

13.00 hrs.

- (ii) **Need to release adequate funds for construction of a protection wall and embankment to protect the Samadhi of late Shri Y. B. Chavan at Karad in Maharashtra from erosion by river Krishna**

SHRI PRITHVIRAJ D. CHAVAN (KARAD): Sir, I wish to raise the following matter under Rule 377.

The Samadhi of late Shri Y. B. Chavan, the former Deputy Prime Minister of India, is located on the banks of river Krishna at Karad in Maharashtra. During rainy seasons the floods erode the banks and pose danger to the Samadhi. There is a proposal to construct a protection wall and embankment to protect the monument. The hon. Minister for Water Resources, Shri Vidyacharan Shukla has himself visited the site in April, 1992. The plans have been drawn up by the State Government. The Central Government has promised to support them.

I request the Central Government to release funds for carrying out this work immediately in keeping with the sentiments of the people of Karad.

- (iii) **Need for diversion of National Highway No. 52 and Construction of Bridge on Mangaldoi River at Mangaldoi Town in Assam**

SHRI PROBINA DEKA (MANGALDOI): Sir, there is great need for diversion of National Highway No. 52 at district headquarter Mangaldoi Town, my Parliamentary constituency in Assam. Due to diversion, Mangaldoi Town would be protected from river Brahmaputra and communication will be more convenient.

Moreover, the condition of bridge on Mangaldoi river is deteriorating day by day as it was constructed during British rule, in 1936. It may collapse any time. Therefore, there is a great need for reconstruction of the bridge.

I urge upon the Central Government to look into the matter early.

- (iv) **Need for early release of more Funds from Calamity Relief Fund to Orissa**

SHRI BRAJA KISHORE TRIPATHY (PURI): The State of Orissa which is ravaged by natural calamities in the shape of drought, cyclone and flood every year has also experienced an unprecedented calamity of flood thrice this year. Funds under Calamity Relief Fund is too meagre to meet the requirement of the State. A memorandum has already been submitted by the State Government to the Union Government to enhance the annual corpus of the funds to Rs. 110.00 crore. Considering the genuine demand of the State, the Central Government may consider release of at least Rs. 100.00 crore as a Non-Plan grant to enable the State Government to carry on restoration work without interruption. The immediate requirement of funds for repair and restoration of projects is estimated at Rs. 188.40 crore.

I urge upon the Government of India to release the amount required by Special Assistance early.

- (v) **Need to sanction adequate funds for Construction of pucca embankments on Falgu River in Nalanda District, Bihar**

[Translation]

SHRI VIJOY KUMAR YADAV (NALANDA): Mr. Speaker Sir, Bihar is the most backward State from the point of irrigation. More than one crore rupees will be required if pucca embankments are constructed on both sides of Falgu river. The Central Government has assured that the construction work will be undertaken after making an assessment of the expenditure involved in it but the Government has not taken any step in this direction.

Therefore, my submission to the Central Government is that steps should be taken immediately to construct embankments so that it proves helpful in irrigation.

[English]

MR. DEPUTY-SPEAKER: Now, the House stands adjourned to meet at 2.00 p.m.

13.03 hrs.

The Lok Sabha then adjourned for Lunch till Fourteen of the Clock.

14.09 Hrs.

The Lok Sabha re-assembled after Lunch at Nine Minutes past Fourteen of the Clock.

(Mr. Deputy-Speaker in the Chair)

STATUTORY RESOLUTION RE: DISAPPROVAL OF THE SECURITIES LAWS (AMENDMENT) ORDINANCE: AND

SECURITIES LAWS (AMENDMENT) BILL

[English]

MR. DEPUTY-SPEAKER: The House will now take up Items No. 16 and 17 together. The time allotted is one-and-half hours. Shri Santosh Kumar Gangwar.

[Translation]

SHRI SANTOSH KUMAR GANGWAR (BAREILLY): I beg to move the Resolution:

"That this House disapproves of the Securities Laws (Amendment) Ordinance, 1995 (No. 5 of 1995) promulgated by the President on January 25, 1995."

Mr. Deputy Speaker, Sir, it appears from the Government policy of bringing the ordinance, that this Government is running merely on the basis of ordinance. It seems to me that the ordinances have lost their importance.

The sessions of the Lok Sabha are held after a short period. Even then if there is a weak long holiday, an ordinance is brought, be it of some use or not. I do not

want to say anything against SEBI but there are certain things, which the Government must know and take effective steps accordingly. SEBI was set up in 1991 and it was expected that it will start functioning immediately since it was set up very late, a loss of thousands of crores of rupees was suffered. What is the effect of making up that loss? Recently the ordinance was issued on 25th January but what has happened after that? These days M.S. Shoes is very much talked about but even after that SEBI has been keeping silence. It was discussed throughout the country. Its managers were from SBI, Capital Market, Tourism And Financial Corporation of India, Loyd Finance, Bank of India, Bank of Baroda and Merchant Bank etc. Even then no effective step has been taken by SEBI. I am at a loss to know, what was the lacuna in the ordinance, brought earlier?

I am not a scholar of economics, but I know the meaning of SEBI and what are its main functions. The main function of SEBI is to give protection to the small depositors and investors but it is sad that the same is not going on. When the nationalisation of banks was done, the faith of the people in the banks increased. They thought that the banks will function in a proper way. But the result is that some banks are running in loss of more than 8.5 thousand crore rupees and these include the nationalised banks also. I would not like to take time by giving the details of the loss but certain things should be understood. SEBI had rights earlier also. It is written in Article 11(2) (B) that:

[English]

"to register and regulate the working of market intermediaries"

[Translation]

but it is not being done. Our Finance Ministry and the hon. Finance Minister is worried as to whether we will be able to work in a proper way after reconstitution. The population of our country is 80 crore. There are a number of small investors. If they loose their confidence, the economy of the country will definitely be affected. The hon. Finance Minister should pay attention towards what is going on in the country at present. If we do not protect the money of the small investors and if we work for a few people then it will be of no use at all. I am talking about the small investors since, there is a bank Kashinath in the area, to which I belong. It is a separate thing that recently I have come to know that the bank is going to be handed over to the Toranto group but for the last one and half years, the future of the depositors and the employees is very uncertain. Even today the people come to us and tell us that their money is deposited in that bank, they have the receipt of the fix deposits and why they are not getting the refund of their money.

