

LOK SABHA DEBATES

LOK SABHA

Friday, July 24, 1998/Shravana 2, 1920 (Saka)

*The Lok Sabha met at
Eleven of the Clock*

[MR. SPEAKER in the Chair]

[English]

OBITUARY REFERENCE

Mr. SPEAKER : Hon'ble Members, I have to inform the House of the sad demise of one of our former colleagues, Shri Vijayasinhrao Ramrao Dafle.

Shri Vijayasinhrao Ramrao Dafle was a Member of the Third Lok Sabha representing the erstwhile Miraj Parliamentary Constituency of Maharashtra during 1962-67.

Earlier, he was a Member of the erstwhile Bombay Legislative Assembly during 1952-62.

An agriculturist by profession, Shri Dafle was a well-known active social and political worker. He worked for imparting free primary and secondary education and almost free medical aid to the people of his State and donated liberally towards several charitable and social institutions in the country.

A courageous man as he was, Shri Dafle joined 'Navdal' Army and participated in the Second World War during 1944. He was awarded a honorary rank of Lieutenant-Commander in the Indian Navy as a mark of appreciation of his services to the Armed Forces of India.

Shri Vijayasinhrao Ramrao Dafle passed away on 12th July, 1998 at Sangli, Maharashtra at the age of 89.

We deeply mourn the loss of this friend and I am sure the House will join me in conveying our condolences to the bereaved family.

The House may now stand in silence for a short while as a mark of respect to the memory of the departed soul.

The Members then stood in silence for a short while.

SHRI BASU DEB ACHARIA (BANKURA): Sir, the Government assured the House that it would table the Jain Commission Report by the end of this Session. But yesterday, the Cabinet took a decision of appointing a Group of Ministers to examine both the Report and the Action Taken Report.

MR. SPEAKER: Shri Acharia, you can raise it during the Zero Hour.

(Interruptions)

[Translation]

DR. PRABHA THAKUR (AJMER): Mr. Speaker, Sir, it is a very serious matter ...*(Interruptions)*

In spite of statement made by the Hon. Minister of Parliamentary Affairs, we have come to know from today's newspapers that tabling of the Jain Commission Report on Rajiv Gandhi assassination, is being deferred

[English]

MR. SPEAKER: Madam, please take your seat. Q. 542, Shri R. Sambasiva Rao.

ORAL ANSWERS TO QUESTIONS

[English]

Stock Exchange

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*542. SHRI R. SAMBASIVA RAO:

SHRI AMAN KUMAR NAGRA:

Will the Minister of FINANCE be pleased to state:

(a) whether there has been a rapid increase in the price of certain scrips at the bourses recently;

(b) if so, the reasons for manipulation in price of certain scrips and the details of these scrips;

(c) whether the Security and Exchange Board of India has conducted any investigation into the price rigging at the bourses and the payment crisis;

(d) if so, whether the Government have received the report;

(e) if so, the details thereof; and

(f) if not, the action proposed to be taken to avoid such rigging in future in order to safeguard the small investors from price manipulations?

THE MINISTER OF FINANCE (SHRI YASHWANT SINHA):
(a) to (f) A statement is laid on the Table of the House.

Statement

(a) and (b) : Noticeable increase in prices has taken place in the scrips of BPL Ltd., Videocon International Ltd., Sterlite Industries Ltd., Pentafour Software Ltd. There are several factors which influence the prices in the stock market. These include expectations of the investors regarding the performance of the corporate sector and the economy in general, perceptions of the investors about economic policies of the Government, developments in the international capital market, speculative activity etc. The principal considerations of Government and the stock market regulator, the Securities and Exchange Board of India (SEBI) is to ensure that the stock markets operate in an orderly and transparent manner in full compliance with the rules and the regulations of the regulator. The movement of Stock Indices since May 1998 is given in the Annexure.

(c) and (d) SEBI has initiated investigations into the suspected price manipulation in the scrips mentioned at (a) above. The investigations are still in progress.

(e) and (f) Do not arise.

