

17.45 hrs.

HALF-AN-HOUR DISCUSSION
RE : RESUMPTION OF
FORWARD TRADING
IN SHARES

SHRI S. K. TAPURIAH (Pali) : Mr. Deputy Speaker, Sir, whenever I try to analyse the policies and the actions of the Government, invariably, I am reminded of a jingle I read in my school days, a jingle by A. P. Herbert :

"Let us stop somebody from doing something, Everybody does too much,

People seem to think they have a right to eat and drink, Talk and walk and respirate and rink,

Bicycle and bathe and such. So let's have lots of little regulations,

Let's make laws and jobs for our relations, There's too much kissing at the railway stations,

Let's find out what everyone is doing, and then stop everyone from doing it."

This seems to have been the case with stock exchanges and forward trading. A few thousand people earn their living as brokers, sub-brokers, stock exchange assistants, etc. When the mobilisation of resources in the country was taking place, the capital formation was picking up after two or three years of recession, the Government probably thought that all this was too good a thing to allow to continue and so they moved in and imposed a ban.

I am sure, the hon. Minister will agree with me that stock exchanges play a major role in capital formation in any society and in a developing society like ours, its importance increases. The real purpose of stock exchanges is achieved only when it provides maximum liquidity, transferability and negotiability which cannot be ensured without a large and continuous volume of transactions.

In our country where the number of investing public is very small, only about

2 million people, compared to countries like U. S. A. where they have 30 million investors, the daily transactions are not adequate to make tea market liquid or continuous and this shortcoming, to some extent, is overcome by forward trading.

Without going into the history of what happened during 22 years of our Independence, as far as capital formation and industrial growth was concerned, I come only to last year when one thought that the time had come after three good harvests when stock exchanges would play a major role in mobilising our rural resources. I am not one to tax the farmer. It is after centuries they have seen some money. But I would not hesitate to recommend mobilising a part of their resources to capital formation to come into making of larger industrial production.

Now, this expected mobilisation of rural resources has been hampered by a ban on forward trading which by bringing stock exchanges into a moribund state has slowed continuity and reduced liquidity of scrips. I am sure Mr. Khadlikar will agree that one of the reasons for the Government bonds and various small savings schemes not succeeding to the desired level was this lack of continuity and its near-impossible liquidity. If these two things have to be maintained, the stock exchanges are to be allowed to flourish without any regulation or hindrance. Wherever the Government finds it necessary, they may check it but not in its day-to-day working.

Why did the Government impose a ban? The two important reasons assigned by the Government were the steep rise in share prices and the cornering of shares. Coming to the question of steep rise in share prices, I can say, whatever price rise in the earlier part of 1969 was evidenced, it was only a correction of the long-drawn depression in the stock exchanges and the return of the market to normalcy. I wonder whether the price rise in shares is itself a bad thing. Did not the Prime Minister herself find some pleasure and relief in the buoyancy displayed by the stock exchanges after her Budget in February, 1970 ? Did not she, time and again, say, here was a good Budget because the stock exchanges have picked up ?

[Shri S. K. Tapuriah]

What was the reason for putting a ban last time? If you see the averages of only the Bombay stock exchange, between January and June, 1969, you will find that the prices of cash shares rose by 32.3 per cent and the prices of forward shares rose by only 20.3 per cent. In other words, it means that the price rise in cash scrips was higher by 59 per cent as compared to the price rise of forward scrips. The Government is doing like a character in David Copperfield to beat the boy sitting next so that the first one will behave. Because the price rise in cash scrips was higher as compared to price rise in forward scrips, therefore you impose a ban on forward scrips. How was this considered to be the ideal way to regulate the market?

As far as the charge of cornering of shares goes, I have not been able to find a single instance where forward trading created the way to help people to corner shares and indulge in unhealthy practices. I would request the Minister to cite one example where this led to cornering or where it has led to violation of any one article of the Securities Contract Regulation Act of the 1957.

