



## Central Vigilance Commission wants to keep an eye on private banks

Vikas Dhoot MUMBAI, APRIL 02, 2018 THE HINDU



A view of Central Vigilance Commission building, in New Delhi. | Photo Credit: [V. Sudarshan](#)

### **Asks PMO to frame law for it**

The Central Vigilance Commission (CVC) has urged the Prime Minister's Office to bring private sector banks under its watch, citing the fact that they have been involved in many recent instances of malfeasance.

Vigilance officers in all State-owned public sector banks are required to report irregularities and possible wrongdoing to the CVC, India's apex body for checking corruption in the government. Private sector banks are out of the CVC's purview, but are subjected to statutory audits from the Reserve Bank of India (RBI).

### **Deviating from norms**

Private banks have been rapped in recent months by the banking regulator for deviating from norms that govern the disclosure of non-

performing assets (NPAs), leading to under-reporting. The processes followed for lending decisions among private lenders have also come under the scanner.

The Central Bureau of Investigation disclosed last week that it has initiated a preliminary inquiry into loans granted by the country's largest private lender ICICI Bank to Videocon Industries as it suspects a nexus between Deepak Kochhar, husband of the bank's CEO and managing director Chanda Kochhar, and Videocon chairman Venugopal Dhoot.

"The CVC has requested the PMO to consider empowering it to have an oversight on private banks as well, and make the legislative changes to facilitate the same," said an official.

In February, soon after the disclosure of a ₹12,800 crore fraud at the country's second largest public sector bank, Punjab National Bank (PNB), the CVC had summoned senior officials from the Reserve Bank of India (RBI), the Finance Ministry and the bank's Chief Vigilance Officer to understand how the fraud perpetrated by firms owned by Nirav Modi and Mehul Choksi went undetected for so long.

"What happened at PNB is unacceptable, but one must recognise that private banks have also played a role in lending to firms associated with Mr. Modi and Mr. Choksi. Given the systemic risk such fraud poses for the economy, it is important that the CVC has a comprehensive view over corrupt practices in banks," said an official aware of the CVC's missive to the PM's Office.

"The temptation to engage in fraud at the level of employee or employees is always present, in banks (or in corporations), be it in public sector or private sector," RBI Governor Urjit Patel said on March 14, adding that investigative, vigilance and legal deterrence could be a powerful mechanism to induce discipline against such frauds. He said the central bank should have more regulatory powers over public sector banks.

# PNB fraud case: RBI says examining 'enforcement action'



**NEW DELHI, APR 1 PRI/ BUSINESSLINBE 2 4 2018**

With multiple agencies probing the alleged ₹13,000-crore fraud at state-run Punjab National Bank, the Reserve Bank of India (RBI) says it has conducted its scrutiny and the matter is currently under examination for “enforcement action”.

Replying to an RTI query, the central bank also said it has been issuing necessary instructions to banks from time to time on a variety of issues of prudential supervisory concern, including the management of operational risks inherent in the functioning of banks.

## **Action taken**

Asked to provide details of action taken by the RBI after receiving input of suspected fraud at PNB and steps being taken to check such recurrences, the banking sector regulator said a confidential circular on time-bound implementation and strengthening of ‘SWIFT’ related operational controls was issued to public and private banks on February 20. SWIFT (Society for Worldwide Interbank Financial Telecommunications) is a global messaging network used by financial institutions across the world to securely exchange information and instructions among themselves with the use of pre-assigned codes. “Further the scrutiny is conducted in the matter and is under examination for supervisory/enforcement action,” the RBI said in response to the RTI application filed by this **PTI** correspondent.

The RBI, however, declined to share further details of the February 20 circular, saying it was “exempt from disclosure under section 8 (1) (a) of the RTI Act, 2005, since its disclosure may prejudicially affect the economic interest of the State.” The PNB initially reported to the RBI on January 29 an incidence of fraud of Rs 280 crore at its Brady House branch in Mumbai. This information was subsequently updated and revised under the fraud reporting platform on multiple dates, the RBI said.

### **Ongoing investigations**

The central bank declined to share details of communication received from the PNB on the alleged fraud. “In view of the ongoing investigations into the matter by the investigative authorities and third party information involved, the information sought is exempt from disclosure,” the RBI said.

Among various agencies, the CBI is looking into the over Rs 13,000 crore alleged fraud in the PNB committed by billionaire jeweller Nirav Modi and his uncle and Gitanjali Gems promoter Mehul Choksi.