There are so many chit companies and finance companies in the country. If you look at it you will see that all the chit companies have been going to contracting people personally to collect small amounts from the people for the last many years. Only small investors invest in these chit fund companies with solely one thing in their

mind that they will not get much through the banks while these chit companies allure them with high return. These companies claim that your money would increase four times in five years and 10 times in 10 years. The people who deposit their money in these companies, are small depositors who deposit their daily wages after earning from their business, but that chit company clandestinely closes down after 4-5 years and its owners disappear. I have written several letters to the hon. Minister of Finance in this regard that there are such big companies like Loyd Company, Sahara Company, Janpriya company which are earning crores of rupees but they are not making the due payments to the public. I got a reply from the Ministry of Finance that they are unable to get the dues recovered from them. This way such people betray the trust of the Ministry of Finance.

The WIMCO company cheated people of Uttar Pradesh and the farmers of the country while being hand-in-glove with NABARD. They brought the farmers of the whole country to such a pass that now the farmers are almost on the verge of being forced to sell off their land. When we raise this matter at district level and write to NABARD to look into it, then NABARD says that they cannot do anything. The farmer does not get a remunerative price for his produce and in order to pay back his dues to the bank he is forced to sell off his land. I would like to know about the role of SEBI in all this. SEBI should not confine itself to be concerned about a handful of investors or public issue owners. But in fact, it is his duty to be concerned about the whole country. We have to work according to that. I desire that you should take all these works under your jurisdiction which would make your stand legal and then when you work accordingly, I am sure, we would be able to work towards achieving our objectives and at the same time the small investors would also benefit from it. They would also feel that their money is secure and then they would be more motivated to deposit more amount. But I feel attention is not being given accordingly.

These days newspapers are publishing advertisements such as 'invest in the 'Tree scheme' and you will get your amount ten fold, twenty-fold, twenty-five fold after twenty years.' Is the Ministry of Finance taking guarantee of this? Is the Ministry of Finance making it sure that a person who is investing ten thousand rupee will actually get one lakh rupees after 20 years? Will his Rs. 10 thousand be safe? If it is not so, then stringent steps must be taken in this regard. Action should be taken in this regard with alacrity. The district to which I belong has more than one hundred registered finance companies and there are some such finance companies which exist only on paper. Such companies get people invest their money in them but do not refund their amount. I am of the view that all these things come under the purview of SEBI.

It can be believed that after coming into being in 1991 SEBI might have felt that it has not been able to work as effectively as it had been anticipated and that is why some amendments have been proposed in it. As I have understood SEBI has inadequate staff. So, attention should

be given to this fact was to how such a handful of people would be able to run such a big country.

Without prolonging my speech I would like to submit that when we are bringing out a comprehensive Bill and we have issued a comprehensive ordinance then it should not happen that after 6 months it is found wanting. Unfortunately later on, it invariably happens that it is found wanting. People who have indulged in a scam of crores of rupees, are brazenly roaming around free, moving about in five-star hotels in big cars but the poor people whose money is invested in their companies are left to curse their stars as the Government also find themselves unable to pressurise those influential people because they are patronised. I would like to say that people should be confident enough that if somebody has cheated them of their money he will be suitably punished. The punishment should be such that people understand it. And when we come to know that such a direct action has been taken then SEBI's action will be justified.

Now everybody is aware of M.S. Shoes case. I would like people to know that such kind of action was taken after the promulgation of the ordinance. This way the attention of the people would definitely be drawn to this and a feeling of goodwill will be developed in the hearts of the people towards the Government that, yes, now the Government have brought such an ordinance which would definitely be a right step.

While moving my motion I would like to urge upon the Government that the Government should dispense with this tendency of promulgating ordinances and rather put an end to it forever and keep the House into confidence while taking any decision.

With these words I conclude my speech.

[English]

THE MINISTER OF FINANCE (SHRI MANMOHAN SINGH): I beg to move:

"That the Bill to amend the Securities and Exchange Board of India Act, 1992 and further to amend the Securities Contracts (Regulation) Act, 1956, as passed by Rajya Sabh, be taken into consideration."

Sir, upon receiving statutory status on 21 February 1992, in pursuance of the Securities and Exchange board of India Ordinance, 1992 SEBI has been active in regulating and systematising the capital markets in the country. The capital market has also undergone a major transformation during the last two years with new products and participants entering the market. In order to strengthen SEBI's effectiveness and ensure greater discipline in the securities market, the Securities Laws (Amendment) Ordinance 1995 was promulgated on 25 January 1995, conferring larger powers on SEBI while simultaneously enlarging the jurisdiction to newer areas and additional participants. This Bill seeks to replace the Ordinance.

The Bill, when enacted and brought into operation, would provide SEBI with authority to impose monetary penalties in specific cases of violation of the law as laid down in the Bill. The SEBI will also have the powers to

regulate the activities of additional intermediaries like depositories, custodians for securities and other categories of persons associated with the securities market like foreign institutional investors, credit rating agencies and venture capital funds. In addition, SEBI will be empowered to regulate companies on matters relating to issue of capital, transfer of securities and other related matters. The suggested changes will equip SEBI to issue regulations and file complaints without the prior approval of the Central Government which will enhance the autonomy of SEBI. I am confident that the Members will appreciate the need for such powers and functions to SEBI for ensuring the healthy and orderly growth of the securities market.

