REPORT

JOINT COMMITTEE
ON
STOCK MARKET SCAM
AND
MATTERS RELATING THERETO

(THIRTEENTH LOK SABHA)

(VOLUME II – APPENDICES)

Presented to Lok Sabha on 19 *December,* 2002
Laid on the Table of Rajya Sabha on 19 *December,* 2002

सत्यमेव जयते

LOK SABHA SECRETARIAT
NEW DELHI
December 2002/*Agrahayana* 1924 *(Saka)*

C.B. No. 462

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APPENDIX-I

(*See* Para 1.2 of the Report)

MOTION FOR APPOINTMENT OF A JOINT COMMITTEE AS ADOPTED BY LOK SABHA ON 26 APRIL, 2001

"That a Joint Committee of both Houses consisting of 30 Members—20 from Lok Sabha and 10 from Rajya Sabha be appointed:

(i) To go into the irregularities and manipulations in all their ramifications in all transactions, including insiders trading, relating to shares and other financial instruments and the role of banks, brokers and promoters, stock exchanges, financial institutions, corporate entities and regulatory authorities.

(ii) To fix the responsibility of the persons, institutions or authorities in respect of such transactions.

(iii) To identify the misuse, if any of and failures/inadquacies in the control and the supervisory mechanisms.

(iv) To make recommendations for safeguards and improvement in the system to prevent recurrence of such failures.

(v) To suggest measures to protect small investors.

(vi) To suggest deterrent measures against those found guilty of violating the regulations.

2. That the Committee shall have the following 20 members of the Lok Sabha as its members:—

1. Shri Mani Shankar Aiyar
2. Smt. Margaret Alva
3. Shri V.P. Badnore
4. Dr. Baliram
5. Shri Anant Gangaram Geete
6. Shri Vijay Goel
7. Shri C. Kuppusami
8. Shri Jagannath Malik
9. Shri Rupchand Pal
10. Shri P.H. Pandian
11. Shri Harin Pathak
12. Shri Pravin Rashtrapal

13. Shri S. Jaipal Reddy

14. Kunwar Akhilesh Singh

15. Shri Maheshwar Singh

16. Shri Prabhunath Singh

17. Shri Kirit Somaiya

18. Shri Kharabela Swain

19. Shri Prakash Mani Tripathi

20. Shri K. Yerrannaidu

3. That the Speaker shall nominate one of the Members of the Committee to be its Chairman.

4. The Committee shall start functioning from the day it is duly constituted.

5. That the Committee shall be provided all assistance by the Government and its agencies.

6. That in order to constitue a sitting of the Joint Committee the quorum shall be one third of the total number of Members of the Joint Committee.

7. That the Joint Committee shall make a report to this House by the end of the next Session of Parliament.

8. That the Rules of Procedure of the House relating to Parliamentary Committees shall apply.

9. That the Committee may if the need arises in certain matters adopt a different procedure with the concurrence of the Speaker.

10. That this House recommends to Rajya Sabha that the Rajya Sabha do join the Committee and communicate to this House the names of the members appointed from amongst the members of the Rajya Sabha to the Committee as mentioned above."

The above motion was adopted by Lok Sabha at its sitting held on Thursday, the 26th April, 2001.

APPENDIX-II

(*See* Para 1.3 of the Report)

MOTION FOR APPOINTMENT OF A JOINT COMMITTEE AS ADOPTED BY RAJYA SABHA ON 26 APRIL, 2001

"That this House concurs in the recommendation of the Lok Sabha that a Joint Committee of the Houses consisting of 30 Members, 20 from Lok Sabha and 10 Members of the Rajya Sabha be constituted:

(i) To go into the irregularities and manipulations in all their ramifications in all transactions, including insiders trading, relating to shares and other financial instruments and the role of banks, brokers and promoters, stock exchanges, financial institutions, corporate entities and regulatory authorities.

(ii) To fix the responsibility of the persons, institutions or authorities in respect of such transactions.

(iii) To identify the misuse, if any, of and failures/inadequacies in the control and the supervisory mechanisms.

(iv) To make recommendations for safeguards and improvements in the system to prevent recurrence of such failures.

(v) To suggest measures to protect small investors.

(vi) To suggest deterrent measures against those found guilty of violating the regulations.

made in the motion adopted by the Lok Sabha on the 26th April, 2001 and communicated to this House on the 26th April, 2001 and resolves that this House do join in the said Committee and do appoint 10 Members from among the Members of this House namely:

(1) Shri Ramdas Agarwal

(2) Shri S.S. Ahluwalia

(3) Shri Nilotpal Basu

(4) Shri Prem Chand Gupta

(5) Shri K. Rahman Khan

(6) Shri Praful Patel

(7) Shri C. Ramachandraiah

(8) Shri Kapil Sibal

(9) Shri Amar Singh

(10) Shri C.P. Thirunavukkarasu

to serve on the said Committee.

APPENDIX-III

(*vide* Para 3.33)

RECOMMENDATIONS CONTAINED IN THIS REPORT WHICH ARE ANALOGOUS TO THE RECOMMENDATIONS OF THE EARLIER JPC

Sl. No.	Recommendations of Previous JPC	Recommendations of Present JPC
1	2	3
1.	Definition of Scam	
	Para 2.7	Para 2.7, 2.20
2.	Irregularities in the functioning of Brokers	
	Para 12.55	Paras 4.42–4.45, 4.68–4.70
3.	Bank brokers nexus	
	Para 12.55	Para 5.54
4.	Dominance of brokers in Stock Exchanges	
	Para 13.16	Para 6.105
5.	Effective system for redressal of investors' complaints	
	Para 13.22	Para 14.59, 14.60
6.	Role of nominee directors in Governing bodies of SEs and banks	
	Para 13.35, 15.143, 15.147 & 15.148	Para 9.30, 9.31(iii) & 10.14
7.	Track record of Stock Exchanges	
	Para 13.40	Para 6.104
8.	Inspection of banks	
	Para 15.150	Para 10.77, 5.58
9.	Role of Cooperative banks	
	Para 5.22, 5.23	Para 5.59, 5.66, 5.109
10.	Vigilance mechanisms in banks	
	Para 9.40	Para 10.81
11.	Auditors in banks	
	Para 10.39	Para 10.80

1	2	3
12.	Adherence to guidelines by banks and technology upgradation	
	Para 15.154	Para 10.82
13.	Inordinate delay on the Part of investigative agencies	
	Para 17.11, 17.57, 17.58	Para 12.74
14.	Responsibilities of Ministry of Finance	
	Para 16.61, 16.62	Para 13.45
15.	Violations of guidelines by banks	
	Para 9.46, 15.153, 15.154	Para 10.79
16.	Nexus among industrial houses, banks and brokers	
	Para 18.59	Para 6.94, 10.85
17.	Inaction of the management of the bank over the branch activities	
	Para 6.9, 6.11, 6.12 6.13	Para 5.174 (a – g)
18.	Follow-up on the inspection reports	
	Para 9.47	Para 9.27, 10.78
19.	Failure of regulators	
	Para 15.150	Para 10.75 (RBI) 9.78 (SEBI)

APPENDIX-IV

(*vide* para 5.7 of report)

TRIAL BALANCE OF MADHAVPURA MERCANTILE CO-OPERATIVE BANK LTD.
AS ON 31 MARCH, 2001@

(Rs. in Crore)

Sr. No.	Liabilities	Amount	Sr. No.	Assets	Amount
1.	Paid up Capital	13.87	1.	Cash & balance with RBI/SBI	59.49
2.	(*a*) Statutory Reserves	13.97	2.	Balance with other banks	10.46
	(*b*) Other Reserves	17.94	3.	Investments	64.65
3.	Provisions (BDDR)	132.16	4.	Loans and Advances	1717.37
4.	Deposits	1262.38	5.	Premises	10.46
5.	Borrowings#	193.11	6.	Furniture and Fixture	9.87
6.	Bills Payable	4.38	7.	Interest Receivable	75.10
7.	Interest Payable	7.72	8.	Bills for collection as per contra	4.38
8.	Overdue Interest Reserve	69.72	9.	Other Assets	3.14
9.	Branch Adjustments	0.04			
10.	Other Liabilities	219.29			
11.	Profit and Loss A/c	20.34			
	Total	1954.92		Total	1954.92

@ Source Annexure IX of Report of the Committee on revival of MMCB.

Includes borrowings of Rs. 192 crore from 15 participants in the call money market. As on March 16, 2001 the outstanding was Rs. 197 crore. The difference of Rs. 5 crore is due to adjustment of call money lending of Federal Bank Ltd., against the security of the deposits maintained by MMCB with it.

APPENDIX-V

(*vide* Para 5.8 (vi) of the Report)

DETAILS OF THE UNSECURED LOANS GIVEN TO STOCK BROKING COMPANIES

Limit sanctioned and outstanding (Rs. in crore)

Sr. No.	A/c No.	Date of Sanction	Party's Name	Limit sanctioned	Outstanding as on 24/3/2001
1.*	4348	9-8-00	Triumph Inter. Finance Ltd.*	5.00	19.87
2.	4358	9-8-00	Mukesh Babu Securities Ltd.	10.00	22.87
3.*	4653	30-11-99	V N Parekh Securities P Ltd.*	20.00	84.47
4.*	4656	30-11-99	KNP Securities P Ltd.*	20.00	80.14
5.*	4657	30-11-99	Sai Mangal Investrade Ltd.	20.00	61.53
6.*	4668	30-11-99	N H Securities Ltd.*	20.00	92.43
7.*	4669	30-11-99	Panther Investrade Ltd.*	20.00	89.22
8.*	4670	30-11-99	Panther Fincap & Management Services Ltd.*	20.00	54.59
9.*	4679	30-11-99	Luminate Investment P. Ltd.	20.00	80.35
10.	4681	30-11-99	S B M Investment	1.00	12.78
11.	4682	30-11-99	Maniar Financial Services P. Ltd.	1.15	6.54
12.	4761	2-3-00	Mukesh Babu Financial Services Ltd.	20.00	39.76
13.	4762	9-8-00	Mukesh Babu Management Consultancy P. Ltd.	20.00	47.04
14.	4763	2-3-00	Mukesh Babu Stock Broking P. Ltd.	20.00	47.05
15.	4764	2-3-00	Sagar Leasing Co. Ltd.	20.00	42.01
16.*	4770	8-4-00	Nakshatra Software P. Ltd.*	20.00	81.15
17.*	4771	8-4-00	Goldfish Computer P. Ltd.*	20.00	111.27
18.*	4772	8-4-00	Chitrakut Computer P. Ltd.*	20.00	108.42
19.			Three small accounts		0.73
21.					
Total				299.55	1082.22

NB: The serial numbers marked with* pertain to companies where the name of Shri Ketan Parekh was interested.

APPENDIX-VI

(*vide* Para 5.8 (x) of the Report)

INFORMATION ON CALL MONEY BORROWING BY
MADHAVPURA MERCANTILE COOPERATIVE BANK LTD., AHMEDABAD
FROM JULY 1, 2000 TO MARCH 31, 2001

(Rs. in lakh)

Sr. No.	Date	Amount (Rs)
1	2	3
1.	01.07.2000	3127.41
2.	03.07.2000	3727.41
3.	04.07.2000	8027.41
4.	05.07.2000	8027.41
5.	06.07.2000	8027.40
6.	07.07.2000	6127.41
7.	08.07.2000	9027.41
8.	10.07.2000	7027.40
9.	11.07.2000	7027.41
10.	12.07.2000	6327.40
11.	13.07.2000	6327.40
12.	14.07.2000	227.41
13.	15.07.2000	7027.41
14.	17.07.2000	4127.41
15.	18.07.2000	4527.41
16.	19.07.2000	3027.41
17.	20.07.2000	3127.41
18.	21.07.2000	3027.41
19.	22.07.2000	2527.41
20.	24.07.2000	727.41
21.	25.07.2000	727.41

Sr. No.	Date	Amount (Rs)
1	2	3
22.	26.07.2000	Nil
23.	27.07.2000	227.41
24.	28.07.2000	227.41
25.	29.07.2000	3127.40
26.	31.07.2000	4127.40
27.	01.08.2000	4727.40
28.	02.08.2000	6527.40
29.	03.08.2000	6527.40
30.	04.08.2000	6527.40
31.	05.08.2000	3527.40
32.	10.08.2000	727.40
33.	11.08.2000	227.41
34.	12.08.2000	2627.40
35.	14.08.2000	2227.40
36.	16.08.2000	5400.00
37.	17.08.2000	4900.00
38.	18.08.2000	2000.00
39.	19.08.2000	1900.00
40.	22.08.2000	4500.00
41.	23.08.2000	4200.00
42.	24.08.2000	3200.00

1	2	3
43.	25.08.2000	Nil
44.	26.08.2000	2000.00
45.	28.08.2000	1900.00
46.	29.08.2000	1500.00
47.	30.08.2000	1500.00
48.	31.08.2000	Nil
49.	01.09.2000	Nil
50.	02.09.2000	Nil
51.	04.09.2000	Nil
52.	05.09.2000	500.00
53.	06.09.2000	Nil
54.	07.09.2000	Nil
55.	08.09.2000	Nil
56.	09.09.2000	2000.00
57.	11.09.2000	2900.00
58.	12.09.2000	3000.00
59.	13.09.2000	3500.00
60.	14.09.2000	3900.00
61.	15.09.2000	Nil
62.	16.09.2000	Nil
63.	21.09.2000	2000.00
64.	22.09.2000	Nil
65.	23.09.2000	1000.00
66.	25.09.2000	2400.00
67.	26.09.2000	2400.00
68.	27.09.2000	6150.00
69.	28.09.2000	5900.00
70.	29.09.2000	6150.00
71.	30.09.2000	6150.00
72.	03.10.2000	8650.00
73.	04.10.2000	5400.00
74.	05.10.2000	5900.00
75.	06.10.2000	Nil
76.	09.10.2000	5400.00
77.	10.10.2000	5400.00
78.	11.10.2000	6000.00
79.	12.10.2000	5400.00
80.	13.10.2000	5900.00
81.	14.10.2000	6400.00
82.	16.10.2000	1400.00
83.	17.10.2000	5500.00
84.	18.10.2000	5000.00
85.	19.10.2000	6900.00
86.	20.10.2000	2000.00
87.	21.10.2000	5400.00
88.	23.10.2000	6400.00
89.	24.10.2000	7400.00
90.	25.10.2000	7900.00
91.	27.10.2000	7400.00
92.	30.10.2000	8400.00
93.	31.10.2000	7900.00
94.	04.11.2000	6900.00
95.	06.11.2000	8400.00
96.	07.11.2000	8150.00
97.	08.11.2000	8050.00
98.	09.11.2000	6400.00
99.	10.11.2000	6400.00
100.	13.11.2000	5400.00
101.	14.11.2000	6900.00
102.	15.11.2000	6900.00
103.	16.11.2000	7400.00
104.	17.11.2000	5700.00

1	2	3
105	18.11.2000	6900.00
106	20.11.2000	5900.00
107	21.11.2000	7900.00
108	22.11.2000	9400.00
109	23.11.2000	8900.00
110	24.11.2000	9400.00
111	25.11.2000	9450.00
112	27.11.2000	10400.00
113	28.11.2000	8900.00
114	29.11.2000	8900.00
115	30.11.2000	11400.00
116	01.12.2000	9900.00
117	02.12.2000	11250.00
118	04.12.2000	11900.00
119	05.12.2000	12100.00
120	06.12.2000	10600.00
121	07.12.2000	9900.00
122	08.12.2000	10400.00
123	09.12.2000	9400.00
124	11.12.2000	9900.00
125	12.12.2000	9400.00
126	13.12.2000	12400.00
127	14.12.2000	11900.00
128	15.12.2000	7900.00
129	16.12.2000	10900.00
130	18.12.2000	9900.00
131	19.12.2000	8000.00
132	20.12.2000	9900.00
133	21.12.2000	8900.00
134	22.12.2000	7000.00
135	27.12.2000	14400.00
136	29.12.2000	14300.00
137	30.12.2000	13300.00
138	01.01.2001	19500.00
139	02.01.2001	18300.00
140	03.01.2001	18600.00
141	04.01.2001	17400.00
142	05.01.2001	18350.00
143	06.01.2001	14550.00
144	08.01.2001	14400.00
145	09.01.2001	14900.00
146	10.01.2001	14400.00
147	11.01.2001	12500.00
148	12.01.2001	7500.00
149	13.01.2001	12200.00
150	15.01.2001	14200.00
151	16.01.2001	13400.00
152	17.01.2001	14900.00
153	18.01.2001	13900.00
154	19.01.2001	16200.00
155	20.01.2001	19700.00
156	22.01.2001	19900.00
157	23.01.2001	19700.00
158	24.01.2001	18700.00
159	25.01.2001	14400.00
160	27.01.2001	13900.00
161	29.01.2001	13900.00
162	30.01.2001	12275.00
163	31.01.2001	12625.00
164	01.02.2001	9900.00
165	02.02.2001	10400.00
166	03.02.2001	15050.00

1	2	3
167	05.02.2001	12900.00
168	06.02.2001	11400.00
169	07.02.2001	16500.00
170	08.02.2001	11400.00
171	09.02.2001	5000.00
172	10.02.2001	13700.00
173	12.02.2001	13400.00
174	13.02.2001	13600.00
175	14.02.2001	14650.00
176	15.02.2001	17700.00
177	16.02.2001	20500.00
178	17.02.2001	27067.00
179	19.02.2001	25567.50
180	20.02.2001	24467.50
181	22.02.2001	25867.50
182	23.02.2001	23267.50
183	24.02.2001	25267.50
184	26.02.2001	25367.50
185	27.02.2001	25155.00
186	28.02.2001	25430.00
187	01.03.2001	22100.00
188	02.03.2001	22180.00

1	2	3
189	03.03.2001	23100.00
190	05.03.2001	21075.00
191	07.03.2001	21650.00
192	08.03.2001	21150.00
193	09.03.2001	25300.00
194	12.03.2001	14300.00
195	13.03.2001	14600.00
196	14.03.2001	14600.00
197	15.03.2001	14600.00
198	16.03.2001	14600.00
199	17.03.2001	14600.00
200	19.03.2001	14600.00
201	20.03.2001	14600.00
202	21.03.2001	19700.00
203	22.03.2001	19700.00
204	23.03.2001	19700.00
205	24.03.2001	19700.00
206	27.03.2001	19700.00
207	28.03.2001	19700.00
208	29.03.2001	19700.00
209	30.03.2001	19700.00
210	31.03.2001	19200.00

APPENDIX-VII

(*vide* Para No. 6.4)

GOVERNING BOARD OF CSE AS ON 31.3.2001

Sl.No.	Member	Category
1.	Shri Kamal Parekh	President (Elected Member)
2.	Shri Krishna Kumar Daga	Vice President (Elected Member)
3.	Shri J.M. Choudhary	Former President (Elected Member)
4.	Shri Dinesh Kumar Singhania	Former President (Elected Member)
5.	Shri Ajit Khandelwal	Elected Member
6.	Shri Rajendra Kumar Agarwal	Elected Member
7.	Shri Bipin Kumar Dewra	Elected Member
8.	Shri Raj Karan Bachhawat	Elected Member
9.	Shri Girish S. Mehta	Elected Member
10.	Shri B.G. Daga	Public Representative
11.	Shri D. Basu, former Chairman, SBI	Public Representative
12.	Shri Roopen Roy	Public Representative
13.	Shri V.N. Reddy	Public Representative
14.	Justice Prabir Kumar Mazumdar	Public Representative
15.	Shri Shyamal	Public Representative
16.	Smt. D.N. Raval, SEBI Executive Director	SEBI Nominee
17.	Shri C.D. Paik, SEBI Regional Director	SEBI Nominee
18.	Shri S.S. Ahuja, IAS	SEBI Nominee
19.	Shri Tapas Dutta	Executive Director

APPENDIX-VIII

(*vide* Para No. 6.107 of the Report)

GOVERNING BOARD OF THE STOCK EXCHANGE, MUMBAI AS ON 31.03.2001

Sl.No.	Member	Category
1.	Shri Anand Rathi	President (Elected Member)
2.	Shri A.N. Joshi	Executive Director
3.	Smt. Deena A. Mehta	Vice President (Elected Member)
4.	Shri Jayesh K. Sheth	Hon. Treasurer (Elected Member)
5.	Shri Himanshu Kaji	Elected Member
6.	Shri J.C. Parekh	Elected Member
7.	Shri Motilal Oswal	Elected Member
8.	Shri Kirit B. Shah	Elected Member
9.	Shri Niranjan K. Nanavati	Elected Member
10.	Smt. Anna Malhotra	Public Representative
11.	Justice D.R. Dhanuka (Retd.)	Public Representative
12.	Shri S.S. Thakur	Public Representative
13.	Prof. Samir Barua	Public Representative
14.	Shri Mukund M. Chitale	Public Representative
15.	Shri N.P. Sarda	Public Representative
16.	Shri L.K. Singhvi	SEBI Nominee
17.	Shri S. Jambunathan (Retd. IAS)	SEBI Nominee
18.	Shri S. Habeebullah (IAS)	SEBI Nominee
19.	Shri Samir Biswas	SEBI Nominee
20.	Shri Janak Raj	RBI Nominee

APPENDIX-IX

(*vide* Para No. 6.127 of the Report)

BOARD OF DIRECTORS OF NATIONAL STOCK EXCHANGE AS ON 31.03.2001

Sl.No.	Member	Category
1.	Mr. G.N. Bajpai	Chairman
2.	Mr. Ravi Narain	Director
3.	Mr. S.H. Khan	Director
4.	Dr. R.H. Patil	Director
5.	Mr. S. Venkiteswaran	Director
6.	Mr. Y.H. Malegam	Director
7.	Mr. Birendra Kumar	Director (Shareholders' Representative)
8.	Mrs. Lalita D. Gupte	Director (Shareholders' Representative)
9.	Mr. P.M. Venkatasubramanian	Director (Shareholders' Representative)
10.	Mr. P.S. Subramanyam	Director (Shareholders' Representative)
11.	Mr. P.V. Narasimham	Director (Shareholders' Representative)
12.	Mr. Ravi Parthasarathy	Director (Shareholders' Representative)
13.	Mr. S.K. Chakrabarti	Director (Shareholders' Representative)
14.	Mr. Vepa Kamesam	Director (Shareholders' Representative)
15.	Mr. Deepak Parekh	Director (SEBI Nominee)
16.	Mr. O.P. Gahrotra	Director (SEBI Nominee)
17.	Mr. S.P. Chhajed	Director (SEBI Nominee)
18.	Mr. A.P. Kurian	Director (Public Representative)
19.	Prof. (Dr.) K.R.S. Murthy	Director (Public Representative)
20.	Mr. M.L. Pendse	Director (Public Representative)

बैंकचालन मुंबई
Bankchalan Mumbai
टेलेक्स सं.: 011-88136
Telex No.:
फैक्स सं.: 0091-22-2183785
Fax No.: 0091-22-2188770
कृपया उत्तर में लिखें
Please quote in reply
संदर्भ: बैपविवि सं.:
Ref.: DBOD No.