Annexure

Movement of stock indices since May 1998

| Date | BSE Sensex | NSE-50 |
|----------|---------------|---------|
| 1 | 2 | 3 |
| 04/05/98 | 4135.81 | 1185.15 |
| 05/05/98 | 4147.29 | 1168.10 |
| 06/05/98 | 4069.79 | 1172.45 |
| 08/05/98 | 4022.20 | 1161.55 |
| 12/05/98 | 3945.13 | 1132.25 |
| 13/05/98 | 3782.76 | 1094.10 |
| 14/05/98 | 3897.94 | 1118.65 |
| 15/05/98 | 3849.80 | 1110.10 |
| 18/05/98 | 3908.48 | 1119.80 |
| 19/05/98 | 3924.42 | 1121.75 |
| 20/05/98 | 3956.93 | 1141.30 |
| 21/05/98 | 3908.79 | 1126.15 |
| 22/05/98 | 3897.10 | 1126.55 |
| 25/05/98 | 3908.11 | 1122.95 |
| 26/05/98 | 3875.06 | 1104.45 |
| 27/05/98 | 3777.19 | 1090.95 |
| 28/05/98 | 3721.93 | 1075.55 |
| 29/05/98 | 3686.39 | 1063.15 |
| 01/06/98 | 3642.68 | 1053.75 |
| 02/06/98 | 3573.21 | 1019.60 |
| 03/06/98 | 3597.98 | 1033.90 |
| 04/06/98 | 3546.21 | 1027.00 |
| 05/06/98 | 3417.89 | 993.50 |
| 08/06/98 | 3416.73 | 968.60 |
| 09/06/98 | 3468.07 | 995.05 |
| 10/06/98 | 3311.41 | 962.90 |
| 11/06/98 | 3335.76 | 961.35 |
| 12/06/98 | 3347.41 | 971.15 |

| 1 | 2 | 3 |
|----------|---------|---------|
| 15/06/98 | 3152.96 | 916.80 |
| 16/06/98 | 3161.08 | 910.10 |
| 17/06/98 | 3400.95 | 976.50 |
| 18/06/98 | 3292.33 | 956.15 |
| 19/06/98 | 3143.10 | 913.25 |
| 22/06/98 | 3078.51 | 880.20 |
| 23/06/98 | 3037.34 | 875.60 |
| 24/06/98 | 3143.64 | 908.50 |
| 25/06/98 | 3208.54 | 932.15 |
| 26/06/98 | 3168.82 | 924.35 |
| 29/06/98 | 3289.56 | 949.10 |
| 30/06/98 | 3250.69 | 941.65 |
| 01/07/98 | 3230.60 | 942.25 |
| 02/07/98 | 3180.73 | 919.90 |
| 03/07/98 | 3089.02 | 900.55 |
| 06/07/98 | 3178.31 | 918.75 |
| 07/07/98 | 3195.94 | 944.15 |
| 09/07/98 | 3331.98 | 961.05 |
| 10/07/98 | 3401.74 | 980.15 |
| 13/07/98 | 3322.17 | 964.35 |
| 14/07/98 | 3371.50 | 967.35 |
| 15/07/98 | 3365.72 | 971.40 |
| 16/07/98 | 3488.77 | 1004.05 |
| 17/07/98 | 3470.80 | 1000.95 |
| 20/07/98 | 3384.75 | 977.30 |

SHRI R. SAMBASIVA RAO: Mr. Speaker, Sir, I would like to know from the hon. Minister whether the probe launched by the SEBI would also look into what prompted the upsurge in the stock prices and how the brokers have built up the positions in the selected markets, and whether the action taken by the concerned Stock Exchanges was adequate or not, to stop rigging and payment crisis. I would also like to know whether the special margins imposed by the Mumbai Stock Exchange were suddenly withdrawn. What steps are being taken by the SEBI to regulate the trade through imposition of margins and force the participants to settle the deals early?

SHRI YASHWANT SINHA: Sir, as the reply to the question clearly states, it was noticed that there were four scrips where undue volatility had taken place on certain days and weeks in the stock-market in Mumbai.

