

9th November 1992

To
Shri S.C. Gupta
Joint Secretary
Lok Sabha Secretariat
Parliament House Annexe
New Delhi 110 001.

Dear Shri Gupta,

Ref: Your letter no. 10/3(4)/JC(SBI)/92 dt. 06.10.92

I acknowledge receipt of your letter asking me to appear before the Joint Parliamentary Committee on 12th and 13th November, 1992 and I hereby confirm my appearance.

I request you to grant me an opportunity to make a slide presentation on the occasion. As per your requirement, I am forwarding you 40 copies containing details of my presentation which may be treated as my Memorandum. You are requested to circulate it to the Committee Members.

Thanking you,

Yours faithfully,

(Harshad S. Mehta)

DEPOSITION

AN OUTLINE OF DEPOSITION OF
SHRI HARSHAD MEHTA BEFORE
JOINT PARLIAMENTARY COMMITTEE
ON 12 / 13TH NOVEMBER 1992.

INTRODUCTION AND MY CURRENT STATUS

I AM HANDICAPPED AS MY DEPOSITION IS

- 1) WITHOUT REFERRING TO MY BOOKS OF ACCOUNTS
- 2) WITHOUT HELP OF MY EMPLOYEES
- 3) MY OFFICES ARE SEALED, COMPUTERS AND
BOOKS OF ACCOUNTS SEIZED AND MY ORGANISATION CRIPPLED
- 4) STAFF HAS DESERTED AS SALARIES REMAIN UNPAID

INTRODUCTION AND MY CURRENT STATUS

NATURAL JUSTICE DEMANDS

JUST LIKE OTHERS I MUST ALSO BE GIVEN A FAIR CHANCE TO PREPARE MYSELF FOR DEPOSITION. I MUST BE GIVEN ACCESS TO MY BOOKS OF ACCOUNTS, ASSISTANCE FROM OFFICE AND EMPLOYEES.

IF JPC REQUIRES ME TO GIVE DETAILS OF MY TRANSACTIONS I CAN PROVIDE THEM ONLY IF I AM ALLOWED TO GET ACCESS TO MY BOOKS OF ACCOUNTS. MY PRESENT HANDICAP SHOULD NOT PREJUDICE COMMITTEE MEMBERS.

PRESENTATION

1. INTRODUCTION AND MY CURRENT STATUS
2. MY CONDUCT
3. STATUS OF ASSETS AND LIABILITIES
4. GENESIS OF THE SO CALLED SCAM – GOVERNMENT AND RBI RESPONSIBLE
5. RBI FAILURES AND OPERATION COVER UP
6. MAKING OF SCAPEGOAT
7. PAMPERING OF FOREIGN BANKS
8. ROUTING FACILITY
9. HANDLING OF THE SO CALLED SCAM A BIGGER SCAM
10. FIR's – MY POSITION
11. HOST OF UNDER INVESTIGATED AREAS
12. INVESTORS SUFFERINGS
13. SUMMATION

INTRODUCTION AND MY CURRENT STATUS

I PROFUSELY THANK THE JPC MEMEBRS
FOR GRANTING ME AN OPPORTUNITY
FOR DEPOSITION

I WISH TO CO-OPERATE TOTALLY AND SEEK JUSTICE

MY CONDUCT

ON 17TH MAY I ADDRESSED A LETTER TO SHRI K. MADHAVAN OF C.B.I, SEEKING HIS APPOINTMENT AND OFFERING MY COMPLETE CO-OPERATION.

ON THE SAME DAY, I ISSUED A PRESS RELEASE INDICATING MY DESIRE TO MEET ALL MY COMMITMENTS SO AS TO MINIMIZE THE CREATION OF PANIC HURTING THE INVESTORS.

ON 21ST MAY 92 I MET SHRI K. MADHAVAN AND EXPRESSED TO HIM THAT I WISH TO CO-OPERATE COMPLETELY IN THE PROCESS OF INVESTIGATION.

ON 25TH MAY '92 I ADDRESSED A LETTER TO SHRI R. JANAKIRAMAN MAKING MY OFFER TO PROVIDE SECURITY.

ON 26TH MAY '92 I RECEIVED A REPLY FROM THE COMMITTEE STATING THAT SECURING REPAYMENT WAS NOT THE FUNCTION OF THE COMMITTEE BUT I SHOULD APPROACH THE CONCERNED BANKS.

ON 2ND JUNE '92 I ADDRESSED A LETTER TO DR. MANMOHAN SINGH, THE HON. FINANCE MINISTER REITERATING MY OFFER OF PROVIDING SECURITY AND I SOUGHT HIS PERSONAL INTERVENTION AND AUDIENCE SO AS TO BRING AN EARLY END TO THE EPISODE.

I FORWARDED A COPY OF THIS LETTER TO MR. DALBIR SINGH, HON. MINISTER OF BANKING, SHIR S. VENKITARAMANAN, GOVERNOR, RBI AND SHRI R. JANAKIRAMAN, DEPUTY GOVERNOR, RBI AND CBI.

ON 2ND JUNE '92 I ALSO ADDRESSED LETTERS TO SBI AND ANZ GRINDLAYS REQUESTING THEM TO DETERMINE LIABILITIES AND FORWARDED A COPY OF MY LETTER TO DR. MANMOHAN SINGH.

CONTD

MY CONDUCT

ON 3RD JUNE '92 I WROTE TO SHRI R. JANAKIRAMAN, DY. GOVERNOR INFORMING HIM ABOUT LETTERS TO SBI AND ANZ GRINDLAYS AND COMPLAINED THAT THE FIRST INTERIM REPORT OF THE JANAKIRAMAN COMMITTEE HAD EXAGGERATED MY LIABILITIES IGNORING MY MONEY MARKET ASSETS LYING WITH BANKS AND WITHOUT RECONCILIATION WITH MY BOOKS

I STATE THAT CREDITING OF CHEQUES TO MY SBI ACCOUNT WAS NOT IRREGULAR AS I WAS SANCTIONED THIS FACILITY ON MY REQUEST MADE IN LETTERS DATED 19TH AUGUST '91 AND 10TH JAN '92.

I ONCE AGAIN SOUGHT AN AUDIENCE BEFORE THE COMMITTEE

ON 4TH JUNE '92, ME AND MY BROTHERS AND STAFF MEMBERS WERE ARRESTED BY CBI. I WAS RELEASED ON 27TH AUGUST '92 UNDER CBI CHARGES BUT WAS REARRESTED ON THE SAME DAY BY THE FERA DEPARTMENT AND WAS FINALLY GRANTED BAIL AND RELEASED ON 23RD SEPT. '92 AFTER DETENTION OF 111 DAYS. DURING MY ARREST I RENDERED COMPLETE CO-OPERATION DESPITE BEING ILL-TREATED.

I WAS INTENSELY INTERROGATED FOR MORE THAN 600-700 HOURS WITH REPETITIVE QUESTIONING WITH A VIEW TO BREAK ME DOWN AND EXTRACT CONFESSION AND OBTAIN COMPELLED TESTIMONY.

AFTER RELEASE, I CONTINUE TO ATTEND THE FERA AND CBI OFFICES. I WISH TO PLACE ON RECORD THAT THE INVESTIGATING AGENCIES HAVE BEEN BIASED TO ME. THEY HAVE INDULGED IN SENSATIONALISING AND MISLEADING THE MEDIA BY GIVING THEIR OWN DISTORTED VERSIONS SO AS TO PROJECT ME AS A VILLIAN OF PIECE. MY CONTINUED CONFINEMENT WAS PRE-PLANNED AND THEREFORE I ADDRESSED A LETTER ON 7TH SEPT'92 TO THE CHAIMAN, JPC APPRAISING HIM ABOUT DISCRIMINATION AND ILL TREATMENT TO ME.

REQUEST

I REQUEST JPC NOT TO DRAW SURMISES BASED ON THE VERSIONS OF RBI, JANAKIRAMAN COMMITTEE AND CBI. IT IS BROKERS WHO CAN GIVE THE REAL INSIGHT INTO WHAT HAPPENED IN THE MARKET PLACE AS THEY ONLY KNOW IT FIRST HAND. TO APPRAISE THE MEMBERS OF THIS AUGUST BODY COMPLETELY I HAVE TAKEN LIBERTY TO DRAW THE REAL AND STARK PICTURE OF THE AFFAIRS.

STATUS OF ASSETS AND LIABILITIES

I REITERATE MY OFFER OF SETTLEMENT ALREADY MADE TO JPC AND I ONCE AGAIN STATE THAT THE COUNTRY IS NOT GOING TO LOSE A PAISA AND BANKS WILL NOT SUFFER.

TOWARDS THIS END AND TOWARDS ASCERTAINING DETAILS OF MY ASSET BASE THE STEPS HAVE ALREADY BEEN COMMENCED.

IF THE NATION IS SERIOUSLY INTERESTED IN RECOVERY OF PUBLIC MONEY THAN FOCUS ON ME IS MISDIRECTED.

STATUS OF ASSETS AND LIABILITIES

ALLEGED LIABILITIES AS PER FIR

<u>FIR IN RESPECT OF</u>	<u>AMOUNT (RS. IN CRORES)</u>
1) SBI	--
2) UCO	--
3) SBICAP	105.11
4) SBS	174.95
5) NHB	1214.00
6) PFC	--
7) DR. V. KRISHNAMURTHY	--
	<u>1494.06</u>

THE ABOVE LIABILITIES ARE EXAGGERATED AND WITHOUT RECONCILIATION WITH MY ACCOUNTS. BESIDES THIS, MY LARGE RECEIVABLES FROM BANKS HAVE BEEN IGNORED. EVEN IF THE ALLEGED LIABILITY POSITION WAS TRUE MY ASSET BASE IS AS FOLLOWS.

STATUS OF ASSETS AND LIABILITIES

ASSET POSITION

<u>PARTICULARS</u>	<u>RS. CORRES</u>
1. CLAIM OF ASSETS WITH NHB	250
2. PENDING RECEIVABLES OF MONEY MARKET	200
3. CASH AND SHARE BALANCE WITH BSE	40
4. RECEIVABLES – CALCUTTA STOCK EXCHANGE	45
5. I.T. ATTACHMENT OF SHARES IN 61 COMPANIES U/S 281B	550
6. REGISTERED HOLDINGS IN 250 COMPANIES APPROX VALUE	250
7. SEIZURE OF SHARES BY CBI AND I.T.	140
8. FIXED ASSETS	40
	<u>1515</u>

THE ABOVE FIGURES ARE APPROXIMATE AND LIABLE TO VARY BUT THE SAME WILL MATCH THE PROPERLY COMPUTED LIABILITIES.

GENESIS OF THE SO CALLED SCAM

FOR PAST SEVEN MONTHS

WE ARE DIAGNOSING SYMPTOMS
AND NOT THE DISEASE

WE ARE JUDGING RIGHT AND WRONGS
THROUGH THE EYES OF RBI, CBI WHO ARE ACTING AS
JUDGE, JURY AND EXECUTIONER

GENESIS OF THE SO CALLED SCAM

DR. MANMOHAN SINGH HAS STATED IN AN ARTICLE ON “AFTER ONE YEAR OF STRUCTURAL REFORMS IN INDIAN ECONOMY” THAT

“INDIA HAS AN OVER REGULATED BUT UNDER GOVERNED BANKING SYSTEM. OVER THE YEARS, A GROWING PORTION OF BANK DEPOSITS CAME TO BE INVESTED IN LOW YIELDING GOVERNMENT SECURITIES. MOREOVER, 40% OF BANK CREDIT HAS TO BE EARMARKED FOR PRIORITY SECTORS WITH VARYING ELEMENTS OF CONCESSIONALITY BUILT INTO IT. THUS BANKS GOT INVOLVED IN UNCONVENTIONAL MEANS OF IMPROVING THEIR PROFITABILITY WHICH IN THE ABSENCE OF EFFECTIVE CONTROL MECHANISM AND COLLUSION BETWEEN SOME BANK OFFICIALS AND STOCK MARKET OPERATORS LED TO DIVERSION OF BANK FUNDS INTO STOCK MARKET.”

GENESIS OF THE SO CALLED SCAM

I WOULD SAY THE SAME THING AS FOLLOWS:-

“OVER THE YEARS THE BANKS HAVE BEEN SERVING THE GOVERNMENT AND EXPLOITING SAVERS TO SUCH A POINT THAT THEY CAME TO A BRINK OF FINANCIAL DISASTER WHICH REMAINED MASKED BY DRESSING OF BALANCE SHEETS. THE DAY OF RECKONING ARRIVED SUDDENLY AT THE INSTANCE OF WORLD BANK AND DUE TO HUGE LOSSES SUFFERED ON ACCOUNT OF STEEP FALL IN ASSET PRICES AND SHARP UPWARD MOVEMENT IN INTEREST RATES PUSHING THE BANKS TO A CORNER AND COMPELLING THEM TO EARN PROFITS AT ANY COST.”

GENESIS OF THE SO CALLED SCAM**WHO FIRST DISCOVERED THE SO CALLED SCAM**

- | | |
|------------------------------------------------------------|-----|
| 1) WORLD BANK IN ITS REPORT
ON FINANCIAL SECTOR REPORTS | YES |
| 2) RBI | NO |
| 3) INCOME TAX DEPARTMENT | NO |
| 4) SBI MANAGEMENT | NO |

THE REAL SCAM

THE REAL SCAM RUNS INTO RS. 15000 TO RS. 20000 CRORES ANNUALLY PERPETRATED ON SAVERS WHO SUBSIDISE GOVERNMENT BORROWING AND FUND ITS POPULIST POLITICAL PROGRAMMES.

THEY HAVE BEEN PLACING DEPOSITS TO EARN INTEREST BETWEEN 6 TO 10% AGAINST THE POSSIBLE RETURNS OF 12 TO 16%

SAVERS ARE IGNORANT ABOUT THEIR FLEECING OTHERWISE THEY WOULD HAVE BEEN ASKING THE GOVERNMENT ALL THESE YEARS WHOSE MONEY IS IT ANYWAY?

GOVERNMENT HAS USED RBI AS A FRONT TO EXPLOIT SAVERS

THE REAL SCAM

RBI THE GOVERNMENTS BANK UNTIL RECENTLY WAS IMPOUNDING

- | | | |
|----|--------------|---------------------------------------------------------------------------------|
| 1) | 38.5% | UNDER SLR BY MAKING BANKS COMPULSORILY PURCHASE LOW INTEREST BEARING SECURITIES |
| 2) | 25% | UNDER CRR AS CASH DEPOSIT WITH RBI PAYING 10% RATE OF INTEREST. |
| | <u>63.5%</u> | DIRECTLY GOES TO THE GOVERNMENT COFFERS AT AN INTEREST RATE OF 10 TO 11%. |

THE REAL SCAM

OF THE BALANCE 36.5% LENDABLE RESOURCES

40% IS DEPLOYED IN PRIORITY

SECTOR (SOCIAL BANKING)

10% TOWARDS FOOD CREDIT

LEAVING THE BALANCE TO BE DEPLOYED AT

COMMERCIAL RATES.