APPENDIX-X

(*Vide* Para No. 10.35 of the Report)

RESERVE BANK OF INDIA

CENTRAL OFFICE

DEPARTMENT OF BANKING OPERATIONS & DEVELOPMENT
CENTRE-1, WORLD TRADE CENTRE
CUFFE PARADE, COLABA, MUMBAI-400 005.

टेलीफोन सं.: 2189131-39
Telephone:
पोस्ट बॉक्स न.: 6039
Post Box No.:
'बैंक हिन्दी में पत्राचार का स्वागत करता है'

DBOD: No. DL(W)BC. 110/20.16.003/2001-02

_________20
20 (शक) (Saka)

All Scheduled Commercial Banks and
All Notified All-India Financial Institutions

Dear Sir,

Wilful defaulters and action thereagainst

Please refer to our Circular DBOD. No. BC.DL(W)12/20.16.002(1)/98-99 dated February 20, 1999 (copy enclosed) which, *inter alia,* defines the term "wilful default" and also lays down the system for the banks and the notified financial institutions to identify and report periodically certain particulars of the wilful defaulters to RBI.

2. Considering the concerns expressed over the persistence of wilful default in the financial system in the 8th Report of the Parliament Standing Committee on Finance on Financial Institutions, the Reserve Bank of India had, in consultation with the Government of India, constituted in May 2001 a Working Group on Wilful Defaulters (WGWD) under the Chairmanship of Shri S.S. Kohli, the then Chairman of the Indian Banks' Association, for examining some of the recommendations of the Committee. The Group submitted its report in November 2001. The recommendations of the WGWD were further examined by an In House Working Group constituted by the Reserve Bank and we now advise, for implementation, with immediate effect, as under.

Definitions

3. It has been decided to redefine the term "wilful default", in suppression of the definition' illustrations contained in the Circular DBOD. No. BC.DL.(W)12/20.16.002(1)/98-99 dated February 20, 1999, as follows:

"A wilful default would be deemed to have occurred if any of the following events is noted:—

(*a*) The unit has defaulted in meeting its payment/repayment obligations to the lender even when it has the capacity to honour the said obligations.

(*b*) The unit has defaulted in meeting its payment/repayment obligations to the lender and has not utilised the finance from the lender for the specific purposes for which finance was availed of but has diverted the funds for other purposes.

(*c*) The unit has defaulted in meeting its payment/repayment obligations to the lender and has siphoned off the funds so that the funds have not been utilised for the specific purpose for which finance was availed of, nor are the funds available with the unit in the form of other assets.

Diversion and siphoning of funds

4. It has also been decided that the terms "diversion of funds" and "siphoning of funds" should be construed to mean the following:

4.1 Diversion of funds, referred to at para 3(*b*) above, would be construed to include any one of the undernoted occurrences:

(*a*) utilisation of short-term working capital funds for long-term purposes not in conformity with the terms of sanction;

(*b*) deploying borrowed funds for purposes/activities or creation of assets other than those for which the loan was sanctioned;

(*c*) transferring funds to the subsidiaries/Group companies or other corporates by whatever modalities;

(*d*) routing of funds through any bank other than the lender bank of members of consortium without prior permission of the lender;

(*e*) investment in other companies by way of acquiring equities/debt instruments without approval of lenders;

(*f*) shortfall in deployment of funds *vis-a-vis* the amounts disbursed/drawn and the difference not being accounted for.

4.2 Siphoning of funds, referred to at para 3(*c*) above, should be construed to occur if any funds borrowed form banks/FIs are utilised for purposes un-related to the operations of the borrower, to the detriment of the financial health of the entity of the lender. The decision as to whether a particular instance amounts to siphoning of funds would have to be a judgment of the lenders based on objective facts and circumstances of the case.

Cut-off Limits

5. While the penal measures indicated at para 7 below would normally be attracted by all the borrowers identified as wilful defaulters or the promoters involved in diversion/siphoning of funds, keeping in view the present limit of Rs. 25 lakh fixed by the Central Vigilance Commission for reporting of cases of wilful default by the banks/FIs to RBI, any wilful defaulter with an outstanding balance of Rs. 25 lakh or more, as on the date of this circular, would attract the penal measures stipulated at para 7 below. This limit of Rs. 25 lakh may also be applied for the purpose of taking connivance of the instances of 'siphoning'/'diversion' of funds.

End-Use of Funds

6. In cases of project financing, the banks/FIs seek to ensure end use of funds by, *inter aila,* obtaining certification from the Chartered Accountants for the purpose. In case of short-term corporate/clean loans, such an approach ought to be supplemented by 'due diligence' on the part of lenders themselves, and to the extent possible, such loans should be limited to only those borrowers whose integrity and reliability were above board. The banks and FIs, therefore, should not depend entirely on the certificates issued by the Chartered Accountants but strengthen their internal controls and the credit risk management system to enhance the quality of their loan portfolio. Needless to say, ensuring end-use to funds by the banks and the FIs should form a part of their loan policy documents for which appropriate measures should be put in place. The following are some of the illustrative measures that could be taken by the lenders for monitoring and ensuring end-use of funds.

(*a*) Meaningful scrutiny of quarterly progress reports/operating statements/balance sheets of the borrowers;

(*b*) Regular inspection of borrowers' assets charged to the lenders as security;

(*c*) Periodical scrutiny of borrowers' books of accounts and the no-lien accounts maintained with other banks;

(*d*) Periodical visits to the assisted units;

(*e*) System of Periodical stock audit, in case of working capital finance;

(*f*) Periodical comprehensive management audit of the 'Credit' function of the lenders, so as to identify the systemic-weaknesses in the credit administration.

(This list of measures is only illustrative and by no means exhaustive.)

Penal Measures

7. In order to prevent the access to the capital markets by the wilful defaulters, a copy of the list of wilful defaulters would henceforth be forwarded by RBI to SEBI as well. It has also been decided that the following measures should be initiated by the banks and FIs against the wilful defaulters identified as per the definition indicated at paragraph 3 above.

(*a*) No additional facilities should be granted by any bank/FI to the listed wilful defaulters. In addition, the entrepreneurs/promoters of companies where banks/FIs have identified siphoning/diversion of funds, misrepresentation, falsification of accounts and fraudulent transactions should be debarred from institutional finance from the scheduled commercial banks. Development Financial Institutions, Government owned NBFCs, investment institutions etc. for floating new ventures for a period of 5 years from the date the name of the wilful defaulter is published in the list of wilful defaulters by the RBI.

(*b*) The legal process, wherever warranted, against the borrowers/guarantors and foreclosure of recovery of dues should be initiated expeditiously. The lenders may initiate criminal proceedings against wilful defaulters, wherever necessary.

(*c*) Wherever possible, the banks and FIs should adopt a proactive approach for a change of management of the wilfully defaulting borrower unit.

(*d*) A covenant in the loan agreements, with the companies in which the notified FIs have significant stake, should be incorporated by the FIs to the effect that the borrowing company should not induct a person who is a director on the Board of a company which has been identified as a wilful defaulter as per the definition at paragraph 3 above and that in case, such a person is found to be on the board of the borrower company, it would take expeditious and effective steps for removal of the person from its Board.

It would be imperative on the part of the banks and FIs to put in place a transparent mechanism for the entire process so that the penal provisions are not misused and the scope of such discretionary powers is kept to the barest minimum. It should also be ensured that a solitary or isolated instance is not made the basis for imposing the penal action.

8. While dealing with wilful default of a single borrowing company in a Group, the banks/FIs should consider the track record of the individual company, with reference to its repayment performance to its lenders. However, in cases where a letter of comfort and/or the guarantees furnished by the companies within the Group on behalf of the wilfully defaulting units are not honoured when invoked by the banks/FIs, such Group companies should also be reckoned as wilful defaulters.

Role of Auditors

9. In case any falsification of accounts on the part of the borrowers is observed by the banks/FIs, they should lodge a formal complaint against the auditors of the borrowers with the Institute of Chartered Accountants of India (ICAI) if it is observed that the auditors were negligent or deficient in conducting the audit to enable the ICAI to examine and fix accountability of the auditors.

10. With a view to monitoring the end-use of funds, if the lenders desire a specific certification from the borrowers' auditors regarding diversion/siphoning of funds by the borrower, the lender should award a separate mandate to the auditors for the purpose. To facilitate such certification by the auditor the banks and FIs will also need to ensure that appropriate covenants in the loan agreements are incorporated to enable award of such a mandate by the lenders to the borrowers/auditors.

Reporting to RBI

11. Consequent to the change in the definition of wilful defaulters *vide* para 3 above, the banks and the notified FIs are advised to compile the list of wilful defaulters, to be submitted to RBI as per extant instructions, as on 31 March 2002, as per the revised definition.

12. Please acknowledge receipt.

Yours faithfully,

Sd/-

(C.R. Muralidharan)
Chief General Manager

Encl.: as above

APPENDIX-XI

(*vide* para 10.63 of the Report)

PROPOSED AMENDMENTS TO BANKING REGULATION ACT, 1949 (AS APPLICABLE TO CO-OPERATIVE SOCIETIES)—STATEMENT SHOWING THE EXISTING PROVISIONS, THE PROPOSED AMENDMENT TO THE PROVISIONS, ETC.

Sl.No.	No. of the Section in the Act	Existing Provision	Amendment proposed by RBI	Implications of the amendments
1	2	3	4	5
1.	Section 56 of the B.R. Act, 1949 Section 5(ccv), sub-clause (3)of the B.R. Act, 1949 (AACS)	The bye-laws of which do not permit admission of any other co-operative society as a member : Provided that this sub-clause shall not apply to the admission of a co-operative bank as a member by reason of such co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government for the purpose.	In clause (*c*), the following amendments shall be made namely (*c*) in Section 5— (i) in clause (ccv), for sub-clause (3) the following sub-clause shall be substituted, namely : "(3) the bye-laws of which do not permit admission of a co-operative credit society or a primary co-operative bank as a member: Provided that this sub-clause shall not apply to the admission of a co-operative bank (including a primary co-operative bank) as a member by reason of such a co-operative bank subscribing to the share capital of such co-operative society out of funds provided by the State Government, for the purpose."	At present, a Primary Cooperative Bank cannot admit any cooperative society as its member. After the amendment, a PCB will be able to admit as its member any cooperative society other than a cooperative society other than a cooperative credit society or another PCB. It will be able to admit another PCB also as a member where such PCB's subscription to capital comes form out of funds provided by the State Government for the purpose.
2.	Clause (ccvi) of Section 5	"Primary Credit Society" means a co-operative society other than a primary agricultural credit society. (i) the primary object or principal	In clause (ccvi) for sub-clause (1) the following sub-clause may be substituted, namely : "(1) the primary object or principal business of which is to provide financial, accommodation to its members;"	The amendment seeks to prohibit a "primary credit society" from transacting the business of banking. Its business will henceforth be restricted to providing financial accommodation to its members, as in the case of a 'co-operative credit society'.

1	2	3	4	5
		business of which is the transaction of banking business.		
3.		Section 7(2) of B.R. Act, 1949 (AACS) shall apply to primary credit society.	In clause (*f*), in section 7, in sub-section (2), clause (*a*) shall be omitted.	The amendment seeks to prohibit a 'primary credit society' from using the words 'bank', 'banker' or 'banking' as part of its name or in connection with its business. This is consequential to proposed amendment to prohibit it from conducting banking business.
4.	Section 11	Requirement as to minimum paid-up capital and reserves : 1. Notwithstan-ding any law relating to co-operative societies for the time being in force, no co-operative bank shall commence or carry on the business of banking in India, unless the aggregate value of its paid-up capital and reserves is not less than one lakh of rupees : Provided that nothing in this sub-section shall apply to : (*a*) any such bank which is carrying on such business at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1985, for a period of three years form such commence-ment; or to a primary credit society which becomes a primary	In clause (*h*) in section 11 for sub-section (1), the following sub-section shall be substituted, namely : "11. Requirement as to minimum paid-up capital and reserves— (1) Notwithstanding anything contained in any law relating to co-operative societies for the time being inforce, no Cooperative Bank shall commence or carry on the business of banking in India unless the aggregate value of its paid-up capital and reserves is not less than such amount as is specified by the Reserve Bank form time to time : Provided that different amounts may be specified for different categories of co-operative banks. Provided further that nothing in this sub-section shall apply to any bank which is carrying on such business at the commencement of the Banking Regulation (Application to Co-operative Societies) (Amendment) Act, 2001 for a period of three years form such commencement.	The clause has been revised on the basis that the amount of minimum capital and reserve shall not be less than such amount as is notified by the Reserve Bank different amount may be specified for different categories of cooperative banks. As and when the amount is increased by the Bank, the banks will have to be given sufficient time to reach the new level. A provision has been made to the effect that such period shall not be less than one year. The amendment seeks to remove the existing ceilling of Rs. one lakh as minimum paid-up capital and reserves. After the amendment, no minimum or maximum limit will be prescribed by Law but limit will be such as may be notified by the Reserve Bank form time to time. The existing banks will have three years time to reach the level as may be prescribed by the Bank after the amendment. Similar time will have to be given at every time when there is increase in the amount. The period will be reckoned from the date of the Bank's notification.

1	2	3	4	5
		co-operative bank after such commencement, for a period of two years form the date it so becomes a primary co-operative bank for use further period not exceeding one year, as the Reserve Bank, having regard to the interests of the depositors of the primary co-operative bank, may think fit in any particular case to allow.	(2) Where the amount is specified under sub-section (1), the Reserve Bank shall also specify the period within which the Co-operative bank shall reach the level so specified. Provided that the period to be specified shall not be less than one year from the date of specification."	
5.	Sections 22 of B.R.Act, 1949 (AACS)	(1) Save as hereinafter provided, no co-operative society shall carry on banking business in India unless : (*a*) it is a primary credit society, or (*b*) it is a Co-operative Bank and holds a licence issued in that behalf by the Reserve Bank, subject to such conditions, if any, as the Reserve Bank may deem fit to impose : Provided that nothing in this sub-section shall apply to a co-operative society, not being a primary credit society or a Co-operative Bank carrying on banking business at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965 (23 of 1965), for a period of one year from such commencement.	in clause (*a*), for clause (i) the following clause shall be substituted namely : (i) for sub-sections (1) and (2) the following sub-sections shall be substituted namely : (1) Save as hereinafter provided, no co-operative society shall carry on banking business in India unless it is a Co-operative Bank and holds a licence issued in that behalf by the Reserve Bank and any such licence may be issued subject to such conditions as Reserve Bank may think fit to impose: Provided that nothing in this sub-section shall apply to a primary credit society carrying on banking business at the commencement of the Banking Regulation (As Application to Co-operative Societies) (Amendment) Act, 2001 (of 2001) for a period of three years form such commencement, (2) The application for a licence under this section shall be made to the Reserve Bank within the period specified in the following clauses, namely :	(*a*) Sub-section (1) A 'primary credit society' is presently entitled to carry on banking business without a licence. Since the proposal is to totally prohibit a PCS form conducting banking business; the amendment gives effect to that proposal. An existing 'primary credit society' will be permitted to carry on banking business for a period of three years from the commencement of the Amending Act.

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		(2) (i) Every co-operative society carrying on business as co-operative bank at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965, shall before the expiry of three months from such commencement, (ii) every Co-operative Bank which comes into existence as a result of the division of any other co-operative society carrying on business as Co-operative Bank, or (iii) the amalgamation of two or more co-operative societies carrying on banking business shall, before the expiry of three months from its so coming into existence, (iv) every primary credit society which becomes a Primary Co-operative Bank after such commencement shall before the expiry of three months from the date on which it so becomes a Primary Co-operative Bank, and (v) every co-operative society other than a primary credit society shall before commencing banking business in India apply in writing	(i) Every co-operative bank which comes into existence as a result of the division of any other co-operative society carrying on business as a co-operative bank or the amalgamation of two or more co-operative societies carrying on banking business shall, before the expiry of three months from its so coming into existence, (ii) every primary credit society which has become a primary co-operative bank before the commencement of the Banking Regulation (Application to Co-operative Societies) (Amendment) Act, 2001 before the expiry of three months from such commencement, (iii) every primary credit society which becomes a primary co-operative bank after the commencement of Banking Regulation (Application to Co-operative Societies (Amendment) Act, 2000, before the expiry of three months from the date on which it so becomes a primary Co-operative Bank. (iv) every other co-operative society not falling under clauses (*i*) to (*iii*), before commencing banking business in India.	(*b*) Sub-Section (2) This sub-section provides for time for applying for grant of licence. Different periods are laid down for different categories of banks. The amendments made are mainly with reference to the existing 'primary credit societies'. An existing PCS which has already become a PCB before the commencement of the Amending Act will have three months time from such commencement to apply for licence. An existing PCS which becomes a PCB after the commencement of the Amending Act will have to apply for licence within three months of its becoming a PCB. (*c*) Proviso Amendments seek to permit an existing PCS (which has already become a PCB before the commencement of the Amending Act/which becomes a PCB after such commencement and has applied for licence within the prescribed time) to carry on banking business until it is granted a licence or is notified by the Reserve Bank that licence cannot be granted to it.

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		to the Reserve Bank for a licence under this section :		
		Provided that nothing in clause (*b*) of sub-section (1) shall be deemed to prohibit.	Provided that nothing in sub-section (1) shall be deemed to prohibit.	
		(i) a co-operative society carrying on business as a Co-operative Bank at the commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965	(i) a co-operative society carrying on business as a Co-operative Bank at the commencement of the Banking Regulation (Application to Co-operative Societies) (Amendment) Act, 2001 and which has not been notified by the Reserve Bank by a notice in writing that the licence cannot be granted to it; or	
		(ii) a Co-operative Bank which has come into existence as a result of the division of any other co-operative societies carrying on business as a Co-operative Bank, or the amalgamation of two or more co-operative societies carrying on banking business at commencement of the Banking Laws (Application to Co-operative Societies) Act, 1965, or at any time thereafter or	(ii) a Co-operative Bank which has come into existence as a result of the division of any other co-operative societies carrying on business as a Co-operative Bank, or that amalgamation of two or more co-operative societies carrying on banking business at the commencement of the said Act, or at any time thereafter; or	
		(iii) A Primary credit society which becomes a Primary Co-operative Bank after such commencement, from carrying on banking business until it is granted a licence in pursuance of this section or it, by a notice in writing notified by the Reserve Bank that the licence cannot be granted to it.	(iii) a primary credit society carrying on business at the commencement of the Banking Regulation (Application to Co-operative Societies) (Amendment) Act, 2001 for a period of three years from such commencement; or (iv) a primary credit society which has become a Primary Co-operative Bank before commencement of the Banking Regulation	

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			(Application to Co-operative Societies) (Amendment) Act, 2001 or becomes a Primary Co-operative Bank before expiry of three years from the date of such commencement, from carrying on banking business until it is granted licence in pursuance of this section or is, by a notice in writing notified by the Reserve Bank that the licence cannot be granted to it.	
6.	Section 30 B.R.Act, 1949		In clause (s), for the words "for sections 29 and 30" the words "for Section 29", shall be substituted. After clause(s) the following clause shall be inserted namely– "(sa) in section 30, (i) for sub-section (1) and 1(A), the following sub-sections shall be substituted, namely: "(1) The balance-sheet and profit and loss account prepared in accordance with Section 29 shall be audited by a Chartered Accountant duly entitled under law for the time being in force to conduct audit.	In place of the words "auditor of companies/co-operative societies", the words "Chartered Accountant duly entitled under any law to conduct audit" have been substituted. As regards sub-section (2), provisions of section 227 of the Companies Act have been incorporated in the amendment bill. This would provide for the powers and duties of the auditor. As regards his functions, liabilities and penalties the provisions of the law forming co-operative bank, *i.e.,* the co-operative law, shall apply, this has been incorporated in sub-section (2) of section 30. (a) Sub-Section (1) After the amendment, the audit shall be required to be conducted by a Chartered Accountant entitled under law to conduct audit. (b) Sub-Section (1A): Reserve Bank's previous approval for appointment/ reappointment/removal of auditor will be required in the case of a PCB having DTL of Rs. 100 crore and above. In the case of all other banks the Board of Directors will have the

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			(1A) Notwithstanding anything contained in any law for the time being in force or in any contract to the contrary— (i) every primary co-operative bank having demand and time liabilities of not less than Rs. 100 crore shall, before appointing, reappointing or removing any auditor or auditors, obtain the previous approval of the Reserve Bank; (ii) every other primary co-operative bank shall appoint, reappoint or remove any auditor or auditors with the previous approval of its Board of Directors." (iii) in sub-section (1B) (a) for the words "Without prejudice to anything contained in the Companies Act, 1956 (1 to 1956)", the words "Without prejudice to anything contained in any law relating to co-operative societies for the time being in force", shall be substituted. (b) for the words "a person duly qualified under any law for the time being in force to be an Auditor of Companies", the words "a person being a Chartered Accountant duly entitled under law for the time being in force to conduct audit" shall be substituted. (iii) for sub-Section (2), the following sub-section shall be substituted namely : "(2) the Auditor shall exercise the functions vested in, and be subject to the liabilities and penalties imposed on, Auditors under any law establishing, constituting or forming the cooperative bank concerned".	power to appoint/reappoint/ remove the auditor. (c) Sub-Section (1B) : The special audit shall be conducted by a Chartered Accountant entitled under law to conduct audit. (d) Sub-Section (2) The amendments seek to lay down the auditors functions, liabilities and penalties. These are similar as provided in the co-operative law governing the co-operative bank concerned.