I would also like to mention that I do appreciate the concern of the House that recourse to ordinances should be minimised. There were compelling necessities why we could not do it. Although SEBI was given statutory power in 1992, since then, we have been in the process of what may be called 'learning by doing.' In a country as complex as India and as vast as India, nobody has the monopoly of prior knowledge and we have been learning and we have been improvising as we go along. In the light of experience gained and particularly because of the turbulence in the capital markets not only in India but all over the world, we felt that it was necessary to give SEBI additional power to inspire greater confidence among investors, particularly, among small investors. That is why, in this situation, the ordinance became necessary. But I do take the point and I respect the sentiments of the House that as far as possible, recourse to ordinances should be a measure of last resort.

With these words, I commend this bill to this august House.

MR. DEPUTY-SPEAKER: Motions moved:

"That this House disapproves of the Securities Laws (Amendment) Ordinance, 1995 (No. 5 of 1995) promulgated by the President on January 25, 1995"

"That the Bill to amend the Securities and Exchange Board of India Act, 1992 and further to amend the Securities Contracts (Regulation) Act, 1956, as passed by Rajya Sabha, be taken into consideration."

I would like to remind the House once again that the time allotted for this Bill is about one and a half hours. At 3.38 PM. we have to start the Private Members' Business. Please keep in mind that we have to complete this Bill before that.

SHRI RAM NAIK (BOMBAY NORTH) Sir, I support the Motion to oppose the Ordinance and I also seek to express my views on the Securities Laws (Amendment) Bill, 1995. Sir, I am not opposing the Ordinance just for the sake of opposition. The hon. Finance Minister has stated that he has some compulsions because of which he is forced to bring the ordinance. I do not agree with those compulsions. As can be seen, 31 Members of this House have given the motion of disapproval. It is not just four or five Members, but a very big number of hon. Members has given the

motion of disapproval. This indicates the feeling of the House that we do not prefer rule or enactment through ordinances.

Sir, the original Act in 1992 was also brought by an ordinance. The situation was unusual at that time and the conditions prevailing in the market were so bad that we did not object to the ordinance brought at that time when the original enactment was done.

But here we do not know as to what exactly the compulsion was.

This Ordinance has been promulgated on 25th January, 1995. The Finance Minister owes it to this House and must tell us as to what actions he has taken in the last one-and-a-half months. If it was so urgent to promulgate an Ordinance, we must know what exactly has been done, say, in the last one-and-a-half month. That must be explained. One of the major provisions in this Bill is to confer the right to charge penalties for various wrong doings and offences which are being committed. Let us know whether there has been at least one offence or one charge for which some penalty has been charged. If that has not been done, then it means that the right has not been used properly.

1426 hrs.

(Shri Tara Singh *in the Chair*)

So, firstly I would like to know the exact action which has been taken by SEBI after this Ordinance was promulgated. Secondly, it is three years now that SEBI has been working. There have been some experiences and the hon. Finance Minister has quite rightly said that they are learning. We are a big country. More and more people are coming forward for investment. We had a very big security scam. Now, I would like to know even after SEBI has worked for three years, has the working of SEBI been satisfactory.

So, I suggest that the Parliament should evaluate the performance of SEBI during the last three years and the best course for this would be to constitute a Parliamentary Committee to evaluate the performance of SEBI during the last three years. Everyone knows that I was a member of the Joint Parliamentary Committee. The JPC has given unanimous recommendations. Those recommendations of JPC which have been brought into practice are known to the people today. But so far as SEBI is concerned, we must know of the performance of SEBI during the last three years. We know that some of the big brokers were arrested. I would not say, it was a drama; I will never say that; they deserved to be arrested; they should have been arrested—but we fail to understand: why not even one case against them has been finalised so far? It seems that the department was investigating into all these cases, whether it is Harshad *dalal* or any other person but at least one case could have been cleared.

Justice Variava is known for his good character and also decisions that he has given. Is not the Government in a position to see that one person is convicted? Cases have been filed, where those cases are not proper, more cases have been filed and all those things have happened; but in the last three years, it appears that SEBI or the agencies

which are expected to see that the guilty persons are punished have only filed cases but the guilty persons have not been punished. So, from that point of view also it is necessary to evaluate the performance of SEBI. The Finance Minister should respond to this particular point which, I feel, is very important.

Sir, SEBI has been constituted so that the investors, I would say, the small investors could have confidence and could contribute their mite in the share market and stock exchanges. If they invest more, the country can prosper. We have resources; people do come; there has been a tendency to invest more and more in the shares but if some such things come up every now and then, common person would lose his confidence.

Shri Gangwar has referred to MS Shoe Company, but I would like to go a little further. The Bombay Stock Exchange was closed for three days. Even after the security scam, the share market was not closed like this. So, closing of the share market for three days by itself is such an important thing for which the Finance Minister must explain to the House. We have seen, after three days of closure from 20th March to 22nd March, when the stock exchange opened yesterday, the prices of shares have come down.

