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Show cause notice proposing to classify loan as fraud quashed as forensic audit was inconclusive

The High Court set aside a show cause notice issued by a bank proposing to classify a borrower's loan account as "fraud" under RBI guidelines.

Key Findings

- The bank's action was based on a forensic audit report.
- However, the forensic audit was inconclusive because the borrower's relevant records and documents were not available for examination.
- Since the audit did not provide a conclusive basis for alleging fraud, the show cause notice lacked adequate foundation.
- Accordingly, the Court quashed the notice.

Liberty to the Bank

- The Court allowed the bank to initiate fresh proceedings in accordance with law.
- Such action may be taken only after obtaining and examining all relevant records and evidence necessary to properly assess the matter.

Significance

- Fraud classification cannot be based on incomplete or inconclusive audit findings.
- Banks must ensure a proper evidentiary basis before initiating fraud-classification proceedings.
- The decision reinforces principles of fair procedure and natural justice in actions that can have serious consequences for borrowers.

One-Line Summary

The High Court quashed a bank's fraud-classification show cause notice because the underlying forensic audit was inconclusive due to missing records, while permitting the bank to proceed afresh after obtaining the necessary evidence.