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			After Section 30, the following clause shall be inserted, namely:	Section 30A (New)
			"30*A*. Powers and duties of auditors—(1) Every auditor of a cooperative bank shall have a right of access at all times to the books and accounts and vouchers of the co-operative bank, whether kept at the head office of the co-operative bank or elsewhere, and shall be entitled to require from the officers of the co-operative bank such information and explanations as the auditor may think necessary for the performance of his duties as auditor.	This section seeks to lay down the powers and duties of the auditor. These are similar as provided in Section 227 of the Companies Act referred to in Section 30(2)
			2. Without prejudice to the provisions of sub-section (1), the auditor shall inquire—	
			(*a*) whether loans and advances made by the co-operative bank on the basis of security have been properly secured and whether the terms on which they have been made are not prejudicial to the interests of the co-operative bank or its members or depositors;	
			(*b*) whether transactions of the co-operative bank which are represented merely by book entries are not prejudicial to the interests of the co-operative bank;	
			(*c*) whether loans and advances made by the co-operative bank have been shown as deposits;	
			(*d*) whether personal expenses have been charged to revenue account;	
			(*e*) where it is stated in the books and papers of the co-operative bank that any shares have been allotted for cash whether cash has actually been	

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			received in respect of such allotment, and if no cash has actually been so received, whether the position as stated in the account books and the balance sheet is correct, regular and not misleading. (3) The auditor shall make a report to the members of the co-operative bank on the accounts examined by him and on every balance-sheet and profit and loss account and on every other document declared by this Act to be part of or annexed to the balance-sheet or profit and loss account, which are laid before the co-operative bank in general meeting during the tenure of office, and the report shall state whether, in his opinion and to the best of his information and according to the explanations given to him the said accounts give the information required by this Act in the manner so required and give a true and fair view— (*i*) in the case of the balance-sheet, of the state of the co-operative bank's affairs as at the end of its financial year; and (*ii*) in the case of the profit and loss account, of the profit or loss for its financial year. (4) the auditors' report shall also state— (*a*) Whether he has obtained all the information and explanations which to the best of his knowledge and belief were necessary for the purposes of his audit; (*b*) whether, in his opinion, proper books of accounts as required by law have been kept by the co-operative bank so far as appears from his examination of those books,	

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			and proper returns adequate for the purposes of his audit have been received from branches not visited by him;	
			(*c*) whether the report on the accounts of any branch office audited by a person other than the company's auditor has been forwarded to him and how he has dealt with the same in preparing the auditor's report;	
			(*d*) whether the co-operative bank's balance sheet and profit and loss account dealt with by the report are in agreement with the books of account and returns;	
			(*e*) whether in his opinion, the profit and loss account and balance sheet complied with the accounting standards;	
			(*f*) in thick type or in italics the observations or comments of the auditors which have any adverse effect on the functioning of the co-operative bank;	
			(*g*) whether any director is disqualified from being appointed as director under any law for the time being in force.	
			(5) Where any of the matters referred to in clauses (*i*) and (*ii*) of sub-section (2) or in clauses (*a*), (*b*), (*c*), (*d*) and (*e*) of sub-section (3) is answered in the negative or with a qualification, the auditor's report shall state the reason for the answer.	
			(6) The Reserve Bank may, by general or special order, direct that in the case of such class or description of co-operative banks as may be specified in the order, the auditor's report shall also include a statement on such matters as may be specified therein:	
			Provided that before making any such order the Reserve Bank	

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			may consult the Institute of Chartered Accountants of India constituted under the Chartered Accountants Act, 1949 (38 of 1949) in regard to the class or description of co-operative banks and other ancillary matters proposed to be specified therein unless the Reserve Bank decides that such consultation is not necessary or expedient in the circumstances of the case. (7) the accounts of a co-operative bank shall not be deemed as not having been and the auditor's report shall not state that those accounts have not been properly drawn up on the ground merely that the co-operative bank has not disclosed certain matters if— (*a*) those matters are such as the co-operative bank is not required to disclose by virtue of any provisions contained in this or any other Act, and (*b*) those provisions are specified in the balance sheet and profit and loss account of the co-operative bank"	
	Section 36(AC)		After clause (*za*) (*i*) the following clause shall be inserted namely: (*zaa*) In section 36AC, for the words "notwithstanding anything to the contrary contained in the Companies Act 1956 (1 of 1956)" the words "notwithstanding anything to the contrary contained in any law relating to cooperative societies", shall be substituted. (*i*) the existing sub-clause "(*zaa*) shall be re "numbered as "(*zab*)"	Part IIA, Section 36AC. (*a*) After the amendment, Part IIA of the B.R.Act providing for control over management of banks, will become applicable to co-operative banks. Accordingly, RBI will be empowered to remove managerial and other persons from office, under Section 36AA, or appoint additional directors under Section 36AB (*b*) Consequential amendment to Section 36AC is formal.
8.	Para IIA		(*i*) for Clause (*zb*), the following clause shall be substituted namely:— "(*zb*) (*i*) Part IIC shall be omitted;	Consequential amendment to Section 36AC is formal.

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9.	Section 45		(*ii*) in Part III, in Section 45 (*a*) for sub-sections (7) and (7*A*), following sub-sections shall be substituted namely :— (7) the scheme shall thereafter come into force on such date as the Reserve Bank may specify in this behalf; provided that different dates may be specified for different provisions of the scheme. (7*A*) the specification by the Reserve Bank under sub-section (7) shall be conclusive evidence that all the requirements of this section relating to reconstruction or, as the case may be, amalgamation have been complied with and a copy of the scheme certified in writing by the Reserve Bank to be a true copy thereof, shall, in all legal proceedings (whether in appeal or otherwise) be admitted as evidence to the same extent as the original scheme.” (*b*) in sub-sections (10) and (12), for the words “Central Government”, the words “Reserve Bank” shall be substituted. (*c*) sub-section (11) shall be omitted; (*d*) in sub-section (13), for the words “banking institution” the words “cooperative bank” shall be substituted. for sub-section (15), the following sub-sections should be substituted namely “(15) in this sub-section “banking institutions means any co-operative bank”	Part III, Section 45 (*a*) Amendments seek, to apply all provisions of section 45 to co-operative banks. Powers presently conferred on the Central Government will be conferred on the Reserve Bank. These include power to specify a date for coming into force of the scheme of amalgamation/ reconstruction; power to remove difficulty modifications in the law or exemption from applicability of provisions thereof for the purpose of giving full effect to the scheme. Provisions for laying the scheme before the Parliament will be omitted. (*b*) Sub-Section 4(*a*) (*ii*) and (13) Amalgamation of a co-operative bank with another co-operative bank only will be permitted.
10.			Part IIIA except Section ,45W shall be omitted; (*J*) in clause (*zi*), in section 49A, in the proviso, clause (*a*) shall be omitted.	

APPENDIX-XII

(*vide* Para 15.5 of the Report)

ASSETS UNDER MANAGEMENT (MARKET VALUE) OVER LAST 3 YEARS OF UTI AND OTHER MUTUAL FUNDS

(Rs. In crore)

	UTI	Others	Total MF
March 1998	57,554 (83.50%)	11,430 (16.50 %)	68,984 (100%)
March 1999	53,320 (78%)	15,152 (22%)	68,472 (100%)
March 2000	76,547 (68%)	36,458 (32%)	1,13,005 (100%)
March 2001	58,017 (64%)	32,570 (36%)	90,587 (100%)
June 2001	55,924 (57%)	42,029 (43%)	97,953 (100%)

( ) Figures in brackets indicate % share.

APPENDIX-XIII

(vide Para 16.3 of the Report)

K.K. SONI & CO.
Chartered Accountants

EXECUTIVE SUMMARY

The special audit covered a period of 21 months comprising 1st period of 12 months ending 30.06.2000 and 2nd period of 9 months ending 31.03.2001. The Trust made a profit of Rs. 2155 crs. *i.e.,* 22% of the business transacted in the Ist period and Rs. 644 crs. *i.e.* 7% of business transacted in the 2nd period. These results include losses of Rs. 217 crs. made in respect of transactions relating to 1 company in both the periods and 7 companies in the 2nd period. The total profit includes Rs. 1562 crs. *i.e.,* 56% from Inter Scheme Transactions (IST).

Serious lacunae were observed in documentation process in regard to investment decisions including record of morning meetings, ERC recommendations, other data/facts, opinions/ reasons etc. leading to such decision making.

ERC was not functioning/utilized in an effective manner, Many large transactions were carried out without/with ineffective review and analysis. Further, the investments made contrary to its recommendations were not followed up by it.

Investment decision making is highly centralised with the Chairman. There is acute need to decentralise these operations with delegation of investment function coupled with accountability. The Trust may consider restructuring the Assets Management Committees to enable them to function with powers and responsibilities as envisaged by SEBI, for Asset Management Companies.

Broad guidelines. parameters/overall investment strategy need to be defined based on objectives of various schemes, investor needs, etc, with a view to ensuring that fund managers function in a clearly guided and focussed manner. This would *inter-alia* obviate lack of co-ordination leading to buying and selling of same scrip with same quantity and many a time at the same rate/date through brokers by fund managers, causing at times payment of large brokerage amounts and on occasions losses due to price differentials.

No proper portfolio management system is in place, and the fund managers are not able to track their portfolio on a real time basis, with adverse consequences.

Analysis of the investment pattern in specified companies and NAV of various schemes *vis-a-vis* the Sensex has been plotted on bar charts/graphs and observations thereon are given in para 5.10 of the report.

Requisite parameters need to be prescribed for evaluation of the performance of the fund managers. An exercise carried out in this regard, coupled with other observations has been detailed in para 5.11-12. According to this exercise the recorded, profit of Rs. 904 crs. and depreciation of Rs. 60 crs. for the period April'00 to March'01, got negated, resulting in a computed loss of Rs. 660 crs. and depreciation of Rs. 1331 crs.

The system of placing of orders, their confirmation, execution and recording had many shortcomings as pointed out in para 5.13—18.

More than 70% of the total business transacted comprised of ISTs. Complete justification for ISTs, if required, must be recorded, and reverse transactions avoided as they are suggestive of undue accommodation to certain schemes at the cost of others. The Trust should work towards the appointment of independent fund managers for each scheme.

Inter scheme transfers, if any, should be effected on the basis of independent discussions and requirements of the fund managers of the concerned scheme, at market determined prices, as recommended by Deepak Parekh Committee also. Important observations on ISTs and reallocation/cancellation of contracts are given in para 8 & 9.

Complete integration and online updating of accounts on the M fund is still a matter of concern and needs to be looked into as explained in para 10.

Portfolio holdings with SHCIL have not been reconciled and our observations are contained in para 11. No provision has been made for certain unreconciled amounts, which might have to be written off because differences are persisting for long periods.

Automation processes and their *inter se* integration requires strengthening, our observation in this regard are given in para 13.

Our observations on the compliance of SEBI (Mutual Fund Regulations) 1996 are given in para 14.

A number of accounting errors were noticed, which were got rectified during the course of audit.

2.0.0 Executive Summary

2.1.0. Critical Area

2.1.1 The Trust has deviated from the norms, laid by SEBI with regard to clause & 10 under regulation 44 (1) of SEBI (MF) Regulations 1996. However, the norms stipulated in the UTI Act or the Scheme Offer Documents vary with SEBI norms (Refer para 5.1.1 & 2 page 10)**

2.1.2. In some of the schemes negative liquidity was observed due to the investment made by the schemes in the equity shares of the companies. This is deviation from the norm laid down by SEBI under chapter VI regulation 44(2) of SEBI (MF) Regulations 1996. (Refer para 5.1.3 page 10)

2.1.3. In IST quantity sold is immediately purchased back by the scheme. (Refer para 6.1.2 page 14)

2.1.4. The Trust has purchased heavily in some of the companies compared to the sales effected and even though substantial loss has been incurred in the secondary market sale. (Refer para 8.1.2 page 20)

2.1.5. Variation in the profit/loss as estimated by the Fund Managers and the actual profit booked by the Trust. (Refer para 6.1.1. page 13)

2.1.6. Reallocation for contracts of secondary market purchases and as well as in secondary market sale and IST. (Refer para 8.1.27. 28 page 32 & para 6.1.3 page 15)

2.1.7. In some of private placement the sanction letter does not contain conditions stating the penal interest, additional interest and the utilisation certificate to be obtained from the auditors of the company. (Refer para 7.1.2 & para 7.1.3 page 17 & 18)

2.1.8. Deals effected at Best Market Price have to be verified with regard to the rate applied, (Refer para 8.1.10 page 26)

2.1.9. Utilisation certificate detailing the end-use of funds disbursed in case of private placement of debts are not obtained from the auditors of the company though there is a clause in the sanction letter. (Refer para 7.1.1. page 17)

2.1.10. Deals effected though no order was placed by the Trust. (Refer para 8.1.3 page 22)

2.1.11. A program/module should be created detailing a system generated date so as to prevent back dated IST. (Refer para 6.1.4 page 16)

** Under clause 2 regulation 44(1) of SEBI Act mutual fund shall not own more than 10% of a company's paid up capital.

** Under clause 10 regulation 44(1) of SEBI Act mutual fund scheme shall not own more than 10% of its NAV in the equity shares of any company.

2.1.12. Details of the number, trade time and trade number were not mentioned in the contract notes. (Refer para 8.1.5 page 23)

2.1.13. Difference in time reflected in the dealing sheet and the recorder. (Refer Para 8.1.21 Page 29)

2.1.14. Activities of Department of Fund Management and Department of Market Operations are different, the same may be separated and kept under two distinct Executive Directors. (Refer para 8.1.16 page 28)

2.1.15. Voice recording facility is not available where the stock exchange is open before and after the normal market hours. (Refer para 8.1.19 page 29)

2.2.0. Non Critical Areas

2.2.1. Broker's name in the dealing sheet and the contract notes were different. (Refer para 8.1.4 page 23).

2.2.2. Deals entered should be sequentially entered in the dealing sheet. (Refer para 8.1.6 page 25)

2.2.3. Dealers should use one dealing sheet at a time. (Refer para 8.1.12 page 27)

2.2.4. Orders were placed at one stock exchange but executed at another exchange. (Refer para 8.1.11 page 27)

2.2.5. Various cancellation of deals in the dealing sheet. No reasons were given for the cancellation. (Refer para 8.1.13 page 27)

2.2.6. Executive Director's signature was not obtained on all the Addendum. (Refer para 8.1.14 page 27)

2.2.7. Summary of total orders executed is not placed for Chairman's approval. (Refer para 8.1.15 page 28)

2.2.8. The dealers do not order all the deals requested by the Fund Managers. (Refer para 8.1.16 page 28)

2.2.9. Orders placed for all the deals are not confirmed. (Refer para 8.1.17 page 28)

2.2.10. During a day more than a dealer deals in single scrip. Similarly order for single scrip is given to one broker instead of distribution it among various brokers. (Refer para 8.1.18 & para 8.1.23 page 29 and 30)

2.2.11. Order for substantial quantity was placed at the end of the day *i.e.* 3.30 p.m. (Refer para 8.1.8 page 26)

2.2.12. Signature of the dealers and back officers are not available on the dealing sheets. (Refer para 8.1.24 & 8.1.25 page 29 & 30)

APPENDIX-XIV

(*vide* Para 16.16 of the Report)

INTER-SCHEME TRANSACTIONS FROM/TO US-64

(Amount Rs. in crore)

Year	Buys for US-64		Sales from US-64		Total value	Investment portfolio of US-64
	No. of deals	Value	No. of deals	Value		
1991-92	–	–	535	959.69	959.69	8,598.42
1992-93	13	0.01	411	1,585.83	1,585.84	10,457.06
1993-94	715	1,074.41	450	973.56	2,047.97	18,157.49
1994-95	385	1,141.02	307	1,017.97	2,158.99	24,051.84
1995-96	449	931.39	142	286.37	1,217.76	19,910.13
1996-97	54	65.17	615	1,965.93	2,031.10	17,106.04
1997-98	100	235.40	131	419.79	655.19	19,151.03
Sub-total (A)	1716	3,447.40	2591	7,209.14	10,656.54	
1998-99	346	3,852.79	501	7,618.24	11,471.03	18,733.22
1999-00	454	5,376.00	561	6,289.40	11,665.40	20,328.85
2000-01	640	10,912.98	628	9,284.55	20,197.53	22,592.08
Sub-total (B)	1440	20,141.77	1690	23,192.19	43,333.96	
Total (A+B)	3,156	23,589.17	4,281	30,401.33	53,990.50	

APPENDIX-XV

(*vide* Para 16.16 of the Report)

US-64 INTER-SCHEME TRANSFERS WITH SELECT SCHEMES DURING 1.7.1998 TO 30.6.2001

(Amount Rs. in crore)

Sl. No.	Scheme	Bought by US-64	Sold by US-64	Total
1.	CGGF 1986	5,076.18	4,542.67	9,618.86
2.	Rajalakshmi	3,943.82	3,503.87	7,447.69
3.	Special Unit Scheme	200.04	3,451.52	3,651.56
4.	MIP 97	1,210.63	1,727.73	2,938.36
5.	MIP 97 (II)	1,122.27	1,414.51	2,536.79
6.	US 1971	613.94	649.83	1,263.77
7.	CGUS 1992	646.28	601.55	1,247.83
8.	MIP - 99	425.23	597.10	1,022.33
9.	Mutual fund 1986	491.16	486.17	977.32
10.	MIP 1994 (III)	384.85	489.65	874.50
11.	IISFUS 98 (III)	401.55	313.15	714.71
12.	MIP 98 (iii)	411.21	298.12	709.33
13.	MIP 97 (III)	302.04	346.39	648.43
14.	MEP 1995	249.86	280.44	530.31
15.	Mastershare Plus	236.98	229.01	466.00
16.	IISF 97	246.56	207.20	453.76
17.	MIP 98 (IV)	287.35	123.66	411.01
18.	RUP (II)	188.25	187.99	376.24
19.	CGGF-99	56.77	314.49	371.26
20.	Service Sector Fund	165.57	189.92	355.49
21.	MIP 97 (IV)	174.27	168.84	343.11
22.	IISFUS 98	214.54	110.52	325.06
23.	MEP 94	129.48	164.45	293.93
24.	MIP 98 (V)	157.94	119.90	277.84
25.	MIP 98	145.03	127.09	272.12

APPENDIX-XVI

(*vide* Para 16.20 of the Report)

US - 64 INCOME PROFILE 1994-95 TO 2000-01

(Rs. in crore)

	1994-95		1995-96		1996-97		1997-98		1998-99		1999-2000		2000-2001	
	Amount	As % of total income	Amount	As % of total income	Amount	As % of total income	Amount	As % of total income	Amount	As % of total income	Amount	As % of total income	Amount	As % of total income
Dividend	22,387.31	6.68	37,063.01	21.66	29,458.99	11.29	27,990.36	8.21	29,031.05	12.15	31,226.41	11.10	16,653.65	10.32
Interest	208,190.63	62.15	124,998.99	73.05	77,723.37	29.79	89,525.68	26.27	55,999.50	23.43	38,294.66	13.61	24,745.11	15.34
Profit/(Loss) on sale/ redemption of investment (net)	46,608.00	13.91	34,255.35	20.02	66,598.92	25.52	61,424.55	18.02	56,843.45	23.78	7,530.22	2.68	(23,559.62)	(14.60)
Profit/(Loss) on inter-scheme transfer	63,531.71	18.97	6,037.66	3.53	97,468.98	37.35	151,844.71	44.55	111,374.05	46.59	183,042.09	65.07	163,949.69	101.63
Underwriting commission	375.83	0.11	09.33	0.04	2.05	0.00	22.41	0.01	24.00	0.01	43.86	0.02	—	—
Net Income Equaliser#	(6,558.01)	(1.96)	(31,548.05)	(18.44)	(10,693.17)	(4.10)	9.329.07	2.74	(15,210.12)	(6.36)	20,425.08	7.26	(21,468.99)	(13.31)
Other income	422.46	0.13	242.97	0.14	382.09	0.15	697.78	0.20	973.80	0.41	741.83	0.25	996.58	0.62
Extraordinary income														
Total Gross Income*	334,957.93	100.00	171,119.16	100.00	260,939.23	100.00	340,834.56	100.00	239,035.79	100.00	281,309.15	100.00	161,316.52	100.00

*Gross income before write off/Write back of doubtful income/depreciation in value of investments etc.
The concept of Net Income Equaliser is explained in Annexure 1529(I).
Figures in parantheses denote negative.

