

**GOVERNMENT OF INDIA  
FINANCE  
LOK SABHA**

UNSTARRED QUESTION NO:876

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GRADING SYSTEM

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**Will the Minister of FINANCE be pleased to state:**

(a) whether the Securities and Exchange Board of India (SEBI) propose to introduce grading system for stock brokers in BSE, NSE and other stock exchanges as reported in Business Standard dated January 9, 2006;

(b) if so, the details thereof;

(c) the possible merits and demerits of introducing such a grading system, and

(d) the other steps taken to ensure protection to small time brokers?

**Answer**

MINISTER OF STATE FOR FINANCE (SHRI PAWAN KUMAR BANSAL)

(a)&(b);Yes, Sir. Securities and Exchange Board of India (SEBI) has informed that has prepared a draft concept paper on rating of market intermediaries, to begin with for brokers and has invited public comments on the concept paper. SEBI in its concept paper had outlined the factors that need to be taken into account while arriving at a rating decision by rating agencies. These include various parameters such as organisation structure, risk management policy and system, policy on investor interest, process and procedures in place, management policy on compliance, financial history, background, firm's positioning etc.

(c) As intermediaries play an important interface between investors and exchanges, it was felt that there was a need for professional rating of market intermediaries which could serve as additional information which the investors can take into account while dealing through a SEBI registered intermediary. It would also help investors evaluate and compare intermediaries in terms of quality, competence, professionalism and standards of ethics being adopted by market intermediaries. It will also help spur growth of professionally managed entities. It is believed that it would ensure greater transparency in operations, strengthen the disclosure requirements and risk management systems, and improve the compliance standards. Benchmarking with others in the field is expected to spur the intermediaries to constantly improve and upgrade their performance. Any rating process carries an element of subjectivity.

(d) The concept paper proposes rating on voluntary basis and broker, big or small, is free to opt for rating. The concept paper has also proposed that appropriate weightages may be given to various factors by rating agencies to provide for a level playing field to smaller as well as big brokers.