SO FOR EVERY RUPEE OF SAVER

ONLY 18 PAISA IS DEPLOYED

AT COMMERCIAL RATE MAKING THE BUSINESS COMPLETELY UNVIABLE.

MEAGER PROFITABILITY OF INDIAN BANKS' FOR YEAR ENDED 1991

(Rs. in Crore)

NAME OF THE BANK	NO. OF BRANCHES	NO. OF EMPLOYEE	DEPOSIT BASE	INV.	PROFIT/ (LOSS)	ADVANCES	DEP. ON INV. 10%	BAD DEBT 5% OF ADVANCE
STATE BANK OF INDIA	8513	221628	49936	17428	107	40438	1743	2022
STATE BANK OF SAUR.	339	7706	1446	450	5	843	45	42
UCO BANK	1772	35483	9177	2855	(-) 43	5914	286	296
CANARA BANK	2019	51109	12578	4397	76	7073	440	354
ALLAHABAD BANK	1777	21941	6423	2277	21	3017	228	151
SYNDICATE BANK	1542	39026	7377	2425	5	3946	243	197
ANDHRA BANK	945	15604	3534	1202	8	1838	120	94
TOTAL			90471	31034	179	63119	3105	3156

GENESIS OF THE SO CALLED SCAM

THE GENESIS OF THE SO CALLED SCAM LIES IN THE TURBULENCE THAT AFFECTED BOTH THE MONEY AND CAPITAL MARKETS LAST YEAR.

THE TURBULENCE IN MONEY MARKET WAS A SHARP AND SUDDEN FALL IN MONEY MARKET ASSET PRICES DUE TO INCREASE IN INTEREST AND COUPON RATES HITTING THE PLAYERS WITH A LOSS OF ABOUT RS. 17000 CRORES.

THE TURBULENCE IN THE CAPITAL MARKET WAS A SHARP INCREASE IN THE SHARE PRICES OF MORE THAN 300% P.A. WHICH RESULTED INTO A LOSS OF ABOUT RS. 1000 CRORES FOR BEAR CARTEL WHO HAD HEAVILY SHORT SOLD AT VERY LOW LEVELS OF INDEX.

THE BULLS RAISED MONEY TO FUND THEIR PURCHASES AND THE BEARS PARKED THEIR LOSSES WITH THE BANKS AND MUTUAL FUNDS. THE BANKS SUFFERING FROM HUGE LOSSES PARKED IT IN PMS ACCOUNTS OR LENT MONEY TO LOSING BROKERS AGAINST FALSE BR's TO FUND THE LOSSES OF BOTH.

GENESIS OF THE SO CALLED SCAM

THE STARTING POINT WAS PARTIAL DEREGULATION OF INTEREST RATE STRUCTURE. LIFTING OF CEILING OF 10% ON CALL MONEY WITHOUT ADEQUATE SUPPLY MADE CALL RATES GO TO EVEN 100% MAKING BORROWING BANKS SUCCUMB TO PRESSURE. THE INTEREST RATES ON R/F AND PMS FOLLOWED SUIT. THE HIKE IN COUPON RATES ON GOVERNMENT SECURITIES AND BONDS CAME LATER.

WHERE 1/2 % INCREASE IN COUPON RATE CAN PRODUCE A FALL OF Rs. 4 IN MARKET PRICES, THERE WAS ONE STROKE JUMP OF 4% FROM 13% TO 17% IN PSU BOND COUPON WHICH BROUGHT DOWN PRICES BY RS. 30 THERE WERE THREE QUICK REVISIONS IN COUPON RATES OF GOVERNMENT SECURITIES.

THIS EXPOSED THE WEAKNESS OF MONEY MARKET ASSETS AS THEIR INHERENT RETURNS WERE MUCH LOWER THAN THE AVERAGE MONEY RATES BESIDES THE PROSPECTS OF SHARP DEPRECIATION.

CAUSES OF THE SO CALLED SCAM

- 1) TURBULENCE IN MONEY RATES
- 2) MASSIVE DEPRECIATION IN ASSET RATES
- 3) FREQUENT REVISION IN COUPON RATES
- 4) EXPONENTIAL GROWTH IN VOLUMES MAKING TRUST REPLACE CONTROLS
- 5) STRONG URGE TO EARN PROFIT AT ANY COST
- 6) NON PERFORMANCE ASSETS IN BANKS SCALING RECORD PROPORTIONS COMPELLING TREASUREY TO SUBSIDISE OTHER DIVISIONS
- 7) RESTRICTIVE POLICIES AND ARTIFICIAL BARRIERS DISALLOWING FREE FLOW OF MONEY TO FETCH BEST RETURNS.
- 8) PARTIAL DEREGULATION IN INTEREST RATE STRUCTURES.

**ESTIMATED LOSSES TO HOLDERS OF MONEY
MARKET ASSETS**

THE SUDDEN AND SHARP RISE IN AVERAGE MONEY RATE AND COUPON RATES BROUGHT SHARP FALL IN MARKET PRICES OF MONEY MARKET ASSETS. THE ESTIMATES OF DEPRECIATION / LOSSES IS AS FOLLOWS.

<u>MONEY MARKET ASSET</u>	<u>LOSS/DEPRECIATION</u>	<u>REMARKS</u>
1) GOVERNMENT SECURITIES	12,500	10% FALL ON ISSUED DEBT OF ABOUT Rs.1.25 LAC CRORES SECURITIES
2) PSU BONDS	4,000	20% FALL ON OUTSTANDING ISSUES OF RS20000 CRORES
3) UNITS	400	2% FALL ON OUTSTANDING UNITS OF ABOUT RS.20000 CRORES
- TOTAL	16,900 CRORES	

N.B: THE TRADERS HOLDING ABOVE ASSETS THROUGH COSTLY BORROWED FUNDS SUFFERED MUCH HIGHER LOSSES.

WHO SUFFERED THE MOST

- 1) PERENNIAL BORROWERS DEPENDENT ON CALL AND READY FORWARD MARKET THE SICK AND WEAK BANKS BECAME WEAKER.
- 2) THE TRADING BANKS WHO WERE HOLDING MONEY MARKET ASSETS ON SELF ACCOUNT AND WHO WERE NURSING THEM THROUGH BORROWING ON CALL, READY FORWARD OR UNDER PMS ACCOUNT.
- 3) BROKERS WHO WERE HAVING LONG POSITION AND HAD PARKED THEM WITH BANKS

MANIPULATING BANK PERFORMANCE

THERE ARE VARIETY OF WAYS IN WHICH BANKS DRESS UP PERFORMANCE. SOME OF THE METHODS ARE AS FLOOWS:

1. NO PROVISION FOR BAD AND DOUBTFUL DEBTS.
2. NO PROVISION FOR DEPRECIATION ON INVESTMENTS.
3. INTEREST ON BAD AND DOUBTFUL DEBTS IS ADDED TO THE INCOME WITHOUT RECEIVING IT.
4. SWITCH TRANSACTIONS ARE ENTERED INTO AT INFLATED PRICES BOOKING PROFITS ON THE EXISTING HOLDINGS AND SHIFTING THE LOSSES ON THE NEW PURCHASE WHICH IS HELD AT RATES MUCH HIGHER THAN THE ACTUAL MARKET PRICE.
5. PART OF THE INTEREST ON CALL MONEY IS PAID THROUGH PURCHASE AND SALE OF SECURITIES SO THAT THE SAME IS NOT CHARGED TO REVENUE BUT GETS ADDED INTO THE COST OF PURCAHSE OF SECURITIES.
6. SHIFTING THE LOSS OF THE BANK TO CLIENTS PORTFOLIO BY PARKING MONEY MARKET ASSET AT INFLATED PRICES INTO PMS ACCOUNTS RESULTING INTO BOOKED GAIN FOR THE BANK BUT UNBOOKED LOSS FOR THE PMS CLIENT.
7. CARRYING OUT STRIPPING TRANSACTION FOR GOVERNMENT SECURITIES, TAX FREE BONDS AND UNITS TO SAVE TAX RESULTING IN LOSS TO EXCHEQUER.
8. REQUESTING BROKERS TO PURCHASE SECURITIES AT HIGHER PRICES BEFORE YEAR END WITH AGREEMENT TO BUY IT BACK IN THE NEXT YEAR RESULTING INTO BOOKING OF PROFIT FOR THE BANK WHICH IS FUNDED BY BROKERS.

THE CLEAR MESSAGE TO BANKS

- 1) MANAGE BANKS AFFAIRS TO BECOME A LENDER FROM BORROWER.
- 2) GET RID OF ALL MONEY MARKET ASSETS.
- 3) MANAGE SLR THROUGH BORROWING IT UNDER R/F RATHER THAN PURCHASING IT ON SELF ACCOUNT.
- 4) STEP UP TRADING AND ANYHOW EARN PROFIT TO MITIGATE LOSSES.
- 5) PARTICIPATE IN CAPITAL MARKET BY DEPLOYING FUNDS UNDER BADLA OR PURCHASE SHARES TO MAKE PROFITS.

RBI FAILURES

THE EPISODE OF SCAM CAN BE DEPICTED IN THREE STAGES

STAGE 1) THE YEARS OF HONEYMOON AND BLISS FROM 1947 TO 1986

STAGE 2) AWAKENING, REALIZATION THAT PROFIT MATTERS 1986 – 1989

STAGE 3) RECKONING AND CATASTROPHE FROM 1989 TO 1992

STAGE 1 – HONEYMOON

SINCE 1947 WE CHOSE A PATH OF SOCIAL BANKING AND FUNDING OF GOVERNMENT PROGRAMMES THROUGH THE CAPTIVE SOURCE OF BORROWING OF SAVERS MONEY WITH BANKS. IN THE NAME OF FINANCIAL PRUDENCE, THE BANKS WERE REQUIRED TO BE SOLVENT BY MAINTAINING CASH RESERVE RATIO (CASH DEPOSIT WITH RBI) AND STATUTORY LIQUIDITY RATIO (BY INVESTING IN GOVERNMENT SECURITIES) THE LATER BECAME A POTENT TOOL FOR IMPOUNDING CASH. THE BANKS WERE MADE TO LEND TO PRIORITY SECTOR AT SUBSIDISED RATES OF INTEREST. NATIONALISATION OF BANKS IN 1969 LICENCED THE CONCEPT OF SOCIAL BANKING.

IMPACT : YEARS OF SOCIAL BANKING HAD FOLLOWING IMPACT:

1. LARGE FUNDS DEPLOYED AT VERY LOW RATES OF INTEREST AT A LOSS.
2. LENDING PORTFOLIO CONTAMINATED WITH BAD DEBTS OF OVER RS.25000 CRORES.
3. INVESTMENT PORTFOLIO OF THE BANKS DEPRECIATED WITH SUCCESSIVE COUPON HIKES.

THE BANKS PROFIT & LOSS ACCOUNT DRESSED UP AND CAMOUFLAGED BY NOT PROVIDING DEPRECIATION ON INVESTMENT PORTFOLIO.

4. ACCRUED BUT NOT RECEIVED INTEREST ON BAD LOANS ADDED TO CURRENT INCOME.

STAGE 2 – AWAKENING

FROM 1986 ONWARDS THE BANK MANAGERMENTS WERE ASKED TO PERFORM AND MAKE PROFIT. THE ONLY OPTION LEFT FOR IMPROVING PERFORMANCE WAS TO IMPROVE INVESTMENT MANAGEMENT. APING OF CITI BANK'S PERFORMANCE STARTED. INVESTMENT BANKING STARTED SUBSIDISING THE PERFORMANCE OF COMMERCIAL BANKING. BANKS IMPROVED THEIR SLR/CRR MANAGEMENT AND EXPLORED OPPORTUNITIES OF MAKING MONEY IN NON-FUND BASED BUSINESS. RBI FRAMED SEVERAL GUIDELINES LIKE THE ONE ON PMS AND REGULARLY CARRIED INSPECTIONS 'BUT DID NOT REPRIMAND ANY BANKS FOR ANY VIOLATIONS THEREBY GRANTING LEGITIMACY TO MARKET PRACTICES.

STAGE 3 – RECKONING

IN THE YEAR 1989, CEILING ON CALL MONEY WAS REMOVED EXPOSING THE WEAKNESSES OF BORROWERS AND ASSET HOLDERS. THIS GALVANISED THE ENTIRE MARKET INTO TRADING ACTIVITY. BY EARLY 1991 THE MESSAGE WAS CLEAR THAT BANKS WILL NOT BE ANY LONGER ALLOWED DRESSNG UP ANNUAL REPORTS DUE TO ADOPTING OF INTERNATIONAL ACCOUNTING NORMS AND MOST OF THEM WILL BE PUSHED INTO RED. BY SUDDEN CHANGE IN COUPON RATE POLICIES MARKET WAS HIT BY A CATASTROPHE OF MASSIVE AND INSURMOUNTABLE LOSSES. THIS BROUGHT SOME INSTITUTIONS AND MARKET PLAYERS TO A POINT OF EXTINCTION LEAVING THEM WITH HOBSONS CHOICE TO GET WIPED OUT OR BREAK THE RULES AND SURVIVE.

FAILURES OF RBI

RBI'S CONSTRUCTIVE RESPONSIBILITY

- 1) TO PROVIDE EFFECTIVE SET OF PRAGMATIC POLICIES.
- 2) TO ENSURE HEALTH OF THE BANKS BY ALLOWING THEM TO EARN REASONABLE AND LEGITIMATE PROFITS.
- 3) TO UNDERTAKE RESPONSIBILITY OF DEVELOPMENT OF MONEY MARKET BY DIRECT PARTICIPATION.

FAILURES OF RBI

AS A DIRECT RESULT OF RBI'S CONCEIVED POLICES THE BANKS HAVE COME TO THIS PLIGHT IT DID NOT VISUALIIZE THE FALL OUT OF ITS RADICAL POLICY CHANGES IN THE MOST VITAL AREA OF INTEREST RATES FOR POLICY SEVERAL YEARS IT WAS GOVERNING THE MARKET WITH A SET OF POLICIES WHICH HAD ALREADY BROUGHT THE BANKS TO A STATE OF BANKRUPTCY BY MAKING THE BASIC BUSINESS OF COMMERCIAL BANKING AN UNVIABLE PROPOSITION. THE INVESTMENT PORTFOLIOS WERE ALREADY NURSING SECURITIES AT OBSOLETE RATES OF INTEREST AND THE DEPRECIATION ON THEM WAS NOT PROVIDED. THE LENDING PORTFOLIO WAS ALSO CONTAMINATED AND UNEARNED INTEREST WAS BEING TREATED AS INCOME BY BANKS. THIS FRAGILE STATE OF BANKS WAS AN OPEN SECRET AND THEREFORE EFFECTING PARTIAL DEREGULATION OF INTEREST RATES WAS SUICIDAL STEP WHICH PLAYED HAVOC ON THE MARKET. IT WAS ALSO KNOWN TO RBI THAT LATELY THE BANKS WERE VIOLATING ITS ARCHAIC POLICIES TO SOMEHOW MAKE PROFITS.