APPENDIX-XVII

(*vide* Para 16.24 of the Report)

INVESTMENTS IN DEBT AND EQUITIES VIA PRIVATE PLACEMENTS AND OFF-MARKET DEALS DURING JULY 1998–JUNE 2001

(Amount Rs. in crore)

Type of investment	Mode	1998-99	1990-00	2000-01	Total
Debt	Private placements	3,668.90 (107)	4,591.70 (160)	3,891.71 (111)	12,152.31 (378)
	Off-market deals	842.12 (114)	2.053.97 (189)	991.52 (98)	3887.61 (401)
	Sub-total (A)	4,511.02 (221)	6,645.67 (349)	4,883.23 (209)	16,039.92 (779)
Equities	Private placements	201.01 (17)	902.19 (31)	365.46 (26)	1,468.66 (74)
	I.P.Os	7.38 (4)	196.63 (14)	152.97 (12)	356.98 (30)
	Off-market deals	28.77 (5)	–	30.75 (3)	59.52 (8)
	Sub-total (B)	237.16 (24)	1,098.82 (45)	549.18 (43)	1,885.16 (112)
Total	A+B	4,748.18 (245)	7,744.49 (394)	5,432.41 (252)	17,925.08 (891)

(Figures in parentheses indicate the number of cases.)

APPENDIX-XVIII

(*vide* Para 16.30 of the Report)

UTI'S INVESTMENTS IN INITIAL PUBLIC OFFERS AND PRIVATE PLACEMENTS OVERRULING THE RECOMMENDATIONS OF THE EQUITY RESEARCH CELL

Comments of the Equity Research Cell on Initial Public Offers

Sr. No	Investee Company	Date of Sanction/ Disburse-ment	Rate per Share (Rs.)	Amount of Investment Approved (Rs. in Crore)	Recommendations of ERC	Performance
1.	Mid-day Multimedia	27.2.01	70	1.05	"Average risk below average return – we may avoid"	The investment recorded a depreciation of Rs. 0.64 crore as on 30.6.2001, the price having come down to Rs. 27.45.
2.	Shree Rama Multitech	28.1.00	120	0.90	"As per ERC the company is in the under average return and above average risk category. We may avoid"	The total stock held including this investment is stated to have recorded depreciation of Rs. 14.78 crore as on 30.6.2001 the price having come down to Rs. 34.70.
3	Geometric Software solutions	2.2.00	300	21.00	"High risk – below average return – Avoid"	The investment recorded a depreciation of Rs. 8.80 crore as on 30.6.2001, the price having come down to Rs. 77.50.
4	PNB Gifts	19.7.00	30	10.00	"High risk and average returns. Very Limited Exposure in the short term is recommended"	The investment recorded a depreciation of Rs. 4.45 crore as on 30.6.2001, the price having come down to Rs. 16.45.
5.	Kale Consultants	23.9.99	120	12.00	"High risk High return – we may invest at price not more than Rs. 50"	The total stock held including this investment recorded a depreciation of Rs. 5.53 crore as on 30.6.2001, the share price having come down to Rs. 42.55.
6.	Vintage Cards and Creations	7.10.99	225	5.29	"We may avoid: as it is fully priced and very little probability for upside"	The scrip is thinly traded. The total stock held including this investment recorded a depreciation of Rs. 3.47 crore as on 30.6.2001: the price having come down to Rs. 23.10.
7.	HCL Technologies	4.12.99	580	17.40	"As the issue is aggressively priced. We may avoid"	The total stock held including this investment recorded a depreciation of Rs. 15.25 crore as on 30.6.2001; the share price having come down to Rs. 293.15.
8.	Sonata Software	9.12.98	90	0.90	"As per ERC the company is in the under average return and above average risk category. We may avoid"	The total stock held including this investment is stated to have recorded depreciation of Rs. 5.78 crore as on 30.6.2001; the share price having come down to Rs. 17.45 per share.

Comments of the Equity Research Cell on Private Placements

Sr. No.	Investee Company	Date of Sanction/ Disbursement	Rate per share (Rs.)	Amount of investment approved (Rs. in crore)	ERC Recommendations	Performance
1.	Royal Orchid Hotels	27.3.01	100	3.00	"Avoid – (report on equity)"	The company's share is not listed
2	Marwar Hotels	18.2.00	10	15.00	"Above average risk and below average return in the short term in the long term high risk and above average return"	The company's share is not listed
3	Cyberspace Infosys	27.7.00	930	32.09	"We may not take any fresh exposure"	The company's scrip is thinly traded The stock held including this investment recorded a depreciation of Rs. 31.60 crore as on 30.6.2001.
4	Gujarat Adani Port	29.9.00	80	48.00	"The investment was unlisted. High risk and low returns category. May not be suitable for funds with the time horizon of less than 5 years"	The company's share is not listed Company proposes list the shares by FY 2003.
5	Pipapav Ship Dismantling	10.10.00	10	28.75	"Above Average Risk Below average return-Avoid"	The company's share is unlisted Investment conventible at the end of 3 years at mutually agreeable price.
6	Broadcast Worldwide	8.11.00	50	7.50	"Given the steep valuation and lock in period – Avoid subscription to private placement – we may review at the time of IPA"	The comapny's share is not listed IPO by January 2002.
7	Shonkh Technologies	198.8.99	130	14.95	"High price, the valuation extremely sensitive"	The total stock held including this investment recorded a depreciation or Rs. 14.78 crore as on 30.6.2001.

APPENDIX-XIX

(*vide* Para 16.30 of the Report)

UTI'S INVESTMENT IN EQUITY THROUGH PRIVATE PLACEMENT AND INITIAL PUBLIC OFFERS WHERE NO REPORT FROM THE EQUITY RESEARCH CELL WAS SOUGHT

UTI's investment in equity shares through pvt. placement where no report from Equity Research Cell was sought (July 98-2001)

	Sanction details					Disbursement details	
Name of Company	Issue Type (PP, SPP)	Instrument	Quantity	Price per Instrument (Rs.)	Total (Rs. Lakhs)	Date	Amount (Rs. Lakhs)
CMYK Printech Ltd.	PP	Equity	500,000	10.00	50.00	7-Apr-99	50.00
Dhar Textile Mills Ltd.	PP	Equity	1,632,653	49.00	800.00	17-Nov-99	800.00
Elbee Services Ltd.	SPP	Equity	545,000	171.10	932.50	24-Apr-00	932.50
Feedback First Urban infrastructure	SPP	Equity	20,000,000	10.00	2000.00	25-Jan-01	300.00*
Gujarat Pipapav Port Ltd	PP	Equity	4,025,000	80.00	3220.00	4-Aug-00	3220.00
Information Technologies Ltd	PP	Equity	683,415	325.00	2207.43	1-May-99	2207.43
Kool Breweries Ltd.	SPP	Equity	3,600,000	10.00	360.00	2-Nov-00	200.00*
National Stock Exchange	Synd. Preferential Allotment	Equity	2,000,000	30.00	600.00	18-Jun-99	600.00
Numero Uno International Ltd.	SPP	Equity	100,000	50.00	500.00	13-Mar-00	500.00
Padmini Polymers Limited	Preferential Allotment	Equity	2,000,000	10.00	200.00	25-May-99	200.00
Palace Heights Hotels Ltd.	PP (Project Finance)	Equity	6,000,000	25.00	1500.00	4-May-00	1500.00
Twenty First Century Battery Ltd.	PP	Equity	3,000,000	10.00	300.00	10-May-00	210.00*

PP = Private Placement.
SPP = Syndicated Pvt. Placement.
* Balance disbursement cancelled.

UTI's investment in equity shares through IPO where no report from Equity Research Cell was sought (July 1998–2001)

Name of Company	Sanction details					Disbursement details	
	Issue Type (IPO)	Instrument	Quantity	Price per Instrument (Rs.)	Total (Rs .in Lakhs)	Date	Amount (Rs. in Lakhs)
Sonata Software Ltd.	IPO	Equity	100,000	90	90.00	9-Dec-98	26.00 (allotted Rs. 12.87 lakhs)
IDBI Bank	IPO	Equity	1,000,000	18	180.00	17-Feb-99	180.00
KPE Info Systems Ltd.	IPO	Equity	320,000	90	288.00	22-Feb-99	288
Times Bank Ltd.	IPO	Equity	2,500,000	10	250.00	10-Jul-99	250.00
Amex Information Technologies Ltd.	IPO	Equity	200,000	55	110.00	08/04/1999 (balance on allotment)	55.00 (allotted Rs. 24.75 lakhs)
Moving Pictures Company Limited	IPO	Equity	800,000	40	320.00	26-Feb-01	320.00
V&K Softech Limited	IPO	Equity	375,000	10	37.50	4-Dec-00	37.50
IQ Infotech Limited	IPO	Equity	200,000	16	32.00	13-Feb-01	32.00
Andhra Bank	IPO	Equity	25,000,000	10	2500.00	22-Feb-01	2500.00
Cadila Healthcare Ltd.	IPO (Book building)	Equity	625,000	250	1562.50	23-Feb-00	1562.50
Hughes Software Systems	IPO (Book building)	Equity	76,000	630	478.80	1-Oct-99	478.80
HCL Technologies	IPO (Book building)	Equity	300,000	580	1740.00	4-Dec-99	1740.00
Videsh Sanchar Nigam Ltd.	Offer for sale	Equity	500,000	750	3750.00	29-Spt-99	3750.00

APPENDIX XX

(*vide* Para 16.30 of the Report)

UTI'S INVESTMENTS IN THINLY TRADED/UNTRADED/UNLISTED COMPANIES AS ON JULY 31, 2001

(Amount Rs. in crore)

Sr. No.	Name of investee company	No. of shares	Cost	Market/Book value	Depreciation (–)
1	2	3	4	5	6
1.	Infrastructure Leasing & Fin. Services	28932818	170.68	89.78	-80.90
2.	SICOM	24288000	109.98	37.72	-72.26
3.	Adani Ports	3333000	46.15	1.49	-44.66
4.	JK Corp.	2519315	33.30	0.00	-33.30
5.	Cyber Space Info	2301500	38.25	6.65	-31.60
6.	Mafatlal Industries	920224	27.50	0.00	-27.50
7.	Indian Seamless Metal Tubes	3354340	37.48	10.07	-27.41
8.	Tin Plate Co. of India	4944050	21.85	0.00	-21.85
9.	IDCOL Cement	35000000	20.77	0.04	-20.74
10.	UTI Securities Exchange	30000000	31.74	11.64	-20.10
11.	Indo-Deutsche Metallo Chimique	1150000	18.26	0.00	-18.26
12.	McDowell & Company	3454878	27.48	9.29	-18.19
13.	Videocon Appliances	2443380	27.33	9.74	-17.60
14.	Balaji Distilleries	5016201	24.99	7.99	-17.00
15.	Baroda Rayon Corporation	2697050	14.90	0.00	-14.90
16.	DCM	1343087	15.46	0.76	-14.70
17.	Consolidated Coffee	800551	18.78	4.17	-14.61
18.	Marwar Hotels	15000000	14.63	0.02	-14.61
19.	Telephone Cables	1631500	15.85	1.33	-14.51
20.	Parasrampuria Synthetics	3107101	13.92	0.00	-13.91
21.	Palace Heights Hotels	5983320	13.25	0.01	-13.25
22.	Planetasia.com	2248580	13.44	0.72	-12.72

1	2	3	4	5	6
23.	FDC Limited	545500	18.26	5.93	-12.33
24.	Prakash Industries	3064509	12.30	0.00	-12.30
25.	Sanghi Spinners (India)	4140000	12.30	0.00	-12.29
26.	UMI Special Steel	5883999	12.06	0.01	-12.06
27.	Kashipur Holdings	685478	13.38	1.71	-11.68
28.	Apollo Fibres	11293650	11.40	0.01	-11.39
29.	Arvind Products	3462759	11.25	0.00	-11.25
30.	Mardia Chemicals	1452600	11.05	0.00	-11.05
31.	Indian Organic Chemicals	4291536	18.48	7.48	-11.00
32.	Modern Syntex (India)	15292346	10.94	0.02	-10.93
33.	Punjab Wireless Systems	460200	10.90	0.00	-10.90
34.	Polychem	3731606	10.70	0.00	-10.76
35.	Malwa Cotton Spg. Mills	1026939	20.04	9.51	-10.54
36.	Gulf Oil India	978050	14.87	4.61	-10.26
	Total		943.99	220.70	-723.29

APPENDIX-XXI

(*vide* Para 16.40 of the Report)

LIST OF COMPANIES IDENTIFIED BY TARAPORE COMMITTEE FOR EXAMINATION OF UTI'S INVESTMENTS IN THESE COMPANIES

Sl. No.	Investee Company
	List of Companies for which Audit Reports need to be Prepared
1.	Adani Exports
2.	Aftek Infosys
3.	Alps Industries
4.	Ambika Agarbatti
5.	ATN International
6.	Bag Films
7.	Balaji Distilleries
8.	Balaji Telefilms
9.	Borax Morarjee
10.	Business India Publications
11.	BPL
12.	DCM
13.	Dewan Housing and Fin. Services
14.	Dhar Cement
15.	Dhar Textile Mills
16.	Elbee Services
17.	Essar Shipping
18.	Eureka Industries
19.	Galaxy Entertainment
20.	Geekay Exim
21.	Gujarat Adani Port
22.	Hotel Leela Venture

Sl. No.	Investee Company
23.	Indian Organic Chemicals
24.	Indian Seamless Metal Tubes
25.	Indo-Asahi Glass
26.	Information Technologies India
27.	Jain Studios
28.	JBF Industries
29.	Jenson & Nicholson
30.	JIK Industries
31.	Jindal Iron & Steel
32.	JK Corporation
33.	Kirloskar Electric Co.
34.	Kopran
35.	Lloyds Steel Industries
36.	Lupin Labs
37.	Mafatlal Industries
38.	Malvika Steel
39.	Malwa Cotton Spinning Mill
40.	Marwar Hotel
41.	Mobile Tele
42.	Modern Threads
43.	Modi Rubber
44.	Morarjee Goculdas Spg.
45.	MTZ (India)

Sl. No.	Investee Company
46.	MTZ Polyfilms
47.	Mukta Arts
48.	Paam Pharma
49.	Padmalaya Telefilms
50.	Padmini Polymers
51.	PAL Peugeot
52.	Palace Height Hotels
53.	Parasrampuria Synthetics
54.	Pennar Industries
55.	Pritish Nandy Communications
56.	Rama Phosphates
57.	Ranbaxy Laboratories
58.	Roofit Industries
59.	S. Kumars Synfabs
60.	Shonkh Technologies
61.	Shriyam Securities
62.	Silverline Industries
63.	Sound Craft Industries
64.	Steel Tubes of India
65.	Sunearth Ceramics
66.	Sun Infosys
67.	Triveni Engineering
68.	Usha Ispat
69.	Veronica Labs
70.	Welspun Industries

Sl. No.	Investee Company
	Audit Reports to be Prepared Before Remitting the Cases to an Appropriate Pre-investigative Body
71.	DSQ Software
72.	Essar Oil
73.	Essar Steel
74.	Global Telesystem
75.	Himachal Futuristic Communication
76.	Hy-Grade Pellets
77.	Information Technologies India
78.	Ispat Industries
79.	Jindal Vijaynagar Steel
80.	Numero Uno International
81.	Oswal Chemicals & Fertilisers
82.	Pentamedia Graphics
83.	Reliance Capital
84.	Reliance Petroleum
85.	Satyam Computers
86.	SSI
87.	Visual Software
88.	Zee Telefilms
	Cases to be Remitted to an Appropriate Pre-investigative Body
89.	Reliance Industries

APPENDIX-XXII

(*vide* Para 16.55 of the Report)

SHORTFALL IN UTI'S ASSURED RETURN SCHEMES

As on 31-1-2002

Sl. No.	Scheme	Date of Maturity	Unit Capital (as of 31st Dec. 2001) (Rs. Cr.)	Assets Mkt. Value (as of 31st Jan. 2002) (Rs. Cr.)	Dividend %	Shortfall (as of 31st Jan. 2002) (Rs. Cr.)
1	2	3	4	5	6	7
(A) Full-term assured return Schemes with capital protection at maturity						
1.	MIP 97(I)	30-Apr.02	1443	982	14.93%	461
2.	MIP 97(II)	30-Jun.02	1938	1404	14.93%	534
3.	IISFUS 97	30-Jun.02	708	536	15.00%	172
4.	MIP 97(III)	31-Aug.02	971	748	13.80%	223
5.	MIP 97(IV)	31-Oct.02	1082	888	13.24%	194
6.	MIP 97(V)	31-Dec.02	513	347	12.40%	167
7.	IISFUS 97(II)	31-Jan.03	713	508	12.75%	205
8.	MIP 98	31-Mar.03	1057	802	13.24%	254
9.	IISFUS 98	31-May.03	1071	722	13.50%	349
10.	NRI Fund	30-Nov.03	81	80	13.50%	1
11.	MIP 98(II)	30-Jun.03	929	531	13.24%	399
12.	MIP 98 (III)	31-Aug.03	1442	1060	13.24%	382
13.	MIP 98 (IV)	31-Oct.03	945	751	13.24%	194
14.	IISFUS 98(II)	31-Dec.03	1185	901	14.00%	284
15.	MIP 98(V)	31-Aug.04	945	723	13.24%	222
16.	MIP 99	31-May.04	2809	2452	11.30%	358
	a	Total	17832	13434		4398

1	2	3	4	5	6	7
(B) Principal Assured at maturity with annual dividend reset clause					(Current)	
17.	MIP 2000	31-Mar. 05	1478	1000	9.38%	478
18.	MIP 99(II)	31-Oct. 04	1354	1094	9.38%	260
19.	MIP 2000(II)	31-Mar. 05	541	430	9.38%	111
20.	MIP 2000(III)	31-Oct. 05	656	523	9.38%	133
21.	MIP 2001	28-Feb. 06	650	592	10.20%	58
	b	Total	4679	3639		1040
(C) Long-term Assured Schemes						
22.	CGGF 86	1-Jul. 2018	4406	2259	14.0%	2350
23.	RUP-II	Sep. 2014 to Sep. 2918	418	587	14.1%	288
24.	CGGF 99	30-Jun. 2021	451	396	12.0%	95
25.	RUP-99	Feb. 2019 to Jun. 2020	159	189	12.1%	17
	c	Total	5523	3431		2751
(D) Non-Assured Schemes						
26.	MIP 95	30-Jun. 02	464	397	5.12%	N.A.
	d	Total	464	397		
	Grand Total	*a + b + c + d*	28498	20900		8189

APPENDIX-XXIII

(*vide* Para 16.58 of the Report)

ATTENDANCE OF TRUSTEES IN THE MEETINGS OF THE EXECUTIVE COMMITTEE WHICH CLEARED THE MONTHLY INCOME PLANS WHICH ASSURED RETURNS WITH CAPITAL PROTECTION AT MATURITY

Sl. No.	Scheme	Date of approval at the EC meeting held on	Name of EC members attended the meeting
1	2	3	4
1.	MIP 97	13.1.97	Shri G.P. Gupta Chairman Dr. P.J. Nayak, ET Shri. S.H. Khan Shri N.S. Sekhsaria
2.	MIP 97 (II)	12.3.97	Shri G.P. Gupta Chairman Dr. P.J. Nayak, ET Shri N.S. Sekhsaria
3.	MIP 97 (III)	28.5.97	Shri G.P. Gupta Chairman Dr. P.J. Nayak, ET Shri. S.H. Khan Shri N.S. Sekhsaria
4.	MIP 97 (IV)	9.7.97	Shri. G.P. Gupta Chairman Dr. P.J. Nayak, ET Shri. S.H. Khan Shri N.S. Sekhsaria
5.	MIP 97 (V)	30.9.97	Shri. G.P. Gupta Chairman Dr. P.J. Nayak, ET Shri. S.H. Khan Shri N.S. Sekhsaria
6.	MIP 98	22.12.97	Shri. G.P. Gupta Chairman Dr. P.J. Nayak, ET Shri N.S. Sekhsaria

1	2	3	4
7.	MIP 98 (II)	24.2.98	Shri G.P. Gupta, Chairman Dr. P.J. Nayak, ET Shri. S.H. Khan Shri N.S. Sekhsaria
8.	MIP 98 (III)	27.5.98	Shri. G.P. Gupta Chairman Dr. P.J. Nayak, ET Shri. S.H. Khan Shri N.S. Sekhsaria
9.	MIP 98 (IV)	24.7.98	Dr. P.J. Nayak, ET Shri. N.S. Sekhsaria
10.	MIP 98 (V)	29.10.98	Shri. P.S. Subramanyam, Chairman Dr. P.J. Nayak, ET Shri. N.S. Sekhsaria
11.	MIP 99	24.12.98	Shri P.S. Subramanyam, Chairman Dr. P.J. Nayak, ET Shri. N.S. Sekhsaria

APPENDIX-XXIV

(*vide* Para 16.59 of the Report)