In the end I would only say that now that the Anjarla Committee's report is available with the Government, will they speed up with their study of it and will they come to their conclusions quickly and take necessary steps for resuming forward trading at the earliest?

श्री शिव चन्द्र झा (मधुबनी) : फॉरवर्ड ट्रेडिंग इन शेयरज से कंसेट्रेशन आफ बोनरशिप और कंसेट्रेशन आफ इकोनोमी होती है और यह इंडस्ट्रियल पालिसी रेजोल्यूशन के खिलाफ है। संविधान की धारा 39 के भी यह खिलाफ जाता है। इसीलिए जो बैंन लगाया गया था वह बहुत जरूरी था। अब सरकार बैंन हटाने जा रही है। दबाव में आ कर वह इसको करने जा रही है जोकि बहुत बुरी बात है। इस संदर्भ में मैं सवाल करना चाहता हूँ।

मेरा पहला सवाल यह है कि क्या यह सही नहीं है कि फॉरवर्ड ट्रेडिंग इन शेयरज से कंसेट्रेशन आफ बोनरशिप और कंसेट्रेशन आफ इकोनोमी होता है और इसीलिए बैंन लगाया गया था?

क्या यह भी सही नहीं है कि बावजूद बैंन के छिपे रूप में फॉरवर्ड ट्रेडिंग का काम चलता रहा और बैंन का उल्लंघन किया जाता रहा है? यदि यह सही है तो जिन लोगों ने इसको तोड़ा उनके खिलाफ कौन सी कार्रवाई आपने की?

क्या यह भी सही नहीं है कि अंजारिया कमेटी प्राइवेट एंटरप्राइज के दबाव में आ कर मुकर्रर की गई थी ताकि पता लगाया जा सके कि कहां तक बैंन को हटाया जा सकता है?

मेरे एक सवाल के जवाब में श्री सेठी ने कहा था कि एक महीने के अन्दर अन्दर वह कमेटी अपनी रिपोर्ट दे देगी। मैं जानना चाहता हूँ कि कब तक रिपोर्ट आ जायेगी और क्या जो समय नियत किया था रिपोर्ट देने के लिए, उस को बढ़ाया तो नहीं जायेगा।

SHRI N. K. SOMANI (Nagaur) : Both the tone as well as the characteristics of my friend who has just preceded me reveals a complete lack of idea of economic functioning. Whether it is cash trading or forward trading, these are essential tools of functioning in any given system whether you deal with shares or commodities or property. I for one believe that both in the short term as well as for long term state of the economy, forward trading is not only extremely important but essential.

For quite some time the Government for reasons that have been gone into by my friend, Mr. Tapuriah, and essentially, I feel because they suspected that some operators have been misbehaving with the stock exchanges and have been cornering some of the shares—I think the case in Government's mind was Kapadia Bros in National Rayon—

have clamped a ban on forward trading of shares. I believe that there are enough checks and balances in the Company Law to check such malpractices by refusing to transfer the shares. It seems one section of the Government does not know what the other section is doing which reveals a complete lack of co-ordination. I would, therefore, like to say that it is certainly no remedy to completely ban forward trading either in shares or in commodities or in any other properties. Additionally, small people are going to be hit by it. When the Government comes up with this proposition, or it eliminates the middle-class traders in food grains or the share brokers or sub-brokers, the middle class people suffer and there is no alternative avenue of employment for them.

Therefore, in view of all this and in view of the ample—more than ample—checks and balances existing in the hands of the Government, I would like to know as to when the normal and healthy functioning of the stock changes in the matter of forward trading would be allowed to commence.

Secondly, in terms of rural investment in our economy, would the Government consider the opening of many more sub-stock exchanges in the rural areas which would function as an extended limb of this, so that many more investment opportunities are available to these people?