The BSE's sensitive index crashed by 74 points. It is not a small amount. This crashing means that people may lose the confidence. So, the Finance Minister must ensure as to how he is going to revive the functioning of the BSE. Otherwise people will feel that the SEBI is not doing anything. It is just doing the work of postman. Similarly, with regard to MS Shoe Company, what role has been played by Mr. R.S. Jhavri? The State Bank was the lead manager for the shares being brought by MS Shoe Company. We must know as to what has happened and how it has happened. Otherwise, I must repeat again and again that the small investors will lose confidence. You may be aware of what happened in the case of MS Shoe Company. The face value of the shares was just Rs. 10. When it first came into market, it had a premium of Rs. 20 which means that it was expected to be sold at Rs. 30. But the prices zoomed so high that it was sold at Rs. 465. It was such a big leap that everyone—at least those who know about it—would definitely have been scared about it. But it appears that neither the SEBI nor the Bombay Stock Exchange had acted in this regard. Though they have power, they did not act. Even the physical delivery was not given. As it has been reported—I have a personal knowledge also even the old settlement numbers 35, 36 and 37 have not been honoured. How is it that it did not come to the knowledge of the SEBI? All these things must be explained, otherwise it would appear that the SEBI is just mute spectator.

MR. CHAIRMAN: You please wind up. We have to finish it by 15.30 hours.

SHRI RAM NAIK: Sir, from our side probably I am the only speaker.

MR. CHAIRMAN: No.

MR. RAM NAIK: The Finance Minister must explain

what is going to happen about it. MS Shoe Company is not the only company involved in this. Prior to this, Morgan Stanley affair was also there. Then the matter regarding Indian Petroleum Corporation's first public share was raised. Reliance Polyethylene, Reliance Polypropylene, all these matters have come to light but SEBI has not taken any positive action.

I will just go on reading some five-six points which I feel are important. I need not explain them in detail. I will just briefly go on reading them so that the Finance Minister could react on these points and at the same time the time of the House is also saved.

SEBI has failed to protect the right of the investors. It is only doing the work of a post office and simply passing on the complaints of the investors to the companies. Now, they are not exerting themselves. This post office work is not expected of the SEBI. They must take serious cognizance of all the complaints which come to them. Although there are provisions in the Companies Act for penalty and prosecution against the defaulting companies, it has not been followed. We must be explained as to why this is not being followed.

The most important aspect is delivery of shares. Investors are not getting shares for three or four or five months together. How will you control this important aspect of the physical delivery of shares? Whenever the new shares come, they are over-subscribed. How those amounts are to be distributed, is not taken care of and in that a small investor is always neglected. If there are banks or other institutions which subscribe a big quantity, they get full quantity of the shares. A small investor is being overlooked. How do you ensure proportionate allotment of shares and proper delivery of shares in time? A foolproof scheme must be worked out by the SEBI in this regard as this is the most important thing.

Sir, there are two more points on which I would like to stress. One is about the penalties. Sir, some financial penalties are provided for. Everyone knows that if one out of 100 thieves is caught, 99 thieves escape. Similarly, if one share broker is caught, 99 might be going scot-free and if one transaction is noticed many transactions would be going unnoticed. Do you feel that just imposing financial penalties is enough? They earn in crores and if a penalty of some 5 lakhs, 10 lakhs or 15 lakhs, according to calculations which are given here, is imposed, I personally feel that that would not serve as a deterrent. Financial penalties are important but they alone would not serve as deterrents on those people to whom crores and crores of rupees accrue. That is why I feel that some imprisonment must be provided for as is done in the case of other economic laws like income tax and sales tax that on such grounds there will be imprisonment. Why do you not do it in the case of these offences also? That is one point which I would like the Finance Minister to react to.

Another point is about nomination of other Directors on the Board of SEBI. I agree that if Directors of different companies are nominated to the SEBI, their professional skill will definitely be available to SEBI. On that point I do agree, but how to ensure that they will not misuse the

power to their advantage. Some check is expected to be there. As done everywhere like if someone becomes a Minister he resigns from the trusts or companies on which he is operating. In that way there should be some check on those Directors who are nominated to SEBI so that they do not look after their company's interests. How to do it can be sorted out, but I feel such checks are important. Otherwise some of the Directors might use the Board to their advantage which is not expected of a body like SEBI.

I do feel that all this could have been done by a proper legislation in stead of an Ordinance. Now, taking into consideration all the points of view expressed in the discussion, a Parliamentary Committee should be appointed to review the performance of the SEBI. With these words I conclude my speech.

SHRI M. RAMANNA RAI (Kasaragod): Mr. Chairman, Sir, as did by the earlier speaker, I too oppose the practice of promulgating Ordinances where they are not necessary. Particularly in this case it was not necessary. Though the Finance Minister said that he too did not agree with the practice of promulgation of Ordinances generally he said that there was sufficient reason in this case. But as far as we are concerned an Ordinance was not necessary in this case. Ordinances are necessary in some cases. But in this case an Ordinance was not necessary at all. This Ordinance was proclaimed in an improper way, without any proper reason.

Now coming to the point, I want to say one thing on the amendment to the Securities and Exchange Board of India Act, 1992. We have sufficient number of Acts and Rules to safeguard the interests of the ordinary people. Sometimes they are not properly used, sometimes they are used where they are not necessary and some other times they are misused.

We all know that banks have been functioning from time before Independence. The banks were functioning in this country before Independence and sufficient guarantees were there for peoples' money deposited in the banks. We did not hear till about five years back of this kind of scam and this kind of misuse of public money by the brokers. Why suddenly this kind of misuse of public fund had taken place? In this case, there is a doubt as to who had committed this kind of mischief. It is because the Government officials had also connived in misusing the public money. The Government had set up a Joint Parliamentary Committee to go into the misuse of public money. They had submitted their Report some time back and some action was taken. There was one question which was posed by many people, including Shri Arjun Singh and that is, who were the ultimate beneficiaries of this point. The question had not been answered even now. We want to know why this question had not been answered till now.

During the course of hearing by the Joint Parliamentary Committee, Shri Harshad Mehta had made an allegation against our Prime Minister by saying that he had given Rs. 1 crore to the Prime Minister. Till date nothing is heard about it. If the allegation made by Shri Harshad Mehta is found to be false, then some action should have been taken against him. So, I want an answer for this from the Finance Minister. All these things clearly

show that there is something fishy somewhere. In this regard I recollect one saying in Sanskrit and that is:

“Yatha raja, Tatha Praja”

It is because even the rulers are also of the same category. Otherwise, this kind of mischief would not have taken place.

