

# SBI reconciles Rs 600 cr securities

Our Special Correspondent

**NEW DELHI, April 10**  
THE State Bank of India chairman, Mr M. N. Goiporia told *The Economic Times* here today that the reconciliation problem which had arisen regarding the purchase of government securities by its investment department had been sorted out with the outstandings squared up. "As of today," Mr Goiporia said, "there are no outstandings".

According to SBI insiders, Mr Goiporia clarified to the bank's executive committee which met here today, that Rs 600 crores worth of securities pending reconciliation have been squared up over the last week.

Bankers from other banks confirmed that there was heavy buying of securities in the market, by a big securities broker who had done the deal for SBI and who is also believed to be a big bull operator on the stock markets in recent months. This saw the prices of some securities, like the 2010 price shoot up by Rs 3 to Rs 95. This, bankers said, was unusual for a particular day and could only be the result of heavy buying as there was no other cause for security

prices to rise right now.

According to market sources, the reconciliation problem arose out of transactions based on Bank Receipts (BRs). The bank selling the securities issues BRs in lieu of securities to the purchasing bank. In this case, the SBI appears to have been the purchasing bank and received BRs in lieu of the securities, acknowledging the receipt of the money.

The BRs are subsequently liquidated when the selling bank delivers the securities certificates to the purchasing bank. The money market brokers play a key role in co-ordinating this whole transaction involving cash, the collection and delivery of BRs and the securities between the banks.

What appears to have happened in the SBI case—which money market insiders say is quite common even though the sums involved are not always so large—is that the broker involved collected the securities from the purchasing bank, but apparently did not deliver them to SBI to enable it to liquidate the BRs held by it.

As a result, the SBI continued to

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show outstanding BRs in its books for an unusually long period, thanks to the collusion of some officials in the investment department. When this was detected about a week ago, the SBI asked the broker to square up the outstandings i.e. deliver the securities in lieu of the BRs. This apparently took about the last six to seven days, considering the large sums involved.

This modus operandi does not involve any default by the broker. What it means is that the broker created a huge credit line for himself running into hundreds of crores of rupees, at either nil or negligible cost, by selling the securities to raise cash instead of delivering them to the SBI. This money may have been then used to finance other operations. In this case, it appears to have been largely channelled to the stock markets.

This alleged linkage to the stock markets is worrying a lot of market operators in Dalal Street, who fear that the squaring up of the huge transactions may lead to sizeable offloading by the bull. It is also feared that more banks may be involved and the banking authorities may now instruct all banks to quickly reconcile their books.

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