THE BANKS HAVE NEVER BEEN GIVEN ROOM TO EARN LEGITIMATE PROFITS BUT HAD TO EARN THEM IN COMPULSIVE CIRCUMVENTION OF GUIDELINES BEFORE THE BANKS ARE NAILED FOR THEIR VIOLATIONS IT IS IMPERATIVE THAT THE RBI OWNS UP THE RESPONSIBILITY FOR CREATING THAT SITUATION WHICH COMPELLED THE BANKS TO VIOLATE THE GUIDELINES.

FAILURES OF RBI – POOR POLICIES

- 1) EXCESSIVE IMPOUNDING UPTO 85% AT 10 TO 12% RATE OF INTEREST.
- 2) LOPSIDED DEREGULATION OF INTEREST RATE STRUCTURE.
- 3) BAN ON READY FORWARD EXCEPT SLR FOR 14 DAYS.
- 4) RBI ABDICATING RESPONSIBILITY OF DEVELOPMENT OF MARKET AND MARKET MAKING FUNCTION.
- 5) ILL PLANNED DECISIONS OF COUPON RATE HIKES.
- 6) EXCESSIVE PENALTY ON CRR/SLR DEFAULT MADE SUCH BANKS BORROW AT ANY COST.
- 7) ABSENCE OF ANY INFORMATION ON MARKET PRICIES.
- 8) UNLIKE GLOBAL PRACTISE RESTRICTING LENDING AGAINST SHARES.
- 9) ARTIFICIAL CEILING OF 10% ROI ON CALL MONEY AND SUDDEN LIFTING OF IT WITHOUT ANALYSING FATAL CONSEQUENCES ON MARKET.
- 10) RESTRICTIVE AND UNWORKABLE POLICIES ON PORTFOLIO MANAGEMENT.

FAILURES OF RBI

EVERY RBI GUIDELINE VIOLATED

- | | | |
|----|-------------------------------------------------|----------------------|
| 1) | READY FORWARD NOT PERMITTED | VIOLATED EXTENSIVELY |
| 2) | 10% CEILING ON CALL MONEY | VIOLATED |
| 3) | BROKERS BANNED IN CALL MONEY | VIOLATED |
| 4) | FOREIGN BANKS NOT TO DEAL
WITH PUBLIC SECTOR | VIOLATED EXTENSIVELY |
| 5) | PORTFOLIO MANAGEMENT | |
| | A) ACCEPT ONLY ONE YEAR FUND | VIOLATED EXTENSIVELY |
| | B) NOT TO OFFER FIXED RETURN | VIOLATED EXTENSIVELY |
| | C) KEEP SEPARATE ACCOUNTS | VIOLATED EXTENSIVELY |

RBI FAILURES

WE SHOULD PRESUPPOSE AND IT IS CLEARLY EMERGING THAT RBI WAS IN THE KNOW AND IN ANY CASE WITH THE POWERS THAT IT IS PROVIDED IT IS PRESUMED TO BE FULLY AWARE OF THE HAPPENNINGS IN THE SYSTEM.

WHEN RBI DID MAKE EFFORTS IN A PERIOD OF JUST THREE MONTHS JANAKIRAMAN COMMITTEE COULD PRODUCE THREE REPORTS SCANNING LAKHS OF TRANSACTIONS AND DISCOVERING SEVERAL SO CALLED IRREGULARITIES.

THE MONITORING MECHANISM WAS EXTREMELY LAX FOR YEARS WHICH LEGITIMISED EVERY MARKET PRACTICE UNTIL ONE DAY WHEN ALL OF IT WAS SUDDENDLY DECLARED TO BE ILLEGAL.

RBI FAILURES

RECENTLY FORMER DY. GOVERNOR MR. AMITAVA GHOSH IN AN INTERVIEW WITH SUCHETA DALAL FOR THE TIMES OF INDIA DATED 8/10/92 MADE SOME VERY INTERESTING OBSERVATIONS WHICH ARE AS FOLLOWS:

ON THE RBI ATTITUDE TO CERTAIN IRRGULARITIES IN READY FORWARD PMS AND OTHER AREAS

“WE DID TAKE ACTION BUT THE RBI WAS A LITTLE SOFT BECAUSE, WE WANTED TO DEVELOP AN ACTIVE BOND MARKET. I AGREE THAT THE CHECKS AND BALANCES WERE NOT SUITABLY IN STEP WITH THE LIBERALISATION BUT THE RBI THEN BELIEVED AND ONE OF MY SENIORS ALWAYS SAID – WHEN IT IS A NEW MARKET LET THEM BE FREE FOR SOME TIME AND THEN REGULATE. PARTICULARLY WHEN THERE WAS NO FRAUD INVOLVED OR CRIMINAL CONSPIRACY. WE GAVE THE BANKS SOME LEEWAY. FOR INSTANCE, DURING SHRI D.N. GHOSH’S TENURE AS SBI’S CHAIRMAN, THE RBI WINKED AT SBI’S ACTIONS. THERE WAS A CAP OF 10% ON INTER BANK CALL MONEY RATES YET SBI SOLD BONDS ALONGWITH THE CALL MONEY TO MAKE UP THE DIFFERENCE. WE WERE AWARE OF WHAT WAS HAPPENING BUT THERE WAS NO FRAUD INVOLVED SO WE DID NOT ACT.”

CONTD.

RBI FAILURES

ON FOREIGN BANKS OPERATIONS IN INDIA

“ACCORDING TO ME SOME FOREIGN BANKS MASTERMINDED THIS WHOLE THING, THEY ARE NOT VERY RESPECTFUL TO THE RBI AND THE DIRECTIVES SENT OUT BY US BECAUSE OF THEIR ACCESS TO DELHI. FOREIGN BANKS HAVE A LOT OF INFLUENCE IN DELHI. THEY ARE ALSO VERY POWERFUL INTERNATIONALLY. I THINK THE PROBLEM IS DUAL CONTROL OVER THE BANKING SYSTEM. THAT HAS TO STOP.

I PERSONALLY FEEL STERN ACTION SHOULD BE TAKEN AGAINST SOME FOREIGN BANKS AND THE LICENCES OF ATLEAST ONE OR TWO BANKS SHOULD BE WITHDRAWN FOR THEIR VIOLATIONS. BUT THE SITUATION SHOULD BE EXPLAINED IN DETAIL TO THEIR HEAD-OFFICE AND THEIR CENTRAL BANKS BEFORE SUCH ACTION IS TAKEN.

THESE BANKS ARE OPENLY DEFIANT EVEN OF THE RBI-APPOINTED COMMITTEE’S FINDINGS. IF ANY INDIAN BANK HAD DARED TO DO SO IN THEIR COUNTRIES, THEY WOULD HAVE BEEN ASKED TO PACK UP AND LEAVE.”

ON THE OPERATIONS OF FOREIGN BANKS REGARDING PORTFOLIO MANAGEMENT SERVICES (PMS)

“PMS VIOLATIONS WERE TAKING PLACE FOR A LONG TIME. IN FACT WE HAD CONDUCTED INSPECTIONS IN MAY ’90 AND WARNED CITI BANK ABOUT ITS OPERATIONS. I HAD SPOKEN TO MR. JERRY RAO (INDIAN CHIEF EXECUTIVE OF CITIBANK) AND MR. VIKRAM TALWAR (CHIEF OF BANK OF AMERICA) AND ASKED THEM TO BEHAVE. WE FELT PMS WAS IN DIRECT CONFLICT WITH THE INTEREST RATE DIRECTIVE. IT WAS AFTER THIS INSPECTION THAT I ISSUED DETAILED GUIDELINES FOR THE PMS INCLUDING THE LOCK-IN PERIOD, AND THAT EACH PLACEMENT SHOULD BE TREATED AS A SEPARATE TRANSACTION WITH A LOCK-IN PERIOD.

RBI FAILURE AND OPERATION COVER UP

RBI IS AWARE SINCE SEVERAL YEARS NOW THAT BANKS HAVE BEEN OFFERING ROUTING FACILITY TO BROKERS AND THAT CHEQUES GET CREDITED TO BROKERS ACCOUNT.

ABOUT SIX YEARS BACK RBI CARRIED A SPECIAL INVESTIGATION OF ANDHRA BANK BRANCH TO ASCERTAIN AND RECONCILE THE OUTSTANDING BR'S ARISING OUT OF THE ROUTING BUSINESS OF BROKERS. CAN JPC OBTAIN DETAILS SO THAT RBI STOPS FEIGNING IGNORANCE DESPITE ITS COMPLETE KNOWLEDGE AND AWARENESS OF EACH AND EVERY MARKET PRACTICE.

IT IS UNDERSTOOD THAT THE CREDITING OF CHEQUES INTO BROKERS ACCOUNT IS AN AGE OLD PRACTICE. THE CENTRAL BANK, BANK OF BARODA AND DENA BANK HAS REPORTEDLY BEEN DOING IT AS EARLY AS 1978 AND LATER.

MAKING OF SCAPEGOAT

I AM NOT A PRIME ACCUSED OR CHIEF VILLIAN

BUT AN IDEAL SCAPE GOAT

EVERY AGENCY WANTS TO
SCORE A POINT BY IMPLICATING ME, AND MY FAMILY

AND REAL ISSUES / CULPRITS ARE
GETTING SKIRTED / SHELTERED

MAKING OF SCAPEGOAT

I FAIL TO UNDERSTAND HOW I HAVE BEEN BRANDED AS PRIME ACCUSED OR CHIEF VILLIAN. THE FLAWS OF THE SYSTEM, THE MARKET AND ITS PLAYERS ARE BEING ATTRIBUTED TO ME ONLY. MY ANALYSIS RUNS AS FOLLOWS.

- 1) I HAVE ALREADY PLACED DETAILS OF MY ASSETS AND THE BANKS WILL NOT INCUR ANY LOSS ON MY ACCOUNT.
- 2) I HAVE CONTRIBUTED IMMENSELY TO THE PROFITS OF EACH BANK.
- 3) ON THE VOLUME OF BUSINESS, I RANK THIRD.
- 4) I HAVE HELPED IN CREATION OF WEALTH FOR LONG TERM INVESTORS AND PROMOTION OF EQUITY CULT AND I ALWAYS ADVOCATED RESEARCH ORIENTED BUYING. THE SHARP RISE OF INDEX IN MARCH/ APRIL OF THIS YEAR WAS AN OFFSHOOT OF BUDGET. I HAVE NOT MISLEAD ANY INVESTOR AND IT IS NOT A CRIME TO BE AN OPTIMIST. THE LOSS OF MORE THAN RS. ONE LAC CRORE TO INVESTORS IS DUE TO BEAR HAMMERING AND INEPT HANDLING OF THE SCAM BY THE GOVERNMENT.

MAKING OF SCAPEGOAT

I WOULD BE HAPPY TO BE A SCAPEGOATE IF ONLY THE ROT IN THE SYSTEM IS ERADICATED. WHAT STARTED AS HARSHAD MEHTA SCAM HAS ALREADY ENGULFED ALL THE MARKET PLAYERS AND EXPOSED THE WEAKNESSES OF THE SYSTEM. ULTIMATELY IF THE SAVERS GET ENHANCED RETURNS AND BANKS ARE ABLE TO EARN GENUINE PROFITS THE SO CALLED SCAM MAY GO IN THE HISTORY AS BLESSING IN DISGUISE.

DETAILS OF ADVANCE/SELF ASSESSMENT TAXES

PAID BY HSM GROUP

(RUPEES IN LACS)

NAME/ENTITY	ASST YEAR 1988-89	ASST YEAR 1989-91	ASST YEAR 1990-91	ASST YEAR 1991-92	ASST YEAR 1992-93	TOTAL
HARSHAD S MEHTA	0.36	6.17	27.15	88.80	375.00	497.48
ASHWIN S. MEHTA	0.45	2.92	9.58	49.04	112.50	174.49
HITESH S. MEHTA	0.12	2.80	1.84	28.96	30.00	63.72
SUDHIR S. MEHTA	0.26	4.62	2.35	28.96	30.00	66.19
RASILA S. MEHTA	0.06	1.75	1.50	28.96	15.00	47.27
JYOTI H. MEHTA	0.15	7.65	7.35	31.04	97.50	143.69
DEEPIKA A. MEHTA	0.35	2.55	10.58	30.50	30.00	73.98
PRTIMA H. MEHTA	0.11	3.63	0.77	28.96	30.00	63.47
TOTAL	1.86	32.09	61.12	315.22	720.00	1130.29
GROWMORE RESEARCH AND ASSETS MANAGEMENT LTD.	0.29	5.00	17.88	5.75	162.50	191.42
GROWMORE LEASSING & INV. LTD	0.00	0.00	0.40	14.38	112.00	126.78
GROWMORE EXPORTS LTD.	0.00	0.00	1.08	0.00	99.00	100.08
AATUR HOLDINGS PVT. LTD.	0.05	0.10	0.25	0.58	17.50	18.48
HARSH ESTATES PVT. LTD.	0.06	0.10	0.25	0.58	17.50	18.49
ORION TRAVELS PVT. LTD.	0.00	0.00	0.07	0.58	12.50	13.15
CASCADE HOLDINGS PVT. LTD.	0.00	0.00	0.00	0.00	5.00	5.00
FORTUNE HOLDINGS PVT. LTD.	0.00	0.00	0.00	0.00	5.00	5.00
TOTAL	0.40	5.20	19.93	24.87	431.00	478.40
GRAND TOTAL	2.26	37.29	81.05	337.02	1151.00	1608.49

SUMMARY OF NOTICES/ORDERS RECEIVED BY HARSHAD S. MEHTA GROUP FROM
VARIOUS GOVERNMENT AUTHORITIES DURING MARCH 1992 TO OCTOBER 1992

SR NO	NAME	I.T.	R.O.C	R.B.I	C.I.P.	I.T.P	TOTAL
1.	HARSHAD S. MEHTA	62	0	0	27	6	95
2.	ASHWIN S. MEHTA	37	0	0	27	6	70
3.	HITESH S. MEHTA	38	0	0	0	2	40
4.	SUDHIR S. MEHTA	43	0	0	23	5	71
5.	RASILA S. MEHTA	38	0	0	0	1	39
6.	JYOTI H. MEHTA	59	0	0	2	1	62
7.	DEEPIKA A. MEHTA	38	0	0	4	1	43
8.	PRATIMA H. MEHTA	32	0	0	2	1	35
9.	GROWMORE RESEARCH AND ASSETS MANAGEMENT LTD.	25	15	1	5	1	57
10.	GROWMORE LEASING & INVESTMENTS LTD.	12	12	4	6	1	35
11.	GROWMORE EXPORTS LTD.	10	7	1	1	1	20
12.	HARSH ESTATES PVT. LTD.	15	7	1	1	0	24
13.	AATUR HOLDINGS PVT. LTD.	15	9	1	1	1	27
14.	ORION TRAVELS PVT. LTD.	8	5	2	1	0	16
15.	CASCADE HOLDINGS PVT LTD	3	4	2	1	0	10
16.	FORTUNE HOLDINGS PVT LTD	9	1	1	1	0	12
17.	TREASURE HOLDINGS P. LTD	0	1	1	0	0	2
18.	TOPAZ HOLDINGS PVT. LTD.	0	1	1	0	0	2
19.	ZEST HOLDINGS PVT. LTD.	1	1	1	0	0	3
20.	VELVET HOLDINGS PVT. LTD	1	1	1	0	0	3
21.	EMINENT HOLDINGS PVT LTD	0	1	1	0	0	2
22.	PALLAVI HOLDINGS PVT. LTD	1	1	1	0	0	3
23.	DIVINE HOLDINGS PVT. LTD	1	1	1	0	0	3
	GRAND TOTAL	448	37	20	6	27	674