श्री बेनी शंकर शर्मा (बांका) : उपाध्यक्ष महोदय, देश में औद्योगीकरण के लिए हमें जितने धन की आवश्यकता है, वह आज हम विदेशों से उधार लेकर पूरा कर रहे हैं, किन्तु साथ ही साथ हम इस बात को भूल रहे हैं कि हमें देश के अन्दर भी अर्थ की प्राप्ति हो सकती है। आज हरी क्रान्ति की वजह से एवं कृषि के क्षेत्र में उत्पादन के नये नये तरीकों को अपनाने के कारण से हमारे किसानों के हाथों में दो पैसा धारा है और हमें भय है कि अगर हमने उसको उचित ढंग से नियोजित नहीं किया तो उनके हाथ में जो पैसा है, उस का दुरुपयोग होगा।

वे उसे बिबाह आदि ऐसे मर्दों पर खर्च करेंगे जिससे हमारे देश का किसी प्रकार का लाभ नहीं होगा।

अतः मैं मंत्री महोदय से पूछना चाहता हूँ कि हमारे ग्रामीण क्षेत्रों में हरी क्रान्ति की वजह से किसानों के हाथ जो पैसा आया है, उसे उपयोगी कार्यों में नियोजित करने के लिए जहाँ करल डिबेन्चर्स आदि चालू करने की बात की जाती है, वहाँ स्टॉक एक्सचेंज की मारफत वे अपनी पूँजी को नये औद्योगिक संस्थानों में लगा सकें—इसके लिए भी आप कोई व्यवस्था कर रहे हैं या नहीं?

जैसा मेरे मित्र श्री सोमानी ने कहा है— आज आवश्यकता है कि देश में जो स्टॉक एक्सचेंज हैं, उन को कुछ लिमिटेशन के अन्दर काम करने की छूट दी जाये, तथा साथ ही साथ दूसरी जगहों पर भी कुछ सब-एक्सचेंज खोले जाय, जिससे देहातों में जो पूँजी बढ़ रही है, वह हमारे गांवों के औद्योगीकरण के लिए प्राप्त हो सके।

THE MINISTER OF SUPPLY AND MINISTER OF STATE IN THE MINISTRY OF FINANCE (SHRI R. K. KHADILKAR) : Mr. Deputy Speaker, Sir, Shri Tapuriah who raised this Half-an Hour discussion at the outset tried to give some sort of description as to the role the Stock Exchanges played in the frame-work of either the capitalist society or a mixed economy in our country.

Apart from his contention that they played a constructive role and that they created a climate for investment—I shall deal with it a little later—he has levelled a charge against this Government that the ban at that particular point of time was not justified. He just gave certain figures. But, to understand fully why the then Finance Minister and the Deputy Prime Minister came to the conclusion that in the

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Interests of our economy, the only course left open was impose a ban on the forward market, I shall just give you figures as to how the movements were taking place from time to time. That would show why ultimately the Finance Minister came to the conclusion and Government placed a ban on forward trading.

If you take a review of share prices over a decade, that would be very interesting. Take for instance the period covering from May 1958 to May, 1962 which witnessed a boom condition in the stock market and then between May 1962 and December 1965. Between 1962 and December, 1965, we had to face two aggressions. Then, during 1966 and 1967 drought conditions prevailed and there was considerable recession in that period.

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So, instead of giving all the figures for all these years, I shall just give you certain figures. Since 1968-69, as he knows very well, because of several measures taken by Government to stimulate investment activity, the share markets started looking up then. I know the hon. Member knows very intimately the movements of the market. So he must also have marked this change since 1968-1969. In 1968-69, apart from the measures taken by Government to stimulate investment, they also brought down the bank rate in March 1968. These measures strengthened market sentiment, and share prices again tended to look up. That was a very healthy tendency. It reacted favourably to the measures taken by Government. Was this health maintained later on? Is that the contention of the hon. member who raised this discussion? After the budget of 1968-69 when the ban was imposed in 1969, was there not a steady deterioration in market conditions? I would like to meet his point on this.

After the rise in Feb. 1968, the market declined. Over the year 1968, however, the price rise was about 7.3 per cent. From the beginning of 1969, stock prices began to rise and the rate of increase accelerated

particularly during the second quarters of 1969, just before the ban. He knows that. The pace of improvement slackened somewhat in February and in March, the share price index showed a marginal decline. So it was a zigzag movement, not a steady rise or a steady fall.