How are you going to appoint officers in the Appellate Court? It is said that Appellate Authority should consist of only one person. That person should be eligible to become a High Court Judge. Do you know what is the qualification of a High Court Judge? If a person who had put in a certain number of years of practice in the Civil Courts or some other court he becomes eligible to be a High Court judge. If such is the case, then I would say it is not sufficient. It is because there are a number of lawyers in the ruling party. At the moment, the ruling party is the Congress(I), tomorrow, there may be some other party which may be ruling the country. So, I would say that the method of appointment should be something else. The appointment should not be done by the Government. We are having so many Committees in this House which are represented by the elected Members. In the same manner appellate authority should also be appointed by the Parliament. This is my submission. If we do that, we will have sufficient Security not only for the banks but also for the people. My next point is about staff.

MR. CHAIRMAN: Be brief. There is no time.

SHRI M. RAMANNA RAI: If we have a given set of rules, there is nothing to worry. In this case the JPC found fault with one Cabinet Minister, Shri Shankaranand who resigned ultimately. The JPC found fault with another Minister, Shri Thakur. When the inquiry commenced or something took place in the House, another Minister, Shri Chidambaram resigned. But nothing was heard about it afterwards. Since he had resigned, the JPC also ignored to find out his part in the securities scam. Nothing is mentioned in the JPC about Shri Childambaram. There is no explanation why he resigned, was it necessary to resign or he resigned just because he wanted to resign. There is no explanation why he has been made the Minister again. These are the things that should be taken into consideration. If the rulers are good, the people will also be good. If the rulers are not good, these kinds of things will take place. What I want to impress upon is that, this Amendment is good but that is not sufficient. The implementation should be strict. Otherwise, it is of no use. With these words I conclude.

[Translation]

SHRI RAMASHRAY PRASAD SINGH (Jahanabad): Mr. Chairman Sir, I would not take much time. I have risen to discuss the bill to amend the Securities and Exchange Board of India Act, 1992. It is a general feeling, I am sure the hon. Minister must have understood that the Ordinance which has been brought should not have been brought. You should have introduced a Bill instead. Everybody has criticised the Ordinance. This ordinance was brought on 25th of January, 1995. The powers provided in this have already been provided through an Ordinance. But you

should have also mentioned as to whatever has been achieved through the exercise of these powers during the last one and a half months. This Bill concerns several small investors small business they who invest their money in shares, in other words, this Bill concerns the whole country. You should have brought a comprehensive Bill in consultation with the leaders of all parties which would have lent it more strength. Since the ruling party has invariably brought Bills in their own interests, you have also done the same. We know that the Minister of Finance is a good Economist. But consulting others does not deminish the wisdom in any way, it in fact increases. The Minister of Finance is aware of the number of persons who have committed suicide in the securities scam. Several persons have sold off their property in Calcutta and today they have become penniless. Who did it all? SEBI had been set up at that time but it had not been given powers, was it not known at that time as to what kind of person was Harshad Mehta? Today powers are being provided but now proper work should be done as it concerns small investors. They should be taken into confidence that their money would not be wasted. These days there are several companies which are only registered on paper which disappear with people's money. The poor investors are left in the lurch. I urge upon the Government to ensure that these companies do not become insolvent and how to put a check on such fraud companies. The investment made by small investors helps develop the country so, attention should be given to these people.

I submit that these powers should be properly exercised. It should not be political. It had taken a lot of struggle to get the JPC report implemented. They should think about the nation actually they think about their party. Since the day, the democratic system was initiated in the country, the party has been defended. Nobody thought in the interest of the nation. This tendency should not persist. This amounts to treachery.

With these words I conclude my speech.

[English]

SHRI YAIMA SINGH YUMNAM (Inner Manipur): Mr. Chairman, Sir, I rise to support the Bill and at the same time also the Resolution. The reason why I support the Resolution is this. Although I did not join the hon. Members who signed a notice for moving it in the House, I would like to support it while objecting to the promulgation of such an Ordinance as an easy means. However, the Finance Minister has just now expressed his anxiety also and assured us that in future he will try to avoid it as far as practical. Otherwise, it will spoil the very spirit of democracy and will also lead to dictatorship. So, let us not make a habit of the Government to bring forward such Ordinances.

I understand, it could have been avoided if the Government was vigilant enough to detect the new developments in the capital market as has been mentioned in the Statement.

As regards the Bill, I support it after hearing the hon. Finance Minister on the justification of bringing forward the

amendment. I am very much impressed by it and I appreciate it.

The proposal to give more powers to SEBI for giving penalty to the offenders is a welcome step. At the same time, the proposal is for giving some more facilities to SEBI so that it can inspire the small investors also. It will be in the interest of the nation.

In the statement made by the hon. Minister, which has been circulated, he could have elaborated as to what were the new developments, irregularities, etc. in the capital market which have taken place recently. If it is explained very clearly it will further enlighten the House.

So, Sir, we opine that the Government should try to place a report on the activities of SEBI as regards its functioning and achievements to the House from time to time. It will enlighten the House and it will be a healthy procedure in the interest of the nation. With these words, I support the Bill.

[Translation]

PROF. RASA SINGH RAWAT (Ajmer): Mr. Chairman, Sir, I rise to support the motion of disapproval brought forward by Shri Santosh Kumar Gangwar. I also extend my partial support to the Bill brought by the Government to safeguard the interests of the investors and to regulate the capital market.

