

PRESS RELEASE



RESERVE BANK OF INDIA

www.rbi.org.in

www.rbi.org.in/hindi

e-mail: helpprd@rbi.org.in

PRESS RELATIONS DIVISION, Central Office, Post Box 406, Mumbai 400001
Phone: 2266 0502 Fax: 2266 0358, 2270 3279

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**Collection of account payee cheque –
Prohibition on crediting proceeds to third party account**

In view of the recent misuse of Initial Public Offer (IPO) process by certain individuals/entities and reports received in this regard from Securities and Exchange Board of India (SEBI), the Reserve Bank of India took up detailed investigations at some banks to ascertain the modus operandi adopted by different parties in manipulating the system. It was observed that despite extant instructions, banks had credited the proceeds of individual account payee refund orders into the accounts of the brokers instead of to the individual accounts on the request of the associates of DP providers. This has resulted in manipulation of the payment system and has facilitated the perpetration of irregularities. This manipulation would not have taken place but for the banks deviating from the procedure for collection of account payee cheques. The deviations can also not be sanctified as a prudent market practice since it has the potential to expose the banks to various risks.

The Reserve Bank has considered it necessary to prohibit the banks from crediting 'account payee' cheque to the account of any person other than the payee named therein. The Reserve Bank accordingly directed the banks that they should not collect account payee cheques for any person other than the payee constituent.

A circular in this regard has since been posted on the RBI Web-site (www.rbi.org.in).

P. V. Sadanandan
Manager

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