SHRI S. K. TAPURIAH : A technical fall has to come to make a correction and make it healthy.

SHRI R. K. KHADILKAR: I do not know much of the technicality of market operations. What I know is about the economic role it plays. If market conditions are healthy and operations are carried on within limits, then it can play an effective role in stimulating investment, creating a better climate for investment, encouraging the investment habit in people in the rural sector where because of the green revolution more money has come into the hands of some people.

As I said, in 1969 the stock prices again began to rise and the rate of increase accelerated, particularly during the second quarter of 1969. The pace of improvement slackened somewhat, in February and March but thereafter the index moved up at a rapid pace and by June 14, 1969,—this is very significant it stood at 99.8. Is it the contention of the Hon. Member that this steep rise showed that markets were operating in the manner they were expected to operate? Why it happened, he knows better perhaps. I cannot say.

I will give one or two figures and not burden the House with more. The increase registered was about 13.5 per cent over the March end level. The overall rise in the share price between end-December 1968 and mid-June 1969 was about 24 per cent. This rise was unprecedented in about five months and a half. Government had to keep a watch. So long as markets are there and operations are permitted, some forward trading goes on; Government will have to keep a watch over the movement of shares. If there is cornering or if certain other unhealthy trends are visible, that has to be tackled. So Government was watching,

This was the situation just before the ban was imposed.

This could not have been due wholly to the improvement in the economic situation and the optimism generated by tax concessions. No doubt, tax concessions did help to create certain climate, optimistic climate, in the market world, but the main factor behind this increase was the large speculative activity and build-up of dominant position around a few pivotal securities by a few powerful operators.

SHRI S. K. TAPURIAH : They were all cash operations, not forward trading operations.

SHRI R. K. KHADILKAR : I am coming to that.

He is perhaps in a better position to know how operators really create a situation where those who are poor investors or those who casually go to the stock market, are put to a disadvantage.

The volume of outstanding forward business carried over from one settlement to another, which during 1968 averaged Rs. 15.44 crores per settlement on all the five major Stock Exchanges on which forward trading was allowed, was hovering around Rs. 16.65 crores to Rs. 17.17 crores till March 1969 on all the Stock Exchanges taken together. It increased to Rs. 19.39 crores at the end of April, 1969, then shot up to Rs. 24.09 crores by the third week of June, 1969. Over the March level, which was already high, the increase in carry-over of outstanding forward business was 40.3 per cent by the third week of June, 1969.

This was the condition of the market. It was not as he described. This was what impelled Government to take this drastic step-

At the close of the market on 27.6.1969 when forward trading was banned, the value of outstanding forward business was

Rs. 40.97 crores. This was really the hectic phase,

So, with all his eagerness to see that market operations are permitted on the five Stock Exchanges and forward trading as before should be permitted to be resumed, he should realise that a situation was created where the ban was absolutely necessary to keep control, so that the activity would not go to a limit, where there might be some type of crash or near-crash situation.

SHRI N. K. SOMANI : It should be always short-term. You have operated the ban for about a year now. Such drastic remedies are always prescribed for a short time.

SHRI R. K. KHADILKAR : I agree. After the ban was imposed, there were several representations questioning the necessity of continuing it. That is the next point. Government had to consider whether by banning forward market and mobilising potential saving, they could create a better climate for investment. I must emphasize that cash trading is permitted, only forward trading is banned. Even now, cash markets are operating, and after the last Budget, if I may say so it has reflected that our economy is poised for a further advance.

SHRI S. K. TAPURIAH : This year it is poised. Last year it was unhealthy because Shri Morarji Desai was there.

SHRI R. K. KHADILKAR : He was quite friendly to the private sector people, if I may say so, that is the general impression.