NOTE:- I.T. = INCOME TAX, ROC = REGISTRAR OF COMPANIES,
C.L.P.= COMPANY LAW PROSECUTION, I.T.P. = INCOME TAX PROSECUTION

RIDICULOUS INCOME TAX CLAIMS

<u>NAME OF THE ENTITY</u>	<u>AMOUNT</u> <u>(RS. CRORES)</u>
HARSHAD S. MEHTA	8372.94
JYOTI H. MEHTA	1583.83
ASHWIN S. MEHTA	514.94
SUDHIR S. MEHTA	55.14
DEEPIKA A. MEHTA	55.90
GROWMORE RESEARCH AND ASSETS MANAGEMENT LTD.	905.20

	11487.95
	=====

THE ORDERS ARE STILL BEING RECEIVED. THE RAID WHICH STARTED ON 28/02/1992 AND WHICH NORMALLY GETS CONCLUDED BEFORE 120 DAYS IS STILL BEING CONTINUED NOW FOR 258 DAYS

PAMPERING OF FOREIGN BANKS

RBI HAS NOT GOVERNED FOREIGN BANKS

BUT FOREIGN BANKS HAVE GOVERNED RBI

PAMPERING OF FOREIGN BANKS

FOREIGN BANKS DESIGNED INNOVATIVE PRODUCTS WHICH CIRCUMVENTED RBI GUIDELINES. THESE BANKS ENGAGED SERVICES OF LOYAL BROKERS TO SELL THEM AND COMPENSATED THE BROKERS BY NOT ONLY BROKERAGE BUT EXTENDING VARIOUS OTHER FACILITIES INCLUDING ROUTING FACILITY, PARKING BROKER POSITIONS, GIVING CREDITS, ETC. BROKERS BROUGHT INFORMATION ON BEST OF THE OPPORTUNITIES AND HELPED IN GENERATING MEGA PROFITS FOR FOREIGN BANKS

PAMPERING OF FOREIGN BANKS

WITH THE LOW DEPOSIT BASE AND NO OBLIGATION OF SOCIAL BANKING THE FOUR FOREIGN BANKS HAD NOTHING TO LOSE AND EVERY THING TO GAIN. THE LEVEL OF THEIR DOMINATION IN MONEY MARKET CAN BE GAUGED FROM THE FACT THAT THE FOUR FOREIGN BANKS BETWEEN THEMSELVES COMMANDED ALMOST 80% OF VOLUME OF TRANSACTIONS IN MONEY MARKET

PAMPERING OF FOREIGN BANKS

FOREIGN BANKS HAVE NOT ONLY EXPLOITED INDIAN BANKS BUT HAVE EXPLOITED PSU'S ALSO IN A BIG WAY. DESPITE A BAN ON PSU'S TO DEAL WITH FOREIGN BANKS, THE PSU'S HAVE BEEN VIOLATING IT FOR PAST SEVERAL YEARS THANKS TO THE AGGRESSIVE SELLING OF PRODUCTS. THE RISK AVERSE PSU'S HAVE PLACED MONEY WITH FOREIGN BANK'S UNDER READY/FORWARD AND PMS SCHEMES AT VERY LOW RATES OF INTEREST AND FOREIGN BANKS IN TURN HAVE DEPLOYED THE MONEY IN CALL, R/F AND EQUITIES AT VERY ATTRACTIVE RATES.

PAMPERING OF FOREIGN BANKS

CITIBANK WAS THE FIRST BANK TO INTRODUCE THE CULTURE OF TRADING. IT WAS THE FIRST BANK WHICH STARTED MAKING MONEY FROM INDIAN BANKS BY EXPLOITING THEIR IGNORANCE AND AGGRESSIVELY SELLING THEM SMART PACKAGES OF STRUCTURED DEALS WHICH DISGUISED PROFITEERING OF CITIBANK.

PAMPERING OF FOREIGN BANKS

CITIBANK WAS ON ONE HAND RUNNING FULL PAGE ADS ON PRO INDIA THEME CLAIMING TO BE MORE INDIAN THAN THE INDIAN BANKS BUT ON THE OTHER HAND WAS THE FIRST BANK TO STOP ENDORSING THE INDIAN LC's GIVING SIGNALS TO THE WORLD THAT THIS COUNTRY WOULD DEFAULT. CITIBANK DID THIS DAMAGE AT A TIME WHEN THE COUNTRY NEEDED A BUILD UP OF CONFIDENCE. REALISING ITS FAUX PAS IT HAD TO SACK ITS CHIEF EXECUTIVE.

PAMPERING OF FOREIGN BANKS

CITIBANK HAS REPORTEDLY THREATENED THE GOVERNMENT THAT IF IT IS IMPLICATED IN THE SCAM IT WILL WITHDRAW NRI DEPOSITS ORGANISED BY IT AND PRECIPITATE THE BOP PROBLEM. IT HAS RECENTLY BROUGHT DOWN NRI DEPOSIT BY ABOUT 1 BILLION DOLLARS GIVING STRONG SIGNAL TO RBI AND GOVERNMENT OF ARM TWISTING.

TECHNIQUES OF EXPLOITING **UNDERDEVELOPED MARKETS**

THE FOREIGN BANKS MORE PARTICULARLY THE AMERICAN BANKS DEPLOY FOLLOWING TECHNIQUES.

1. EXPLOIT WEAKNESSES OF LOCAL BANKS LIKE IGNORANCE, SLOW DECISION MAKING PROCESS, LACK OF EXPERTISE AND INFRASTRUCTURE.
2. RECRUIT BEST LOCAL TALENT TO BUILD UP MANPOWER.
3. BUY INFLUENCE (EVEN BY RECRUITING) TO HAVE A SAY ON LOCAL LAWS AND GET INSIDE INFORMATION TO EARN SURE PROFITS. USE INFLUENCE TO AVERT ANY PENAL ACTION.
4. DESIGN SMART PRODUCTS WITH HIGH MARGINS AND SELL AGGRESSIVELY.
5. BUILD UP PERCEPTION THAT FOREIGN BANKS BRING IN ADVANCED TECHNOLOGY SO THE PROCESS OF MILKING OF DOMESTIC MARKET GETS A CLOAK OF LEGITIMACY.
6. THE PRODUCTS ARE CLAIMED TO BE INNOVATIVE BUT ARE MORE VIOLATIVE OF LOCAL GUIDELINES TAKING ADVANTAGE OF LOOPHOLES IN THE SYSTEM.

WHEN THE PARENT BANKS ARE ALL IN THE RED THEIR INDIAN BRANCHES ARE MAKING SUPER PROFITS TO SUCH LEVELS THAT PARENT BANKS HAD TO SEND AUDIT TEAMS TO VERIFY THE GENUINENESS OF LOCAL PROFITS.

NET PROFITS OF INDIAN BANKS
(Rs. In Crores)

NAME OF THE BANK	1991	1992
State Bank of India	107.00	975.05
State Bank of Saurashtra	4.50	5.99
State Bank of Bikaner & Jaipur	5.50	9.50
State Bank of Hyderabad	8.51	12.75
State Bank of Indore	2.94	3.22
State Bank of Mysore	14.59	29.78
State Bank of Travancore	4.00	5.08
Bank of India	22.50	57.00
Central Bank of India	9.48	37.49
Bank of Baroda	35.10	95.10
Punjab National Bank	43.68	112.44
UCO Bank	(-) 43.00	(-) 20.99
Allahabad Bank	19.84	28.10
United Bank of India	5.77	6.68
Union Bank	10.04	29.45
Dena Bank	7.26	9.10
Canara Bank	76.04	56.59
Indian Bank	31.84	36.50
Indian Overseas Bank	7.10	9.02
Syndicate Bank	2.84	4.45
Bank of Maharashtra	3.09	4.04
Andhra Bank	8.21	8.41
Corporation Bank	4.64	5.20
Vijaya Bank	0.25	1.83
TOTAL	391.72	1521.78

After providing for Rs.800 Crore for security transaction the reported profit is Rs.175.05 Crores presuming that the claims are settled, the profit for the year ended 31/03/1992 can be treated as Rs.975.05 Crores as against Rs.107.00 Crores for the previous year.

NET PROFITS OF FOREIGN BANKS**(Rs. In Crores)**

NAME OF THE BANK	1987	1989 (15 mths)	1990	1991	1992
American Express	6.88	11.30	16.97	22.42	46.39
ANZ Grindlays	16.86	24.76	35.34	34.10	92.01
Bank of America	3.24	12.15	28.42	22.08	63.51
Citi Bank	7.56	24.21	32.53	58.61	139.12
Deutsche Bank	0.42	1.08	3.35	6.68	15.47
Hong Kong Bank	11.27	17.82	15.75	14.67	38.26
Standard Chartered	4.63	6.91	28.85	31.19	(-) 158.70
T O T A L	50.86	98.23	161.21	189.75	236.06

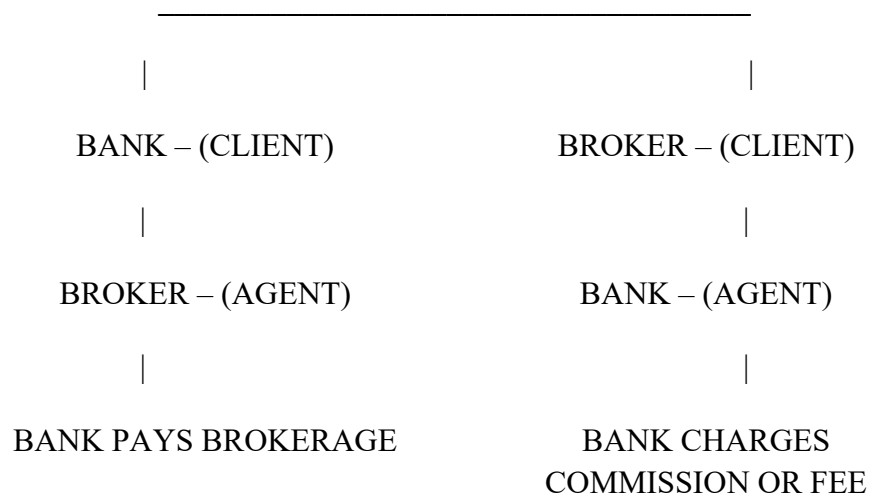
ROUTING FACILITY

THERE HAS BEEN A HUE AND CRY ABOUT BANKERS CHEQUES GETTING CREDITED TO BROKERS ACCOUNT. FOR AGES, THE BROKERS IN MONEY MARKET HAVE BEEN HAVING A DUAL RELATIONSHIP WITH THE BANKS THAT IS OF BOTH BEING BROKER AND CLIENT TO THE BANK. THE BANKS HAVE BEEN OFFERING A SERVICE TO BROKERS KNOWN AS “ROUTING FACILITY”. **THIS PRACTICE IS PREVALENT SINCE DECADES AND NOT INVENTED BY HARSHAD MEHTA.**

ROUTING FACILITY**BROKER BANK DUAL RELATIONSHIP****RELATIONSHIP**

↓

↓



ROUTING FACILITY

TWO TYPES

↓

BANK CHARGES COMMISSION AND FULL TRANSACTION IS REFLECTED IN CURRENT ACCOUNT OF BROKERS	THE ROUTING BANK OWNS UP TRANSACTION ON BANK ACCOUNT AND AFTER CHARGING FEE DEBITS/CREDITS BROKER ACCOUNT FOR DIFFERENCE
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ROUTING FACILITY ORIGIN

- 1) TO ENABLE BANKS TO CARRY SWITCH TRANSACTIONS AT THE BOOK COST OF BANKS.
- 2) TO ENABLE BANKS TO PUT THROUGH READY FORWARD TRANSACTION AT BOOK COST EVEN IF MARKET PRICE WAS LOWER.
- 3) TO HELP BANKS DRESS UP THEIR PROFIT AND LOSS ACCOUNT AND BALANCE SHEET.
- 4) TO HELP BANKS COMPENSATE ITS CORPORATE CLIENTS VIA BROKERS.
- 5) TO HELP BANKS TO NAME ROUTING BANK AS COUNTER PARTY BANK FOR FUTURE LEG OF R/F TRANSACTION.
- 6) TO HELP BANKS IN DISGUIISING A READY FORWARD TRANSACTION AS TWO OUTRIGHT TRANSACTIONS.
- 7) TO HELP BANK DEALERS EVEN OUT THEIR PERFORMANCE AND MEET THEIR TARGETS.
- 8) TO ENABLE BANKS TO EARN SURE PROFIT BY CHARGING A FEE OUT OF DEALS STRUCK BY BROKERS.
- 9) TO HELP BANKS NOT PAYING BROKERAGE IN ITS BOOKS.

ROUTING FACILITY

BENEFITS TO BROKERS

1. BY THE BANK LENDING ITS NAME THE DEAL GETS A STATUS OF BANK DEAL.
2. THE BROKERS COULD CARRY OUT DEALS WHICH OTHERWISE WOULD NOT HAVE TAKEN PLACE.
3. THE BROKERS CAN TAKE A POSITION AND ALSO COMPETE WITH OTHER BANKS BY DEALING DIRECTLY WITH THEIR CLIENTS.

ROUTING FACILITY

ALL THE BANKS AND ITS DEALERS WHO WERE PUTTING THROUGH THEIR TRANSACTIONS WITH ROUTING BANKS ALWAYS KNEW BEFORE HAND THAT THEY WERE DEALING WITH THE BORKER AND NOT THE BANK. IT WAS ALWAYS AN UNSPOKEN AND UNWRITTEN UNDERSTANDING. THIS HAS BEEN LONG ACCEPTED PRACTICE AND ALL COMMITMENTS WERE GETTING HONOURED AND THE RBI WAS NOT OBJECTING TO IT.