The Enforcement Directorate has also filed two money laundering cases against Modi and Choksi to probe the alleged fraud. It has conducted a total of 251 country-wide searches in the case after it began the criminal probe against the accused in February, resulting in seizure and attachment of diamond, gold, precious and semi-precious stones and other movable and immovable assets.

## **Financial creditors need to come clean on ‘related party’**

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KR SRIVATS NEW DELHI, MARCH 30 BUSINESSLINE

Insolvency regulations just got tightened to ensure that only genuine claims of financial creditors’ and not sham transactions get compensated under the Insolvency and Bankruptcy Code (IBC).

Come April 1, a financial creditor submitting a claim to an interim resolution professional (IRP) will have to declare if it is or not a 'related party' to the 'corporate debtor' facing an insolvency process.

The implication of being a 'related party' is that a financial creditor's right to be part of the Committee of Creditors (CoC) under the insolvency process gets removed and, therefore, cannot vote in the decisions of the CoC.

Until now, there was no requirement for any such declaration although the IBC explicitly disallows a related party — to whom a corporate debtor owes a financial debt — from participating or voting in the CoC, said legal experts.

Unlike an operational creditor, a financial creditor can participate in the voting process of a CoC. Diwakar Maheshwari, Dispute Resolution Partner at Khaitan & Co, a law firm, said this categorical insertion in the declaration seems to be yet another positive step by the IBBI as it is in sync and brings conclusiveness to the IBC.

He highlighted that the IBC disallows a financial creditor from exercising voting rights in the CoC, if such a creditor qualifies to be a related party to the corporate debtor.

Sundaresh Bhat, Partner-Business Restructuring Services, BDO India, said this has been stipulated so as to ensure independence of financial creditors in the voting process and make sure the process is not compromised.

Punit Dutt Tyagi, Executive Director, Lakshmikumaran & Sridharan, a law firm, said that such a declaration is now required to be furnished along with the proof of claim by financial creditors under Form C.

Through this process, sham transactions can be weeded out and only the genuine claims and dues of parties will be compensated, Tyagi said.

Tyagi said the declaration will afford IRP a chance to scrutinise transactions between such financial creditors and corporate debtors, to ensure that these are carried out keeping in mind the arms-length principle.

The IRP also then ensures that the necessary permissions and compliances required under the Companies Act, 2013, for such related party transactions, have been duly obtained, he said.

# Indian banking saw frauds worth Rs 18,170 cr in FY17: IiAS



The standard procedure is that once a bank reports a company as 'fraud' to the RBI, the central bank immediately circulates the information to all banks, calling for their attention istock Kritchanut

MUMBAI, MARCH 29 Businessline

The domestic banking sector reported 12,533 frauds, aggregating to Rs 18,170 crore in FY17, proxy advisory firm IiAS has said.

"Such high quantum of frauds can be attributed to weak internal controls, which are capable of leaving an indelible dent on the balance sheet of the bank. Though the banks are paying high audit fees, it is not necessarily resulting in lower frauds, which means that the overall audit quality needs to be improved," the shareholder advisory firm said.

Bank of Maharashtra reported the highest number of frauds (3,893), followed by ICICI Bank (3,359) and HDFC Bank (2,319). In terms of quantum, PNB (Rs 2810 crore) Bank of India (Rs 2770 crore) and SBI (Rs 2420 crore) fared the worst.

In some banks, while the aggregate quantum is low, the average fraud size is high. This indicates that the sector needs to urgently revisit and strengthen its internal financial controls.

The inability to contain frauds has financial implications. For example, in Bank of Maharashtra, the fraud amount as a percentage of total assets was 1.02 per cent. Added to a gross NPA of about 19 per cent, this means that more than one-fifth of the asset size is at risk every year due to weak controls and lack of adequate due diligence.

High audit fees signal more audit checks. Yet, despite paying high audit fees, the quantum of fraud in PSBs tend to be much higher.

## High audit fees

The high audit fees in PSBs are a function of larger number of branches, multiple auditors, higher number of physical audits and RBI prescribed rates. But this has failed to improve audit quality. The focus now needs to shift towards strengthening the audit quality by plugging process gaps and streamlining the checks and balances.

While these frauds are an issue of concern across the banking sector, there are a few banks which stand out for being able to control the fraud losses, said IiAS.

For example, in some private sector banks like IDFC Bank, Dhanlaxmi Bank and DCB Bank, the total quantum of fraud was less than 0.01 per cent of their assets.

