

**GOVERNMENT OF INDIA
FINANCE
LOK SABHA**

STARRED QUESTION NO:684

ANSWERED ON:13.05.2005

DEFAULTING STOCK BROKERS

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Will the Minister of FINANCE be pleased to state:

- (a) whether the Government has declared some stock brokers as defaulters under the relevant laws/regulations during the last three years;
- (b) if so, the details thereof and the action taken against them, stock exchange-wise;
- (c) whether some Overseas Corporate Bodies have also been blacklisted during the said period;
- (d) if so, the details thereof; and
- (e) the steps taken by the Government to regulate the activities of brokers and Overseas Corporate Bodies in the country with a view to protecting the interests of the investors?

Answer

THE MINISTER OF FINANCE (SHRI P. CHIDAMBARAM) :

(a) Under section 9 (2) (k) of the Securities (Contracts) Regulation Act, 1956, bye-laws of recognised stock exchanges may provide for the consequences of default by a stock broker. Accordingly, from time to time, recognised stock exchanges, under their respective bye-laws, declare as defaulters such stock brokers who are unable to fulfil their obligations; or who admit or disclose their inability to fulfil or discharge their duties etc.

(b) The details of stock brokers who have been declared defaulters and action taken against them in respect of BSE, NSE and Calcutta stock exchanges are given in the Statement enclosed.

(c) to (e) Overseas Corporate Bodies (OCBs) were prohibited from investing in the stock exchanges under the Portfolio Investment Scheme (PIS) with effect from November 29, 2001. OCBs were derecognised as a class of investor entity with effect from 16th September, 2003. The list containing the name of the OCBs coming to the adverse notice of RBI includes the names of those erstwhile OCBs who had not responded to the request of RBI for details of their non PIS transactions. The operations in the accounts of such OCBs have been blocked by RBI. As and when the requisite information is received from the OCBs, their accounts are deblocked. As on 31st December 2003, there were 382 OCBs who come to the adverse notice of the RBI. As on date the number of such OCBs is 343. SEBI Act, 1992, read with SEBI (Stock Brokers and Sub-brokers) Regulations, 1992, empowers SEBI to register and regulate the working of stock brokers as also to undertake inspection of stock brokers. The various steps taken by SEBI to check the activities of brokers in the country are enlisted below :

* SEBI has been undertaking both surprise and annual inspection of stock brokers of the active stock exchanges and subsidiaries in exercise of the power conferred under regulation 19 of the SEBI (Stock Brokers and Sub-brokers) Regulation, 1992.

* Investigation are also carried out into the activities of stock brokers as and when required.

* Regulation 18A of SEBI (Stock Brokers and Sub-brokers) Regulation, 1992 provide for appointment of a compliance officer by brokers who shall be responsible for monitoring the compliance of various rules and regulations and to report independently to SEBI any non-compliance observed by him.

* SEBI has also mandated the stock exchanges to inspect at least 20% of the active stock brokers every year. From the surveillance angle also, exchanges monitor brokers' trading position based on various parameters such as margin payments, concentration, capital adequacy etc.

* Stock brokers have to strictly adhere to capital adequacy, net worth and margining requirements which are an essential part of overall risk management.