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State banks may ask big borrowers for more proof before handing out loans

BY [DHEERAJ TIWARI](#), ET BUREAU | UPDATED: JUN 16, 2018, 09.11 PM IST

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NEW DELHI: The government may ask state-run banks to run a check on big borrowers with the corporate affairs ministry or the concerned [registrar of companies](#) (RoC) before sanctioning highvalue consortium loans, said a top finance ministry official.

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The idea is to find out if the [borrower](#) has any associated [shell companies](#), get a fix on subsidiaries with direct or indirect beneficiaries and to determine whether there are any red flags against the prospective borrower.

“Banks were mostly relying on financial statements and audit reports while sanctioning loans,” the official said. “As a part of the larger discussion on ‘responsible banking,’ under its Enhanced Access and Service Excellence (EASE) reform agenda, they (banks) may look for additional verifications.”

This follows fraud and diversion of funds being uncovered as companies that can’t repay loans come up for debt resolution under the Insolvency and Bankruptcy Code (IBC). “In most cases of [bad loans](#), it was pointed out that loans from banks were diverted to shell companies,” the official said, adding the additional checks would not impact credit flow.

State-owned banks may also seek such information on their own for smaller-value loans if they want a higher degree of comfort, he said.

SFIO DATABASE

A senior bank executive said lenders mostly approach the RoC to check if there is already a charge on the assets being pledged. The government is looking at a higher level of scrutiny to see if there could be potential corporate governance issues.



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“This added layer of verification may help in case the borrowers have any domestic shell companies and also if the promoters have any other firms and their financial status,” he added. Banks have been already directed to seek borrower status reports from the Central Economic Intelligence Bureau (CEIB) for accounts that have turned into non-performing assets.

“Recently, it has been pointed out that there have been issues with audited reports — in some cases auditors have even quit,” said the official cited above, pointing out the need for an additional layer of verification. The Serious Fraud Investigation Office (SFIO) has prepared a list of more than 113,000 shell companies as part of the government crackdown on black money. The database compiled by SFIO has red-flagged more than 80,000 companies suspected to be shell entities, while it has confirmed illegal activities in 16,537.

Last year, the corporate affairs ministry struck off 226,000 companies from the register of companies under Section 248 of the Companies Act, 2013 for not filing financial statements or annual returns for a continuous period of two or more financial years. Another 225,000 companies have been identified this year by the RoC to be removed from the register.

The finance ministry called on banks to inform the investigating agencies such as the Central Bureau of Investigation (CBI), Enforcement Directorate (ED) and Directorate of Revenue Intelligence (DRI) if any wrongdoing was detected in its note on Commitment to Clean and Responsive Banking in April.

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