutely clear that any Director or Manager or employee involved in any violation will be punished. There is no amnesty. Investigation is complete. Criminal cases will be filed before the month is over.

Therefore, with great respect, I would submit that I see no reason for a JPC. If I fail to take action, if the Government is idle, then perhaps a demand for a JPC would merit attention. But I have not been idle; the Government has not been idle. The criminal cases, as I said, will be filed before the month is over.

My friend, Shri Ajoy Chakraborty, asked me, "Why did you take a decision on a Sunday? Unfortunately, the Government does not rest on a Sunday. The moratorium was on Saturday, the 24th of July. Before depositors panicked, before the families would suffer and panic, we worked round the clock and on the 26th of July, which was a Monday, we announced the merger with the Oriental Bank of Commerce.

Let me tell you that hundreds of depositors have told me and have written to me saying that they are happy that we took action in 48 hours. Every Branch of GTB was converted into an OBC Branch, and every rupee of every depositor is absolutely safe today in the hands of the OBC.

MD. SALIM : It is a Holy day, not only a holiday.

MR. DEPUTY-SPEAKER: No running commentary, please.

SHRI P. CHIDAMBARAM: It is not correct to say that the OBC did not have the time to do an evaluation exercise.

Before the final order was passed, the OBC has done its due diligence. The OBC is completely satisfied that what it has bought is a valuable asset.

The OBC Board meeting took place on the 2nd July, 2004. All this is reflected in the Board meeting. It is not correct to say that the OBC Board did not meet or did not consider these matters.

Sir, all other questions really revolve around this question: Why have you not taken any action? But the answer, I have given. The action is complete. Let me answer the specific questions if the hon. Deputy-Speaker allows me. The action is complete. Action will be taken. That should settle most of the questions that have been asked. Nobody is being soft against anyone. In fact, I would be the last person to be soft on anyone who is found to have done a criminal act.

SHRI K.S. RAO (ELURU): The investigation is complete. Am I right?

SHRI P. CHIDAMBARAM: The inquiries into filing a complaint are complete and criminal action will be instituted. After that, whatever the law will do, it will take its own course.

MD. SALIM : So, you are not lenient. Am I correct?

SHRI P. CHIDAMBARAM: I am not. I said that action would be filed. I have taken time up to the end of this month. I said that by the end of this month or may be sooner, it would be done.

MR. DEPUTY-SPEAKER: Hon. Member, please do not disturb him.

SHRI P. CHIDAMBARAM: My hon. friends asked me why no PSU is willing to take it over. That is not correct. The OBC is a public sector bank. The OBC is satisfied that it has acquired a valuable asset and a valuable business. Yes, there are NPAs. But on balance, the OBC thinks that this is a good purchase for the OBC.

It is said that the ordinary people have suffered. This is a myth.

MAJ. GEN. (RETD.) B. C. KHANDURI: The point is that the RBI did not recommend it earlier.

SHRI P. CHIDAMBARAM: No, it is not correct. The RBI gave enough opportunity to the GTB to find a private domestic investor. The RBI gave enough opportunity to the GTB to bring in an overseas investor. But the GTB could not find a private domestic investor. When the GTB brought an overseas investor, the RBI, in consultation with me, turned that proposal down. It is so because as I said in my statement that it was a limited partnership registered in the Cayman Islands. And it sought regulatory forbearance, prudential forbearance and a foreign jurisdiction. So, I turned it down. I think what we did is absolutely correct.

You said that the ordinary people were affected by the purchase and sale of shares just before and after the moratorium. I am afraid that is not the correct position. In fact, when you say an ordinary investor, one would assume somebody who buys hundred shares or five hundred shares or a thousand shares. Unfortunately, that is not the fact. The shares were sold in very large quantities. There is no one who has bought hundred shares or a thousand shares. I think the retail investor is more savvy than that. He knew about the decline of GTB. There were a number of newspaper reports. In fact, as early as May, 2003, there were newspaper reports about the decline of the GTB; the GTB being asked to infuse money; the GTB being asked to bring in more capital. The Annual Inspection Reports were more or less discussed in newspapers. So, no ordinary investor is really involved in this. It is true that block shares were sold and block shares were bought. All I can say is that if there was a seller, there was a buyer.