## **Loans worth Rs 772 cr obtained by fraud: IDBI Bank**



Relate to pisciculture loans sanctioned by branches in undivided AP from FY09 to FY14

MUMBAI, MARCH 28 BUSINESSLINE

IDBI Bank has disclosed that pisciculture loans aggregating ₹772 crore, which were sanctioned from FY 2009 to FY 2013 at a few of its branches in the undivided State of Andhra Pradesh, were fraudulently obtained by some industrialists, who stood as common guarantors for these loans.

The bank said the industrialists, referred to as 'Aggregators', submitted fake lease documents of non-existent fish ponds. Further, the empanelled valuers also inflated the value of the collateral securities. There were 52 Aggregators with a principal outstanding of ₹772 crore.

While recovery was achieved in certain accounts, most of the accounts turned non-performing from FY14 onwards, the bank said in a statement to the exchanges.

After the loans were sanctioned, they were parked in five branches — Basheerbagh in Hyderabad, Guntur, Rajahmundry, Bhimavaram and Palangi. "It was also observed while conducting Staff Accountability exercise that there were major lapses while processing and disbursing the loans, mainly in respect of Battu Rama Rao, General Manager and R Damodaran, ex-Chief General Manager," it said. "Accordingly, Rama Rao has been dismissed from service while Damodaran had already retired. Thereafter, the bank filed five separate complaints with CBI (Central Bureau of Investigation) for further investigation in respect of the cases dealt in the five branches," it added.

### **CBI registers two cases**

The CBI recently registered cases for two of the five complaints filed in respect of the branches at Basheerbagh and Guntur.

The IDBI Bank statement said the CBI is, however, yet to register cases filed in respect of the remaining three branches, at Rajahmundry, Bhimavaram and Palangi.

The bank said it has already provided for these loans to the extent of 100 per cent and hence, there is no further impact of these accounts on its profitability/balance sheet. IDBI Bank added that it continues to pursue all legal actions to recover the dues from these borrowers.

## **PNB worried Nirav Modi won't pay up, chasing the bucks in US now**

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***PNB has not been shown as a creditor in the bankruptcy documents filed in a New York court by three companies affiliated with Nirav Modi***

BS Web Team Last Updated at March 30, 2018

Punjab National Bank is worried that it wouldn't be able to recover its dues from diamantaire Nirav Modi.

In a US court filing, it has requested that Nirav Modi's Firestar Diamond and other firms should not be allowed to fast-track the sale of their assets, according to a report by the *Livemint*. PNB has suggested that the sale by Nirav Modi's firms could hurt the bidding process amid the Rs 140-billion scam at the bank and harm its chances of recovering money from the diamantaire.

PNB 'not' a creditor to Firestar: Last month, Firestar Diamond, a company owned by Nirav Modi, filed for bankruptcy in a New York court. The US Trustee Program oversees administration and litigation for enforcement of the bankruptcy law.

According to news agency *IANS*, PNB is not shown as a creditor in the bankruptcy documents filed in the New York court by three companies affiliated to Nirav Modi.

But, the document acknowledges that the filing of criminal complaints by PNB regarding allegations of "unauthorised loans" to Nirav Modi and affiliated foreign companies were the "events leading" to the filing of the bankruptcy petition.

The only banks mentioned as creditors are HSBC and Israel Discount Bank (IDB), which have outstanding loans totalling \$20 million to two of the Nirav Modi companies. The IDB's revolving credit facility is guaranteed by Modi personally, as well as by two other companies, the document said.

PNB to clear other banks' dues: PNB on Wednesday decided to clear all other banks' dues, amounting to Rs 65 billion, to be paid before March 31 in relation to the Rs 140-billion fraud case.

The decision will help the bank settle claims worth Rs 65 billion against LoUs issued to seven banks — Union Bank of India, Allahabad Bank, Bank of India, Canara Bank, State Bank of India (SBI), Axis Bank, and UCO Bank.

## **Sebi looking into ICICI Bank-Videocon conflict of interest matter**

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**ICICI Bank is India's fourth most valued bank with a market capitalisation of about Rs 1.8 trillion and its shares are also part of the benchmark stock market index Sensex**

**Press Trust of India | New Delhi March 31, 2018**

With ICICI Bank embroiled in a controversy over alleged conflict of interest involving its CEO Chanda Kochhar, market regulator Sebi has begun looking into the matter for any possible disclosure and corporate governance-related lapses.

Besides, Videocon Industries and its promoters have come under the regulator's scanner as the matter relates to alleged "quid pro quo"

involving loans to the company by a group of lenders, including ICICI Bank and some public sector banks.