When the economy is poised for a further advance, which is a very healthy tendency as reflected by the share quotations for cash transactions, the point had to be considered whether he should lift the ban without giving further thought. At one point the Government considered whether they could lift the ban with some restrictions or whether the entire question of market operations and their functioning should

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be examined by an expert body who were well acquainted with these things. Ultimately a Committee was appointed under the Chairmanship of former Deputy Governor of the Reserve Bank and a well known economist, Prof. Anjarla. Unfortunately, he died suddenly. He was to have reported in two month's time but an extension was asked for and granted. They were to report by 25th April, 1970 but because of the tragedy I referred to, we expect the report to be completed by the end of this month.

Two points were made—firstly, that it has resulted in large scale unemployment and suffering.....(*An hon. Member* of small people). That is not correct. In all the five exchanges the total employees, of active members including authorised clerk, assistants, etc, who help the stock brokers numbered 2953 at the end of June 1969; the total employees of the active members as on 15. 11. 1969, was 2854.

SHRI N. K. SOMANI : We are not talking of stock exchange employees; we are talking of brokers, sub-brokers and other small jobbers.

SHRI KHADILKAR: Some hon. Member referred at that time to the suffering of the employees in the stock exchange also. So far as the others are concerned, I do not think that they have gone out of business. I have no figures just now with me, but there is no evidence to suggest that those who were engaged in some sort of activity on the stock exchanges have given it up. Unless some evidence is shown, I am not convinced. ... (*Interruptions*). After the formal ban on forward trading, is it the contention of the hon. Members that people are not still speculating in some way or the other on the market? They do. I have got just now the number of active members I do not want to take the time of the House.

AN HON MEMBER : Just like goldsmiths, they could not change their profession. Have the goldsmiths taken other jobs?

SHRI KHADILKAR : There is no comparison between goldsmiths and stock exchange people. He is an artisan. Here also the persons may be hanging around the stock exchanges so long as they expect to get some money. Of course, they will not get more money.

Another point was made by the hon. Member. After the presentations of the last budget, we can see the picture of the economy. New schemes have been introduced for mopping up the rural savings, and opening of the market will help in that respect and that was the point made. It appears to me that in the last budget particularly, new concessions have been given. The raising of limit of exemption from income tax to Rs. 3000 in respect of dividends from any Indian company and unit trust income is there... (*Interruptions*). Because of this, certainly our lower middle class people would like to go to the market for investment and they must be going for a good reason. I entirely agree that because of the market there is a certain amount of liquidity. That is also correct. But then it is not possible for the Government to take an immediate decision; without waiting for the report Government would not like to act. Once the Committee is appointed, let us see what are the recommendations, and after the report is presented, a very careful thought will be given to it, and Government will take a decision at the proper time whether the ban should be lifted and whether, under certain restrictions, forward trading could be allowed. All these matters will be considered after the presentation of the report.

SHRI K. TAPURIAH : Can you give an indication of the time?

SHRI R. K. KHADILKAR : The report will be presented by the end of this month.

SHRI S. K. TAPURIAH : How long will you take to study the report?

SHRI R. K. KHADILKAR : I cannot say just now. (*Interruption*) The operators in the market will take advantage of any clue in such matter. So, at the present

junction. I have no report before me. Therefore, I do not know what would be the conclusion that the Government will ultimately reach and when the decision the Government would take.

Then, one point was made by Shri Shiva Chandra Jha. That was made by several other hon. Members also at different platforms. The point was, while keeping the Industrial Policy Resolution and general social objectives, whether we should permit forward trading at all. This is the fundamental question that Shri Shiva Chandra Jha raised. Of course that point of view also will be taken into consideration while taking a decision whether to lift the ban, to what

extent there should be restrictions, how the stock exchange needs to be regulated in order to serve the objectives and to function, as was pointed out, as a good, healthy barometer. These decisions will be taken at the appropriate time, keeping in view all the points that have been placed before the House.

With these words, I resume my seat.

18.18 hrs.

The Lok Sabha then adjourned till Eleven of the clock on Monday, May 18, 1970/Vaisakha 28, 1892 (Saka).