MAJ. GEN. (RETD.) B. C. KHANDURI : Who are the buyers?

SHRI P. CHIDAMBARAM: Just wait for a moment. You have put your question. Why do you not let me answer?

For example, a major seller is – I am giving an example – Far Eastern Investment Corporation Limited. It sells not 100 shares or 50 shares to a poor, ordinary investor, it sells 6,25,000 shares on the Stock Exchange and then there is someone who is buying it on the other side. The buyer is another FII, namely, UBI Securities (Asia) Limited which buys 6,96,549 shares.

As far as individuals are concerned, there is an individual – it may not be necessary to give his name because the name may mean nothing – who buys 10 lakh shares. When does he buy? He buys after the moratorium. Now, how do I delve into anyone's mind to find out as to why this person is buying 10 lakh shares? So, no ordinary investor has been affected.

The SEBI was asked to go into the question whether there is a connection between buyers and sellers and SEBI has arrived at a conclusion that:

"The analysis of the data and information does not suggest that sales by above persons were based on any information about a likely announcement of moratorium by the Government or the likely swap ratio. There is no evidence to suggest that they were in possession of price sensitive information. During the pre-moratorium period, the purchases were widespread. No concentrated purchases could be observed except in two cases, one, a resident of Ludhiana and another, a resident of Kanpur. The analysis did not reveal any common set of purchasers and sellers during the period. During the post-moratorium period, again the purchasers and sellers were widespread. No concentrated purchases could be observed except one, a person in Delhi, a trader who appears to have made a purchase of about 10 lakh shares on delivery basis. No adverse findings could be observed on the above transaction. It may be noted that post-moratorium, prices had fallen to a negligible level."

Now, why does someone buy the shares? I can understand when someone wants to get out by selling the share. But there could be no seller unless there is a buyer. Why would somebody want to buy the shares? It is beyond my comprehension.

SHRI GURUDAS DASGUPTA : It is because he belongs to the OBC.

SHRI P. CHIDAMBARAM: No; you are wrong Mr. Gurudas Dasgupta. The shareholder of GTB will get virtually nothing and in all probability will get nothing. ...*(Interruptions)* You are wrong. Please understand the swap. The shareholders of GTB will get zero. The shares are worthless. ...*(Interruptions)*

Sir, I have understood his point. It is misconceived. We have to make a distinction between depositors and shareholders. The depositors' money is safe. The shareholders will get nothing because after paying off all the debts and all the liabilities, will anything remain? Nothing would remain here. The shareholders of GTB will get nothing. Now, why does one buy and why does one sell these shares is beyond one's comprehension.

Sir, no ordinary investor was involved because when you say 'ordinary investor', was anyone inveigled or induced to buy 100 shares or 1,000 shares? These are all huge, block transactions by persons who are buying and selling shares. Maybe they are gambling, but their gamble has proved to be worthless. The shareholders of GTB will get nothing.

Sir, action will be taken and when action is taken, I will report to the House.

SHRI GURUDAS DASGUPTA : Mr. Deputy-Speaker, Sir, I compliment the Finance Minister because he said that the criminals would be punished. But will he kindly say what action he is going to take against the Reserve Bank of India for being indulgent with the Global Trust Bank for three years? That is the question he has avoided. ...*(Interruptions)*

MR. DEPUTY-SPEAKER: Shri Gurudas Dasgupta, please take your seat. we have to take up the next item now.

...*(Interruptions)*

SHRI GURUDAS DASGUPTA : Sir, he has avoided the main question. What is he going to do with the wrongdoing of the RBI? ...*(Interruptions)*

MR. DEPUTY-SPEAKER: He has given the reply. Please take your seat now.

...*(Interruptions)*

MR. DEPUTY-SPEAKER: This will not go on record.

(Interruptions) €*
