

“RBI addressed a letter to Custodian disclosing facts of attached assets of HSM lying with Syndicate Bank, ANZ Grindlays Bank, NHB, Canfina.”

TRUE COPY

RESERVE BANK OF INDIA

**CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
OFFICE : 1, WORLD TRADE CENTRE,
CUFFE PARADE, COLABA, BOMBAY 400 005**

FMC (Spl. Cell) 10/27.01.008-93/4

September 3, 1993.

The Custodian,
Office of the Custodian – Special Court
(Trial of Offences relating to
Transactions in Securities) Act 1992
3rd floor
Bank of Baroda Bhawan
16 Parliament Street,
New Delhi – 110 001.

Dear Sir,

Securities transactions

During the course of the reconciliation of the Investment Accounts of banks, certain outstanding transactions have come to notice where the banks are holding securities which are yet to be delivered. A note indicating the details of the transactions is enclosed. The manner in which the transactions have been entered into seems to indicate that it is possible that the securities may ultimately belong to notified persons. You may like to write to the banks concerned. We shall also be glad to furnish any further information you may require in the matter.

Yours faithfully,

Sd/-

(S. Swaminathan)
Joint Chief Officer
Enclosure:

(a) Syndicate Bank

Syndicate Bank had sold on 27 March 1992 to the State Bank of India 9% IRFC Bonds of the face value of Rs. 30 crores and 17% NTPC Bonds for Rs. 20 crores. On 29 May 1992 SBI reported to Syndicate Bank what the relevant BRs have been misplaced and asked for duplicate BRs. However, the Syndicate Bank did not issue duplicate BRs or SBI did not confirm the transactions. (As per the report of the special auditor of Syndicate Bank these BRs were never issued by Syndicate Bank in the first place). Subsequently, the bank had been advised by CBI not to deliver the bonds covered by BRs, pending their investigation of the transaction.

The bonds in question were in the first instance sold by SBI to Syndicate Bank through NHB on 24 March 1992. The amount paid to SBI by NHB was credited to the account of Harshad S. Mehta and the transaction was involved in a dispute. The deal was reversed when SBI refunded the disputed amount to NHB who in turn refunded the same to Syndicate Bank. Syndicate Bank has purchased the bonds from the market to meet its obligations to SBI under the above two BRs. Apparently, these securities thereafter belong to Harshad S. Mehta.

(b) ANZ Grindlays Bank

(i) ANZ Grindlays Bank has sold units of face value of Rs.20.00 crores to NHB on 29 January 1992 and issued its BRs for the purpose. As per NHB's books the units purchased from ANZ Grindlays Bank were sold (to SBI) on 10 February 1992. NHB had not received any units from ANZ Grindlays Bank and the BR issued by ANZ Grindlays Bank is still in the possession of NHB. NHB has not made any claim on ANZ Grindlays Bank so far. ANZ Grindlays Bank has reported that the units are ready for delivery. Apparently the amount received from SBI by NHB for its sale has been debited to the

account of Harshad S. Mehta. These units therefore may belong to Harshad S. Mehta.

(ii) ANZ Grindlays Bank sold 9% PFC bonds of the face value of Rs.30 crores on 17 February 1992 to Standard Chartered Bank and issued its BR for the purpose. As per the books of Standard Chartered Bank the purchase was undertaken by the bank on behalf of Growmore Research and Asset Management Co. (GRAM) and the same was reversed on receipt of payment from SBI. (The relative BR was among the documents / bonds etc. found in NHB and the Custodian is already aware of this case.) The details of the BR have already been furnished to the Custodian vide our letter DBOD.No.FMC.1383/27.01.008/92-93 dated 25 June 1993.

(c) Standard Chartered Bank (SCB)

As per records of SCB it has issued a BR No. 1889 dated 18 February 1992 in favour of A.B. Financial Services Ltd. (ABFSL) covering sale of 13% NPCL bonds for the face value of Rs.4 crores. ABFSL has not reported this transaction as outstanding. On taking up the matter with SCB, they have advised that the above BR is linked to their transaction with ANZ Grindlays Bank on 20 November 1991. According to ANZ Grindlays Bank this transaction was reversed by it in tripartite liquidation by receiving back its BR from Hongkong Bank duly discharged. Hongkong Bank has also not indicated any outstanding deal in this regard in its reconciliation statement.