Sir, through you, I would like to make two points. At the outset, I would like to know why there is no monitoring in the Bombay Stock Exchange despite the presence of the representative of the Ministry of Finance there? Even after you brought forward this ordinance on Jan. 25, 1995 and enforced it, it was reported in the newspapers two days ago that the Bombay Stock Exchange remained closed for two days and the whole business came to a standstill. A particular shoes company made three successive verbal transactions without depositing any amount of money and then suddenly declared that it had gone bankrupt. Who is responsible for this? The representative of the Finance Ministry sitting there is meant to monitor the situation. He should be gathering information about the day to day financial position. He should also have informed the Ministry of Finance. Even after giving powers to 'SEBI' through an ordinance, the same were not utilised. The small investors of the country are tempted to invest a sum of ten, twenty or fifty thousand rupees in the share market with the sole aim of earning profit and such companies about which 'SEBI' itself is not vigilant, resort to such kinds of scandals in particular. This deeply hurts the feelings of the investors.

13.00 hrs.

And their life long savings go down the drain. Sir, just now the hon. Finance Minister said, "Learning by doing" i.e. one can learn only by attempting a particular thing. I agree that one learns by one's experience but you have been experimenting and the people of the country have been suffering its fallout. Just two-three days back the hon. Finance Minister was asked to furnish the names of such big Income-tax-payers of the country against whom income tax worth crores of rupees is outstanding. These include

Harshad Mehta and Bupen Dalal who are considered to be the dons of stock market and who were exposed after the Securities scam involving a scandal of Rs. 5000 crores. Previously, there was the monopoly of the banks that the amount deposited therein will earn good profits but they lost their credibility and now it is the turn of 'SEBI' to lose its credibility. Through you, I would like to ask the Government that even after bringing forward this ordinance, the malady became more severe. Who is responsible for this? We should concede that they far surpass us in manoeuvring. They take four steps ahead if the Govt. takes two. Income tax of crores of rupees is outstanding against the brokers like Bhupen Dalal and Harshad Mehta and when such brokers dare to establish their credibility, will the credibility of the people increase or decrease? Therefore, I would like to say that the Ministry of Finance and the 'SEBI' should be vigilant about it.

Sir, SEBI was set up in 1991. At that time, it was presumed that it had no legal power. A stalwart of the financial world like Shri V. Krishna Rao was its Chairman and its Directors were the great specialists of the financial sector. These people repeatedly urged the Ministry of Finance to bestow SEBI with some powers and then followed the scam, came the JPC report and all this took many months. Subsequently, in 1992 some legal powers were vested in SEBI partially only. [English] A burnt child dreads the fire [Translation] Had the Government learnt some lesson, its functioning should have been reformed after vesting some legal powers in it in 1992. But it seems that the Government does not have the requisite control on the Stock Exchange system, the Hawala trade and on checking the practices of speculations. I had already said that if powerful hands are armed with powerful weaponry, it can be better utilised but if it is given in weak hands and even the people in the Government who carry a stigma on their careers and who had to submit resignations consequent upon the securities scam and other scandals cannot take any action against people who shatter the peoples' credibility and resort to diabolic financial adventures of the public money.

Sir, I would like to know whether the Rs. 16 crore scandal of M.S. Shoes company after the promulgation of ordinance was a deliberate attempt, or it happened unwittingly or due to turning a blind eye to it? You just now stated that unhealthy practices should be checked, then

[English] why were unhealthy practices not prevented? Who is responsible for it?

[Translation]

Sir, there are brokers in the market who on the basis of verbal commitments cause artificial hike in prices and keep on buying shares apparently cheating the stock market. So responsibility should be fixed for all. It requires a proper system of monitoring.

Mr. Chairman, Sir, a person living in a rural area or a small saver knows by means of newspapers only as to what is the rate of the share of a particular company and thus motivated by the tendency of making profits he buys those shares or the new issues of a new company. Therefore they should be protected by disseminating exact

information about the stock exchanges, otherwise ordinary people are bound to fall prey to the fraudulent practices and lose their hard earned money. In the aftermath of securities scam many persons in many cities became economically wrecked and immolated themselves by pouring kerosene on their body. They should not be made a regular victim of such frauds. Capital market is managed by stock exchange, therefore, it should be told as to what efforts are being made to provide information about the exchange rates prevailing in the stock exchanges, to regulate these rates, to provide for monetary penalties in the specific cases of violation of determined rates, to determine a ceiling on such penalty and basis thereof, to prescribe the amount of penalty and modalities of levying penalty, to regulate the transaction of brokers or investors, the custodians or the security. SEBI is an autonomous body. Take measures to enhance its autonomy and strengthen it so that such scams do not take place in future. Time and again you assure the house in this regard but again such incidents occur. When happenings take a course contrary to the announcements made by the government, the people become suspicious. Please tell us about the steps being taken to encourage people to deposit their money with the banks or to invest it by way of buying shares in the stock exchanges, to avoid the possibility of cheating by fake companies and to strengthen the monitoring mechanism in this regard.

There are crores and crores of small investors in this country. We should take care of their interests. We want to encourage savings in order to see proper development of our country and implementation of our plans. You should always keep in mind that tendency of savings and investing the amount accrued through such savings has to be invested in the areas of profitable activities. An ordinary man is not conversant with laws. He has no knowledge about which company is stable and strong and able to give profitable returns on time. Therefore, he should be given proper information about it.

Through you, I would like to say that now-a-days many companies have come up in the market in the name of providing LPG connections which are amassing lakhs of rupees from the public. The chit fund company or Laxmichand Bhagat ji Company about which I wrote to the hon. Finance Minister in my letter accumulated crores of rupees from the people in Ajmer and then the company's board was not visible the other day. Therefore, the hon. Minister should assure the House about their authenticity, credibility, the security of the peoples' hard earned money and to check the recurrence of such things.

With these words I thank you.