FRESH EXPOSURES IN DEBT INSTRUMENTS OF COMPANIES CLASSIFIED AS NPAs

Sl. No.	Investee Company	Provisions held by the UTI at the time of fresh exposure	Investment details	Sanctioned by	Position of investment as on 30.6.01	Whether additional funds sanctioned as part of consortium of financial institutions	Whether additional funds sanctioned were adjusted against outstanding payments
1	2	3	4	5	6	7	8
1.	Essar Oil	As on 30.6.1999. the UTI held a provision of Rs. 0.36 crore towards interest default against the total cost of investment of Rs. 7.85 crore As on 30.6.2000, the UTI made a provision of Rs. 33.58 crore against the total cost of Rs. 79.98 crore	On 27.6.2001. sanctioned an investment of Rs. 56.10 crore towards the debentures of the company	EC	Provision of Rs. 85.81 crore (Rs. 6.28 crore towards interest and Rs. 79.53 crore towards investment) against the total cost of Rs. 79.53 crore	Yes	Yes
2.	Malavika Steel	As on 30.6.1999, the UTI made a provision of Rs. 51.86 crore against the total cost of Rs. 206.01 crore	On 16.11.99 invested in unrated NCDs of the company for Rs. 71 crore	EC	Provision of Rs. 169.41 crore against the total cost of Rs. 289.56 crore	Yes	Yes
3.	Prag Bosimi Synthetics	As on 30.6.1999 the UTI held a provision of Rs. 10.19 crore, including Rs. 5.96 crore towards interest, against the total cost of Rs. 8.56 crore	On 18.10.1999 invested an amount of Rs. 2.82 crore in the unrated NCDs of the company	EC	Provision of Rs. 8.16 crore against the total cost of Rs. 11.35 crore	Yes	Yes

1	2	3	4	5	6	7	8
4.	Punjab Wireless Systems	As on 30.6.1999, the UTI held a provision of Rs. 5.58 crore against the total cost of Rs. 16.98 crore	On 13.1.2000, invested an amount of Rs. 4.00 crore in the company on off-market deals	Chairman	Provision of Rs. 26.26 crore (Rs. 4.94 crore towards interest and Rs 21.32 crore towards investment) against the total cost of Rs. 21.99 crore	No	No
5.	SIV Industries	As on 30.6.1999, the UTI held a provision of Rs. 3.59 crore against the total cost of Rs. 7.59 crore.	On 6.7.1999, invested Rs. 10.00 crore in unrated NCDs of the company.	EC	Provision of Rs. 34.65 crore (Rs. 8.62 crore towards interest and Rs. 26.03 crore towards investment) against the total cost of Rs. 27.18 crore)	Yes	No
6.	SJK Steel Corp.	As on 30.6.1999, the UTI held a Provision of Rs. 7.45 crore against the total cost of Rs. 15.00 crore. As on 30.6.2000, an amount of Rs. 7.38 crore was held as provision.	On 30.6.2000, disbursed Rs. 3.00 crore towards NCDs of the company rated PB by CRC.	EC	Provision of Rs. 25.20 crore (Rs. 9.31 crore towards interest and Rs. 15.89 crore towards investment) against the total cost of Rs. 17.98 crore.	Yes	No
7.	SVC Super-chem	As on 30.6.1999, the UTI held a provision of Rs. 11.55 crore against the total cost of Rs. 25.14 crore.	On 18.2.2000, sanctioned purchase of unrated NCDs for Rs. 7.35 crore	EC	Provision of Rs. 35.97 crore (Rs. 9.81 crore towards interest and Rs. 26.16 crore towards investment) against the total cost of Rs. 41.11 crore.	Yes	Yes
8.	Usha Ispat	As on 30.6.1999, the UTI held a provision of Rs. 27.60 crore against the total cost of Rs. 92.19 crore.	On 26.6.2000, disbursed an amount of Rs. 12.13 crore in unrated NCDs.	EC	Provision of Rs 126.61 crore (Rs. 27.01 crore for interest and Rs. 99.60 crore for investment) against a total cost of Rs. 123.40 crore.	Yes	Yes

APPENDIX-XXV

(*vide* Para 17.2 of the Report)

DIVIDEND RELATED PARAMETERS OF US-64

(Rs. in Crore)

Item/Year (July-June)	1990-91	1991-92	1992-93	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01 (unaudited)
1	2	3	4	5	6	7	8	9	10	11	12
1. Percentage of Income Distribution (Dividend Rate per cent)	19.50	25.00$	26.00$$	26.00@@	26.00	20.00**	20.00	20.00	13.50	11.75	10.00++
2. Yield (Per cent)	14.18	17.86	17.45	16.25	15.76	12.90	14.29	14.29	9.64	10.19	7.41
3. Gross Income	1662.38	2419.07	2723.7	3553.79	3323.93	1665.44	2515.99	3340.51	2388.02	2799.9	1573.90
(*a*) Dividend income (a as percentage of 3)	101.87 6.1	109.21 4.5	128.22 4.7	129.59 3.6	223.87 6.7	370.63 22.3	294.59 11.7	279.90 8.4	290.31 12.2	312.26 11.2	166.54 (10.6)
(*b*) Interest income (*b* as percentage of 3)	1,173.28 70..6	1,014.24 41.9	1.359.58 49.9	1.648.05 46.4	2,112.73 63.6	1,287.31 77.3	80.61 31.0	899.88 26.9	566.14 23.7	394.38 14.1	261.57 (16.6)
(*c*) Capital gains (*c* as percentage of 3)	403.07 24.2	1,232.91 51.0	1,165.10 42.8	1,383.42 38.9	1,101.40 33.1	402.93 24.2	1,640.66 65.2	2,132.69 63.8	1,682.18 70.4	1,905.72 68.1	1,403.90 (89.2)
(*d*) Other income (*d* as percentage of 3)	-15.84+ -1.0	62.71 2.6	70.80 2.6	392.74 11.1	-114.07* -3.4	-395.43@ -23.7	-199.87# -7.9	28.04 0.8	-150.61& -6.3	187.54 6.7	-258.10 (-16.4)
4. Net Income	1,644.68	2,402.58	2,691.52	3,537.88	3,287.42	1,596.03	2.414.98	3,221.59	2,266.01	2,735.66	1,555.30
5. Income distribution (5 as percentage of 4)	1,417.27 86.2	1,582.73 65.9	1926.00 71.6	3,125.01 88.3	3,973.25 120.9	2,702.89 169.4	2,805.63 116.2	3,125.94 97.0	1,828.47 80.7	2,082.61 76.1	1,278,64 82.2
6. Transferred to General Reserves	227.87	813.26	763.82	454.77	350.59	-	7.93	112.81	402.22	656.20	264.30
7. Transferred from General Reserves	-	-	-	-	685.83	796.78	394.32	—	—	—	—
8. Reserves and Surplus Outstanding as at the end of the year	2535.83	2978.28	3831.26	5842.44	6083.02	4,006.66	1,777.70	-1,098.49	130.22	3491.67	-3.676.78
(*a*) Unit Premium Reserve	1926.07	1555.26	1644.42	3200.83	4138.33	3209.33	1,366.77	-1,102.20	819.33&&	1390.84$$$	-4190.3
(*b*) General Reserves	519.76	1333.02	1404.00	1594.10	1594.10	797.32	410.93	3.71	405.93	1574.24##	4.19
(*c*) Dividend Equalisation Reserve	90.0	90.00	90.00	-	-	-	-		-	-	-

1	2	3	4	5	6	7	8	9	10	11	12
(*d*) Revenue Appropriation Account	-	-	629.84	1,047.51	350.59	-	-	-	-	-	
(*e*) Fixed Asset Revaluation Reserve	-	-	-	-	-	-	-	-	543.62	526.59	509.36
9. Unit Capital Outstanding as at the end of the year	7,268.66	6.330.90	7.410.20	12.019.61	15.281.73	13.514.46	14,028.15	15,629.70	13,544.19	15.146.26	12.786.36
10. Total Investment Portfolio of which:	8,601.95	8,598.42	10.457.06	18,157.50	24,051.84	19,910.13	17,106.04	19,151.03	18,733.22	20,328.85	22,592.08
11. Net Income as percentage of Total Investmen Portfolio	19.1	27.9	25.7	19.5	13.7	8.0	14.1	16.8	12.1	13.5	6.9

+ Including income equalizer (Net) of Rs. 232.62 crore (negative).

* Including income equalizer (Net) of Rs. 65.58 crore (negative).

@ Including income equalizer (Net) of Rs. 315.48 crore (negative).

Including income equalizer (Net) of Rs. 106.93 crore (negative).

& Including income equalizer (Net) of Rs. 151.10 crore (negative).

$ Excluding preferential offer made in July 1992 whereby unit holders of US-64 were offered extra confessional price upto 25 per cent lower than the special offer price fixed for the month of July.

$$ Excluding rights offer made in August 1993 to al US-64 unit holders in the ratio of 2 : 5 at a discount of 20 per cent to the July 1993 sale price.

@@ Excluding the rights offer made in November/December 1994 to investors as on 30th September, 1994 in the ratio of 1 : 5 at a discount of 20 per cent to September 1994 sale price.

** Excluding bonus units in the ratio of 1 : 10.

&& Including Rs. 1,2990.93 crore on account of provision for depreciation in the value of Investment written back.

$$$ Including Rs. 1,763.00 crore on account of provision for depreciation in the value of Investment written back.

Including Rs. 512.11 crore on account of provision for depreciation in the value of Investment written back.

++ Tax free.

APPENDIX-XXVI

(*vide* Para 17.3 (ii) of the Report)

US-64 UNIT HOLDING PATTERN FROM 1990 TO 2001

(Rs. in crores)

Year		Sales					Repurchases					Outstanding Unit capital				
		Individual		Corporate		Total	Individual		Corporate		Total	Individual		Corporate		Total
		AMT	%	AMT	%		AMT	%	AMT	%		AMT	%	AMT	%	
FY	1990	363	11	2,838	89	3,201	98	15	548	85	645	1,167	17	5,863	83	7,030
FY	1991	307	44	393	56	700	101	22	360	78	461	1,373	19	5,896	81	7,269
Fy	1992	461	43	609	57	1,070	91	5	1,917	95	2,007	1,743	28	4,588	72	6,331
FY	1993	1,227	69	539	31	1,766	17	2	670	98	687	2,953	40	4,457	60	7,410
FY	1994	1,724	36	3,125	64	4,849	114	47	126	53	240	4,564	38	7,456	62	12,020
FY	1995	2,433	32	5,271	68	7,704	322	7	4,120	93	4,442	6,675	44	8,607	56	15,282
FY	1996	1,969	78	547	22	2,516	756	18	3,528	82	4,283	7,888	58	5,627	42	13,515
FY	1997	975	74	335	26	1,309	123	15	673	85	796	8,739	62	5,289	38	14,028
FY	1998	1,192	37	2,013	63	3,205	470	29	1,134	71	1,603	9,462	61	6,168	39	15,630
FY	1999	1,756	53	1530	47	3,286	2,956	55	2,415	45	5,371	8,413	62	5,131	38	13544
FY	2000	2,154	67	1,071	33	3,226	926	57	697	43	1,623	9,641	64	5595	36	15,146
FY	2001	1,401	72	536	28	1,937	1,940	45	2,357	55	4,297	9,103	71	3,684	29	12,786.

APPENDIX-XXVII

(*vide* Para 17.4 of the Report)

TERMS OF REFERENCE AND RECOMMENDATIONS OF THE DEEPAK PAREKH COMMITTEE

Terms of Reference

(1) Review of the objectives, features and structure of the Scheme in the context of its role in the mobilisation of domestic savings and investment in the capital market.

(2) Review of the policies of the Scheme relating to pricing and income distribution, having regard to the profile of existing investors of the Scheme.

(3) Review of the policies and procedures about the portfolio composition of the Scheme, as well as the asset management process.

Recommendations

1. Initial contributors to UTI should infuse permanent funds of atleast Rs. 500 crores
2. The PSU portfolio should be transferred at book value to a Special Unit Scheme (SUS 99) to be subscribed for by GOI by the issue of dated GoI securities.
3. US-64 should make a strategic sale of its significant equity holdings by negotiation to the highest bidder to ensure fetching the best value for the unit holder.
4. (a) The investment sublimit of Rs. 10,000 for tax benefit on Equity Linked Savings Schemes should be removed and benefit should be extended to US-64 and all schemes investing more than 50% in equity.

   (b) Income distributed by US-64 and schemes investing more than 50% in equity should be exempt from tax.
5. New schemes for investing in growth stocks in IT, Pharma and FMCG sector should be launched, to be subscribed for by banks.
6. The size of the UTI Board should be increased to 15, with additional five members being co-opted by the Board.
7. (a) Trustees should assume higher degree of responsibility and exercise greater authority.

   (b) The remuneration of trustees should be increased and their attendance record be published in the Annual Report.
8. There should be a separate Asset Management Company for US-64 with an independent Board of Directors.
9. (a) Chinese walls should be created by appointing separate and independent fund managers for each scheme.

   (b) Inter- scheme transfers must be based on independent decisions and requirements of concerned fund managers and at market determined.

10. (a) There should be an independent fund manager for US-64 with full responsibility and accountability.

    (b) The fund manager should be helped by a strong research team and the research capability should be strengthened.

11. (a) Investment/disinvestment decisions should be based on research analysts recommendations who should have the authority and responsibility of making the recommendations.

    (b) The fund manager should have the final authority and responsibility in decision making based on his perception of the market and research inputs.

12. The focus on small investors should be strengthened and the lilt towards corporate investors reduced.

13. (a) US-64 should be NAV driven within three years.

    (b) If at the end of the three year period, the re-purchase price and the NAV are not in line, the Trust will be left with no alternative but to seek GoI support once again the provide the difference between the NAV and the repurchase price. Only a clear commitment from the GOI to stand by US-64 till it finally assumes the character of a NAV driven scheme will instill the required confidence in the US-64 investors.

14. The spread between sale and repurchase prices should be gradually increased to deter short term investors.

15 (a) The dividend distribution policy needs to follow a more conservative approach to build up sufficient reserves during periods of good performances.

    (b) As a rule, dividends need to be curtailed when there is inadequate income.

16. The rate of return offered to investors needs to be reviewed on a periodic basis. The yield offered on US-64 is excessively high as compared to other comparable instruments.

17. The composition of the portfolio needs to be changed to provide for more weight age to debt consistent with the objectives of the Scheme.

18. The operations of US-64 should be brought under SEBI purview at the earliest.

19. An independent professional firm should be commissioned for a detailed review of asset management processes including back office, inter scheme transfer and investor servicing.

APPENDIX-XXVIII

(*vide* Para 17.10 of the Report)

ACTUAL RESERVES AND PRUDENTIAL RESERVES UNDER US-64

(Rs. in crore)

	Item/Year	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001
1.	Reserves and Surplus	2,535.83	2,978.28	3,831.26	5,842.44	6,083.02	4,006.66	1,777.70	(-) 1,098.49	130.22	3,491.67	(-) 3,676.78
2.	Minimum Prudential Reserves Required *	2,325.97	2,469.05	3,705.10	6,610.79	7,640.87	4,730.06	5,190.42	5,782.99	4,334.14	4,846.80	**
	Surplus (+)/Shortfall (-) (1-2) from the minimum prudential reserves	(+) 209.86	(+) 509.23	(+) 126.16	(-) 768.35	(-) 1,557.85	(-) 723.40	(-) 3,412.72	(-) 6,881.48	(-) 4,203.92	(-) 1,355.13	**

* Worked out by the Tarapore Committee on the basis of outstanding units as at the end of June of the relevant year multiplied by the difference between next July 1. repurchase price and face value of the unit. For instance, reserves for 1994-95 have been worked out by multiplying the outstanding units as on June 1995 with the difference between July 1,1995 repurchase price and the face value of the unit (i.e. Rs. 10).

** The minimum prudential reserves cannot be worked out as redemption's are only allowed up to 3000 units.

APPENDIX-XXIX

(*vide* Para 17.17 of the Report)

US-64 PORTFOLIO DISTRIBUTION

(Rs. in crore)

	1993-94	1994-95	1995-96	1996-97	1997-98	1998-99	1999-2000	2000-01
Equity	7,981	12,700	13,400	11,713	13,645	12,858	14.873	17,532
(%)	39%	51%	66%	64%	63%	65%	70%	75%
Debentures	7,578	6,611	4,303	4,167	6,363	2,360	2,206	1,762
%	37%	26%	21%	23%	29%	12%	10%	7%
Government	3,894	5,469	2,661	1,762	1,513	3,572	3,317	3,312
Securities (%)	19%	22%	13%	10%	7%	18%	16%	14%
Others	764	338	22	535	217	910	881	873
(%)	4%	1%	0%	3%	1%	5%	4%	4%

APPENDIX-XXX

(*vide* Para-17.18 of the Report)

US-64 REPURCHASES (JULY 1998 - MAY 2001)

(Rs. in crore)

Month	1998-99	1999-2000	2000-2001*
July	106	213	82
August	105	252	210
September	405	236	261
October	2199	133	171
November	1392	143	237
December	1229	133	215
January	556	258	159
February	258	187	316
March	393	398	205
April	161	52	426
May	966	218	3767
June	Book closure	34**	Book Closure
Total	7770	2258	6050

*Provisional.
**June 1 to June 15.

APPENDIX-XXXI

(*vide* Para-17.18 of the Report)

BREAK UP BETWEEN INDIVIDUAL AND INSTITUTIONAL US-64 REPURCHASES - APRIL AND MAY 2001

		April 2001		May 2001	
Category		Amount (Rs. in crore)	No. of unit holding accounts/ entities	Amount (Rs. in crore)	No. of unit holding accounts/ entities
A.	Individuals	193.7 (45.5)	1,28,702	1485.6 (39.4)	12,54,459
B.	Institutions	232.4 (54.5)		2281.3 (60.6)	
(i)	Banks	129.0	9	839.0	38
(ii)	PSUs	5.6	NA	101.3	7
(iii)	Corporates	91.1	28	1216.1	10.1
(iv)	Other institutions	6.7	NA	124.9	NA
	Total (A +B)	426.1		3766.9	

Note : Figures in Parentheses are percentages to the total.

APPENDIX-XXXII

(*vide* Para-17.18 of the Report)

REDEMPTIONS BY INSTITUTIONAL ENTITIES IN APRIL AND MAY 2001 (RS. 10 CRORE OR MORE)

Sr. No	Name of the Institutional entity	Amount (Rs in crore)	Month
1.	State Bank of India	354.89	May-01
2.	Tata Power	256.50	-do-
3.	Bombay Dyeing & Mfg. Co	191.96	-do-
4.	Bank of Baroda	150.00	-do-
5.	Telco	136.47	-do-
6.	Peerless General Finance & Investment	105.83	-do-
7.	ICICI Bank	104.94	April-01
8.	Bank of India	74.76	May-01
9.	Bank of Maharashtra	64.12	-do-
10.	National Housing Bank	57.00	-do-
11.	Corporation Bank	43.03	-do-
12.	Bharat Electronics	42.75	-do-
13.	SIDBI	38.31	-do-
14.	Punjab & Sind Bank	28.91	-do-
15.	Union Bank of India	28.44	-do-
16.	Bajaj Auto	21.37	-do-
17.	Dena Bank	20.79	-do-
18.	Development Credit Bank	19.74	-do-
19.	Karnataka Bank	19.27	do-
20.	Infrastructure Leasing and Financial Services	17.81	-do-
21.	Bajaj Auto Finance	16.12	-do-
22.	Britania Industries	15.67	-do-
23.	Nagarjuna Fertiliser and Chemicals	14.39	-do-
24.	ICICI Banking Corporation	14.28	April-01
25.	Sahara India Financial Corporation	13.54	May-01
26.	Cricket Club of India	12.58	April-01
27.	Aeonian Investment Co	11.38	-do-
28.	Indo Gulf Corporation	10.78	May-01
(A)	Total (1 to 28)	1885.33	
(B)	Total redemptions by institutional entities	2513.7	
(C)	(A) as percentage of (B)	75.0	

APPENDIX-XXXIII

(*vide* Para - 17.18 of the Report)

BREAK UP OF REPURCHASES MADE BY INDIVIDUAL UNIT HOLDERS IN THE US-64 SCHEME IN APRIL AND MAY 2001

Category	April 2001		May 2001	
	Amount (Rs. in crore)	No. of unit holding accounts/entities	Amount (Rs. in crore)	No. of unit holding accounts/entities
Individuals holding Less than 1000 units	7.47	104981	390.14	1072830
1001-2000 units	18.49	9963	163.04	80398
2001-3000 units	12.80	3984	110.80	32500
3001 and more units	154.93	9774	821.61	68731
Total	193.69	128702	1485.59	1254459

APPENDIX-XXXIV

(*vide* Para-17.19 of the Report)

पी.एस. सुब्रमन्यम
अध्यक्ष
P.S. Subramanyam
Chairman

भारतीय यूनिट ट्रस्ट
Unit Trust of India
May 18, 2001

Confidential

Dear Shri Ajit Kumar,

US-64—POSITION AND STRATEGY

The status of US-64 and the stategy are indicated below

- The Unit capital of the scheme at the beginning of the year *i.e.*, July 1,2000 was Rs 15146.26 crore. During the year 2000-2001 (July-june) the scheme has received fresh sales of Rs. 1,431 crore (face value) and reinvestment Plan (RIP) of Rs. 478.18 crore (face value). During the same period the scheme had repurchases of Rs. 2,399.81 crore (face value). The outstanding unit capital as on 17th May 2001 was thus Rs 14655.67 crore. The table showing the position of sales and repurchases under unit scheme 1964 for the period April 2000 to May 2001 is given in the annexure. It may be seen there from that as at the end of March '01 the net sales were marginally negative at Rs 8.04 crore and during April and May there has been substantial repurchases. This is due to the fall in the stock market and the consequent effect of larger investors going in for repurchases.