(d) Citibank

Citibank had sold Cantriple units of face value of Rs.2.25 crores and Canstar units of the face value of Rs.7.00 crores on 29 April 1992 to Andhra Bank Financial Services Ltd. (ABFSL) and issued its BRs for the purpose. There was no such transactions in the records of ABFSL. CBI in February 1993 have attached the securities covered by the two bank receipts. Whereas Canstar Certificates of the face value of

Rs.7.00 crores have been delivered to CBI by Citibank. Cantriple units of Rs.1.00 crore only have been delivered to CBI so far. Citibank holds a BR from Canfina for balance Cantriple units of face value of Rs.1.25 crores which will be delivered to CBI on receipt from Canfina. The payment for the sale by Citibank has come from the current account of Shri H.P. Dalal at Andhra Bank. (On 29 April 1992, Citibank had certain sale and purchase deals with Andhra Bank and Citibank received a net amount of Rs.5.74 crores from Andhra Bank in respect of these deals. This amount of Rs.5.74 crores has been debited to account of Shri H.P. Dalal. The amount payable to Citibank in respect of the above mentioned deals was adjusted in the said payment of Rs.5.74 crores).

(e) Canfina

Canfina has issued a BR No.1397 dated 13 December 1992 in favour of SBI Capital Markets Ltd. covering sale of 13% RINL bonds of the face value of Rs.6.00 crores. The relevant transactions do not appear in the books of SBI Caps nor has SBI Caps shown it outstanding. It is possible that the amount has been paid by debit to HSM's account with SBI. This has to be verified. This case has also been reported to Custodian vide our letter dated 25.6.93 referred to above.

(f) P&B Capital Services Ltd.

P&B Caps had reported that they have yet to deliver units of the face value of Rs.5.00 lakhs out of their total sale of units of the face value of Rs.10.00 crores to Standard Chartered Bank, vide their BR No.374 on 28 August 1991. SCB has however, reported that according to their records there is no indication of receipt of physicals for their transaction. However, since there is no shortfall detected in their holdings they presume that the same has been squared off for good

value. Although the purchase was made on behalf of CCDS client by SCB they are not able to identify the name of the client.

RESERVE BANK OF INDIA
CENTRAL OFFICE
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OFFICE : 1, WORLD TRADE CENTRE,
CUFFE PARADE, COLABA, BOMBAY 400 005

FMC (Spl. Cel) 267/27.01.008-93/94

January 22, 1994
Pausa 1915 (Saka)

The Custodian

Special Courts (TORTS)
3rd Floor,
Bank of Baroda Bhavan,
16, Parliament Street
New Delhi 110 001.

Dear Sir

**Purchase of 2 crore units (face
Value of Rs.20 crores) by NHB.**

Please refer to your letter No.2787/Cus./ATT/RBI/ST/92(990) dated 18 November 1993 on the captioned subject.

We have examined the contention of NHB made out in their letter NHB(B)No.1859/93 dated 18 October 1993. Our observations in this regard are as under :

When NHB on receipt of the payment of Rs.49,32,77,608/- from State Bank of India on 10 February 1992 adjusted the amount of Rs.27,24,82,000/- to reverse its ready forward transaction with ANZ Grindlays, it apparently did not have any evidence that the transaction was indeed with that bank. Therefore, the contention that the adjustment was done "by mistake" may not be correct, particularly when it did not ascertain the details from State Bank of India within a reasonable time. Since the reversal was with the money received from State Bank of India, apparently from HSM's account (i.e. under netting arrangements), we are broadly in agreement with the views expressed by you in paragraph 4 of your letter dated 18 November 1993 referred to above, and feel

that the Custodian may take such action as is necessary and appropriate under
the Special Court Act.

Yours faithfully,

Sd/-

(Anand Sinha)
Deputy Chief Officer

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CENTRAL OFFICE
DEPARTMENT OF BANKING OPERATIONS AND DEVELOPMENT
OFFICE : 1, WORLD TRADE CENTRE,
CUFFE PARADE, COLABA, BOMBAY 400 005

DBOD. (Spl. Cell) 27/27.08.003(A)/95-96

July 12, 1995.

BY COURIER/SPEED POST

CONFIDENTIAL

Mr. Rajiv Bharadwaj,
Deputy Secretary,
Office of the Custodian,
Bank of Baroda Bhawan,
3rd floor,
16 Parliament Street,
New Delhi – 110 001.

Dear Sir,

**Harshad S. Mehta – Recovery of assets 17% NTPC Bonds
FV. Rs.20 crores & 9% IRFC Bonds FV. Rs.30 crores**

Please refer to your DO Letter No.941/CVS/ATI/HMG/93(4)/SYB dated
29 June 1995 regarding 17% NTPC Bonds FV Rs.20 crores and 9% IRFC
Bonds FV. Rs.30 crores held by Syndicate Bank. We are enclosing
herewith a computer printout (Statement I) showing debits and credits
in various accounts of Harshad S. Mehta on 24 and 28 March 1992. It
is seen from records available that on 24 March 1992, NHB issued 2
cheques Nos.212589 for Rs. 690830348.64 and 212587 for
Rs.146212000.00. The first cheque of Rs.690830348.64 was credit to
the a/c. of HSM with ANZ Grindlays Bank (highlighted in Statement I).
The cheque was issued towards the undernoted deals:

1. The books of NHB show the above purchase transactions with SBI. In response to our queries in the matter NHB has clarified vide its letter NHB/6008/95 dated 10.7.1995 (enclosed) that the above purchase was in fact from ANZ Grindlays Bank and for Units (Transaction value Rs. 85,87,31,101.64) as against the bonds indicated above.

