भारतीय रिज़र्व बैंक
_____RESERVE BANK OF INDIA_____
www.rbi.org.in

RBI/2008-09/492
DBS. CO. FrMC. BC. No. 7 /23.04.001/2008-09   June 05, 2009

Heads of all scheduled commercial banks
(excluding RRBs).

Dear Sir / Madam,

Closure of fraud cases - relaxation in the existing norms

Please refer to our Master Circular DBS.FrMC.BC.No 15 / 23.04.001 / 2007-08 dated July 1, 2008 on Frauds – Classification and Reporting. In terms of para 4.1.4 of the above circular, banks can close fraud cases only after:

   a) the fraud cases pending with CBI / Police / Court have been finally disposed off.
   b) the examination of staff accountability has been completed.
   c) the amount of fraud has been recovered or written off.
   d) insurance claim, wherever applicable, has been settled.
   e) the bank has reviewed the systems and procedures, identified the causative factors, plugged the lacunae and the relative facts have been certified by appropriate authority (Board / Audit Committee of the Board).

2. We had been receiving representations from various banks requesting us to allow them to close the old cases of fraud in which all actions at their end were completed but the investigation by CBI / Police or court cases filed by these agencies had been still pending for several years. This has been resulting in accumulation of large number of outstanding fraud cases in the

records of banks, projecting an adverse picture about the banks before the stakeholders / public, thereby exposing them not only to reputational risk but also lower rating by international agencies.

3. In the light of the said representations by the banks, the matter has since been reviewed by us and it has been decided that banks would be allowed, for limited statistical / reporting purposes, to close those fraud cases involving amounts upto Rs.25.00 lakh, where:

- the investigation is on or challan / charge sheet not filed in the Court for more than three years from the date of filing of First Information Report (FIR) by the CBI / Police, or
- the trial in the courts, after filing of charge sheet / challan by CBI / Police, has not started, or is in progress.

However, all such cases will be eligible for closure subject to the fulfillment of other conditions indicated at items (b) to (e) in paragraph 1 above.

4. With regard to the cases now being made eligible for closure, the banks will have to submit their proposals, case wise, for closure to the Regional Office of RBI under whose jurisdiction their Head Offices are situated. The cases may be closed after getting the approval of the respective Regional Offices of RBI. The banks should maintain the record of details of such cases in a separate ledger. Even after closure of the fraud cases for limited statistical purposes, banks should vigorously follow up with the investigating agencies (CBI / Police) to ensure that the investigation process is taken to its logical conclusion. Similarly, the banks should continue to ensure that they are regularly and appropriately represented in the court proceedings as and when required. All the relevant records pertaining to such cases must be preserved till the cases are finally disposed of by CBI / Police or Courts, as the case may be.

5. The banks may, with the approval of their respective Boards, frame their own internal policy for closure of such fraud cases, incorporating the above revised norms and other internal procedures / controls as deemed necessary.

6. Notwithstanding the fact that banks may close cases of fraud even when Police / CBI investigation is in progress or cases are pending in the court of law, they should complete, within the prescribed time frame, the process of examination of staff accountability or conclude staff side actions.

7. In cases of frauds involving amounts above Rs.25.00 lakh, all conditions from (a) to (e) as mentioned in paragraph 1 above have to be complied with for closure, as before. There is no modification in norms for closure in respect of this category of fraud cases.

Yours faithfully,

Sd/-

(P. K. Panda)
Chief General Manager