PROFITABILITY OF FOREIGN BANKS' FOR YEAR ENDED 1991

(Rs. in Crores)

NAME OF THE BANK	NO. OF BRANCHES	NO. OF EMPLOYEES	DEPOSIT BASE	INV.	PROFIT/(LOSS)	ADVANCES	DEP. ON INV. 10%	BAD DEBT 5% OF ADVANCE
CITI BANK	6	1352	2642	892	59	1645	89	82
ANZ GRINDLAYS	56	3859	2599	1086	34	1116	109	56
STANDARD CHARTERED	24	2911	1043	439	31	813	44	41
AMERICAN EXPRESS	3	399	785	201	22	609	20	30
BANK OF AMERICA	4	507	706	283	22	1049	28	52
HONGKONG BANK	20	2066	1055	383	15	601	38	30
TOTAL			8830	3284	183	5841	328	291

ROUTING FACILITY

SBI RELATIONSHIP

- 1) I HAVE BEEN ACTING AS BROKER FOR SBI FOR ABOUT 4 YEARS.
- 2) LAST YEAR IN AUGUST SBI ALLOWED ME ROUTING FACILITY AFTER I ADDRESSED A LETTER REQUESTING FOR THE SAME. IN JANUARY OF 1992 I ADRESSED A SECOND LETTER ON THE SUBJECT. THE SBI MAIN BRANCH HAS OFFERED ROUTING FACILITY AS PER PREVALENT MARKET PRACTICE. IT IS ANOTHER MATTER NOW THAT RBI AND CBI HAS TAKEN A STAND THAT CREDITING CHEQUES IN BROKERS ACCOUNT IS ALLEGEDLY ILLEGAL.

ROUTING FACILITY

GRINDLAYS BANK

GRINDLAYS WAS ONE AMONG THE FIRST FEW BANKS WHO ENGAGED MY SERVICES FOR BROKERAGE BUSINESS IN MONEY MARKET. LATER ON THEIR PMS SECTION ON CAPITAL MARKET CARRIED THEIR BROKERAGE TRANSACTIONS THROUGH MY GROUP BROKERAGE FIRMS. LIKE SEVERAL OTHER BANKS I AND MY FAMILY MEMBERS AND GROUP COMPANIES HAVE BEEN BANKING WITH GRINDLAYS.

AS ANY OTHER GOOD CUSTOMER THE BANK OFFERED ME FACILITY OF INSTANT CLEARING OF BANKERS CHEQUES AND RAPID INTER CITY CLEARANCE.

I DID NOT ENJOY ANY SPECIAL STATUS WITH GRINDLAYS TREASURY AS MY VOLUME WAS RECEDING AND WAY BEHIND OTHER MONEY MARKET BROKERS.

ROUTING FACILITY

PFC

PFC HAS BEEN AN ACTIVE PARTICIPANT IN MONEY MARKET BY REGULARLY DEPLOYING FUNDS. PSU'S ARE NOT SUPPOSED TO PLACE MONEY WITH FOREIGN BANKS OR DEAL WITH BROKERS BUT THEY HAVE BEEN DEALING WITH BOTH. PFC DEPLOYED FUNDS THROUGH ME IN MONEY MARKET AT COMPETITIVE MARKET RATES AND HAVE BEEN REPAYED THE SAME TOGETHER WITH INTEREST. THE UCO BANK HAMAM STREET BRANCH OFFERED THE ROUTING FACILITY AND GRINDLAYS BANK OFFERED SAME DAY INTER CITY CLEARANCE FACILITY. I HAVE SECURED THE BEST RATES OF INTEREST FOR PFC IN EVERY TRANSACTION.

IT WOULD BE INCORRECT TO STATE THAT PFC FAVOURED UCO BANK OR HARSHAD MEHTA IN SALE OF 17% BONDS. THERE WERE NO TAKERS OF PFC BONDS EVEN AT DISCOUNTED RATES AS THEY WERE TOTALLY ILL-LIQUID. BY PROPER STRUCTURING I COULD HELP PFC PLACE ITS BONDS WITHOUT DISCOUNT BEFORE ITS CCI PERMISSION LAPSED.

ROUTING BANKS AND BROKERS

FEES/PROFIT BASIS		COMMISSION BASIS	
AMEX	C.MAC. STEWART, ASIT.JM FIN.DSP JK. HPD. BRISK	SBI	DSP.PRIME.HPD.VBD B&K.BRISK.C.MAC AR.FIN. STEWART. G.PUSHP.SHARDA
STD. CHAR	DSP.HPD.BRISK. C.MAC. STEWART. DARASHAH	ALLAHABAD	DSP.C.MAC.STEWART. YN SHAH.LKP.PRS
BANK OF MADURA	EXCEL.G.PUSHP.B&K. SHARDA.VBD.S.JULU. AKSHAY.GNH.A.DAND. A&R. KOTAK	ANDHRA	DSP.HPD.VBD.BCD. BDA.M.SHROFF.ADN. LKF.G.PUSHP.PRS.JK EXCEL.GNH.A.DAND. RAVI.AR FIN.PURAN. B&K.FAIRGROWTH. BRISK. S.JULY
BANK OF AMERICA	DSP.BCD.C.MAC. STEWART. ASIT. JK. HPD. BRISK. PRS. B&K.AR FIN.YN SHAH		
CITIBANK	DSP.C.MAC.STEWART. JK.HPD.BRISK.PRS. YN SHAH	UCO	DSP.VBD.LKP.PRS. M.SHROFF.G.PUSHP. EXCEL.GNH.A.DAND. SIJULY.B&K.JK.BDA, ARFIN.PURAN. DARASHAH. RAVI. AKSHAY.BCD.BRISK. ADITI
INDO SUEZ	B&K.G.PUSHP.PRS	BANK OF KARAD	HPC.VBD.M.SHROFF. CIFCO.BCD.ADN. LKP.PRS.G.PUSHP. B&K.JK.EXCEL.RAVI. GNH AR FIN.PURAN. SHARDA.
CANFINA	DSP.BCD.C.MAC. STEWART.ASIT.JK. HPD.BRISK.ARFIN. PRS.B&K.YN SHAH.VBD		
CAN.MUTUAL	HPD.PRS.VBD.BRISK	KARUR VYSYA	EXCEL.SHARDA.RAVI. PURAN.GNH. G.PUSHP.AKSHAY. S.JULU
IOB	HPD.EXCEL.SHARDA. RAVI.GNH.PURAN. A.DAND.B&K.G.PUSHP		
INDIAN BANK	B&K. EXCEL.GNH. G.PUSHP.SHARDA.	VYSYA	EXCEL.SHARDA.RAVI. PURAN.GNH. G.PUSHP.AKSHAY S.JULU
SBS	B&K. EXCEL.GNH.RAVI G.PUSHP.SHARDA. PURAN	MCB	HPD.EXCEL.BCD.ADN
SBI CAP	PRS.B&K.ASIT.VBD. BRISK.AR FIN.JK.DSP. A.DAND.GNH		

Note: The above list is compiled on the basis of general market awareness.

TALE OF RS.40 CRORES

- | | | |
|---------------|-----|------------------------------------------------------------------------------------------|
| 6 APRIL 1992 | (A) | NHB LENDS RS.40 CRORES TO HSM AND DRAWS A CHEQUE ON UCO BANK. |
| | (B) | UNDER THE ROUTING FACILITY CREDIT FOR THIS SUM IS GIVEN TO HSM. |
| 16 APRIL 1992 | (A) | NHB REALISES RS.40 CRORES ALONGWITH INTEREST BY WAY OF RBI CHEQUE DRAWN BY ANZ GRINDLAYS |
| | (B) | ACCOUNT OF HSM DEBITED AT ANZ GRINDLAYS FOR THIS SUM. |

IMPORTANT CLARIFICATIONS

- 1) RBI GUIDELINES ARE APPLICABLE TO BANKS AND NOT BROKERS.
- 2) I HAVE APPLIED FOR ENROLMENT AS AN RBI APPROVED BROKER
AND WAS AWAITING THEIR APPROVAL FOR PAST THREE YEARS.

CLARIFICATION

A CHARGE IS BEING MADE THAT I BRIBED BANK OFFICIALS TO SECURE BUSINESS WHICH IS ABSOLUTELY BASELESS.

THE REALITY WAS THAT THE BANK MANagements WERE UNDER EXTREME PRESSURE TO PERFORM AND WERE CHASING BROKERS TO STRUCTURE WIN WIN AND PROFITABLE DEALS FOR THEM. I HAD AN EXCELLENT TRACK RECORD OF MAKING PROFITS FOR MY CLIENTS AND ENJOYED A PRESTIGE AND REPUTATION OF HONOURING EVERY COMMITMENT. **I ENJOYED HIGHEST TRUST OF THE MARKET PLAYERS.**

I HAVE CARRIED OUT MY BUSINESS AS PER EXISTING MARKET PRACTICES AND RBI GUIDELINES WERE NOT APPLICABLE TO ME. **PURELY CIVIL BUSINESS TRANSACTIONS ARE BEING GIVEN A COLOUR OF CRIMINALITY.** MY FIRM HAS NEVER DRAWN FALSE BRs OR DONE ANY KIND OF FORGERY. IF THE BANKS HAVE FALSIFIED THEIR RECORDS THEY WERE DRIVEN BY THE COMPELLING NEED OF MAKING PROFIT AND CERTAINLY NOT DONE SO AT MY INSTANCE.

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THE HANDLING OF THE SO CALLED SCAM IS A BIGGER SCAM AS

1. THE FUNCTIONING OF BANKS IS PARALYSED DUE TO FEARS OF WITCH HUNTING CAUSING IMMENSE DAMAGE TO THE ECONOMY.
2. THE INVESTORS HAVE BEEN MADE TO SUFFER MOST BY PANIC CREATED BY TAINTED SHARES. FOR A POSSIBLE RECOVERY OF FEW HUNDRED CRORES THE INVESTORS HAVE LOST UPWARDS OF 1 LAC CRORE AND THE GOVERNMENT MAY LOOSE TAX REVENUE OF THOUSANDS OF CRORES.
3. THE INVESTIGATIONS ARE BEING CARRIED ON A PREDETERMINED LINE WITH CBI ADJUDGING ON FEEDING FROM RBI AND JANAKIRAMAN REPORTS WHO HAVE TO PROTECT THEIR OWN INTEREST. A FEW JUNIOR OFFICIALS OF INSTITUTIONS AND BROKERS ARE BEARING FLAK ALL AT THE COST OF MANY OTHER VERY POWERFUL AND INFLUENTIAL BEING SHELTERED.

INVESTOR CAUSE

I HAVE HELPED IN THE PROCESS OF CREATION OF WEALTH FOR THE INVESTOR AND THE COUNTRY. I AM BORN OPTIMIST AND I FEEL THIS COUNTRY HAS A GREAT FUTURE. I THINK CAPITAL MARKET CAN SINGULARLY CHANGE THE FACE OF THIS COUNTRY AND CAN SERVE AS A VERY POWERFUL ENGINE TO CATAPULT US ON A MUCH HIGHER AND FASTER PATH OF GROWTH. THE INVESTMENT IN PUBLIC SECTOR WHICH IS MILLSTONE IN THE NECK OF THE GOVERNMENT CAN BE PROFITABLY SOLD IN HEALTHY MARKET AND THE MOUNTING DEBT CAN BE QUICKLY LIQUIDATED GIVING THE OPTION TO THE COUNTRY TO REDUCE TAXES ACROSS THE BOARD.

DR. V. KRISHNAMURTHY

MY RELATIONSHIP WITH DR. V. KRISHNAMURTHY HAS BEEN BLOWN OUT OF PROPORTION FOR ULTERIOR MOTIVES.

MY FIRST MEETING WITH HIM TOOK PLACE ONLY IN FEBRUARY OF 1992 AS I WAS DESIROUS OF INTERACTING WITH THE POLICY AND OPINION MAKERS TO CONVEY MY VIEWS ON UNTAPPED POTENTIAL OF CAPITAL MARKET. HE FELT THAT HE WAS NOT THE APPROPRIATE PERSON FOR THE SUBJECT AND THAT I SHOULD MEET MR. GEETHA KRISHNAN TO PRESENT MY IDEAS. I HAD NOTHING SECRET TO CONVEY.

THE PROXIMITY OF BUDGET HAD NO BEARING AS I DON'T THINK IMPORTANT CHANGES ARE EFFECTED A WEEK BEFORE BUDGET.

THE CHARGE THAT I GAINED FROM CHANGES IN TAX ON CAPITAL GAINS IS BASELESS AS THEY WERE INSIGNIFICANT.

THE PAYMENT OF 32.74 LAKHS TO THE INVESTMENT COMPANY BELONGING TO SON OF DR. V. KRISHNAMURTHY FROM MY DELHI OFFICE WAS DEFINITELY A LOAN AND IT IS RIDICULOUS TO ASSUME PAYMENT OF BRIBE BY CHEQUE. MY BUSINESS FUNCTIONING WAS AND IS OUT OF ORDER TILL DATE SINCE THE TIME AN I.T. RAID TOOK PLACE ON 28/02/1992 AS MY BOOKS OF ACCOUNTS AND COMPUTERS HAVE BEEN SEALED AND THEREFORE THE DOCUMENTATION ON SEVERAL OF MY TRANSACTIONS IS PENDING.

I AM IN THE BUSINESS OF LENDING AND BORROWING AND I HAVE A HISTORY OF EXTENDING FINANCIAL HELP TO ANY AND EVERYONE. DR. V. KRISHNAMURTHY'S SONS ARE CERTAINLY CREDITWORTHY.

SUMMATION

MONEY IS LIKE BLOOD IN OUR BODY. IT INHERENTLY TENDS TO FIND ITS NATURAL LEVEL AND IS IN CONSTANT PURSUIT OF OPTIMUM INTEREST OR PROFIT. COMPARTMENTALISING MARKETS WITH ARTIFICIAL REGULATORY BARRIERS TO CHECK ITS FREE FLOW BREEDS SITUATION OF CIRCUMVENTION. DEREGULATING THE MARKETS TO DETERMINE INTEREST RATES BASED ON DEMAND AND SUPPLY FORCES CAN WORK IF INHERENT IMBALANCE DOES NOT EXIST. BANKS VERY OFTEN PAYING 80% TO 100% INTEREST RATE ON CALL BORROWING IS A CLEAR REFLECTION OF IMBALANCE IN DEMAND AND SUPPLY OF MONEY AND IT NEEDS TO BE ADDRESSED.

SUMMATION

THE QUESTION IS NOT IDEOLOGICAL WHETHER SOCIAL BANKING SHOULD BE CARRIED OR NOT BUT THE ISSUE IS THE DISGUISED FORM IN WHICH IT IS SOUGHT TO BE ACHIEVED. IN THE METHOD NOW ADOPTED, IT IS IMPAIRING THE HEALTH OF THE SAME INSTITUTION OF BANKING WHICH SERVES AS A TOOL TO ENSURE THIS PROCESS. THE SAVERS ARE ALSO IGNORANT OF THE SUBSIDY THEY ARE BEARING AND WE ARE BUILDING UP AN INHERENT DISINCENTIVE BY GIVING POOR RETURNS TO SAVERS. LET THE GOVERNMENT SET THIS AMOUNT ASIDE IN ITS BUDGET ALLOCATION. IF THE SITUATION IS NOT RECTIFIED SOON ENOUGH WE WOULD SEE A TOTAL COLLAPSE OF THE BANKING SYSTEM AND PANIC AMONGST THE SAVERS WHICH MAY BE A RUN ON THE BANKS. SOON THE POSITION OF INDIA HAVING THE HIGHEST RATIO OF SAVINGS TO INCOME CAN BE JEOPARDISED.