1.1 On the sale side, the transaction in Units for FV Rs.1.787 crores and Rs.9.40 crores were observed to the reversal legs of NHB's purchases on 18-3-92 & 23-3-92 wherein the funds had come from HMS's accounts.

1.2 The second cheque no. 212587 for Rs.14.6212 crores was credited to the account of SBI Caps and is explained in para 2.2 (a) below.

1.3 On 28 March 1992, HSM's account No.8710 (indicated as 8710A in statement I) was debited for Rs.487309588.44 (highlighted) which corroborates Syndicate Bank's statement of having received the said amount vide PO No.553294 drawn on SBI towards their sale of the above referred bonds of aggregate FV. Rs.50 crores. In the circumstances, the securities referred above appear to have been paid for by HSM. However, it is seen from the letters of NHB and Syndicate Bank dated 23.7.93 and 1.10.93 respectively (please see enclosures to your letter) that while NHB's sale of 24.3.92 was reversed vis a vis Syndicate Bank on 25.11.92, the delivery of securities indicated at para 1 above (viz. Units FV Rs. 10 Crores, 17% NTPC Bonds FV Rs. 50 Crores and 9% IRFC Bonds FV Rs. 30 Crores) purchased by NHB from ANZ Grindlays Bank/Harshad Mehta had not been effected by the broker. Consequently, the payment of Rs.69.08 crores by NHB on 24.3.92 towards purchase of said securities to ANZ Grindlays Bank which were credited to HSM's account remain an NHB/ANZ/HSM disputed

transaction. Please see NHB's reply dated 10 July 1995 in response to our queries.

1.4 For your information, HSM's account No.8710 has been indicated as 8710 A in the computer statements where, in view of equal debits and credits attributed to the broker in the Waste Book of SBI, the bank did not pass any voucher for a "net" debit/credit in the said current account of HSM. For your convenience, we are also enclosing Statement I A listing out in chronological order all payments/receipts vis a vis Syndicate Bank and National Housing Bank from all the bank accounts of HSM group.

2. The statement of National Housing Bank (NHB) enclosed with the above letter listing out the amounts paid by them to SBI was also examined to determine the inflows into the accounts of HSM as queried at para 3 of your letter. Computer printouts of relevant dates (statement II) are enclosed with inflowing amounts suitably highlighted and our comments made thereagainst.

2.1 It will be observed that cheque amounts at Sr. No. 1, 7, 9, as per enclosure to NHB's letter No.5505/INV-92 dated 3 June 1992 were credited to HSM's account with SBI. Our comments in statement II may be seen for items at Sr. Nos. 2, 4, 5 & 6 comments for items at Sr. No.3 and 8 are given below:

A) 24.3.92 – Item at Sr. No.3 for Rs.40,45,93,063/-

The above amount includes Rs.25,83,81,060.00 towards R/F deal No.204 dated 7.3.1992 due to reversal on 24.3.1992. NHB had paid Rs.25,66,50,000 to SBI vide RBI cheque No.212279 on 7 March 1992 which got credited to HSM's account (highlighted). The balance amount of Rs.14,62,12,000/- was paid by NHB vide RBI cheque No.212587 on

24 March 1992 but the same was found credited to the account of SBI Caps. NHB's books show purchase of 17% NTPC/IRFC/Units (unspecified FV) for Rs.404593060.00 And sale of Units FV Rs. 17.70 crores for Rs.258381060.00 with SBI against which cheque No. 212587 for Rs. 14.6212 Crores was issued. It is observed from the records pertaining to SBI Caps available with us that the said amount (Rs.14,62,12,000) was received against their sale of units FV. Rs.10 crores to Canfina being the second/sale log of R/F deal executed on 10-3-92. The counterparty was actually "dummy" and the funds appear to have been received from NHB. On the same day, SBI Caps had a purchase transaction with ANZ for units FV. Rs.10 crores and the transactions amount of Rs.146184000 was found credited to HSM's account at SBI.

B) 30-3-92 – Item at Sr. No.8 for Rs.90,45,53,603.20

The amount paid by NHB vide RBI cheque No.212666 was not found to have been credited to HSM's account. It was observed from the bank statement relating to SBI Caps that the said amount was credited to this account. The company is said to have adjusted the said receipt and another one of Rs.1002476450/- against its sales vide Deal Nos.4312, 4313, 4320, 4307, 4315, 4311, 4323 and 4323, all of which were reversal logs of R/F deals in Units and PSU bonds.

3. Kindly let us know if any further clarification/details are required.

Yours faithfully,

(Vijay Chugh)
Assistance General Manager
Encl: as above (20)