- The scheme has earned net income of Rs. 1,471.50 crore as on 17th May, 2001 forming 10.04% on the outstanding unit capital coming down from the level of 10.77% as at the end of March 01 due to higher repurchases in April—May '01. In the current market conditions it is expected that the scheme would earn another Rs 300 crore till 30th June, 2001, taking the net income to a level of 12%

- The basic price equivalent to NAV of the seheme as on 17th May, 2001 is about Rs 9.50 per unit. The secheme can positively declare a dividend of 12% and have post dividend NAV of Rs. 10, if the sensex reaches around 4300 level as on 30th June 2001 *i.e.*, up by about 18% from the present level of around 3670. For having an NAV of Rs. 10.50 post dividend @ 12%, the sensex will have to be at a level of around 4500 as on 30th june 2001 *i.e.* up by around 23% from the present level. The announcements on ban on short sales and carry forward allowed up to 2nd July, 2001 (with earlier position to be squared up by 3rd September, 2001) as well as rolling settlement to become effective from 2nd July, have had a positive impact in the last few days. With this and the expected normal monsoon there is an expectation of about 20-25% rise in sensex by 30th June, 2001.

- The pricing policy for the scheme from July, 2001 onwards need to be considered based on the underlying NAV and the positioning of the scheme. Historically, the scheme has been following trend pricing. In case the same policy is followed from July, 2001 onward, the price need to be adjusted in such way as that it retains the flexibility of moving it upwards gradually till atleast Feb/march 2002 (when the scheme is likely to become NAV driven). In case a price much higher than the underlying NAV is fixed in July, 2001 and the market remain flat in the next six to eight months, it would result in abrupt price adjustment in February/March. As an alternate necessary price adjustment may be carried out while deciding the pricing for July, 2001 itself so that there is potential for appreciation subsequently.

- 12% dividend in June 2001 would be equivalent to dividend yield of 8.89% (tax free) on the sale price of 13.50 per unit in July, 2001. The comparable yields for 12 months instruments are :

  — 364 days treasury bill: 8.46% (taxable)

  — AAA Corporate bonds 9.87% (taxable)

  — Fixed Deposits in Commercial Banks: 7.5% - 8.5% (taxable)

  — PSU tax free bonds 7.25% - 8.00%

- On the present unit capital of Rs. 14,655.67 crore, the dividend requirement at the rate of 12% would be Rs 1,760 crore. Last year on the outstanding unit capital of Rs 15,146.26 crore, the investment under RIP was Rs. 631 crore (cash value). Considering the same proportion for RIP this year also, RIP may be in the range of Rs. 500 crore. The net cash requirement for dividend thus may be in the range of Rs. 1260 crore.

- The external factors comprising surge in Nasdaq following 0.5% cut in Fed Funds rate and the improvement in Dow are expected to have positive impact. U.S. market appears to have absorbed the profit warnings in Tech sector and there is an expectation of improvement during the July- December. 2001. Capital raising by Satyam to be followed by similar efforts from leading corporates are also expected to provide a positive push to the market.

- UTI will be continuously reviewing the position.

With regards.

Yours sincerely,

Sd/-
P.S. Subramanyam

Encl. AS above

Shri Ajit Kumar
Finance Secretary
Government of India
Ministry of Finance
New Delhi

UNIT SCHEME 1964

(Rs. in crore)

Months	Sales (Rs.)		Repurchases (Rs.)		Net sales (Rs.)	
Year	2000-01	1999-00	2000-01	1999-00	2000-01	1999-00
April	654.01	68.74	48.25	157.76	605.76	- 89.02
May	588.89	233.88	225.06	977.25	363.83	-743.37
June	442.01	0	43.94	0	398.07	0
July	1055.16	893.01	83.82	261.06	991.34	631.95
August	282.59	123.40	198.73	241.92	83.86	-118.52
September	636.67	80.76	237.83	210.90	398.84	-130.12
October	90.06	56.83	176.82	123.18	- 86.76	-66.35
November	118.15	79.31	206.63	119.26	-88.48	-39.95
December	87.32	81.98	279.18	136.92	-191.86	-54.94
January	105.12	91.45	141.22	270.88	-36.10	-179.43
February	701.78	258.35	321.97	183.95	379.81	74.40
March	130.76	780.98	138.80	416.11	- 8.04	364.87
April	67.36	654.01	472.75	48.25	-405.39	605.76
May	12.61	588.89	958.71	225.06	-946.10	363.83

Note: Sale and Repurchase figures are in cash values
July Figures include RIP units

APPENDIX XXXV

(*vide* Para-17.19 of the Report)

पी.एस. सुब्रमन्यम
अध्यक्ष
P.S. Subramanayam
Chairman

भारतीय यूनिट ट्रस्ट
Unit Trust of India
June 30, 2001

Confidential

Dear Shri Ajit Kumar,

US-64—POSITION AND STRATEGY

Please refer to my letter dated May 18, 2001 and subsequent discussion I had with you on the subject. Based on the position as on June 30, 2001, the status of US-64 and the strategy would have to be revised as under :

The unit capital of the scheme at the beginning of the year *i.e.*, July 1, 2000 was Rs. 15,146.26 crore. During the year 2000-2001 (July-June), the scheme received fresh sales of Rs. 2626.26 crore including the reinvestment plan. During the same period, the repurchases were higher at Rs. 6040.31 crore due to large outflows of Rs. 4183.89 Crs. During April-May 2001. The outstanding unit capital and assets under management as on 30th June 2001 were Rs. 12,777.60 crore and Rs. 17,230.84 crores Crs (Market Value), excluding inter-scheme borrowings respectively.

It may be noted that till March 2001 the scheme`s sales were ahead of repurchases and hence the difference between the repurchase prices and NAV did not cast any adverse effects on the scheme`s financial health. As on February 28, 2001 the NAV of the scheme was Rs. 11.12 per unit. In the light of the favourable budgetary announcements, it was expected that the initial rise in the stock market would be sustained and the NAV of the scheme could reach the sales/repurchase price. However, the stock market events after March 2001 have belied all the expectations.

The concerted efforts of some of the bear operators in the first week of March 2001 to hammer down the market resulted in sharp and continuous downfall in the valuations. Besides, due to these highly volatile conditions, the scheme also faced substantial redemptions during the months of April and May 2001; larger redemptions came during third/fourth week of May 2001, impacting the NAV of the scheme by about Rs. 1.00 per unit on account of the difference between the repurchase price and NAV.

The scheme earned net income of Rs. 1523.83 crore during the current year forming 11.93% on the outstanding unit capital. The basic price equivalent to NAV of the scheme as on 30th June 2001 is Rs. 8.21 per unit. The scheme has sufficient income to afford declaration of a dividend of 10% on the outstanding capital as on 30th June 2001. This would lead to transfer of the balance of Rs. 246.07 crores to the Reserves of the scheme out of the income earned during the year.

On the other hand, the total reserves position which stood at positive level of Rs. 3491.67 crore has been impired largely due to depreciation in the value of equity portfolio to show a negative level of Rs. 2292.60 crore (after accounting for income earned but before provision of dividend).

Looking forward, the Trust has two main options :

(a) To make the scheme NAV based : The current NAV of the scheme is Rs. 8.21. After paying a dividend of 10%, the post -dividend NAV would be Rs. 7.21. It is our considered view that making the scheme NAV based at this juncture would create panic among the US-64 unit holders. This action may trigger large-scale repurchases as the present NAV is lower than the July` 00 sale price of Rs. 13.50. In order to meet the repurchase requirements, the Trust would have to sell equity shares heavily which would result in crash of the stock market, which is already sagging.

(b) Another option is to temporariy suspend the sales and repurchases under the scheme with a view to arresting the redemption and restructuring the portfolio. The Trust is placing before the Board on the 2nd July 2001 for consideration, suspension of sales and repurchases under the scheme for a period of six months up to December 2001. This would help us to restructure the scheme and to achieve the final goal of making the pricing of the scheme NAV based.

We are recommonding to the Board of Trustees the scond option to be approved at its meeting scheduled on July 2, 2001 at Delhi.

During the interim period of six months, the following issues would be addressed :—

(i) The debt/equity (D/E) mix in the scheme would be improved to reduce the impact of equity market Volatility in the NAV.

(ii) To remove the market inefficiencies which were observed during the stock market crisis, SEBI announced many structural changes where by erstwhile badla system, the ALBM and BLESS systems are being discontinued, cash and future markets are being segregated and options trading is being introduced *w.e.f.* July 2, 2001. Even though initially, average daily volume would perhaps go down, over time there will be stability in the stock markets providing room for restoration of better valuations. The options trading could also improve market depth and help in better price discovery. Once the structural changes are implemented the small investors might come back to the market attracted by the lower prices of fundamentally strong scrips.

(iii) The scheme also has Rs. 876 crores of fixed assets which need to be transferred at market related valuations to the DRF in the course of next half year. The proceeds would be re-deployed in suitable income yielding investments.

(iv) At present the Trust calculates daily NAVs for 30 schemes. However to make US 64 NAV based, the Trust has already initiated steps to improve the infrastructure to handle the back-office functions. The implementation of BPR and testing of the Generic software would be completed in the next few months and as planned the infrastructure would be ready by the end of the year 2001.

Also, to cope with the market changes, we have prosed to the Board measures for further strengthening the organizational setup as under :

(i) Strategic sale of equity holdings : In the last Board Meeting held on June 13, 2001, a sub-committee of the Board was constituted consisting Chairman, UTI, Chairman, LIC and SHRI R.P Chitale. The Chief General Manager (Department of Investment Monitoring) is the convener. This sub-committee is expected to initiate steps for strategic sale of equity holdings of UTI alone and in conjunction with LIC/GIC in companies to promoters/outside parties in a transparent manner bringing in substantial unrecognized gaIns to the books.

(ii) US-64 and equity schemes would be placed under charge of a Chief Investment Officer in Executive Director grade, which would be in line with the SEBI regulations. Furthermore, a seondary market committee is proposed to be set up by empowering four senior executives of General Managers rank hailing from Funds Management Groups and

Equity Research Department as members and a Deputy General Manager (Income schemes) as the member secretary. This Committee would interact with fund managers and Equity Research Department and Make recommendations to the Chief Investment Officer for secondary market operations.

(iii) The Dealing Room, which executes trades on a day to day basis would be placed under an Executive Director, separate from the fund management group.

(iv) The back office would continue to be under a separate Executive Director.

(v) The Equity research Department and Credit Rating Cell are working separately under a Chief General Manager.

We believe that the combined effect of all the aforesaid measures would place the US-64 on NAV based pricing by end of December 2001.

With best regards,

Yours sincerely,
Sd/-
P.S. Subramanyam

Shri Ajit Kumar
Finance Secretary, GoI
Ministry of Finance, New Delhi

Copy forwarded to :

Dr. Rakesh Mohan
Adviser to the Finance Minister
GoI, Ministry of Finance
New Delhi

With best regards,

Sd/-
(P.S. Subramanyam)

APPENDIX-XXXVI

(*vide* Para 19.3 of the Report)

EXTRACTS FROM THE MEMORANDA AND THE BOARD MINUTES RELATING TO ESTIMATES OF INCOME AND FIXATION OF INCOME DISTRIBUTION FOR US-64 SCHEME

EXTRACTS FROM THE MEMORANDUM TO THE BoT FOR THEIR MEETING OF 6.6.1995

MEMORANDUM TO THE BOARD OF TRUSTEES

B.M.No. 4107

ITEM NO. 16 (Prepared for the Board Meeting to be held on 6th June, 1995)

Estimates of Income for the year ending
30th June, 1995 and fixation of
Income Distribution

During the year 1994-95, the Indian Capital Market withessed the presence of & operations by a large number of public as well as private Mutual Funds. Further, it also saw tremendous volatility in the stock market— a boom in September' 94 followed by a bearish phase towards end of the year. Even under these circumstances the Trust mobilised Rs. 12,774 crores during the year as against Rs. 10,449 Crores during 1993-94. The total Investible Funds of the Trust aggregated at Rs. 61,000 Crores against Rs. 51,708 Crores as of 30.06.94.

On the basis of Investments as of 30.04.95 the income has been estimated upto 30.06.95 after making necessary adjustment for expenses and necessary provisions. The Scheme-wise details of such estimates have been summarised and given in annexures to this memorandum for consideration of the Board. The details regarding the Unit Capital and income available for distribution under each Scheme have been mentioned in the annexures. Provisions for Doubtful Income have been estimated and provided in respective Schemes. Similarly investments have been valued as at 2nd June 95 (BSE Sensex was at 3384.99) and the resultant depreciation, if any has been provided. The provision so made could vary depending on stock market conditions as on 30th June 1995. The surplus of previous year, available in any scheme, can also be considered for income distribution. Hence, the income distribution alternatives with only current year's income and after including previous year`s surplus has been separately indicated.

The BSE Sensitive index touched peak on September 12,1994, at 4630.54 and thereafter it declined to a low of 3015.07 on May 2, 1995, losing 1600 points in a period of seven months. Trading volumes declined, declining much faster in relatively more liquid scrips (A scrips) on the market. The opportunities for booking profits were limited in view of shrinking liquidity on the market, and one was not sure what kind of sentiment will contribute to it. UTI was seen as a significant seller on the market over a patch of time. There was almost a conflicting zone in operation between providing good returns to investors and protecting sentiment of the market.

(A) OPEN ENDED SCHEMES (Annexure I)

UNIT SCHEME 1964

During the year, the Scheme received overwhelming response as much as Rs. 7743 Crores were collected under the Scheme, out of which fresh sales accounted for Rs. 4205 Crores and Rs. 3170 Crores were collected towards Right Offer. The Sales were suspended from January 1, 1995 till 30th June 1995. During the second half of the year, repurchases were high. The total repurchases for the entire year were at Rs. 4300 Crores. The main reason for such high repurchases was the tight liquidity position prevailing in the market. The trust honoured all the repurchase commitments with an outflow of over Rs. 7300 Crores and thus, to some extent, eased the liquidity crisis of the corporate bodies.

A provision of Rs. 51 Crores has been made towards income considered doubtful of recovery. Considering the amount of appreciation under Equity portfolio, provision for depreciation in value of investments is not considered necessary. However the position in this regard will depend upon the Stock Market Conditions as on 30.06.95.

The composition of total income under Unit Scheme 64 during last three years is as follows:

Sl. No.		1994-95	1993-94	1992-93
1.	Int/Divd/Other Income	66%	56%	56%
2.	Profit	34%	44%	44%

The current income available for distribution is given in the table hereunder. The surplus of the previous years is carried forward and can be considered available for income distribution along with current income. This surplus in US' 64 is to the tune of Rs. 1047 Crores. The table gives the alternatives covering (1) Current Income & (2) Current income plus Surplus brought forward from previous years Separately.

NET CURRENT INCOME Rs. 3237 Crores

NET CURRENT INCOME Plus SURPLUS OF PREVIOUS YEARS. Rs. 4285 Crores

(Rs. in Crores)

Rate	20%		22%		25%		26%*	
	Current Income	Current Income +Surplus	Current Income	Current Income +Surplus	Current Income	Current Income +Surplus	Current Income	Current Income +Surplus
Amount Rs.	3083	3083	3391	3391	3853	3853	4008	4008
% Distribution	95%	72%	105%	79%	119%	90%	124%	94%

(* Previous Year`s Rate)

*** *** ***

Recommendation

1. The Board of Trustees is requested to peruse the estimated income under all the schemes mentioned above;
2. The Board of Trustees is also requested :
   a. to decide the rate of income distribution in respect of Unit Scheme 1964 Unit Scheme 1971 (ULIP), CRTS 1981, CG S 83 & U.S. '95
   b. to authorise chairman to declare rates of income distribution under these schemes and distribute the same for the year ending 30th June 1995;

*** *** ***

INCOME DISTRIBUTION ALTERNATIVES

UNIT SCHEME 1964

NET CURRENT INCOME: Rs. 3237 Crores

NET CURRENT INCOME PLUS SURPLUS OF PREVIOUS YEARS. Rs. 4285 Crores

(Rs. in Crores)

Rate	20%		22%		25%		26%*	
	Current Income	Current Income +Surplus	Current Income	Current Income +Surplus	Current Income	Current Income +Surplus	Current Income	Current Income +Surplus
Amount Rs.	3083	3083	3391	3391	3853	3853	4008	4008
% Distribution	95%	72%	105%	79%	119%	90%	124%	94%

(* Previous Year`s Rate)

*** *** ***

OPEN ENDED SCHEMES

ESTIMATION OF INCOME FOR THE YEAR ENDING 30TH JUNE 1995

	U.S. 64		
	1994-95 Estimated	1993-94 Actual	Increase/ Decrease %
Unit Capital			
A. Sale of units	7743.98	4849.17	60%
B. Repurchase	4350.00	239.76	1714%
C. Outstanding Unit Capital	15413.59	12019.61	28%
DISTRIBUTABLE INCOME			
D. Gross income	3318.30	3602.66	-8%
E. Exp. net of recovery	30.00	15.91	89%
F. Provisions	51.00	48.87	4%
G. Net Current income	3237.30	3537.88	-8%
H. Surplus of Previous Years	1047.51	692.84	-
I. Net Distributable Income	4284.81	4230.72	1%
INCOME DISTRIBUTION			
J. Dividend Rate (%)	-	26.00	-
K. Amount	-	3125.10	-
L. Distribution to net current income	-	88.33%	-
M. Distribution to Net Distribution income	-	73.87%	-

*** *** ***

EXTRACTS OF THE MINUTES OF THE MEETING OF THE BOARD TRUSTEES HELD ON 06.06.95

(10) Estimates of income for the year ending 30.6.1995 and fixation of income distribution :

Chairman placed before the Board a memorandum No. 4107. Chairman also placed on table, a statement containing net income under each scheme as of the date of the meeting. After detailed discussions, the scheme-wise rates of income distribution were decided as under :

Scheme	Dividend Rate (1993-94)	Dividend Rate (1994-95)
Unit Scheme 1964		
- Initial Capital	26.0%	26.0%
- Unit Capital	26.0%	26.0%
Unit Scheme 1971	16.5%	16.5%
CRTS 1981	18.0%	18.0%
CGS' 83	11.0%	11.0%
GCGIP	-	13.0%
US 95	-	12.0% (pro-rata)

The proposals contained in the memorandum were approved and the following resolutions was passed :

"Resolved that,

income distribution under the following schemes for the year ending 30th June, 1995 be made at rates mentioned there against:

		Dividend %
1.	Open Ended Income Oriented Schemes	
(A)	Unit Scheme 1964	
	- Initial Capital	26.0%
	- Unit Capital	26.0%
(B)	Unit Scheme 1971 (ULIP)	16.5%
(C)	CRTS 1981	18.0% (includes interim dividend of 9%)
(D)	US 95	12.0% (pro-rata)
2.	Close Ended Schemes	
(A)	CGS 83	11.0%
(B)	GCGIP	13.0%

Further Resolved that,

the Chairman be and is hereby authorised to declare above rates of income distribution (dividend) and distribute the same for the year ending 30th June, 1995.``

The Board authorised Chairman to formally announce the rates of dividends in respect of various schemes at an appropriate time and effect the distribution of income to the unit holders of each scheme.

EXTRACTS FROM THE MEMORANDUM TO THE BoT
FOR THEIR MEETING OF 14.6.1996

MEMORANDUM TO THE BOARD OF TRUSTEES

B.M. No. 4238

ITEM NO. 8 Prepared for the Board Meeting to be held on 14th June, 1996

Estimates of Income for the year
ending 30th June, 1996 and
fixation of Income Distribution

The capital markets have remained generally sluggish during the year ending 30th June 1996, despite increasing volumes on the NSE and very good corporate financial results. The BSE Sensex touched a high of 3914.28 on 12th June 1996 and a low of 2826.08 on 25th Jan. 1996. Corporates have reported a severe shortage of liquidity, notwithstanding an appreciable money supply and credit expansion. Interest rates have risen, with the call money market rate being volatile and rising occasionally to very high levels. The rupee, after depreciating sharply, has subsequently held firm without strong intervention by the RBI. several Mutual Funds performed poorly with falling NAVs, their market prices representing heavy discount to NAVs.

These factors necessarily had an impact on the Trust`s performance as well. Due to the liquidity crunch, the Trust Witnessed very heavy repurchases under U.S.'64, by the corporate sector. The fund outflow during the year under the Scheme amounted to about Rs. 6,600 crores and the Trust honoured all its commitments, thereby partially easing the Corporate liquidity crunch. The total Investible Funds of the Trust reduced to Rs. 56,783 crores as on 30.4.96 as compared to Rs. 59,618 crores at the end of previous year.

On the basis of Investments held as of 30.04.96, the income has been estimated upto 30.06.96, after considering estimated expenses and provisions. These estimates have been summarised and detailed in the annexures to this memorandum for consideration of the Board.

The details regarding the Unit Capital and income available for distribution under each Scheme have also been mentioned in the annexures. Provisions for estimated Doubtful Income Investments have been made in the schemes. Similarly investments have been valued as at 10th June 96(BSE Sensex at 3889.34) and any consequential depreciation has been provisioned for. The provision tentatively made could, of course, alter at the end of the year, depending on stock valuations as on 30th June 1996. As the Surplus of the previous year available in each scheme can also be considered for income distribution, the income distribution alternatives have been projected based on the current Year's income together with the previous year's surplus.

(A) OPEN ENDED SCHEMES (ANNEXURE I & II)

(1) Unit SCHEME 1964

The sales under the Unit Scheme 64 aggregated Rs. 2,441 crores. However, the repurchases under the Scheme were very high at Rs. 4,146 crores (face value), the actual funds outflow being Rs. 6,600 crores. This situation arose on account of the high corporate holding in the Scheme and the generally tight corporate liquidity position.

A provision of Rs. 105 crores has been made towards income/investments considered doubtful of recovery. Given the extent of appreciation of the Equity portfolio, a provision for depreciation in the value of investments appears unnecessary, though the position will need to be finally assessed on the valuation of the portfolio as on 30.06.96.