SHRI MANMOHAN SINGH: Sir, I have listened with great interest and respect to all the hon. Members who have taken part in the debate. During my earlier introductory statement, I had said that 'I share the concern of the House; that the recourse to Ordinances

should be minimised'. But in this particular case, because of the turbulence prevailing in the financial markets, not only in India but all over the world, we felt that it was necessary to take urgent action, give additional powers to SEBI and that was the reason why this Ordinance had to be brought into Bill. Sir, as I see it, India needs a strong, vibrant expanding capital market in the years to come to realise our development ambitions.

It is at the same time essential that if our capital markets are to serve the cause of social development, all the principal players in these markets should be guided by the code of conduct, having due regard to the ethical standards with as much transparency as is possible, with regard to fairness. It is only in this atmosphere that India's capital markets can serve our objective. These markets should exist not to benefit only a few but should become purposeful instruments for realising our country's vast development ambitions. That is the reason why, soon after our Government came into office in 1992 — it was in January 1992 — that we gave statutory powers to the SEBI.

These statutory powers have been with the SEBI for about three years now and as I said earlier, we could not envisage all the causes which would have to be dealt with. There are also problems as to what powers should be transferred from the Government to the SEBI in one go because the SEBI previously had no experience of this. Also, the relationship between the SEBI and the Company law had to be seen. This has taken time and we feel today that what we have done is a positive step forward in making the SBI — a more effective instrument for protecting the interests in our capital market.

In the course of the debate several points have been raised and as far as I can, I shall try to deal with those points.

Shri Santosh Kumar Gangwar expressed the view that several people have some schemes such as ownership of trees, etc., where investors are getting ownership in 20 to 25 years and these investors should have the confidence that they are not being deluded. That is why, in the Ordinance there is a provision that henceforth all collective investment schemes will have to be registered with the SEBI. So, that is a step forward. I am not saying that our financial system can be totally immune from irregularities. It is not humanly possible to give that sort of an assurance. We have, for example, a highly most regulated financial system in Singapore. And yet we saw how the Brings Bank, one of the oldest banks evaporated overnight inflicting big losses on the Bank and it had to be liquidated. Even in a country like France, one of the most important banks, Credit Lune, I think, simply went into major losses. These things happen because the capital markets all over the world today are characterised by great uncertainties. It will be our effort to see that these uncertainties do not affect the growth of these markets, that any wrong doers will be effectively punished, that the fear of law will act to

restrain all potential wrong doers. That is the purpose of these regulations. We need financial markets which are well functioning. But we also simultaneously need strong regulatory mechanisms to ensure, that these financial markets serve the wider interests of our country. That has been our dominating concern in giving additional powers to the SEBI.

Shri Ram Naik raised several issues. For example, he wanted to know what had been done in the last one and a half months after the Ordinance was passed, in pursuance of the new powers. I would like to inform the hon. Members that legislative changes were made through the Ordinance because there were uncertainties in the capital market in January. If we had not corrected them, these uncertainties would have, I think, led to further erosion of the confidence and that is why we felt that was the right thing to do, in the month of January this year, to issue the Ordinance.

Now, what has happened? SEBI, for the first time has now powers over companies which it did not have before. The case of M.S. Shoes has been mentioned and that is one example where we believe that there have been wrong doings. It is now possible — it was not possible before — to take penal action against the company.

I can assure the hon. Members that we will go into all aspects of this case; whatever imperfections and irregularities have occurred, we will go into all of them; whosoever is responsible — whether it is the Bombay Stock Exchange or these people — I have no desire to protect any wrong-doer. But I would not like at this stage to prejudge the issue. This is a matter which is being looked into by the SEBI; and, therefore, let that enquiry be completed. But the House is rest assured that I do take serious note of things that have come to our notice. In this particular case, we will draw appropriate lessons, I think, from this particular case.

Shri Ram Naik also asked questions about the role of outside Directors. We need outside Directors and we said, hereafter we need not insist that an outside Director need not be a Director on any other company. We have experimented it in the Government for a long time. I have been associated in one way or the other with financial administration for nearly 25 to 30 years. We had created many corporations. Our hope was that in due course of time these corporations would develop business skills, so that when we deal with businessmen of our own country and with foreign businessmen, we would have expertise. But, unfortunately, our official institutions many times function in isolation. The world of business and the world of bureaucracy do not meet and if we have people who come only from bureaucracy, the danger is that many times we will have a set of regulatory mechanisms which are not in consonance with the harsh realities of business. Therefore, we need people who are men and women of integrity and, at the same time, have an adequate experience of what goes on in real life. That is why we are seeking these enabling powers and by using these powers we will take care that only men of proven integrity are placed as members of SEBI under the provisions of this

Bill. If this Bill is converted into an Act, in that case, once a person is appointed, if he is a Director, he will have to disclose that interest publicly. If any such company's case is being considered by SEBI, I think, he will certainly not take part in that sort of decision making process.

Shri Ram Naik has also asked about what has been our experience with regard to the working of SEBI. As I mentioned in the beginning, SEBI has been in existence with the statutory powers only for a period of three years. This has been a period of great turbulence. The Joint Parliamentary Committee have gone into certain aspects of it. They expressed certain views on *badla*. So, following the recommendations of the Joint Parliamentary Committee, *badla* was banned but that did not produce the expected result. The world we live is a world of great uncertainty, the world of great complexity. Certain other problems have arisen. So, we cannot freeze the situation. It is a evolving situation and nobody can envisage that he fully anticipates the events that will come in years to come. We need regulatory mechanism which is alert, which can respond to fast changing conditions with speed and efficiency. My own feeling is that SEBI is moving in the right direction. I am not going to claim that everything is perfect with SEBI. We are learning by doing and that SEBI still has only a small number of staff. It has to develop more expertise but it is making every effort. I think it should be given all support to be able to effectively discharge the mandate that this Parliament has assigned to SEBI. I think, in due course of time, we can look into its working. But I feel that for quite some time let SEBI develop before we institute a type of Parliamentary enquiry, which Shri Ram Naik wanted.