This raised questions about the validity of these increases in prices and the volatility noticed therein and then this matter came to the notice of the regulator namely, the SEBI. They ordered an inquiry into this matter. Now even pending inquiry into the matter, a number of steps have been taken by SEBI to ensure that such volatility does not take place. For instance, on the 15th June, SEBI imposed two additional margins on outstanding trading positions. SEBI imposed an additional 10 per cent margin on incremental carried forward position and 5 per cent margin on concentrated position. If the carried forward position in any stock at the end of the settlement exceeded 3 per cent of the total number of paid up share, a margin of 10 per cent was to be levied for every increase of one per cent or part thereof on incremental basis over and above the existing carried forward margin. Another margin amount of 5 per cent on the outstanding position in individual stocks is to be levied. For this computation, the following three slabs of concentration have been introduced:

- (a) Where concentration in any one security is more than 50 per cent of a broker's total outstanding position;
- (b) Where concentration in any two securities taken together is more than 65 per cent; and
- (c) Where concentration in any three securities taken together is more than 80 per cent;

The idea is to ensure that a member spreads his exposure across all scrips so that there is no manipulation and also he is not hurt if the scrips record excessive sale.

These are the steps which SEBI has introduced even pending inquiry into this matter.

SHRI R. SAMBASIVA RAO: I would like to know whether bailing out process at Mumbai Stock Exchange is a part of manipulation and also whether the brokers and the persons behind this were identified and appropriate action against them taken under the SEBI Act.

SHRI YASHWANT SINHA: As I have already stated, the matter is still under inquiry by SEBI as to whether the Mumbai Stock Exchange or any one in the Mumbai Stock Exchange had any role to play and whether the Mumbai Stock Exchange discharged its responsibilities... (*Interruptions*)

The Mumbai Stock Exchange, whether it played the role it was supposed to, whether surveillance mechanism was in place, all these are matters which are under inquiry by the SEBI and we will be in a position to proceed further in the matter after the inquiry is completed.

SHRI R. SAMBASIVA RAO: But it is clearly shown from the Mumbai Stock Exchange itself. Initial action can be taken.

[*Translation*]

SHRI AMAN KUMAR NAGRA: Mr. Speaker, Sir, ups and downs is a common feature in the stock markets. It has been observed that after the Harshad Mehta scam, share prices suddenly crashed. At that time also this enquiry was done. After that, when nuclear tests were conducted, the share prices declined again. Through you, I want to know from the

hon. Minister as to what steps the Government are taking to prevent the recurrence of such incidents? In this regard, the Minister had stated that some cracks appeared after the nuclear tests. I would like to know about the concrete steps the Government would like to take to improve the market situation so that small entrepreneurs could get the opportunity to make progress?

SHRI YASHWANT SINHA: Mr. Speaker, Sir, it is true that fluctuations do take place in the share market and these fluctuations within limits are a common phenomenon in the share market. If there is too much fluctuation, a system called the circuit breakers is there to counter the situation. If there is a spurt or fall in the market, there is a system to warn which becomes effective automatically, but even under this system also, it is possible that if some persons intend, they can raise the value of some shares gradually over some weeks and this very tendency came to our notice or was detected by the SEBI that shares of some companies were very high and when depreciation started there was crisis. I am satisfied that nowhere payment crisis arose because our stock exchanges are capable of avoiding payment crisis and there are provisions for dealing with such a situation. But like a regulator, the Comptroller's role is that he should ensure that market does not undergo too much appreciation or depreciation and for this purpose, there are a number of rules and regulations.

The second question of the hon. Member was as to which cement we would apply to fill the cracks appearing after nuclear tests. I would like to inform the House that no cracks have at all appeared. If there is some scratch we have the solid cement in the form of nation's strength to fill all cracks.

[*English*]

SHRI SUDHIR GIRI: Mr. Speaker, Sir, through you, I wish to put a supplementary. The hon. Finance Minister has observed that a noticeable increase in the prices has taken place in the scrips of certain corporate bodies. We know that the unusual increase in the capital market certainly reflects in the economy as a whole. As a result, prices in the general market increase. In this background, may I know from the hon. Minister which are the specific steps taken by the Government to arrest the price rise in the common market and in the general economy as well?

SHRI YASHWANT SINHA: The purport of his question is not very clear to me. Does he mean arresting the price rise of scrips of the Mumbai Stock Exchange or the general price rise?

SHRI SUDHIR GIRI: It is about the general price rise because it is reflected in the general economy.

SHRI YASHWANT SINHA: First of all, I would like to say that there are various factors which determine the movement of share prices. It is basically propelled by one single word in the English language which is called "sentiment. There are a whole lot of factors which contribute to that sentiment. They could be internal. They could be economic. They could be political and they could be international. Yesterday, the Sensex crashed by over 100 points because there were some developments in Japan. So, there are various factors which

are influencing the sentiment in the market. The Sensex goes up and down in response to that sentiment. It is not always correct to say that it is related to or reflective of the fundamentals of the economy. It is often completely divorced from the fundamentals. They work according to their own little world. The economy works according to its own momentum. So, there is not always a correlation.