The composition of total income under Unit Scheme 64 during last three years is as follows:

Sl. No.	Nature of Income	1995-96	1994-95	1993-94
1.	Interest/Divd/Other Income	63%	66%	56%
2.	Profit on sale of investments	37%	34%	44%

For the previous year 1994-95, the Trust made a dividend payment of 26% on the outstanding face value of units. For 1995-96 the current year`s surplus available for distribution, as also the surplus of the previous year, can be considered for income distribution. The previous year`s surplus amounts to Rs. 350.58 crores. The net current income including surplus of the previous year and excluding Income Equaliser amounts to Rs. 2131 crores. In addition, the Scheme has a Unit Premium Reserve, (which is in the nature of a capital reserve) estimated at Rs. 3187 crores as on 30.06.96, as also a General Reserve (which is in the nature of Revenue Reserve), estimated at Rs. 1590 crores. It is therefore proposed that a combination of a bonus issue and a dividend payment be made, in such a manner as to facilitate the unit holders receiving an overall benefit of over 26% for the year on outstanding face value of units, while also enabling the Trust to draw upon its attractive accumulated Unit Premium Reserve and dovetailing the dividend payment to the total surplus available for distribution. All unit holders outstanding as of 30.6.96 will be entitled to receive the bonus and dividend payments. We have considered Bonus alternatives in the ratio of 1:10 and 1:8 and dividend alternatives of 14%, 14.5% and 15%. The dilution of NAV and the yield to investors at July 95/96 prices have also been evaluated. The various alternatives at different bonuses/dividend rates, considering various July 96 prices and the consequent one year yields thereon to investors are listed in Annexure ii.

The implications of the income distribution alternatives are as follows:

(Rs. in crores)

Rate	14%	14.5%	15%
Net Income	1959.82	1952.00	1944.19
Distribution Amount	1898.22	1966.02*	2033.81*
% of Distribution	96.86%	100.72%	104.61%

*The amounts in excess of the distributable income available will need to be drawn from the General Reserves.

On a review of the various alternatives as per the Annexure II, it s clear that the Trust will not be in a position to consider any dividend beyond 15% due to liquidity/income constraints of the Scheme. The Unit Premium Reserve is available to the extent of Rs. 3187 crores which will allow a bonus ratio not beyond 1:8. The Annexure II clearly brings out the effects of various alternatives of bonuses/dividends on NAV and yield to the existing investors.

Considering the various alternatives under Annexure II, we propose a Dividend of 15% and Bonus of 1:8. With this the existing investors would benefit 15% dividend (in cash) and 12.5% in Bonus Units.

If the dividend and bonus ratio are raised beyond these levels, the NAV of the Scheme will fall and this could be detrimental to the future of the Scheme.

*** *** ***

Recommendation :

1. The Board of Trustees is requested to peruse the estimated income under all the schemes mentioned above :

2. The Board of Trustees is also requested :

   (a) to decide the rate of income distribution and bonus units in respect of Unit Scheme 1964 and rate of income distribution for CGS `83.

   (b) to authorise Executive Committee to decide the rate of income distribution in respect of Unit Scheme 1971, CRTS `81 and U.S. `95 in the E.C. Meeting proposed to be held on 26th June 1996.

   (c) to authorise Executive Committee to decide the rate of income distribution under SCUP, RBUP, GUP and PEF'95 in the E.C. Meeting to be held after 30.6.96.

   (d) to authorise Chairman to declare & distribute the rates of income distribution under these schemes for the year ending 30th June 1996.

*** *** ***

ANNEXURE I

OPEN ENDED SCHEMES

ESTIMATION OF INCOME FOR THE YEAR ENDING 30TH JUNE 1996

(*Rs. in Crores*)

		U.S. '64			
		1995-96 Estimated		1994-95 Actual	Increase/ Decrease %
Unit Capital					
A. Sale of units		2441.00		7704.13	-68%
B. Repurchase		4164.00		4442.00	-6%
C. Outstanding Unit Capital		13558.73		15281.73	-11%
Distributable Income					
D. Gross Income excl. Inc. Equaliser		1950.00		3445.99	-43%
E. Exp. net of recovery		64.00		67.34	-5%
F. Provisions		105.00		25.65	309%
G. Net Current Income		1781.00		3353.00	-47%
H. Surplus of Previous years (Net)		350.58		1047.51	-67%
I. Net Income		2131.58		4400.51	-52%
Income Distribution					
J. Dividend Rate (%)	14%	14.5%	15%	26.00	
K. Net Income (Excl. Inc. Eq)	2131.58	2131.58	2131.58	4400.51	
L. Income Equaliser	-171.76	-179.58	-187.39	-65.58	
M. Income available for distribution	1959.82	1952.00	1944.19	4334.93	
N. Amount	1898.22	1966.02	2033.81	3973.25	
O. % Distribution to Net Inst. Income	96.86%	100.72%	104.61%	90.29%	

@ Net income is arrived at after reducing premium paid on repurchases during 95-96 on the basis of income equaliser worked out at 12%

ANNEXURE II

UNIT SCHEME 1964

YIELD AT VARIOUS DIVIDEND/BONUS RATES AND PROPOSED SALES/REPURCHASE PRICES OF JULY '96

Bonus Rate	**Dividend Rate**	**Ex-Bonus/ Divd. NAV**	**Sale Price (July 96)**	**Rep. Price (July 96)**	**Yield on Repurchase @**	**Yield on Investment ***
			13.80	13.50	5.48%	18.39%
			13.90	13.60	6.19%	18.45%
	15.00%	14.71	14.00	13.70	6.90%	18.52%
			14.00	13.50	5.48%	18.39%
			13.80	13.50	5.16%	18.06%
			13.90	13.60	5.87%	18.13%
1:10	14.50%	14.75	14.00	13.70	6.58%	18.19%
			14.00	13.50	5.16%	18.06%
			13.80	13.50	4.84%	17.74%
			13.90	13.60	5.55%	17.81%
	14.00%	14.80	14.00	13.70	6.26%	17.87%
			14.00	13.50	4.84%	17.74%
			13.80	13.50	7.66%	20.56%
			13.90	13.60	8.39%	20.65%
	15.00%	14.38	14.00	13.70	9.11%	20.73%
			14.00	13.50	7.66%	20.56%
			13.80	13.50	7.34%	20.24%
			13.90	13.60	8.06%	20.32%
1:8	14.50%	14.43	14.00	13.70	8.79%	20.40%
			14.00	13.50	7.34%	20.24%
			13.80	13.50	7.02%	19.92%
			13.90	13.60	7.74%	20.00%
	14.00%	14.47	14.00	13.70	8.47%	20.08%
			14.00	13.50	7.02%	19.92%

@ Yield is calculated w.r.t. July 95 sale price viz. Rs. 15.50 & repurchase of entire holding (incl. bonus in July'96).
* Yield is calculated on July'95 Sale Price and assuming that the investor continues to hold his holding.

EXTRACTS OF THE MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES HELD ON 14/6/96

8. Estimates of income for the ending 30th June, 1996 and fixation of income distribution :

Chairman placed before the Board a memorandum No. 4238. Chairman also placed on table, a set of statements containing financial data relating to performance of various Schemes and the estimated net income under each scheme as of the date of the meeting. After detailed discussions, the scheme-wise rates of income distribution were decided as under :

	Open Ended Schemes	Dividend %
(A)	Unit Scheme 1964	
	- Initial Capital	20% No Bonus
	- Unit Capital	20% and bonus units in the ratio of 1:10
(B)	CGS 1983	13%

The following resolution was passed :

"Resolved,

that income distribution under the following schemes for the year ending 30th June, 1996 be made at rates mentioned thereagainst :

	Open Ended Schemes	Dividend %
(A)	Unit Scheme 1964	
	- Initial Capital	20% No Bonus
	- Unit Capital	20% and bonus units in the ratio of 1:10
(B)	CGS 1983	13%

Further Resolved That,

the Executive Committee be and is hereby authorised to decide on the rate of income distribution in respect of Unit Scheme 1971, CRTS 1981 and US 95 before 30/6/96 and on income distribution in respect of SCUP, RBUP, GUP and PEF'95 at its meeting to be held after 30.6.96.

Further Resolved That,

the Chairman be and is hereby authorised to declare above rates of income distribution (dividend) and distribute the same for the year ending 30th June, 1996."

The Board authorised Chairman to formally announce the rates of dividends in respect of various schemes at an appropriate time and effect the distribution of income to the unitholders of each scheme.

EXTRACTS FROM THE MEMORANDUM TO THE BoT FOR THEIR MEETING OF 27.6.1997

MEMORANDUM TO THE BOARD OF TRUSTEES

ITEM NO. 5 Prepared for the Board Meeting to be held on 27th June, 1997

Estimates of Income for the year ending 30th June, 1997 and fixation of Income Distribution

B.M. No. 4355

During the year 1996-97 the capital markets have remained generally sluggish with moderate recovery during intermittent periods. The possibility of a sustained recovery in the markets has emerged only in recent weeks. The volumes on the NSE have remained high despite mixed corporate results. The BSE Sensex touched a high of 4119.35 on 24th June 1997 and a low of 2745.06 on 4th December 1996. Trading by most institutional players including form overseas has been modest for much of the year. The mixed corporate results have provided no clear direction to the market. The uncertainty over the fate of the budget and impending oil price hike have, in specific periods, constrained market movement. The pro-reforms initiative in the budget improved the sentiment in the market to a great extent. The Interest rates,, which remained high throughout much of the year upto March '97, saw a subsequent fall with the RBI announcing the Slack Season credit policy during April '97. The policy was directed towards controlling inflationary pressures while simultaneously improving the credit delivery mechanism and rationalising the interest rate structure. The call money market remained steady throughout the year at moderate rates.

Several Mutual Funds performed poorly with falling NAVs, while their market prices represented heavy discount to NAVs due to general bearish trends in equity markets.

These significant factors had an impact on the Trust's performance as well. The Trust mobilised around Rs. 8000 crores during the year under all its schemes as against Rs. 8226 crores in the previous year.

The total fund outgo consequent on repurchase/redemption under all the schemes amounted to about Rs. 8020 crores. The total Investible Funds of the Trust reduced to Rs. 55486 crores as on 30.4.97 and is estimated to cross Rs. 57200 crores at the end of June 1997 as compared to Rs. 56620 crores at the end of previous year.

Based on the investment held as of 30.4.97 under each of the schemes, the income has been estimated for the full year upto 30.6.97, after considering estimated expenses and provisions. These estimates have been summarised in the annexures to this memorandum for consideration of the Board.

The details regarding the Unit Capital and income available for distribution under each scheme have also been mentioned in the annexures. Provisions for estimated Doubtful Income/ Investment have been made in the schemes. Similarly investments have been valued as at 20th June 97 (BSE Sensex at 4083.04) and consequential depreciation, if any has been provisioned.

The provision tentatively made could, of course, alter at the end of the year, depending on stock valuations as on 30th June 1997. As the surplus of the previous year available in each scheme can also be considered for income distribution, the income distribution alternatives have been projected based on the current year's income together with the previous year's surplus.

(A) OPEN ENDED SCHEMES (ANNEXURE I & II)

(1) Unit Scheme 1964 (Annexure I)

The sales reported under Unit Scheme '64 aggregated Rs. 1217 crores as against Rs. 2516.04 crores in the previous year and repurchases were Rs. 2026 crores as compared to the previous year's repurchase of Rs. 4283.31 crores.

The outstanding unit capital of the scheme increased from Rs. 13514 crores as at 30.6.96 to Rs. 14056 crores in the current year mainly contributed by the Bonus allotment under the scheme amounting to Rs. 1350 crores.

The Investible Fund and Net Current Income of the Scheme during 1995-96 and 1996-97 are as follows :

(Rs. in crores)

	96-97	95-96
Investible Funds	17920	20269
Gross income excl. Income Equaliser	2605.19	2026.68
Less : Expenses Net of Recovery	75.17	69.41
Less : Provisions	104.06	45.75
Net Current Income (excl. inc. equaliser)	2425.96	1911.52

A provision of Rs. 104 crores has been made towards income considered doubtful and Rs. 84.90 crores towards doubtful investment. Given the extent of appreciation of the Equity portfolio, the total portfolio of the scheme also shows a good appreciation. This position will, however, need to be finally assessed on the valuation of the portfolio as on 30.6.97.

The composition of total income under Unit Scheme 64 during last three years is as follows :

Sr. No.	Nature of Income	1996-97	1995-96	1994-95
1.	Interest/Divd./Other Income	40%	63%	66%
2.	Profit on sale of investments	60%	37%	34%

The Trust made an income distribution @ 20% on the outstanding face value of units together with a Bonus issue in the ratio of 1 : 10 for the previous year. The Trust utilised Rs. 1107 crores of the General Reserve/Surplus in the previous year to meet the income distribution liability.

All unit holders outstanding as of 30.6.97 will be entitled to receive the income distribution.

The implications of the income distribution alternatives are as follows :

(Rs. in crores)

Rate	18%	19%	20%
(a) Net Current Income	2425.96	2425.96	2425.96
(b) Income Equaliser	-81.32	-87.01	-92.70
(c) Net Income	2344.64	2338.95	2333.26
(d) General Reserves	797.32	797.32	797.32
(e) Total amt. available for distribution	3141.96	3136.27	3130.58
(f) Distribution Amount	2530.19	2670.75	2811.32
% of Distribution (f/e %)	80.53%	85.16%	89.80%

In order to maintain the income distribution of 20%, it may be necessary to use General Reserve to the extent of Rs. 478 crores. However, the final amount to be used form General Reserve, may reduce on the basis of profits booked over the remaining part of the year.

Considering the alternatives shown above and income distribution rates, of previous years, and considering the fall in income distribution rate from 26% p.a. in 1994-95 to 20% p.a. in 1995-96 (plus Bonus) it is proposed to maintain the income distribution rate 20% p.a. for the current year ending 30.6.97.

*** *** ***

Recommendation :

1. The Board of Trustees is requested to peruse the estimated income under all the schemes mentioned above;
2. The Board of Trustees is also requested;
   (a) to decide the rate of income distribution in respect of Unit Scheme 1964, Unit Scheme 1971, C.R.T.S. 1981, I.I.S.F.U.S. 1995 and Bonus for C.G.G.F. 1986;
   (b) to authorise the Executive Committee to decide the rate of income distribution/ Bonus/Annuity in respect of Unit Scheme 1995, C.C.C.F. 1994, S.C.U.P., R.B.P., G.U.P., H.U.S. and P.E.F. as applicable;
   (c) to authorise Chairman to declare & distribute the rates of income distribution and distribute the same under these schemes for the year ending 30th June, 1997;

*** *** ***

ANNEXURE-I

OPEN ENDED SCHEMES

ESTIMATION OF INCOME FOR THE YEAR ENDING 30TH JUNE, 1997

(Rs. in crores)

	U.S. '64				
		1996-97 Estimated		1995-96 Actual	Increase/ Decrease %
Unit Capital					
A. Sale of unit		1216.89		2516.04	-52%
B. Repurchase		2025.70		4283.32	-53%
C. Outstanding Unit Capital		4056.60		13514.46	4%
Distributable Income					
D. Gross Income excl. Inc. Equalizer		2605.19		2026.68	29%
E. Expenses Net of recovery		75.17		69.41	6%
F. Provisions		104.06		45.75	127%
G. Net Current Income (excl. Inc. Eq.)		2425.96		1911.52	27%
H. Surplus of Previous years (Net)		797.32		1138.73	-30%
I. Net Income (Excl. Inc. Eq.)		3223.28		2734.77	15%
Income Distribution					
J. Dividend Rate (%)	18.00	19.00	20.00	20.00	
K. Net Income (Excl. Inc. Eq.)	3223.25	3223.28	3228.23	2734.77	
L. Income Equalizer	-81.32	-87.01	-92.70	-315.48	
M. Income distribution	3141.95	3136.27	3130.56	2419.20	
N. Amount	2530.19	2670.75	2811.32	2734.77	
O. Distribution Net Out Income	80.53%	85.16%	89.80%	100.00%	

***   ***   ***

EXTRACTS OF THE MINUTES OF THE MEETING OF THE BOARD OF TRUSTEES HELD ON 27.6.1997

5. Estimates of income for the year ending 30th June, 1997 and fixation of income distribution:

Chairman placed before the Board a memorandum No. 4355. Chairman also placed on table, a set of statements containing financial data relating to performance of various Schemes and the estimated net income under each scheme as of the date of the meeting.

Chairman informed that during the year 96-97 the Trust was able to mobilise Rs. 9147 crores under all its schemes as against Rs. 8226 crores in the previous year and the estimated investible funds as at the end of the current year are at Rs. 58000 crores compared to Rs. 56620 crores as at the end of the previous year.

As regards U.S. 64, Chairman stated that during the year the scheme aggregated sales of Rs. 1217 crores (Rs. 2516.04 crores previous year) and the repurchases were at Rs. 2026 crores (Rs. 4283.31 crores last year). Chairman stated that the net current income of the scheme increased to Rs. 2425.96 crores compared to Rs. 1911.52 crores last year.

For ULIP 71, CRTS 81, CGGF 86, BGVMIP and IISFUS 95 Chairman placed before the Board the relevant information on the performance of the schemes.

Chairman also requested the Board to authorise the Executive Committee to decide the rate of income distribution/bonus/annuity in respect of Housing Unit Scheme (HUS 92), Senior Citizen's Unit Plan (SCUP), Children's College and Career Fund (CCF 93), Grihalakshmi Unit Plan (GUP), Retirement Benefit Unit Plan (RBUP), Unit Scheme 1995 (US 95) and Primary Equity Fund (PEF).

After detailed discussions, the scheme-wise rates of income distribution were decided as under :

	Open Ended Schemes	Dividend %
(A)	Unit Scheme 1964	
	-Initial Capital	20%
	-Unit Capital	20%
(B)	ULIP 1971	16.5%
(C)	CRTS 1981 (including 7.5% interim dividend)	15.0%
(D)	IISFUS 95	15.0%
(E)	C.G.G.F. Bonus on CGGF units	14.0% 3% (pro-rata)

The following resolution was passed :

"Resolved,

that the income distribution under following schemes for the year ending 30th June, 1997 be made at rates mentioned there against :

	Open Ended Schemes	Dividend %
(A)	Unit Scheme 1964	
	-Initial Capital	20%
	-Unit Capital	20%
(B)	C.G.G.F. 86 (in addition to assured income distribution @ 14% p.a.)	Bonus @ 3%
(C)	Unit Scheme 1971	16.5%
(D)	C.R.T.S. 1981 (including 7.5 interim Dividend)	15%
(E)	I.I.S.F.U.S. 1995	15%

Further Resolved,

that the Executive Committee be and is hereby authorised to decide on the rate of income distribution/bonus/annuity in respect of US 95, CCCF, RBUP, SCUP, HUS, GUP and PEF '95 as applicable.

Further Resolved,

that the Chairman be and is hereby authorised to declare above rates of income distribution and distribute the same for the year ending 30th June, 1997."

The Board authorised Chairman to formally announce the rates of dividends in respect of various schemes at an appropriate time and effect the distribution of income to the unit holders of each scheme.

EXTRACTS FROM THE MEMORANDUM TO THE BoT FOR THEIR MEETING OF 27.6.1998

MEMORANDUM TO THE BOARD OF TRUSTEES

ITEM NO. 8 (Prepared for the Board Meeting to be held on 27th June, 1998)

Estimates of Income for the year
ending 30th June, 1998 and
Fixation of Income Distribution

B.M. No. 4472

During the year 1997-98, the capital markets have experienced major volatility. The year started with the index at 4300.86 and gradually increased to 4548.02 in August 97. But in the later half of the year the market has collapsed and touched a low of 3209.55 in January 98. With the uncertainty and vagaries the sensex again touched a low of 3038 on 23.6.98. The instability of the Government, the fail in rupee price, general liquidity crunch in the economy and overall fall in the growth rate have further lead to a fall in the stock prices. The Union Budget and mixed corporate results provided no clear direction to the market. Trading by most institutional players including from overseas has been modest for most part of the year. The uncertainty about the effect of economic sanctions imposed by U.S. and downgrading by Moody's have added downward movement of the market. The call money market has also experienced ups and downs. Short term money market interest rates has gone up to the extent of 110% in January 98 from a meagre 0.05% in July 97.

The Mutual Fund industry is not an exception. Several Mutual Funds performed poorly with falling NAVs, while their market prices represented heavy discount to NAVs due to general bearish trends in equity markets.

Inspite of the above adverse situation the Trust's overall collection has been better than previous year. The Trust mobilised around Rs. 11471 crores during the current year under all its schemes as against Rs. 9836 crs. in previous year.

The total fund outgo consequent on repurchase/redemption under all the schemes amounted to about Rs. 10322 crores. The total Investible Funds of the Trust increased to Rs. 58314 crores as on 30.4.98 as compared to Rs. 57125 crores at the end of previous year *i.e.* 30th June, 97.

The income has been estimated based on the investments held as of 30.4.98 under each of the schemes, upto 30.6.98 and the auditors have also verified the same. The expenditure and provision have also been estimated. These estimates have been summarised in the annexures to this memorandum for consideration of the Board. The annexures cover details of Unit Capital and income available for distribution under each scheme after providing for doubtful income/ investments.

During the last two months the share markets have been highly volatile. The markets have reached a low of 3038 points on BSE Sensex on 23rd June, 1998 as against 4,225 points on 30th June, 1997, showing a drop of nearly 1,200 points in the index. in view of this the depreciation on equity portfolio is high in most of the schemes. It may, however, be mentioned that the major decline in the index has occurred over a short period of two months. The BSE sensex as on 5th May, 1998 was at 4147. At this index level there was no depreciation in the equity portfolio under various schemes. Considering the sudden and temporary nature of decline in the sensex it has not been considered necessary to make provision for such depreciation before declaration of income distribution under US 64, US 71 and CRTS 81. However, it is proposed to make *ad-oc* provisions under these schemes.

