

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:93
ANSWERED ON:27.07.2001
BADLA TRANSACTION IN SHARE MARKET
VILAS BABURAO MUTTEMWAR

Will the Minister of FINANCE be pleased to state:

- (a) whether with a view to regulate the working of share market, SEBI have decided to ban the badla transactions w.e.f. July, 2001;
- (b) whether the investors have been diverting funds out of badla into greener pastures like debt funds and bank fixed deposits after returns on badla started to plummet; and
- (c) if so, how far the proposed decision of banning badla transactions will boost transparency in the functioning of stock exchanges?

Answer

MINISTER OF FINANCE (YASHWANT SINHA)

- (a) to (c): A statement is laid on the table of the House.

STATEMENT REFERRED TO IN REPLY TO LOK SABHA STARRED QUESTION NO. 93 (POSITION NO. 13) FOR 27.7.20 REGARDING BADLA TRANSACTION IN SHARE MARKET

(a): Based on the recommendations of the J.R. Varma Group constituted by SEBI to review the need for having deferral products in rolling settlement, the SEBI Board in its meeting held on May 14, 2001 decided that all deferral products including Badla would cease to be available with effect from July 02, 2001, except for transitional measures for liquidation of existing positions.

(b): There has been a decline in outstanding positions in the deferral products on all the exchanges after SEBI decided to ban all the deferral products with effect from July 02, 2001. RBI has intimated that since restriction on badla transactions have been introduced only in July, 2001, the time that has elapsed is too short for this to be reflected in the reports that are submitted by banks to RBI.

(c): From July 2, 2001, rolling settlement on T+5 basis has been introduced in additional 251 scrips which includes all scrips which had the facility of Carry Forward. All deferral products have been discontinued. The remaining scrips will be traded on account period basis with uniform settlement cycle (Monday to Friday) on all stock exchanges and will be moved to rolling settlement to January 2, 2002. A Value At Risk (VAR) based margin system has been introduced which is based on a universally accepted statistical model. The system of unique client code is also to be introduced by the exchanges from September 3, 2001 and margin will be calculated on gross basis. With the discontinuation of deferral products, stock options on selected 31 stocks has been permitted on the exchanges. Market wide index based circuit breakers, as is available in other markets, have been introduced w.e.f. July 2, 2001. Excluding the stocks which are in the BSE Sensex and S&P CNX NIFTY and on 31 stocks on which options have been permitted, the remaining stocks will have a 20% price band. These measures are expected to enhance safety and transparency in the functioning of stock exchanges.