COMMENTS OF SHRI PADHAYE, DGM, SBI ON
OUR LETTER DTD. 10/1/1992

THIS IS OUR ONE OF THE VALUED CUSTOMER AND THE REQUEST OF THE FIRM IS GENUINE. WE RECOMMEND THAT THE SAME MAY BE ACCEPTED. THE COMPANY IS KEEPING GOOD FLOAT FUNDS WITH US. WE HAVE REQUESTED THE FIRM TO START KEEPING SOME MONEY IN TDRs WITH US.

ADDITIONAL DEPOSITION

ADDITIONAL SUBMISSIONS
OF SHRI HARSHAD S. MEHTA BEFORE
JOINT PARLIAMENTARY COMMITTEE
ON 19TH APRIL, 1993.

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19th April, 1993.

Shri Ramnivas Mirdha,
Chairman
Joint Parliamentary Committee,
7 Loodhi Estate,
New Delhi 110 003.

Respected Shri Mirdhaji,

I understand from the newspapers that the Joint Parliamentary Committee (JPC) is at an advanced stage of finalizing its report. I have also read the contents of the same through the newspapers. I take this opportunity to thank the Committee for providing me an opportunity of hearing on 12th November 1992. In my earlier deposition, I have drawn attention of the Committee to the fact that I have been handicapped due to a break down in my organization and my deposition was without referring and access to my books of accounts, without help of my employees and without access to my office. The conditions today are not very much different, except that only last week the Income Tax Department has provided me with a copy of data seized by them in their raid on 28th February, 1992.

During the past few months, I have made sincere effort to put together a picture of my asset base. I have been complaining that the Investigating agencies have been moving on a predetermined path. I had also requested the Committee, not to draw surmises on the versions of Janakiraman Committee, CBI and RBI, but should provide a fair opportunity to me so as to get the complete facts and not an exaggerated, distorted and biased version. At this critical juncture, I deem it fit to throw light on certain key facts by making additional submissions / clarifications so that the Committee does not draw wrong conclusions. I am confident that the Committee will view it dispassionately.

Thanking you,

Yours faithfully,

Sd/-
(Harshad S. Mehta)

STATUS OF ASSETS AND LIABILITIES

I INVITE ATTENTION OF THE COMMITTEE TO MY EARLIER DEPOSITION ON 12TH NOVEMBER, 1992 WHEREIN I HAD PROVIDED A PICTURE OF ASSETS AND LIABILITIES. THE TOTAL LIABILITIES AS PER THE FIR'S WAS PLACED AT RS.1494.06 CRORES. I HAD SUBMITTED THAT THE LIABILITIES ARE EXAGGERATED AND ARE ARRIVED AT WITHOUT RECONCILIATION WITH MY ACCOUNTS. I CONTENDED THAT MY LARGE RECEIVABLES FROM BANKS HAVE BEEN IGNORED.

IN LAST FEW MONTHS IT HAS EMERGED THAT MY LIABILITIES HAVE BEEN EXAGGERATED BY AN AMOUNT OF RS.146 CRORES. THERE HAS BEEN AN INSTANCE OF RS.76.03 CRORES COUNTED TWICE OVER BY NHB AND SBS. IN YET ANOTHER INSTANCE, THERE IS AN EXCESS CLAIM OF ABOUT RS.70 CRORES BY SBI CAP – BOMABY FOR 3.70 UNITS. BESIDES, I HAVE REPEATEDLY POINTED OUT THAT MY MONEY MARKET ASSETS OF MORE THAN RS.250 CRORES WERE LYING AT NHB THIS FACT HAS BEEN SUPRESSED UNTIL DATE.

I HAD ALSO POINTED OUT TO THE COMMITTEE AN APPROXIMATE PICTURE OF OUR ASSET BASE. I HAD INDICATED AN AMOUNT OF RS.250 CRORES FOR ASSETS LYING WITH NHB AND AN AMOUNT OF RS.200 CRORES AS PENDING RECEIVABLES OF MONEY MARKET. SINCE THEN, DESPITE SEVERE CONSTRAINTS, I HAVE FURNISHED TO THE OFFICE OF THE CUSTODIAN DETAILS OF MY CLAIMS IN MONEY MARKET. THE TOTAL AMOUNT OF CLAIMS COMES TO RS.1464.97 CRORES WHICH IN EFFECT WILL REDUCE MY LIABILITY BY RS.900.98 CRORES AND I UNDERSTAND THAT THE OFFICE OF THE CUSTODIAN HAS ALREADY STARTED RECOVERY OF THE AMOUNTS. I AM LIKELY TO FILE FURTHER DETAILS OF MY ASSETS AND RECEIVABLES. I AM ENCLOSING CHARTS CONTAINING DETAILS OF LIABILITIES AND ASSETS. I AM SURE THE COMMITTEE WILL APPRECIATE MY CONSERVATIVE ASSESSMENTS IN PROVIDING DETAILS AS THE TOTAL FIGURE OF MY MONEY MARKET ASSETS AND RECEIVABLES COMES TO RS.869.89 CRORES AGAINST MY INDICATION AS ABOVE OF RS.450 CRORES.

I ONCE AGAIN WISH TO DRAW THE ATTENTION OF THE COMMITTEE THAT MY ASSETS ARE BEING TOTALLY NEGLECTED AND MISMANAGED RESULTING INTO LOSSES RUNNING INTO CRORES CAUSING A LARGE EROSION IN VALUE.

I AM ENCLOSING A STATEMENT CONTAINING DETAILS OF PAYMENTS EFFECTED TO BOMBAY STOCK EXCHANGE BY THREE BROKERAGE FIRMS IN THE GROUP BETWEEN APRIL 1991 TO APRIL, 1992. THE AMOUNT IS ONLY RS.154 CRORES. THIS CONCLUSIVELY PROVES THAT I HAVE NOT FUELLED THE BOOM. I CAN CERTAINLY BE CHARGED FOR BEING EXTREMELY OPTIMISTIC IN A GLOOMY ENVIRONMENT PREVAILING EARLIER. I CONTINUE TO BE OPTIMISTIC EVEN TODAY.

BASED ON STATISTICAL EVIDENCE IT CANNOT BE SAID THAT I CREATED AN ARTIFICIAL BOOM IN THE CAPITAL MARKET. MUCH LARGER FUNDS HAVE ENTERED THE MARKET FROM OTHER PLAYERS BUT AS A CONTRARIAN INVESTOR, I WAS MORE VISIBLE.

CHARGES :

I CREATED AN ARTIFICIAL BOOM IN CAPITAL MARKET.

SUBMISSIONS :

1. MY GROUP HAS BEEN LONG TERM INVESTOR AND HAS NOT SPECULATED. WE HAVE BEEN HIGHLY RESEARCH ORIENTED IN DECISION MAKING.
2. WE WERE BULLISH ON THE MARKET FROM BSE INDEX LEVEL OF 956 RECORDED ON 25TH JANUARY, 1991. WE EFFECTED OUR PURCHASES LARGELY UPTO INDEX LEVEL OF 2200.
3. WE HAVE ALWAYS HELD OUT TO INVESTORS THAT THEY SHOULD EXERCISE CAUTION IN INVESTMENT DECISIONS. IN MARCH, 1992 WE ISSUED A PUBLIC NOTICE SCOTCHING THE RUMORS AND DENYING OUR RUMORED TAKE OVER OF MORE THAN 15 COMPANIES. WE HAVE NEVER MISLEAD INVESTORS.
4. THE LARGEST AND FASTEST BOOM IN THE MARKET TOOK PLACE FROM 28TH FEBRUARY, 1992 UPTO 2ND APRIL, 1992 WHERE THE INDEX GALLOPED BY 1700 POINTS FROM 2800 TO OVER 4500. THIS UNPRECEDENTED RISE SURPRISED US AS MUCH AS ANYONE ELSE. OUR FORECAST MADE PUBLIC IN AN INTERVIEW IN EARLY FEBRUARY, 1992 WAS THAT THE INDEX WILL RISE TO 3000-3500 LEVEL BY MARCH, 1993.
5. ON THE DAY OF THE BUDGET, THE MARKET WAS HEAVILY SHORT SOLD WITH HUGE OUTSTANDING SALE POSITIONS OF A SELECT SET OF BEARS. THE POST BUDGET BOOM WAS A RESULT OF PANIC BUYING BY THE BEARS AND NOT ON MY ACCOUNT.
6. AS PER FINDINGS OF A STUDY UNDERTAKEN BY SEBI, OUR GROUP, INCLUDING OUR CLIENTS, LAST YEAR INVESTED IN THE MARKET AN AMOUNT OF ONLY RS.128 CRORES.

CHARGE :

I DIVERTED PUBLIC FUNDS TO CAPITAL MARKET FOR PERSONAL ENRICHMENT.

SUBMISSIONS :

- 1) THE TOTAL CLAIMS OF LIABILITY FILED AGAINST ME IN THE COURT AMOUNT TO RS.830.25 CRORES. THE TOTAL LIABILITY AS ESTIMATED BY THE JANAKIRAMAN COMMITTEE COMES TO ABOUT RS.1494 CRORES.
- 2) TILL DATE, I HAVE SUBMITTED CLAIMS TO THE OFFICE OF CUSTODIAN FOR THE RECOVERY OF ASSETS AND RECEIVABLES AMOUNTING TO RS.1464.97 CRORES WHICH WILL REDUCE MY LIABILITY BY RS. 900.98 CRORES. THE OFFICE OF THE CUSTODIAN HAS ALREADY STARTED RECOVERY OF THE AMOUNTS.
- 3) ONLY LAST WEEK I HAVE BEEN HANDED OVER THE DATA SEIZED BY THE INCOME TAX DEPARTMENT ON 28TH FEBRUARY, 1992. MY ORGANISATION IS STILL CRIPPLED. SHORTLY, HOWEVER, I WOULD BE FILING DETAILS OF MANY MORE CLAIMS.
- 4) TILL DATE, IT IS DISCOVERED BY CBI THAT MY LIABILITY IS EXAGGERATED BY AN AMOUNT OF ABOUT RS. 146 CRORES. A CLAIM OF RS.76.03 CRORES IS COUNTED TWICE OVER BETWEEN NHB AND SBS. THERE IS ALSO AN EXCESS CLAIM OF ABOUT RS.70 CRORES BY SBI CAPS, BOMBAY FOR 3.70 CRORE UNITS. THE CLAIMS ON ME NEED TO BE WHETTED AND RECONCILED. THE JANAKIRAMAN COMMITTEE IN ITS 4 REPORTS PUBLISHED TILL DATE HAS NOT PROVIDED DETAILS OF MY MONEY MARKET ASSETS OF OVER RS.250 CRORES LYING AT NHB. THESE AASETS INCLUDE PHYSICAL BONDS AND BANK RECEIPTS DULY PAID FOR BY ME.
- 5) TO THE EXTENT OF MY ASSETS AND THE CLAIMS LODGED BY ME, THE CHARGE OF DIVERSION CANNOT HOLD GOOD.

- 6) THERE HAVE BEEN SOME INSTITUTIONS AND CORPORATE BODIES WHO HAVE DONE CLEAN LENDING TO MY FIRM FOR DEPLOYMENT TO FETCH THE BEST POSSIBLE RETURNS WITH A TOTAL FREEDOM OF CHOICE OF INSTRUMENTS. SUCH MONIES WILL ALSO HAVE TO BE DEDUCTED WHILE COMPUTING THE AMOUNTS THAT HAVE ALLEGEDLY FLOWN TO THE CAPITAL MARKET WITH THE AWARENESS AND ACQUIESCENCE OF THE LENDERS, OBVIOUSLY THERE CANNOT BE A CHARGE OF DIVERSION. SUCH INVESTMENTS THROUGH MY FIRM IS JUST LIKE INVESTMENTS MADE UNDER THE PORTFOLIO MANAGEMENT SCHEMES OF BANKS.
- 7) THE PUBLIC SECTOR UNDERTAKINGS (PSUs) HAVE DEPLOYED MONEY THROUGH MY FIRM AGAINST MONEY MARKET INSTRUMENTS AND THESE FUNDS HAVE DEFINITELY NOT FLOWN TO CAPITAL MARKET. MOREOVER, ALL SUCH FUNDS HAVE BEEN DULY REPAYED WITH INTEREST.
- 8) THERE IS NO SELF ENRICHMENT AS THE INSTITUTIONS WHO HAVE LENT MONEY HAVE SECURED THE BEST OF THE TERMS IN EACH AND EVERY TRANSACTION. THERE IS NO WRONGFUL LOSS TO THE INSTITUTION AND WRONGFUL GAIN TO ME. THE DEALS CARRIED WITH MY FIRM CAN BE SCRUTINISED TO ASCERTAIN THEIR RETURNS. FOR INSTANCE, THE SBI IN LAST ONE YEAR ALONE HAD MADE A PROFIT OF MORE THAN RS.200 CRORES THROUGH MY FIRM. NOT A SINGLE ORGANISATION HAS CHARGED ME FOR ANY UNCOMPETITIVE PRICES. THERE HAS BEEN NOT A SINGLE CASE OF ANY COMPENSATORY DEALS INVOLVING ANY TRANSFER OF FUNDS FROM BANKS TO ME IN THE NATURE OF PROFITS. I CAN CITE ONE OF THE SENIORMOST OFFICERS STATING THAT SBI HAS MADE NOT LESS THAN RS.200 CRORES OUT OF THE DEALS WITH ME.

A THOROUGH SCRUTINY OF MY DEALS WILL BRING OUT CLEARLY THAT THE BANKS CHOSE TO DEAL WITH ME FOR MAXIMISING THEIR PROFITS AND NOT FOR FAVOURING ME. I ENJOYED THEIR TOTAL CONFIDENCE. NO FUNDS OR PSU MONEY HAVE BEEN DIVERTED TO CAPITAL MARKET IN AN UNAUTHORISED MANNER.

CHARGE :

I HAVE BRIBED PUBLIC SERVANTS TO SECURE FAVOURS.

SUBMISSIONS :

1. I HAVE NOT SECURED ANY FAVOURS FROM PUBLIC SERVANTS BUT CONDUCTED MY BUSINESS ON MERIT. THE ALLEGATIONS ARE TOTALLY BASELESS.
2. IN MY GROUP, THERE ARE THREE BROKERAGE FIRMS ENGAGED IN BUYING & SELLING OF SHARES. IN OUR LIST OF CLIENTS, WE HAVE SOME BANKERS AND PUBLIC SERVANTS WHO OBTAINED OUR SERVICES FOR PURCHASE AND SALE OF SHARES. PARTICIPATION IN THE STOCK EXCHANGE IS BECOMING A UNIVERSAL PHENOMENON. OUR FIRMS, DUE TO THEIR RESEARCH SET UP, HAD A REPUTATION OF IDENTIFYING EXCELLENT OPPORTUNITIES IN THE EXCHANGES. THIS WAS A WIDELY KNOWN AND ACCLAIMED FACT. THE BANKERS AND PUBLIC SERVANTS ENGAGED OUR SERVICES AS BROKERS AND THEIR TRANSACTIONS ARE DULY REFLECTED IN OUR BOOKS OF ACCOUNT. THE CHARGES OF BRIBE EMANATE FROM ALLEGED "DISCOVERY" OF THESE TRANSACTIONS AND THE SAME ARE NOTHING BUT CONJECTURES AND SURMISES OF INVESTIGATING AGENCIES. THERE IS NO WAY OUR BROKERAGE FIRMS COULD HAVE REFUSED TO CARRY OUT THESE TRANSACTIONS. AN ATTEMPT IS BEING MADE TO GIVE PURELY COMMERCIAL TRANSACTIONS A COLOUR OF CRIMINALITY. THE SO CALLED EVIDENCE IN THE POSSESSION OF CBI IS NOTHING BUT THE DETAILS OF TRANSACTIONS AND PAYMENTS EFFECTED BOTH WAYS, IN A TOTALLY LEGAL MANNER.

