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SPOTLIGHT

Tata shakeup



Check company's accounts before giving loan, government tells banks

By Pradeep Thakur, TNN | Updated: Oct 26, 2015, 11.18 AM IST [Post a Comment](#)

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NEW DELHI: To put an end to rising cases of non-performing assets (NPAs) in banks and loans to undeserving entities, the government has now made it mandatory for all financial institutions to obtain an affidavit from auditors who sign balance sheets of companies applying for advances.

Banks have also been asked to validate and verify these balance sheets and profit and loss accounts with the ministry of corporate affairs before sanctioning loans.

The instructions have been issued by the [finance ministry](#) based on a [Central Vigilance Commission](#) directive, chief vigilance commissioner [KV Chowdary](#) told TOI.

Chowdary said the [CVC](#) was concerned about fake documentations where banks extended advances based on balance sheets that later proved to be fudged. The department of [financial services](#) in the finance ministry has issued instructions to all government banks to ensure that these profit and loss accounts of companies are verified and validated with the ministry of corporate affairs before extending loans.

In case of individuals, it will be the bank's responsibility to assess the person's repayment capacity and any default on loans will be treated as the officials responsibility who had sanctioned the loan.

The NPA levels in government banks are at an all-time high of 6% of gross advances as of June 2015. When restructured advances are added to the gross NPAs of public sector banks, it is more than 13%, compared to 4.60% in case of private commercial banks. This is an indicator of indiscretion of PSBs which had given loans to entities that lacked repayment capacity.

The total gross advances of PSBs are to the tune of Rs 49 lakh crore as of March 2015. Small and medium scale industry and the corporate sector are among major loan defaulters — iron and steel, infrastructure, textile and food processing industries lead the list of NPAs.

Tatas will oust Mistry from group cos if he does not quit voluntarily

Analysts expect such an eventuality — of a board refusing to sack Mistry — is a distinct possibility in companies like Indian Hotels that runs the Taj chain.

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In reference to the [forex fraud](#) in Bank of Baroda's Ashok Vihar branch in New Delhi recently, the CVC has asked banks and the RBI to relook at why banks were failing to spot suspicious transactions. "If frauds of this magnitude (BoB's Rs 6,000 crore remittance to Hong Kong) was happening, how was it possible that no alert was generated," Chowdary asked.

He said there was a need to strengthen the 'know your customer' (KYC) guidelines and reengineer the processes to stress on validation of documentation provided by customers. Chowdary said the CVC has issued a general guidance note to banks to be followed.

The CVC said there were many other frauds being investigated by the CBI and other agencies which the commission has flagged. "CVC has taken note of the issue and we are monitoring the investigation," he said.

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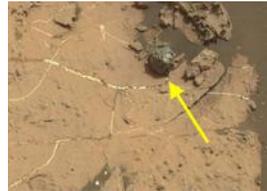
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