The income of the schemes, is sufficient to maintain the rate of income distribution declared in the previous year, after making *ad hoc* provisions for depreciation in the value of investments.

Investments have been valued as at 23rd June 98 (BSE Sensex at 3038) and consequential depreciation, if any, has been worked out and shown. The actual provision will alter at the end of the year, depending on stock valuations as on 30th June 1998. The surplus of the previous year available in each scheme can also be considered for income distribution. The income distribution alternatives have been projected based on the current year's income, together with the previous year's surplus,

(A) OPEN ENDED SCHEMES (ANNEXURE I & II)

(1) Unit Scheme 1964 (Annexure I)

The sales reported under Unit Schemes '64 aggregated to Rs. 4476 crores as against Rs. 1845 crores in the previous year and repurchases were Rs. 2326 crores against Rs. 2349 crs. in the previous year. The net accretion to the scheme in this year has been to the extent of Rs. 2150 crs.

The outstanding unit capital of the scheme increased to Rs. 15560 crores in the current year contributed substantially due to increase in sales by Rs. 1833 crores and decrease in repurchases by Rs. 543 crores as compared to previous year (both at face value).

Net current income of the scheme is as follows :

(Rs. in crores)

	97-98	96-97
Gross Income excl. Income Equaliser	3224.26	2716.35
Less : Expenses (Net)	80.64	101.00
Less Provision for Doubtful income	70.81	93.43
Net Current Income (excl. inc. equaliser and provision towards depreciation in value of investments)	3072.81	2521.92

The composition of total income under the scheme for the years 1995 to 1998 is as follows :

Sl. No.	Nature of Income	1997-98	1996-97	1995-96	1994-95
1.	Interest./Divd./Other Income	35%	40%	63%	66%
2.	Profit on sale of Investments	65%	60%	37%	34%

As mentioned earlier, the depreciation in the value of portfolio arising out of high volatility in the market stood at Rs. 3654 crores as on 23rd June 1998 (BSE sensex 3038). The net income earned (after considering expenses and NPA provisions) as mentioned above, is sufficient to meet the income distribution of 20% in the scheme, without considering the provision for depreciation in the value of investment. The amount of depreciation in the value of investment will finally be computed as on the basis of the market prices of the portfolio as at 30.6.98. It may be mentioned here that the scheme has General Reserves to the extent of Rs. 403 crs. and Unit Premium Reserve of Rs. 1700 crs. as of 30th June 1998. Besides, it may be mentioned here, that the entire fixed assets of the Trust are held under the scheme. The written down value (WDV) of these assets is Rs. 490 crs. The current market value of these assets would be very high. These reserves and the appreciation in the fixed assets, would be available against depreciation in the value of portfolio of the scheme. An *ad hoc* provision for depreciation in the value of investment to the extent of Rs. 100 crs. is proposed to be made.

The Trusts has maintained an income distribution @ 20% during 96-97 and has utilised Rs. 394 crores of the General Reserves/Surplus in that year to meet the income distribution liability.

All unit holders outstanding as of 30.6.98 are entitled to receive the income distribution.

The implications of the income distribution alternatives for the year ending 30.6.98 are as follows :

(Rs. in crores)

Rate	18%	19%	20%@
(a) Net Current Income	3072.81	3072.81	3072.81
(b) Income Equaliser	76.92	78.14	79.35
(c) Net Income	3149.73	3150.95	3152.16
(d) General Reserves	403.00	403.00	403.00
(e) Total amt. Available for distribution	3552.73	3553.95	3555.16
(f) Distribution Amount	2800	2956	3112

@ previous year I.D.

Considering the above alternatives it is proposed to maintain income distribution rate of 20% for the year ending 30th June 1998.

*** *** ***

Recommendations :

1. The Board of Trustees is requested to peruse the estimated income under all the schemes mentioned above;
2. The Board of Trustees is also requested :

(a) to decide the rate of income distribution in respect of Unit Scheme 1964, Unit Scheme 1971 and C.R.T.S. 1981;

(b) to authorise the Executive Committee to decide the rate of income distribution./ Bonus/Annuity as the case may be, for Unit Scheme 1995, I.I.S.F.U.S, 95, S.C.U.P., R.B.P., G.U.P., H.U.S. and P.E.F.;

(c) to authorise Chairman to declare the rates of income distribution and distribute the same under these schemes for the year ending 30th June 1998;

*** *** ***

OPEN ENDED SCHEMES

ESTIMATION OF INCOME FOR THE YEAR ENDING 30TH JUNE 1998

(Rs. in crore)

		U.S. 64			
		1997-98 Estimated		1996-97 Actual	Increase/ Decrease%
Unit Capital					
A. Sale of unit		3136.09		2660.41	18%
B. Repurchase		1603.97		2146.72	-25%
C. Outstanding Unit Capital		15560.27		14028.15	1%
DISTRIBUTABLE INCOME					
D. Gross Income excl. Inc. Equaliser		3224.26		2716.35	19%
E. Expenses Net of recovery		80.84		101.00	-20%
F. Provisions		70.81		93.43	-24%
G. Net Current Income (excl. Inc. Eq.)		3072.81		2521.82	22%
H. Surplus/Gen. Res. of Prev. Yrs.		403.00		793.51	-49%
I. Net Income (Excl. Inc. Eq.)		3475.81		3315.43	5%
Income Distribution					
J. Dividend Rate (%)	18.00	19.00	20.00	20.00	
K. Net Income (Excl. Inc. Eq.)	3475.81	3475.81	3475.81	3315.43	
L. Income Equalizer	75.92	78.14	79.35	-106.93	
M. Income available for distribution	3552.73	3553.95	3555.16	3206.50	
N. Dividend Amount	2800.85	2958.45	3112.05	2804.63	

*CRTS 81 Dividend@7% for half-year ended 31.12.97 amounting to Rs.55.35 crores already met out of this income.

@Includes maturity bonus amounting to Rs. 40 crs.

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EXTRACTS OF THE MINUTES OF MEETING OF THE BOARD OF TRUSTEES HELD ON 27.6.98

Estimation of Income for the year ending 30th June, 1998 and fixation of Income distribution:

Chairman placed before the Board a memorandum No. 4472. Chairman also tabled a set of statements containing financial data relating to performance of various Schemes and the estimated net income under each scheme as of the date of the meetings.

Chairman informed that during the year 1997-98 the Trust would mobilise around Rs. 13,500 croes under all schemes as against Rs. 9836 crores in the previous year. He stated that the estimated investible funds as at the end of the current year increased to Rs. 58314 crores as on 30th April, 98 compared to Rs. 57215 crores as at the end of the previous year ended 30th June, 1997.

As regards U.S. 64, Chairman stated that during the year the scheme aggregated sales of Rs. 4476 crores (Rs. 1845 crores previous year) and the repurchases were at Rs. 2326 crores (Rs. 2349 crores last year). Chairman stated that the net current income of the scheme increased to Rs. 3072.81 crores compared to Rs. 2521.92 crores last year.

Chairman also placed the relevant information on the performance of ULIP 71, CRTS 81, US 95, CGGF 86, BGVMIP, CCCF 94, SCUP, RBP, GUP, HUS 92, RUS 92, RUP 94 and IISFUS before the Board.

A Trustee observed that with the steep fall in the indices the cushion between the average cost and market price of equity investments may become thinner. Moreover, whenever sale of equity is required to be effected, it is the good stocks which get sold, resulting in weakening the quality of the portfolio held. To overcome these difficulties, it is necessary to take a conscious decision to buy good quality equity when the prices are low. The Trust may look for such opportunities to improve the value of the portfolios of various schemes. Chairman stated that this strategy was already being persued by the Trust.

Another Trustee stated that the other important issue is the asset allocation structure of Unit Scheme 1964. It is necessary to decide whether the scheme should have such a large exposure to equity. It was felt that managing such a large scheme with a high exposure to equity is very difficult and this aspect would need to be examined.

Agreeing with the observations made about a steep fall in the indices, Chairman stated that during the last two months the share markets were highly volatile. The Sensex reached a low of 3038 on 23rd June, 1998 as against 4147 on 5th May, 1998 at which level there was no depreciation in the equity portfolio of various schemes. Chairman stated that in view of the sudden and temporary nature of decline in the Sensex it is proposed not to make full provision for such depreciation before declaration of income distribution under U.S. 64, U.S. 71 and CRTS 81. Instead, it is proposed to make only nominal *adhoc* provisions under these schemes. Chairman added that U.S. 64 has large reserves as contained in its General Reserve and Unit Premium Reserve, as also through the appreciation in the value of real estates held by the scheme. It is proposed to make an *adhoc* provision of upto Rs. 100 crores under U.S. 64.

There was a disucssion. A Trustee suggested that there was a case to consider a lower dividend under U.S. 64 in view of the large depreciation on the equity portfolio. Another Trustee expressed that a reduction in dividend may have an extremely adverse impact on the scheme. It was also pointed out that the accounting practice followed in India is to make a provision in the Revenue A/c for depreciation in the value of investments, though unrealised appreciation in the value of investments, is not taken to Revenue Account. This is quite different from the

International practice, as for instance followed in the case of the Indian Fund, which is an offshore fund of the Trust, where the depreciation is normally in the nature of a capital charge to the scheme, whereas the current income earned is distributed. The Board was also informed that similar *adhoc* provisions were made in respect of U.S. 1964 in 1983-84 and in respect of U.S. 64, Monthly Income Unit Scheme 1983 and Growth and Income Unit Scheme, 1983 in 1984-85. The Board deliberated the proposal at length. It considered the various aspects such as the GDP Growth expected during the year and the likely impact of the Union budget proposals on the economy in general and the capital markets in particular. The Board was of the view that looking to the fundamental strengths of the economy and the indications of improvements in the performance of corporate sector during 1997-98, there were reasons to believe that the Senex should reach at least the level of 3700 in the near future thereby suggesting that the depreciation in equity values is temporary.

Replying to a query, Chairman informed that full provisions have been made with regard to Non-performing assets as per the Board guidelines, and the current income of the schemes is sufficient to maintain the rate of income distribution declared in the previous year, after making *adhoc* provisions. The Board also took into account that U.S. 64 is an open ended scheme which has offered good consistent returns to the investors over decades and any reduction in dividend owing to this temporary depreciation may cause large scale repurchases forcing the Trust to unload the assets of the scheme in the market thereby causing a further fall in the indices and thereby destabilising the market. The Board, therefore, took a long term view and decided to make *adhoc* provisions as proposed.

Chairman also requested the Board to authorise the Executive Committee to decide the rate of income distribution/bonus/annuity in respect of Unit Scheme 95, I.I.S.F.U.S.' 95, S.C.U.P., R.B.P., G.U.P., H.U.S. and P.E.F.

After these discussions, the scheme-wise rates of income distribution were decided as under:

	Open Ended Schemes	Dividend%
(A)	Unit Scheme 1964	—Initial Capital 20%
		—Unit Capital 20%
(B)	U.S. 1971	16.5%
(C)	C.R.T.S. 1981	14% (including 7% interim income distribution).

The following resolution was passed:

"Resolved,

that income distribution for the year ending 30th June, 1998 for the following schemes be made at the rates mentioned there against:—

	Open Ended Schemes	Dividend%
(A)	Unit Scheme 1964	—Initial Capital 20%
		—Unit Capital 20%
(B)	U.S. 1971	16.5%
(C)	C.R.T.S. 1981	14% (including 7% interim income distribution).

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APPENDIX-XXXVII

(*vide* Para 19.3 of the Report)

Attendance for the Board Meeting held on June 06, 1995 for declaration of dividend under US 64 for the year ended June 30, 1995

Sr. No.	Name of Trustee	Appointed/Nominated/ Elected under various sections of UTI Act 1963	Status
1.	Dr. S.A. Dave—Chairman	10(a)	Attended
2.	Ms I T Vaz	10(aa)	Not Attended
3.	Shri S.H. Khan	10(b)	Attended
4.	Shri N.S. Sekhsaria	10(b)	Not Attended
5.	Dr. Arvind Virmani	10(b)	Attended
6.	Shri P.R. Khanna	10(b)	Not Attended
7.	Shri J.S. Salunkhe	10(c)	Not Attended
8.	Shri N. Vaghul	10(e)	Attended
9.	Shri J.V. Shetty	10(e)	Attended
10.	Vacant*	10(d)	—
11.	Vacant—Executive Trustee#	10(f)	—

* Vacant consequent upon resignation of Shri M.N. Goiporia, SBI *w.e.f.* 31.7.92.

Vacant consequent upon resignation of Shri K.N. Atmaramani, Executive Trustee *w.e.f.* 31.1.1995.

Attendance for the Board Meeting held on June 14, 1996 for declaration of dividend under US 64 for the year ended June 30, 1996

Sr. No.	Name of Trustee	Appointed/Nominated/ Elected under various sections of UTI Act 1963	Status
1	2	3	4
1.	Shri Jagdish Capoor-Chairman	10(a)	Attended
2.	Dr. P.J. Nayak—Executive Trustee	10(f)	Attended
3.	Shri R.V. Gupta	10(aa)	Attended
4.	Shri S.H. Khan	10(b)	Attended
5.	Shri N.S. Sekhsaria	10(b)	Attended
6.	Dr. Arvind Virmani	10(b)	Not Attended
7.	Shri P.R. Khanna	10(b)	Attended
8.	Shri J.S. Salunkhe	10(c)	Not Attended

1	2	3	4
9.	Shri P.G. Kakodkar	10(d)	Not Attended
10.	Shri N. Vaghul	10(e)	Not Attended
11.	Shri J.V. Shetty	10(e)	Attended

Attendance for the Board Meeting held on June 27, 1997 for declaration of dividend under US 64 for the year ended June 30, 1997

Sr. No.	Name of Trustee	Appointed/Nominated/ Elected under various sections of UTI Act 1963	Status
1.	Shri G.P. Gupta-Chairman	10(a)	Attended
2.	Dr. P.J. Nayak-Executive Trustee	10(f)	Attended
3.	Shri R.V. Gupta	10(aa)	Attended
4.	Shri S.H. Khan	10(b)	Not Attended
5.	Shri N.S. Sekhsaria	10(b)	Attended
6.	Shri P.R. Khanna	10(b)	Attended
7.	Shri G. Krishnamurthy	10(c)	Attended
8.	Shri N. Vaghul	10(e)	Not Attended
9.	Shri Rashid Jilani	10(e)	Attended
10.	Vacant-IDBI nominee*	10(b)	—
11.	Vacant#	10(d)	—

*Vacant consequent upon resignation of Shri Arvind Virmani *w.e.f.* 1.5.1997.
#Vacant consequent upon resignation of Shri P.G. Kakodkar, SBI *w.e.f.* 25.4.97.

Attendance for the Board Meeting held on June 27, 1998 for declaration of dividend under US 64 for the year ended June 30, 1998

Sr. No.	Name of Trustee	Appointed/Nommated/ Elected under various sections of UTI Act 1963	Status
1.	Shri G.P. Gupta-Chairman	10(a)	Attended
2.	Dr. P.J. Nayak—Executive Trustee	10(f)	Attended
3.	Shri S. Gurumurthy	10(aa)	Attended
4.	Shri S.H. Khan	10(b)	Not Attended
5.	Shri N.S. Sekhsaria	10(b)	Not Attended
6.	Shri P.R. Khanna	10(b)	Attended
7.	Shri G. Krishnamurthy	10(c)	Attended
8.	Shri M.S. Verma	10(d)	Attended
9.	Shri N. Vaghul	10(e)	Not Attended
10.	Shri Rashid Jilani	10(e)	Not Attended
11.	Vacant—IDBI nominee*	10(b)	—

*Vacant consequent upon resignation of Shri Arvind Virmani *w.e.f.* 1.5.1997.

APPENDIX XXXVIII

(*vide* Para 21.5 of the Report)

RECOMMENDATIONS OF THE MALEGAM COMMITTEE

1. The structure of UTI should be in line with SEBI regulations as applicable to mutual funds. Accordingly there should be a (i) Sponsor, (ii) a Trustee Company and (iii) an Asset Management Company (AMC).
2. The Sponsor should be a Sponsoring Company in which 40% of the share capital should be held by the institutions which hold the initial capital of UTI of Rs. 5 crores and which have made in 1999, the additional contribution of Rs. 445.5 crores pursuant to the Deepak Parekh Committee recommendations. (the Sponsoring Institutions).
3. 60% of the share capital of the Sponsoring Company should be held by a Strategic Partner who is a recognised player in the market and whose reputation and competence are expected to give the required degree of confidence to the unitholders. The field for the selection of the Strategic Partner need not be restricted to Indian entities.
4. The suggested share capital of the Sponsoring Company should be Rs. 550 crores of which Rs. 220 crores will be subscribed by the sponsoring Institutions and Rs. 330 crores by the Strategic Partner. To make the desired contributions, each of the Sponsoring Institutions should convert part or whole of their existing holdings in Unit-64 forming part of the initial capital of Rs. 5 crores and the additional contirbution of Rs. 445.5 crores into shares of the Sponsoring Company.
5. As some of the Sponsoring Institutions also own AMCs which manage mutual funds competing with UTI, no single Sponsoring Institution should hold more than 25% of the share capital of the Sponsoring Company.
6. To ensure that the confidence of the unit-holders should not be adversely affected by a sudden withdrawal of the Government umbrella, there should be a 'lock-in' period of three years during which the Sponsoring Institutions may transfer their shareholding in the sponsoring Company amongst themselves but not to the Strategic Partner or to third parties.
7. A Trustee Company should be incorporated as a wholly-owned subsidiary of the Sponsoring Company. It is suggested that the Trustee Company should have a capital of Rs. 5 crores.
8. UTI should convert itself into an AMC and consequently the existing infrastructure and organisation of UTI which presently form part of US-64 will become the infrastructure and organisation of the AMC.
9. The AMC will compensate US-64 for the infrastructure taken over by the issue of bonds carrying a market rate of return and with appropriate redemption terms to be determined taking into account the AMC's expected cash flows. For this purpose. UTI's fixed assets which currently have a book value of around Rs. 850 crores will be valued at their fair market value and bonds will be issued for that amount.

10. The capital of the AMC should be adequate not merely to finance the investment needed in the future infrastructure but also to provide a cushion as a source of comfort to the investors and when needed, an ability to infuse liquidity into the fund in the event of a crisis. It is therefore suggested that the AMC should have a capital of Rs. 1000 crores considering that UTI has investible funds of over Rs. 50,000 crores.

11. It is necessary that control over the large funds held by UTI (and particularly having regard to the large block of shares held by UTI in individual companies) should not rest with a single individual or group. It is also necessary that there should be an element of public accountability of UTI. It is therefore suggested that the shareholding of the Sponsoring Company in the capital of the AMC should be restricted to 40% and the balance 60% should be offered to the public.

12. In accordance with SEBI regulations, the AMC would be entitled to charge management fees to the different schemes. This income, after payment of expenses and interest on the bonds to be issued to US-64 and transfer to the Development Reserve Fund at the current rate should be sufficient to service the share capital.

13. There should be a single AMC to manage all the schemes of UTI.

14. It is necessary that US-64 is made NAV based before the restructuring of UTI is attempted.

15. It is also necessary that before US-64 is made NAV based, provision is made for the contingent liability arising out of the gap, if any, between the available assets in US-64 and guarantee price to individual unitholders' holdings upto 3000 units announced in July 2001.

16. It is equally necessary that provision is made for the contingent liability arising as a result of the gap between the pesent value of the future liability under assured return schemes and the value of the assets available under the schemes.

17. To reduce the size of this gap, the following steps should be taken:

    (a) The portfolios of these schemes should be recast as soon as it is practically possible, to ensure that the portfolio consists only of Government securities and debt instruments and all investments in equity are disposed off.

    (b) In respect of schemes where only one year's return is assured, the returns assured should be strictly in line with the earning capacity of the schemes.

    (c) The Income Tax Act should be amended to provide that dividends received on assured return schemes floated before 1st June 1999 would not be entitled to exemption of tax under Section 10(33) and correspondingly, no tax would be levied on the fund under Section 115R on dividends distributed to unitholders.

18. The Development Reserve Fund should be transferred to the AMC free of consideration after valuing the investments of the fund at their fair market value.

19. There should be a valuation made of UTI as a whole by an independent valuer. This valuation should take into account the goodwill attached to UTI arising out of its large unitholder base, its low operating costs as a percentage of investible funds and other relevant factors. It should also take into account the contingent liabilities arising out of the assured return schemes after adjusting the balance available in the Development Reserve Fund.

20. The prospective Strategic Partner should be invited to quote the value at which UTI's infrastructure and organisation should be converted into the AMC. If this value exceeds

the value of the assets of the scheme in excess should be credited to the various schemes in an appropriate manner. If however the value falls short of the value of the assets of the schemes, the shortfall, if not met by the holders of the intial capital of UTI and/or the Government, will need a reduction of the benefits under the assured returns schemes in an appropriate manner.

21. The UTI Act should be repealed and replaced by a new enactment. In enacting this Act, it should be ensured that the Government is totally distanced from UTI and transaction costs (e.g. stamp duties, taxes etc.) are minimised, if not eliminated and the ownership of the assets vests in the AMC at the lowest possible cost.

22. If the UTI Act were not to be repealed but merely amended, there is a danger that the Government may be left with residual responsibilities under the Act which would result in a public perception of continued Government accountability. In such a situation, it may become necessary to give UTI a fully Government character with senior-most positions in UTI being manned by Government officers. Clearly this is not a preferred outcome but it is mentioned only to emphasise the fact that accountability cannot be divorced from day to day management responsibility.