CHARGE :

CHEQUES IN FAVOUR OF BANKS HAVE BEEN CREDITED TO MY ACCOUNT.

SUBMISSIONS :

1. A DETAILED OUTLINE OF ROUTING FACILITIES OFFERED BY BANKS HAS ALREADY BEEN SUBMITTED IN MY DEPOSITION ON 12TH NOVEMBER, 1992.
2. OTHER THAN THE BROKERS, THE BANKS HAD ALSO BEEN EFFECTING THE FACILITY FOR THEIR CORPORATE CLIENTS. FOR EXAMPLE, SBI HAD BEEN CREDITING CHEQUES DRAWN IN ITS FAVOUR TO THE ACCOUNT OF ONGC, INDIAN OIL CORPORATION, SBI CAP. MARKETS, ETC.
3. THE CHEQUES WHICH WERE CREDITED TO MY ACCOUNT WERE FOR THOSE TRANSACTIONS MEANT FOR ME AND NOT FOR THE BANK IN WHOSE FAVOUR THE CHEQUES WERE DRAWN.
4. WITH A VIEW TO SHIFTING THE BLAME, THE RBI IS NOW SEEKING TO CONTEND, WITH RETROSPECTIVE EFFECT, THAT THE BROKERS ACCOUNT SHOULD NOT HAVE BEEN CREDITED. EVEN THE MIGHTY SBI HAS SUCCEDED TO THE PRESSURE OF RBI FOR CREDITING CHEQUES OF NHB.
5. MY TWO LETTERS TO SBI, ON WHICH MANY SENIORMOST OFFICIALS UPTO THE LEVEL OF DY. GENERAL MANAGER OF THE BANK IN CHARGE OF THE BRANCH HAVE MADE COMMENTS FOR RECOMMENDATION AND APPROVAL OF THE FACILITY. THIS CLEARLY SUGGEST THAT THERE WAS NO COMPULSION ON THEM TO GRANT THE FACILITY.

I SUGGEST THAT THE COMMITTEE MAY EXAMINE THIS MUCH TALKED ABOUT ISSUE AND GIVE SUGGESTIONS FOR FUTURE. THE COMMITTEE WOULD OTHERWISE MAKE A GRAVE ERROR OF ABSOLVING THE RBI AND THE BANKS AND FIXING THE ENTIRE BLAME ONLY ON BROKERS.

CHARGE :

ALLEGATIONS ARE BEING MADE THAT I HAVE FOREIGN ACCOUNTS AND I HAVE SIPHONED OFF FUNDS FROM THE COUNTRY.

SUBMISSIONS :

THE ABOVE CHARGES ARE NOT ONLY BASELESS BUT VERY MISCHIVIOUS. I AND MY FAMILY MEMBERS, CATEGORICALLY DENY HAVING ANY FOREIGN ACCOUNT / FOREIGN WEALTH AND THAT WE HAVE NOT SIPHONED OFF ANY MONEY ABROAD. EARLIER I HAE MADE AN OFFER TO THE JPC THAT WE ARE WILLING TO MAKE AN AUTHORITY LETTER ADDRESSED TO ANY BANK IN THE WORLD IN FAVOUR OF THE INVESTIGATING AGENCIES TO ENQUIRE INTO THE EXISTENCE OF ANY ACCOUNT. THIS WILL CUT SHORT NOT ONLY THE CUMBERSOME LEGAL PROCESS BUT WILL IMMEDIATELY PUT TO REST SPECULATIONS IN THIS REGARD. I REITERATE MY OFFER TO PROVE OUR BONAFIDES. IN THE MEANTIME, A MOTIVATED CAMPAIGN CARRIED OUT BY ABUSING OFFICIAL MEDIA SHOULD BE ENQUIRED INTO.

SBI FIR

SUBMISSIONS:

1. SBI HAD A DUAL RELATIONSHIP WITH ME. IN ONE CAPACITY I ACTED AS THEIR BROKER AND IN THE SECOND CAPACITY I WAS THEIR CLIENT ENJOYING FACILITIES OFFERED BY THEM.
2. SBI OFFERED BUSINESS TO ME TOTALLY ON MERITS. I HAVE RENDERED COMPETITIVE QUOTES AND MET WITH THEIR NEEDS.
3. ONE OF THE SPECIFIC NEED OF THE BANK WAS TO PLACE OUT THEIR HIGH COST 11.5% 2010 SECURITY AT SUBSTANTIALLY HIGHER RATES THAN THE PREVALENT MARKET RATES. THIS REQUIRED A LARGE FUNDING OF DIFFERENCE RUNNING INTO CRORES. THIS DIFFERENCE HAD TO BE FUNDED BY ME. SBI HAD REPORTEDLY GOT STUCK UP IN 11.5% 2010 SECURITY BY PURCHASING THEM AT A HIGH COST WHEREAS THE MARKET RATES TUMBLED SHARPLY. THE DROP IN MARKET RATE WOULD HAVE COMPELLED SBI TO PROVIDE FOR LOSSES AND TO CIRCUMVENT IT, THE SECURITY WAS REQUIRED TO BE PLACED OUT AT BOOK COST. THE SBI EXECUTED THESE DEALS BY MAKING ME FUND THE DIFFERENCE RUNNING INTO CRORES.
4. THE SBI HAD A LARGE VOLUME OF BUSINESS WITHOUT THE MATCHING SYSTEM. OUR ACCOUNTS RAN INTO ARREARS AND NEEDED RECONCILIATION. I OWED DELIVERY OF SECURITIES AND ALSO HAD TO RECEIVE SECURITIES FROM THEM. IN APRIL 1992, I MADE THE REPAYMENT TO THEM AS PER THEIR DEMANDS WITHOUT CARRYING OUT A RECONCILIATION AS MY BOOKS WERE UNDER THE SEIZURE OF INCOME TAX DEPARTMENT.

5. THE SBI, IN MY CAPACITY AS A CLIENT, HAD OFFERED ME A FACILITY OF CREDITING AND DRAWING OF INTER-BANK CHEQUES. I REQUESTED FOR THIS FACILITY ON 19TH AUGUST, 1991 AND ONCE AGAIN ON 10TH JANUARY, 1992. THE BANK TREATED ME AS A VALUED CUSTOMER AND GRANTED ME THE ABOVE FACILITY. THE SANCTION OF THIS FACILITY WAS OBTAINED FROM A LEVEL OF THE DEPUTY GENERAL MANAGER OF THE BANK WITH INVOLVMENT OF OTHER OFFICIALS. THE CHEQUES WERE GETTING CREDITED AS PER THE SACNTIONED FACILITY AND I HAD NOT COMPELLED OR COLLUDED WITH ANYONE FOR THIS FACILITY. EVEN TILL DATE, MY ACCOUNTS FOR THE TRANSACTIONS CARRIED OUT UNDER THIS ARRANGEMENT REMAIN TO BE RECONCILED. IT CANNOT BE ALLEGED THAT MY ACCOUNT WAS GETTING WRONGLY CREDITED WHEN THERE EXISTS A SANCTION.

NHB FIR**SUBMISSIONS :-**

1. I HAVE BEEN DEALING WITH NHB FOR OVER MORE THAN A YEAR. DURING THIS TIME, IT HAS DONE A LARGE VOLUME OF BUSINESS.
2. NHB SECURED BEST OF THE TERMS FOR EACH OF ITS TRANSACTIONS.
3. NHB WAS RISK AVERSE AND PREFERRED DEALS GIVING ASSURED PROFITS.
4. NHB UNDERTOOK ROUTING TRANSACTIONS AND WAS SHARING PROFITS.
5. TO MAXIMISE RETURNS, NHB WAS PLACING FUNDS IN A VAREITY OF WAYS WHICH INCLUDED CALL LENDING, READY FORWARD, CLEAN LENDING, ETC.
6. THE TRANSACTIONS WERE CARRIED THROUGH MY FIRM WITH TOTAL KNOWLEDGE OF ALL THE EXECUTIVES INCLUDING THE CHAIRMAN.
7. I HAVE NOT COLLUDED WITH OR BRIBED ANYONE IN NHB.
8. ONE OF MY COUSIN, WHO IS AN INDEPENDENT SUB-BROKER, CARRIED PERSONAL INVESTMENT TRANSACTIONS FOR LATE SHRI M.J. PHERWANI, I CAME TO KNOW ABOUT THEM ONLY AT THE POINT OF THE CBI INVESTIGATION.
9. MY OPERATIONS CAME TO A SUDDEN HALT WHICH AFFECTED MY HONOURING OF COMMITMENTS RESULTING INTO A LARGE OUTSTANDING.
10. NHB IS HOLDING MY SECURITIES OF MORE THAN RS.250 CRORES.

UCO BANK

SUBMISSIONS:

1. I HAD A DUAL RELATIONSHIP WITH UCO BANK. UCO BANK WAS OFFERING FROM ITS HAMAM STREET BRANCH, BOMBAY A ROUTING FACILITY TO BROKERS. UNDER THIS FACILITY, IT WAS UNDERTAKNG EXECUTION OF TRANSACTIONS FOR ALMOST ALL MONEY MARKET BROKERS. IT HAD OFFERED A FACILITY TO ISSUE AND RECEIVE BANK RECEIPTS AND SGL FORMS AND TO ISSUE AND RECEIVE BANKERS CHEQUE FOR MONEY MARKET TRANSACTIONS. FOR THIS PURPOSE, IT WAS CHARGING A COMMISSION. UCO BANK HAS CONDUCTED DEALS RUNNING INTO THOUSANDS OF CRORES ON BEHALF OF ITS BROKER CLIENTS. THE BANKS DEALING WITH UCO BANK ALSO HAD A KNOWLEDGE THAT THEY ARE DEALING WITH BROKERS ONLY, WITH UCO BANK OFFERING ROUTING FACILITY. IN EFFECT, IT WAS A NAME LENDING DONE BY THE BANK. THE COMMISSION INCOME OF THE BRANCH RAN INTO CRORES AND IT WAS MOST PROFITABLE ACTIVITY FOR THE BANK. IT SUITED ENTIRE MARKET TO RECORD UCO BANK AS COUNTERPARTY FOR BROKER TRANSACTIONS.
2. I HAVE ALSO ACTED AS A BROKER FOR THE BANK FOR EXECUTING THEIR TRANSACTIONS BOTH IN THE MONEY AND CAPITAL MARKET. MY BUSINESS VOLUME WAS COMPARATIVELY LOWER AND THE DEALS WERE PUT THROUGH ONLY ON MERITS. DUE TO ITS POOR FINANCIAL HEALTH, LATELY THE BANK DECIDED TO GET ACTIVE IN THE MARKET TO ARREST THE LOSSES BEING FACED BY IT. THE BANK HAD DECIDED TO SEIZE EVERY BUSINESS OPPORTUNITY PARTICULARLY, STRUCTURED DEALS OFFERING ASSURED PROFITS.
3. MY FIRM CARRIED OUT SEVERAL DEALS FOR THE BANK GIVING ASSURED PROFITS. IN THE AREA OF CALL MONEY, WE HELPED THE BANK BY PROCURING FUNDS AT CHEAPER COST WITHOUT CHARGING ANY COMMISSION TO THE BANK. MY FIRM PLAYED AN ACTIVE ROLE IN BRINGING DOWN THE COST OF BORROWING FOR THE BANK AND THUS SAVED CRORES OF RUPEES FOR THEM.

4. IN THE MONTH OF MARCH, 1992 WE CARRIED OUT A TRANSACTION OF BILLS DISCOUNTING AGAINST SHARES. ON ONE HAND, THE BANK CHARGED US AN INTEREST RATE OF 22.75% AND ON THE OTHER HAND THE SAME MONEY WAS BORROWED FOR THE BANK AT 17.75%. THUS SAVING A CLEAN 5% AS PROFIT FOR THE BANK. THE MARKET WAS ALREADY DOING SEVERAL TRANSACTIONS OF FUNDING OF SHARES THROUGH DRAWING OF BILLS. THE SHARES WERE PURCHASED BY MY GROUP FIRMS AND THE BILLS WERE REQUIRED TO BE RETIRED BY 23RD APRIL, 1992.
5. AT THE TIME OF MATURITY OF THE BILLS, MY OPERATIONS WERE DEEPLY AFFECTED AND HAD COME TO A STANDSTILL DUE TO THE NEWSPAPER REPORTS OF THE ALLEGED SCAM. THE OPERATIONS WERE PARALYSED SUDDENLY AND THE MONIES RECEIVABLE BY ME HAD ALSO STOPPED FLOWING. TO HONOUR THE COMMITMENT IN FACE OF SUCH ACUTE AND TOTALLY UNFORSEEN PROBLEM, I OFFERED THE BANK TO PURCHASE SHARES FROM ME AS PER ITS CHOICE FROM A BASKET OF BLUE CHIP PORTFOLIO. SO AS NOT TO JEOPARDISE THE RECOVERY OF FUNDS, THE BANK DECIDED TO PURCHASE SHARES FROM ME OF TWO BLUE CHIP COMPANIES VIZ. CASTROL INDIA AND GUJARAT AMBUJA CEMENTS. THESE SHARES WERE OFFERED BY ME AT A FAIR DISCOUNT TO MARKET PRICES PREVAILING ON THE DATE OF THE DEAL. THE SHARES WERE DULY DELIVERED AND THE PAYMENTS RECEIVED. THE FUNDS WERE UTILISED TO RETIRE THE OUTSTANDING BILLS AND THUS THE BANK RECOVERED ITS DUES. SINCE THEN, THE SHARE PRICES OF ABOVE COMPANIES HAVE FALLEN DUE TO THE PREVAILING MARKET CONDITIONS THOUGH THE FALL IS RELATIVELY MARGINAL AS COMPARED TO THE REST OF THE MARKET. THE CHOICE BEFORE THE BANK WAS TO EITHER RECOVER THE FUNDS THROUGH PURCHASE OF SHARES OR FACE THE PROSPECT OF DEFAULT.
6. THE CBI IS NOW MAKING OUT A CASE OF A FAVOUR BY THE BANK TO ME. A BUSINESS TRANSACTION WITH AN ASSURED PROFIT FOR THE BANK FROM DAY ONE CANNOT BE CONSIDERED AS A FAVOUR. THE DECISION TAKEN BY THE BANK OF GIVING PRIORITY TO RECOVERY TO SAVE DEFAULT IN THE THEN PREVAILING EXCEPTIONAL CIRCUMSTANCES WAS MOST PRUDENT BUSINESS DECISION AND TOTALLY IN THE INTEREST OF THE BANK.'