The markets watchdog has begun a preliminary enquiry into various disclosures made by the top private sector bank over the last few years while the stock exchanges may seek additional clarifications regarding recent reports in this regard that relate to dealings that took place way back in 2012, a senior official said.

ICICI Bank is India's fourth most valued bank with a market capitalisation of about Rs 1.8 trillion and its shares are also part of the benchmark stock market index Sensex.

ICICI Bank's board has reposed full faith in Kochhar, while sources close to them said that regulatory queries were satisfactorily answered in 2016 as no conflict of interest was found at that time about the loans given to Videocon, that too as part of a consortium.

"I would like to clearly state that we always satisfactorily reply to questions of regulators," ICICI Bank Chairman M K Sharma said on Thursday but did not specifically name any regulator.

Sources, however, said that the RBI had sought clarification from the bank in 2016 on the issue to which the bank had given its response at that time.

Earlier this week, some media reports mentioned about alleged involvement of Kochhar and her family members in a loan provided to Videocon group on quid pro quo basis. Concerns were also raised about transactions of Videocon group and NUPower Renewables, a company operated by her husband Deepak Kochhar.

The lender has come out in defence of Kochhar saying its board has full faith and confidence in Kochhar.

"The board has come to the conclusion that there is no question of any quid pro quo/ nepotism/ conflict of interest as is being alleged in various rumours.

"The board has full confidence and reposes full faith in the bank's MD and CEO Chanda Kochhar," Sharma said on Thursday.

He had also said that it was not the lead bank for this consortium and the bank only sanctioned its share of facilities aggregating approximately Rs 32.5 billion which was less than 10 per cent of the total consortium facility in April 2012.

# Videocon-ICICI loan case: CBI questions bank officials

**The bank had clarified that none of the investors of NuPower Renewables are borrowers of ICICI Bank**

Press Trust of India | New Delhi March 31, 2018



*From left: Deepak Kochhar, Chanda Kochhar and Venugopal Dhoot*

The CBI has questioned few ICICI bank officials as part of a preliminary enquiry to find if any quid pro quo was involved in the bank issuing a Rs 32.5 billion loan to the Videocon Group in 2012.

Agency officials said they are also studying relevant documents of the transaction and if they come across any evidence that indicates wrongdoing, ICICI bank MD and CEO Chanda Kochhar, her husband Deepak Kochhar along with others could be summoned for detailed questioning.

They said the statements of nodal officers of the ICICI, who were part of processing the loan of about Rs 32.5 billion, have been recorded as part of the PE registered six weeks back.

The PE has named Videocon group promoter Venugopal Dhoot, Deepak Kochhar and unknown others, they said.

A PE is a precursor before the agency lodges an FIR to probe criminal charges on the basis of evidence collected during the former exercise.

The deal recently made news after reports questioned the loan and linked it to a possible quid pro quo that Dhoot allegedly had with NuPower Renewables, a company founded by Deepak Kochchar.

Earlier this week, the ICICI Bank board came out in support of Chanda Kochhar, saying it has full faith and confidence in her and described

certain reports against her regarding credit disbursement to Videocon group as "malicious and unfounded rumours".

The board had also reviewed the banks internal processes for credit approval and found them robust, the private sector lender had said in a statement.

With regard to loans to the Videocon group, it said the banks current exposure is part of a syndicated consortium arrangement.

"ICICI Bank was not the lead bank for this consortium and the bank only sanctioned its share of facilities aggregating approximately Rs 32.5 billion which was less than 10 per cent of the total consortium facility in April 2012," it added.

The bank had clarified that none of the investors of NuPower Renewables are borrowers of ICICI Bank.

<b>AIBEA THIS DAY – 1 APRIL</b>	
<b>1958</b>	<b>All Kerala Bank Employees Union takes deputation to State Labour Minister on wages of one State Bank Employees.</b>
<b>2009</b>	<b>Observance of International Day of Action (WFTU)</b>
<b>2010</b>	<b>IBA/UFBU. BP talks.</b>

<b>AIBEA THIS DAY – 2 APRIL</b>	
<b>1945</b>	<b>Com. Mahesh Mishra, Rajasthan, former Vice President, AIBEA - date of Birth.</b>
<b>1981</b>	<b>AIBEA Members observe solidarity action with LIC Employees Wage Revision struggle.</b>
<b>1994</b>	<b>Massive Demonstration at Ahmedabad protesting opening of UTI Bank Ltd. (Private Sector)</b>



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