Shri Rasa Singh Rawat Ji raised the issues of the working of the Bombay Stock Exchange. I would like to point out that we do not have the Government representatives now on the Bombay Stock Exchange. We have transferred these powers to SEBI, and SEBI certainly is looking into the working of the Stock Exchange. SEBI has now powers to enforce the amendment of by-laws of the Stock Exchanges in a period as short as two months. It has started the process of looking into the working of all Stock Exchanges. So, I have every hope that in the years to come, the alert SEBI will provide effective regulation of our stock markets.

It is certainly true that in the past, our stock markets had not been run in a transparent manner. These exchanges have essentially been run by brokers. They have been broker-dominated. That is why since SEBI got these statutory powers, it has powers to restructure the Boards of Stock Exchanges to insist that greater weightage should be given to independent Directors; that various committees are appointed to look into the disciplinary matters, that these should have adequate representation of outside impartial interests. As I said, this is an evolving process and the House has my assurance that when it comes to enforcing these regulations, we will ensure that SEBI is well-equipped professionally to discharge its responsibility.

With these words, I request the hon. Member who

moved the Resolution, not to insist on his Resolution, and I further request that the House may kindly pass this Bill unanimously because it responds to a felt national need. We all need, as I said, a capital market which is healthy, which is strong, which functions in a transparent manner and which provides credible assurance to honest investors.

SHRI RAM NAIK: Only one clarification, Sir. The Finance Minister did not respond to the point which I raised about the penalties. I said, sometimes physical punishment is also necessary. That point has not been responded.

SHRI MANMOHAN SINGH: I apologise to the hon. Member because I think I did not respond to that. In the earlier Act, SEBI had the extreme power to suspend or cancel the registration. We felt these are extreme measures. For example, let us take the case of a Mutual Fund. If a Mutual Fund does something wrong and SEBI say that they will cancel his licence, then all those who are subscribers to that Mutual Fund, would suffer in the process. Therefore, we felt that since these extreme measures of penalties of cancellation or suspension of licences have multifaceted aspects, they should be resorted to as an extreme measure. In the intermediate stages, monetary penalties should be resorted to and that they would send signal. SEBI all the time has this power to use this extreme power to suspend or to cancel registration but we felt that there should be graded penalties. If there are small violations, monetary penalties would be adequate but if there are extreme penalties, those powers are already there.

[Translation]

DR. LAXMINARAYAN PANDEYA (Mandsaur): Sir, there are two sections of the Securities Contracts Act and the Companies Act. There are discrepancies in Section 111 of the Securities Contracts Act and the provisions under Sections 80 and 81 of the Companies Act and the provisions of this Securities Act. I would like that the hon. Minister should clarify those discrepancies. Though we have given rights to SEBI yet under the Securities Contrats Act any Bank or concerned institution has the right to allow or disallow shares application. Though the Government has given rights yet, what is the meaning of such rights of discrepancies are there.

[English]

SHRI MANMOHAN SINGH: I do not claim that I have fully understood Pandeya Ji's question but if I have understood him correctly, he is referring to the power of the companies to refuse registration.

I think, there are problems in this country. I think, the company law in that area, needs amendment. I also feel that a part of the problem that arises in the area of physical transfer of securities is because of our archaic system of settlement. That is why, in my Budget speech I said that the time has come to move to a new type of system of having a central depository and moving to scripless trading. I do take note of the point made by Pandeyaji. There is a problem. I think that should be looked into.

[Translation]

SHRI SANTOSH KUMAR GANGWAR: Mr. Chairman, Sir, the objective of this Bill is very nice. I, therefore, do not want to speak much on this Bill. Keeping in view the good working procedure of the hon. Minister and the sentiments of this august House, I would like to seek the leave of this House to withdraw my Statutory Resolution.

Sir, I beg the leave of the House to withdraw my Statutory Resolution.

[English]

MR. CHAIRMAN: I think, the hon. Member has the leave of the House to withdraw his Statutory Resolution.

SEVERAL HON. MEMBERS: Yes.

The Motion was, by leave, withdrawn.

MR. CHAIRMAN: The question is:

"That the Bill to amend the Securities and Exchange Board of India Act, 1992 and further to amend the Securities Contracts (Regulation) Act, 1956, as passed by Rajya Sabha, be taken into consideration."

The motion was adopted.

MR. CHAIRMAN: The House will now take up clause by clause consideration of the Bill.

The question is:

"That Clauses 2 to 26 stand part of the Bill."

The motion was adopted.

Clauses 2 to 26 were added to the Bill.

MR. CHAIRMAN: The question is:

"That clause 1, the Enacting Formula and the Long Title stand part of the Bill."

The motion was adopted.

Clause 1, the Enacting Formula and the Long Title were added to the Bill.

SHRI MANMOHAN SINGH: I get to move:

"That the Bill be passed."

MR. CHAIRMAN: The question is:

"That the Bill be passed."

The motion was adopted.

15.28 hrs.

Committee on Private Members' Bill and Resolutions Thirty Eighth Report

[Translation]

SHRI AMAR PAL SINGH (Meerut): Sir, I beg to move:

"That this House do agree with the Thirty-eighth Report of the Committee on Private Members' Bills and Resolution presented to the House on the 22nd March, 1995."

[English]

MR. CHAIRMAN: The question is:

"That this House do agree with the Thirty-eighth Report of the Committee on Private Members' Bills and Resolutions presented to the House on the 22nd March, 1995."

The motion was adopted.