7. THE CBI HAS ALSO LODGED FIR'S FOR MY TRANSACTIONS WITH PFC, ONGC AND MARUTI UDYOG CARRIED OUT UNDER THE ROUTING FACILITY OFFERED BY THE HAMAM STREET BRANCH. I HAVE OFFERED THE BEST OF THE RATES FOR EACH AND EVERY TRANSACTION CARRIED WITH THE ABOVE PSUs. THE FUNDS HAVE BEEN DEPLOYED BY THEM IN THE MONEY MARKET (DEFINITELY NOT IN CAPITAL MARKET) AGAINST THE SECURITY OF ASSETS. THESE ORGANISATIONS HAVE BEEN DEPLOYING FUNDS THROUGH OTHER MONEY MARKET BROKERS ON THE SAME LINES BUT CBI HAS SINGLED OUT ONLY MY FIRM FOR LODGING FIR'S. THE FUNDS HAVE BEEN REPAID ALONGWITH INTEREST AND AS ON DATE THERE IS NO OUTSTANDING. SINCE THE CLIENTS HAPPENED TO BE IN DELHI AND THE FUNDS WERE REQUIRED IN BOMBAY AN ARRANGEMENT OF SAME DAY TRANSFER THROUGH GRINDLAYS BANK WAS MADE. THIS WAS WITH FULL AWARENESS AND CONSENT OF THE LENDING ORGANISATIONS. THE UCO BANK NEW DELHI BRANCH WAS NOT GEARED UP FOR EFFECTING THE TRANSFER OF FUNDS ON THE SAME DAY BASIS AND THERE WOULD HAVE BEEN LOSS OF INTEREST TO THE CLIENTS. IT WAS BUSINESS EXPEDIENCY WHICH GOVERNED THE DECISION OF ENGAGING SERVICES OF GRINDLAYS BANK. THE CBI IS OVERPLAYING ON MERE TECHNICALITIES AND GIVING A COLOUR OF CRIMINALITY TO MOST COMMONLY CONDUCTED BUSINESS TRANSACTIONS. THE FUNDS HAVE ALSO NOT FLOWN INTO CAPITAL MARKET.

SBI CAPS. FIR

SUBMISSIONS :-

1. SBI CAPS BOMBAY WAS AN ACTIVE MARKET PLAYER AND DID A GOOD VOLUME OF BUSINESS WITH MY FIRM.
2. I HAD AN EXCELLENT TRACK RECORD OF SERVICE TO THEM AND SECURED MY BUSINESS ON MERIT. EACH OF THEIR TRANSACTIONS CAN STAND SCRUTINY OF PROFIT.
3. SBI CAPS HAS LODGED AN INCORRECT CLAIM OF RS. 105 CRORES. IT HAS BEEN DISCOVERED BY CBI DURING INVESTIGATION THAT SBI CAPS IS HOLDING EXCESS 3.7 CRORES UNITS AND THE SAME HAS BEEN CLAIMED AS RECEIVABLE FROM ME.
4. I HAVE NOT BRIBED ANY OFFICIALS OF SBI CAPS AND NO WRONGFUL GAIN HAS BEEN MADE BY ME.
5. MY ACCOUNTS WITH SBI AND SBI CAPS ARE STILL TO BE RECONCILED.
6. ONE SHRI ASHOK AGARWAL WAS AN EXECUTIVE WITH SBI CAPS AND IS KNOWN TO ME THROUGH MY BUSINESS DEALINGS WITH SBI CAPS. HE RESIGNED FROM SBI CAPS TO START HIS OWN BUSINESS. THERE WAS A TREND WHERE BANKERS WERE LEAVING JOBS TO START THEIR OWN CONSULTANCY AND BROKERAGE FIRMS. SHRI. AGARWAL HAS NOT MADE ANY FAVOURS TO ME.

STATE BANK OF SAURASHTRA (SBS) FIR

SUBMISSIONS :-

1. SBS HAD A DUAL RELATIONSHIP WITH MY FIRM. I ACTED AS A BROKER TO THE BANK TO UNDERTAKE THEIR MONEY MARKET TRANSACTIONS.
2. SBS OFFERED A ROUTING FACILITY TO ME AS A CLIENT.
3. I CONDUCTED MY BUSINESS ON MERIT. SBS WAS LOOKING FOR DEALS WITH ASSURED PROFITS. IT INVITED PROFIT SHARING DEALS. FOR DEALS UNDERTAKEN BY ME IT WAS OFFERING ROUTING FACILITY UNDER WHICH THE CHEQUES AND SECURITIES WERE ISSUED AND RECEIVED ON MY ACCOUNT. THE BANK MADE SIZABLE PROFITS OUT OF THIS ACTIVITY.
4. MY ACCOUNTS WITH THIS BANK ARE YET TO BE RECONCILED.
5. ON ONE OCCASION ONE MR. SRINIVASAN AN EXECUTIVE OF THE BANK REQUESTED FOR A TEMPORARY LOAN OF RS.50,000/- FOR HIS WIFE WHICH WAS ARRANGED THROUGH MY BROTHER. THE SAME WAS RETURNED BACK WITH INTEREST. CBI HAS NOW LEVELLED A CHARGE THAT THE ABOVE LOAN WAS A BRIBE.
6. THE OUTSTANDING ISSUES WITH THE BANK ARE CIVIL MATTERS AND ARE BEING GIVEN A COLOUR OF CRIMINALITY.

FACTS RELATING TO SBI CAPITAL MARKETS LETD. – MADRAS

- BUSINESS WITH THEM WAS OF ROUTINE AND RETAIL NATURE
- MOST OF THE BROKERS WERE NOT INTERESTED IN THIS BUSINESS
- THE PERCENTAGE OF BUSINESS SECURED APPEARS TO BE HIGH BUT VOLUME WAS LOW. SBI CAP MADRAS WAS DOING MUCH LESS BUSINESS THAN SBI CAP BOMBAY
- IN THE PERIOD OF 15 MONTHS IN WHICH THE BUSINESS WAS TRANSACTED WITH THEM THERE WERE ABOUT 200 TRANSACTIONS. EACH OF LESS THAN RS.5 CRORES ON AN AVERAGE.
- DURING THE PERIOD 30TH MARCH, 1992 TO 6TH APRIL, 1992, IN 4 DEALS, THEY PLACED A SUM AGGREGATING TO RS.16.25 CR. ON READY-FORWARD BASIS.
- REVERSALS WHICH WERE DUE IN MAY, 1992, COULD NOT BE HONOURED BECAUSE OF FREEZING OF BANK ACCOUNTS TO HONOUR THE COMMITMENT I OFFERED SBI CAP MADRAS TO COLLECT MONEY FROM SBI WHICH WAS RECEIVABLE BY ME AS MY OPERATIONS HAD COME TO A SUDDEN HALT. SBI DIDN'T AGREE TO THIS OFFER.
- SHRI L.V. SHARMA (LVS) EX- SBI CAP EMPLOYEE JOINED HSM GROUP DURING 1989-90 AS PRESIDENT – MARKETING AND CORPOTATE SERVICES.
- AMONGST SEVERAL OTHER CLIENTS LVS USED TO CONTACT SBI CAPITAL MARKETS LTD. – MADRAS.
- SUGGESTION OF COLLUSION BETWEEN LVS AND PERSONNEL OF SBI CAPITAL MARKETS LTD. IS NOT ONLY FALSE BUT PREPOSTEROUS

FACTS RELATING TO ANZ GRINDLAYS BANK – OVERDRAFT ACCOUNTS

REPORTS HAVE APPEARED THAT ANZ GRINDLAYS HAS FAVOURED MY GROUP BY GRANTING ME A HUGE OVERDRAFT FACILITY AGAINST SHARES. THIS IS A CLASSIC CASE OF EXAGGERATION AND ALSO DISTORTION BY THE INVESTIGATING AGENCIES. THE FACTS ARE AS FOLLOWS:

- LOANS WERE OBTAINED FROM ANZ GRINDLAYS BANK – MADRAS AGAINST SHARES BY 19 ENTITIES IN THE GROUP UNDER THE “CASHETS” SCHEME OF THE BANK. THE TOTAL AMOUNT OBTAINED WAS LESS THAN RS.2 CRORES FOR ALL ENTITIES PUT TOGETHER. THESE LOANS WERE NORMAL BUSINESS LENDING DONE BY THE BANK MEETING THE RBI GUIDELINES AND WITH SECURITY OF SHARES. NORMAL COMMERCIAL RATE OF INTEREST HAS BEEN CHARGED. FOR THE NET WORTH OF THE GROUP, THE ABOVE AMOUNTS IS PITTANCE. SUCH LOANS WITH MUCH LARGER AMOUNTS ARE BEING REGULARLY GRANTED TO MANY OTHER ENTITIES. NO VIOLATION OR ELEMENT OF FAVOUR IS BEING POINTED OUT AND MERELY BASELESS CHARGES ARE BEING LEVELLED. THERE SEEMS TO BE AN OBSESSION TO PAINT A PICTURE AS IF THE BROKERS ARE BEING FAVOURED AND THE BANKS ARE SUFFERING.

FACTS RELATING TO CITIBANK – ACCOMODATION OF RS.60 CRORES

ON 10TH APRIL, 1992, I RECEIVED A CHEQUE OF RS.60 CRORES TOWARDS SALE OF SHARES EFFECTED BY ME. THE SALE INCLUDED 10 LAC SHARES OF RELIANCE @Rs.400/-. SHRI HITEN P. DALAL HAS APPARENTLY RAISED THIS AMOUNT FROM CITIBANK WHO ISSUED THIS CHEQUE FOR THEIR PURCHASE OF 15 LAC SHARES OF RELIANCE. THE CHEQUE HAS BEEN DEPOSITED BY ME IN MY ACCOUNT WITH ANZ GRINDLAYS BANK AS THE SAME WAS DUE TO ME FOR SALE OF SHARES. IT APPEARS THAT HITEN P. DALAL RAISED THE AMOUNT FROM CITIBANK BY A READY FORWARD OF 4 DAYS AGAINST 15 LAC SHARES OF RELIANCE. I HAVE NOT DEALT WITH CITIBANK AND THERE IS NO ACCOMODATION TO ME.

THIS AGAIN IS A GROSS DISTORTION OF FACTS TO PAINT ME AS A RECIPIENT OF A FAVOUR FROM CITIBANK WHICH IS TOTALLY FALSE.

FACTS RELATING TO RBI REGISTRATION

I WISH TO SUBMIT THAT I ENTERED MONEY MARKET IN THE YEAR 1988. IMMEDIATELY I APPLIED TO THE RESERVE BANK OF INDIA (RBI) FOR MY EMPANELMENT AS I HAD MET THEIR GUIDELINE OF COMPLETING A BUSINESS VOLUME OF RS.5 CRORES. THE RBI ALSO OBTAINED POSITIVE PERFORMANCE REPORTS FROM BANK OF AMERICA, CANARA BANK, ETC. DESPITE REPEATED FOLLOWUP FOR CERTAIN STRANGE REASONS, RBI WAS NOT EMPANELING ME. THERE SEEMED TO BE SOME KIND OF A PRESSURE ON RBI FROM THE EXISTING APPROVED BROKERS TO NOT PERMIT NEW ENTRANTS. THE RBI WAS TOTALLY INSENSITIVE TO THE NEED OF THE MARKET AS IN PAST FOUR YEARS IT HAS HARDLY APPROVED 4 TO 5 NAMES. AT A TIME WHEN MARKET NEEDED LARGE NUMBER OF NEW BROKERS TO COPE UP WITH EXPLOSIVE GROWTH IN VOLUMES, THE RBI WAS JUST MEETING ONCE IN A YEAR AND THAT TOO FOR REJECTING MOST OF THE APPLICATIONS. DUE TO THE PRESSING NEEDS OF THE MARKET AND REALISING THE CUMBERSOME PROCESS OF RBI, THE BANKS STARTED DEALING WITH A LARGE NUMBER OF NEW BROKERS EVEN IF THEY WERE NOT EMPANELED BY RBI.

I ONCE AGAIN APPLIED TO RBI FOR EMPANELMENT AND PERSISTENTLY FOLLOWED IT UP BY PERSONAL VISITS BUT TO NO AVAIL. IN THE MEANWHILE, I STARTED GETTING BUSINESS FROM ALL THE BANKS. THE STATE BANK OF INDIA (SBI) ENCOURAGED THE COMPETITION BETWEEN THE NEW AND THE OLD BROKERS MOST. I UNDERSTAND THAT BETWEEN MY FIRM AND SHRI N.K. AGGARWALA, A DELHI BASED NEW BROKER (NOT APPROVED BY RBI), THERE WAS A LARGE VOLUME OF BUSINESS PUT THROUGH.

FACTS RELATING TO STATE BANK OF INDORE

➤ TRANSACTIONS ON A VERY MINOR SCALE

➤ DURING THE 15 MONTH PERIOD COVERED TRANSACTIONS

○ ONLY 4 TIMES FOR SECURITY DEALS – VOLUME RS. 105 CR.

○ ONLY 2 TIMES FOR CALL DEALS -- VOLUME RS. 40 CR.

➤ ALLEGATIONS THAT MORE THAN 30% OF THE BANK'S TRANSACTIONS WERE WITH HSM, NEED FURTHER VERIFICATION.

CLAIM AND LIABILITIES DETAILS

CLAIMANT	CLAIM AMOUNT
SBI	707.00,00,000.00
SBI CAP (MADRAS)	16,25,00,000.00
SBI CAP (BOMBAY)	107,00,00,000.00
T O T A L	830,25,00,000.00

STATEMENT OF PAYMENTS MADE TO BOMBAY STOCK EXCHANGE
DURING APRIL – 1991 UPTO APRIL – 1992

NAME	A – GROUP	B – GROUP
HARSHAD S. MEHTA	DR. 13,10,06,031.00	CR. 11,98,075.00
ASHWIN MEHTA	DR. 39,57,11,854.00	DR. 13,07,80,527.00
JYOTI H. MEHTA	DR. 88,53,29,618.00	----
TOTAL	DR. 141,20,47,503.00	DR. 12,95,82,452.00
NET AMOUNT	DR. 154,16,29,955.00	

SUMMARY TOTAL INVESTMENT OF RS. 154,16,29,955.00

PLEASE NOTE: THE ABOVE AMOUNT HAS BEEN ARRIVED AT TAKING ALMOST ALL THE SETTLEMENTS INTO ACCOUNT. OUR BOOKS AND RECORDS STAND SEIZED. IT IS FELT THAT ON ACCOUNT OF THESE SEIZED RECORD THERE MIGHT BE A POSSIBILITY OF MINOR VARIATION.