As far as the general prices are concerned, we have had discussions in this House on that on a number of occasions. I do think it is related directly to this question. So, I save the time of the House by preventing myself from answering that question.

[Translation]

SHRI DATTA MEGHE: Mr. Speaker, Sir, the Minister said that enquiry has been initiated. I would like to know from the hon. Minister as to when this enquiry is going to be completed? Brokers like Harshad Mehta create hurdles for small people investing in shares. Have the Government formulated any scheme to check persons like Harshad Mehta and remove the difficulties of small investors?

SHRI YASHWANT SINHA: Mr. Speaker, Sir, it is a well known fact that in 1992, an infamous scam took place and a Parliamentary Committee was constituted to enquire into this scam. I had also the opportunity to be a member of this enquiry committee. This committee presented its recommendations before the Parliament and the Government took number of steps on the basis of these recommendations so as to check recurrence of such a scam. The present scam cannot be compared with that scam in anyway. Because of the steps taken on the basis of the recommendations now we immediately identify such circumstances and take immediate action. In the middle of last month, around 15th June the SEBI started the enquiry and before coming to the House I asked the SEBI as to how much more time they would take? They have informed that they would complete the enquiry in six to eight weeks. After that steps as would be deemed fit would be taken.

[English]

DR. C.P. THAKUR: Sir, this Harshad Mehta phenomenon had occurred in spite of the Finance Department, in spite of the Department of Banking, in spite of the Vigilance Department and in spite of the Income Tax Department. After that phenomenon, again there is some irregularity.

Therefore, in view of all this, is the hon. Finance Minister contemplating to take some drastic steps so that such phenomenon is not repeated in future?

SHRI YASHWANT SINHA: Yes, Mr. Speaker, Sir, it is true that the 1992 Securities Scam took place despite the fact that there were a number of measures, laws and rules in position. But this is a constant battle which goes on between those who frame the rules, the laws and implement them, and those who want to violate them. There is a constant struggle which is going on. People are there who would like to skirt around, find out the loopholes and take advantage of them. But I would like to assure the hon. Member, as I have just now said,

that a number of very strict measures have been put in place after the 1992 Securities Scam and especially, after the recommendations of the Joint Parliamentary Committee. I would like to assure the House that what has happened now, is a very very small-scale operation but to make sure that even these things do not take place in the stock market, the SEBI has already started enquiry, and I can assure the House that we shall not only make systematic improvement but we shall also take the severest steps against the wrong-doers in this particular case.

[Translation]

SHRI CHETAN CHAUHAN: Mr. Speaker, Sir, we see that during the last three years while raising money through market, number of issues is decreasing and the money is also decreasing. It is a matter of concern that industry is not getting money from banks because there is credit squeeze in banks. The previous Governments effected control on the money to be given to industries by the banks so as to lower the supply of money for controlling inflation. Now where they would get it from for their working capital. I want to know from the hon. Minister as to whether the Government feels that presently there is a need to give some encouragement to the money market?

[English]

If the Government says that we should encourage them, then what are the steps the Government is taking so that more issues can come in the market, more money can be raised and some kind of respite can be given to the industries?

[Translation]

SHRI YASHWANT SINHA: Mr. Speaker, Sir, there are two types of markets — primary market and secondary market. So far we were discussing secondary market and this question is also related to secondary market. Under secondary market shares are listed at Mumbai Stock Exchange; their transaction takes place everyday, their rates fluctuate. The question raised by the hon. member is related to primary market, because issues coming in primary market are brought by companies in the market after full disclosure on the basis of which they try to raise money.

Sir, both the questions of the hon. Member are correct. During the past years, on the one hand industries did not get support from banks which they were supposed to get and on the other hand, the primary market also remained down. It is a matter of concern. That is why, while making my budget speech I raised this issue and said that today our country needs to restore the faith of small investors in the capital market and we should persuade and encourage them to invest their money in stock market without any apprehension and fear. There are a number of provisions for this. We are considering all remedial measures to safeguard the interests of small investors.